

**THE INSTITUTE OF INDIRECT TAXATION
ASSOCIATE EXAMINATION**

**PAPER III VAT ROUTE
OTHER INDIRECT TAXES**

27 OCTOBER 2009

**TIME ALLOWED - 15 MINUTES READING TIME
3 HOURS WRITING TIME**

Candidates must answer **5 QUESTIONS** – (all parts of the question in Section A, the one question in Section B and three questions from Section C)

Each question carries 20 marks

Start each answer in a fresh book

All workings should be shown and (unless stated otherwise) made to the nearest month and pound.

Marks are specifically allocated for good presentation and references to relevant legislation.

Section A

Question 1

*This question is divided into 20 parts – **all parts should be attempted**. All parts carry equal marks – **total 20 marks** – **marks will be awarded for statutory reference where appropriate.***

1. What is the definition of cider for excise duty purposes?
2. What is an Authorised Economic Operator for HMRC purposes?
3. What rates of general betting duty apply to
 - a. Financial spread bets
 - b. Fixed odds bets
4. What is the current rate of duty for Biodiesel?
5. What is a Free Zone for the purposes of import duty?
6. What is the definition of Registered Excise Dealers and Shippers (REDS)?
7. When does Landfill Tax apply to a disposal of waste?
8. What is the current standard rate of Landfill Tax?
9. What are the two possible tax points for the disposal of waste by way of landfill?
10. What is form LT 1B used for?
11. What is the definition of Insurance Premium Tax?
12. Give four examples of insurance contracts that are exempt from Insurance Premium Tax.
13. What rate of insurance Premium Tax is applicable to supplies of insurance for the following transactions
 - a. A 125 cc motorcycle
 - b. A commercial dishwasher
 - c. Travel insurance for an air journey totally within the UK
 - d. Home contents insurance which covers the loss of baggage on overseas travel
14. What is a Climate Change Levy Agreement (CCLA)?
15. When is a supply excluded from Climate Change Levy?
16. Explain the two possible tax points for supplies covered by a Climate Change Levy Accounting Document.
17. What is a Renewable Source Declaration for Climate Change Levy purposes?
18. What is the definition of “aggregate” for the purposes of Aggregates Levy?
19. When is Aggregates Levy due on imported aggregate dredged from outside UK territorial waters?
20. Give four examples of when a tax credit can be granted for Aggregates Levy purposes.

Section B

Attempt **the one** question in this Section

Question 2

Jagdeep Kumar

Jagdeep is a British citizen who has been living in New York, USA for three years, working as a senior manager in his multinational company. Unfortunately, he has lost his job due to the recession, and he has to return to the UK, bringing with him the items he took to the US three years ago, as well as the many possessions he has bought while out there – including a rare bottle of vintage port he was given as a leaving present.

He will bring the valuable portable items (camera, laptop, camcorder, PSP, iPod etc) in hand luggage and all of these were purchased in the US within the last three years. He had a bad experience with US customs officials at his entry to the US, and is not prepared simply to turn up at the red channel without fully knowing what to expect. All his other belongings will be shipped back to his home address via DHL.

Focusing on customs and excise issues [not VAT], write a letter to Jagdeep:

- a) explaining in detail how (practically) to deal with the hand luggage for customs purposes at Heathrow, and what would be the most tax-efficient procedure to adopt at import. **9 Marks**
- b) advising on the instructions he should give to DHL to deal with his residual belongings. In particular, you should enable Jagdeep to draw DHL's attention to the forms that need to be presented to HMRC, and what customs procedure they are required to invoke at importation. In the interests of clarity, draw DHL's attention to the relevant customs legislation. **8 Marks**
- c) explain (without going into detail on rates) the tax position regarding the bottle of port, bearing in mind that Jagdeep believes it to be worth in excess of £250. **3 Marks**

Section C

Attempt **three questions** from this Section

Question 3

IPT

You have been asked to make detailed technical notes in relation to the following scenarios in anticipation of a briefing you will have to give to a client. The client specialises in commercial marine and cargo insurance but intends to expand the business to cover associated personal lines insurance.

- (i) Set out the factors and reasoning that should be specifically considered and applied when determining the UK IPT treatment of hull and ships liability business.

8 Marks

- (ii) Determine the UK IPT liability of the following risks setting out your reasoning and the factors that determine the treatment in each case.
- Marine liability insurance covering a UK based ship owner in relation to the operations of a Panamanian registered vessel. The annual premium is \$12,500.
 - Hull coverage for a yacht of 20 gross tons registered and privately owned in the UK but permanently operating in the Caribbean. The annual premium is €4,500.
 - Cargo insurance covering goods owned by a German company being transported from UK to Germany.
 - Insurance covering damage to goods owned by a German company temporarily stored for three months in a UK Customs warehouse. The cover has been provided as an "add-on" to an existing goods in transit policy and an additional premium charged.
 - Insurance covering the hull and liability for a fleet of UK registered yachts (all in excess of 15 gross tonnage) operated by a German yacht chartering company. The annual premium for each yacht is €3,500.
 - Insurance covering goods owned by a UK business being transported from the UK to the USA.
 - Insurance covering the hull of a private yacht not registered in any country operating in the Pacific owned by a UK resident.
 - Loss or damage of/to personal property being transported from the UK to the USA owned by a UK resident moving to the USA.
 - Hull coverage for a fleet of 20 charter yachts operated by a German company in the North Sea. All the vessels are less than 15 gross tons, one is UK registered, the rest are German registered. The annual premium for each yacht is €2,500.

12 Marks

Question 4

Eco Power Generation Co

You are asked by a business man to advise him concerning the impact of Climate Change Levy (CCL) on his proposed business venture. He intends to invest in a number of power generation schemes, as he believes the future power needs of the UK will require a diverse mix of power generation plants.

His plans are for four different schemes

- A) A plant generating electricity from burning crushed coal mixed with gas
- B) A plant generating electricity from burning household and industrial waste
- C) A plant generating electricity from burning methane from landfill sites
- D) A plant generating electricity from wind turbines

He would like your advice on which schemes would be subject to CCL on the power generated, whether the purchases of fuel used in the plant would be subject to the addition of CCL and which schemes (if any) would benefit from reliefs and exemptions from CCL that may be available.

You are required to write a report which should include:

1. A general overview of CCL, explaining the legal basis on which it is enacted, the requirements for registration and the method by which CCL is charged to customers and declared to HMRC. **6 Marks**
2. Explaining how CCL applies to each of the plants A to D above, in respect of its application to the supply of fuel to the plant and the supply of electricity by the plant to its domestic and commercial customers. **8 Marks**
3. Specify which of the above supplies are Outside the Scope of CCL, Exempt or Excluded, and what different certification requirements apply to each category. **6 Marks**

Question 5

Toyco Ltd

You have been asked by your client, Toyco Ltd, to provide some customs duty advice on their current & planned operations. Toyco Ltd manufactures its toys in China and then ships them to its logistics hub in the UK. The toys are repacked and often put together for retail sale in the UK logistics hub. The toys are then sold into the UK, EU and globally.

Toyco is considering opening a new division to hand-manufacture high quality teddy bears in the UK for global sale. The raw materials for the teddy bears would be sourced from Toyco's suppliers in China.

Toyco already operates a Type C warehouse in the UK and last week moved one shipment of the teddy bear raw materials into the warehouse in order to prepare some prototype teddy bears.

The logistics manager of Toyco has asked you the following questions:

- 1) He is not sure if a warehouse is required. Could you refresh his mind on the function of a customs warehouse, the types of customs warehouse available in the UK and their distinguishing characteristics? **6 Marks**
- 2) The warehouse manager is concerned about the customs implications of the new teddy bear manufacturing in the warehouse. You are required to explain the complications that may arise. **5 Marks**
- 3) What other options are available to Toyco for the new manufacturing operation and explain the relative customs efficiency of each? Recommend one option. **6 Marks**
- 4) In particular explain what options are available and what would you recommend as transitional arrangements for the initial shipment of raw materials if necessary? **3 Marks**

You are required to write a letter to address the logistics manager's questions.

Question 6

Alcoholic Liquor Duties

Your client is about to purchase a medium sized brewery [with a likely annual production of 70,000 hectolitres] for the purpose of brewing traditional ales. He has requested advice relating to his obligations regarding beer duty and has asked you to **provide a written report that covers the following specific points: -**

1. What are the legal definitions of beer? **4 Marks**
2. At what point does beer become liable for duty and describe the practical applications of this liability? **6 Marks**
3. What is the basis for the charge to beer duty and how is it calculated and provide a worked example for 25 x 18 gallon kegs of 4% Alcohol By Volume [ABV] beer with a duty rate of £16.47. **6 Marks**
4. What are the ABV and Dutiable Volume rules that are peculiar to cask conditioned beers? **4 Marks**

Question 7

Production of fruit wine

You are the tax advisor for a client who wishes to make British fruit wine commercially (ie wine from damsons, cherries etc and sugar etc) and will be VAT registered. The client intends to make the fruit wine at 14% alcohol by volume (ABV) and has requested advice on the duty requirements.

Prepare a briefing note explaining:-

- (i) How UK law defines such a product and why; **2 Marks**
- (ii) What is the legal charge to the duty on British fruit wine produced in the UK of the client's specific product and *when* is it normally charged? **4 Marks**
- (iii) How is the duty charged, accounted for and paid? **4 Marks**
- (iv) What are the two basic legal "control" requirements to be met before production of fruit wine can commence? **2 Marks**

And

Explain what financial security has to be in place and who may provide financial security and in what form for:

- (a) the premises; and
- (b) accounting/payment of the duty; **8 Marks**