

**THE INSTITUTE OF INDIRECT TAXATION
ASSOCIATE EXAMINATION**

**PAPER III
OTHER INDIRECT TAXES**

26 OCTOBER 2010

**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. Explain what is meant by anti-dumping duty.
2. What are the three conditions for a preferential rate of duty to be allowable?
3. What is the time limit for Returned Goods Relief to be allowed?
4. What is the current rate of Bingo Duty?
5. Explain the two types of excise warehouse that can be approved.
6. How is General Betting Duty calculated by a UK bookmaker?
7. An extended warranty is offered by a washing machine manufacturer for three years at £94. How much Insurance Premium Tax is payable on this warranty?
8. Does Insurance Premium Tax apply to an insured person living in the
 - a. Isle of Man
 - b. Jersey
 - c. Isle of Wight
9. What is the Insurance Premium Tax liability of a contract covering motor vehicles for handicapped persons?
10. Is material used as daily cover at a landfill site liable to landfill tax?
11. If no weighbridge is available, describe two methods of calculating the weight of material being sent to landfill.
12. What is form LT68 used for in respect of landfill tax?
13. A landfill site operator makes a £1,000 voluntary donation to a body approved by Entrust. How much credit can he claim on his landfill tax return?
14. Define what is meant by commercial exploitation for aggregates levy purposes?
15. When is a person required to register for aggregates levy purposes?
16. Which of the following are taxable commodities for climate change levy purposes
 - a. Petroleum gas
 - b. Road fuel gas
 - c. hydrocarbon oil
 - d. lignite
17. Is climate change levy payable on supplies of fuel for heating to
 - a. a caravan on a holiday park site
 - b. a hospice
 - c. a cathedral
18. Define a “combined heat and power station”.

19. What is the liability for climate change levy of electricity produced by
 - a. Wind power
 - b. a wood burning power station
 - c. a 50 megawatt hydro electric power station

20. What is the time of supply of gas and electricity for climate change levy accounting purposes?

Section B

You must attempt **the one** question in this Section

Question 2

Wines Limited

Joe Bean has recently joined Wines Limited as Finance Director. He has some queries about the customs and excise implications of a new business venture the company is looking into. Wines Limited is looking to purchase 10,000 bottles of Chateau Red over the next 12 months to sell to a party organiser client. This red wine is 14% abv in 75cl bottles. The party organiser does not know anything about customs and excise matters and does not want any responsibility for these matters.

Wines Limited has identified two sources of supply for the wine, namely El Vino in Spain and Grapes Inc in the US. El Vino has stated that they are holding the wine duty unpaid. Joe intends to instruct an agent to import the wine from Grapes Inc.

Joe has a file left by his predecessor (who left in February 2010) concluding that there is a good business case for setting up a REDS authorisation and would like to put that plan into practice.

Before going ahead he wants you to write to him (in the form of a letter) setting out:

1. What are the main UK regulations governing the movement of the wine from El Vino and what are the conditions for registering as such a trader? **5 marks**
2. What are the documentary requirements for an excise trader to receive goods from El Vino? **8 marks**
3. What is the procedure for declaring goods to customs and paying duties (assuming no deferment account is used)? **7 marks**

Joe has been let down before when getting advice on indirect tax matters and so would like you to provide legal references where possible to give him a greater sense of comfort in your findings.

Section C

Attempt **three questions** from this Section

Question 3

Parallel Processing Ltd

Parallel Processing Ltd (PPL) is a UK company specialising in contract manufacturing for third parties. In this role, its customer provides it with designs, and PPL then purchases and processes any materials and includes the cost of such materials in the service fee it charges its customer.

Currently, PPL has only one customer – a US entity for which it manufactures widgets. The bill of materials for each widget requires the following components:

- a) A sprong – sourced in Germany for the euro equivalent of £3
- b) A doobrie – sourced in the UK for £7
- c) A whatsit – sourced in Japan for the Yen equivalent of £5

Each widget is shipped from the UK to the customer's bonded warehouse in Miami, from where they are consigned as required to Mexico. For each widget so shipped, PPL charges its US customer a manufacturing service fee of £5, in addition to the cost of materials. The charge per widget is therefore currently £20.

The contract specifies that PPL must supply an EUR1 Certificate of Preferential Origin with the goods as they travel, to enable duty-free access to Mexico. The origin rule for widgets consigned to Mexico is:

“manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product”.

In your capacity as PPL's newly-appointed VAT manager, you have a nagging doubt as to whether the EUR1's are being correctly issued, though you have confirmed that the Inward Processing Relief being fully claimed on the Japanese whatsits is satisfactorily discharged, and that valid Suppliers' Declarations are held for all the German sprongs.

Write an email to Paula Parallel, the MD:

Detailing the three priority matters that need to be examined in more detail to establish whether the EUR1 is correct, providing a one-paragraph explanation of each.

15 marks - 5 per issue

and

Detail also the impact that may apply if your worries about these three areas are confirmed.

5 marks

Question 4

Shawn Shaver Company Ltd

Shawn Shaver Company Ltd (SSCL) has applied for authorisation as a customs warehouse to delay its duty liability as long as possible. SSCL separately sources the following materials from different Chinese suppliers, and will enter these to the customs warehouse on arrival in the UK:

- a) Shaver bodies – functionally universal, but with different colours and decals for men and women, or for products at different price points.
- b) Shaver heads – interchangeable, depending on intended function of the retail product; bikini line heads differ from beard trimmer heads, which differ from ear hair trimmers.
- c) Plastic Boxes – different designs for each retail product.
- d) Power leads – incorporating the appropriate plug for each European market.

The application notes that the following activities are to be performed within the bonded warehouse:

- 1) packing a plastic box with bodies, heads and leads appropriate to specific retail products;
- 2) inserting into the packed box a UK-sourced cleaning brush, instruction manual and warranty, printed in the language of the destination country (which may be anywhere in Europe, Africa or the Middle East);
- 3) inserting the packed plastic box into a printed, glossy cardboard sleeve sourced from the UK, and shrink-wrapping it.

Once the boxes are packed and moved to the shipping area, SSCL's customs warehouse management system will remove each of the four (now combined) components separately from the customs warehouse regime to Free Circulation, and account for import duty and VAT on them at their own specific rate. HMRC is familiar with the system, and is generally satisfied that the liabilities reported through it will be correctly accounted for.

You are the company's VAT manager, assigning a training activity to John, the new intern.

Write John an email, asking him to put himself in the shoes of the authorising officer, and to come back to you with a written recommendation as to whether or not HMRC should accept the application. List specific areas that any authorising officer should be comfortable with before granting (or rejecting) the application, and (without providing John with the answers), give him a brief explanation of the key issues to consider paying specific attention to the three activities listed above to be performed within the warehouse. If you consider it necessary, suggest an alternative solution the customs officer might put forward to achieve the company's objectives. **20 marks**

Question 5

Greenbank Quarries Ltd

Greenbank Quarries Ltd is a company producing mainly road stone for customers in their general area. They are registered for Aggregates Levy and Value Added Tax (VAT).

The company has become very short of space and has reached an agreement with an adjoining farmer to fill an old quarry on his land with quarry waste that is unsuitable for sale as road stone. The quarry was last worked in 1973 but planning permission was granted to fill the quarry with qualifying material in 2009. The farmer's solicitor has drawn up an agreement to allow the filling of the quarry which is accepted by both parties as being a licence to occupy land. A rate of £2 per tonne has been agreed as a payment for this right.

Explain the VAT and Landfill Tax issues for both parties restricting your answer solely to the filling of the quarry. 20 marks

Question 6

IPT

You have been asked to prepare notes for a briefing with a London insurance broker who specialises in aviation business. The broker is expanding its business to service a wider range of clients and has asked you to provide advice on the principal features of UK IPT and specifically on the IPT liability in relation to a number of scenarios.

1. General

Please make notes explaining the general features of UK IPT and the legal principles that would need to be considered when establishing the IPT liability of policies in respect of the scenarios identified by the broker. **10 marks**

2. Scenarios

What is the IPT liability of the following:

- a. Aircraft hull insurance taken out by a private person in relation to a UK registered "ex-navy" jet. The insurance cover is limited to flights associated with air shows for which the owner of the aircraft receives a display fee.
- b. Loss of hire insurance taken out by a UK aircraft rental company covering the loss of income arising as a result of their UK registered Airbus A320 being unserviceable.
- c. Aircraft hull and aircraft liability insurance taken out by the UK based owner/operator of a US registered aircraft used for scenic trip flights for paying customers in the UK and also for his private/personal use during the summer in the US/Caribbean.
- d. Product liability insurance taken out by a German manufacturer of aero engines fitted to a UK registered Airbus aircraft.
- e. Commercial airline pilot's loss of licence insurance taken out by a UK resident pilot.
- f. Insurance of UK airport facilities, including ground equipment owned and operated by the British Airports Authority (BAA).

- g. Aviation cargo policy taken out by a UK based courier company in relation to commercial goods being transported by air from the UK to Germany and also UK to UK destinations.
- h. Aircraft liability insurance taken out by a German resident insured in relation to a UK registered microlite (less than 8000kg) used by them for recreational purposes.

When addressing the IPT treatment ensure you provide detailed and comprehensive reasoning to support your answer including references to the appropriate legislation.

Authorised maximum take off weight of all the aircraft referred to above exceeds 8000kg unless otherwise stated. **10 marks**

Question 7

Duty Suspended Holding & Movement in Brewery Registered Premises

Your client is a medium sized brewer and has some concerns in relation to his obligations to HMRC regarding the management of duty suspended beers in his brewery registered premises. **He has asked you to provide a brief report that covers the following specific points:**

- 1. What are his general responsibilities in relation to stock deficiencies? **4 marks**
- 2. How will he avoid paying duty on beer which he accidentally loses in his registered premises? **4 marks**
- 3. What records of accidental losses must be kept? **4 marks**
- 4. Under what circumstances does duty become due on unexplained losses? **4 marks**
- 5. Under what circumstances can he offset losses against gains and what does HMRC specifically exclude from this process? **4 marks**