Tolley® Exam Training

CTA ADVANCED TECHNICAL

DOMESTIC INDIRECT

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sittings

PQ124

INTRODUCTION

This Advanced Technical Pre Revision Question Bank contains 27 exam standard questions all with answers updated to Finance Act 2025. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2026** and your own personalised version of the approved online legislation.

Using this question bank

All the CTA Advanced Technical exams are **3.5 hours** in length.

We suggest you **allocate 2 minutes per mark** which allows for 10 minutes initial reading time.

10 mark question = 20 minutes
15 mark question = 30 minutes
20 mark question = 40 minutes

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read the answer saying "yes I know that point, yes I understand that advice given" - the test is would you have actually put those points in your answer? You won't find this out unless you **type up the answers and we recommend you do this using the on-screen version of this QB**. Ensuring you type up "proper" answers also gives you a good idea of how long an exam standard answer will take you to produce.

Preparing your answers

Questions set on the Advanced Technical papers **do not require a specific format** of answer - all questions will require a direct answer (rather than a letter to a client or an email to the tax partner). Requirements will start with words like "Explain", "Discuss", "Compare" and "Calculate".

There may be scenarios where there is no single correct answer or where the answer is not definitive. You will be expected to **make recommendations** as to actions which should be taken by the subject of the question.

You are expected to produce **full and reasoned answers** sufficient to demonstrate your knowledge and application in order to gain the available marks. **Brief bullet points are unlikely to be sufficient.**

Key **presentation considerations** include spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

The CIOT do not award "presentation and higher skills" (PHS) marks on individual questions nor will they form part of the 100 marks available on a paper. Instead, when they carry out their normal review of a script that is just below a pass, **up to two bonus PHS marks per paper** can be awarded which could therefore boost a candidate from a fail to a pass.

When awarding these bonus marks, the CIOT have stated they will consider:

- The accuracy of spelling and grammar.
- Whether full sentences have been used where appropriate (in some cases appropriately detailed lists may be appropriate, for example setting out the conditions for a relief to apply).
- Whether answers flow well and are presented in a logical order.
- Whether conclusions have been reached where it is appropriate to expect a conclusion.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated for that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – **before** you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? A good question to ask yourself is would the reader pay money for your advice? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading through your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

In the advanced technical papers, it is quite likely that there is no single right answer. The model answer is only one possible solution. You may well have included valid points which are not included in the model answer. Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out?

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Note:

Where the questions used in this bank are a real CIOT past paper question we have included the marking guides and relevant examiners reports after the answer. However some of the past paper questions used here pre date the point when the CIOT started publishing their marking guides with their model answers and so such questions do not have marking guides available.

CTA EXAMINATIONS

2026

TAX TABLES

INCOME TAX - RATES AND THRESHOLDS

	2025/26	2024/25
Rates	%	%
Starting rate for savings income only	0	0
Basic rate for non-savings and savings income only	20	20
Higher rate for non-savings and savings income only	40	40
Additional and trust rate for non-savings and savings income	45	45
Dividend ordinary rate	8.75	8.75
Dividend upper rate	33.75	33.75
Dividend additional rate and trust rate for dividends	39.35	39.35
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,700	1 – 37,700
Higher rate band	37,701 – 125,140	37,701– 125,140
Dividend allowance	500	500
Savings allowance		
– Taxpayer with basic rate income	1,000	1,000
– Taxpayer with higher rate income	500	500
– Taxpayer with additional rate income	Nil	Nil
Scottish Tax Rates(1)	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	42
Advanced rate	45	45
Top rate	48	48
Scottish Tax Thresholds(1)	£	£
Starter rate	1 – 2,827	1 – 2,306
Scottish basic rate	2,828 – 14,921	2,307 – 13,991
Intermediate rate	14,922 – 31,092	13,992 – 31,092
Higher rate	31,093 – 62,430	31,093 – 62,430
Advanced rate	62,431 – 125,140	62,431 – 125,140
Top rate	125,140+	125,140+

INCOME TAX - RELIEFS

	2025/26	2024/25
	£	£
Personal allowance(2)	12,570	12,570
Married couple's allowance(3)	11,270	11,080
– Maximum income before abatement of relief - £1 for £2	37,700	37,000
– Minimum allowance	4,360	4,280
Transferable Tax allowance for married couples and civil partners(4)	1,260	1,260
Blind person's allowance	3,130	3,070
Enterprise investment scheme relief limit(5)	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	200,000	200,000
De minimis trusts amount	500	500

Notes: (1) Scottish taxpayers pay Scottish income tax on non-savings income.

(2) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.

(3) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.

(4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.

(5) The limit is £2 million, where over £1 million is invested in knowledge intensive companies.

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ISA limits	**2025/26**	**2024/25**
Maximum subscription:	£	£
'Adult' ISAs	20,000	20,000
Junior ISAs	9,000	9,000

Pension contributions

	Annual allowance[1]	**Minimum pension age**
2025/26 and 2024/25	£60,000	55

Basic amount qualifying for tax relief	£3,600
Lump sum allowance	£268,275

Note: (1) Tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Car or van[2]	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - BENEFITS

Car benefits – 2025/26

Emissions	**Electric range (miles)**	**Car benefit %**	
0g/km	N/A	3%	
1-50g/km	≥130	3%	
1-50g/km	70-129	6%	
1-50g/km	40-69	9%	
1-50g/km	30-39	13%	
1-50g/km	<30	15%	
51-54g/km		16%	
55-59g/km		17%	
60-64g/km		18%	
65-69g/km		19%	
70-74g/km		20%	
75g/km or more		21%	+ 1% for every additional whole 5g/km ab 75g/km
155g/km or more		37%	

	2025/26	**2024/25**
	£	£
Fuel benefit base figure	28,200	27,800
Van benefits		
No CO_2 emissions	Nil	Nil
CO_2 emissions > 0g/km	4,020	3,960
Fuel benefit for vans	769	757

	from 6 April 2025	**from 6 April 2024**
Official rate of interest (assumed)	3.75%	2.25%

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CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA)[1]	100%
WDA on plant and machinery in main pool[2]	18%
WDA on plant and machinery in special rate pool[3]	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) [4]	3%

Notes: (1) On first £1,000,000 of investment in plant & machinery (not cars).
(2) The main pool rate applies to cars with CO_2 emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
(3) The special pool rate applies to cars with CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).
(4) A 10% rate applies in respect of special tax site expenditure.

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred on research and development.
New zero-emission goods vehicles (until 31 March/5 April 2025).
New cars that either emit 0g/km of CO_2 (50g/km prior to April 2021) or are electric (until 31 March/ 5 April 2026).
Electric vehicle charging points (until 31 March/5 April 2026).

First year allowances (FYA) available to companies only

	Main pool assets	Special rate pool assets
Expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards [5]	100%	50%
Expenditure on new plant and machinery (other than cars) in a special tax site	100%	100%

Notes: (5) 130% for main pool expenditure and 50% for special rate pool expenditure between 1 April 2021 and 31 March 2023.

INCOME TAX - SIMPLIFICATION MEASURES

	2025/26	**2024/25**
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses			
Cars or vans	First 10,000 business miles		45p per mile
	Additional business miles		25p per mile
Motorcycles			24p per mile
Business use of home	25 – 50 hours use		£10 per month
	51 – 100 hours use		£18 per month
	101+ hours use		£26 per month
Private use of business premises	No of persons living there:	1	£350 per month
		2	£500 per month
		3+	£650 per month

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	**2025/26**			**2024/25**		
	Annual	**Monthly**	**Weekly**	**Annual**	**Monthly**	**Weekly**
Lower earnings limit (LEL)	£6,500	£542	£125	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£12,570	£1,048	£242
Secondary threshold (ST)	£5,000	£417	£96	£9,100	£758	£175
Upper earnings limit (UEL)	£50,270	£4,189	£967	£50,270	£4,189	£967
Upper secondary threshold for under 21 (UST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Apprentice upper secondary threshold for under 25 (AUST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Special tax sites upper secondary threshold	£25,000	£2,083	£481	£25,000	£2,083	£481

Class 1 primary contribution rates		
Earnings between PT and UEL	8%	8%
Earnings above UEL	2%	2%
Class 1 secondary contribution rates		
Earnings above ST [1]	15%	13.8%

Note: (1) Rate of secondary NICs between the ST and the UST, AUST & special tax sites upper secondary threshold is 0%.

	2025/26	**2024/25**
Employment allowance		
Per year, per employer	£10,500	£5,000
Class 1A contributions	15%	13.8%
Class 1B contributions	15%	13.8%
Class 2 contributions		
Rate	£3.50 pw	£3.45 pw
Small profits threshold (SPL) [2]	£6,845	£6,725
Lower profits limit (LPL)	N/A	N/A

Note: (2) From 2024/25, self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

Class 3 contributions	£17.75 pw	£17.45 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£12,570	£12,570
Annual upper profits limit (UPL)	£50,270	£50,270
Percentage rate between LPL and UPL	6%	6%
Percentage rate above UPL	2%	2%

OTHER PAYROLL INFORMATION

Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £187.18 and 90% of AWE
Statutory shared parental pay /paternity pay/parental bereavement pay/neonatal pay	For each qualifying week, the lower of 90% of AWE and £187.18
Statutory sick pay	£118.75 per week

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Student Loan	Plan 1:	9% of earnings exceeding £26,065 per year (£2,172.08 per month/ £501.25 per week)
	Plan 2:	9% of earnings exceeding £28,470 per year (£2,372.50 per month /£547.50 per week)
	Plan 4:	9% of earnings exceeding £32,745 per year (£2,728.75 per month /£629.71 per week)
Postgraduate Loan		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

National living/minimum wage (April 2025 onwards)

Category of Worker	**Rate per hour** £	**Category of Worker**	**Rate per hour** £
Workers aged 21 and over	12.21	16–17 year olds	7.55
18–20 year olds	10	Apprentices	7.55

Accommodation Offset £10.66 per day

CHILD BENEFIT

Year to 5 April 2026	**Weekly rate** £
First child	26.05
Each subsequent child	17.25

Child benefit charge	**Withdrawal rate**
Adjusted net income >£60,000	1% of benefit per £200 of income between £60,000 and £80,000
Adjusted net income >£80,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES (assumed)

Late payment interest	7%
Interest on underpaid corporation tax instalments	5.50%
Repayment interest	3.50%
Interest on overpaid corporation tax instalments	4.25%

CAPITAL GAINS TAX

	2025/26	**2024/25**
Annual exempt amount for individuals	£3,000	£3,000
CGT rates for individuals, trusts and estates		
Gains qualifying for business asset disposal(1)/investors' relief(1)	14%	10%
Gains for individuals falling within remaining basic rate band(2)	18%	18%
Gains for individuals exceeding basic rate band and gains for trusts and estates(3)	24%	24%

Notes: (1) From 6 April 2026 the rate will be 18%
(2) For disposals prior to 30 October 2024, the rate was 10% for assets other than residential property
(3) For disposals prior to 30 October 2024, the rate was 20% for assets other than residential property

Business Asset Disposal relief	**2025/26**	**2024/25**
Relevant gains (lifetime maximum) (4)	£1 million	£1 million
Investors' relief		
Relevant gains (lifetime maximum) (5)	£1 million	£1 million

Note: (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.
(5) For qualifying disposals made before 30 October 2024 the lifetime limit was £10 million.

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Chartered Institute of Taxation.

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage	Years	Percentage
50+	100.000	37	93.497	24	79.622	11	50.038
49	99.657	36	92.761	23	78.055	10	46.695
48	99.289	35	91.981	22	76.399	9	43.154
47	98.902	34	91.156	21	74.635	8	39.399
46	98.490	33	90.280	20	72.770	7	35.414
45	98.059	32	89.354	19	70.791	6	31.195
44	97.595	31	88.371	18	68.697	5	26.722
43	97.107	30	87.330	17	66.470	4	21.983
42	96.593	29	86.226	16	64.116	3	16.959
41	96.041	28	85.053	15	61.617	2	11.629
40	95.457	27	83.816	14	58.971	1	5.983
39	94.842	26	82.496	13	56.167	0	0.000
38	94.189	25	81.100	12	53.191		

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	–	–	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

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CORPORATION TAX

Financial year	**2025**	**2024**
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%
Patent rate	10%	10%

EU definition of small and medium sized enterprises

	Small [2]	Medium [2]	Extended definition for R&D expenditure
Employees[1]	< 50	< 250	<500
Turnover[1]	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets[1]	≤ €10m	≤ €43m	≤ €86m

Notes: (1) Must meet employees criteria and either turnover or balance sheet assets criteria.
(2) Thresholds apply for transfer pricing and distributions received by small companies.

Research and development expenditure

Financial year	**2025 and 2024**
RDEC	20%
Enhanced R&D Intensive Support (ERIS) - total relief for loss making R&D intensive SMEs	186%
R&D tax credit for R&D intensive SME losses	14.5%

VALUE ADDED TAX

	Standard rate	**VAT fraction**
Rate	20%	1/6

Limits	**2025/26**	**2024/25**
	£	£
Annual registration limit	90,000	90,000
De-registration limit	88,000	88,000

Thresholds	**Cash accounting**	**Annual accounting**
	£	£
Turnover threshold to join scheme	1,350,000	1,350,000
Turnover threshold to leave scheme	1,600,000	1,600,000

ADVISORY FUEL RATES (from 1 March 2025)

Engine size	**Petrol**	**LPG**	**Engine size**	**Diesel**
1400cc or less	12p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	13p
Over 2000cc	23p	21p	Over 2000cc	17p

Electricity rate 7p

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OTHER INDIRECT TAXES

	2025/26	2024/25
Insurance premium tax[1]		
Standard rate	12%	12%
Higher rate	20%	20%

Notes: (1) Premium is tax inclusive ($^{3}/_{28}$ for 12% rate and $^{1}/_{6}$ for 20% rate).

Landfill Tax (pro rated for part tonnes)		
Standard rate	£126.15 per tonne	£103.70 per tonne
Lower rate	£4.05 per tonne	£3.30 per tonne
Landfill Communities Fund (LCF) [2]	5.3% x landfill tax liability	5.3% x landfill tax liability

Notes: (2) Relief for 90% of qualifying contributions

Aggregates Levy (pro rated for part tonnes)	£2.08 per tonne	£2.03 per tonne
Plastic Packaging Tax (PPT) (pro rated for part tonnes)	£223.69 per tonne	£217.85 per tonne

Climate Change Levy (CCL)[3]	**2025/26**	**2024/25**
Electricity	0.775p per kwh	0.775p per kwh
Natural gas	0.775p per kwh	0.775p per kwh
Liquified petroleum gas (LPG)	2.175p per kg	2.175p per kg
Any other taxable commodity	6.064p per kg	6.064p per kg

Carbon Price Support (CPS) rates		
Natural gas	0.331 per kwh	0.331 per kwh
LPG	5.28p per kg	5.28p per kg
Coal & other taxable solid fossil fuels	£1.5479 per GJ on GCV	£1.5479 per GJ on GCV

Tobacco products duty	**From 6pm 30.10.2024**	**Before 6pm 30.10.2024**
Cigarettes	16.5% x retail price + £334.58 per thousand cigarettes (or £446.67 per thousand cigarettes [4])	16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes [4])
Cigars	£417.33 per kg	£395.03 per kg
Hand-rolling tobacco	£476.83 per kg	£412.32 per kg
Other smoking/chewing tobacco	£183.49 per kg	£173.68 per kg
Tobacco for heating	£343.91 per kg	£325.53 per kg

Notes: (3) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2025/26 (2024/25 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (11%), for LPG it is 23% (23%) and 11% (11%) for any other taxable commodity

(4) The £446.67/£422.80 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)

CTA EXAMINATIONS

2026

TAX TABLES

Alcohol Duty[1] **From 1 February 2025**

	Duty in £ for each litre of pure alcohol in the product
Beer (ABV)	
0 to 1.2%	0.00
1.3% to 3.4%	9.61
3.5% to 8.4%	21.78
8.5% to 22%	29.54
Stronger than 22%	32.79

	Duty in £ for each litre of pure alcohol in the product
Spirits/Spirit based products (ABV)	
0 to 1.2%	0.00
1.3% to 3.4%	9.61
3.5% to 8.4%	25.67
8.5% to 22%	29.54
Stronger than 22%	32.79

Cider (not sparkling) (ABV)	
0 to 1.2%	0.00
1.3% to 3.4%	9.61
3.5% to 8.4%	10.02
8.5% to 22%	29.54
Stronger than 22%	32.79

Wine/sparkling wine (ABV)	
0 to 1.2%	0.00
1.3% to 3.4%	9.61
3.5% to 8.4%	25.67
8.5% to 22%	29.54
Stronger than 22%	32.79

Sparkling cider (ABV)	
0 to 1.2%	0.00
1.3% to 3.4%	9.61
3.5% to 5.5%	10.02
5.6% to 8.4%	25.67
8.5% to 22%	29.54
Stronger than 22%	32.79

Other fermented products like fruit ciders (ABV)	
0 to 1.2%	0.00
1.3% to 3.4%	9.61
3.5% to 8.4%	25.67
8.5% to 22%	29.54
Stronger than 22%	32.79

Notes: (1) There are reduced rates for qualifying draught products

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	**From 1.4.25**	**From 1.4.24**
>£0.5m - ≤ 1m	£4,450	£4,400
> £1m - ≤ 2m	£9,150	£9,000
> £2m – ≤ 5m	£31,050	£30,550
> £5m – ≤ 10m	£72,700	£71,500
> £10m – ≤ 20m	£145,950	£143,550
> £20m	£292,350	£287,500

CTA EXAMINATIONS

2026

TAX TABLES

INHERITANCE TAX

Death rate	40%[1]	**Lifetime rate**	20%

Note: (1) 36% rate if 10% or more of the deceased person's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2030	£325,000

Residence nil rate bands[2]

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2030	£175,000

Note: (2) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick Succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption		£3,000
Small gifts		£250
Wedding gifts	Child	£5,000
	Grandchild or remoter issue or other party to marriage	£2,500
	Other	£1,000

STAMP DUTY/SDRT

Stamp duty[3]	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax (SDRT)[4]	- On agreements to transfer shares[2]	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes: (3) Does not apply to UK securities traded on a recognised growth market (eg AIM).
(4) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

STAMP DUTY LAND TAX (SDLT)

Qualifying purchases in a Freeport receive full SDLT relief

CTA EXAMINATIONS

2026

TAX TABLES

Stamp Duty Land Tax on purchase price / lease premium / transfer value – England & NI

From 1 April 2025

Basic Rate %[1][2][3][4]	Residential[1][2][3][4]	Rate %	Non-Residential
0	£0 - £125,000	0	£0 - £150,000
2	£125,001-£250,000	2	£150,001 - £250,000
5	£250,001 - £925,000	5	£250,001 +
10	£925,001 - £1,500,000		
12	£1,500,001+		

Notes: (1) The basic rates are increased by 5% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 5% on all purchases of residential properties, subject to Note 2 below.

(2) Companies (and certain other entities) pay 17% on purchases of residential property valued > £500,000 (subject to exceptions).

(3) First-time buyers purchasing a single dwelling as their only/main residence may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will be 0% on the first £300,000, for a property bought for a maximum £500,000 (5% on the excess up to £500,000). No relief is available for a property over £500,000.

(4) Non-resident individuals and companies will pay an additional 2% surcharge for purchases of residential property. This is in addition to the basic rate, the higher rate (where applicable, in Note 1), and the 17% rate (where applicable, in Note 2).

New leases – Stamp Duty Land Tax on lease rentals – England & NI

Rate (%)	Net present value of rent	
	Residential	Non-residential
0	Up to £125,000	Up to £150,000
1	Excess over £125,000	£150,001-£5m
2	N/A	Over £5m

Land and Buildings Transaction Tax (LBTT) on purchase price – Scotland

2025/26

Basic Rate %[5][6][7]	Residential	Rate %[5]	Non-Residential
0	up to £145,000	0	£0 - £150,000
2	£145,001 - £250,000	1	£150,001 - £250,000
5	£250,001 - £325,000	5	£250,001 +
10	£325,001 - £750,000		
12	£750,001 +		

Notes: (5) Rates are charged on the portion of consideration that falls in each band. The same tax is payable for a premium granted for a land transaction, except for residential leases which are generally exempt. Special rules apply to a premium for non-residential property where the rent exceeds £1,000 a year.

(6) The 'Additional Dwelling Supplement' (ADS) of 8% of the relevant consideration applies broadly to purchases of an additional dwelling by individuals & trusts (over which the beneficiary has substantial rights) & to purchases of a dwelling by certain businesses, companies & other trusts.

(7) There is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

New leases – Land and Buildings Transaction Tax (LBTT) on lease rentals - Scotland

Rate (%)	Net present value of rent[8]
	Non-residential
Zero	Up to £150,000
1%	£150,001 to £2,000,000
2%	£2,000,001+

Note: (8) Residential leases are generally exempt

VAT QUESTIONS

1. Sunnyview Homes Ltd is a property development company.

There are three companies in the group, Sunnyview Homes Ltd (SH), Sunnyview Builders Ltd (SB) and Sunnyview Rentals Ltd (SR). When they have developed previous holiday sites, SH has bought the land, SB has built properties for SH, and SH has then sold them either to private customers or to SR for renting out. SR also manages properties for private customers who want to rent them out while they aren't using them. The companies are all separately registered for VAT.

The group is considering a different format for the development at Barrington View Lake. Although the specification of the properties is almost exactly the same as it would be for a family house, the local authority has issued the usual planning consent for a holiday home development, prohibiting occupation of the properties during February in each year. The group wonder whether that really makes any difference because the local authority never checks on it, and in some of its sites do have people who live in the properties year-round as their main residence.

SH has bought the site, as usual, but the group is thinking of selling off individual plots to purchasers rather than building the house first. The purchasers will have the benefit of the same planning permission, so they will be able to build a house that they aren't allowed to live in year-round (although they also might find that no-one checks). SH didn't pay VAT on the purchase of the land and hasn't opted to tax the site.

Once they've sold 60% of the plots, they'll take a view on whether it's then better to build on the remainder themselves in accordance with their normal format, or whether to carry on selling the land separately.

Purchasers of a plot will be able to use SB to build their holiday home or use a different builder if they want to. SB will be able to give people a good deal, because they are on site and therefore benefit from economies of scale, but SH expects a few people will use their own preferred firms. SH offers design-and-build. Customers will also be able to use SR or a different management company to manage the property later – although SR will be best placed to provide the service.

Typically, a customer will pay about £300,000 all in for an 80-year lease of one of the newly-built holiday homes, including the land (with a small ground rent each year after that, as well as a service charge). SH expects that the plots will go for about £100,000 each (similar 80-year lease); SB will charge something like £170,000 excluding VAT for designing, building and fitting the property out to the same specification. Where people use their own builders, they can pay them what they want.

SH wants understanding of the different VAT treatments of the different ways in which their customers can end up with a holiday home – or home they can live in for 11 months in a year – depending on which format for the project they adopt. SH believes that if they buy the plot and get it built themselves, they may even be able to claim back VAT on any fittings they buy to incorporate into the building.

Requirement:

Explain the VAT and SDLT issues arising from the different arrangements set out above. (15)

2. It is November 2026. Strongwinds Ltd is an energy company which was incorporated by its holding company, Eastwinds plc in June 2024 to develop alternative energy sources (wind farms) at various sites around the United Kingdom. The company instructed an environmental consultancy to undertake a feasibility study in 2024 and since then has taken professional advice on the financial and legal aspects of the project. It has also instructed a PR agency to help it to develop and to present the project. These professional costs are as follows:

Date	Services	£
September 2024	Feasibility study	75,000 plus 15,000 VAT
December 2025	Financial advice	20,000 plus 4,000 VAT
June 2026	Legal advice	35,000 plus 7,000 VAT
October 2026	PR consultancy	30,000 plus 6,000 VAT

Eastwinds plc sub-lets two rooms in its headquarters office to Strongwinds Ltd. Under the terms of the lease it also charges Strongwinds Ltd a proportion of all office overheads based on the proportion of office space occupied and makes a separate charge of £20,000 per annum for telephone and computer usage. These amounts have not yet been invoiced to Strongwinds Ltd as it has been agreed that payment will be deferred until Strongwinds Ltd starts to generate some income.

Strongwinds Ltd is funded by equity investment from its parent company, Eastwinds plc and bank loans. It was awarded some grant funding to develop the project, payable in two instalments of £500,000 each on 1 January 2026 and 1 January 2027. The funding has been made on the condition that it is used to purchase assets in connection with the development of green energy and is repayable out of the proceeds of any subsequent sale of the assets. Strongwinds must provide regular reports and accounts to the grant funders evidencing the use of the funding. The company has received no other income to date.

Strongwinds Ltd is now negotiating the freehold purchase of two sites and once planning permission is obtained, it will invite contractors to tender for carrying out the construction work. The company believes VAT will be payable on the purchase of the land and the contractors' services. The total development cost of each site is likely to exceed £1 million. The entire project is subject to planning permission and other regulatory approvals.

The earliest date any sales of power from the project will be made is February 2028. Neither company is presently registered for VAT. Eastwinds plc does not wish to register unless it has a legal requirement to do so and Strongwinds Ltd will register when it either has a legal requirement to do so or it is otherwise beneficial to do so.

If planning and related consents are obtained it is intended that the wind farm project will be sold once energy production has started, either by a disposal of Strongwinds Ltd or an asset sale. If planning permission is not obtained, the project will be abandoned, and the sites sold. The company solicitor, who works for both Eastwinds plc and Strongwinds Ltd, needs advice on the VAT implications of the development for both companies.

Requirements:

1) Advise on the liability to VAT registration of both Strongwinds Ltd and Eastwinds plc and the possibility of recovery of VAT on previous and future costs; and (10)

2) Advise on the VAT implications of the project being abandoned or the sale of Strongwinds Ltd or its assets. (5)

Total (15)

3. It is May 2026.

The following two people have VAT issues:

Farmer Giles

1) Farmer Giles runs a farming business through a company which is registered for VAT. He has also been organising shooting parties (which hunt game birds such as pheasant and partridge) for some friends on an adjoining farm and has not reported this activity to HMRC.

2) 20 people are members of the Little Farmead Shooting Society (LFSS), including Farmer Giles.

3) LFSS has been in existence for four years. It is unincorporated and has no written constitution, but it has a bank account and a second-hand Land Rover which is used for the shooting parties. Farmer Giles himself prepares informal accounts which he circulates to the other members.

4) The members (including Giles himself) have paid a variable amount each year which covers the costs and usually leaves a small float in the bank account at the end of the year to be carried forward. The contributions are adjusted to reflect different numbers of days on which each member has taken part. The contribution in the first year was considerably higher in order to cover the cost of the Land Rover. In the last accounting year (to 31 December 2025), the average contribution per member was £4,000.

5) Currently the main annual expense is the shooting licence, which is made out to Farmer Giles himself and costs £30,000 plus VAT (charged by the owner of the adjoining farm).

Farmer Giles is concerned as to whether this activity should be reflected in the VAT returns of Farmer Giles' company, or else should be subject to a VAT registration in the name of Farmer Giles as a sole trader.

Sir Archie Fettrich

1) Sir Archie Fettrich owns a Scottish estate which is registered for VAT in his name as a sole trade. For some years Sir Archie has hunted deer on the estate as a hobby, but in 2025, he decided that the herds were getting too numerous, and it would make sense to cull them and sell the meat to butchers.

2) Because parts of the estate are remote, he bought a second-hand helicopter for £300,000 plus VAT in January 2025. He says that he has some private use of this, but according to the log 80% of the flying hours are related to hunting (mainly the recovery of carcases from inaccessible places). The VAT on the purchase was claimed in full as Input Tax in the VAT return for the period to March 2025. All running expenses incurred since then have also been claimed.

3) Sir Archie invites friends to take part in the hunting. They do not pay to do so, but they bring their own equipment: the only costs incurred by Sir Archie for the hunters are refreshments, which he does not charge through the business. In 2025, the estate sold 30 carcases to the local butcher for a total of £6,000. This has been treated in the records as a zero-rated sale, and all costs associated with the hunting activity (apart from refreshments) have been claimed as business costs. Sir Archie hopes to increase the sales in future years.

Sir Archie is concerned that HMRC may regard the hunting as merely an expansion of his former hobby, with the result that the expenditure on the helicopter should not have been claimed.

Requirement:

Advise on the VAT issues for Farmer Giles and Sir Archie. (15)

4. It is May 2026.

Jane and Horace are married and in partnership farming 200 acres of land in the Cotswolds. The partnership owns three derelict stone barns which are no longer suitable for farming purposes and therefore the partnership proposes to convert them. They are not listed.

Haycroft Barn will be converted into a home and then gifted to Jane and Horace's daughter Lizzie (who does not work for the partnership); Windrush Barn will be converted to small workshops/offices for rental by the company to local small enterprises; and Burford Barn will be converted to provide accommodation rent free for a farm worker.

Work will commence in November 2026 and is scheduled for completion in September 2028. They will use the same builder who is flexible as to when the scheduled works are invoiced and paid. The following is an analysis of the builder's agreed costs and a schedule of his proposed invoices for the work done – the builder has advised all sums due will be subject to VAT at the standard rate:

Payment periods	Total payments	Haycroft Barn	Windrush Barn	Burford Barn
In 2026	£	£	£	£
November/December	25,000	20,000	5,000	
In 2027				
three months to March	40,000	30,000	10,000	
three months to June	68,000	60,000	8,000	
three months to September	72,000	60,000	12,000	
three months to December	50,000	30,000	10,000	10,000
In 2028				
three months to March	20,000		20,000	
three months to June	15,000		15,000	
three months to September	22,000			22,000
	312,000	200,000	80,000	32,000
Projected VAT (at 20%)	62,400	40,000	16,000	6,400

Haycroft Barn is valued at £40,000 in its current state and as above the partnership will be spending £200,000, plus VAT in converting it. A charge to Jane and Horace's partnership capital accounts will be made to reflect the transfer of the asset out of the partnership.

On completion of the works for Windrush Barn, the partnership will let out the units to local small enterprises. The terms of the leases will not exceed five years and the annual rents will vary between £8,000 – £12,000 per annum. As the expected tenants are very unlikely to be VAT registered, the partnership does not wish to charge VAT on the rents. The first tenants will likely occupy the units in September 2028, with the rents receivable in the period to 31 March 2029 to be £30,000. The partnership would like to know if it can reclaim VAT incurred on these works.

The partnership's VAT returns to the four quarters to March 2026 showed:

VAT Quarter to:	Taxable supplies	Input tax claimed
	£	£
30 June	200,000	30,000
30 September	600,000	15,000
31 December	800,000	45,000
31 March	400,000	10,000
	2,000,000	100,000

It is unlikely that these figures will be materially different in 2026/27 to 2028/29. As the partnership has never made VAT exempt supplies, it has reclaimed in full all VAT incurred by it. Input tax claimed includes VAT charged on general overhead expenses – these have been of the order of £60,000 per annum (VAT £12,000) and are likely to be the same in the next two to three years.

The planning consent in relation to Burford Barn restricts its use to the provision of accommodation for a farm worker.

Until now, completion of the partnership's VAT returns has been straightforward. Since the partnership makes mainly zero rated supplies of food, it has reclaimed VAT in full on its costs. The partnership would like advice on the VAT and SDLT implications of what is being proposed.

Requirement:

Explain, with supporting calculations, the VAT and SDLT issues arising from the partnership's proposals. (20)

Assume, where relevant, the domestic reverse charge on construction services does not apply

5. Shelly Davies is a sole proprietor and owns a pub from which she operates a bar and restaurant. Shelly has been VAT registered for 12 months and has adopted the flat rate scheme from the start.

She had a VAT inspection last week and the Inspector has sent her a letter, along with an assessment for under-declared output tax. The Inspector believes Shelly has calculated VAT due under the flat rate scheme incorrectly.

The main points arising out of the Inspector's letter are:

1) Given the split of turnover, Shelly should not have adopted the flat rate percentage of 6.5%, but rather 12.5% which applies to restaurants. As she runs a public house with some off-licence and catering income, she can't understand why she shouldn't use the 6.5% for pubs as set out in HMRC's Notice.

2) HMRC has told Shelly that because she is a sole proprietor, she should have included rent and bank interest received in her turnover. She doesn't understand why this should be so since this income has nothing to do with the business.

On another matter, Shelly bought new furniture for the pub from a French supplier. She gave the freight agent her VAT number and they claimed Postponed VAT Accounting. She has excluded this transaction from her VAT return, and she wants to know whether she was correct in doing this.

She also hasn't been reclaiming VAT on her expenses. The Inspector made no comment on this. Shelly wants to know if she can do so and then offset it against the assessment.

To enable Shelly to deal with the Inspector's assessment, she needs a re-work of her VAT liability for the last 12 months based on the figures below.

On a different matter, Shelly is building an extension to the pub to enlarge the dining room. In order to keep costs down, she will purchase the bulk of the materials from a local builders' merchant before the work commences and engage a single contractor to carry out the work. The cost of materials will be £3,000 plus VAT, supported by a single VAT invoice. The contractor's services will be £2,500 plus VAT. Shelly wants to know whether she can reclaim VAT on the works.

Business income and expenses (inclusive of VAT where relevant):

Income	£
Restaurant takings	79,750
Bar sales	23,150
Off-licence sales	8,750
Rent of residential flat	6,250
Bank interest	3,250
	121,150
Expenses	
Purchase of new furniture from France	12,850
Standard rated costs (bar and food stock) – multiple invoices	18,765
Zero rated food stock (multiple invoices)	20,000
Purchase of new van	11,250
Purchase of new car	9,995
Purchase of new till	7,200
Till software (US supplier)	2,250
	82,310

Notes

1) During the year, Shelly discovered that an employee had stolen £5,000 from a restaurant till. Restaurant takings of £79,750 exclude this loss.

2) Customer refunds of £1,250 were allowed and were not deducted from off-licence sales.

3) Counterfeit notes/coins totalling £75 have been deducted from the bar sales figure.

4) She downloaded software for her new till from a US based supplier at a cost of £2,250 – VAT was not charged.

5) She uses the tills to train new staff on their operation – unfortunately the dummy bar sales figures of £2,500 were not zeroed off and are reflected in the bar sales figure.

6) Customer tips and gratuities totalling £750 are included in restaurant takings of £79,750 and were not adjusted for when the returns were completed.

7) All UK suppliers were VAT registered.

Requirements:

1) Respond to Shelly's queries; and

2) Calculate Shelly's actual liability under the flat rate scheme.

(15)

[Do NOT discuss entitlement to seek a review, right of appeal to a Tax Tribunal, nor penalties and interest.]

6. The following is relevant to Ofcam Tutors Ltd:

1) Ofcam Tutors Ltd is not an "eligible body" as defined in VATA 1994, Sch 9, Group 6.

2) Having established the requirements of a student preparing for the GCSE and A-level examinations, the company will seek a suitable independent tutor to provide private tuition. A prospective student will be registered and on payment of £100, will receive two introductory tuition sessions, with a tutor introduced by the company to assess whether the match will be mutually beneficial. Payment for introductory tuition sessions is retained by Ofcam Tutors Ltd ie none is passed over to the tutor who makes no charge to the company for these sessions.

3) If the student and tutor agree to proceed with a program of private tuition, then the terms of business between the company and the tutor/student come into effect. Although there are two documents (one addressed to the student and one to the tutor), their terms essentially are identical; the differences between them reflecting the requirements of the person to whom they are addressed. Terms in the draft documents provide the following:

a) tuition sessions are described as "courses purchased through Ofcam". The company agrees to provide introductions to the respective parties and has the sole discretion to take on a student as a "client";

b) a tutor offers his/her services "as a self-employed tutor to Ofcam" and agrees to provide tuition "arranged by" the company;

c) a tutor is required to fulfil assignments using his/her own resources and is not obliged to take an assignment offered;

d) Ofcam Tutors Ltd agrees to arrange and administer assignments, to secure an acceptable tuition rate on behalf of a tutor and to collect fees due;

e) in return for its introductory and administrative services, Ofcam Tutors Ltd receives "commission". The commission represents an uplift of the agreed tuition fee payable to a tutor. The full amount of the fee is invoiced by the company in its own name. The quantum of Ofcam Tutors Ltd's commission is not disclosed in the documents, nor is it shown on its invoices; and

f) a tutor may not render invoices nor accept payment for an assignment but must invoice the company for his/her services. All sums received from students and payments made to tutors will go through the company's trading bank account.

Ofcam Tutors Ltd wants the documents to represent that it is acting as an intermediary in effecting introductions of suitable tutors to students.

Requirements:

1) Explain what it means to be acting as an intermediary.

2) Referring to appropriate case law, explain whether the terms in the draft document achieve the aims of Ofcam Tutors Ltd.

(15)

7. It is May 2026.

Mrs Simms is the Group Finance Director of the Wembury Group of companies. The Wembury Group is a large group of manufacturing companies.

The following is an overview of the various pension schemes that the Wembury Group operates:

Defined Benefit ('DB') Scheme

The DB scheme is closed to new members. For existing members, Wembury Group makes payments into a fund, managed by Trustees separate to the Group. The purpose of the fund is to make investments and to generate a return on those investments thereby enabling Wembury Group to meet its obligations to pay pensions. Employees enrolled in this scheme will receive a pension based on their seniority and length of service with the Group.

At present, services relating to the management of the scheme's investments and the day-to-day management of the scheme (including providing reports and information to pensioners) are both supplied by FundCo plc, under an agreement with the scheme's trustees. FundCo plc charges VAT on its invoices. These invoices are jointly addressed to both Wembury Group and to the scheme's Trustees.

Defined Contribution ('DC') Scheme

All new employees of Wembury Group are entitled to join the DC scheme, a scheme vested with trustees separate from Wembury Group. Members of this scheme can elect, through salary sacrifice, to make additional payments into the scheme and Wembury Group will match these payments up to 10% of the individual's salary.

The value of the pensions received by employees in the DC scheme will depend upon the performance of the scheme's investments.

Services relating to this pension scheme are contracted for separately between the scheme and its suppliers. FundCo plc provides the trustees of the DC pension scheme with services relating to the management of the DC scheme's investments. However, pension scheme administration services are provided separately by Himalaya Ltd, under a contract for fund administration services. Additionally, recently the DC Scheme has engaged Global Law LLP to advise on an exercise relating to re-valuing employees' investments in the scheme. All parties have charged VAT.

FundCo plc, Himalaya Ltd and Global Law LLP are all businesses unrelated to the Wembury Group.

Requirement:

With reference to case law and legislation, advise on the VAT treatment of the services received, the scope of the parties to reclaim VAT, and how any such reclaim would be made. (15)

8. Mary Evans is the Finance Director of Frosty Corporate Events Ltd ("Frosty").

Frosty designs and delivers bespoke corporate hospitality events. They work with a wide network of suppliers and can source packages for most events as required by their clients at short notice. This month they are delivering four corporate hospitality events to key clients and Mary needs advice on the VAT issues in relation to these events. She is not a specialist in this area and needs some background information on the VAT rules for these types of events as well.

Theatre Trip

The first event is a theatre trip for employees of a local insurance company which is keen not to be charged VAT. A group of 70 guests will be taken by luxury coaches from Liverpool to London where they will enjoy two nights' accommodation in the Smisby Tower Hotel. Guests will then be escorted by private transfer to the theatre and on to a private meal at The Silver Unicorn.

Frosty buys in all of the above elements to put together the package and Mary is uncertain how to treat the packages for VAT purposes. Frosty makes one charge for the entire package.

Conferences

Frosty is organising a conference for the finance function of a large pharmaceutical company. Delegates will make their own way to the conference, which will consist of a day of team-building exercises. Frosty will hire a conference venue and will provide the necessary handouts, projectors, white boards etc. Frosty will be buying in refreshments from an outside caterer who will serve lunch and provide tea, coffee and biscuits at the conference venue during the various breaks throughout the day.

The third event is also a conference (for key sales staff of a retail company) and will follow a very similar format to the above but there will be a murder mystery dinner at a local restaurant after the conference, followed by an overnight stay. Frosty will book and pay for the dinner and accommodation in advance and charge these on with a 5% mark-up.

Pop Concert

Through Frosty's strong network of suppliers, they are able to buy tickets for events which are sold out to other operators. This month they have been able to secure top seats at a "sell out" pop concert of a very well-known artist. These tickets will be sold to a ticket agent for onward sale to the public.

Requirement:

Advise on the VAT issues in relation to the four types of event above. (15)

9. It is November 2026. Construction, Building & Letting Co Ltd ("CBLC") is a house builder and property letting company. The property lettings business has been 40% of the company's overall turnover for the last couple of years, and the standard method is used for partial exemption recovery. It makes VAT returns for calendar quarters.

In the current market CBLC is finding it difficult to sell newly built flats and houses on major developments in the South of England. As such it is considering renting out a proportion of the flats and houses that have already been built, thus further expanding its property letting business. CBLC is concerned about the VAT implications of such a change and wants your advice.

Initially the business is considering letting the properties on 12-month leases. After 12 months, the lease will become a rolling one-month lease where either the developer or the tenant can terminate the lease with one month's notice. The input tax incurred and recovered by CBLC in relation to the flats and houses that are likely to be rented out is around £500,000.

Furthermore, CBLC has identified that the new head office building completed 12 months ago, was constructed using in-house labour. The in-house labour costs have been confirmed as £700,000.

In addition to the above, some previous property transactions undertaken by CBLC need looking at from a VAT perspective:

1) CBLC bought a freehold plot of land in November 2022 for £300,000 plus £60,000 VAT. The intention was to develop the land and build three new houses for sale, and so the £60,000 VAT was recovered as input tax. The land never got developed and the company sold it in June 2026 for £200,000. CBLC did not opt to tax the land prior to the sale.

2) In January 2021, CBLC bought a plot of land and as it was always the intention to sell the land on without opting to tax, the associated input tax of £20,000 charged on the purchase was never recovered. However, yesterday CBLC was informed by the commercial director that this plot will now be developed into an office space rather than sold on. CBLC is wondering whether there is any way to recover this input tax.

3) In January 2024, CBLC bought a newly constructed warehouse building for £150,000 plus £30,000 VAT. The building was used by CBLC until October 2026 when it was sold to an unconnected third party for £220,000. The property was not opted to tax and as such the sale was treated as exempt from VAT. The purchaser is now requesting a VAT invoice for the sale.

Requirement:

Advise on the VAT issues arising from the above transactions undertaken by CBLC. (15)

[Do NOT consider penalties and interest.]

10. It is November 2026. Insurance plc wants to launch a major new product to the market aimed at businesses wishing to insure large capital items (plant and equipment) with a value in excess of £1 million. This product will comprise a combination of insurance plus inspection services which will help in preventing the damage to capital items and so potentially reduce insurance premiums. Inspection services will not be available for purchase on their own. Premiums will be paid quarterly.

This is a new area for Insurance plc, which until now has specialised in providing motor insurance and travel insurance to private individuals. Therefore, they need to understand the indirect tax issues on the new product.

There have been some costs incurred recently which the accounts payable department was unsure how to allocate and may be linked to the development of this new product. The accounts payable clerk has provided invoices from a market analysis firm for £125,000 plus £25,000 VAT and invoices from a recruitment specialist for £75,000 plus £15,000 VAT. Upon further investigation, it turns out that the recruitment specialist was used to source additional sales staff for the call centres operated by Insurance plc.

Insurance plc operates a partial exemption special method.

Requirement:

Discuss the VAT and Insurance Premium Tax issues of the new business venture. (20)

11. It is November 2026. Furnished Lets Ltd ("FLL") is a UK incorporated VAT registered business. It has portfolios of properties in the North of England and South of England, which are currently let out as furnished holiday lets. In addition to furnished holiday lets, the business also has a small portfolio of retail units which it rents out.

The company is considering selling some properties from its North of England portfolio. The possible sale would be of a complex of 20 holiday flats and two retail units. The prospective purchaser is the company's 51% subsidiary, SA Ltd, a UK incorporated company which operates serviced apartments. The company currently values the flats at £120,000 each and the retail units at £150,000 each. A third-party market valuation has not, however, been obtained as yet.

FLL will enter into separate contracts with SA Ltd for each flat and retail unit sold to SA Ltd.

FLL will receive 50% of the total consideration payable for each of the flats and the retail units upon contracts being signed with SA Ltd. SA Ltd will pay the remaining 50% of the consideration for each of the flats and the retail units six months after the contracts have been signed.

FLL understands that there will be Stamp Duty Land Tax implications in relation to these transactions, but it is unclear on the amount of Stamp Duty Land Tax payable.

The South of England portfolio includes a block of one- and two-bedroom flats, and in respect of this block, FLL would like to understand the VAT implications of:

1) Selling the flats to a competitor who will continue to operate them as furnished holiday lets; or

2) Renting the properties out as residential properties; or

3) Selling the properties as residential dwellings.

FLL also has a three-bedroom property in the East of England which it will sell for £800,000 to an unconnected overseas purchaser, Overseas Ltd, which is incorporated in Bermuda. FLL wishes to understand the Stamp Duty Land Tax payable as this may affect the sale price.

Requirements:

1) Advise on the Stamp Duty Land Tax implications of the transactions for:

a) The properties in the North of England; and

b) The property in the East of England. (10)

2) Advise on the VAT implications in respect of the three options for the flats in the South of England. (5)

Total (15)

12. It is November 2026.

ABC Manufacturing plc ("ABC") has some VAT issues in its group.

There has recently been an HMRC VAT visit which identified issues in three of ABC's subsidiaries (Alpha Ltd, Beta Ltd and Ceta Ltd). All companies in the group have separate UK VAT registrations. The issues identified by HMRC, and their responses were as follows:

Alpha Ltd has been reclaiming input tax on business entertainment. HMRC has written advising the business that there will be penalties levied at 15% and that these will be suspended for six months. Alpha Ltd is unsure whether it is required to do anything about this letter and what the implications are of the suspension.

Beta Ltd zero-rated all its sales to an overseas customer. However, it was identified that out of £550,000 of sales, only £300,000 qualified for zero-rating, as it could not be demonstrated that the remaining goods left the country within three months. HMRC has raised an assessment for underdeclared output tax of £50,000. The contract with the customer is silent on VAT.

Ceta Ltd received a Notice from HMRC in relation to its latest VAT return submission as the return and payment were submitted one week late. The notice stated that a penalty point had been awarded for the late submission, but no penalty was incurred for the late payment. The reason for the late return was the VAT accountant responsible for Ceta Ltd has been seriously ill and the return was submitted immediately after the new VAT manager started. This is the first time Ceta Ltd has been late with any returns.

Requirement:

Advise in relation to the above issues raised by HMRC.

You should detail how to deal with HMRC when there is a disagreement about a decision/assessment. (15)

13. It is November 2026. The Fred Waring Yacht Group ("FWYG") specialises in the sale of yachts and boats from various seaside locations. The group also provides finance and insurance products to customers and these income streams have become more substantial in recent years.

VAT advice is needed for the group. The following information has been provided:

1) FWYG have a sectorised partial exemption special method (PESM) in place based on each entity's taxable business income.

2) There are four companies, all of which are in one VAT group.

3) Each company has its own VAT recovery percentage.

4) The partial exemption year runs to the end of April and FWYG have opted to tax all the sites due to sub-letting of the sites in the past.

For the three companies which own properties, the split of taxable to exempt income was:

	Small Yachts Ltd	Big Yachts Ltd	Budget Yachts Ltd
At time of purchase of the property	80:20	80:20	90:10
In interval ended 30 April 2026	70:30	50:50	75:25

Small Yachts Ltd ("SYL")

SYL specialises in selling smaller boats which all cost SYL between £30,000 and £45,000 and there are 10 boats currently in stock. It bought a freehold site on 1 October 2021 which consisted of a showroom, an office, a repair unit and residential flat above the office space. The site cost £1.1 million plus £200,000 VAT of which £1.0 million plus £200,000 VAT was allocated to the commercial units on the site and £100,000 to the residential flat on the site. The flat has always been used solely for non-business purposes as a home for Fred Waring's cousin.

SYL rarely used the repair unit, so they sold it on 30 April 2026 for £300,000 plus VAT. When the site was bought the value attributed to the unit was £200,000.

SYL are now looking to refurbish the showroom, and the quotes range from £200,000 for a budget refurbishment to £300,000 for a high-end refurbishment (both excluding VAT). All expenditure will be capitalised in the accounts.

Big Yachts Ltd ("BYL")

BYL specialises in selling boats at the higher end of the market but is currently the worst performing company. It operates from a site they leased on 1 June 2022. The lease is for a period of seven years and BYL paid a premium of £250,000 plus VAT. The company currently has four yachts in stock, each of which cost BYL over £100,000 each. BYL are considering either selling this business or selling the shares in the company.

Budget Yachts Ltd ("BUYL")

BUYL sells yachts at the budget end of the market so all the yachts cost BUYL between £15,000 and £20,000. It bought its site on 1 October 2023 for £900,000 plus VAT. On 1 September 2026, renovation works on the showroom were completed at a cost of £300,000 plus VAT. BUYL is considering selling the site in early 2027 and buying a new site further up the coast. BUYL have been informed that the vendor of the new site has not opted to tax that site.

Northern Charters Ltd ("NCL")

NCL was incorporated on 1 November 2024 on which date it acquired a yacht for £25 million plus VAT. Except as noted below, the only activity of the company has been charters of the yacht around UK coastal waters to third parties. It operates from rented premises. It charges a fee of £200,000 plus VAT for a one-month charter. Fred Waring used the yacht personally for three consecutive months from 1 February to 30 April 2026. This was the first time the yacht had not been chartered to a third party and Fred was not charged to use the yacht.

Requirement:

Advise on the VAT implications of the matters raised, including a calculation of the Capital Goods Scheme adjustment for the October 2026 VAT return. (20)

[Do NOT discuss interest or penalties.]

14. Lord and Lady Hawksley own Hawksley Manor (the family home) and the land surrounding it. Much of the land around the manor is let to Hawksley Farms Ltd, the family's farming company, which carries on an arable farming business. Lord and Lady Hawksley, their son Simon, and their daughter Samantha are all directors of Hawksley Farms Ltd.

Woodlands

Lord and Lady Hawksley registered for VAT as a partnership a couple of years ago so that they could reclaim the VAT on costs of planting and upkeep of the estate woodlands, which they retained when the farmland was let to Hawksley Farms Ltd. As usual, the woodland business is a long term one and it is expected to be 25 years or more before the timber is ready for harvesting and sale. Some sales might occur when the trees are thinned but no such sales have taken place yet.

Alongside the commercial objective, the woods are being managed with a view to promoting wildlife and some costs are being incurred on the maintenance of permissive footpaths through them (which are also used to monitor the trees). Having recently attended a seminar on business v non-business activity for VAT purposes, this seemed to suggest that this would not present too much of an issue, but confirmation of the position is needed.

Hawksley Farms Ltd

Samantha Hawksley's hobby is horse-riding, and she competes regularly in dressage events. Her horse is stabled at the farm. Last year, Hawksley Farms Ltd paid £45,000 for the construction of an indoor school at the farm for her to use when training her horse and the company also owns and pays for the upkeep of a horsebox used solely to transport Samantha and her horse to events where she competes. The horsebox carries a small sign reflecting its ownership. VAT was reclaimed on the cost of the indoor school and the horsebox and is being reclaimed on the fuel and running costs of the horsebox as well as on vet bills and other costs associated with Samantha's horse. Again, following the VAT seminar mentioned above, confirmation is needed on the VAT issues this poses and what, if anything, needs to be done now,

It has been suggested that, in addition to competing in dressage events as a hobby, Samantha might train horses and riders using the facilities at the farm and the family wonders if this would affect the VAT position.

Simon Hawksley

Simon Hawksley has a longstanding interest in classic cars and has a collection of cars stored in outbuildings around the estate. He has bought, restored and sold a number of classic cars over the years and usually manages to cover his costs when the cars are sold, (which is generally shortly after any restoration is completed). Typically, he buys and sells two or three cars a year. He recently completed the restoration of an E-Type Jaguar that he bought for £15,000 after it was found in a dilapidated state in a barn on a nearby farm and expects to sell it shortly.

The restoration took almost a year and the cost (getting on for £80,000) was fully funded by sales of some cars from his collection. He expects to receive £100,000 – £150,000 (and possibly more) for the car. This is the latest in a series of similar projects that he has undertaken over the years. Following the seminar, the family are concerned about the VAT implications of this and would need more detailed thoughts on this.

Requirement:

Advise on the various VAT issues facing the Hawksleys. (15)

15. It is November 2026.

Stanley Wilks Ltd ceased to trade on 1 November 2026 and immediately went into liquidation with the liquidator being ABC LLP. Stanley Wilks Ltd was predominantly a supplier of construction machinery, however there were some exempt supplies of finance by the business.

The last VAT return filed by the company was for the quarter ended 31 August 2026. Stanley Wilks Ltd was part of a VAT group until 31 May 2026, with the representative member being SW Holdings Ltd (the parent of Stanley Wilks Ltd). Since 1 June 2026, Stanley Wilks Ltd has had a single VAT registration.

The assets of the company will be sold in order to fully pay the company's creditors, including an outstanding VAT payment owed to HMRC for the last VAT return submitted by the company. There are likely to be some costs (plus VAT) incurred by the company in the period following cessation of the business due to its staff pension plan. Whilst ABC LLP is satisfied that this VAT would be recoverable, it is uncertain whether Stanley Wilks Ltd needs to remain VAT registered in order to do so.

The company has significant outstanding debts due to a number of customers not paying their invoices, therefore an explanation is required in relation to the VAT treatment of these now that the company is in liquidation. In addition, some of the debts are over four years old so is has been suggested that credit notes are issued instead of claiming bad debt relief due to the time limits for claiming VAT bad debt relief. It is expected that the outstanding debts will be sold to a debt factor by ABC LLP, once the company's VAT bad debt relief position has been brought up to date.

It has also been identified that there has been an over declaration of output tax over the course of the past few years on some protective boots and helmets which should have been treated as zero-rated.

Requirement:

Explain the VAT implications arising from the cessation of the business of Stanley Wilks Ltd described above. (15)

16. It is November 2026.

Three Counties College is a provider of exempt education in Greyton, UK. There is a proposed development on part of its freehold land, which is currently used as a car park. No options to tax have been made by the college.

The development will be carried out by a private developer, Riverdale Developments Ltd, which already owns a larger piece of land next to the car park. The proposal is that the college will grant Riverdale Developments Ltd a 999-year lease over the car park land and Riverdale Developments Ltd will then undertake a residential and commercial development scheme across the car park and the land which it already owns. In return for the grant of the lease, Riverdale Developments Ltd will construct a new building within the new development and will grant a 997-year sublease to the college over this building. The new building will be a standalone one which will be close to, but separate from, the existing college building.

A peppercorn rent will be charged on the lease and sublease. The college will pay an annual charge for facilities management services. The college has had an independent valuation of the car park at £1 million in its current state.

The college will also be responsible for its own fit-out of the new building, at an estimated cost of £1 million. The college may choose to use Riverdale Developments Ltd's contractor for part of this work, particularly in the early stages, but is not required to do so.

Once complete, the new building will comprise studios and a theatre, to be used for a mixture of education and ticketed performances.

The college is unaware as to whether Riverdale Developments Ltd intends to opt to tax the completed development.

Requirement:

Discuss the VAT and Stamp Duty Land Tax implications of the proposed transactions. (20)

17. It is November 2026.

Fashion Holdings Ltd is the holding company of a group in the fashion retail industry. It owns 100% of Bid Co Ltd, which in turn owns 100% of its trading subsidiary, Bargain Bags Ltd. The share capital of Fashion Holdings Ltd is entirely owned by Frank Private Equity LLP.

Frank Private Equity LLP is planning to sell Fashion Holdings Ltd and its subsidiaries.

Fashion Holdings Ltd is not registered for VAT and its only income is from dividends. Bid Co Ltd makes management charges to Fashion Holdings Ltd and Bargain Bags Ltd, and the directors of the group have their contracts of employment with Bid Co Ltd. Bargain Bags Ltd makes wholly taxable supplies for VAT purposes, with Bargain Bags Ltd and Bid Co Ltd being registered as a VAT group.

Costs in the region of £2 million (including VAT) have been incurred to date by Fashion Holdings Ltd in respect of the sale by Frank Private Equity LLP, such as professional fees for a vendor due diligence exercise in order to identify any issues which should be addressed to increase the chances of a successful sale. Additional costs are expected in the future, before the sale takes place. The contracts for these costs have been between the suppliers and Fashion Holdings Ltd. Bargain Bags Ltd has also incurred some additional costs in respect of the planned sale by Frank Private Equity LLP (to assist in preparing for the sale by clearly identifying business drivers that are critical to the future performance of the company and identifying issues likely to be raised by potential buyers). The Bargain Bags group has an interest in finding a new owner in order to secure its future as a going concern.

Requirement:

Explain the VAT implications of the above transactions. (15)

18. It is November 2026. Petstuff Online Ltd is a UK based online retailer supplying clients in the UK with various items for pets. HMRC has recently conducted a VAT inspection into Petstuff Online Ltd's VAT period ended 31 March 2026.

Petstuff Online Ltd has been notified that HMRC are intending to raise assessments, with possible penalties, in relation to this and other periods. During the review, Petstuff Online Ltd provided HMRC with the following information from the return for that period:

Sales:	£
Food stuffs	10,000
Animal bedding	20,000
Toys	17,500
Medications/flea treatments	15,000
Cages/huts	25,000
Animal clothes	5,000
Other accessories	7,500
Total sales (excluding VAT)	100,000
VAT due (box 3)	17,000

Based on these figures, HMRC consider that Petstuff Online Ltd has been understating VAT due to HMRC by 15%. They have not questioned the input tax recovery.

Petstuff Online Ltd sells items for animals of all shapes and sizes including pet foods, toys, bedding, certain common medications etc. There are fluctuations in sales of the different categories throughout the year, for example sales of toys and animal clothes are higher in the build up to Christmas, and sales of flea treatments and other medications tend to be higher from February up to June.

Included on the VAT file was a review carried out by Petstuff Online Ltd's previous VAT adviser seven years ago which identified that some of the rate categorisations were incorrect as per the table below.

Item Description	Rate applied	Correction
Food stuffs (including packaged pet food; animal treats; dog biscuits; horse hay; bird seed etc.)	All standard rated	
Animal bedding	All standard rated	
Toys	All standard rated	
Medications/flea treatments	All exempt	Standard rated
Cages/huts	All zero-rated	Standard rated
Animal clothes (practical jackets and novelty items)	All standard rated	
Other accessories (dog leads/collars etc.)	All standard rated	

It appears therefore that HMRC have identified that Petstuff Online Ltd failed to make the corrective change to the medications/flea treatments.

A member of the Petstuff Online Ltd tax team compiles the relevant documents and completes the VAT returns each quarter under the direction of the tax manager who always check the returns before submitting them.

Requirement:

Explain the potential assessment and penalty position for Petstuff Online Ltd in relation to the VAT inspection. (15)

19. It is November 2026.

Housebuilds Ltd is a UK incorporated, VAT registered, property development company seeking advice in relation to the proposed acquisition of a plot of land known as Blackacre, from Farmer McGhee. Housebuilds Ltd plans to build single-unit family houses ranging from two to five bedrooms on Blackacre. The houses will include features such as fitted kitchen units, free standing white goods, carpets, light fittings and electric fireplaces.

Blackacre is part of a larger site of land owned by Farmer McGhee, and in respect of which he has made an option to tax. On the land to be retained by Farmer McGhee there is a commercial unit which is let out to an unrelated company.

There is a partly built access road across the entire site. The access road will connect both the commercial unit and Blackacre to the main road south of the retained land. Part of the agreement is that Farmer McGhee will finish the construction of this access road, at a cost of £40,000. The cost will then be recharged to Housebuilds Ltd.

The relevant rights of way/easements will be granted, under a separate agreement, for nominal consideration so that the access road can be built, and then used by Housebuilds Ltd (and successors in title), Farmer McGhee and users of the commercial unit.

The immediate consideration for the acquisition will be £1.2 million, plus the £40,000 for the construction of the road. In addition, there will be further consideration equal to 5% of the future sales proceeds of the dwellings, payable on a quarterly basis.

All figures given above are exclusive of VAT.

Requirements:

Explain:

1) The Stamp Duty Land Tax consequences of the proposals, including any further information required. (11)

2) The VAT implications of the proposals.

DO NOT comment on the application of the VAT reverse charge for construction services. (4)

Total (15)

20. It is November 2026. White Goods and Beyond Ltd is a retailer of various white goods such as washing machines and fridges. It also sells mechanical breakdown insurance for such goods as an optional extra for customers. White Goods and Beyond Ltd has multiple stores across England and Wales. All sales staff are capable of selling the insurance. The main store has an office space dedicated to the insurance team, which is 3% of the total square footage of the whole business.

White Goods and Beyond Ltd also has a website. However, customers are not able to actually purchase any of the white goods on the website, merely browse products and check availability for particular stores. Customers who have purchased items from a store, but opted not to buy insurance at that time, have a two week window where they can go to the website, fill in the relevant forms and acquire the insurance, using a reference number included on their receipt for the goods. The forms are quite involved, and the IT department estimates this accounts for approximately 90% of the site's usage.

The company pays a retainer to a law firm for their legal services. This is a fixed amount each month, unless the work undertaken exceeds a set number of hours, in which case a further invoice at hourly rates is issued. The normal monthly invoice for the retainer amount merely states "hours worked" with no breakdown of the type of work undertaken, or the cost of it. However, typically, approximately 85% of the work done relates to the insurance side of the business. The other 15% relates to the business as a whole, such as reviewing the general sales contracts, property leases etc.

White Goods and Beyond Ltd produces its own marketing leaflets, which are included in relevant local magazines and papers. These can be between six and ten pages and contain details of different products on offer. The insurance is not referred to in these leaflets.

White Goods and Beyond Ltd has a dedicated call centre in relation to the insurance aspect of the business, which is 8% of the total square footage of the whole business.

Following a VAT visit in August 2026, there has been recent communications from HMRC questioning the company's input tax recovery, stating too much has potentially been claimed.

White Goods and Beyond Ltd incurred the following total input tax subject to the standard rate in the VAT quarter 06/26, which were fairly typical, although some aspects, such as stock, can fluctuate and there are sometimes also other 'one-off' costs that are dealt with and attributed accordingly as they arise. The input tax costs for the property, website, legal services and call centre are the same each quarter.

Item	Input Tax £
Purchase of stock	125,000
Rent of opted property	100,000
Other overheads	38,000
Marketing leaflets production	7,500
Website costs	1,000
Legal services retainer	13,000
Call centre costs	4,000
Total Input Tax	288,500

The accounts and VAT returns provide the following information:

VAT Quarter	Total income	White goods income	Insurance income	Input tax claimed
in 2026	£	£	£	£
June	1,500,000	1,000,000	500,000	234,340
March	1,650,000	1,100,000	550,000	246,170
in 2025				
Dec	1,230,000	940,000	290,000	241,270
Sep	1,400,000	980,000	420,000	235,700
June	1,700,000	1,175,000	525,000	260,075
March	1,525,000	1,025,000	500,000	238,305
in 2024				
Dec	1,110,000	830,000	250,000	232,780

Requirement:

Explain the VAT and Insurance Premium Tax issues facing White Goods and Beyond Ltd. (20)

Provide calculations to support your conclusions.

21. It is May 2026. Anycover Insurance Inc is considering entering the UK insurance market.

If the proposal goes ahead, Anycover Insurance Inc hopes to sell a range of products, primarily travel insurance (for visitors to the UK and for travellers from the UK visiting other countries), car breakdown cover, both for people taking their cars abroad (covering breakdowns outside the UK) and mechanical breakdown insurance cover. The policies will be sold directly or by brokers, and in the case of the mechanical breakdown product, by dealers selling used cars. It is possible that if Anycover Insurance Inc's expansion into the UK is successful, its associated company, Anycover Life Inc, will market its life insurance products in the UK.

As well as personal travel insurance, Anycover Insurance Inc intends to write policies for UK employers, to cover employees travelling abroad on business.

Anycover Insurance Inc will offer short term policies as an alternative to an annual policy and will offer instalment payments over the term of annual policies, charging an administration fee of £7.50 plus 2% a month where this option is taken up, as well as straightforward annual premiums. The policies will be marketed via brokers as well as directly (on-line, by phone and by post). Brokers will be paid 3% commission on travel policies (which is not disclosed to policyholders) and a 5% commission (which will be disclosed) will be paid on breakdown cover.

The insurer is also considering a scenario where no commission will be paid to brokers arranging travel insurance, who will charge a separate fee to policy holders.

Requirement:

Advise on the various Insurance Premium Tax issues posed by Anycover Insurance Inc's plans.

DO NOT cover VAT. (15)

22. It is 2 November 2026. David James is the Finance Director of a local independent electronics retail company and needs some advice on IPT.

Until recently, the company predominantly sold electronic equipment to the public, for example, sound systems, aerials, CCTV systems, monitors, computers, laptops, cabling etc.

Following the closure of a large national chain, the company identified an opportunity to commence supplying domestic appliances through their shop and via their website. All the customers reside in the UK.

The company was approached by an insurance company which recommended that they offer customers the opportunity to purchase an extended warranty on their domestic appliances for an additional fee as this was something that all the company's competitors were doing, and it would provide them with a significant income stream at little cost. The warranty would be for two years, with free repair or replacement during this time in the event of breakdown.

The insurer explained that customers would make two payments at the till: firstly, a payment for the extended warranty and secondly, an arrangement fee of £15 payable to the retail company for arranging the contract. The retail company started offering this service on 1 March 2026 and domestic appliances now account for 8% of total sales, which is encouraging.

David thought that his company was exempt from IPT, but it has been suggested to him that they should have registered and may now face penalties for not having done so.

Requirement:

Advise on the IPT questions above. (15)

23. It is May 2026.

John Hobbs is the Finance Director of Warren Point Insurance Ltd ("Warren"), an insurance company providing insurance to UK motorists. Warren uses the special accounting scheme and has some issues with respect to IPT:

Meaning of premium and calculation of IPT

He wants confirmation on what is meant by 'premium' and how it is calculated. He has also recently noticed that although Warren has been charging IPT on the basis that a policyholder has a UK billing address, roughly 5% of its policies seem to relate to cars registered in the Isle of Man. He would like to know whether Warren has been correct in charging and accounting for IPT.

New insurance products

Warren has recently introduced a new UK motor insurance product aimed at individuals receiving the personal independence payment and is unsure of the IPT rate for this product.

In addition, the company is in the process of entering into an agreement with Carp's Cars Ltd. The products that Warren will offer to motorists are as follows:

1) A Mechanical Breakdown Insurance ('MBI') product; and
2) A repair and maintenance contract product.

In relation to the MBI product, Carp's Cars Ltd has suggested that an associated company of Warren - Lynton Sands Ltd - should manage the administration of the insurance and the distribution relationship with Carp's Cars Ltd. Of the total premium for each policy, £15 would be allocable to these services and payable to Lynton Sands Ltd.

Commissions paid to brokers

In order to sell motor insurance, Warren has agreements with a number of insurance brokers. In January 2026, Warren entered into an agreement with a broker under which Warren specified a minimum premium value, but which allows the broker to keep as commission the difference between the minimum premium and whatever value the broker can sell the insurance for.

Mid-term adjustments

Where the circumstances of a policyholder change (eg points for speeding) during the period that they are insured they are obliged to notify Warren. When this happens, the policyholder's premium will be recalculated, and this can result in an increase in the premium for the remainder of the period.

Current process

As part of the process of configuring a new system, Warren undertook a review of its current IPT accounting procedures and noted the following:

1) IPT is accounted for on the minimum value of premium that Warren agrees with its brokers.

2) IPT is accounted for based on the premium agreed with policyholders on the date the insurance contract is entered into and does not take into account subsequent adjustments.

Requirement:

Advise Warren Point Insurance Ltd in relation to its IPT issues. (15)

IPT QUESTIONS

24. Home Repairs Ltd is a company that specialises in repairing domestic appliances. It is offering an insurance policy to householders to insure their domestic appliances. The following details their activity in 2026.

The number of policies taken out in the following locations were:

20,000	Great Britain
10,000	Republic of Ireland
1,000	Isle of Man
1,000	Channel Islands
500	Scilly Isles

A fee of £100 was charged for each policy taken by a householder. A similar policy was sold to a hotel group with hotels in Great Britain and Republic of Ireland. There are 80 hotels in Great Britain and 20 in Republic of Ireland, though the cost of insurance in Republic of Ireland is 10% higher. A fee has been calculated of £20,000. In addition to this fee, Home Repairs Ltd charged the hotel group 8% interest per annum for accepting payments in instalments and this was charged separately at the year-end. Over the past year this interest was £730.

Home Repairs Ltd has an arrangement with a well-known kettle manufacturer, Black Pots Ltd, which offers its customers a free warranty for the first year of ownership. The customer is to return a card that is contained in the kettle's packaging to Home Repairs Ltd, which administers this warranty service for Black Pots Ltd for a fee of £10,000 a year. Black Pots Ltd tries to persuade its customers to purchase an extended warranty. Each purchaser is charged £10 for the extended warranty. Black Pots Ltd retains £1 of this for its administrative costs and pays the remaining £9 to Home Repairs Ltd. 750 policies have been sold. Any customer that has not taken up the extended warranty is sent a reminder by Home Repairs Ltd when the free warranty is about to expire to sell a similar extended policy for the kettle. The cost of this is £10, and Home Repairs Ltd keeps the whole fee. 1,200 of these policies have been sold.

Home Repairs Ltd is an authorised insurer and registered for IPT.

Requirement:

Calculate with full explanations the amount of IPT arising in respect of the above transactions. (10)

Do NOT comment on VAT or any other taxes.

25. MLU is a Belgian insurance company which has been providing insurance cover for plumbing and heating system emergencies to households across Europe for the last five years. The policies in the UK are arranged, sold and administered by an unconnected UK company, Thompson Ltd, a licensed insurance broker. Thompson Ltd sends out the marketing materials, deals with initial queries and collects and processes the applications from customers.

Claims handling is outsourced by MLU to another unconnected UK company, Wagg Ltd, which operates a hotline service, receiving calls from policy holders, arranging for engineers to attend the properties and settling complaints.

The marketing material points out to customers that customers will have a contract of insurance with MLU for which an insurance premium is payable as well as a separate contract for arranging and administering the insurance contract with Thompson Ltd for which a £15 administration fee is charged. It is emphasised that the overall price for the cover is not affected by this arrangement. No IPT is accounted for on the amounts retained by Thompson Ltd.

Thompson Ltd has recently begun to offer extended insurance warranties to customers who choose to pay for upgraded boilers when their old ones break down. They charge a £10 documentation fee for arranging the policy, pay 10% of the premium to the boiler supplier and the rest to MLU.

MLU accounts for standard rated IPT on all premium amounts it physically receives.

Requirement:

Explain the relevant issues for Insurance Premium Tax purposes, with reference to case law and statute. (10)

26. The following scenarios relate to different companies and the IPT issues that they have:

1) Company X accounts for Insurance Premium Tax when they receive the money from their customers whereas company Y goes by the date they enter the premium details as due into their statutory records. What are the rules around this and, if it is right to use the date of entry into the records, what happens with bad debts and overpayments etc?

2) Company Z supplies double glazing to individuals, and they have been charging their customers a 'guarantee premium' of 10% of the value of the goods. This means that if the double glazing needs repairing or replacing in a 20-year period then company Z will make good the repair/replacement. The contractor separately takes out an insurance policy on behalf of the individual customer which allows that customer to claim for any repairs that are needed under the guarantee should the contractor go out of business prior to the end of the 20-year period. Is this 'guarantee premium' liable to IPT?

3) Company A only discloses errors to HMRC (HMRC) unless the net error is less than £10,000. Company B only discloses errors above £50,000. Which company is right? Would a disclosure for an £18,000 error be needed?

4) Company K is a UK insurer registered for Insurance Premium Tax. As a new business venture the company has started providing credit guarantees, essentially charging manufacturers a premium against their risk that a customer will not pay their credit instalments on purchases. Should this be subject to Insurance Premium Tax? Also, they employ a third party to administer their household emergencies insurance contracts for which the insured pays a set fee directly to Company K. Can you clarify the IPT treatment?

5) Company G has had to dismiss an employee for alleged fraud and is now concerned about an Insurance Premium Tax return for the second half of 2023 as they seem to have understated the liability deliberately. What criminal sanctions could apply here?

Requirement:

Answer the above queries providing statutory references where appropriate. (20)

27. An American based company, “Coversure Inc” is intending to sell travel insurance (amongst other things) via the internet to individuals around the world, including the UK. The company has not thought about becoming registered for IPT in the UK and believes it is not necessary to do so, as it is based in America.

It wants to know whether this is necessary and if so how it will go about becoming registered. The CEO doesn’t know much about the UK’s IPT regime as Coversure doesn’t have a place of business in the UK. The company is concerned as to how it will manage any UK IPT affairs, as well as what the company will be required to do if it is liable to register.

Requirement:

Explain the IPT issues arising from the above arrangements. (15)

VAT ANSWERS

1. SUNNYVIEW HOMES LTD

VAT ISSUES

Zero-rating of dwellings

The first grant by a person constructing a building designed as a dwelling of a major interest in the building is zero-rated under Sch.8 Group 5 Item 1 VATA 1994. This would cover a supply of a completed home by a developer such as SH:

- as long as a "major interest" is granted – this is the freehold or a lease exceeding 21 years in England & Wales, so an 80-year lease would qualify;
- as long as the building qualifies as a "dwelling" (see below).

The supply in the course of the construction of a building designed as a dwelling of any services related to the construction, such as the building services of SB, are zero-rated under Sch.8 Group 5 Item 2.

Holiday accommodation – grants of 80-year leases

The grant of an interest in a new building which constitutes holiday accommodation is excluded from exemption by Sch.9 Group 1 Item(1)(e) and notes 11 – 13 VATA 1994. This includes supplies of interests in new buildings which are excluded from zero-rating by Note 13 Group 5 Sch.8 VATA 1994.

This note provides that the grant of an interest in a building designed as a dwelling is not within item 1 if the interest granted is such that the grantee is not entitled to reside in the building (or part of it), throughout the year; or residence there throughout the year, or the use of the building or part as the grantee's principal private residence, is prevented by the terms of a covenant, statutory planning consent or similar permission.

However, following the case of *Ashworth* (VTD 12,924), a lease is not standard-rated as holiday accommodation if the property is actually occupied as a main residence and the property is not in a holiday park or a site held out as a holiday park. This exception needs confirming as to whether it could apply to any of the potential customers. The sale would be exempt rather than zero-rated, because the planning consent would breach the terms of Sch.8 Group 5 Note 13.

If the building is holiday accommodation, the standard "all-in" premium for the 80-year lease would include VAT at $^1/_6$: the supply would be £255,319 plus £51,064 VAT. The company will need to take this into account in calculating its required profit margins and therefore its pricing policy.

Significance of planning permission

The terms of the planning consent clearly mean that, in accordance with Note 13 Group 5, the properties will not be dwellings but will be treated as holiday accommodation. The fact that the planning authority and the residents may not take any notice of the terms of the consents does not make any difference. This point was tested in the case of *HMRC v Tallington Lakes Ltd*, Ch D 2007. This dealt with a caravan park but the point about planning permission was the same.

Note 13 applies only to supplies within Item 1 of Group 5 Sch.8 (ie the sale of a property or in this case the grant of the 80-year leases). The supply of construction services will still be zero-rated within Item 2, regardless of the terms of the planning consent, provided that the building is "designed as a dwelling" (which appears to be the case).

Tutorial Note:

Note that the definition of a dwelling is in Note 2 and a holiday home/furnished holiday let would fall within the conditions of (a) to (d) as there is no requirement in here that it must be available to be lived in all year round.

However, Note 13 clarifies that a dwelling for the purposes of item 1 only (sale/grant of lease over 21 years) does not include a holiday home/furnished holiday let where the person cannot live in it all year, or planning disallows it from being a person's principal private residence.

So the construction costs are zero rated, but the onward sale/grant of the lease is not.

Separate sale of plot and services

If SH sells plots of land rather than completed houses, if no anti-avoidance argument is taken by HMRC:

- the plots of land appear to be standard-rated because they are excluded from exemption by Note 11(b) Group 1 Sch.9 VATA 1994;

- the construction services would be supplied directly by the builder, whether SB or another firm, and could be zero-rated. If the contract is "design and build", all costs included within the contract price would enjoy VAT recovery, including building materials and architects' fees (see note on "not building materials" below).

Possible abuse of rights argument

In the case of *Lower Mill Estate Ltd* (TC00016), HMRC attacked an arrangement whereby customers could buy plots of land and building services separately as an artificial way of avoiding the purpose of the law, which was that new buildings of this type should be standard-rated on the whole amount paid by the customer. The First-tier Tribunal accepted this argument. The taxpayer appealed and the Upper Tribunal held that there were two, separate supplies stating, "in our judgment, apart from any abuse or sham, it is not possible to combine supplies by two suppliers under two contracts so as to result in one supply for VAT purposes". The Upper Tribunal also held that the first limb of the two-part test for abuse was not met as, in the particular circumstances of the case, the tax advantage was not contrary to purpose. HMRC has stated in its guidance that it considers that this case to be specific on its facts and does not have wide ranging impact. Therefore, if HMRC considers that this arrangement has been implemented in order to avoid payment of VAT they will most likely seek to challenge it. However, the scheme is less likely to be artificial and abusive:

- if customers have a clear and free choice to use SB or another building firm, and this is not an apparent choice with no reality;

- the transactions of SB and SH are economically independent of each other, i.e. there is no cross-subsidy in respect of the prices.

DIY builders' scheme

Where someone buys a plot of land and has the property constructed, it will be possible for them to:

- receive the construction services zero-rated as described above;
- make a DIY builder's claim for VAT on materials under s.35 VATA 1994.

The conditions for the DIY claim broadly match those for zero-rating of new dwellings, but it has been held by the First-tier Tribunal that a DIY claim is permissible for someone building a holiday home, even if it is subject to the planning constraints described (*Susan Irene Jennings* (TC00362)). HMRC accepted in R&C Brief 29/2010 that this is the case, as long as the property is built for a non-business purpose. If the purchaser intends to rent the property out as an economic activity, then the DIY claim cannot be made (although it would be possible to register for VAT and recover some of the VAT charged as input tax). (This was confirmed in the *Philip Spani* case in 2023. In that case planning dictated that it had to be let on a commercial basis for a certain number of nights, and this constitutes 'business'.)

VAT cannot be recovered under the DIY scheme on architects' fees, construction services which should have been zero-rated but were incorrectly charged by the builder, or items which are not building materials.

Building materials

"Building materials" means goods of a description ordinarily incorporated by builders in a building of that description but does not include finished or prefabricated furniture (other than furniture designed to be fitted in kitchens), electrical goods or carpets. Building materials can be incorporated in a zero-rated supply of a building or building services and are eligible for a DIY claim under s.35.

If goods are incorporated (in an onward zero-rated supply of that building) which are not building materials, the supplier cannot recover the VAT as input tax (SI 1992/3222 art.6). HMRC have published extensive guidance on what they regard as building materials, but there are still sometimes disputes in Tribunal about individual items. If the builder or customer proposes to include something unusual, it will be worth considering in advance what the VAT treatment is likely to be.

Tutorial Note:

Note that the block on input tax on building materials only applies if the onward supply of that building is zero rated. If it was exempt, then the input tax would not be recoverable under basic principles and if it was standard rated then they would have VAT charged on them anyway, so VAT recovery would be available.

Stamp duty land tax

Under the "standard format", the customers will pay a premium for a lease and will be liable for SDLT on the whole amount (including VAT). If the standard property costs £300,000, the SDLT will amount to £5,000 (this is assuming that they are not first-time buyers who will use this as their main residence). This will comprise the first £125,000 at 0%, the next £125,000 at 2% and the final £50,000 at 5%. If the purchaser already owns a residential property, then the rates are increased by 5%.

Under the revised format, it appears that the land element will fall below the threshold (£125,000), so there will be no SDLT on that. If the purchaser already owns a residence, then 5% will be due by them. Services are not subject to SDLT, so the arrangement appears to avoid the charge to that tax altogether.

HMRC might try a parallel anti-avoidance argument to bring the whole amount paid by the customer within the charge to SDLT, but it would have to be on the basis of a "pre-ordained series of transactions with steps inserted only for a tax advantage". Such an attack seems less sustainable than the "abuse of rights" argument for VAT, as the arrangements do not appear to be pre-ordained.

Examiner's report:
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This was a tricky question which tested an area of the law that would be on the edges of most candidates' knowledge – the DIY builders' scheme. It was therefore pleasing to see that a majority of candidates were able to quote the case of Jennings and HMRC's subsequent change of view on how the DIY scheme operates in the case of a holiday home. Clearly many candidates are paying proper attention to recent* developments. [*It was topical at the time the question was set.]

Unfortunately, there was very little evidence that anyone understood the point of the Jennings decision. The distinction between Sch.8 Group 5 Items 1 and 2 is more central to the syllabus, and it was disappointing to see that no-one provided a convincing answer and very few scored any points on it.

In order to be sold zero-rated under Item 1, a building must be a "dwelling" as defined in the law. The planning consent is relevant to that. Accordingly, under the "normal" structure described in the question, the holiday homes cannot be sold to purchasers zero-rated. Many people realised that, but rather fewer realised that a holiday home is also excluded from exemption under Sch.9 Group 1. Perhaps a quarter of candidates realised that the sale of the new holiday homes would be compulsorily standard-rated, and the option to tax was wholly irrelevant.

What no-one appeared to realise (or state clearly) that the condition for zero-rating a supply of construction services under Item 2 is different. The building must be "designed as a dwelling". The builder only has to look at the plans, not at the planning permission. More than one candidate stated that the builder requires a certificate of use from the purchaser – that is only necessary if the building is to be put to a relevant charitable or residential use. That is the key issue in Jennings: it is possible for a DIY builder to buy in the services of a construction firm who will be able both to carry out the work ZR within Item 2, and to include building materials within that ZR supply using Item 4. The Tribunal therefore decided that there was no reason to deny a DIY claim on building materials bought directly by the DIY builder who was constructing a holiday home, because the purpose of the law is to make the two chains of supply broadly neutral.

A few candidates mentioned the case on which this question is loosely based, Lower Mill Estates. However, no-one mentioned the "abuse of rights" argument that succeeded for HMRC in that case. This was perhaps not surprising as so few candidates were able clearly to identify the difference in VAT treatment which would arise.

An important point on the DIY scheme that caused problems is that a DIY "new builder" can only recover VAT on the purchase of materials, not services. If the DIY builder uses a contractor to construct the dwelling, the VAT relief is given by getting the contractor to zero-rate the supply, not by making a s.35 claim.

There were easy marks for making very obvious points about SDLT which were missed.

2. STRONGWINDS

Part 1)

Strongwinds Ltd ("Strongwinds")

Future supplies of energy from this development will be taxable supplies ie they will be subject to VAT. VAT registration is mandatory when the company's cumulative turnover in any period of 12 months exceeds the VAT registration limit of £90,000, or if at any time it expects its turnover will exceed the registration limit in the following 30 days.

Strongwinds initial funding has come from equity investment and loans, neither of which constitutes taxable supplies for the purposes of VAT registration. However, consideration should be given to the treatment of the grant income. This type of payment will only give rise to a VAT liability when it constitutes consideration for supplies of goods or services (see the case of *Keeping Newcastle Warm*). In Strongwinds case, the grant does not subsidise any services supplied by the company; Strongwinds is merely required to comply with the conditions attached to the use of the funds. In these circumstances therefore the grant payments are outside the scope of VAT. Since Strongwinds will not make taxable supplies until 2028, therefore, there is presently no legal requirement for the company to register for VAT.

However, Strongwinds has already incurred VAT on professional costs and is likely to incur substantial amounts of VAT on the acquisition of sites and construction costs prior to any sales being made. Once a company is VAT registered, it can reclaim VAT on all costs which relate to its taxable supplies and may also reclaim VAT incurred prior to registration on goods on hand (bought in the last four years) and services received in the six months prior to registration. If Strongwinds delays registering for VAT until it breaches the mandatory VAT registration threshold, once registered it is likely to be able to recover VAT incurred on site costs since freehold land is considered to be "goods" for this purpose. However much of the VAT incurred on professional and contractors' services may fall outside the six month limit with the result that the VAT may not be recoverable and become an additional cost for the project. In any event, for cash flow purposes, it would be useful for Strongwinds to be able to reclaim credit for VAT spent as the project develops.

In order to recover VAT payable on development costs, Strongwinds can apply for VAT registration as an 'intending trader'. In order to be registered as an intending trader, the company should provide HMRC with objective evidence of its intention to make taxable supplies in the future. The feasibility study commissioned by the company, application for planning permission and documents relating to the acquisition of sites should be sufficient for this purpose. It is not necessary for the company to evidence the exact date when it will commence making taxable supplies or the value of the supplies.

Tutorial Note:

As an aside, the case of *Hedge Fund Investment Management Ltd (FTT 2022)* said that you can be an intending trader, even if you do not make any sales for four years. In this question, the sales are expected in 15 months' time and subject to the point below, registering from September 2024 for sales anticipated in February 2028, are still within the four-year period shown by this case.

Subject to satisfactory evidence, intending traders are normally registered for VAT from the date of their application. However, it is possible with the agreement of HMRC to be registered from an earlier date. This date cannot be more than four years prior to the date of the application. An application for a retrospective date must be made at the time of the application since the date of registration cannot be amended later. The objective evidence referred to earlier must also show that the company was carrying preparatory business activities at the date requested. The company should therefore consider an

application to register from 1 September 2024 (or within six months of this date) since this would allow recovery of VAT incurred to date on development costs.

If the company registers for VAT with effect from 1 September 2024 (say), it will be able to claim repayment of VAT incurred on previous and future costs. This VAT recovery is subject to the company holding proper VAT invoices in respect of items of expenditure but will not be restricted as a consequence of the receipt of grant income. This VAT can be reclaimed through the company's VAT returns. Since the company will not pay any VAT on sales until 2028, it may be beneficial for the company to make an application to submit VAT returns on a monthly basis rather than quarterly which is the normal procedure. This will assist cash flow in the development stages and the company can revert to quarterly returns at a later date.

Eastwinds plc ("Eastwinds")

The rent and service charges made by Eastwinds to Strongwinds are exempt from VAT, the service charges being seen as further consideration for the lease as long as they are provided under the terms of the lease. These amounts do not count for the purpose of assessing liability to VAT registration. Charges for telephone and computer services would potentially be subject to VAT but are presently below the registration limits. These services are categorised as continuous supplies of services for VAT purposes and a tax point (the time at which VAT becomes chargeable) will arise when payment is made. By the time payment is made by Strongwinds, these amounts may have reached a level which ordinarily would create a liability for Eastwinds to register for VAT since a business has a requirement to register at any time if its expected turnover in the following 30 days will exceed the VAT registration threshold. However the Court of Appeal held in *B J Rice and Associates* that the continuous supply of services provisions cannot operate to bring into charge services performed before the date of VAT registration. Since future charges by Eastwinds are likely to fall below the VAT registration limits, there will be no requirement for Eastwinds to register for VAT. Even if any VAT were chargeable, it would be reclaimable by Strongwinds with no resulting net cost.

Tutorial Note:

If Eastwinds is only going to charge Strongwinds the £20,000 a year when Strongwinds starts to generate income, this might mean that the following will have accrued:

2024 – £11,667 (7/12 × £20,000 – seven months of telephone/computer charges from June 2024 to the end of the year)
2025 – £20,000, so cumulative £31,667
2026 – £20,000, so cumulative £51,667
2027 – £20,000, so cumulative £71,667
2028 – £20,000, so cumulative £91,667

So if over £90k was invoiced in one go, it would potentially make Eastwinds liable to register under the future test. We do not know exactly when Eastwinds would charge the amounts, but the above illustrates the point the examiner is making.

If Eastwinds does not register for VAT, it follows that it will be unable to reclaim any VAT on costs and expenses. In the future, therefore Eastwinds may wish to consider a VAT group registration with Strongwinds, nominating Strongwinds as the representative member of the group. A single VAT number would apply to the two companies and Strongwinds, as representative member, could deal with the administrative requirement to submit VAT returns. No VAT would arise on any recharges from Eastwinds to Strongwinds, regardless of the level of the charges. Since members of a VAT group of companies are treated as a single entity for VAT purposes, this arrangement would entitle Eastwinds to recover VAT on future expenditure. This arrangement would also make Eastwinds jointly and severally liable for any VAT due from Strongwinds.

Part 2)

Project not completing

In the event that the project does not proceed because the company is unable to obtain the necessary planning permissions/licences and the sites are sold, the company will need to consider the VAT consequences. Ordinarily the sale of land is exempt from VAT and in the case of Strongwinds, this would result in a clawback of any VAT reclaimed on the purchase of the sites.

This could be avoided by the company opting to charge VAT on the sale of the land. The company will also have to de-register for VAT since it will no longer have an intention to make supplies subject to VAT. This will give rise to a number of VAT issues. Provided the intention to trade is frustrated by matters outside the control of the company, generally it will not be required to repay any of the VAT it has reclaimed. However, a consequence of VAT de-registration is that any assets held by the company will be deemed to be sold to the company at their replacement cost at the date of registration. This would create a deemed exempt sale of the land with similar consequences to an exempt sale of the land ie a clawback of VAT reclaimed on the purchase. A taxable sale of the land using an option to tax prior to de-registration is clearly desirable, therefore. Any other assets held by Strongwinds will also be deemed to be sold to the company at the date of registration giving rise to a possible further VAT cost. However, VAT is waived if the amount involved is £1,000 or less.

Sale of the business

The VAT consequences of a sale of the business will depend on whether Eastwinds sells the shares in Strongwinds or Strongwinds sells the business as an asset sale. If a disposal is by way of a share sale, the VAT registration of Strongwinds will continue uninterrupted provided it is a single company registration and Strongwinds will continue to reclaim VAT and account for VAT on future sales through its existing VAT number. If a VAT group registration is in place, however this will have to be cancelled since the control requirements will no longer be met and each company will have to address its own future VAT registration position. Following the sale, Eastwinds will have no liability for any VAT due from Strongwinds subject to any warranties and indemnities in the sale contract. Any VAT incurred on the costs of the sale will not be recoverable by Eastwinds.

If Strongwinds sells the wind farm business and assets, in principle the assets will each be subject to VAT at the relevant rate. However, where a business is sold as a going concern, the assets may be sold free of VAT subject to conditions. These are principally that the new owner is VAT registered or becomes liable to register for VAT as a result of the business transfer and the new owner will use the assets in the same kind of business. The wind farms will be classed as civil engineering works and therefore would ordinarily be subject to VAT on a sale in the first three years following completion of construction. In view of this an additional rule applies on a transfer of a going concern which is that the purchaser must notify an 'option to tax' over the wind farms to HMRC prior to the transfer. Strongwinds should ask to see evidence of the option to tax.

Once it has sold the business, Strongwinds will have to de-register from VAT unless it intends to carry on another taxable business activity. If the company has retained any assets, it will need to consider whether a VAT charge will arise on de-registration as noted in the comments about the project not completing. VAT incurred on the costs of the sale of the business which are invoiced after de-registration may be reclaimed by an application to HMRC on form 427.

Tutorial Note:

The answer above is more detailed than what would be expected in the time available.

Examiner's report:
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This question offered some straightforward marks to candidates who had a good knowledge of the VAT registration rules. Some candidates restricted their answer to a general commentary on the rules and did not score highly as a result. Candidates should always apply their knowledge of statute and case law to the facts presented in the question. Candidates who achieved high marks provided a thorough explanation of the conditions for intending trader registration and their relevance in this case.

The last part of the question requirement indicated that five marks were available for the answer, but few candidates provided sufficient detail in this part to secure full marks.

3. FARMER GILES

1) Farmer Giles

The first question is whether the cash coming in from LFSS should have been put through Farmer Giles' company VAT return. It appears that the activities are kept separate; however, if company assets are used to support LFSS' activities, HMRC could argue that it is an extension of the company's business. In that case, they would assess for output tax on supplies going back four years (and would allow input tax on related costs to be deducted). Penalties are likely to be 30% for careless error under Sch 24 FA 2007, but HMRC might argue that the omission was deliberate with a 70% penalty tariff.

As long as company assets are not used, it should be possible to resist such an argument. The next question is whether HMRC could require registration by a business splitting direction under paras 1A/2 Sch 1 VATA 1994. This seems relatively unlikely as there does not appear to be any artificial separation of activities which are more naturally regarded as one: if Farmer Giles' own land was used, a direction might be sustained, but this appears to be something quite separate from his farming business. A direction would only have effect from the date it is issued.

The third issue is whether Farmer Giles should register LFSS either as an unincorporated association or as a sole trade. It appears to be a business within the definition of s.94(2)(a) VATA 1994 (the provision by a club or association for a subscription or other consideration of the facilities or advantages available to its members), It is not clear whether it has exceeded the registration threshold in the last year (£4,000 x 20 = £80,000; the current threshold is £90,000 (and was £85,000 prior to 1 April 2024)), but it may have done so before that, in particular in the first year when the contributions were higher. If it should have registered and failed to do so, urgent action will be required to minimise exposure to penalties.

On the other hand, there is a strong argument that this is not a business activity at all. It is similar to the facts of the *Lord Fisher* case, because Farmer Giles himself takes part and pays his own contribution. Although it satisfies many of the tests of business activity established in that case, it could be strongly argued that the LFSS is not making supplies for a consideration. There are differences (in particular, the fact that Giles has to buy in and apparently supply on the shooting rights), but these were held to be unimportant in the similar Tribunal case of *EG Harrison* (TC01205). Therefore, any attempt by HMRC to charge VAT on this activity could be resisted.

HMRC revised its guidance on what constitutes a business activity due to the Court of Appeal decision in *Wakefield College.* In that case a two stage test was given:

1. The activity results in a supply of goods or services for a consideration, and this means there is a legal relationship between the supplier and recipient, and

2. The supply is made for the purposes of obtaining income therefrom.

The criteria in the Lord Fisher case are now only indicators. They can still be used as a set of tools but are not decisive. In this situation, if there is no legal relationship between Farmer Giles and his friends then test 1 is not met. As there is no written constitution, so members are potentially free to leave at any time, this is a good indicator of there being no legal relationship.

Tutorial Note:

It would have been reasonable to start with the business v non-business discussion and conclude non-business based on case law principles.

Credit would also be given for coming to a different conclusion that it is a business activity.

An outline of registration and aggregation could then follow just in case the business argument prevailed.

2) Sir Archie Fettrich

By contrast with Farmer Giles, Sir Archie has treated his hunting activities as business. It appears that he makes a large loss (the cost of the helicopter, even spread over a number of years, must substantially exceed the revenue from selling meat), so HMRC might argue that it is not "economic activity" and therefore does not justify a deduction of input tax.

Applying the principles from *Wakefield College* and using the *Lord Fisher* case as 'tools', these are the indicators that hint towards a business activity:

The turnover is small, but Sir Archie says he hopes to increase it. It is certainly not insignificant and points towards making supplies for a consideration.

The fact that the costs appear likely always to exceed the revenues may count against this being a business. However, it is not essential to make a profit for VAT to be charged and recovered, as long as taxable supplies are made for a consideration. The Courts have held that reliance should not be based on a profit motive.

It appears that the activity is mainly concerned with making supplies for consideration – the sales of meat. HMRC might make something of the fact that Sir Archie does not charge people to take part in the hunting but assistance in the hunting might be worth as much as Sir Archie might otherwise charge.

Overall, it appears that this is a business activity for VAT purposes and input tax is in principle deductible. In the fairly similar case of *Mark Ziani de Ferranti* (TC01288), the Tribunal accepted that input tax on a helicopter was deductible on the basis of zero-rated sales of venison.

There are two other issues which HMRC can raise. The first is the private use of the helicopter. There is no question that a percentage should have been disallowed on the purchase, as the *Lennartz* approach (100% claim upfront) is not permitted for this purchase of aircraft. This ought to be notified to HMRC without delay to minimise the exposure to penalties. On the facts stated, the disallowance should be 20% (private use) x 20% x £300,000 = £12,000; there should be a similar disallowance of running expenses since then. Claiming 100% on an asset with private use might not be regarded as 'careless' but 'deliberate behaviour' with a higher penalty rate; unprompted disclosure will only reduce the penalty to zero if the error counts as careless.

The helicopter falls within the Capital Goods Scheme. Differences in private use over a five year period should be reflected in CGS adjustments each year. If 80% of the input tax was originally properly claimed on the basis of an expectation of the private/business split, the actual private use in the year to 31 March 2026 should be compared with this and an adjustment made accordingly in the return to September 2026.

The second point is whether there is a barter transaction with the friends who take part in the hunting for no apparent consideration. They are providing a service to Sir Archie in return for something for which he might charge them. It is unlikely that any valuation of this has been agreed between the parties; using the principles of the *Empire Stores* case, the barter would have to be valued according to the costs which Sir Archie is prepared to pay out in order to obtain the services. It is not clear that there are such costs (as the business does not bear any expenses for the participants), so it would be hard for HMRC to sustain an assessment based on barter.

Examiner Note:

There were a large number of points and issues in this question and more marks were available on the marking guide than the 15 maximum for the question. A good score would be obtained by a candidate who identified a range of issues and discussed them sensibly.

It was not necessary to identify and discuss everything that appears in the model answer or write about them so fully.

MARKING GUIDE

TOPIC	MARKS
1) Farmer Giles	
Part of farming company business?	1
Business splitting direction?	1
Sole trade/association	1
Mention of s.94	1
Registration threshold considered	1
Case Law and HMRC guidance	2
Tests in Wakefield College	2
Bonus mark for mention of other relevant cases	1
Max	9
2) Sir Archie Fettrich	
Basic issue: economic activity or not?	1
Consideration of tests Conclusion – either way, as long as justified	1
by discussion	1
Bonus mark for mention of de Ferranti case	1
Private use of helicopter identified as a problem	1
Correct treatment: disallowance (not Lennartz) and CGS	1
Discussion of barter	1
Max	6
TOTAL (MAX)	**15**

Examiner's report:
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There were a number of issues which candidates could identify and comment on in each of the two scenarios that would have earned marks. Too many candidates failed to identify the full range of issues, and too many made basic mistakes.

Several candidates were aware of the cases (Harrison and de Ferranti) which were highly relevant to these situations. Not all could accurately recall the outcomes of those cases – both went in favour of the taxpayers and would have been helpful to the situation in this question.

The section on the helicopter was generally well done, with most candidates correctly stating that Lennartz accounting is no longer possible and noting that the capital goods scheme should be applied. However, only a minority followed through to note that the individual had therefore overclaimed £12,000 of input tax, and hardly anyone suggested that something should be done about this – it is too large for an adjustment through the VAT account, so a voluntary disclosure would be essential.

Several commented on the advantages of voluntary registration for the first taxpayer. It ought to be obvious that the output tax liability would exceed the input tax recoverable – the business just about breaks even, it has non-VATable costs, and the customers cannot recover VAT charged to them. Surely a VAT advisor must understand that basic point – it cannot be advantageous to be registered. The contrast with the second taxpayer, who has zero-rated outputs and therefore wants to be able to treat the activity as business, ought to be obvious.

4. JANE AND HORACE

Conversion of the Haycroft and Burford barns

Contrary to what the builder has said, provided that the necessary planning consents/building approvals for the conversion works have been obtained and they each result in essentially a self-contained dwelling, they will be subject to VAT at the reduced rate of 5%, as opposed to standard rated. The fact that the consent relating to Burford Barn restricts its use to the provision of accommodation to a farm worker will not preclude VAT relief.

VAT incurred on Burford Barn will be recoverable in full since the building will be used in the course of the partnership's business.

The gift of the freehold interest in Haycroft Barn to Lizzie will represent a deemed zero rated supply by the partnership of a converted dwelling, and accordingly it will be entitled to recover in full VAT associated with the supply.

In the absence of any form of consideration passing from Lizzie to Jane and Horace for the converted barn, there will be no charge to SDLT.

Alternatively, the unconverted barn could be taken out of the partnership. The conversion could then be undertaken privately, and any VAT incurred on the conversion would be recovered via the DIY housebuilder scheme.

Windrush Barn

The leases will be VAT exempt, and, in principle, VAT incurred on expenses directly and indirectly associated with these supplies ("exempt input tax") will be irrecoverable.

However, the legislation provides an administrative easement which allows a VAT registered trader to recover in full exempt input tax which is, on average no more than £625 p.m. (£1,875 a VAT quarter) and does not exceed 50% of all input tax incurred in a VAT quarter. Invariably VAT on expenses do not accrue evenly over a longer period, so the legislation allows taxpayers at the end of their "tax year" (explained later) to recalculate the exempt input tax incurred and if it is a maximum £7,500 (£625 x 12), to recover the tax in full.

Where the annual de minimis limit of £7,500 is met, but exempt input tax has not been claimed for the VAT accounting periods falling within the tax year because the monthly/quarterly de minimis limit were breached, this tax may be recovered in full by making an entry either on the taxpayer's VAT return for the final accounting period of the tax year, or on its return for the first accounting period in the following tax year. Conversely, where a taxpayer has met the de minimis limit in a VAT accounting period(s) within a tax year, but over the full tax year the annual de minimis limit of £7,500 is breached, exempt input tax previously claimed must be refunded to HMRC.

The partnership's tax year will be the 12 months to 31 March unless it has agreed another period with HMRC. In the first tax year in which a VAT registered person incurs exempt input tax, the annual de minimis limit of £7,500 is pro-rated – assuming the builder renders his first invoice in respect of Windrush Barn in November 2026, the annual de minimis limit for the partnership's tax year 2026/27 will be £3,125 (£7,500 x 5/12).

During the partnership's tax years 2026/27 and 2027/28, it will not be making any exempt supplies, so the only exempt input tax will be that arising on the builder's invoices for the works to Windrush Barn. However, in the tax year 2028/29, it will be making exempt supplies to the value of £30,000, as well as taxable supplies. In that tax year, the exempt input tax incurred by the partnership will include not only the VAT charged on the builder's Windrush Barn invoices but also (a) VAT on expenses directly relating to securing tenants, for example, agents' and solicitors' fees and (b) a small amount of VAT on the

partnership's overhead expenses which may be said to be fairly and reasonably attributable to the exempt supplies made in that tax year.

VAT incurred on the partnership's general overheads is of the order of £12,000 p.a. Given that the value of VAT exempt annual rents from the letting of the units is expected to be £30,000 in 2028/29, and taxable supplies made by the partnership will be of the order of £2,000,000, the proportion of taxable supplies to the total value of all projected supplies is rounded up to 99% (ie £2,000,000/2,030,000), so exempt supplies are 1%. On this basis, the VAT arising on the partnership overhead expenses which could be said to be fairly and reasonably attributable to the partnership's exempt supplies in this year will be, on average, £120 p.a. (£30 per quarter).

Proceeding on the basis that the builder invoices the partnership for work done on Windrush Barn in line with the schedule set out, by way of an illustration of the rules outlined:

Quarter/ tax year to:	"Exempt input tax"			De minimis limit	Exempt input tax recoverable?	Adjust to VAT return
	Overhead expenses	Builder's charges	Total			
	£	£	£	£		£
Dec		(5k x 20%) 1,000	1,000	1,250	Yes	
March 27		2,000	2,000	1,875	No	
Tax year 27/28		3,000	3,000	3,125	Yes	Reclaim 1,875
June		1,600	1,600	1,875	Yes	
Sep		2,400	2,400	1,875	No	
Dec		2,000	2,000	1,875	No	
March 28		4,000	4,000	1,875	No	
Tax year 27/28		10,000	10,000	7,500	No	Repay 1,600
June	30	3,000	3,030	1,875	No	
Sep	30	0	30	1,875	Yes	
Dec	30	0	30	1,875	Yes	
March 29	30	0	30	1,875	Yes	
Tax year 28/29	120	3,000	3,120	7,500	Yes	Reclaim 3,030

Although the de minimis limit will be met in the VAT accounting period ending 31 December 2026, it will be breached in the next quarter ending 31 March. However, when the adjustment for the tax year 2026/27 is made, the tax previously disallowed in the March quarter may be reclaimed when the partnership submits its final VAT return for the year.

Although on the face of it, the majority of the VAT to be incurred on Windrush Barn will be irrecoverable, all is not lost. As the tax point of the builder's services in relation to the Barn is the earlier of payment or the issue of a tax invoice, should he be prepared to vary the tax points, the de minimis limits could be met. For example, if the builder were to delay invoicing say, £15,000 of his March 2028 invoice until June 2028, although the exempt input tax on the greater invoiced sum would not be recoverable that quarter, it would become recoverable when the 2028/29 adjustment came to be made.

While the rules are complex, by careful attention to detail, the partnership may be able to recover VAT of £16,000 which may otherwise be lost.

The analysis above is premised on the basis that the builder will issue separate invoices for his work. On the other hand, if he were to issue a single invoice each month for the work done to all the barns without distinguishing the quantum relating to each building, under general principles the VAT charged would fall to be treated as a general overhead, and given that the partnership would not be making exempt supplies in the tax years 2026/27 and 2027/28 and the proportion of exempt supplies to the total value of supplies made in 2028/29 would be just 1%, the partnership would be able to recover all of the input tax incurred on the builders' works. Although there is anti-avoidance legislation which overrides the application of what is known as the standard partial exemption method, it will not apply here because the level of exempt input tax claimed is insufficiently high to trigger its application.

Finally, turning to SDLT, given that the net present value of the rents payable over the terms of the leases will not, on the figures mentioned, exceed £150,000, SDLT will not be payable by the lessees.

Tutorial Note:

Annual calculations would have been given equal credit to the quarterly calculations given the time constraints in the question.

MARKING GUIDE

TOPIC	MARKS
Haycroft and Burford Barns	
(a) identifying the liability status of the builder's services on works to Haycroft and Burford Barns	1
(b) recovery of VAT charged on Burford Barn	1
(c) identifying deemed zero rated supply of Haycroft Barn and right to claim associated input tax	2
(d) SDLT treatment of transfer of freehold of Haycroft Barn.	1
Windrush Barn	
Application of de minimis limits to input tax incurred on Windrush Barn:	
(a) implications for partnership of making exempt supplies and the requirement that it attribute input tax;	1
(b) identifying monthly and annual de minimis limits and tests	1
(c) application of de minimis limit to quarters in first tax year	1½
(d) application of de minimis limit to quarters in second and third tax years	2½
(f) longer period calculation for first tax year and how adjustment to be effected (NB candidates must display knowledge of how the de minimis limit for this year is arrived at – no marks are to be awarded if a candidate assumes that it is £7,500)	2
(g) longer period calculations for second and third years on the basis that payment schedule is maintained and how the adjustments are to be effected	2
(h) identifying variation to payment schedule to ensure full recovery of all input tax incurred	2
(i) identifying option of treating all VAT incurred on builder's invoices as non attributable and the application of the over-ride	2
(j) application of SDLT to leases	1
TOTAL	**20**

5. SHELLY DAVIES (NOV 2014)

Turnover under FRS

1) Since Shelly is registered for VAT as a sole proprietor, all income earned from her business activities (including the leasing of property) must be included in turnover to which is applied the flat rate percentage ("FRP"). The inspector therefore is correct in saying that rents received should be brought into account, but not bank interest as it is passively earned.

> **Tutorial Note:**
>
> The rent of the flat might not be a business activity and could potentially be excluded under para 6.3 of Notice 733 as non-business income;

2) Turnover should reflect the theft of cash takings of £5,000 - this sum represented payment for catering services on which VAT is due despite the business not receiving the benefit of the funds;

3) Gratuities of £750 should be excluded from turnover - provided they were freely given, they do not represent payment for the catering services supplied;

4) Customer refunds allowed should be excluded from turnover as they represent a reduction in the consideration received by the business for goods supplied by it;

5) Over-rings totalling £2,500 should be excluded - it does not represent payment for goods supplied by the business.

Flat rate percentage (FRP) to be applied

As the business encompasses more than one activity, the regulations require that a person applies the FRP applicable to the main activity as measured by turnover - in this period, that was catering services, which has a FRP of 12.5%. To this extent, the inspector is correct, and given that the FRP applies to the whole of the turnover, inevitably this will have resulted in an under-declaration of output tax. However, as Shelly was newly VAT registered, she was entitled to a 1% discount on the FRP; consequently, it should have been 11.5%, not 12.5%.

VAT on purchases

Generally VAT cannot be reclaimed on purchases of stock and overhead expenses as the FRP makes allowance for this. Exceptionally, a flat rate trader may claim a credit for VAT incurred on the purchase of goods of a capital nature with a VAT inclusive value in excess of £2,000 where essentially they will be held long term for the enduring benefit of the business. Such VAT is reclaimed by making an entry in boxes 4 (input tax) and box 7 (net purchases) of the VAT return.

Based on the information that supplied, Shelly is entitled to a credit of £3,075 representing VAT incurred on the acquisition of the van and till, but not the car since there is general block on the recovery of VAT of cars.

Imported goods and services

In relation to the purchase of furniture from the French supplier, this should have been treated as an import of goods, outside the scheme calculations. UK Import VAT should be accounted for by making an entry of £2,570 (VAT at the standard rate on the cost of the furniture of £12,850) in boxes 1 & 3 of the VAT return. Since the furniture represents goods of a capital nature, Shelly may claim an equivalent sum as a credit by making an entry in box 4.

Turning to the purchase of software from the US; similarly this transaction falls outside the scope of the scheme. Again UK VAT must be accounted for (on what is effectively an imported service) by making an entry of £450 in boxes 1 & 3 of the VAT return, and despite the software not being "goods", Shelly can claim a credit for the same amount by entering £450 in box 4 of the return.

Although these transactions do not give rise to a net tax liability, nevertheless they should be reflected on the next return.

VAT payable under FRS

Taking account of the matters covered earlier, on the basis of the figures provided, the net VAT due under the FRS is £10,541:

	£
Restaurant takings 79,750 (add back loss from theft 5,000 and deduct gratuities 750)	84,000
Bar sales 23,150 (net of counterfeit notes and coins [already deducted] and dummy figures 2,500 not zeroed off)	20,650
Off licence sales 8,750 (net of refunds 1,250)	7,500
Rent - residential flat	6,250
	118,400
VAT due £118,400 @ 11.5%	13,616
Input tax deductible - capital expenditure goods	
Till	1,200
Van	1,875
Total credit due	3,075
Net VAT due £(13,616 – 3,075)	10,541

Extension

Although HMRC state by way of an example in their Public Notice (paragraph 15.4 Notice 733) that the purchase of bricks, cement and fittings by a flat rate trader intending to use them to create an extension are not capital expenditure goods, this example should be treated with caution as it is at odds with the legislation which refers to "any goods of a capital nature" and the example is silent on whether the trader expended more than £2,000, inclusive of VAT. For these reasons, VAT incurred on the building materials may be reclaimed, but not that arising on the contractor's services.

CIOT MARKING GUIDE

TOPIC	MARKS
Composition of turnover under FRS:	
As a sole proprietor, all business income must be included, including rents received, but bank interest may be excluded.	2
Adjustments required to turnover - 1/2 mark for each correct adjustment identified.	2
Flat rate percentage to be applied	2
Recovery of VAT on general trading expenses	1
Recovery of VAT on goods of a capital nature and identifying VAT credit	2
Imported goods and services - treatment under FRS	2
Computation of VAT tax	2
Advice on recovery of VAT to be incurred on extension (NB Do not need to refer to the Public Notice example for award of marks) – just a reasoned consideration of the issue.	2
TOTAL	**15**

Examiner's report:
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This question was well handled by candidates, with a significant proportion securing the requisite pass mark. While many candidates identified the need for the business to account for Import VAT on the furniture acquired from a French supplier and reverse charge VAT on software supplied by a US supplier, they failed to follow through and determine whether the VAT chargeable might be reclaimed as input tax.

6. OFCAM TUTORS LTD

Ofcam Tutors Ltd ("Ofcam")

Ofcam wants to act as an intermediary (or agent), rather than a principal supplying educational services utilising the resources of the tutors engaged by it. As an intermediary the consideration for its service would be restricted to the commission earned.

1)

The addition of VAT on tuition fees will represent an additional cost for students (or, more particularly, their parents). Since Ofcam is not an "eligible body" (eg a school, college, non-profit making body etc supplying specified educational services), tuition supplied by it as a principal will be chargeable to VAT at the standard rate; hence introductory tuition sessions supplied by Ofcam as a principal will be chargeable to VAT.

In contrast, private tuition supplied by a tutor acting independently of Ofcam is exempt from VAT. Accordingly, there is a commercial imperative that Ofcam be viewed as acting as an intermediary in bringing together students and tutors for the provision of private tuition, with commission earned representing the consideration for its service. Although this service will be standard rated, Ofcam will only become liable to register for VAT as and when the aggregate of its commission and fees earned from introductory sessions exceeds the compulsory registration limit. Even if VAT is chargeable on Ofcam's commission, the financial impact on its customers will not be as significant.

2)

In determining whether Ofcam is acting as an intermediary, HMRC will have regard to the following factors:

- the degree of control that it exercises over the activities of tutors;
- the terms of engagement between Ofcam, the student/parent and tutors; and
- the extent to which tutors might be seen as an integral part of Ofcam's business.

On the basis of the information supplied (and subject to how the arrangements are conducted in practice) Ofcam does not exercise significant control over the activities of tutors. Furthermore, cases suggest that the degree of control exercised by a party over another is of marginal relevance - see, for example, *Spearmint Rhino Ventures (UK) Ltd* [2007] EWHC 613 (Ch).

Provided that the terms of business reflect the economic and commercial reality of the transactions between the parties, they are an important consideration, but not determinative - *Reed Personnel Services Ltd* [1995] STC 588.

Where the terms do not reflect the economic and commercial reality, they are to be discounted – eg see *Paul Newey* Case C-653/1 and *Wilmslow Financial Services FTT [2020] case*.

In considering the contractual terms, the terminology used in the documents, for example, "agent", "intermediary" "commission" will not determine the issue; instead it is necessary to look at the facts which point to, and against agency, and reach a balanced conclusion. In the *All Answers Ltd* FTT case in 2023 the tribunal looked at where the core obligations of the customer contracts were, and ‘small’ print terms will not be relied upon if they do not reflect the economic reality of the situation.

While there are features in the arrangements which point to Ofcam acting as an intermediary or agent, for example, the requirement for tutors to provide materials, that tutors offer their services as self-employed contractors, the freedom of tutors to take on as many assignments as they wish (whether or not through introductions effected by Ofcam); nevertheless on the basis of the draft documents and proposed arrangements, HMRC is more likely than not to consider that tutors are not supplying their services independently to students, but rather are acting on behalf of, or for the account of, Ofcam.

This is because:

a) Under the client (student) terms of business, Ofcam has sole discretion to accept a student as a client. This appears to be inconsistent with the proposition that Ofcam is acting as an intermediary. If Ofcam were to act as an intermediary, the decision to take on a student would ultimately rest with the tutor;

b) Ofcam provides introductory tuition sessions as a principal - it tends to reinforce the proposition that all tuition services are supplied by it as a principal;

c) the amount of the commission is undisclosed. It is not a fixed fee but calculated as an uplift on the hourly rate;

d) Tutors cannot invoice or collect payment from students, but must invoice Ofcam for their services;

e) There is no identifiable fee for the administrative services supplied by Ofcam to tutors - rather it is wrapped up in the uplifted fee charged to students;

f) Tutors' fees collected from students are treated as Ofcam funds.

CIOT MARKING GUIDE

TOPIC	MARKS
Identifying commercial rationale for agency status and VAT liability of commission earned	2
VAT status introductory sessions supplied by Ofcam Tutors Ltd as principal	1
Factors to be taken into account in considering agency status: Degree of control exercised over tutors by Ofcam (1 mark for identifying factor, and further mark for any supporting case law principles)	2
Importance to be attached to contractual terms (2 marks for discussion, with a further mark for any supporting case law principles)	3
Factors identified from material which support or militate against Ofcam being an agent/intermediary (Given the nature of the question and answer, the examiner will be flexible in awarding marks here, with 1 mark be awarded for any reasonable factor identified by candidates, subject to a maximum of 6 marks)	6
Conclusion	1
TOTAL	**15**

Examiner's report:
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This question was generally handled well by candidates with a majority securing a pass mark.

Too many candidates lost valuable time in considering whether Ofcam Tutors Ltd might exempt its supplies as educational services provided by an "eligible body". They received no marks for such an analysis as the question made it clear that it did not have eligible body status.

Although the question clearly sign posted that candidates should consider whether, on the basis of the features set out in the question, Ofcam Tutors Ltd would be making supplies as a principal or agent, a significant number of candidates didn’t address the issue head on, but instead analysed whether the tutors would be acting independently of Ofcam Tutors Ltd, focusing on the rulings in Empowerment Enterprises Ltd and allied cases. This approach limited the number of marks that could have been secured.

7. THE WEMBURY GROUP (MAY 2015)

Fund management services are standard rated for VAT purposes unless subject to a specific exemption. UK VAT law specifically exempted from VAT the management of a number of different fund vehicles (eg Authorised Unit Trusts). However, UK VAT law did not previously contain any exemption for the management of pension schemes.

In contrast, EU VAT law exempts from VAT the 'management of special investment funds' (SIFs). A number of cases before the CJEU considered the interpretation of this exemption with regard to pension schemes and resulted in HMRC formally aligning the law by virtue of SI 2020/209.

As the law essentially confirms the CJEU case law, the management of certain pension funds is exempt and where the conditions are met, the management of them has always been exempt (see more on this below for retrospective action).

Defined Benefit ('DB') pension scheme

Management of the scheme

The case of *Wheels Common Investment Fund Trustees and Others (C-424/11)* considered the VAT treatment of management of a DB pension scheme. The judgment in this case concluded that for a fund to fall within the scope of the exemption it should be comparable to funds already covered by the exemption (eg UCITS compliant funds). To achieve this, the fund would need to have the following characteristics:

- The capital of the fund should be raised from the public;
- The capital of the fund should be invested collectively; and
- The fund invests in transferable securities following a policy of spreading risk.

Critically, the CJEU found that DB pension schemes fail to meet the first of the above criteria as DB pension schemes invest capital provided by the employer to meet its own obligations to pensioners. As such, the beneficiaries do not bear the risk on the investment; the employer does. Consequently, the management of Wembury Group's DB pension scheme will fall outside the scope of the exemption and therefore remains subject to VAT. Accordingly, there will be no claim for over-charged VAT in respect of the Wembury Group DB pension scheme.

The management of these types of funds remain subject to VAT and have not been included in the statutory instrument above as they accord with EU principles.

Recovery of VAT

Prior to 18 June 2025

In *PPG Holdings BV (C-26/12)*, VAT recovery in relation to an employer funded pension scheme was considered. This case found that provided that a service had been supplied to the employer and there was a direct and immediate link to the employer's business, the VAT charged should be recoverable in line with the employer's normal VAT recovery rate. It was, therefore, necessary to establish whether the services had been received by the employer (Wembury Group), or by the Trustees of the DB scheme (being a separate legal person). The following indicators were used to ascertain the recipient of the services for VAT purposes:

- Who contracted for, commissioned and used the services?
- Who were the invoices addressed to?
- Who paid for the services?

Where all of the above criteria were met, HMRC accepted that the recipient could deduct the VAT charged by the supplier.

This position was set out in HMRC Brief 43/14. HMRC's policy was that employers could recover input tax on costs relating to the administration of the scheme but not those in relation to the asset management (this was instead recoverable by the trustees). This was on the basis that the employer could show evidence that they contracted and paid for the services. Where there was 'dual' use of investment costs by an employer and trustees, a 'fair and reasonable' apportionment method was used to determine how much input tax each party could deduct. HMRC allowed a 30/70 split which would have allowed Wembury Group to treat 30% of the value of the invoice as relating to its own obligation to establish and operate the pension scheme (rather than to the trustees' obligation to manage the assets of the scheme). As such, VAT relating to 30% of the services would be recoverable by Wembury Group.

From 18 June 2025

HMRC has since issued Business Brief 4 (2025) which announced changes to VAT recovery from 18 June 2025, due to their new policy.

From this date, HMRC no longer views investment costs as 'dual' use. Instead, all of the input tax will be seen as the employer's and deductible by them. This is subject to normal rules such as having the required invoice to support deductions.

Where the trustees supply fund management services to Wembury, they will be able to deduct input tax (provided they are VAT registered).

HMRC stated its intention to produce further guidance in the Autumn of 2025. Wembury should follow this guidance once issued.

Defined Contribution ('DC') pension scheme

The VAT treatment of the management of DC pension schemes was considered by the CJEU in the case of *ATP PensionService (C-464/12)*. The Court concluded that in contrast to DB pension schemes, DC pension schemes meet the criteria to be regarded as a 'special investment fund' within the meaning of the VAT exemption. The principal reason for this conclusion is that the capital invested by a DC scheme is money invested by individual employees who are bearing the investment risk themselves. This therefore meets the test that the fund must invest capital raised from the public.

In interpreting this, HMRC confirmed (in HMRC Brief 44/2014) that any indirect contributions will not compromise this test. So, for example, matched contributions by the employer would be treated as being indirectly made by the individual (ie that such payments form part of the individual's remuneration). Consequently, the management of Wembury Group's DC pension scheme should be VAT exempt. From 1 April 2020 in response to this case, HMRC formally changed the law (as per the statutory instrument above) and essentially mirrored the conditions in the Business Brief.

Applying the above to the services that are received in relation to the DC pension scheme:

- The supply of investment management services by FundCo will fall clearly within the fund management exemption. FundCo should therefore treat its services as exempt from VAT on future invoices.

- The supply of administrative management services by Himalaya Ltd should also be invoiced exempt from VAT going forwards as such services have been confirmed to fall within the scope of the term "fund management" in the case of *Abbey National plc v. CCE* (Case C-169/04).

- The supply of legal services by Global Law LLP, however, will not fall within the fund management exemption as these services are supplied on a standalone

basis and therefore lack the distinctive nature of a fund management service (as set out in the case of *Abbey*). VAT will remain chargeable on these services.

As the effect of the CJEU's judgement in *ATP PensionService* is to set out the law as it has always applied, the services supplied by FundCo and Himalaya Ltd should always have been exempt from VAT. Therefore, the DC pension scheme as the recipient of the services, and not Wembury Group, will be entitled to a refund of the VAT it has historically been charged by these suppliers during a four year period preceding the date of the claim. As it is the suppliers that have accounted for the VAT to HMRC, the correct process to follow will be for the trustees of the DC pension scheme to approach the suppliers to request the refund of the VAT charged and for the suppliers to submit a voluntary disclosure to HMRC.

Tutorial Note:

The answer is more detailed than would be expected from students within the time available. A good answer should split up the points into the following categories to score well:

1. UK v EU position on the scope of the exemption

2. CJEU cases and 2020 SI formally exempting management of defined contribution schemes (DCS)

3. Defined benefit schemes (DBS) <u>not</u> within the exemption and management is SR

4. As management of DBS is SR, what VAT recovery is available? Who can recover it? Direct and immediate link for employer? 30/70 rule can be used for pre-18.6.25, and all recovered from 18.6.25

5. DCS management is exempt – apply to services being supplied in the question eg legal services are not exempt as they are not 'management'

6. Go back to suppliers who have incorrectly SR supplies to request refund of VAT

CIOT MARKING GUIDE

TOPIC	MARKS
State that UK VAT law did not historically exempt the management of pension schemes	½
State that EU law exempts the management of special investment funds and confirmed by HMRC's SI	½
Analysis of DB pension fund management services, to cover:	
– For a pension scheme to qualify for exemption it must be regarded as sufficiently similar to funds that already benefit from the exemption (eg	
– UCITS funds).	½
– Fund invests capital raised from the public	½
– Investments in the fund must be pooled	½
– The fund invests in transferable securities and operates on a principle of	
– spreading risk	½
– To be a special investment fund beneficiaries of the scheme must bear the	
– risk of the return on their investments	½
Conclusion that management of a DB scheme is subject to standard rated VAT	½
Conclusion that there will be no claim for overcharged VAT for Wembury Group's DB scheme	½
Analysis of input tax recovery on services received from FundCo to cover pre-18.6.25 position: *(Marks are flexible here depending on how much weight has been given to the pre-/post-positions)*	
– Case law (PPG Holdings BV (C-26/12)) – VAT can be recovered in line with the employer's residual recovery rate	½
– Need to assess whether the services were received by Wembury Group or by the Trustees	½
– Identify the party to the contractual arrangement, the party to which the invoices are addressed and establishing who has commissioned, paid for and used the services	½
– Conclude that Wembury is not party to the contractual agreement and that it cannot therefore treat the VAT as its input tax	½
– Conclude that the VAT will be recoverable by the pension scheme in line with its partial exemption position	½
– State that Wembury Group has probably been named on the invoices to support recovery of VAT relating to 30% of the supply that HMRC	1
Analysis of recovery post-18.6.25 – explain HMRC's revised guidance – reference to BB and how it is different from the pre-18.6.25 position. HMRC to produce further guidance in Autumn 2025	3
Analysis of DC pension fund management services to cover:	
– State that DC pension schemes allow pooling of investments and spreading of risk and investors bear the risk of the return on their investments and	
– therefore fall within the exemption (ATP case and SI)	1
– Conclude that the management of Wembury Group's DC pension scheme will	
– be exempt from VAT	½
Confirm that the management of the scheme's investments will qualify for exemption and that therefore FundCo's supplies to the DC scheme will be VAT Exempt	½
Explain that Himalaya Ltd's scheme administration services should also be VAT exempt as this is a form of management [candidates may refer to HMRC's Brief on Abbey or to the ATP PensionService case itself]	½
Confirm that the supply of legal services in isolation will not be regarded as a fund management service and remains taxable	½
Confirm that the VAT incorrectly charged on fund management services will be due back to the scheme as the recipient of the services and not to Wembury	½
Confirm that the Scheme must approach FundCo and Himalaya as its suppliers who have paid the VAT to HMRC and therefore must submit a voluntary disclosure to recover the VAT such that it can be repaid to the pension scheme.	½
TOTAL	**15**

[Credit has been given where candidates have advised that recharges of management costs incurred by the employer to the DB scheme will be a taxable supply and VAT may need to be charged and accounted for]

[Credit has been given where candidates state that the DC scheme may be able to make a financial restitution claim against HMRC (on the same lines as the ITC case) for any capped periods]

Examiner's report:
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This question was generally handled well by candidates with a relatively good proportion achieving the pass mark. In particular, candidates appeared well acquainted with the characteristics that would need to be present in a pension scheme in order for the management services to fall within the VAT exemption. However, in spite of this, many candidates then failed to pick up marks for observing that VAT charged in relation to the Defined Contribution scheme had been incorrectly charged and that the supplier should be approached, as it would need to submit the claim to HMRC.

Many candidates assumed that the employer had contracted, and been invoiced, for the fund management and administration services in respect of the Defined Benefit pension scheme. The question made it clear that this was not the case. Where candidates failed to read the question properly, some fairly straightforward marks were missed.

A number of candidates clearly displayed wider knowledge of the subject matter, and credit was given for relevant advice regarding the chargeability of VAT on recharges from the employer to pension scheme and for commenting on the potential for a financial restitution claim against HMRC should the VAT incurred not be recoverable from the supplier.

8. FROSTY CORPORATE EVENTS LTD (NOV 2015)

Introduction

Frosty Corporate Events Ltd ("Frosty") will need to consider whether or not its packages fall within the Tour Operators' Margin Scheme ("TOMS"). The TOMS is a special scheme for businesses that buy in and re-sell travel, accommodation and certain other services as principal or undisclosed agent.

The TOMS is used for "margin scheme supplies" and "margin scheme packages". These are supplies which are bought in for the purposes of the business and supplied for the benefit of a traveller, without further alteration.

Under the scheme, VAT cannot be reclaimed on margin scheme supplies which have been bought in for re-sale. However, it is only necessary to account for VAT on the margin ie the difference between the amount received from customers and the amount paid to suppliers.

The sale of a package of margin scheme supplies is seen as a single supply for VAT purposes and it is not necessary to split out the individual elements. In such instances, the service supplied would be that of a tour/event rather than two supplies of eg transport and accommodation.

Theatre Trip

The supply of the coach travel and accommodation for the local insurance company's own use is a margin scheme supply. As the meal at The Silver Unicorn is also provided as part of the corporate entertainment package and is provided together with the transport and accommodation, this will also be seen as a margin scheme supply.

VAT should therefore be accounted for by Frosty on the margin under the TOMS.

Conference for the pharmaceutical company

Certain supplies are excluded from the TOMS as "in-house supplies". An in-house supply is a supply made from a business' own resources or from a purchase which has been bought in but materially altered or processed.

Although the conference venue and some of the other elements of the conference organisation will be bought in by Frosty, the conference provided for the pharmaceutical company will be seen as an in-house supply. This is because the purchases will not be re-supplied in the same state but put together to form a different supply ie, that of an organised conference.

The refreshments served at the conference will not be seen as separate supplies, even though they are bought in from an outside caterer, as they form part of the in-house supply of the conference. As this is an in-house supply, VAT must be accounted for outside the TOMS in the normal way and the supply of the conference to the pharmaceutical company will be subject to VAT at the standard rate with the exception of the conference/function room hire, which will be an exempt supply, unless the option to tax has been made.

Conference for the Retail Company

The overnight accommodation and restaurant meal outside of conference hours will not be seen as part of an in-house organised conference as they will be bought in and re-supplied without material alteration. These supplies must therefore be accounted for under the TOMS. Even though the conference on its own would be an in-house supply, as it is being sold together with margin supplies (accommodation and restaurant meal),

the margin scheme calculations must be used to work out the value of all parts of the package.

Pop Concert

Supplies to business customers for subsequent resale are within the scope of the TOMS but a business can account for them outside of the scheme if they wish. Where the latter happens VAT would therefore be accounted for on the sale of these tickets under the normal rules ie, VAT is charged at the standard rate. Frosty would need to determine whether it is beneficial to account for them under the scheme or outside the scheme.

Invoices

VAT invoices cannot be raised for TOMS supplies as the amount of VAT due is not known at the time of supply and will only be calculated as part of the year-end calculation.

As the TOMS supplies are being made to businesses for use within their business the invoice has to include a reference to indicate that the TOMS has been applied.

Provisional figures, based on last year's calculation, should be used to account for VAT each VAT return period as precise figures are not usually known at the time of preparing the VAT return. An annual calculation is carried out to determine the final margins and output tax due. An adjustment is then made at the end of the financial year to determine the output tax due for the preceding financial year and to provide a percentage to calculate provisional output tax in the following financial year.

As TOMS has not previously been considered, it is assumed that no calculation was carried out last year. The position for last year will need reviewing, and any necessary amendments and disclosures to HMRC will need to be made, and to determine the starting position for this year's figures on that basis.

CIOT MARKING GUIDE

TOPIC	MARKS
Overview of TOMS	
– Special scheme for businesses that buy-in and re-sell travel, accommodation and certain other services as principal or acting in their own name as an undisclosed agent.	½
– The TOMS is used for "margin scheme supplies" and "margin scheme packages" and definition of these.	1
– VAT cannot be reclaimed on margin scheme supplies which have been bought in for re-sale. Only necessary to account for VAT on the margin.	½
– The sale of a package of margin scheme supplies is seen as a single supply for VAT purposes.	½
Theatre Trip	
– Supply of passenger transport and accommodation to insurance company for its own use is a margin scheme supply. Meal at The Silver Unicorn will also be seen as a margin scheme supply.	1
– VAT should be accounted for on the margin under the TOMS.	½
Conference for the Pharmaceutical Company	
– Certain supplies are excluded from the TOMS as "in-house supplies".	½
– Definition of in-house supply.	½
– Conclusion that conference is an in-house supply together with reasoning.	1
– Comment re: refreshments not being separate supplies	½
– VAT must be accounted for outside the TOMS in the normal way and the supply will be subject to VAT at the standard rate.	1
– VAT on the supply of the conference will be calculated in the normal way ie, 20% of the net cost with the exception of the conference/function room hire, which will be an exempt supply, unless the option to tax has been made BB1/06).	1½
Conference for the Retail Company	
– Overnight accommodation and restaurant meal outside of conference hours will not be seen as part of in-house organised conference and must be accounted for under the TOMS.	1
– As conference sold together with margin supplies, the margin scheme calculations must be used to work out the value of all parts of the package.	½
Pop Concert.	
– Supplies to business customers for subsequent resale are within the scope of the TOMS (option to account outside the scheme with VAT accounted for on the sale of these tickets under the normal rules).	1
– Outside the scheme VAT should be charged at the standard rate. Frosty to decide on best option	½
Invoices	
– VAT invoices cannot be raised for TOMS supplies as the amount of VAT due is not known at the time of supply.	½
– Invoice has to include a reference to indicate that the TOMS has been applied.	½
Overview of when and how to account for VAT due	
– Provisional figures must be used to account for VAT each VAT return period as precise figures are not usually known at the time of preparing the VAT return. An annual calculation is then carried out to determine the final margins and output tax due.	1
– Adjustment made at end of the financial year to determine the output tax due and to provide a percentage to calculate provisional output tax in the following financial year.	½
– Consideration of implications of having not previously applying TOMS	½
TOTAL	**15**

Examiner's report:
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Performance on this question was very disappointing. A large number of candidates did not pick up the fact that this was a Tour Operators' Margin scheme ('TOMS') question and instead provided detailed information in respect of single versus multiple supplies and the related cases. Knowledge of the TOMS and its operation was severely lacking with hardly any candidates mentioning in-house supplies and very little information provided on when and how to account for VAT due under the TOMS.

9. CONSTRUCTION, BUILDING & LETTING CO LTD

Tutorial Note:

This is a time pressured question as there are a number of scenarios to consider.

Remember that good exam technique is to answer the question in your best order. If you do answer it out of order, then make sure you have headings in Exam4 to show which scenario you are talking about. If the examiner cannot see which part you are answering, then they cannot award marks.

There were also a number of marks available for making basic points – eg 0% of a new dwelling (1 mark), recovery of VAT when it relates to a taxable supply (1 mark), letting is an exempt supply and limits recovery of VAT (1 mark). Don't overlook these 'easy' marks and try and get them in the bag quickly.

Selling vs renting – VAT implications

The **sale (or lease over 21 years) of domestic property by the person who constructed it is a zero-rated [1]** supply for VAT purposes.

Consequently, **input tax incurred in relation to constructing the flats and houses (generally professional fees, but also certain plant hire etc) can be recovered [½]** subject to the normal rules as it has a **direct and immediate link to a taxable supply [½]**.

Letting will be an exempt supply and will have an impact on the £500,000 input tax recovered to date. Providing the properties are only temporarily let, Reg.108 SI 1995/2518 will **reduce the input tax recovered on the let properties from wholly deductible to one of a residual recovery (say 60%). [½]** HMRC do offer an **alternative calculation where you look at expected taxable income v total income from the property and this might improve the residual recovery rate**, **[½]** but we need more information regarding expected sale price and expected rentals for each property in order to do this. **Under either method there will be a partial clawback of input tax [½]** under Reg.108 SI 1995/2518.

A permanent intention to let would lead to a full clawback under Reg.108 SI 1995/2518. Alternatively, CBLC may wish to consider **setting up a letting subsidiary and selling the flats and houses to the letting subsidiary. The sale would be zero-rated [½]** and the **£500,000 input tax would remain fully recoverable ie no Reg.108 clawback would be required. The letting subsidiary would then undertake the exempt rental activity. [½]** HMRC do not consider this to be avoidance. There will be additional set up costs and admin to take into account, but the numbers involved would suggest this is a route worth considering.

The use of a letting subsidiary would also **avoid SDLT on the sale. [½]**

Construction of head office

Using their own labour for construction of CBLC's head office is a **self-supply of services for VAT where those services exceed £100,000. [½]** The value of the services provided exceeds this limit and VAT must be accounted for under the self-supply rules.

The valuation of the self-supply is the **open market value of such services (SI 1989/472 article 4). Whilst the cost of the services provided is £700,000 this may not be accepted as open market value by HMRC**. **[½]** We need to see what price CBLC would have been quoted from a third-party contractor for labour on this project. This is likely to be higher than £700,000 after mark-ups are taken into account.

Assuming a 10% mark up from a third-party contractor, then a self-supply in the region of £770,000 might be market value. Output VAT on the self-supply would be £154,000. [½]

The head office is used in the overall business so 60**% of the £154,000 would be recoverable as input tax ie £92,400. [½]**

Tutorial Note:

All sensible calculations and assumptions receive credit. The important point is identifying that it is unlikely to be market value and the consequences that follow on from that.

The net error is £61,600 if assuming an open market value of £770,000. We need confirmation of the open market value before finalising the error disclosure (see below).

The **building would fall under the Capital Goods Scheme (CGS). If CBLC do rent out the "for sale" properties, then their exempt supplies will increase and there will be a further restriction of input tax under the CGS going forward**. **[1]**

Scenario 1

As the business' **original intention to make a taxable supply was never realised and the land was subsequently sold as an exempt supply, the 'clawback' provisions [1]** per Reg.108, SI 1995/2518 apply.

As the **adjustment should have been made in the June 2026 return, this is now an error. [½]** Due to the value of the error **exceeding £50,000, an Error Correction Notification should be submitted to HMRC, disclosing the over recovery of input tax in the VAT return period [½]** in which it was decided that the plot of land was going to be sold.

Scenario 2

The initial **original intention was to make an exempt supply; however, this has changed**. **[½]** The supply to be made is a **taxable supply and as such the associated input tax can be recovered per the 'payback' provisions [½]** (Reg.109, SI 1995/2518).

There is a requirement that the **change of intention occurs within six years from the beginning of the VAT period [½]** in which the initial intention was formed. Based on the information provided, **this intention appears to have been met. [½]**

To correct this, **CBLC should include the error in the correction notice above and HMRC should make an adjustment to their assessment**. **[1]**

Scenario 3

Sale of a **new commercial building is subject to VAT at a standard rate regardless of the option to tax**. **[½]** New in this context means **up to three years old**. **[½]** If the contract was silent on VAT, the consideration is deemed to be VAT inclusive.

Assuming the contract is silent on VAT, the **output tax payable is: $^1/_6$ x £220,000 = £36,667**. **[½]** Unfortunately, the **purchaser is within its rights to request a VAT invoice, and this will be a cost to the company. [½]**

CIOT MARKING GUIDE

TOPIC	MARKS
VAT recovery consequences comparison between selling and renting -	
Definition of first grant of a major interest.	1
VAT liability between renting and selling.	1
Impact on input tax recovery.	1
Advice on how to safeguard recovery of input tax.	1
Calculation of input tax recovery impact comparing renting and selling.	1
Construction of head office -	
Calculate the net error in relation to the self-supply.	2
Comment on the impact on CGS.	1
Scenario 1 -	
Clawback is applicable and why.	1
Outline method of correction.	1
Scenario 2 -	
Payback is applicable and why.	2
Outline method of error correction.	1
Scenario 3 -	
Explain why clawback is not applicable and impact on input tax recovery and output tax charge.	2
TOTAL	**15**

Examiner's report:
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Candidates generally answered this question well with most candidates able to expand their comments beyond basic points and provide practical advice to the recipient.

However, the areas that appeared to cause uncertainty for candidates were the application of clawback and payback provisions to the practical scenario.

Surprisingly, there were a number of candidates who did not appear to understand the difference between an exempt supply, a zero-rated supply and an outside the scope supply.

10. INSURANCE PLC

Tutorial Note:

Be careful with questions concerning CPP. There is a tendency to 'write everything you know' rather than focus on the scenario in hand. There were 5 marks available for this part, but examiners frequently comment that students 'go to town' to the detriment of not addressing fully the other aspects in the question.

If you struggle to curtail your comments on this, then leave this part until after completing the IPT parts so that you are more likely to stick to the main points.

Planning your answer is important in a question like this as the requirements were not broken down to show you how many points the examiner wanted you to make on VAT and how many on IPT. There is always flexibility in the examiner's marking scheme but if you solely concentrate on VAT then you cannot score full marks and indeed marks will be capped for this part.

Single vs multiple supplies

To determine the liability of the supplies, it is important to understand what is being supplied to the customers.

Inspection services are subject to VAT at 20% [½]. If the **insurance was provided on its own, it would be an exempt supply of services. [½]** Where the two are supplied together one must **determine what the customer is receiving and which (if any) of the two services is ancillary to the other. [½]**

As UK (nor the EU) legislation provides for definitive answers in such circumstances, the case law provides general guidance. The leading case is ***Card Protection Plan Ltd v CCE C-349/96***. **[½]** It provides tests that can assist in determining whether a single or a multiple supply of services is being made:

Is the customer receiving two or more supplies each distinct and independent from the other or is the customer receiving one supply made up of several component parts? [½]

Can any of the parts be properly regarded as a **principal supply to which the other goods or services are ancillary [½]** (that is, they do not constitute an aim in themselves but rather a means of better enjoying the principal supply)?

In ***CCE v. British Telecommunications Plc*** *(1 July 1999)* BT claimed that the **delivery charge associated with the purchase of a new car [½]** resulted in two supplies - one of goods (the car) and one of services (its delivery). The House of Lords decided that the contract was a single supply of a delivered car, and even if the delivery was capable of being construed as a separate supply it was merely **ancillary to the supply of the car itself. [½]**

In ***BSkyB v. Customs Commissioners*** *23/2/2001* BSkyB claimed that its **provision of a TV guide magazine to its subscribers was a separate supply of zero-rated goods. [½]** Although the magazine was physically distinguishable as a supply of goods from the supply of broadcasting services, the Tribunal concluded that based on the terms of the contract with the subscriber, the **magazine was part of the standard-rated supply of broadcasting services. [½]**

[Marking to be flexible – Max 5 marks available for this part.
Generally, the case is ½ mark and each sensible point ½ mark]

Tutorial Note:

All relevant cases will receive credit. For example, the *Black Cabs Services Ltd* tribunal case in 2021 where leasing and insurance were held to be separate supplies and *WTGIL* Court of Appeal case in 2025 which held that insurance with a device for safe driving was a single supply of insurance.

What is important is applying the cases to the scenario rather than repeating cases with no application.

Some of the aspects that can be of assistance in determining whether a single or multiple supply is being made are **[½ mark for each point below – max 1 mark]**:

1) **Is it possible for the customer to choose either the insurance or the inspection services**?

2) **Do the insurance and the inspection services have their own price and is this reflected in the amount the customer pays should the customer choose to have one without the other**?

3) **Is the customer fully aware that more than one supply is received (should be evidenced by the invoicing and contractual arrangements**)?

Conclusion

As the customer would not be able to obtain the inspection services in isolation but rather always in a package with the insurance services, it is unlikely that the separate pricing of these services would be itemised for the customer. The **customer will be primarily purchasing insurance and the inspection services will merely enable the customer to better enjoy the primary supply of insurance [½]**, possibly reducing its future premiums. Although the inspection services are capable of being construed as a separate supply, they are merely ancillary to the main supply of insurance. The **package of insurance and inspection services will be a single supply exempt from VAT [½]** under VATA 1994, Sch. 9, Group 2, para. 1.

[Marking – 2 marks for this part with a conclusion.
1 mark max for the discussion (and three points above)
and 1 mark for the conclusion]

Input tax recovery

Input tax directly attributable to the new business will be blocked and not recoverable as the supply will be exempt. **[1]**

Any input tax that **cannot be directly attributed to this business will need to be apportioned and the recovery will be based on the overall partial exemption recovery percentage [1]** applicable to the business.

Max 2

Recovery of costs already incurred:

- **Market research for the new business venture (input tax £25,000) has a direct and immediate link to the exempt supplies and is not recoverable**. **[1]**

- **Recruitment services for new call centre sales staff (input tax £15,000) can be treated as residual [1]** input tax if the sales staff is not solely allocated to the new business, otherwise the input tax will be non-recoverable.

Max 2

Tutorial Note:

Reference to case law here will obtain marks

Partial exemption method implications

The introduction of the new revenue stream will mean that the **current Partial Exemption Special Method (PESM) will need to be reviewed and potentially a new method agreed with HMRC. [1]**

Total 1

Time of supply of insurance and value of supply

Although these supplies are exempt from VAT, the tax point is important for the purposes of the partial exemption calculations.

The supply is an insurance policy with quarterly payments covering long-term risks. As such, it is treated as a **continuous supply of services and the tax point arises every time the premium is received. [1]**

The **value of the supply is the gross premium amount due from the customer without deducting any amounts payable by the business for the services of brokers [1]** and agents acting on the business's behalf.

Total 2

Insurance Premium Tax (IPT)

Tutorial Note:

Become familiar with IPT1 in the Orange Part 2 Handbook. What amounts to 'insurance' is covered in section 3.3.

To determine whether the new insurance product falls within the scope of IPT, we need to first determine that the combined offering **is indeed insurance**. **[½]**

The legislation notes that insurance is "**provision of insurance" (FA 1994 s73(1)) and that the taxable insurance contract is "any contract of insurance**" **[1]** (FA 1994 s70). There is more guidance available in case law, where the case of ***Prudential Insurance Company v The Inland Revenue Commissioners 1904*** **[½]** defined three elements of an insurance contract:

1) A **premium** must be paid; **[½]**

2) The insured is being **indemnified against a loss from an uncertain event;** and **[½]**

3) The insured must be the one that suffered the loss following the insurable event ("**insurable interest**"). **[½]**

HMRC expects the premium for an insurance contract to be calculated with reference to the claims the insurer expects to meet based on the **pool of premiums the insurer collected to cover the corresponding pool of risk [1]** and that the insurance contract has been entered into in **good faith. [½]**

Based on the above, the combined product meets the criteria for an insurance contract and as such will be subject to **IPT at the standard rate of 12%. [½]** This is therefore **preferable to the inspection services being separate and subject to VAT at 20%. [½]**

Total 4

Tutorial Note:

All relevant points will receive credit. The examiner acknowledged that without a breakdown of marks being given in the question, students might have focused more on IPT. The following are all relevant points, which the examiner would give credit for:

1) Where is the risk located? Contracts provided to overseas businesses are exempt.

2) IPT will only be due on the element of the contract, that is insurance. CPP might not be used for IPT purposes as it is a VAT case. Para 4.9 of the IPT Public Notice states that there will be a split in the element that is insurance for IPT and the element that is a VAT-able supply.

3) Tax points – SAS or cash basis.

4) Relevant cases on 'insurance' and 'contracts of insurance' eg GB Taxi Services Ltd tribunal case 2020.

CIOT MARKING GUIDE

TOPIC	MARKS
Single vs multiple supply per principles of CPP including some other case law not just CPP	5
Liability of supplies following from the earlier analysis including:	2
comment on input tax recovery of likely inputs	2
analysis and summary of position	2
partial exemption method implications	1
Time of supply of insurance and value of supply	2
New business meeting the criteria of insurance contract for IPT purposes (case law, HMRC guidance and legislation comparison)	4
Applicability of IPT to the new business and comparison to existing business	2
TOTAL	**20**

Examiner's report:
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Well-prepared candidates gave good answers to this question, which required a technical analysis of a business supply. This required them to apply both the legislative provisions and case law to conclude on the impact the scenario has on the business. Better candidates were able to utilise case law beyond Card Protection Plan.

Those who were not prepared or less able to apply the legislative provisions and case law to the scenario struggled.

11. FURNISHED LETS LTD

Tutorial Note:

You would probably find it easier to answer the 5 marks on VAT first and then attempt the SDLT parts.

You do not have to answer questions in the order they are set. Answer in your best order but make sure you have a heading to show which part you are answering.

Sale to a service apartment business

- SA Ltd and FHL Ltd are connected parties as FHL Ltd controls SA Ltd. Therefore, the **sales may be viewed as 'linked' [½]** which will impact the amount of SDLT payable by SA Ltd as the purchaser. Transactions are linked if they form **part of a single scheme or series of transactions between the same seller and buyer. [½]**

- If the values currently ascribed to the properties are less than market value, as the **companies are connected, the SDLT will be charged on the market value of the properties [1]** and not on the consideration given (s.53 FA 2003).

- The SDLT is payable on the whole amount and part of it **cannot be postponed because the remaining part of the consideration is not payable later than six months [1]** after completion and is not contingent/uncertain.

  If the linked transaction rules apply, then the entire £2.7m will be treated as one transaction of non-residential property (as at least one of the properties is non-residential): **[1 mark for calculation below]**

Amount	Rate (non-res)	Total
150,000	0%	0
100,000	2%	2,000
2,450,000	5%	122,500
		124,500 total SDLT

  Multiple dwellings relief is no longer available for linked transactions of residential properties. **[½]**

  FLL would be advised to have evidence for HMRC that there is no special scheme or arrangement for the sale. They could do this by showing that the values are open market value. If the linked transaction rules do not apply, then **each sale would be looked at in its own right. [½]**

  This would mean that each flat would incur **5% of £120,000 = £6,000**. **[½]** 20 flats would be total SDLT of £120,000. The 5% rate applies as this is the purchase of dwellings by a company. The **two retail units would be 0% x £150,000. [½] [½]**

Total 6

Sale of penthouse to an overseas business

- The sale of the penthouse to the **overseas business will attract SDLT at 19% [1]** as a sale to a non-natural person who is not resident in the UK (ie 17% plus 2% non-resident surcharge). SDLT payable in this respect will therefore be **£800,000 x 19% = £152,000 [1].**

  It is unclear what Overseas Ltd will do with the penthouse. It is worth noting that the rate of SDLT will depend on what the penthouse will be used for. The **sales could be subject to normal rates of SDLT if the property is used in (for example) a property rental business [1],** a property development or resale trade, or as business premises for the qualifying property rental business.

  Therefore, if this property is used in one of the above noted ways the SDLT payable would be **[1 mark for calculation]**:

  £125,000 × 7% = £8,750
  £125,000 × 9% = £11,250
  (£800,000 - £250,000) × 12% = £66,000
  Total SDLT payable = £86,000

  Potential SDLT saving = £152,000 - £86,000 = £66,000

  Tutorial Note:

  As this is a purchase of a residential property by a non-UK resident company, the additional 5% charge and non-residential surcharge of 2%, will both apply.

- A return must be submitted and the SDLT paid to HMRC within 14 days of the completion of the transaction.

Total 4

Remaining portfolio of 1 and 2-bedroom flats

- The sale of the holiday property business, providing that it will continue to be operated as a furnished holiday letting business by the purchaser, **will qualify as Transfer of a Going Concern (TOGC) for VAT purposes [½].** This means that it will be treated as neither a supply of goods nor a supply of services and will be **outside the scope of UK VAT**. **[½]**

- Alternatively, if the properties that were previously part of the holiday let portfolio are rented out to tenants as part of a normal residential let, there will be a change in use from non-residential use to residential use. Whilst the furnished holiday lets were subject to VAT at standard rate, the **lettings of residential accommodation are exempt [½]** from VAT. As such any **VAT incurred in relation to repair and maintenance of these properties will no longer be recoverable [½]** by the business as these purchases will be linked to exempt transactions. Therefore, VAT that was previously recoverable when the business operated as a furnished holiday letting business will now become a cost to the business.

- If the furnished holiday lettings were the only taxable activities undertaken by the company, it will be **required to de-register for VAT [½]** as it will no longer have the right to remain VAT registered if it will **only make exempt supplies [½]** in the future.

- If the holiday lets units are sold individually as residential dwellings, it is worth considering whether the supplies could possibly be **zero rated as a first sale of the property that was converted from non-residential dwelling to a dwelling**. **[1]** Any input tax incurred in disposal of the units will be **recoverable as it will have a direct and immediate link to taxable sales**. **[1]** If secure zero rating is not available, the sale would be exempt.

Total 5

CIOT MARKING GUIDE

TOPIC	MARKS
Analysis of selling part of the units to a separate service apartment business	
– Connected parties, linked transactions and implications on SDLT	1
– Market value rule s53	1
– No relief for transfers of multiple dwellings, 'un' linking transactions	1
– No postponement of payment and impact on SDLT calculation	1
– Calculation of total SDLT payable	2
Implications of selling the penthouse to an overseas business and calculation of SDLT with extra 5% and 2% surcharge.	2
Options available to the overseas business and calculation of SDLT savings	2
VAT implications of proposed options:	
Scenario 1 – TOGC	1
Scenario 2 – residential lets are exempt from VAT, implications on VAT recovery position and VAT registration entitlement	2
Scenario 3 – possible sales as residential dwellings (zero-rating), VAT recovery	2
TOTAL	**15**

Examiner's report:
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This question was not answered very well. Whilst candidates were able to pick up most VAT related points, the SDLT portion of the paper was answered poorly. Most candidates struggled with basic calculations and many did not even attempt them. Comments were of generic nature or focussed on filing and payment deadlines rather than the scenario.

12. ABC MANUFACTURING PLC

Tutorial Note:

The appeals process should be 'easy' marks to gain in a question. They are straightforward and quick to write. If this is the case, then answer this part first.

Alpha Ltd - Penalty suspension

As this was a **prompted disclosure arising from a VAT visit, the minimum penalty levied by HMRC is 15% of the potential lost revenue**, **[½]** and so this is a good outcome. As HMRC have agreed that the penalty will be **suspended for the period of six months, there is no payment due [½]** to HMRC in this respect. It is important to **comply with the various conditions [½]** of the suspension to ensure that the processes and procedures preventing input tax recovery on business entertainment expenses are effective. If **such errors are repeated during the suspension period, the suspended penalty will become due as well as a new penalty for subsequent errors**. **[½]**

Total 2

Beta Ltd - Assessment raised by HMRC

Based on the information provided, **HMRC have incorrectly calculated the assessment relating to underdeclared output VAT. [½]** The legal provisions stipulate that the assessment of output VAT should be calculated on the basis of the consideration received by Beta Ltd. Therefore, **HMRC should have applied the VAT fraction to the amount paid by the customer rather than applying 20% to the amounts received by Beta Ltd. [½]**

The correct amount of output tax that HMRC should have assessed is **$^1/_6$ of the consideration received, in relation to items subject to VAT at 20%. [½]**

Consideration received for supplies subject to VAT at 20% = £250,000 [½]
Consideration received for supplies subject to VAT at 0% = £300,000 [½]

Underdeclared output VAT = £250,000 x $^1/_6$ = £41,667 [½]

Beta Ltd should contact HMRC as soon as possible and **advise it that the assessment of £50,000 is incorrect and that underdeclared output VAT is £41,667. [½]**

If the **goods are subsequently exported after the three-month period, there would be scope to zero rate [½]** at that time and adjust the VAT account.

Total 4

Ceta Ltd – Penalties

The **late filing has resulted in a penalty point being given but until four penalty points are awarded, no financial penalties will be incurred**. **[½]** A **penalty point is generally awarded for each late return**, **[½]** so if Ceta Ltd does not file late again then it will not pay a penalty. For the late payment, as it was **made within 15 days of the due date then no penalty is payable. [½]** If Ceta Ltd is late paying again and pays between **15–30 days late then a 3% penalty [½]** could be imposed. For a late **payment at the 30-day point, a further 3% [½]** could be imposed (on outstanding VAT at that point).

[Marking note – max 2 marks for this part, and other points to receive credit]

There are grounds to seek reconsideration of the penalty point awarded by HMRC on the basis that Ceta Ltd has a **reasonable excuse**. **[½]** The appeal should be made within 30 days of the date of the notice.

Distinction should be drawn between the reason for the failure and the excuse itself. Cases *of C&E Commrs v Salevon Ltd (1989) STC 907 and C&E Commrs v Steptoe [1992] STC757* demonstrated that the wider circumstances that led to the failure to submit/pay the VAT return on time need to be considered. However, **more generally, HMRC accepts serious illness of the person or of a close relative or domestic partner around the time when the person should have made payment/submission as a reasonable excuse. [½]**

Appeals processes with HMRC

Tutorial Note:

Make sure that you cover all of the options. Marks are often lost where there are a number of options and students only cover one.

HMRC have three main types of appeals procedures:

a) Reconsideration
b) Appeal to the First Tier Tribunal
c) Alternative Dispute Resolution (ADR)

Reconsideration is utilised when an officer has issued a decision with which a trader disagrees. There are **30 days from the date of issue of the decision to ask for a reconsideration. [1]** This means that the case will be reviewed again by an **independent officer who should provide a response within 45 days [1]** from receiving the request for reconsideration.

If a trader disagrees with the outcome of the reconsideration, they can **appeal to the First Tier Tribunal. [1]** Appeal must be made **within 30 days from receiving the decision from HMRC [1]** by completing 'Notice of Appeal' and sending it to the Tribunals Services.

A trader may appeal directly to the First Tier Tribunal **without seeking reconsideration of the decision first. [½]**

Before applying for the First Tier Tribunal, a trader or HMRC can request for the issue to be resolved via the **Alternative Dispute Resolution (ADR) process**. **[½]** This may also be suggested by either party once the application for First Tier Tribunal has been lodged. This **can be applied for online by completing the ADR request form**. **[½]**

Generally, the **quickest and most cost effective option is reconsideration and that option is recommended first [½]** to seek to resolve the disagreements with HMRC before proceeding to appeal or ADR.

CIOT MARKING GUIDE

TOPIC	MARKS
Implications of penalty suspension regime.	2
Reconsideration for the assessment raised by HMRC:	
– Incorrect calculation of the assessment (VAT inclusive basis)	2
– Recalculation	2
Penalties explanation and appeal of penalty point due to reasonable excuse.	3
Explain the difference between:	
– Reconsideration procedure	2
– Tribunal procedure	2
– Alternative Dispute Resolution (ADR)	2
TOTAL	**15**

Examiner's report:
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Whilst performance overall on this question was reasonable, many candidates failed to read the question in sufficient detail and to tease out the relevant points on which they should have focused in their answer. For example, only a handful of candidates were able to fully explain the dispute resolution options available. Indeed, awareness of Alternative Dispute Resolution (ADR) was very poor. Very few candidates picked up on the VAT inclusive calculation requirements. Awareness of the suspension of penalties and the practical impact of it was weak.

13. FRED WARING YACHT GROUP

Tutorial Note:

This is a time consuming and difficult question to answer within the allotted time. Most students should leave this question until the end in order that time does not run away to the detriment of scoring quicker and easier marks on the other questions.

Small Yachts Ltd

The sale of the repair unit is a part-disposal of a capital item. **There is £60,000 VAT due on the sale as the site is opted. [½]**

The remaining intervals for the 10-year adjustment period for the part sold will be treated as **fully taxable and this will result in additional recovery of VAT in the return for the period ended 31 October 2026 [½]** (second quarter following VAT year-end). This is calculated as follows based on **20% VAT on the £200k cost attributed to it. There are 5 intervals remaining so, £40,000/10 x (80% - 100%) x 5 = (£4,000) due from HMRC. [½]**

The budget **refurbishment option is below the £250,000 capital goods scheme (CGS) limit so VAT would be recoverable in line with the intended use. [½]** Based on current taxable use, £28,000 **VAT would be recoverable as the showroom would be used fully for business purposes (£200,000 x 20% = £40,000 VAT; 70% x £40,000 = £28,000). [½]**

The high-end refurbishment would be classed as a capital item and its use would need to be monitored over a 10-year adjustment period. The **initial amount recovered would be £42,000 (£300,000 x 20% = £60,000 VAT; £60,000 x 70% = £42,000) [½]** but as exempt income is increasing, it is anticipated that **subsequent intervals will result in adjustments to reduce the overall amount of recoverable VAT. [½]** Accordingly, it may be **worth reviewing the partial exemption method [½]** going forward.

Big Yachts Ltd

If the business is sold it should qualify as a transfer of a going concern (TOGC).

As the property is opted, the sale of the lease would be standard rated unless the buyer opts to tax the property. If the buyer does opt to tax, then the sale of the lease will be within the TOGC rules, and the sale would be outside the scope of VAT. The **Yacht Group would have a normal capital goods scheme adjustment for the Big Yachts lease in the year of sale and the buyer would inherit the remaining capital goods scheme obligations on the lease. [½]**

If **the buyer does not opt to tax, then the Yacht Group has a normal adjustment for Big Yachts in the year of sale plus a sale adjustment with 100% taxable use for the remaining intervals**. **[½]**

If the **shares are sold, then the Yacht Group has a normal capital goods scheme adjustment on Big Yachts in the year of sale and Big Yachts would continue with the capital goods scheme obligations [½]** under their own VAT registration thereafter. Essentially, the same principle as a TOGC with buyer opting.

However, the **sale of existing shares would be an exempt supply, so any costs directly related to the sale would be irrecoverable whereas costs directly related to a TOGC are recoverable [½]** to the extent that the business being sold made taxable supplies. Purely from a VAT perspective, a TOGC may be the better route if the sale costs are significant.

Tutorial Note:

Hotel La Tour Ltd lost its appeal in 2024 at the Court of Appeal (although it is appealing to the Supreme Court in 2025). The VAT is directly linked to an exempt supply and irrecoverable.

Budget Yachts Ltd

Both the original purchase of the site and the refurbishment are capital items and there are 10-year adjustment periods for both. Initial VAT recovery on the refurbishment would be in line with the current partial exemption method. **[1]**

If the **site is sold, then all remaining intervals would be treated as used for fully taxable purposes so there would be an uplift in recoverable VAT in the return ending 31 October 2027. [1]**

The **new site has not been opted so there would not be any VAT charged on its acquisition and hence no irrecoverable VAT or CGS adjustments for exempt and non-business use. [1]**

From a purely VAT perspective, the new site would be more efficient, given the increase in exempt income meaning an increase in irrecoverable VAT for the existing site.

Northern Charters Ltd

The **£25.0m yacht is a capital item with a 5-year adjustment period. [1]** The **£5.0m of VAT incurred on the purchase would have been fully recoverable in the initial interval due to fully taxable business use. [1]**

The **use of the yacht by Fred for non-business purposes has resulted in 25% non-business use in the interval and will result in £250,000 irrecoverable VAT for this interval ((£5.0m / 5) x 25% = £250,000**). **[1]**

For the future, from a VAT perspective, it would be **more efficient to charge Fred a commercial rate for the charter (commercial rent charged of £120k x 20% = £40,000 x 3 = £120,000 VAT). [1]** Fred would not be able to recover this VAT, but the **VAT leakage is less than half of the CGS adjustment for the company. However, the cost for Fred personally would be £240,000 x 3 = £720,000. [1]**

The summary position is as follows:

CGS adjustment £(4,000 - 2,000 - 1,875 + 2,700) = £2,875 due from HMRC

Voluntary Disclosure £(250,000) due to HMRC

DETAILED CALCULATIONS

No yachts held for sale will be included as CGS adjustments as stock items are excluded from the scheme. [1]

Small Yachts Ltd

First interval was **1 October 2021 to 30 April 2022 [½]**

Normal CGS adjustment for year to 30 April 2026 (year 5) [½] on the **commercial units which cost £1m = £200,000/10 x (80% - 70%) = £2,000 to pay to HMRC [1]**

See above for part disposal of repair unit, £4,000 due from HMRC.

Big Yachts Ltd lease

First interval was to y/e 30 April 2023

Initial recovery on cost of £250k = £50,000 VAT x 80% = £40,000 [½]

Adjustment (4th interval of 8) = £50,000 / 8 x (80% - 50%) = £1,875 due to HMRC [½]

Tutorial Note:

The lease is for less than 10 years so we must add one year to the period of the lease to come to the number of years of the adjustment period.

Budget Yachts Ltd

First interval was to y/e 30 April 2024

Initial recovery = £900,000 x 20% = £180,000 VAT x 90% = £162,000 [½]

Adjustment (3rd interval) = £180,000 / 10 x (90% - 75%) = £2,700 due to HMRC [½]

Non-business use – Northern Charters Ltd

First interval was to y/e 30 April 2025

Initial recovery = £5,000,000 VAT on a cost of £25m [½]

Adjustment (2nd interval) = £5,000,000 / 5 x (100% - 75%) = £250,000 due to HMRC as a voluntary disclosure. [½]

CIOT MARKING GUIDE

TOPIC	MARKS
Small Yachts Ltd	
Adjustment required for 20% of the site on the basis of selling the unit and the site being opted so assumed remaining intervals are fully taxable	2
Cost of refurbishment for the more expensive option would be a capital item and use would require monitoring for 10 years - as this site is seeing growth in exempt income there would be increased restrictions on recovery over time	2
Big Yachts Ltd	
Compare to removing a capital item from a VAT group through sale of shares and the adjustments required - refer to a sale of existing shares being an exempt supply and the input tax implications (ref to case law gains credit)	1
Provide a recommendation with supporting arguments to pick one option over the other - for example under a TOGC input tax relating to cost would be recoverable	1
Budget Yachts Ltd	
Works are above £250,000 so considered to be a capital item starting from when the works were completed	1
If sell the site, then all remaining intervals for both the original purchase and the renovation would be considered fully taxable as the sites are opted	1
New site would have no VAT incurred on the purchase as not opted so nothing to adjust	1
Northern Charters Ltd	
The £25.0m yacht is within the capital goods scheme and adjustment period is five years	1
Full recovery from outset as used for making taxable supplies of charters	1
Use of the yacht by Fred has resulted in 25% non-business use in the interval and therefore resulted in an adjustment being required	1
Consider chartering the yachts to Fred on commercial terms to avoid the adjustment for non-business use - appreciate that then requires charging VAT to Fred which is irrecoverable	2
Capital goods scheme adjustment calculations	
Items held for stock excluded from the scheme	1
Part-disposal adjustment for Small Yacht Ltd	2
Ongoing adjustment for Big Yacht Ltd taking into account lease period and change in use	1
Ongoing adjustment for Budget Yacht Ltd taking into account change in use	1
Adjustment for non-business use in Northern Charter Ltd	1
TOTAL	**20**

Examiner's report:
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In general, answers were disappointing with a number of candidates failing to attempt certain aspects of the question or even failing to attempt the question at all. Where a candidate attempted all aspects of the question it generally resulted in a significant number of marks being accumulated. Some relatively basic but insightful comments were worthy of credit and it was evident where candidates had read the details of the question. The highest marks were awarded to candidates completing the computational elements as well as proposing recommendations demonstrating an understanding of the nuances. A number of candidates incorrectly assumed that stock items were within the scope of the capital goods scheme and a significant number of candidates made incorrect assertions in relation to the impact of non-business use.

14. HAWKSLEY FAMILY

Woodlands

Tutorial Note:

It is very tempting, in a question like this, to focus too much on one area to the detriment of other areas being tested.

Like with questions on CPP and single v multiple supplies, you need to be careful to not go overboard with your discussion on business v non-business activities when there are plenty of other areas to explore. Marks will be capped for specific topics and in your planning of the answer, you should be able to see that there is a lot to cover, so that the 'business v non-business' argument is only a minor aspect.

It might be argued that, by promoting wildlife in the woodlands and allowing free access to the public, Lord and Lady Hawksley are carrying on a "non-business" activity. However, the **case law suggests that there should be no need to restrict the recovery of VAT on woodland costs provided the commercial objective remains [½].** Obviously, any **sales of timber should be declared on the Hawksleys' VAT return [½]** in due course and it would be worth bearing in mind that **sales of firewood should qualify for the reduced (5%) rate of VAT. [1]**

Tutorial Note:

All sensible references to case law and their application will receive credit. For example, *Hedge Fund Investment Management Ltd* (FTT case in 2022) where income is not received for four years - this does not mean it is not in business.

The T*owards Zero Foundation* case (FTT 2022) concerned a non-business activity that was inherent and integral to the main activity, so did not restrict input tax.

Hawksley Farms Limited **[5 marks in marking guide and 2 marks for conclusion]**

There seems to be **little, if any, connection between Samantha's hobby and the arable farming activity [½]** carried on by Hawksley Farms Limited. This suggests that the **VAT on the horsebox and its running costs, the school construction costs and upkeep, and on the vet bills, etc, relating to her horse, should not have been reclaimed. [½]** Even if the **sign on the horsebox was sufficiently large to amount to an advertisement, it is doubtful whether HMRC would accept that this would justify input VAT recovery. [1]** The position would be **different if, rather than just competing in dressage events as a hobby, Samantha also trained dressage horses and riders as part of the Hawksley Farms Limited business activity. [½]**

The **proposal needs to be looked at in detail, in particular its nature and scale, to gauge whether it would affect the VAT recovery position**. **[1]** Unless it can be shown that this is more than just an idea, and that the activity is to be undertaken by the company, rather than by Samantha herself, then the **VAT should not have been reclaimed**. **[½] The over recovery will need to be corrected and it is possible that HMRC might impose a penalty in connection with it. [1]** It **should also be considered whether the horse and rider training might be carried on by Samantha personally [½],** rather than by the company, as many riders and horse owners will not be able to recover any VAT charged on the training. If so, and bearing in mind that much of the costs of the training (basically, Samantha's time) will not carry VAT, **it would be advantageous for her to undertake the activity and to register for VAT if, and only if, her turnover exceeds the registration threshold (currently £90,000 in any 12-month period). [½]** It should be noted that part of her income would be **exempt as horse riding lessons are considered to be a subject ordinarily taught in school or university [½]** and as such **would be within the educational exemption were she to trade as a sole trader. [½]**

Simon Hawksley

Simon's classic car collection and restoration activity might be a hobby falling short of amounting to a business. **However, he has been buying and selling cars on a fairly regular basis and is in the habit of buying dilapidated vehicles and restoring them with a view to sale, which suggests that this activity is a "business" [1].** If it has **breached the registration threshold at some point (and the potential proceeds from the anticipated sale of the E-Type suggest that it might have done), he should have been VAT registered. [1],** Details of the past sales will be needed to see if they exceeded the VAT registration threshold, and if so, when. **The sales of cars to finance the restoration of the E-Type might be ignored if they were "personal" assets. [1]**

Even if Simon's past activities did not amount to a business, or if the income from them was below the VAT registration threshold, it **seems probable that the E-Type project amounts to a business and that the income from its sale will be more than the registration threshold**. **[½]** As the legislation **requires VAT registration from the beginning of any period of 30 days in which taxable turnover is expected to exceed the VAT registration threshold, he should be registered before the E-Type is sold**. **[½]**

HMRC may impose a penalty if Simon should have been VAT registered as a result of his past activities. **[1]** The amount of VAT that Simon has incurred on the costs of his restoration projects needs to be looked into, and the extent to which the **second-hand cars margin scheme might reduce the amount of any output VAT on cars [1]** bought with a view to resale should be looked at, to ensure that his VAT liability (and the related late registration penalty, if any) is minimised.

CIOT MARKING GUIDE

TOPIC	MARKS
Woodlands	
Wildlife promotion and permissive footpaths not restricting input tax	1
Lower rating of firewood	1
Hawksley Farms Limited	
Probable disallowance of VAT claimed on the indoor school, horsebox and associated costs, vet bills et al	1
Potential misdeclaration penalty	1
HMRC unlikely to accept argument that sign on horsebox is "advertising"	1
Possible impact of the proposal for Samantha to train horses and riders	1
Consideration of Samantha doing the training as a separate business trading under the VAT registration threshold	1
Simon Hawksley's classic car collection and restoration activity	
Buying and selling cars on a regular basis and buying and restoring dilapidated cars for sale regularly suggests "business" rather than "hobby"	1
Expected proceeds from sale of the E-Type suggests that registration threshold may have been breached in the past	1
Possibility of ignoring sales of "personal" cars to finance E-Type restoration	1
Even if no past registration issue, sale of the E-Type for £100,000-£150,000 would breach the "anticipated turnover" threshold.	1
Possible late registration penalty	1
Possible application of the second-hand cars margin scheme	1
Conclusion: Need to look at activities "in the round" to ameliorate any late registration penalty and the overall VAT liability.	2
TOTAL	**15**

Examiner's report:
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All candidates missed basic points when answering the question and several did not even attempt it. None of the candidates identified the possibility of lower rated sales of firewood from the woodlands business. Several suggested that the long-term nature of the business meant that the partnership should not be registered and that it should repay any input tax claimed (ignoring the potential sale of thinnings).

Several candidates raised the possibility of using the "flat rate farmers" scheme, which would be inappropriate for a business expecting negligible outputs for a lengthy period while incurring substantial costs (and input tax) on what might be termed "set-up costs". A number of candidates recognised the possibility of exemption for riding school teaching but failed to appreciate that this would be confined to "personal" teaching and would not apply to training offered by the farming company.

None of the candidates picked up on the sales of "personal" cars by Simon to fund his E-Type project and few identified the potential late registration issue. A number suggested the possibility of a misdeclaration penalty, overlooking the fact that Simon was not registered at the time any potentially taxable supplies were made, so the misdeclaration penalty was never in point. Whilst quite a few candidates mentioned the second-hand cars margin scheme, several suggested that using it would prevent the recovery of input tax on the costs of renovations. A few candidates suggested that if he registered for VAT, Simon would be able to reclaim input tax on cars purchased in the past.

15. STANLEY WILKS LTD

Compliance

ABC LLP must **notify HMRC of its appointment as liquidator within 21 days**, **[1]** by sending a copy of the Insolvency Practitioners Certificate of Appointment, together with form VAT 769.

Tutorial Note:

Reg 9 of the VAT Regs (SI 1995/2518) contains the 21 day time limit. Actual form numbers are not required to obtain the marks – simply knowing there is a specific form is what is needed.

The **current VAT return period will end on the day before the appointment (ie 31 October) [½]** and a **new VAT return period will start from the date of appointment (ie 1 November). [½]** The **due date for the return for period ending 31 October will be 31 December 2026. [½]** This return may be submitted by ABC LLP **unsigned and marked "completed from the books and records of the company". [½]**

Tutorial Note:

Reg 25(3)(b) of the VAT Regs (SI 1995/2518) contains the two month rule for the filing of the return.

[Marking note – there are 5 available points in the next five paragraphs and a maximum 4 can be obtained]

The late payment for the quarter ending 31 August 2026 may have triggered a penalty. For a late payment which is **over 15 days late then a 3% financial penalty (of the late paid VAT) [½]** might be imposed. As payment has not yet been made then if it is **made by 5 November then no further penalty [½]** will apply. **Post-6 November, the payment will be 30 days late and a further 3% penalty could be applied**. **[½]**

VAT due to HMRC (but held by businesses when they enter formal insolvency) **rank as secondary preferential debts in the order of priority**. **[½]** This means they are **paid ahead of secured creditors holding a floating charge (for example banks) and ahead of non-preferential creditors (for example suppliers). [½]**

When the assets of the business are sold by the liquidator, the **sale is treated as a supply by the registered business and should be reported in the VAT returns that are filed. [½]**

Once the business ceases to make taxable supplies it must **deregister by notifying HMRC within 30 days. [½]** Deregistration will be effective from the date the trade ceased. HMRC will issue a final VAT return, and a **final annual adjustment should be made for the period from the start of the current partial exemption year [½]** up to the date of deregistration. There may be a **deregistration charge for assets on hand, unless the VAT on the current replacement cost of the assets is a maximum £1,000. [½]**

If there is an intention to **make taxable supplies in the future then the deregistration can be deferred, allowing continuing recovery of input tax. [½]**

Bad Debt Relief (BDR)

Tutorial Note:

The question can be off-putting as it involved the appointment of a liquidator. However, a lot of the VAT points are basic points that apply whether a liquidator has been appointed or not. Most of the points on BDR below are basic points (see s36 VATA 1994 and Reg 165 onwards of the VAT Regs (SI 1995/2518)).

If an invoice has been outstanding for over six months, BDR can be claimed in Box 4 of the next VAT return. The claim must be made within **four years and six months of the later of: [½]**

- the date on which the **consideration became due and payable**; **[½]** and
- the **date of supply**. **[½]**

If a **payment is received by the liquidator after BDR has been claimed, this is treated as payment for the supply by the business and the BDR is clawed back**. **[½]**

It is also **possible to claim BDR once the business has de-registered and this must be notified to HMRC along with full details of the claim. [½]**

The **payment by the debt factor is not treated as payment for the original supply, rather this is for the purchase of the debt [½]** (which is an exempt supply of finance by the business). Typically, the **business cannot claim BDR once the debt has been assigned. [½]**

With regards to the debts which are over four years and six months old, it is **not possible to issue credit notes [½]** for these as **credit notes can only be issued where there is a genuine mistake, overcharge or agreed reduction in consideration**. **[½]** So these bad debts will be out of time for VAT relief.

BDR claims for supplies made by Stanley Wilks Ltd when it was part of the VAT group are proper to Stanley Wilks Ltd [½] and not to the representative member of the group.

VAT recovery

Stanley Wilks Ltd is due a refund of output tax over declared during the time when it was part of the SW Holdings Ltd VAT group. Following the decision in *Lloyds Banking Group plc & Ors* it is the **representative member who is entitled to any claim; therefore this refund cannot be claimed by the liquidator [1]** on behalf of Stanley Wilks Ltd now that it has left the VAT group. **SW Holdings Ltd should be contacted to agree a way forward in this respect. [1]**

VAT **incurred after deregistration can be recovered (subject to the usual partial exemption restrictions) using the relevant form, [1]** which should be submitted to HMRC (and original invoices kept for subsequent verification, if requested).

MARKING GUIDE

TOPIC	MARKS
Compliance obligations on liquidation including notifying HMRC and VAT return periods/due dates	3
Deregistration and final VAT return including partial exemption adjustment and application of new penalty regime	3
Preferential creditors / HMRC and future sales	1
BDR provisions	1
BDR when payment received by liquidator	1
BDR on transfer of debts to debt factor, including VAT liability of payment for debts	2
Debts over four years old	1
Member leaving VAT group - who entitled to make historical claims - consider case law	2
VAT incurred after deregistration - how to recover	1
TOTAL	**15**

Examiner's report:
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This question tested candidates' knowledge of the VAT aspects of insolvency, including bad debt relief. Many candidates failed to address all the points raised in the question and so missed out on some of the 'easier' marks, for example the penalty regime was not mentioned by the majority of candidates. Very few candidates picked up on the fact that it would be the representative member of the VAT group at the time which is eligible to make a claim for VAT overpaid, and few candidates were aware of the more recent* changes to HMRC's preferential status as a creditor. Some good advisory points were raised around partial exemption restriction on input tax recovery for higher marks.

*It was recent when the question was set

16. THREE COUNTIES COLLEGE

Tutorial Note:

As the marks are not broken down for the VAT and the SDLT, it is important to plan your answer before you begin to write. There will not necessarily be an even split of marks and depending on the question there might be only 1-2 marks allocated to the SDLT aspects.

By planning what you are going to cover should help you to see how much VAT you have to cover and what marks remain for the SDLT. If, for example, you can only think of 7 VAT marks then can you find 8 SDLT points to write about? If not, then you have probably missed some VAT aspects, and it is wise to re-read the requirement and the scenario to see what you might have missed.

Flexibility is given in marking schemes but only to a degree. On a question like this it is likely that the VAT marks would still be capped to around 15 because there are plenty of SDLT points to make.

VAT

There is a **barter transaction** consisting of the College's grant of the lease in return for Riverdale Development Ltd's (RDL) sublease. The **VAT liability and value of each supply is considered in isolation. [½]**

For a barter transaction the **value of each supply is based on how much each would have been willing to pay in money for the lease**. **[½]** Often, the value of each supply is considered the same, but it is important that the values are a true reflection of worth, evidenced for example by an independent valuation. This is especially the case given the need to evidence that RDL has not obtained the carpark for less than open market value, ie is the value of the lease of the facilities management services at least £1 million in this case.

Tutorial Note:

The examiner gave credit for all relevant assumptions in this question. For example, the 999 year lease being granted with the 997 year lease being the consideration (and vice versa). This would mean valuing the 997 lease to see the 999 year lease consideration and doing the opposite for valuing the 997 year lease.

1) The **College's lease to RDL is exempt from VAT**. **[½]** The College will therefore be **unable to recover any VAT incurred in relation to the grant of the lease [½]** to RDL (eg valuation costs). If the **College opts to tax (OTT) to support VAT recovery, this would be disapplied by virtue of anti-avoidance legislation**, **[½]** which applies to certain transactions where the grantor (ie the College) **will be in ultimate occupation of the land (through the sublease) for less than 80% taxable business purposes [½]** (which is assumed to be the case based on the proposed use for mainly educational purposes).

2) RDL is likely to **seek to OTT in order to recover the VAT incurred on construction. [½] VAT charged on the sublease will be largely irrecoverable [½]** by the College, **depending on the specific nature of activities carried out in the facilities and on the College's partial exemption method**. **[½]** Under the anti-avoidance provisions, the **provision of finance is not restricted to monetary payments but can also be the transfer of goods or assets. [1]** Therefore if the **land is provided for less than open market value, the developer, overall, will be paying less for the development than it otherwise would, and the College will be seen as a 'development financier'**. **[2]** RDL's **OTT will then be disapplied due to the College's occupation of the Facilities for less than 80% taxable business purposes. [1]**

Provided that RDL does not obtain the carpark from the College for less than open market value, any OTT submitted by RDL would not be disapplied. **[1]** RDL will therefore **charge VAT to the College on the value of its supply but importantly will be able to recover fully the VAT it incurs on construction of the Facilities [1]** (and so this irrecoverable VAT cost will not exist within the development, which would likely be passed on to the College).

If the facilities management services are compulsory and included within the sublease agreement, the **charge made by RDL to the College is an ancillary element of the sublease, and the VAT liability follows the liability of the sublease itself [1]** (ie subject to **VAT on the assumption that RDL opts to tax, and it is not disapplied; otherwise exempt). [½]** Alternatively, if **non-compulsory, the services will be standard rated. [½]**

VAT will also be incurred on the fit-out costs incurred by the College. [½]

As the building will be used partly for taxable purposes, the **VAT on all of the costs incurred will be partially recoverable [½]** and it may be **worth reviewing the College's partial exemption method to potentially ring-fence this building based on its use. [½]** In addition, the fit out and the sublease will be **Capital Goods Scheme items for the College so use should be monitored over 10 years and adjustments made as necessary. [1]**

Tutorial Note:

The £1m fit out is evidence that it will become a CGS asset for the College.

SDLT **[Marking note – 6 marks available for this part in total – capped at 5]**

A transaction whereby two parties enter into land transactions of major interests in land in consideration for each other should fall within the **special exchange rules in Schedule 4 FA 2003. [½]** As such the transactions must be considered separately in order to determine the amount of chargeable consideration.

The chargeable consideration for each transfer is the greater of:

i) the **market value** of the subject-matter of the acquisition; or
ii) the **amount or value of the consideration [½]** actually given.

The sublease can achieve exemption provided the following conditions are met (s.57A FA 2003): **[2 mark for conditions – generally ½ mark each one and capped at 2]**

- The lease from the College is entered into **wholly or partly in consideration of the leaseback;**
- The only other consideration provided by RDL (if any) is the **payment of money or release from/assumption of debt;**
- The **interest leased back must be an interest out of the original lease** from the College (and not comprise land not subject to that original lease);
- The College and RDL must **not be members of the same 75% group**; and
- The transaction **does not involve a sub sale** arrangement.

The **chargeable consideration for the lease to RDL is the higher of the value of the encumbered lease from the College and any consideration given (including any VAT payable to the College but not including the value of the leaseback [1]** to the College). As the **value of the lease from the College is £1 million, the SDLT payable by RDL will be £39,500. [1]**

Tutorial Note:

The SDLT is calculated as (£150,000 x 0%) + (£100,000 x 2%) + (£750,000 x 5%)

It is assumed that the fit-out works on the Facilities are carried out by the College after the grant of sublease by RDL and that any management services provided by RDL are paid for separately such that **there are no services or works provided in consideration for either lease. [½]**

Tutorial Note:

The examiner confirmed that all relevant comments would receive credit. For example, administrative points on it being the purchaser's liability, a return is needed in 14 days, and consideration needs to be ascertained. Where candidates went into a more detailed analysis of the fit-out works and whether they would be included because of the conditions in para 10(2), credit was given for this.

MARKING GUIDE

TOPIC	MARKS
Barter of land for sublease, consider VAT liability of each supply	1
Exempt supply of land subject to option to tax, impact on VAT recovery	2
Disapplication of option to tax due to College's occupation	2
Assume developer will seek to opt, any VAT charged will be partly irrecoverable due to exempt status of College (subject to some taxable use for ticketed performances, therefore residual)	3
Disapplication of developer's option to tax if land supplied for less than OMV	3
Developer's supply of facilities management - follow liability of sublease	1
VAT on fit out costs, also partly irrecoverable (residual for College). Possible scope for changing partial exemption method	2
CGS item because of fit out costs	1
SDLT: Special exchange rules apply to determine chargeable consideration. As leases in relation to same plots of land, sublease exempt from SDLT subject to conditions	2
SDLT: Chargeable consideration for land to developer is higher of value of encumbered lease from College and any consideration given (incl. VAT payable). Calculation of SDLT payable	3
TOTAL	**20**

Examiner's report:
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This question examined the VAT and SDLT aspects of a barter transaction involving land development by a college.

Many candidates didn’t pick up on the barter point or the disapplication of the option to tax, while it was often stated, incorrectly, that the grant of a long lease in a new commercial building is automatically standard rated (therefore missing marks on the option to tax provisions). Some candidates misread the question and referred to construction services in return for the supply of land by the college (rather than a sublease) which highlights the importance of reading the question carefully.

With regards SDLT, some candidates failed to mention the exemption for the sublease.

17. FASHION HOLDINGS LTD

Tutorial Note:

It is very important in a question like this to plan your answer. A single scenario with a single 15 mark requirement means spending time at the start thinking about the issues and how much you can say on each one.

It is hard to read the examiner's mind as to where they are expecting you to focus. But what is important is covering issues. There are not usually more than 5 marks available for a particular topic within a question (and in a lot of cases this can be a maximum of 3 marks), so with this in mind you know that there must be at least 3 different areas to cover and potentially more than 5.

By thinking though the issues and areas before putting pen to paper, you should ensure that you do cover all of the points.

Sale of shares and management charges

Frank Private Equity LLP (FPEL) will be making a **sale of shares which is exempt for VAT purposes. [1]**

VAT recovery by Fashion Holdings Ltd (FHL)

FHL would need to be VAT registered in order to recover the VAT [½] it incurs. FHL is only **eligible to register for VAT if it makes, or intends to make, taxable supplies**. **[½]** This is discussed below in relation to whether FHL makes supplies.

If VAT registered, there are two key questions when considering if FHL can recover the VAT incurred on transaction costs (established following *Larentia + Minerva C-108/14*).

1) Are the supplies being made to FHL?

   A party is **considered a recipient of the supply if it has:**

   a) Contracted for the supply;
   b) Made use of the supply; and
   c) Been invoiced and paid for the supply. [1]

   Although FHL has contracted, been invoiced, and paid for the supply, it does not appear that it has made use of it. This is because **the work does not appear to have benefited FHL. [½]** Consequently, it appears that **FHL is not the recipient of the supply for VAT purposes, as it is FPEL which is making the share sale and so requires the advice under the due diligence exercise**. **[½]** It **may be possible to argue that FHL also derived a benefit from the advice**, **[½]** as it is **required to assist in finding a buyer for the shares in order to continue its business, [½]** however it is not guaranteed that HMRC would accept this position.

2) Is FHL participating in any economic activity?

   VAT is only recoverable by an entity if it is incurred in the course of an economic activity. [½] If the entity (as here) is **passively holding shares, this is not considered an economic activity**. **[½] As FHL does not make any supplies (even within the corporate group) such as loans or management charges, the criteria are not met for the VAT to be recoverable. [½]** It would not be possible for FHL to register for VAT as things stand at present.

   Accordingly, the **VAT incurred on the sale costs by FHL is not recoverable because both of the above tests are not met. [½]**

VAT recovery by Bargain Bags Ltd (BBL)

With regards the costs incurred by the trading company, this **VAT will only be recoverable if there is a direct and immediate link with its taxable business activity [1]** (as established in *BAA Limited [2013] Court of Appeal Civ 112. Note: All relevant cases will gain credit eg reference to non-deductibility of VAT in Hotel La Tour 2024 CoA, but deductibility in the Frank Smart case*). It will also be **necessary for BBL to hold a valid VAT invoice in its name**. **[1]** As above, this would rely on an argument that BBL derived a benefit from the advice.

Options to maximise VAT recovery

Option 1

If it is **possible for FHL to recharge the costs incurred in respect of the transaction (eg to FPEL, BBL or Bid Co), this should be a taxable supply for VAT purposes, provided it meets the economic activity test [1]** (per *Wakefield College [2018] BVC 22)*. This would allow FHL to register for VAT and recover the VAT incurred on the transaction costs. This will **depend on the commercial arrangements with FPEL (ie whether it would accept the costs). [1]**

Option 2

FHL could join the existing VAT group and any charges between the group would be disregarded for VAT purposes. [1]

Option 3

Alternatively, **FHL could make management charges to its subsidiaries, and as this would be an economic activity it could recover VAT that related to that activity [1]** (and as above for option 2 it could join the VAT group). FHL would however need to be actively managing its subsidiaries and have economic substance to do so (per the *Larentia + Minerva* case). At present the directors are employed by Bid Co and it makes the management charges. Consequently, it would be necessary to either:

1) Transfer the staff to FHL;

2) Have joint contracts of employment; or

3) Recharge from Bid Co to FHL, which would then supply the management charges. **[1 mark for sensible discussion of option]**

The third option would seem messy so either of the first 2 options should be explored.

Going forwards, where possible the **transaction costs should be supplied to BBL (including contracts and invoices being in the name of this entity) as it is able to recover VAT in full. [1]** Again, this is dependent on the costs being used for the purpose of its business activity.

Tutorial Note:

The examiner stated that all relevant considerations/options would receive credit and that the marking guide was flexible. For example, concluding that FHL has no entitlement to register and therefore ensure that future costs are incurred by one of the VAT registered entities eg Bid Co.

MARKING GUIDE

TOPIC	MARKS
Exempt sale of shares by FPEL	1
FHL - whether can register for VAT	2
Consideration of economic activity and L&M case law (and other cases to gain credit)	2
Conclusion on VAT recovery on costs incurred by FHL	2
Consideration of VAT grouping	1
VAT recovery on costs incurred by trading sub	2
Options to optimise VAT recovery eg can they recharge to FPEL or Bid Co? FHL could VAT register (either on own or in VAT group), or other suggestions	3
Issues in relation to staff being in the wrong entity	2
TOTAL	**15**

Examiner's report:
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This question looked at options for maximising VAT recovery by a holding company.

There was a wide range of approaches taken by candidates and marks were awarded for all valid points. Some very good advisory answers were provided with a range of relevant case law being quoted. Candidates clearly showed good knowledge of case law in this area.

18. PETSTUFF ONLINE LTD

Tutorial Note:

Notice how the examiner uses headings in their answer to split up the various aspects of the requirement. This is a good habit to get into as the examiner will have their marking scheme by the side of your answer and it will make it easier for them to see where they need to award marks.

Assessments

Whilst the previous advice was that all items were standard rated, **some 'animal food' may in fact be zero-rated, such as hay for horses. [1] A full catalogue of products needs to be used to assess the correct treatment. [½]**

Tutorial Note:

Credit will be given for going into more detail in this area.

On the current assumption that all items are standard rated, **the figures indicate there was an understatement for the March period, as £20,000 VAT should be due, not £17,000. [1]** The **£3,000 underpayment is 15% of what was actually due, hence HMRC's calculation. [½]**

Based on sales figures, the **£3,000 is attributable to the medications/flea treatments, which must still be being accounted for as an exempt supply, rather than standard rated as was advised previously. [½]**

HMRC would be wrong to use this, and the 15% figure, as a sample period due to fluctuations in sales of products throughout the year. **[1] The March period was partially in the peak period of higher sales of medicines and flea treatments. [1]** There would therefore be a higher percentage of VAT not accounted for in this period compared to say the September and December quarters.

Tutorial Note:

Where you are given numbers in a question you would be expected to use them to illustrate your answer.

Note that reference to case law such as *Chrisovalandis Georgiou FTT 2022* would gain credit. Where an HMRC officer does not take into account seasonal variations then associated penalties for incorrect assessments could be reduced to nil (see next sections).

Penalties

HMRC can impose penalties where they consider **errors to be careless or deliberate. The penalty will be a percentage of the 'potential lost revenue', dependant on the level of behaviour and mitigating factors such as cooperation and whether the disclosure was prompted. [½]**

If **careless, the maximum penalty is 30%, if it is deliberate but not concealed it is 70% and if deliberate and concealed then 100%. However, these can be reduced to a minimum of 0%, 20% and 30% respectively**. **[½]**

It is **highly likely that HMRC will argue the errors were deliberate, contending that Petstuff Online Ltd either knew the classifications were wrong, or deliberately failed to take action necessary [1]** to ensure returns were accurate.

Returns were routinely submitted using the wrong rate. Further, Petstuff Line Ltd were advised seven years ago that this was the wrong rate. [1] It seems that no further action was taken to verify the changes had been made. **However, some changes were made (for cages/huts), which could indicate it was merely an oversight. [1]**

Most likely, the behaviour would be at least careless. Not incorporating the change after being told to do so, lacks reasonable care. [1] The fact that other changes were made supports a carelessness, rather than deliberate, argument. The fact a tax manager submits the returns may also be taken into account. **HMRC may argue, if the manager knew all the categories should be standard rated, it must have been obvious on reviewing the returns that something was wrong, and nothing was done to rectify this. [½]**

No further steps appear to have been taken to conceal the inaccuracies however, to be 'deliberate and concealed'.

Where **HMRC consider the understatement was deliberate they can assess back 20 years. It may be that they take the view this behaviour only started once the advice was received seven years ago. [½]** This may depend on the basis for the previous categorisation, and whether this was in reliance on other, incorrect, advice, and the reasonableness of relying on this. Even if previous advice was sought, and relied upon, this may not be enough, as the responsibility for correct returns ultimately lies with the taxpayer.

Interest will also be due on the amount of VAT outstanding.

Input Tax

As Petstuff Online Ltd was treating the supplies of medicines and flea treatments as exempt, it is **possible that no input tax was claimed in relation to this. If so, these amounts can be set off against the output tax [1]** due to HMRC.

Recommendations

HMRC should be responded to as soon as possible, setting out the error and the cause. The exact differences for each period for the last four years should be included, so that HMRC do not apply their 15% across all periods. **[½]** The response should indicate when this treatment started, to help with mitigation. **It will be worth calculating the differences for every period affected, together with the attributable input tax not previously recovered. [½]**

There should be **full co-operation with HMRC for mitigation against penalties. [½]** There would be **no, or minimal discount for an unprompted disclosure, as the error was discovered following a HMRC investigation**. **[½]** Credit may be given for bringing earlier periods to HMRC's attention however, and so providing disclosure could be beneficial. **Petstuff Online Ltd should also set out the steps which the business will take to ensure such errors do not recur in the future, which may enable HMRC to decide to suspend a careless error penalty**. **[½]**

MARKING GUIDE

TOPIC	MARKS
Identification that blanket rate for 'animal food' might not be correct and why	1½
Identify that there was an understatement of VAT	1
Identify source of understatement	1
Discussion of sample period /seasonal fluctuations	2
Explanation of penalty regime	1
View taken on level of behaviour	1
Justification and reasoning for view of level of behaviour	2
Discussion of mitigating factors	2
Identification that can now claim input tax	1
Recommendation of contacting HMRC	1
Recommendation to go back further to other periods	1
Identification of possibility of suspended penalties	½
TOTAL	**15**

Examiner's report:
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This question tested candidates' knowledge of errors in VAT returns, the penalty regime and a few points about the VAT treatment of specific supplies.

On the whole, candidates were able to explain the basics of the penalty regime, although often they set out the possible arguments for different types of behaviour without coming to a view on which they thought applied. In relation to the VAT treatment of the supplies, many did not even discuss whether or not the correct position had been set out in the previous advice, and often assumed that the previous advisers or HMRC were correct without giving this any thought.

For the calculations, a number stated an assumption that the figures were VAT inclusive, despite the question stating otherwise. There were also a number of assumptions on further figures not provided in the question, which were not needed and were entirely unsupported by the information given in the question. Many candidates included details about HMRC assessments and the time limits for these; credit was given as appropriate. Candidates also gave details about HMRC review, ADR and appeals. Minimal credit was given for this, as the question was not focused on this, and given the errors an appeal would be unsuccessful, and advising to pursue such would be bad if not negligent advice – this is an example of where candidates saw a point and included information on it without considering how it applied to the facts. Credit was only awarded if this was caveated in some way such as the assessments being out of time, or included advice that such was unlikely to be successful.

19. HOUSEBUILDS LTD

Tutorial Note:

You do not need to answer the question in the order of the requirements. SDLT is usually the weakest subject for most students, so if you are confident with your VAT, then answer that first.

Always think about the 'easy' marks. SDLT is VAT inclusive. Is it non-residential or residential land, so we know what rates to apply? When does a return and payment need to be made?

SDLT

SDLT is charged on land transactions, being the acquisition of a chargeable interest. **Relevantly here, the sale of the freehold and the grant of the rights of way/easements are chargeable interests in land and so subject to SDLT, payable on the chargeable consideration. [1]**

Chargeable Consideration

Chargeable consideration is anything given in money or money's worth, which here is:

1) The £1.2m land value
2) The construction of the road
3) 5% of house sale proceeds [½]

Land Value

As the land is opted to tax, the total price will be £1.44 million, as VAT is included for SDLT purposes. [½]

Construction of road

Costs of construction work can be chargeable consideration. This is determined by para 10, Sch 4, FA 2003. If certain conditions are met, the costs are not chargeable consideration. The conditions are:

1) the **works are carried out after the effective date**; **[½]**

2) the **works are carried out on land acquired or to be acquired under the transaction or on other land held by the purchaser**; and **[½]**

3) it is **not a condition of the transaction that the works are carried out by the vendor. [½]**

As to the effective date, see below. It is **not known on the information provided when the works will take place. This should be ascertained [½]**.

Part of the works are on Blackacre, part are not. The level of work required on each part is not clear. [½] This is also something to be ascertained.

It is, **however, a condition of the contract that Farmer McGhee carries out the works and therefore paragraph 10 does not apply, and the market value of the works is chargeable consideration. [½]** The **analysis proceeds on the basis that £40,000 represents market value, but this should be confirmed**. **[½]**

The cost of these works will also be subject to VAT so the total consideration would be £48,000.

5% of house sale proceeds

At completion it is not known when these payments will commence, or how much they will be. This is therefore **uncertain consideration. SDLT can be paid at completion on a reasonable estimate [½]** of the uncertain consideration. However, Housebuilds Ltd can also apply to **defer payment of the tax [½] until the consideration becomes certain [½]** as it will be **paid more than six months [½]** after **the effective date of the transaction. [½]**

Tutorial Note:

Credit would be given for stating that the houses might be built and sold within six months, and in this case there would be no deferral. This would then be one of the extra questions to ask

This would be beneficial, and the calculation below is on the basis it will be.

Calculation

The **grant of easements/rights of way is only for nominal consideration and so the SDLT payable is £0. [½]**

The **land is non-residential**. **[½]**

Total chargeable consideration:

	£	
Blackacre price	1,440,000	
Road construction costs	48,000	
Total	**1,488,000**	**[½]**

Rates

		£	
0%	£0-£150,000	0	
2%	£150,001 - £250,000	2,000	
5%	£250,001+	61,900	
Total SDLT due		**63,900**	**[½]**

Return

A **return and payment will be required within 14 days of the effective date of the transaction**, **[½]** otherwise penalties and interest will be charged. The **effective date is typically completion, unless the contract is substantially performed prior to completion**, **[½]** (eg Housebuilds Ltd taking possession of the land or paying a substantial amount of the purchase price); in which case there will need to be two returns, one at this stage and one on completion.

VAT

When Housebuilds Ltd sells the houses, these will be zero-rated supplies as the first grant of a major interest by a person constructing buildings designed as dwellings. **[½]** Therefore, Housebuilds Ltd can deduct input tax incurred in constructing the properties, including the VAT incurred on the purchase of the land, as costs incurred in the preparation for making taxable supplies. **Construction works should be zero rated. [½]**

Housebuilds Ltd is '**blocked' from claiming input tax on the included features unless they are "building materials ordinarily incorporated**" **[½]** for the purposes of Note 22, Group 5 Schedule 8 VATA 1994. **Housebuilds Ltd can reclaim the VAT incurred on the fitted kitchen units, the light fittings and electric fireplaces. VAT cannot be reclaimed on the free-standing white goods, or the carpets [½]** as they are not building materials ordinarily incorporated.

The works on the access road would be a supply from Farmer McGhee to Housebuilds Ltd. The **road is covered by the option to tax so this would be standard rated. [½]** There **may be a question of recoverability of this input tax, as it will not be directly linked to the taxable supplies of dwellings**. **[½]** However, it **could be seen as a general cost in the preparation of making taxable supplies, as there needs to be access to the houses. Therefore, this also would be deductible**. **[1]**

MARKING GUIDE

TOPIC	MARKS
SDLT	
Identify chargeable interests	1
Inclusion of VAT for SDLT	1
Conditions of para 10, Sch 4. Work through their application	2
Request relevant information from clients	1½
Treatment of uncertain consideration	1½
Advice on applying to defer SDLT payment for uncertain consideration	1
Calculation of SDLT due	2
Advice on return	½
Advice on effective date	½
VAT	
Identify sale of dwelling will be zero-rated	½
Identify construction works will be zero-rated	½
Discussion of Builders Blocked Items, identify which items input tax can be claimed for and which cannot	1
Discussion of VAT treatment of access road	1
Deduction of input tax incurred – purchase of land and on access road construction costs	1
Total	**15**

Examiner's report:
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This question examined the candidates' knowledge of SDLT, and what would constitute chargeable consideration and the VAT considerations of residential developments.

Generally, candidates picked up the main points and scored well on these. However, many candidates considered that the option to tax could be disapplied because dwellings would be built on the land, without recognising that this only applies to individuals (para 11 sch 10 VATA 1994). Some worked on an assumption that the taxpayer was a housing association without any indication of such in the question. Only a small number considered the position of the easements, and none did so correctly. A number also considered the tax position of the commercial property on the retained land, which was not relevant to the taxpayer; although since the change in format it may have been less obvious that the question was only focused on the property developer. Despite being a specific part of the question requirement, very few identified further information required from the client, and some instead made assumptions on these points.

20. WHITE GOODS AND BEYOND LTD

VAT

The **supply of white goods is standard rated, and the supply of insurance is exempt, so this is a partially exempt business**, **[½]** meaning the recovery of input tax needs to be considered. **Input tax relating exclusively to taxable supplies will be recoverable, and anything relating exclusively to the exempt supplies will not be recoverable. The issue arises in relation to anything that cannot be attributed to either directly, the residual input tax. [½]**

The test for determining direct attribution is whether there is a "direct and immediate link" (see *BLP Group v Customs & Excise Commissioners [1995] STC 424*). [1] The items of input tax incurred in the June VAT quarter can be categorised as follows:

[2 marks for calculation]

Item	£	Classification
Purchase of stock	125,000	Taxable
Rent of opted property	100,000	Residual
Other overheads	38,000	Residual
Marketing leaflets	7,500	Taxable
Website costs	1,000	Residual
Legal services retainer	13,000	Residual
Call centre costs	4,000	Exempt

Which gives totals of:

Classification	£
Taxable	132,500
Exempt	4,000
Residual	152,000

Tutorial Note:

Differing conclusions receive credit where they are well-reasoned. For example, using principles from *Sofology (2022)* and *KRS Finance (2023)* where the website costs are treated as relating to exempt supplies because the primary purpose is the sale of the insurance and not the goods, or arguing that the initial purpose of the website is to draw the attention to the goods being sold and therefore it is fully recoverable.

Follow through marks (eg those below) are available for the conclusion reached.

At present WGBL uses the standard method of apportionment based on a values-based calculation. For example, for the **above quarter the input tax claimed was £234,340. Deducting that relating to taxable supplies of £132,500 gives £101,840, which is 67% of the residual £152,000 input tax. [1]** The **taxable income for that period is 67% of the total income. HMRC have however questioned this recovery, claiming too much may be attributed as taxable. [1]**

As the **residual input tax exceeds £50,000 p.a., there is a question of whether the standard method differs substantially from a deduction based on use or intended use, [1]** in which case the "**standard method override" may need to be applied which requires an annual adjustment of the difference from the claimed amount to recovery based on "use". [1]** The onus is on the business to undertake these calculations and where they do not, HMRC may assess.

Tutorial Note:

The standard method override applies where the VAT is large ie residual input VAT is more than £50k. Look out for large numbers in questions and information about the 'use' of the purchases in the business, as this will hint to you that the override might apply.

One **item that may impact the treatment is the legal services retainer. As this is a set amount, not divided between the taxable and exempt businesses, and part of the general overheads, this is correctly treated as residual input tax. However, this does not fairly represent the use by the business, [1]** as the majority of the legal services are supplied to the exempt insurance business, but 67% of the cost has been attributed to the taxable business in the above June period.

The **website costs also likely impact the treatment. Again, whilst correct to treat this as residual, as an overhead cost, any income derived directly from the website is for the insurance side of the business, as customers cannot purchase goods on the site. [1]** Although, the site also generates interest in the goods on offer and allows customers to see what is in stock and so does contribute to generating these sales, it is unlikely to be to the extent of 67%.

It is also likely that the **property costs could require different attribution as the stores will mainly be for taxable supplies and the insurance office for exempt purposes. [1]**

Therefore, an override adjustment may have been needed if the difference is substantial. It will be substantial if the difference exceeds £50,000 or 50% of the residual input tax incurred per longer period but is not less than £25,000. In the periods under review by HMRC, the latest longer period would be the tax year to 31 March 2026, with any override adjustment having been required to have been made in the following June period.

On average, in the tax year to 31 March 2026, 71% of residual input tax was attributed as taxable (Taxable is £4.195m (1.1m + 940k + 980k + 1.175m) and Total is £5.98m (1.65m + 1.23m + 1.4m + 1.7m), so £4.195/£5.980 = 70%, rounded up to 71%) meaning:

[2 marks for reasonable attempt at a calculation]

Tutorial Note:

There was an error in the question for the quarter ended December 2024. The £830k and £250k comes to £1.08m and not the £1.11m given. This hasn't affected the numbers above but has been left in to show that sometimes questions are not error free.

The examiner apologised for the error. The error has been retained in the question to show students that where things like this happen, if you need to, then make your assumption and use that assumption for your calculations. Credit will be given by the examiner when marking for use of either figure. The important point is not to let errors like this cost you time or stress in the actual exam.

Item	Annual Input Tax £	71% £
Legal services (13k x 4)	52,000	36,920
Website (1k x 4)	4,000	2,840
Property rent (100k x 4)	400,000	284,000
Total	456,000	323,760

Recovery based on standard method = £323,760

Figures on the basis of use:

Item	% of exempt use	Exempt use £	Taxable use £
Legal services	85%	44,200	7,800
Website	90% (high estimate)	3,600	400
Property	11%	44,000	356,000
Total		91,800	364,200

Recovery based on use = £364,200 relates to taxable supplies

Difference between input tax claimed and usage = £40,440 (£364,200 - £323,760)

As **annual residual input tax is circa £608,000 (£456k plus other overheads 4 x £38k), the difference is clearly less than 50% of this. In respect of the other threshold, whilst very close to the limit of £50,000, this is not 'substantial' [1]** and no override correction is required, though a method based on usage would actually be more beneficial.

Recommendations

The **response to HMRC's letter should set out clear calculations showing no override adjustment is required for these periods. [½]** Going forward, as the costs will likely remain very similar, it would be worth trying to **agree a special method [½]** with HMRC. **These are used when the standard method does not provide a fair and reasonable result, which, given the difference in use of some of the residual items, is arguably the case here**. **[1]** Further, as the above figures came very close to requiring the application of the standard method override, agreeing a special method will negate having to do this calculation every year (and as stated is more beneficial anyway). A **detailed proposal must be sent to HMRC, and written approval is required before a special method can be used. [1]**

Tutorial Note:

The examiner stated that there would be flexibility in the marking, for example, where students went into more detail on special methods.

IPT

The **insurance provided is for a premium under a separate contract with the characteristics of insurance**, **[½]** as developed in *Medical Defence Union Ltd v Department of Trade [1979] 2 WLR 686*, [note – this case is not required to be quoted for the marks and *Prudential* is a more likely case to quote] and none of the specific exemptions apply, so Insurance Premium Tax ("IPT") will be payable. The **liability for this falls on White Goods and Beyond Ltd**. **[½]** There are two main rates of IPT, anything within Schedule 6A to Finance Act 1994 is **charged at the higher rate**. **[½]** The charge will **apply to the full premium as the contracts only cover risks in the UK. [½]**

The goods supplied by WGBL are electrical or mechanical appliances ordinarily used in or about the home. Therefore, they fall within the "**electrical or mechanical domestic appliances" provisions. [½]** As the insurance is not provided free of charge, and the insurer is the supplier of domestic appliances (WGBL) the **premiums are taxable at the higher rate of 20%. [½]**

Tutorial Note:

The examiner recognised that without a breakdown in marks for the VAT and IPT elements, students could have spent more time on IPT, including admin etc. They confirmed that the marking scheme was flexible.

MARKING GUIDE

TOPIC	MARKS
VAT	
Identify white goods standard rated and insurance exempt. So partial exemption	1
Relevant authority for principle of 'direct and immediate link'	1
Allocate different costs as taxable, exempt, and residual	2
Determine/calculate that using standard method	2
Test for override	2
Identify areas where attribution might be different to use, and why	3
Calculate difference (using any reasonable proportion for website costs)	2
Advise that no override required, suggest write to HMRC explaining this	2
Suggest using special method going forward, suggestion of basis for this	2
IPT	
Identify IPT payable on insurance premiums – with reference to conditions	2
Higher rate conditions – and they are met here so 20%	1
TOTAL	**20**

Examiner's report:
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This question concerned partial exemption, the standard method, the override and consideration of whether a special method would be more appropriate, and a few points on IPT.

Generally, the IPT part was done well. As for the VAT part of the question, this was much more mixed, and, overall, the scores were fairly low. A number of candidates gave a lot of detail and consideration as to whether there were single or multiple supplies here, but the question was quite clear they were distinct supplies, so no additional credit was given for this. In relation to the allocation of costs as taxable, exempt and residual, and the following calculation, many candidates mixed methods based on value and use rather than setting out both and comparing them. Overall, there was a lack of sufficient detail from the majority of candidates for a 20 mark question.

21. ANYCOVER INSURANCE INC

Tutorial Note:

Public Notice IPT1 is in the Orange Part 2 digital legislation and is very useful when answering questions on IPT. Make sure you have read it and highlighted/tagged useful parts and that you know how to easily navigate around it so that you do not waste time in the exam trying to search for what you need.

The question specifically told you not to cover VAT. Despite these types of statements, the examiners still see answers that ignore the instruction and continue to write about VAT. You will not get any marks for talking about a tax that you were told not to cover.

General **[1 for sensible discussion]**

IPT applies to **general insurance of risks located in the UK. Policies relating to risks located outside the UK are exempt. [½]** Long term insurance (eg life insurance) is exempted from IPT – so if Anycover Life expands its operations to include the UK, it is likely that its products will be exempt from IPT. **If Anycover Life only sells exempt insurance contracts, then it will have no liability to notify or indeed register for IPT. [½]**

Rates of IPT

Most taxable polices are **subject to IPT at 12% [½]** but a **20% rate applies to most travel insurance (see below) and, among other things, to mechanical breakdown insurance (MBI) sold through car dealers. [½]**

Travel Insurance

Where the individual is the insured

The fact that travel insurance covers risks associated with travel outside the UK does not mean that the risk is outside the UK: the **place of residence of the insured determines the place of the risk for such policies. [1]**

A **short-term policy (one of up to four months duration) is treated as covering a UK risk if it is taken out by phone, internet or post by a person in the UK. [1]**

Where a longer-term policy (eg an annual policy covering travel risks over a full year) is written for an overseas resident person visiting the UK, the **place of the risk is where the traveller is ordinarily resident (ie his home country) and the policy premium will not be subject to IPT [1]** even though insured events may happen in the UK.

A **traveller who gives a UK address when taking out a policy will normally be treated as resident in the UK when he takes out a new policy, even if his habitual place of abode is overseas. [1]**

Where a business is the insured

Travel policies covering a UK employer against expenses incurred by employees travelling on business (where the employee cannot claim directly on the policy) are considered to be a **form of employer liability cover and unlike "personal" travel insurance, such policies are chargeable with IPT at the standard (12%) rate [½]** of IPT. Such policies written for an **employer established overseas would be exempt from UK IPT. [½]**

MBI

MBI taken out to cover the costs of car breakdowns when a UK registered vehicle is taken abroad is considered to be vehicle cover, rather than travel insurance and Anycover's policies would be generally subject to 12% IPT. If **Anycover's policies were sold by or arranged through a motor dealer, however, they would be subject to the 20% rate of IPT. [1]**

If, in addition to the breakdown cover, the policies cover travel risks (eg loss of luggage), it will be necessary to **apportion the premium between the standard and higher rated elements. [½]** The apportionment must produce a **fair and reasonable [½]** result - and HMRC might challenge it if it considers that it does not.

If **Anycover's MBI is sold through brokers or agents affiliated with motor traders any policy that relates to a vehicle sold by the affiliated dealer, should be treated as higher rated. [½]** However, HMRC accept that if the "connected" transactions are not distinguishable from others that are not related to vehicles sold by the affiliated dealer, and the **insurance is not provided as part of a systematic scheme to sell insurance to customers of a connected supplier of relevant goods or services, the premium will not be subject to the higher rate. [½]**

"Premium" for IPT purposes

The premium on which IPT is due **includes "commission" paid to brokers**. **[1]**

Where Anycover collects payment of a premium by instalments, **the service charge paid by policyholders should be included in the premium on which IPT is due. [1]**

If Anycover provides what is, in effect, a loan to pay the premium, under a separate contract governed by the Consumer Credit Act, the **interest charges will not be subject to IPT. [½]** However, if Anycover simply **charges an increased premium split into monthly instalments, the whole payment (including any uplift to reflect delayed receipt of the premium) will be subject to IPT. [½]**

Occasionally, the "premium" can include fees charged by a broker to the insured. **If Anycover writes a "standard rated" MBI policy for an individual, and that individual also pays a fee to a broker as a condition of entering into the insurance contract, the broker should include its fee in the "premium" notified to Anycover for IPT purposes**. **[1]** If, for example, a broker requires a customer to pay a fee of, say, £10 in connection with a standard MBI policy available for a standard premium of, say £200, the broker should inform Anycover that the "premium for IPT purposes is £210". The brokers do not have a liability to register and account for IPT on the commissions they receive.

Brokers that arrange travel insurance which is taxable at the higher rate will be required to register as Taxable Intermediaries and account for IPT on any fee separately charged to the policy holders. **[1]** So, if the arrangements change then the brokers will have to register and account for higher rate IPT on their fees.

Under the current situation Anycover pays the commission back to the brokers and the commission is not separately disclosed to the policyholder. In this case, **Anycover will account for IPT on the full premium before the commission is deducted and the brokers will not have to register and account for IPT on the fees they receive. [1]**

Tutorial Note:

Other points to gain credit: **[max 2 - 1 each point explained]**

- Notification of registration will be required now as the company intends to receive taxable insurance premiums
- A tax rep can be appointed
- There are penalties for late notification
- Returns will need to be made quarterly online, the 'tax point' will need establishing (cash receipt/written premium method)
- Dealers that disclose a commission to the insured for MBI that is liable to the higher rate will be required to register as taxable intermediaries and account for HR IPT on their fee

CIOT MARKING GUIDE

TOPIC	MARKS
General description of IPT and coverage	1
Rates of IPT and application of standard and higher rates	1
Travel Insurance	
Higher rating	1
Place of Risk	1
Treatment of short-term policies	1
Treatment of long term/annual policies	1
Renewals while overseas policyholder is in UK	1
Treatment of "employer" policies	1
Breakdown Insurance	
Impact of involvement of motor dealers in sales of "travel type" breakdown insurance	1
Apportionment of premium if cover provided for "travel type" risks	1
Mechanical breakdown cover sold through affiliated brokers or agents	1
Premium for IPT Purposes	1
Includes commission paid to brokers	1
Commissions separately charged on travel insurance = broker register and account for HR IPT	1
Also includes administration charges and premium uplifts for payment by instalments unless the arrangement involves a loan - when interest is not subject to IPT	1
Can include amounts charged under linked contracts	1
Other valid points: registration, penalties, tax reps, accounting, tax points	2 max
TOTAL (MAX)	**15**

Examiner's report:
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Most candidates tackled this question and scored reasonably well on it. A few candidates missed pretty simple points and lost marks accordingly and one wrote about VAT instead of IPT.

22. DAVID JAMES (NOV 2014)

IPT on extended warranties

The provision of a standard/ordinary warranty on domestic appliances at no additional cost to the consumer is not an insurance contract (having regard to the characteristics of a contract of insurance set out in *Prudential Insurance Company v IRC (1904) 2 KB 658)* and is not subject to a charge to IPT.

The payment of an additional fee for an extended warranty does, however, come within the scope of IPT as the extended warranty shares the characteristics of an insurance contract; namely, the insured is covered against the risk of breakdown etc. and it is provided under a contract separate from the purchase of the appliance.

A premium for an insurance contract relating to a domestic appliance is subject to the higher rate of IPT if the contract is arranged through, or supplied by:

1) the supplier of the appliance; or

2) a person connected to the supplier of the appliance; or

3) a person who pays either the premium, or any part of it, or a fee for arranging the insurance to a person described in 1) or 2) above.

Broadly a domestic appliance is one ordinarily used in or about the home, or which is ordinarily owned by private individuals and used by them for the purposes of leisure, amusement or entertainment.

As the electronics retail company is supplying domestic appliances and arranging for extended cover against breakdown, the premium payable by its customers is subject to IPT at the higher rate which must be accounted for by the insurer.

In addition, since the retail company receives a fee for arranging the cover, it is a “taxable intermediary”, with the fee similarly chargeable to IPT at the higher rate. The fee received is treated as a premium receivable under a taxable insurance contract, with the responsibility for accounting for IPT on the arrangement fee received shifted to the retail company, giving rise to an obligation to register for IPT.

The retail company will not be exempt from registration. Where an insurance contract covers both exempt and non-exempt elements, then where the premium does not exceed £500,000 and no more than 10% of it is attributable to the taxable element, the whole contract may be treated as exempt. Where an insurer supplies only exempt contracts of insurance, it may apply to HMRC to be exempted from registration. In this case, given that no part of the contract is exempt from IPT, this measure does not apply.

Registration

Given the above analysis, as a taxable intermediary, the retail company should have notified HMRC of its liability to register for IPT within 30 days of the date on which it determined to charge the taxable arrangement fee – on the face of it 31 March 2026 at the latest.

Registration should be applied for as soon as possible. David will need to calculate the IPT owing and pay that too.

Penalties

The penalty regime is based on firstly, the behaviour of the taxpayer and secondly, the 'potential lost revenue' (PLR).

Here the PLR will be IPT chargeable from the date that the company began to receive taxable arrangement fees (1 March it seems) to the date that HMRC became aware of the liability to register.

The penalty payable is:

- for a deliberate and concealed act or failure to notify, 100% of PLR;
- for a deliberate but not concealed act or failure, 70% of the PLR;
- in any other case, 30% of the PLR.

Here late registration cannot be construed as deliberate - accordingly the maximum penalty will be 30% of the PLR.

Where HMRC become aware of the company's failure to notify within 12 months of the notifiable date, in the case of unprompted disclosure, the penalty may be reduced to nil. Where disclosure is prompted, the penalty may be reduced to 10%. The reduction allowed by HMRC will be assessed by reference to the timing, nature and extent of disclosure. A disclosure is unprompted if it is made at a time when the taxpayer has no reason to believe that HMRC has discovered (or about to discover) the failure to notify; otherwise, it is prompted.

In the circumstances here, the company could mitigate the potential penalty by notifying HMRC as soon as possible of its failure, the reasons for it and supply details of the tax due.

Appeal

If HMRC backdates the registration and issues an assessment for under-declared IPT but David disputes its basis and/or quantum, then the company can appeal. This must be done within 30 days of the date of disputed decision, whereby the company may either accept HMRC's offer for the decision to be reviewed by another officer or appeal to an independent Tax Tribunal. On the face of it, there is no reason why the company should be excused for the delay in notifying HMRC of its liability to register given that ignorance of the law is not excused.

Should the company ask for the decision to be reviewed, David should set out the reasons why the company disagrees with the assessment and supply any further relevant information which should be considered. The reviewing officer is required to notify his/her decision within 45 days (this deadline is invariably extended in practice).

If the company is still dissatisfied, within 30 days of the date of the reviewing officer's decision, it may appeal to a Tax Tribunal.

Tutorial Note:

The examiner commented that there was flexibility in the marking scheme. The above is an indication of the points that a student might make.

CIOT MARKING GUIDE

TOPIC	MARKS
IPT on extended warranties:	
Commentary on standard/ordinary warranties - not subject to IPT (see Prudential Insurance Company v IRC) and extended warranties	2
Domestic appliances - meaning and scope of IPT on extended warranties	2
Liability to account for IPT	1
Taxable intermediary	1
Exemption from registration	1
Registration - due date for notification	1
Penalty regime:	
Scope of regime	1
Computation of penalty	1
Mitigation of penalty	1
Conclusions/advice offered, including reference to exposure to interest on late Payment	1
Appeal/reconsideration	
Right to review – process	1
Right of appeal	1
Conclusions/advice offered, including observations on the defence of reasonable Excuse	1
(Up to 1 bonus mark may be awarded to candidates who identify opportunities for the company to avoid continued registration, for example, by consolidating the fee into the premium, with the insurer accounting for IPT due)	
TOTAL	**15**

Examiner's report:
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Candidates performed well on this question. Many candidates did not cover the company's entitlement to an independent officer's review and/or to appeal against an assessment. Some candidates wasted valuable time analysing whether there was a separate contract of insurance between the company and customers (the absence of relevant information in the question should have alerted them to the fact that this was irrelevant), when it was readily apparent that the payment was chargeable to the higher rate. Given that this was an “advisory”* paper, despite that the question did not require it, nevertheless it was very pleasing that some candidates took the opportunity to alert the company to options open to de-register from IPT, with the insurer assuming the obligation to account for the tax due on the premium, inclusive of an introductory fee payable to the company.

*Although the paper is now called ‘Advanced Technical’, it still involves providing advice on tax issues.

23. WARREN POINT INSURANCE LTD (MAY 2015)

Meaning of premium and calculation of IPT

IPT is calculated by reference to the chargeable amount of premium. This is specified by law as being inclusive of the IPT chargeable.

Further to the above, a premium is defined as any amount received under the contract for insurance including any payment referable to any the following:

- The risk insured;
- Costs of administration;
- Commission;
- Instalment or deferred payment facilities;
- Insurance premium tax.

Therefore, Warren's system will need to be configured to include all of the above. Where the contract relates only to a risk located outside the UK, the insurance contract will be exempt from IPT. The determining factor for identifying the location of risk for motor vehicles is the location where the car is registered. Therefore, as the Isle of Man is outside the UK for IPT purposes, any insurance contracts relating to cars registered in the Isle of Man will be exempt from IPT.

New products

Motor insurance provided under a hire contract under the Motability scheme for disabled individuals receiving personal independence payments are exempt from IPT.

Tutorial Note:

Credit will be given for also stating the following:

If the conditions of the exemption are not met, for example, the individual uses the payment to buy their own car then the contract will be taxable. The standard rate would likely apply for most types of motor insurance supplied (provided that Warren supplies the insurance direct to individuals and not via a motor car dealer).

The new products relating to Carp's Cars Ltd are less straightforward. The higher rate of IPT applies to MBI contracts when sold by a motor dealer or when a payment is made out of the insurance premium to a motor dealer. Therefore, if Warren pays a commission to Carp's Cars for distributing the product, the MBI will be subject to the higher rate of 20%.

This could however be a standard rate contract, if, for example, Lynton Sands arranges the contract (and not the motor car dealer) and there isn't a fee paid for each contract taken up, but a flat rate fee is paid to Carp's Cars regardless of the number of policies taken up.

The arrangements that Carp's Cars are suggesting in relation to the MBI product are also problematic. The effect of such a structure would be to reduce the IPT payable for the MBI product through specifying that part of the payment relates to VAT exempt insurance administration services and therefore do not constitute premium payable for the insurance product.

If the MBI is a higher rate contract, then if the £15 is disclosed to the customer, then Lynton Sands would become a taxable intermediary and would have to register as an insurer and account for IPT at the higher rate on the fee received. This would also be the case for any commission that Carp's Cars disclosed to the customer.

If the MBI is a standard rate contract (as discussed above) then the £15 fee (along with any commissions disclosed separately by Carp's Cars) would be included in the amount of the premium for Warren.

Such a structure under a standard rated contract will not be successful due to changes in the law (following the case of *Homeserve GB Ltd)* which requires that administration fees of this nature are treated as part of the value of the premium and subject to IPT where all of the following conditions are met:

- Both contracts are entered into by an individual in their personal capacity;
- The individual is required to enter into the administration agreement as a condition of the insurance agreement (or would be unlikely to do otherwise);
- The individual is not able to negotiate the terms of the services or the price; and
- The premium is a set amount, ie it is not calculated based on individuals' risk profiles.

The repair and maintenance contracts do not insure against a risk, so they are not subject to IPT, but will be subject to VAT at the standard rate.

Commissions paid to brokers

Any amount retained by a broker as their commission for selling a contract of insurance constitutes part of the premium for IPT purposes. Accordingly, Warren should have accounted for IPT on the entire price paid for the insurance by the policy holder and not just the net amount remitted by the broker. Therefore, IPT has been under-declared by this difference.

Warren should liaise with the broker in question to ensure that the right values are being reported as premiums.

Tutorial Note:

Credit would be given here if students suggest that the 'broker' might disclose a commission to the insured. In this case the taxable intermediary point above will apply if it is a higher rate contract and the Homeserve reversal discussion above will be relevant if it is a standard rate contract. Paragraphs 3.2.6–3.2.7 of the Public Notice, in the Orange Part 2 Handbook, deal with commissions received by intermediaries, in this situation.

Mid-term adjustments

As the change in the policy holder's details results in an adjustment to the premium due under the contract of insurance, additional IPT should be accounted for on any increase in the premium. As Warren accounts for IPT under the special accounting scheme, the additional IPT becomes payable based on the date that the additional premium is entered into its books as premium owed.

Based on the above, Warren will have under-declared IPT by reference to any mid-term adjustments resulting in an increase in premium.

Next steps

Warren has under-declared IPT in relation to mid-term increases in premium and on the value of premium where brokers have sold the policy for an amount in excess of the minimum premium set by Warren. Therefore, it will be necessary for Warren to correct these errors with HMRC.

Warren can either make a formal voluntary disclosure of the errors by writing to HMRC, or correct the errors on its next IPT return; however, this second option is only available when the net value of the errors does not exceed the higher of:

- £10,000; or
- 1% of the net taxable premiums (ie the Box 10 figure on the return) up to a maximum value of a £5,000,000 box 10 figure (ie errors to a maximum £50,000).

Warren could also be subject to interest and penalties. Any penalties will be based on the degree of culpability. Assuming that the error arose as a result of a gap in knowledge or processes, HMRC would treat this as a 'careless' error. This should be subject to a maximum penalty of 30% of the IPT due. It will be possible for HMRC to reduce this penalty based on Warren making an unprompted disclosure of the error.

Tutorial Note:

The question was vague as to how the arrangements with Carp's Cars were structured. The examiner gave credit for both alternative arguments that it could be a higher rate contract and therefore a 'taxable intermediary' was created, or that it was a standard rate contract and Homeserve was relevant. Students did not need to discuss both possibilities to gain all of the marks as per the marking scheme.

MARKING GUIDE

TOPIC	MARKS
Advise on the meaning of premium per s.72 of FA 1994 to include: – Risk – Costs of policy administration – Commissions – Facilities for paying by instalments – Tax – highlight that premium is IPT inclusive	1½
Confirm that insurance of risks outside the UK is exempt from UK IPT	½
Advise that location of risk for cars is established by reference to the place where the car is registered, and that insurance of cars registered in the Isle of Man will be exempt from UK IPT	1
Advise that insurance of cars for the use of individuals receiving personal independence payments could be exempt from IPT if hired through Motability	1
Explain the higher rate and how it applies to insurance sold by motor dealers or insurers who make a payment to a motor dealer out of premium and confirm that this could apply to Warren	1
If it is a standard rate contract explain the change to the law (following *Homeserve Membership Ltd* [2009] EWHC 1311 (Ch)). Advise that the arrangements proposed by Carp's Cars will not work. Alternative argument that if the MBI is a higher rate contract then the commission/admin fee will be caught under s.52A and the recipient will need to register as a taxable intermediary. In this case, Homeserve isn't relevant.	2
Explain that maintenance and repair contracts are not subject to IPT but are subject to VAT	1
Advise that the entire premium paid by the insured is subject to IPT and not just the premium remitted by the broker if the commission is not disclosed or it is a standard rate contract [Credit given for alternative answer that if it's a higher rate contract and the broker disclosed the commission to the insured then the broker would register and account for the IPT on the commission]	1½
Advise that increases in premium result in an increase in the IPT due to HMRC	1
Advise that under the special accounting scheme additional IPT will be due at the point at which Warren enters it into its accounts as payable	1
Advise that Warren needs to correct its errors with HMRC	1
Explain the options available to Warren ie voluntary disclosure or adjustment on a return if the value is beneath the thresholds (higher of £10,000 or 1% of Box 10, subject to a max £50,000)	1½
Explain the potential penalty implications and the impact of disclosure on the percentage penalty applicable	1
TOTAL	**15**

[Credit of ½ has been given to candidates that have explained the IPT fraction as the question does request an explanation of the calculation of IPT.]

Examiner's report:
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This question was answered well, with the majority of candidates achieving the pass mark. Many candidates demonstrated a good understanding of the scope of UK IPT and basis on which the location of risk was determined for cars. Candidates also dealt well with the treatment of adjustments and additional premiums, and provided relevant advice on the treatment of brokers' commissions and admin fees.

However, some candidates failed to secure some fairly straightforward marks due to a lack of focus on the question, and having spent a large amount of time writing general information about the UK IPT regime.

IPT ANSWERS

24. HOME REPAIRS LTD

£100 insurance policy sold to householders

- IPT is only due on risks in the UK. This includes the policies sold in GB, which includes the Scilly Isles, but not the ROI, the Isle of Man or the Channel Islands.
- Thus, 20,500 taxable policies have been sold. The rate of IPT due is 12%.
- Although the items insured are domestic appliances, none of the premium goes to the vendor of the appliances; Home Repairs Ltd is not connected to the vendor of the appliances and is not a supplier of domestic appliances.
- The amounts received are inclusive of IPT so the amount of IPT due is £219,643 (20,500 x 100 x 3/28).

Insurance policy sold to hotel group

- The consideration for the insurance for IPT purposes will include the interest fee that is charged (s.72(1) FA 1994). Thus, the premium will be £20,730.
- The premium needs to be apportioned between the hotels in the Republic of Ireland and the UK. S.69 Finance Act 1994 requires the apportionment to be fair and reasonable.
- It would be possible to apportion this between the number of hotels, 80/20 but as the cost of insurance in the Republic of Ireland is higher this needs to be taken into account and a weighting needs to be applied for the 10% higher cost.
- This means that the proportion of the fee relating to the UK is £16,259 (20,730 x 80/102).
- As the premium is a gross cost, the IPT due is £1,742 (3/28 x £16,259). (The rate is 12% as the same principle as detailed above for the individual householders applies here)

Free warranty on kettles for fee of £10,000 a year

- There is no IPT due on the free warranties or administration fee (not contracts of insurance).

Extended warranty on kettles

- The extended warranties sold by Black Pots Ltd will be subject to IPT at the higher rate.
- This is because the insurance is arranged through the vendor of the goods who receives a proportion of the income (para.3(2) Sch.6A FA 1994).
- The full £10 is subject to IPT as there is no deduction for any commissions retained. As the premium is a gross amount the amount of IPT due is £1,250 (7,500 x 1/6).

Sale of extended warranties by Home Repairs Ltd

- The higher rate does not apply to the sale of the extended warranties by Home Repairs Ltd.
- This is because the contract is not arranged through the vendor, Home Repairs Ltd is not connected to Black Pots Ltd and no fee is paid to Black Pots Ltd in connection with this contract.
- As the premium is a gross amount the amount of IPT due is £1,286 (10 x 1,200 x 3/28).
- HMRC may argue that the fee charged for administering the free warranties has been reduced to enable Home Repairs to get access to the database.
- This reduction could be argued as being consideration payable to Black Pots Ltd; a fee paid to Black Pots Ltd in connection with the contract.
- If that argument is successful, the higher rate is applicable on the extended warranties sold by Home Repairs Ltd (para.3(2)(c) Sch.6A FA 1994).

MARKING GUIDE

TOPIC	**MARKS**
General points	
– IPT only due on UK risks	½
– Definition of the UK	½
Policies sold to householders	
– Number of policies liable to IPT	½
– Rate of IPT – 12%	½
– Justification for standard rate	½
– Premiums IPT inclusive	½
– Calculation of IPT	½
Policy sold to hotel	
– Includes interest	½
– Calculation of premium	½
– Need to apportion premium for overseas risk	½
– Apportion fair and reasonable	½
– Apportionment for number of hotels and cost higher in Republic of Ireland	½
– Calculation of UK premium	½
– Calculation of IPT – 12% rate	½
Free warranties/admin fee	
– No IPT as not contracts of insurance	½
Extended warranties through Black Pots	
– Liable to IPT at higher rate	½
– Justification of higher rate	½
– No deduction for commission	½
– Calculation of IPT	½
Extended warranties sold by Home Repairs	
– Liable to IPT at standard rate	½
– Justification of standard rate	½
– Calculation of premium	½
– Calculation of IPT	½
Final points	
– Total IPT due	½
– HMRC arguments about administration fee being consideration and therefore higher rate applies	2
TOTAL (MAX)	**10**

25. MLU

IPT – arrangement and administration fee

Legislation was inserted into FA 1994 (which applies to premiums received on or after 24 March 2010) and whether these types of fees have to be included in the amount of the premium for IPT purposes. Prior to this date, the High Court case of *Homeserve* applied to determine the amount of the premium. As the policies have only been provided for the past five years, only the current position is relevant.

Current position

The premium does not include a commission or fee which is provided under a 'separate contract'. A sub-section was inserted into s.72 which clarifies the meaning of a 'separate contract.'

Where four conditions are satisfied, the contract is not treated as separate.

This is where:

1) An individual enters into the contract;

2) That individual is required to enter into the administration contract as a condition of entering into the insurance contract;

3) The amount charged to the individual for the administration fee is not open to negotiation by them; and

4) The amount charged to the individual under the insurance contract is arrived at without a comprehensive assessment having been undertaken of the individual's circumstances that might affect the level of risk

Thompson Limited and MLU should look at the conditions in the legislation and if each one is satisfied then MLU should have applied IPT on the £15 administration fee, as it is treated as part of the premium.

Note that HMRC can generally go back four years to collect underpayments of IPT (unless the loss of IPT was brought about deliberately, in which case there is a 20-year time limit). Therefore, assuming that if any underpayments have been made (and assuming they aren't deliberate), HMRC will only be able to collect the IPT on them for the last four years.

Boiler warranties

The higher rate of IPT will apply to an insurance premium relating to certain electrical domestic appliances if the contract is arranged through or supplied by, inter alia, a person who pays a portion of the premium to the supplier [Sch 6A FA 1994 para 3(2)(c)(i)]. This would seem to cover Thompson Ltd and they are registrable for IPT as a taxable intermediary under s.53AA FA 1994 with a requirement to account for the higher rate of IPT on the fee charged to the insured.

Late registration

A person who fails to notify HMRC that he is liable to be IPT-registered faces a penalty of a maximum 30% of the potential lost revenue (where the failure is due to a careless mistake).

Thompson Ltd could face this penalty unless they can demonstrate that there was a reasonable excuse for their failure to notify. This cannot include insufficiency of funds or reliance on another person (eg, accountant, advisor).

Insurer's position

MLU will need to account for the higher rate in respect of the whole premium (including the portion paid away to the boiler supplier) in the case of the extended warranties. In relation to the plumbing and heating cover, it can continue to account for IPT at the standard rate on the amount charged for the cover, including the administration fee charged by Thompson Limited, if the contract is not "separate" for IPT purposes.

Tutorial Note:

All relevant points would receive credit. For example, mentioning:

- that the location of the risk determines the liability to IPT and not the location of the insurer
- that the Belgian company could appoint a tax representative if it wished (although this is not obligatory)
- mentioning the Policy Administration Services case
- mentioning that penalties can apply to any incorrect returns and that prompt disclosure could reduce them

MARKING GUIDE

TOPIC	MARKS
Introduction	
Only providing policies for five years, so current position (from 24.3.10) is the only one relevant	1
Legislation defines whether the fee is included	1
Current position	
Relevant legislation and four conditions	2
Four-year look back	1
Boiler warranties	
Higher rate	1
Why higher rate applies	1
Taxable intermediary	1
Late registration	
Max 30% penalty	1
Insurer's position	
Conclusion	1
TOTAL	**10**

Examiner's report:
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Most candidates demonstrated awareness of the Homeserve decision* and were able to quote appropriately from the law as to the definition of "premium" - though a number got confused when describing the criteria for treating a fee as charged under a "separate" contract.

The majority of scripts picked up the application of the higher rate to the extended boiler warranties although again some explanations as to why this was so lacked clarity and a firm grasp of the legislation. Some candidates were unaware that appointment of a tax representative is now optional rather than obligatory. The best candidates demonstrated commercial awareness in their advice to colleagues as to the best course of action for the company going forward.

***Tutorial Note:**

When this question was set it covered the position both before and after 24.3.10, so a more detailed discussion of Homeserve was required at the time.

26. IPT ISSUES

1) IPT tax points

IPT should be accounted for based on the relevant tax point. The basic tax point is the receipt of the taxable premium by the insurer (s.49 and s.72(1) FA 1994). Receipt for this purpose may sometimes include the receipt by third parties of commissions and fees which are deemed part of the premium.

However, the law provides for a Special Accounting Scheme (also known as the "Written Premium Method") which allows an insurer to account for tax on the premiums by reference to the date the amounts are entered into his accounts as due even if this is later than the actual receipt or the due date. (S.68 FA 1994 and Regs 20 – 28 SI 1994/1774 give the details.)

In outline, the insurer must notify HMRC that he wishes the scheme to apply from a date which must be on or after the notification itself following which the insurer will be permitted to account for tax by reference to the date each premium is written into the accounts rather than when received.

Reg 24 SI 1994/1774 deals with excess amounts under the special accounting scheme. Where what is received exceeds what was written as due, this is treated as a separate premium amount (subject to possible market value direction rules). Where this excess is entered into the records as due, the date of such entry will be the tax point. Otherwise the excess shall be treated as received on the date as at which the original premium amount was entered in the records as due.

Tutorial Note:

If the assumption was made that 'overpayments' meant that the company had accounted for too much IPT and mentioned regulation 25 instead, equal credit would be given.

As regards bad debts, credit for IPT paid on premiums which were entered in the records but never received is possible to the extent the insurer can satisfy HMRC that the amount will never be received (s.55(2) FA 1994 and Reg 25(1) SI 1994/1774 refer).

2) Guarantee Premium

Company Z appears to be in a similar situation to that at issue in the tribunal case of *GPI v HMRC*. The guarantees themselves are not contracts of insurance and therefore there is no liability for the contractor to register and account for IPT on the receipt of them.

The amount charged under the guarantee premium could only be liable to IPT if it was a commission/admin charge that related to a taxable contract of insurance. If the amount that company Z is charging is a figure that they have fixed and is nothing to do with the insurance contract, that the insurer has no control over, then it will not be liable to IPT. The Insurer will only account for IPT on the amount due to them under the insurance contract itself.

3) Errors

The limits for voluntary disclosure are the greater of £10,000 and 1% of turnover - up to an overall maximum £50,000 (see Reg 13(3) SI 1994/1774). The "turnover" should be calculated by reference to the entry in box 10 on the IPT return (net value of taxable premiums (excluding tax)). Company B may be right, but it needs to be verified that turnover is high enough to allow them not to disclose separately.

Where an error falls below this threshold it may be corrected on the return without notifying HMRC. A careless error can be subject to a penalty of up to 30%, but this can be mitigated to zero if an unprompted disclosure is made. Correction of the error in accordance with the regulations does not protect against such a penalty if the original error was "careless": it is still necessary to disclose to ensure full mitigation.

4) Credit guarantees and Homeserve

Only insurance contracts are potentially subject to IPT (s.70 FA 1994). Case-law (*Prudential Insurance Company v Inland Revenue Commissioners (1904) 2 KB 658*) indicates that insurance contracts require three key elements:

i) A premium being paid;

ii) The insured being indemnified against loss from an uncertain event;

iii) The insured having an insurable interest – ie he would otherwise suffer the loss in question.

Credit guarantees may not fall within this definition, in which case they would not be subject to IPT. The Public Notice (IPT 1, paragraph 4.12) gives a number of possible indicators that a contract is an exempt credit guarantee agreement rather than an insurance contract, it is better to ask for some sample agreements to check and determine with the full facts.

On the question of administration agreements related to insurance agreements, HMRC changed the legal definition of premium (s.72 FA 1994) after losing the Homeserve High Court case, which had held that amounts charged for administration of a standard-rated insurance contract but under a "separate" contract notified in writing to the insured were not subject to IPT. Now such a contract would not be treated as "separate" where four conditions are met (s.72 (1AA-1AE) FA 1994):

i) The insured is an individual entering into the contract in a non-business capacity;

ii) The insured is unable or unlikely to enter into the contract without also entering into the insurance contract;

iii) Neither the price nor the terms of the contract are open to negotiation by the insured; and

iv) The amount charged to the insured is arrived at without a comprehensive assessment of the individual circumstances which might affect the level of risk.

If the administration agreements meet the conditions above then company K should be accounting for IPT on the amounts charged the third party – and care will need to be taken to ensure the relevant amounts are notified to company K with sufficient notice for them to be included in the correct IPT return period.

5) Criminal Penalties

HMRC would consider civil penalties in the first instance. However, if they believe the behaviour is serious enough to merit criminal prosecution, possible offences would include fraudulent evasion or the furnishing of a false document (ie the IPT return in question). Paras 9 and 10 Sch 7 FA 1994 give further details and confirm that, on summary conviction (Magistrate's Court), the penalty could be a fine of the higher of up to three times the amount of tax or £20,000 and/or imprisonment for up to six months. A Crown Court could impose an unlimited fine and/or a prison sentence of up to fourteen years.

Examiner's report:
[Being reproduced with the permission of The Chartered Institute of Taxation]

Some candidates still persist in setting out everything they know about the tax instead of tailoring responses to address the question. While relevant correct points receive credit, it does not assist the examiner if he needs to hunt for these points and the student is wasting time which could be spent earning marks elsewhere.

The examiner was surprised at how few candidates answered comprehensively and coherently on the Homeserve point given the case's topicality.*

The best scripts picked up the Prudential case point and realised that there might not be a definitive answer without further information – as is often the case in practice.

Only the weakest candidates failed to get full marks on the criminal penalties section – although some persisted in setting out the new civil penalty regime when this had specifically not been requested.

***Tutorial Note:**

This question was set when Homeserve was topical. The answer today would focus on the legislative change, as detailed above.

27. COVERSURE INC

Liability to Register for UK IPT

Coversure Inc will become liable to register for UK IPT if it intends to make supplies of taxable insurance contracts, where the risk is located in the UK.

The sales of travel insurance, which it intends to make, are taxable insurance contracts. The risk is located in the UK where the travel insurance falls under one of the following categories:

1) The contract covers travel and has a maximum duration of four-months and is 'taken out' (or 'entered into') in the UK. 'Taken out' means that the person taking out the insurance was in the UK when it was booked. For bookings via the internet, this means if the person books it from the UK.

2) For travel contracts exceeding four months, if the person who took it out is 'habitually resident' in the UK when they took it out. 'Habitually resident' means having been resident for (generally) a one-year continuous period.

Therefore, as Coversure is intending to sell to UK individuals it is likely to be liable to UK IPT and will need to become registered.

Travel insurance is liable to the higher rate of IPT, which is currently 20%.

Registration for IPT

Coversure must register for IPT within 30 days of having formed the intention to receive taxable premiums. This is done through completion of form IPT1 and can be done online. There is no threshold before registration applies. The date Coversure receives its first premium will be the effective date of registration.

Even though Coversure does not have a place of business in the UK it will still be responsible for submitting IPT returns. If it wishes, it could appoint a tax representative to do this. However, Coversure is still liable for the IPT due. Therefore, ultimately HMRC will pursue Coversure for any underpayments.

Accounting for IPT

Coversure will be required to submit quarterly IPT returns. This is done online. The return and payment are due by the end of the month following the quarter. If it pays by electronic means, then a 7-day extension to the above deadline for the payment only, is given.

IPT must be accounted for based on the tax point. The tax point is generally the day a premium is received. As an alternative a company can use the date the premium is due to it or entered in its records. A company must notify HMRC if it wishes to use this method. The premium is the amount charged to the insured and is deemed IPT inclusive. Therefore, Coversure will be required to account to HMRC for $^1/_6$ of each taxable premium.

Records relating to insurance contracts must be kept for six years.

MARKING GUIDE

TOPIC	MARKS
Liability to register	
– Intention to make taxable supplies	½
– Risk in the UK	1
– Travel insurance is taxable	½
– Max 4 months = 'taken out' rule (or 'entered into')	1
– Definition of 'taken out' (or 'entered into')	1
– More than 4 months – 'habitually resident' rule	1
– Need to become registered	½
– Rate of IPT on travel insurance (HR)	½
	6
Registration for IPT	
– Deadline and form	1
– Threshold and effective date of reg'n	1
– Overseas issues	2
• Registration	
• Tax representative	
• Liability of insurer	
	4
Accounting for IPT	
– Quarterly online returns	½
– Deadline for payment	1
– Tax point	2½
• Receipt	
• Due/entered in accounts	
• Tax inclusive	
– Records	1
	5
TOTAL	**15**