Tolley® Exam Training

CTA

AWARENESS PAPER

MODULE A – VAT AND STAMP TAXES

PRE REVISION QUESTION BANK

FA 2019

May and November 2020 Sittings

PQ727A
CTA

Tax intelligence from LexisNexis®

INTRODUCTION

This Pre Revision Question Bank for Module A of the Awareness paper contains 2 exam standard 12 question tests with answers updated to Finance Act 2019.

This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams. We recommend that you use these tests to consolidate your knowledge after you have worked though all of the study packs for your three chosen Modules. They will be a useful part of your preparation for the pre revision mock examination.

In the real exam each Module will have 12 questions and each question carries 5 marks. You must answer all the questions from the three Modules you are sitting.

Your final score out of 180 is turned into a percentage – the pass mark is 50% overall, but with a **minimum mark for each Module** set at 21 marks out of the 60 marks available ie 35%. Even if a pass mark in excess of 50% overall has been achieved, if the minimum mark of 35% has not been achieved in all three modules then the entire Awareness paper would need to be re-sat.

We recommend that you attempt each test in this bank as if you were in the real exam, ideally doing "Test 1" for this Module along with both the "Test 1" questions from the pre revision question banks for your other two Modules, allowing yourself 3 hours to answer all three Modules.

You should answer questions in brief bullet points and/or summary computations where appropriate. There are no presentation marks in this paper but bear in mind that the marker must be able to read and follow your answer.

You should make all calculations to the nearest month and pound unless stated otherwise.

You may use a calculator and the CTA Tax Tables.

You should try to avoid just reading the answers to questions - it is all too easy to nod as you read our answer saying "yes I know those points" - the test is would you have actually put those points in your answer? You won't find this out unless you write the answers out yourself.

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INCOME TAX - RATES AND THRESHOLDS

	2019/20	2018/19
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	7.5	7.5
Dividend upper rate	32.5	32.5
Dividend additional rate and trust rate for dividends	38.1	38.1
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,500	1 – 34,500
Higher rate band	37,501 – 150,000	34,501– 150,000
Dividend allowance	2,000	2,000
Personal 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
Standard rate band for trusts	1,000	1,000
Scottish Tax Rates[(1)]	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	41	41
Top rate	46	46
Scottish Tax Thresholds[(1)]	£	£
Starter rate	1 – 2,049	1 – 2,000
Scottish basic rate	2,050 – 12,444	2,001 – 12,150
Intermediate rate	12,445 – 30,930	12,151 – 31,580
Higher rate	30,931 – 150,000	31,581 – 150,000
Top rate	150,000 +	150,000 +

INCOME TAX - RELIEFS

	2019/20	2018/19
	£	£
Personal allowance[(2)]	12,500	11,850
Married couple's allowance[(3)]	8,915	8,695
- Maximum income before abatement of relief - £1 for £2	29,600	28,900
- Minimum allowance	3,450	3,360
Transferable Tax allowance for married couples and civil partners[(4)]	1,250	1,190
Blind person's allowance	2,450	2,390
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	100,000	100,000
Social investment relief	1,000,000	1,000,000

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) From 6.4.18, the limit is £2 million, where over £1 million is invested in knowledge intensive companies.

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ISA limits	**2019/20**	**2018/19**
Maximum subscription:	£	£
'Adult' ISAs	20,000	20,000
Junior ISAs	4,368	4,260

Pension contributions

	Annual allowance[(1)]	**Lifetime allowance**	**Minimum pension age**
	£	£	
2018/19	40,000	1,030,000	55
2019/20	40,000	1,055,000	55

Basic amount qualifying for tax relief £3,600

Notes (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £150,000 for individuals with threshold income above £110,000. It cannot be reduced below £10,000.

Employer Supported Childcare

Exemption – basic rate taxpayer[(1)]	£55 per week	£55 per week

Notes (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

ITEPA mileage rates

Car or van[(1)]	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Notes (1) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - CHARGES

Child benefit charge	**Withdrawal rate**
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

INCOME TAX - BENEFITS

Car benefits

Emissions	**2019/20[(1)]**	**2018/19[(1)]**
0 – 50 g/km	16%	13%
51 – 75 g/km	19%	16%
76 – 94 g/km	22%	19%
95 g/km or more	23% + 1% for every additional whole 5g/km above threshold	20% + 1% for every additional whole 5g/km above threshold
165 g/km or more	37%	
180g/km or more		37%

Fuel benefit base figure	**2019/20**	**2018/19**
	£24,100	£23,400

Notes (1) 4% supplement for diesel cars excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard.

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Van benefits	**2019/20**	**2018/19**
	£	£
No CO_2 emissions	2,058	1,340
CO_2 emissions > 0g/km	3,430	3,350
Fuel benefit for vans	655	633

	2019/20	**2018/19**
Official rate of interest	2.5%	2.5%

INCOME TAX - SIMPLIFICATION MEASURES

Allowances

	2019/20	**2018/19**
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses	First 10,000 business miles		45p per mile
	Additional business miles		25p 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

Cash Basis for Unincorporated Businesses	£
Turnover threshold to join scheme	150,000
Turnover threshold to leave scheme	300,000

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)(4)	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) (5)	2%

Notes (1) On first £1,000,000 of investment in plant & machinery (not cars) from 1 January 2019 to 31 December 2020 (£200,000 before 31 December 2018 & from 1 January 2021).

(2) The main pool rate applies to cars with CO_2 emissions of not more than 110 g/km (130 g/km for expenditure incurred before 1 April 2018).

(3) The special pool rate applies to cars with CO_2 emissions greater than 110 g/km (130 g/km for expenditure incurred before 1 April 2018).

(4) The special pool rate was 8% prior to 6 April 2019 (1 April 2019 for companies).

(5) The 2% rate applies to expenditure from 29 October 2018 on new qualifying non-residential structures and buildings on a straight-line basis.

100% First year allowances available to all businesses

1) New energy saving plant and machinery, and water efficient plant and machinery (until April 2020).
2) Capital expenditure incurred by a person on research and development.
3) New zero-emission goods vehicles (until April 2021).
4) New cars registered before 31 March 2021 if the car either emits not more than 50 g/km of CO_2 (75g/km before 1 April 2018) or it is electrically propelled.
5) Electric vehicle charging points expenditure incurred from 23 November 2016 until April 2023.

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	**2019/20**			**2018/19**		
	Annual	**Monthly**	**Weekly**	**Annual**	**Monthly**	**Weekly**
	£	£	£	£	£	£
Lower earnings limit (LEL)	6,136	512	118	6,032	503	116
Primary threshold (PT)/ Secondary threshold (ST)	8,632	719	166	8,424	702	162
Upper earnings limit (UEL)/ Upper secondary threshold for under 21 (UST)(1)/ Apprentice upper secondary threshold for under 25 (AUST)(2)	50,000	4,167	962	46,350	3,863	892

	2019/20	2018/19
Class 1 primary contribution rates		
Earnings between PT and UEL	12%	12%
Earnings above UEL	2%	2%
Class 1 secondary contribution rates		
Earnings above ST (1)(2)	13.8%	13.8%

Notes (1) Rate of secondary NICs for employees < age 21 on earnings between ST&UST is 0%.
(2) Rate of secondary NICs for apprentices < age 25 on earnings between ST&AUST is 0%.

	2019/20	**2018/19**
Employment allowance		
Per year, per employer	£3,000	£3,000
Class 1A contributions	13.8%	13.8%
Class 1B contributions	13.8%	13.8%
Class 2 contributions		
Normal rate	£3.00 pw	£2.95 pw
Small profits threshold	£6,365 pa	£6,205 pa
Class 3 contributions	£15.00 pw	£14.65 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£8,632	£8,424
Annual upper profits limit (UPL)	£50,000	£46,350
Percentage rate between LPL and UPL	9%	9%
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 £148.68 and 90% of AWE

Statutory shared parental pay /paternity pay — For each qualifying week, the lower of 90% of AWE and £148.68

Student Loan — Plan 1: 9% of earnings exceeding £1,577 per month
Plan 2: 9% of earnings exceeding £2,143 per month

Postgraduate Loan — 6% of earnings exceeding £1,750 per month

National living/minimum wage (April 2019 onwards)

Category of Worker	**Rate per hour**	**Category of Worker**	**Rate per hour**
Workers aged 25 and over	£8.21	18–20 year olds	£6.15
21–24 year olds	£7.70	16–17 year olds	£4.35
		Apprentices	£3.90

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CAPITAL GAINS TAX

	2019/20	2018/19
Annual exempt amount for individuals	£12,000	£11,700

CGT rates for individuals, trusts and estates

Gains qualifying for entrepreneurs' relief/investors' relief	10%	10%
Gains for individuals falling within remaining basic rate band(1)	10%	10%
Gains for individuals exceeding basic rate band and gains for trusts and estates(2)	20%	20%

Notes (1) The rate is 18% if the gain is in respect of a residential property
(2) The rate is 28% if the gain is in respect of a residential property

Entrepreneurs' relief and Investors' relief(1)	**2019/20**	**2018/19**
Relevant gains (lifetime maximum)	£10 million	£10 million

Notes (1) The first claims for investors' relief can be made in 2019/20.

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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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		

CORPORATION TAX

Financial year	**2019**	**2018**	**2017**
Main rate	19%	19%	19%

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.

VALUE ADDED TAX

	Standard rate	**VAT fraction**
From 4.1.11	20%	1/6

Limits	**From 1.4.19**	**From 1.4.18**
Annual registration limit	£85,000	£85,000
De-registration limit	£83,000	£83,000

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

OTHER INDIRECT TAXES

	2019/20	**2018/19**
Insurance premium tax[(1)]		
Standard rate	12%	12%
Higher rate	20%	20%

Tobacco products duty	**From 29.10.18**	**Until 28.10.18**
Cigarettes	16.5% x retail price + £228.29 (or £293.95 [(2)]) per thousand cigarettes	16.5% x retail price + £217.23 (or £280.15 [(2)]) per thousand cigarettes
Cigars	£284.76 per kg	£270.96 per kg
Hand-rolling tobacco	£234.65 per kg	£221.18 per kg
Other smoking/chewing tobacco	£125.20 per kg	£119.13 per kg
Tobacco for heating from 1 July 2019	£234.65 per kg	N/A

Notes (1) Premium is tax inclusive (3/28 for 12% rate and 1/6 for 20% rate).
(2) The £293.95/£280.15 per thousand cigarettes is a minimum excise duty (if higher than the first calculation).

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INHERITANCE TAX

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

Notes (1) 36% rate applies where 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 2021	£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 2021	£175,000

Notes (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

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	**From 1.4.19**	**From 1.4.18**
>£0.5m - ≤ 1m	£3,650	£3,600
> £1m - ≤ 2m	£7,400	£7,250
> £2m – ≤ 5m	£24,800	£24,250
> £5m – ≤ 10m	£57,900	£56,550
> £10m – ≤ 20m	£116,100	£113,400
> £20m	£232,350	£226,950

STAMP DUTY/SDRT

Stamp duty[1]	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax[1]	- On agreements to transfer shares[2]	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes (1) Does not apply to UK securities traded on a recognised growth market (eg AIM).
(2) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

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STAMP DUTY LAND TAX

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

Basic Rate %(1)(2)(3)	Higher Rate %(1)(2)	Residential(1)(2)(3)	Non-Residential
0	3	£0 - £125,000	£0 - £150,000
2	5	£125,001 - £250,000	£150,001 - £250,000
5	8	£250,001 - £925,000	£250,001 +
10	13	£925,001 - £1,500,000	N/A
12	15	£1,500,001 +	N/A

Notes (1) The basic rates are increased by 3% where the purchase is of an additional residential property for individuals (see column 2 for the rates that apply). Companies and trusts pay the additional 3% on all purchases of residential properties, subject to note 2 below.

(2) Companies pay 15% on purchases of residential property valued > £500,000.

(3) First-time buyers purchasing a single dwelling as their only or main residence on or after 22.11.17 may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will not be due on properties up to £300,000. For homes up to £500,000, SDLT will be payable on £200,000 at 5%. Homes bought for more than £500,000 will incur the rates as per column 1 of the table above.

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

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

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

Basic Rate %(1)(2)(3)	Residential	Rate %(1)(4)	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 (1) 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.

(2) An additional amount of tax equal to 4% (for effective dates on or after 25 January 2019) of the relevant consideration applies broadly to purchases of an additional dwelling by individuals and trusts (over which the beneficiary has substantial rights) and to purchases of a dwelling by certain businesses, companies and other trusts. Where the effective date is on or after 25 January 2019 but the contract was entered into prior to 12 December 2018, the 3% (prior) rate will apply.

(3) For contracts entered into after 8 February 2018, where the effective date of the transaction is on or after 30 June 2018, there is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

(4) These rates apply where the effective date is on or after 25 January 2019. Prior to this date the 0% band was the same, £150,001-£350,000 was 3%, £350,001+ was 4.5%.

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

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

Note (1) Residential leases are generally exempt

MODULE A – TEST 1

1. Until recently CentralP Ltd, which has an annual turnover of £800,000, had submitted VAT returns and made payments on time. However, recently VAT has been dealt with as follows:

Quarter to	VAT due £	Date return filed	Date VAT paid
30 June 2019	10,000	20 August 2019	22 August 2019
30 September 2019	11,000	13 November 2019	13 November 2019
31 December 2019	10,500	15 February 2020	18 February 2020
31 March 2020	13,000	See below	29 April 2020

The accountant has not yet filed the return for the quarter to 31 March 2020. He expects to do so on 15 May 2020.

You are required to:

1) Calculate, with brief explanations, the default surcharges arising on the returns to 31 December 2019.

2) Explain any implications arising from the filing of the 31 March 2020 return.

2. Your firm has a new client, Ciego, a charity recently set up to provide counselling and other assistance to blind and partially-sighted people. The charity has not yet applied for VAT registration.

The charity will raise the vast majority of its funds by selling donated goods in a shop.

In addition, an investment property has been bequeathed to the charity, which it is now going to sell. The charity will incur legal fees on the sale of the property.

Some of the funds raised will be used to purchase talking books and wireless sets.

You are required to explain briefly the potential VAT implications of:

1) The activity of the shop run by the charity.

2) The funds raised on the sale of the property, and the legal fees incurred.

3) The purchase of the talking books/ wireless sets.

3. Joey has been trading since 1 April 2019. The details of his supplies since commencement are as follows:

	Standard rated	Zero rated	Exempt
	£	£	£
Nine-month period to 31 December 2019	52,000	15,000	10,000
2020			
January	8,000	2,000	1,500
February	28,000	2,000	1,500

Joey won a very large contract in January 2020 which resulted in a high level of standard rated supplies in February that year (earned evenly over the month and reflected in the figures above). He has been so busy with the new contract that he has forgotten to apply for VAT registration.

You are required to:

1) **Explain the date by which Joey should have notified HMRC of his liability to register for VAT. In your explanation clearly identify which supplies should be taken into account in considering his liability to notify.**

2) **Identify the date from which he should charge VAT on his taxable supplies.**

4. Ross has been trading as a solicitor for several years. During the VAT year ended 31 March he made gifts to each of his clients as follows:

	Cost per client
	£
December:	
Personalised paperweight	25
March:	
Personalised desk set to celebrate the five-year anniversary of the business	30

In addition, the business will start paying for some or all of the fuel for an employee's car provided by the business, but Ross is not sure how to treat the fuel for VAT purposes.

Briefly explain the VAT treatment of the gifts to clients, and the options available to Ross in relation to the VAT treatment of the fuel.

5. CPerk Ltd, a partially exempt trader, sold computer hardware for £70,000 plus VAT of £14,000 on 10 February 2020. The taxable use of the hardware by the company for the period to the date of sale had been 30%. The disposal was not part of a tax avoidance scheme.

The company had purchased the computer hardware on 1 July 2018 for £160,000 plus VAT at the standard rate. The taxable use in the VAT year to 31 March 2019 was 35%.

You are required to:

1) Calculate the adjustment(s) required to CPerk Ltd's VAT return as a result of the sale of the computer hardware.

2) Identify the return on which the adjustment(s) will be made.

6. Monica has recently set up in business, providing cleaning services to commercial organisations within the UK. She is worried about incurring penalties in relation to VAT, and has asked you to give her details of the records that she should keep and the period for which she should keep them. Monica has no assets subject to the capital goods scheme.

List the information that Monica should keep and state the period for which the information should be retained.

7. Mr Schwimmer, a client of your firm, trades as a butcher. As part of the preparation of his VAT return for the quarter to 30 April, he has provided you with details of a number of purchases. Although he has retained the relevant invoices, on which VAT has been correctly charged, he has not yet provided these to you.

Detail	VAT inclusive amount payable £
Staff refreshments – various invoices for biscuits, tea, coffee and fruit juices	120
Protective boots for staff	150
Supply of electricity to the shop (using around 50kWh per day)	378

Briefly explain the types of supplies that have been made to Mr Schwimmer, and where possible how much input tax is recoverable, or any further information that is required.

8. Your colleagues in the audit department have asked for help with two issues that have arisen recently:

   1) A number of UK clients provide telecommunications services to consumers throughout the EU. Your colleagues are aware of the change to the VAT treatment of these types of supply that took effect a few years ago and want confirmation on the current rules.

   2) A client has recently engaged the services in the UK of IT consultants who are based elsewhere in the EU. The VAT treatment is inconsistent, and your colleagues are unsure of the correct treatment for VAT purposes.

   You are required to prepare a brief summary for the audit department explaining:

   1) The current rules on the supply of telecommunications services as they apply to the UK clients.

   2) The correct VAT treatment of the consultants' services on the client's VAT Returns.

9. Buffay Ltd is in the process of purchasing two let properties from an unconnected company, Bing Ltd, as follows:

   Property 1 is let to a clothes retailer.
   An option to tax has been exercised on the property. The tenant is expected to remain in place after the transfer.

   Property 2 is let to a funeral director.
   The property is in need of repair and Buffay Ltd expects to incur substantial repair costs, but the tenant will remain in place while repairs take place. No option to tax has been exercised but Buffay Ltd is considering opting to tax the property shortly after purchase.

   You are required to explain briefly the VAT consequences of:

   1) The purchase of the two properties.

   2) Buffay Ltd making an option to tax on Property 2.

10. Rachel has recently started an unincorporated photography business. She is about to register for VAT and is undecided whether or not to register for the flat rate scheme. Her business plan for the next 12 months shows the following:

	£
Income (VAT exclusive):	
Sales of photographs	81,500
Costs (all VAT exclusive):	
Purchase of new camera (capital asset)	3,000
Business expenses (all standard rated)	26,000
	29,000

   The normal flat rate percentage for photography is 11%.

   Showing your workings, determine whether Rachel will benefit from registering for the flat rate scheme for the first year of registration. [Rachel will not be a 'limited cost' trader.]

11. Your firm is dealing with the tax affairs of two particular clients. Issues regarding their liability to Stamp Duty have been handed to you to deal with:

    1) Geller plc, a holding company, owns a 20% shareholding in Green Ltd worth £250,000. The directors of Geller plc wish to transfer the shares in Green Ltd to another group company but are undecided whether to transfer them to:

       a) Crane Ltd (Geller plc has an 80% shareholding); or

       b) Perry Ltd (Geller plc has a 60% shareholding).

    2) Chandler owns 10,000 shares in Aniston Ltd worth £300,000. He is going to exchange these shares with his friend Janice in return for 5,000 shares in Kudrow Ltd (worth £210,000) and cash of £90,000.

    Briefly explain, with the aid of calculations, the Stamp Duty implications for the purchasers in the proposed transactions.

12. Matt is the Managing Director of Rembrandts Ltd, a property investment company.

    The following investments will be made in the next few months:

    1) Rembrandts Ltd will purchase a house in London worth £1,500,000. The intention is to let the property to a tenant, but if there is no tenant readily available at the time of purchase, Matt is considering moving into the property himself.

    Briefly explain with the aid of calculations, the Stamp Duty Land Tax payable on this transaction.

    2) Matt will personally purchase four houses just outside Leeds from a builder at different times over a period of six months. However, because Matt has agreed to buy all four houses, the builder has offered them at a discounted price of £190,000 each. Matt already owns his own house.

    Explain the SDLT implications of the proposed purchases. You are NOT required to calculate the SDLT.

MODULE A – TEST 2

1. Alpha Developments owns a number of properties which it leases to tenants. The company purchased a mainframe computer for £140,000 plus VAT on 29 June 2017, and used this for its general business purposes.

   Under Alpha Developments' partial exemption method, the level of taxable usage taxable use has been determined as follows.

Year to 31 March	Rate
2017	80%
2018	70%
2019	85%
2020	75%

   The computer was sold on 7 August 2019 for £42,000 inclusive of £7,000 VAT.

   You are required to:

   1) Compute the amount of input tax recoverable in respect of the purchase of the computer as well as any subsequent adjustments which must be made.

   2) Compute the additional input tax, if any, reclaimable from HMRC following the sale of the computer.

2.
   1) The sale of the freehold in a warehouse built 18 months ago and used to store manufactured products since then.

   2) Sale of 20 acres of land at the edge of his farm by Farmer Giles. The land has been in his family since 1800s.

   3) Sale of the freehold of a semi-detached post WWII house by the current owner, a VAT registered plumber.

   4) 24-month lease of newly built apartment by the builder Kimple Builders to Mr Smith.

   5) 99-year lease of a newly built office block by the builder Stats Construction.

   You are required to categorise the above supplies of land and buildings for VAT and, if possible, state whether the option to tax could be made.

3. Pete Poser owns the following assets:

	M.V.
	£
10-year old factory	300,000
Plant and machinery	100,000
Stock	50,000
	450,000

Pete is now 65 and plans to transfer his business to a rival firm for its market value.

1) Give four conditions for the transfer of a business as a going concern such that no VAT is payable on the transfer.

2) Calculate the VAT payable by Pete if the sale meets the definition of a TOGC.

4. Often, to encourage shoppers to purchase a product, suppliers will enclose a "gift" for the customer. Examples are:

- "free" packet of tea with a new teapot.
- "free" bar of chocolate when a magazine is purchased.
- "free" refreshments when First Class ticket purchased for train journey.

You are required to differentiate between multiple supplies and single supplies, and explain how VAT is accounted for in the above examples.

5.

1) Liena, a VAT registered trader, has incurred the following expenditure in a VAT quarter:

	£
Lease payments on a car (20% private use)	1,200
Entertaining employees	320
Telephone calls (30% private use)	180

All figures are exclusive of VAT.

State the amount of VAT recoverable.

2) Rupert, who has been in business as a market gardener for several years, has just bought a car which will be used partly for business and partly privately.

Explain briefly the extent to which VAT paid on the cost of buying and running the car will be recoverable. (You are not required to refer to fuel).

6.

1) In the event that a supply could be either exempt or zero-rated, state which liability takes precedence, and where and how in the UK VAT legislation this is given statutory effect.

2) Give three examples of supplies to charities which can be zero-rated for VAT.

7.

1) Your client Acme Widgets Ltd has decided to promote its business by purchasing picnic rucksacks with the company's logo printed on them, which the company will give away as gifts to clients and prospective customers.

   What are the VAT implications of the purchase and gift?

2) Acme Widgets Ltd recently held a "top employee" dinner for the company's four top salesmen and the four top production managers. Each employee was allowed to bring along their husband/wife/partner. The managing director and the director of finance also attended the dinner.

   Explain, giving brief reasons for your answer, what input VAT if any, Acme Widgets Ltd is able to recover on the cost of the dinner.

8. **Give two types of circumstances when HMRC can raise an assessment. What are the overriding time limits and when would each time limit apply?**

9. **VAT is charged on 'supplies' of goods and services. What is the definition of a 'supply' in the VAT legislation? Who is liable for UK VAT on goods or services?**

10. Ian is a rock guitarist who performs in gigs in Bristol, Rome and Montreal for other businesses. Ian has his home and business base in Bristol. Ian is registered for VAT in the UK. Some of his supplies relate to admission and others to the actual performance in each city.

    You are required to state:

    1) **The place of supply of Ian's performances in each of the three cities, with supporting references to the legislation.**

    2) **Whether VAT should be shown on his invoices in each case.**

11. **Name five transactions that are exempt from SDLT.**

12.

1) **What is SDLT group relief?**

2) **Following a land transfer in an SDLT group when would SDLT group relief be withdrawn?**

ANSWERS TO MODULE A – TEST 1

Chief Examiners Comments for the Awareness Modules

Whilst pass rates for Awareness are high, there are significant variations in the marks for the various modules. It is particularly noticeable that average marks for Module A are substantially below those for the other modules.

For Module A, it may in part be because for those candidates sitting the paper it is well outside their day to day experience. It is also likely that candidates concentrate their studies on their other Awareness modules in the expectation that because only total marks across the three modules are considered, their other modules will get them through. Whilst this may be true, it is also the case that most direct tax candidates who fail Awareness will do so because of poor marks on Module A.*

**Tutorial Note:*

This comment was made prior to the introduction of the minimum mark of 21 that is now required for each module

General Comments

There was a mixed response to this module. Although the material covered is often different from that experienced by most candidates in the workplace, many candidates achieved reasonable marks. However a significant number of candidates are obviously intending that their direct tax modules will get them close to a pass mark. A number of these candidates obtained less than 25% of the marks available.

1.

1) Default surcharges
30 June 2019 – the first default so no surcharge penalty applies. *[1]*
30 September 2019 – the first default in a surcharge period. Surcharge 2% x £11,000 = £220. As this is less than £400 no surcharge is collected by HMRC *[1]*
31 December 2019 – the second default in a surcharge period Surcharge 5% x £10,500 = £525. *[1]*

2) The return will be late, but the payment was made on time, so
   1. A surcharge penalty will not apply, but *[1]*
   2. The surcharge period is extended to 31 March 2021 *[1]*

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Some candidates did not apply their knowledge to the facts and simply listed the rules, so scored little if anything. Common errors included applying a 2% surcharge to the first default (ie June 2019 return); omitting the rule that the 2% surcharge is not collected if less than £400; and applying a surcharge to March 2020 (when the payment was made on time).

2.

1) The sale of donated goods amounts to a 'business activity' and as this activity is zero-rated, the charity can apply for VAT registration, thus allowing recovery of input tax relating to the costs incurred in the running of the shop. *[2]*

2) The bequest is not a business supply and so the sale of the property is outside the scope of VAT. As a result, the input VAT on the legal fees incurred on sale is not recoverable. *[2]*

3) The supply to a charity of talking books and wireless sets is a zero-rated supply and so the charity will not suffer a VAT cost. *[1]*

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This was one of the more difficult questions but candidates made a reasonable attempt, although easy marks were sometimes lost. For example re: the shop activities, many candidates stated that these were zero rated but then failed to say that input tax on shop running costs would be recoverable if VAT registered.

3.

1) Joey is required to VAT register when at the end of a month his taxable supplies for the last 12 months, or since commencement if shorter, exceed the registration threshold of £85,000. *[1]*

   Joey exceeded the limit at the end of February 2020 with taxable supplies of £107,000 (ie standard rated plus zero rated). *[2]*

   He should have notified HMRC by 30 March 2020. *[1]*

2) VAT should be charged on supplies from 1 April 2020. *[1]*

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Many candidates performed well on this question. However a significant number of candidates tried to use the future prospects test. Pleasingly most candidates correctly identified that the supplies to be taken into account were the standard rated and zero rated supplies. An unexpectedly large number of candidates counted 30 days from the end of February and identified a date of 28 March.

4. Ross is able to recover the input tax on the gifts. However, as the total cost of gifts to each client exceeds £50 in a 12-month period, output tax must be paid on the replacement cost of the gifts. *[2]*

The options available to Ross regarding the car fuel are:

1) Claim back all input tax on the fuel and pay output tax based on the relevant flat rate scale charges set by HMRC

2) Claim no input tax back on fuel (and so no output tax will be due)

3). Keep detailed mileage records to prove that the only fuel purchased is for business use and so input tax can be recovered with no output tax charge

4) Keep detailed mileage records and claim back all input tax but charge the employee for the cost of the private fuel element (output tax charged on the charge to the employee; or open market value if the charge is too low)

*[1 per option - **Max 3**]*

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There was a mixed response to this question. Many candidates identified the £50 rule but did not know how to apply it. A significant number stated that it was 'exempt' because it was over £50, or that input tax could not be recovered (on one or both of the gifts) as it was over £50. A large number of candidates incorrectly included the taxable trading profits rules regarding a conspicuous advert and not food, tobacco, etc. More candidates were able to deal with the provision of business fuel, but there was some confusion regarding how the scale charges apply (ie that they affect output tax).

5.

1) On sale in VAT year ended 31 March 2020 two adjustments are made:

1. Normal adjustment:
*£32,000/5 x (35%-30%) = £320 additional VAT payable *[1]*

2. Sale adjustment (3 periods remaining)
£32,000/5 x (35%-100%) x 3 = (£12,480) recoverable *[2]*

*****VAT on original purchase = £160,000 x 20% ie £32,000. *[1]*

2) The adjustments will be made on the second VAT return following the end of the VAT year ie the return to 30 September 2020. *[1]*

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Another mixed response to this question. In the calculation of the adjustments many candidates used £11,200 (35% x £32,000), rather than £32,000. Few candidates correctly identified the return on which the adjustments are made.

6. Monica should keep and preserve:

1) Her business accounting records;
2) All VAT invoices issued by and received by the business;
3) Credit notes and debit notes evidencing changes in consideration made or received;
4) A VAT account;
5) The electronic account required under MTD provisions

[1 per point - max 4]

The information should be kept for a minimum of 6 years unless HMRC agree to a shorter period. *[1]*

Tutorial Note:

Look up the word 'Records' in the Index at the end of the Orange Part 1 Handbook and the sub-heading 'duty to keep'. This provides a reference to reg 31 of SI 1995/2518, which contains the information a person should keep.

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This was the best answered question in the module with a large number of candidates scoring full marks. Weaker candidates gave details of what to include on a VAT invoice rather than the information to be kept.

7. Staff refreshments
Food is generally zero rated and therefore the amount recoverable will be £nil. However, there are excepted items which include chocolate biscuits and fruit juices which are standard rated. A breakdown of the £120 is required to determine the amount of VAT recoverable. *[2]*

Protective boots
Protective boots (manufactured to BSI standard) are zero-rated, unless supplied to an employer for use by his employees. This is therefore standard rated and VAT of £25 is recoverable (£150 x 1/6) *[Tutorial Note: See Item 2 of Group 16 of Sch 8 VATA 94]* *[2]*

Supply of electricity to the shop
Supplies of electricity other than for domestic use are standard rated and VAT of £63 is recoverable. *[1]*

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Reasonable answers were produced by many candidates, with the protective boots proving to be the most difficult area. Some candidates did not calculate the input tax recoverable even though it was part of the requirement. Weaker candidates thought that staff refreshments were the provision of food in the course of catering.

8.

1) The supply of intra-EU telecommunications services to non-business customers are taxed in the country where the customer is located. *[1]*

   Businesses can obtain VAT registration in the EU countries where supplies happen, but as this could be an administrative problem, they have the option of using the MOSS system instead, which avoids the need to register in each EU country. *[1]*

   <u>Tutorial Note:</u>

   There is flexibility in the marking scheme and all valid points will receive credit, for example, where students have gone into more detail on the MOSS system in the UK and the exclusion for small businesses under the €10,000 threshold, so that they apply VAT in the country where they are established.

2) As the service is a business to business supply a reverse charge applies. *[1]*

   Therefore:

   1. A VAT charge is shown in box 1 of the client's VAT return (with the value of the supply shown in box 6), and *[1]*

   2. The client then recovers the VAT on box 4, subject to partial exemption rules applying (with the value of the supply shown in box 7). *[1]*

   <u>Tutorial Note:</u>

   Box numbers are not required in order for full marks to be obtained.

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It was pleasing to note that many candidates were aware of the 1 January 2015 changes and gained full marks on part 1. However a significant number did not answer the question asked in part 2 and discussed where the supply was taking place rather than how it is dealt with on the VAT Return.*

*<u>*Tutorial Note</u>*

When this question was set, the changes had only just come into effect and in the syllabus

9.

1) The purchases are likely to be treated as transfers of a going concern (TOGC) as the same tenant occupies each property before and after the transfer and so there will be no VAT on the transfer. However, as an option to tax was exercised by Bing Ltd on property 1 VAT will be charged at the standard rate on the property unless Buffay Ltd also opts to tax the property. If VAT is charged the input tax will not be recoverable by Buffay Ltd as the property will not be used for taxable purposes. *[2]*

   As no option to tax has been exercised by Bing Ltd on property 2, it forms part of the TOGC and so no VAT is charged. *[1]*

2) If Buffay Ltd does opt to tax property 2 the input tax on the repair costs will be recoverable, whereas if the company does not opt to tax input tax will not be recoverable. *[1]*

   However, the tenant is a funeral director who is likely to make mainly exempt supplies. Therefore, the tenant will suffer VAT on rental charges which is unlikely to be recoverable. *[1]*

Tutorial Note:

All valid points will receive credit, For example, the lease agreement might need to be checked as some preclude the landlord opting to tax (or where they do the landlord is to suffer the VAT burden.)

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Very few candidates identified the transfer of a going concern aspects of part 1. However many were able to identify the impact of the option to tax being exercised on property 2 including the effect on the tenant.

10. <u>Flat-rate scheme</u>

If Rachel registers for the flat-rate scheme, she will be entitled to a 1% discount in the first year of registration. The output tax is calculated on the VAT–inclusive amounts. However, VAT can be reclaimed on capital assets with a VAT-inclusive cost in excess of £2,000 (ie the camera):

	£	
VAT due to HMRC	= ((11-1)% x (81,500 x 120%)) – (3,000 x 20%)	*[3]*
	=9,780 - 600	
	=9,180	

<u>No flat-rate scheme</u>

If Rachel does not register for the flat-rate scheme her VAT due to HMRC is calculated as follows:

	£	
VAT due to HMRC	= (81,500 – 29,000) x 20%	*[1]*
	= 10,500	

Hence it will be beneficial for Rachel to register under the flat-rate scheme if her income and costs are as expected. *[1]*

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Candidates generally achieved good marks on this question. The common errors included not using VAT inclusive income for the flat rate calculation; not giving the 1% deduction for the first year; treating VAT exclusive amounts as VAT inclusive (ie 1/6 rather than 20%).

11.

1) There is an exemption from Stamp Duty for shares passing between two companies in a 'group'.

   If the shares pass to Crane Ltd, the exemption will apply and Stamp Duty will not be charged, as a group exists (ie Geller plc owns at least 75% of the shares in Crane Ltd). *[1]*

   If the shares pass to Perry Ltd, Stamp Duty of £1,250 (0.5% of £250,000) will be charged as the company is not in a group for Stamp Duty purposes. *[1]*

2) Two share transfers are executed. Stamp Duty of £1,500 (0.5% x £300,000) arises on transfer of the Aniston Ltd shares. *[1]*

   Stamp duty of £1,050 (0.5% x £210,000) arises on transfer of the Kudrow Ltd shares. *[1]*

   No Stamp Duty arises on the cash consideration. *[1]*

   However, as the cash consideration is not nominal the transaction can be structured as a sale of the Aniston Ltd shares, the ones with the higher value, in consideration for the Kudrow Ltd shares and the cash. In this case duty of £1,500 (only) will fall due ie there will be no duty on the Kudrow Ltd shares. *[1]*

Max 5

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Many candidates performed well on the Stamp Duty question, although a large number did not identify the alternative way of structuring the share exchange. One common error was to calculate stamp duty of £1,500 for both parties to the exchange.

12.

1) If the company purchases the property for rental to an unconnected tenant as part of the normal property rental business, SDLT payable will be £138,750, calculated as follows:

£	£	
125,000 x 3% =	3,750	
125,000 x 5% =	6,250	
675,000 x 8% =	54,000	
<u>575,000</u> x 13% =	<u>74,750</u>	
1.5m	138,750	*[1]*

Where a company purchases a residential property (including the first one) all purchases incur the additional 3% charges.

If, however, the property is purchased and Matt moves in within 3 years of completion then the SDLT is subject to the anti-avoidance legislation relating to high value residential properties (ie >£500,000) and the SDLT payable is £225,000 (15% x £1.5 million) ie an additional £86,250 will become due. *[1]*

2) The four transactions are linked as they are

1. between the same buyer and seller and
2. the transactions form part of a single arrangement (ie they are a series of transactions).

Hence the SDLT will be calculated on a total consideration of £760,000 (4 x £190,000).

There is a relief available for transfers involving multiple dwellings and provided that Matt satisfies the conditions he would pay SDLT on the average value of each property.

As Matt already owns his own house then the SDLT rates would be increased by 3%.

[3]

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Very few candidates identified the normal rate of SDLT where there is an unconnected tenant, although most identified the 15% where the managing director lived in the property.*

<u>**Tutorial Note:*</u>

The additional 3% charges did not apply when this question was first set.

ANSWERS TO MODULE A – TEST 2

1.

1) <u>Recovery on use of computer:</u>

   VAT paid on purchase of computer is £140,000 x 20% = £28,000

   In year to 31 March 2018 (interval 1 – initial recovery): (70% × £28,000) = £19,600 input tax

   In year to 31 March 2019 (interval 2 – annual adjustment): 1/5 × £28,000 × (70% – 85%) = (£840) input tax recovery

2) The sale of the computer is a taxable supply and the VAT for the remaining adjustment periods will be calculated on the basis that the computer was wholly used for taxable purposes (SI 1995/2518 reg.115(3)).

   In the year to 31 March 2020 the adjustment percentage is 75% (i.e. taxable use of computer in period prior to sale).

   Adjustment is (70 – 75)% × £28,000 × 1/5 = (£280) input tax recovery

   For the final two years the adjustment is (70 – 100)% × 28,000 × 2/5 = (£3,360) input tax recovery

   Total adjustment = (£3,640) input tax recovery

2.

1) Standard rated supply of the freehold of a 'new' (less than 3 years old) commercial building. As this supply is already standard rated the option to tax is not applicable.

2) Exempt supply of land. However, Farmer Giles may make the option to tax over the land prior to the sale to standard rate the supply.

3) Exempt supply. Option to tax cannot apply to a building which will be used as a dwelling.

4) Exempt supply of lease. Zero rating does not apply since a 'major interest' has not been supplied by the constructor. Option to tax cannot apply to a building which will be used as a dwelling.

5) Exempt supply of a commercial lease. Option to tax can be made prior to assignment by Stats Construction to standard rate the supply.

3.

1) Any four, for example (other valid points will gain credit):

   a) The business must be a going concern at the time of transfer.

   b) The assets are to be used by the transferee to carry on the same kind of business as the transferor.

   c) Where the transferor is a taxable person, the transferee must be a taxable person (VAT registered), or become a taxable person (VAT registered) as a result of the transfer.

   d) There should be no significant break in trading.

   (Art.5 SI 1995/1268 and para 1.4 of VAT Notice 700/9 (page 2,284 of the 2019/20 Orange Part 1 Handbook)

2) If the transfer meets the TOGC conditions the transfer of all the assets (building, plant and stock) will be neither a supply of goods nor a supply of services (i.e. it will be outside the scope of VAT). Hence VAT due is £Nil.

4. Multiple supplies

- Different goods and/or services are invoiced together at an inclusive price.
- The total payable must be split between the different elements and VAT charged at the appropriate rate on each.

Single supply

- The supply cannot be split into different components. One rate of VAT is applied to the whole, depending on the nature of the supply as a whole.
- An example of this is the free refreshments provided on the train journey. Zero-rating would apply to the whole supply.
- It is likely that HMRC would argue that, in the tea/teapot example, the provision of the tea was ancillary to the principal supply, that of the teapot, and thus this is a single supply (standard-rated). The tea and teapot (and magazine and chocolate) are likely to be considered part of a 'linked goods' promotion with VAT chargeable at the rate applicable to the main items i.e. the magazine and teapot.
- If sold separately the tea is zero-rated and the teapot is standard-rated, the chocolate bar is standard-rated, and the magazine is zero-rated.

Tutorial Note:

Business Brief 67/09 (found in the Press Releases section ('VAT PRs etc') in your Orange Part I legislation (page 3,231 of the 2019/20 Orange Part 1 Handbook) contains some details about the criteria that are used to assess whether there is a multiple or single supply. These criteria were identified in the Card Protection Plan case. Business Brief 1/06 contains further details about CPP but unfortunately is not reproduced in the 2019/20 Orange Part 1 Handbook.

5.

1)

	£
1,200 x 50% x 20%	120
320 x 20%	64
180 x 70% x 20%	25
VAT recoverable	209

Tutorial Note:

50% of the VAT on the lease rental is recoverable by virtue of Art.7(2H) SI 1992/3222.

2) VAT on the cost of buying the car is not recoverable.

All VAT on the cost of repairing and maintaining the car will be recoverable.

There is no apportionment for private use.

6.

1) Zero-rating takes precedence.

The statutory reference is to be found in s.30(1) VATA 1994 which provides that no VAT shall be charged on a zero-rated supply. Zero-rating takes priority whether or not VAT would have been chargeable ignoring this section.

2) Advertising [Item 8].

Donation of goods for sale [Item 2].

Medicinal products [Item 9].

[Group 15 Sch.8 VATA 1994 – other examples will gain credit]

7.

1) The input tax in respect of the purchase is reclaimable. Output tax will be charged on the replacement cost of the gift if the cost to Acme Widgets of acquiring the picnic rucksacks, (together with the cost of any other business gifts made to the same person in the same year), is more than £50 (excluding VAT) (para. 5(1),(2) Sch.4 VATA 1994)

2) Acme is able to recover the proportion of the input VAT that relates to the 8 employees.

The proportion that relates to the guests of the 8 employees is regarded as business entertaining, and is therefore not deductible as input VAT.

The input VAT relating to the Directors' proportion should also be recoverable as, whilst HMRC take the view that VAT incurred on entertainment for Company Directors, Partners in a Partnership, and Sole Proprietors is not recoverable, they do accept that attendance of Directors etc at staff parties together with other employees, is not business entertainment and the VAT is recoverable.

Tutorial Note:

See Art. 5 of SI 1992/3222.

8. HMRC can raise assessments where, for example *(other examples to gain credit)*:

- someone fails to make a return (s.73 VATA 1994) or
- they impose penalties (s.76 VATA 1994)

The general overriding time limit is not more than 4 years from the end of the prescribed accounting period, or,

in the case of a section 76 assessment (penalties, interest or surcharges), 4 years after the event giving rise to the penalty (s.77 VATA 1984).

Where there is a loss of VAT due to the deliberate action by a person, an assessment may be made up to 20 years.

9. 'Supply' is defined in s.5(2) VATA 1994 as including all forms of supply, but not anything done otherwise than for a consideration.

VAT on any supply of goods (or services) is the liability of the person making the supply (s.1(2) VATA 1994).

VAT on any acquisitions of goods from another member state is the liability of the person who acquires the goods (s.1(3) VATA 1994).

VAT on the importation of goods is the liability of the person making the customs declaration (s.1(4) VATA 1994 as read with s.43(1) CEMA 1979).

10.

1) As these are entertainment services any supply to an EU or non-EU business relating to an admission charge takes place where the concert takes place. (para.9A Sch.4A VATA 1994 overrides the basic rule in s.7A VATA 1994).

   Any other supplies (non-admission) to businesses will take place where the recipient business belongs. The place of supply is therefore likely to be Bristol, Rome or Montreal as appropriate.

2) Ian's performances in Rome and Montreal are therefore outside the scope of VAT as they are not supplies of services made in the UK. He should add VAT to his invoices only for performances in Bristol.

11. Any five from Sch.3 FA 2003, for example *(other examples will gain credit)*:

- Where there is no chargeable consideration (gifts)
- Grant of certain leases by registered social landlords
- Transactions in connection with divorce
- Assents and appropriations by personal representatives
- Variation of a will

12. SDLT group relief exempts from SDLT land transactions between group companies if the vendor and purchaser companies are members of the same 75% group at the time of the transaction.

Group relief is withdrawn if the purchaser company and vendor company cease to be members of the same group within three years of the intra-group transfer (and the purchaser or an associated company which is also leaving the group still owns the land.)

Group relief is also withdrawn if the purchaser and vendor companies cease to be members of the same group at any time after three years but under arrangements that were made within the three-year period following the intra-group transfer for the purchaser to leave the group. (Sch 7 FA 2003.)