

Step 4 Chargeable Estate at Death – 1 March 2022

Chargeable Estate	500,000
Available nil rate band = 325,000 – 290,000 = 35,000	
IHT on Estate	
35,000 @ nil	= nil
465,000 @ 40%	= <u>186,000</u>
500,000	

Chapter 25**Answer to Example 1**

- (a) Orchid Ltd will become liable to compulsory VAT registration when its taxable supplies during any 12-month period exceed £85,000.

The taxable supplies for the first 12 months of trading to 31 May 2022 amount to only 64,400 so we now move forward adding in the next month, June 2022 and removing the sales of what is now 13 months ago, June 2021, as this revised 12 month total is only 72,300 compulsory registration is still not required. When we move forward to the end of July 2022, however taxable supplies will amount to £86,000 (4,300 + 5,100 + 4,700 + 4,700 + 4,900 + 4,800 + 6,000 + 6,100 + 7,900 + 8,200 + 11,800 + 17,500).

- (b) Orchid Ltd will have to notify HMRC by 30 August 2022, being 30 days after the end of the period.
 (c) The company will be registered from 1 September 2022 or from an agreed earlier date.

Answer to Example 2

A business must register for VAT if there are reasonable grounds for believing that taxable supplies will exceed £85,000 in the following 30 days.

Forecast income is £90,000 per month, and so taxable supplies for the 30-day period to 30 April 2022 will exceed £85,000.

Tulip Ltd will have to notify HMRC by 30 April 2022, being the end of the 30-day period, and will be registered from 1 April 2022.

Answer to Example 3

Prior to putting up its prices, Vine Ltd's net profit is £75,200 (£80,000 - £4,800).

If Vine Ltd puts up its prices, then it will exceed the VAT registration limit of £85,000, and the business will have to register for VAT.

Output VAT will have to be absorbed by Vine Ltd, as sales are to the general public and there is no further scope for price increases.

The revised annual net profit will be:

	£
Income (87,000 × 100/120)	72,500
Expenses (4,800 × 100/120)	<u>(4,000)</u>
Net profit	68,500

This is a decrease in net profit of £6,700 (75,200 – 68,500), and so it is not beneficial for Vine Ltd to put up its prices.

Answer to Example 4

VAT Return - Quarter ended 31 March 2022

	£	£
Output VAT (note 1)		
Sales ($60,000 \times 95\% (100\% - 5\%) \times 20\%$)		11,400
($60,000 \times 20\%$)		12,000
Input VAT		
Purchases and expenses ($35,640 - 480 = 35,160 \times 20\%$) (note 2)	7,032	
Irrecoverable debt ($2,000 \times 20\%$) (note 3)	400	
Machinery ($21,150 \times 20/120$) (note 4)	3,525	
		<u>10,957</u>
VAT payable		<u>12,443</u>
Due date (see Section 5 of chapter)		7/05/21

Notes:

- (1) The calculation of output VAT will only take into account the discount for prompt payment if customers do take it.
- (2) Input VAT on UK customer entertaining cannot be reclaimed (If they had been overseas customers the input tax would be recoverable).
- (3) Relief for an irrecoverable debt is not given until six months from the time that payment is due.
- (4) Input VAT on motor cars not used wholly for business purposes cannot be reclaimed.

Answer to Example 5

Input VAT can be reclaimed in respect of the cost of petrol and repairs.

Because fuel is being provided for private use to the director, Poppy plc will have to account for output VAT based on the scale charge.

The quarterly cost is £74 ($445 \times \frac{20}{120}$)**Answer to Example 6**

The late submission of the VAT return for the quarter ended 30 September 2020 will have resulted in HMRC issuing a surcharge liability notice specifying a surcharge period running to 30 September 2021.

The late payment of VAT for the quarter ended 31 December 2020 will result in a surcharge of £426 ($\pounds 21,300 \times 2\%$).

The surcharge period will have been extended to 31 December 2021.

Bluebell Ltd then submitted four VAT returns on time.

The late submission of the VAT return for the quarter ended 31 March 2022 will therefore only result in a surcharge liability notice (specifying a surcharge period running to 31 March 2023).

Answer to Example 7

Greater of

- £10,000 ✓
- $1\% \times 700,000 = \pounds 7,000$

The de minimis level is therefore £10,000. As the error is less than the de minimis level, it can be disclosed on the next VAT return, that is the VAT return for the quarter to 31 March 2022. No interest will be charged by HMRC but a penalty for submission of an incorrect return could be imposed, unless Blanche Ltd simply made a mistake. But if HMRC believes Blanche Ltd failed to take reasonable care, the penalty may be $30\% \times \pounds 8,500 = \pounds 2,550$.

Answer to Example 8

- (1) The export of goods to the VAT registered customer in France and Australia will be zero rated.
- (2) The import of goods from both the supplier in the USA and in Germany will involve a “self supply” with output VAT of $(£20,000 + £12,000) \times 20\% = £6,400$ being accounted for by BW Ltd on its VAT Return for quarter to 31 March 2022. As BW Ltd makes wholly taxable supplies the same amount of £6,400 can be recovered as input VAT and therefore no VAT cost will be incurred.