

R03 2020/21

Miscellaneous taxes

This section will cover:

- Stamp Duties
- Value Added Tax
- Corporation Tax

The question paper will probably have five questions on this topic.

Stamp Duties

The exam will test out knowledge of how stamp duties are applied to:

- Property purchase
- Share purchases

Property Purchase

Stamp Duty Land Tax Duty is levied on the purchase price of a property. The exam will probably ask you to calculate the amount payable on the purchase of a private house.

As part of the Government's reaction to the Covid crisis, stamp duty on property purchase have been reduced, for properties purchased between **8th July 2020 and 31st March 2021**.

The exam is based on the 2020/2021 tax year so a question may ask you to calculate the amount payable for a house purchase completed on May 1 2020 or one where the completion date was March 1 2021 If you take the exam after April 2021 it's likely that it will test the "standard" rates

These are in the tax tables candidates will get in the exam

The rates applicable for completions from **8th July 2020 to 31st March 2021**. are:

First £500,000	0%
Next £425,000	5% (house price up to £925,000)
Next £575,000	10% (house price up to £1.5m)
On remainder	12%

Helen buys a house for £950,000, the stamp duty will be

£500,000 @ 0%	0
£425,000 @ 5%	£21,250
£25,000 @ 10%	<u>£2,500</u>
	£23,750

For purchases outside this period the rates are:

First £125,000	0%
Next £125,000	2% (house price up to £250,000)
Next £675,000	5% (house price up to £975,000)
Next £575,000	10% (house price up to £1.5m)
On remainder	12%

If Helen completes after March 31 2021 her liability would be:

£125,000 @ 0%	0
£125,000 @ 2%	£2,500
£700,000 @ 5%	<u>£35,000</u>
Total	£37,500

When these rates apply there is a discount for First Time Buyers when the price was below £500,000

First £300,000	0%
Next £200,000	3%

This isn't applicable for completions between 8/7/20 and 31/3/21 as the new rates result in a lower tax. To qualify all buyers must never have owned a home anywhere in the world

If the property is a **second home** or purchased with the intention of letting it out then the rate for each band by 3%. This is applied to whatever rate applies when the purchase takes place, For the reduced period up to 31 March 2021

First £500,000	3%
Next £425,000	8%
Next £575,000	13%
On remainder	15%

If the completion takes place outside this period the rates will be:

First £125,000	3%
Next £125,000	5% (house price up to £250,000)
Next £675,000	8% (house price up to £975,000)
Next £575,000	13% (house price up to £1.5m)
On remainder	15%

Most completions involve a simultaneous sale and purchase. Sometimes the buyer may **temporarily** own two properties. The higher rate of stamp duty will apply but if the first house is sold within 36 months of the new purchase the additional tax can be refunded.

Mary receives a substantial inheritance and uses it to buy a bigger house. As she already owns her current home the additional 3% will be applied. The original house is sold 24 months later so the additional stamp duty can be refunded

If the property is bought by a **company or corporate bond** and is purchased for more than £500,000 the rate is 15%

All the above rates apply to the purchase of residential property. Stamp duty is also payable on the purchase of **non-residential property i.e. commercial property**. The rates are:

Up to £150,000	0%
Next £100,000	2%
Remaining amount	5%

Stamp duty is practically impossible to avoid as the change of ownership is registered on the Land Registry and this cannot be done unless stamp duty is paid. Even if it is a property exchange rather than a purchase, stamp duty will be levied on its market price.

Colin and his son Mark agree to “swap” houses as Colin finds it too large and his son needs a larger property for his young family.

Colin’s house has a value of £600,000 whilst the value of Mark’s is £400,000. Mark pays £200,000 to his father to complete the deal.

Mark will have to pay stamp duty on £600,000 and Colin £400,000

Candidates can be forgiven for getting confused by all these different rates but they will be in the tax tables.

In every question candidates should check three points

- What was the purchase price?
- When was the completion date?
- Is it a second home?

Shares

Stamp duty is levied on the purchase of shares. It is not levied on their sale.

The rate is 0.5% on the purchase or “bargain” but there are slight differences depending on whether the shares are purchased electronically using the CREST system or using paper based certificates.

Using CREST the rate is applied to what the investor paid for the shares and is rounded up or down to the nearest penny. This is termed **Stamp Duty Reserve Tax**.

Using the paper based system the amount is rounded up to the nearest £5 but there is no tax if the bargain is less than £1,000. This is termed **Stamp Duty**

There is no duty on the purchase of unit trusts or OEICS bought directly from the fund manager. However, when units are surrendered the manager pays SDRT and this is paid for through management charges.

Value Added Tax

VAT is a tax that is levied on most goods and services. It is not a sales tax because it is levied at each stage of the process.

A widget manufacturer buys raw steel from a steel producer. The steel producer charges the widget manufacturer VAT
The widget manufacturer sells the widgets to a retailer and charges the retailer VAT.
The retailer sells the widgets to a customer and charges them VAT

If a business is registered for VAT, it must charge VAT at the appropriate rate to its customers. However, it can deduct what it has paid (the input amount) from what it charged to its customers (the output amount). This is done quarterly.

A furniture retailer paid £280,000 in VAT in a quarter. It charged £400,000 in VAT to its customers. It pays £120,000 in VAT to HMRC.

Any business with a turnover of more than £83,000 must register for VAT. It can be beneficial to register even if turnover is below this figure because it enables the business to offset any VAT it has paid.

Some products and services such as books are exempt from VAT. Otherwise the standard rate is 20%. There is a lower rate of 5% for certain goods and other goods are 0% rated.

The difference between zero rated and exempt items is that exempt items do not come into any VAT computation and will not be included in either the input or output amounts. Zero rated items will be included in both input and output amounts.

Corporation Tax

Corporation tax is levied on the profits and capital gains of:

- A limited company (both private and public)
- A club, co-operative body or other unincorporated association.

The standard rate is 19%

- The business can select its own accounting period and corporation tax is due 9 months after the end of the accounting period.
- The company tax return must be completed no later than 12 months after the end of the accounting period.