

SPECIMEN QUESTION 3 (SECTION B)

Mr Successful is the owner of the following companies:

Company	Activity
A Ltd	Production of concrete for construction
B Ltd	Building contractors
C (UK) Ltd	Seminar provider regarding the building industry
M Ltd	Chain of butcher shops
H Ltd	Hotel operator and gym and physiotherapy service provider

Notes

1. A Ltd, B Ltd, M Ltd and H Ltd are Cyprus registered companies. C (UK) Ltd is a UK registered company controlled and managed in the UK.
2. C (UK) Ltd organises seminars in many countries, including Cyprus. Income per seminar is approximately £20,000.
3. H Ltd is the owner of hotels in Larnaca and Ayia Napa. Each hotel maintains its own accounting system. The gym and the physiotherapy centres also maintain their own accounting systems.

Mr Successful has recently heard of the possibility of registering for value added tax (VAT) on a group or divisional basis.

Required:

Based on the information given, advise Mr Successful on the following:

- (a) (1) **For which of the above companies, divisional VAT registration would be appropriate, giving reasons; and**
(2) **the practical difficulties that may arise in the case of a divisional VAT registration.** (5 marks)
 - (b) (1) **The circumstances in which group VAT registration is available and its effects;**
(2) **which of the above companies may be included in a group for VAT purposes, giving reasons; and**
(3) **the possible disadvantages of a group VAT registration.** (10 marks)
- (15 marks)

ANSWER TO SPECIMEN QUESTION 3

(a) Divisional VAT registration

Divisional VAT registration is appropriate in the case of H Ltd only.

H Ltd will have to request divisional VAT registration on the basis that:

- the divisions are large autonomous units dealing in different services;
- the divisions maintain separate accounting systems; and
- it may, therefore, be difficult to produce a single VAT return for the company.

The difficulties that may arise with a divisional VAT registration could be as follows:

- Exempt supplies: the input VAT attributable to exempt supplies that may be allowed under the de minimis rule applies in respect of the company as a whole (not for each division). This may create practical difficulties in the preparation of separate VAT returns.
- Invoices: no invoices can be issued between the divisions of the same company, therefore, any services provided between company divisions' will have to be dealt with internally.
- VAT periods: all the divisions must submit their VAT returns in respect of the VAT periods prescribed by the VAT Commissioner.

(b) Group VAT registration

A group VAT registration is possible in cases where two or more companies form a group. A group for VAT purposes exists where one company controls another company, or where one person controls two or more companies.

The effects of group registration are as follows:

- The goods and services supplied by one group company to another group company are outside the scope of VAT.
- The inputs and outputs of all group companies are treated as received/supplied by a nominated group company (the representative member).
- The representative member submits a single VAT return and pays the VAT for the whole group.

All the companies owned by Mr Successful, except for C (UK) Ltd (which is a non Cyprus registered company) may be registered as a group for VAT purposes.

However, it is not compulsory for all group members to participate in the VAT group. As identified in (a) above, H Ltd will probably qualify for a divisional VAT registration, so it will be advisable for it to stay outside the VAT group.

The disadvantages that may arise from a group VAT registration could be as follows:

- Practical problems in collecting information from all the group members for completion of the VAT return.

- All group members are jointly and severally liable to the VAT authorities.

- The de minimis rule for partial exemption applies in respect of the group

of companies as a whole, not at the individual company level; thus, it is possible that input VAT restrictions may occur.

- The prescribed limit of £1,000 for the voluntary correction of errors applies to all the group companies collectively; and there may also be practical problems in notifying errors to the representative member for the purposes of voluntary correction.

MR SUCCESSFUL

	Marks
(a) Divisional VAT registration	
Identification of H Ltd as the only eligible company	1.0
Reasons for the divisional registration request (3 x 0.5)	1.5
Identify the potential difficulties:	
- exempt supplies	1.0
- invoices	1.0
- VAT periods	0.5
	5.0
(b) Group VAT registration	
State the basic rule for group registration	1.0
Identify the effects of group registration (3 x 1)	3.0
Identify all the Cyprus registered companies as eligible	1.0
Recognise that participation is not compulsory	0.5
Recognise that the inclusion of H Ltd is not advisable	0.5
Identify the potential disadvantages (4 x 1)	4.0
	10.0
TOTAL	15.0