

The finance director of Achiote Ltd would like your advice on the tax implications of opting to tax a commercial building.

Achiote Ltd – purchase and rental of a commercial building:

- Achiote Ltd has recently purchased a two-year-old commercial building from an unconnected vendor.
- The building will be rented to an unconnected company, Rye Ltd.
- Rye Ltd is a small local company, which supplies goods to Achiote Ltd but does not charge value added tax (VAT) on these sales.

Required:

- (d) (i) On the assumption that Rye Ltd makes only taxable supplies, state TWO legitimate reasons why it might not charge value added tax (VAT) on its sales to Achiote Ltd. (2 marks)
- (ii) Explain whether or not it would be financially beneficial for Achiote Ltd to opt to tax the commercial building, and the implications for Rye Ltd if it chooses to do so. (4 marks)

Note: The following indexation factors should be used for this question, where applicable: