

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

May 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

- 1. Robin's Deli sells a variety of food and drink items, either to take-away or to dine in. There are tables and chairs both inside and immediately outside the deli, all of which are only for use by customers consuming food and/or drink from Robin's Deli.

Robin's Deli is registered for VAT.

State the VAT Liability of each of the following items:

- 1) Flat white coffee to take-away;
- 2) Slice of chocolate cake to take-away;
- 3) Slice of Victoria sponge cake to eat in the Deli's outdoor seating area;
- 4) Tuna sandwich to eat inside the Deli;
- 5) Hot toasted cheese panini to take-away;
- 6) Plain shortbread biscuits to take-away;
- 7) 'Jaffa Cakes' to eat inside the Deli; and
- 8) Tortilla chips to take-away.

(4)

- 2. Chris owns a complex of holiday cottages in North Yorkshire. In addition to renting out the holiday cottages on a weekly basis, Chris also keeps chickens on the site and grows ornamental plants for sale.

Chris deregistered for VAT with effect from 2 May 2022. The last VAT return Chris submitted to HMRC was for the quarter ending 31 March 2022. HMRC issued a final VAT return for the period 1 April 2022 - 2 May 2022.

Chris's gross income for the period was as follows:

	£
Holiday cottage income	6,000
Sale of eggs	150
Plant sales	175

Chris had the following goods on hand at the date of deregistration (input VAT had been claimed on purchase where applicable):

	<u>Market value</u> <u>(excluding VAT)</u>	
	£	
Small tractor	16,000	(cost £22,000 plus VAT)
Chicken coop	350	(cost £850 plus VAT)
Polytunnel	1,500	(bought from a business not registered for VAT)

Calculate the VAT Liability (box 5 figure) on Chris's final VAT return. Show your treatment of each item. Ignore the impact of any temporary COVID measures and assume there have been no purchases in the period.

(4)

3. Fresh and Natural Co, a business specialising in botanical soaps, has been subletting part of its office space to an accountancy firm for 18 months and charging VAT on its rental invoices. The accountancy firm recently asked Fresh and Natural Co if it has opted to tax the building. Fresh and Natural Co is unaware of the meaning of the term 'opting to tax'.

1) Explain the two-stage process for businesses to opt to tax land and/or buildings. (2)

2) Explain whether HMRC will allow Fresh and Natural Co to opt to tax the office building now. (2)

4. First Medics is a VAT-registered charity which exists to provide medical treatment to people in need. It purchased the following goods and services in this financial year:

1) Services in the course of construction of a new building which is used by the charity as an office for administering and collecting donations;

2) Filming and production services for its new TV advert;

3) The import of medicinal products to be administered to humans as treatment; and

4) Audit and bookkeeping services.

Explain the VAT rate applicable to each supply received by First Medics. (4)

5. Foxtrot Ltd is located in Norfolk and registered for VAT. It has been filing VAT returns and paying the VAT due on a calendar quarterly basis for many years. It was part of a VAT group registration but the group was disbanded a long time ago.

The business is in a good financial position and its turnover for the next 12 months is expected to be:

	£
Sales of adult clothing to UK wholesalers	850,000
Exports of adult clothing to US wholesalers (shipped from the UK)	475,000
Disposal of old factory fixtures and fittings to a UK purchaser	40,000

With reference to each condition for joining the Annual Accounting Scheme explain whether Foxtrot Ltd is eligible to join the scheme now. (4)

6. Jay made two property disposals in this financial year, as follows:

1) Freehold sale of a newly-constructed office block (less than six months old) to an insurance company; and

2) Freehold sale of a car park (constructed five years ago) to a car park operator.

Jay has not opted to tax these buildings.

1) Explain the VAT liability of each of these property disposals. (3)

2) State the basic tax point of these supplies. (1)

Total (4)

7. Jethro operates a shop in Cornwall. He also sells online. Customers buying goods from the shop receive a paper receipt from the electronic till. Customers buying goods online receive an emailed invoice in pdf format.

The process for recording transactions and completion of VAT returns is as follows:

Each day Jethro runs a 'shop daily gross takings' report from the till. Each quarter he prints these out and takes them, along with all paper purchase receipts, to his accountant to prepare the VAT return for the period.

Each month Jethro downloads an 'online sales' report, using online sales software. The report, which shows summary level data from the sales invoices, is downloaded to a spreadsheet and emailed to his accountant.

The accountant:

- 1) manually enters the 'shop daily gross takings' amounts and purchase invoice details into API-enabled software;
- 2) uploads the 'online sales' report values from the spreadsheet into API-enabled software; and the API-enabled software then creates the VAT Return and transmits this to HMRC.

Explain whether the process described is compliant with the Making Tax Digital requirements. (4)

8. Agatha is a VAT-registered wine expert and provides a number of services from her home in Brighton. For each of these services she makes a charge.

She made the following supplies of services in the last quarter:

- 1) Consultancy services to a restaurant group in Switzerland. The work was delivered by email;
- 2) A wine tutorial webinar delivered 'live' to a student living in France;
- 3) Supply of her report on 'Burgundy' to a student living in The Netherlands. The student was sent an email with a link to download the report; and
- 4) Supplies of admission to a wine tasting event held at her home. The attendees were all employees of a US company. Agatha invoiced the company.

State the place of supply of each service provided by Agatha. (4)

9. Totesalpaca manufactures blankets and clothing from alpaca fleece from its workshop in Cheshire, England. It ships these goods to customers in Northern Ireland and the EU, and makes purchases from suppliers in Northern Ireland and the EU.

Totesalpaca made the following supplies and purchases in the last quarter:

- 1) Supply of blankets to a VAT-registered business in Belfast (Northern Ireland);
- 2) Supply of scarves to a private individual living in Bulgaria;
- 3) Purchase of cardboard boxes from a business in Belfast; and
- 4) Purchase of cotton from a business in Portugal.

Explain the VAT treatment of each supply. (4)

10. Matt is VAT-registered and accounts for VAT on a calendar quarterly basis. He has previously filed his VAT returns, and paid the VAT due, on time. Due to a staff shortage, however, he started to default on his VAT obligations, as per the below. Matt's turnover is over £150,000 per year.

<u>Q/E</u>	<u>Late VAT return</u>	<u>Late VAT payment</u>	<u>VAT due</u> £
30 Jun 2021	Y	Y	15,000
30 Sep 2021	Y	Y	12,000
31 Dec 2021	Y	N	13,000
31 Mar 2022 (Note)	Y	Y	12,000

Note

As Matt still has a staff shortage he expects the March 2022 return and payment to be late.

Calculate, with supporting explanations, the default surcharge payable for each VAT quarter. (4)

PART II

11. Jo has recently started work as the Financial Controller of a construction company. Jo has never dealt with VAT on construction projects before and wants to check what the correct VAT treatment of some new projects should be. The new projects are as follows:

Oaklands House

The company recently purchased an old house with a large garden. The house was occupied until the day of sale. The company will build two new houses in the area that was the garden. It will also demolish the old house and build a new one in the same space. Although the planning permission does not require it, the front façade of the old house will be retained to preserve the character of the area.

Once completed, the three new houses will be sold individually. One of the houses will also have a garage. Someone has already offered to buy one of the houses but has asked if the house can be supplied with additional works including a fitted kitchen with worktops, cupboards, cooker and fridge freezer and with fitted carpets.

The company will need to buy in the building materials, the cooker and freezer for the kitchen and the carpets. It will also need an architect to assist with the design, an electrician to help with the construction and a carpet fitter.

The Sales Director has advised Jo that these houses may either be sold freehold or through a 150-year lease.

Pinewood Apartments

The company has been asked to provide a quote for the conversion and refurbishment of an existing building into homes. The building has three floors, which currently consist of two shops on the ground floor, and three apartments on each of the other two floors. After the conversion, there will be two new apartments on the ground floor, three on the middle floor and a large penthouse apartment on the top floor. Each apartment will be a self-contained dwelling.

Requirements:

- 1) **For Oaklands House, explain what the VAT liability will be of:**
 - a) **The sales of the houses and garage, including an explanation of whether the sale by lease or freehold would be different;** (5)
 - b) **The charge to the customer for the additional works requested for the house under offer;** (3)
 - c) **The cost of the goods and services purchased by the company to construct the houses.** (6)
- 2) **Explain what the VAT Liability will be of the services to be provided for Pinewood Apartments.** (3)
- 3) **Explain what the key legal differences are between a freehold estate and a leasehold estate.** (3)

Total (20)

12. Jennifer Trowelling is a new author who started trading on 1 November 2021 and has just registered for VAT. She is about to sign a contract with a publisher for which she will receive £100,000 over the next year. Under the proposed contract, her agent will charge 20% commission on any sales made. Jennifer will also have costs of:
- 1) £1,600 for a new laptop and phone;
 - 2) train fare costs of £2,000 per year for attending book signings; and
 - 3) accountancy fees of £3,000.

All the above are exclusive of VAT if applicable.

As an alternative model, the accountant has suggested that it would be possible to arrange the contract so that the agent charges the £100,000 to the publisher, deducts the agent's fee and passes the balance on to Jennifer.

Requirements:

- 1) **Calculate Jennifer's net income after deducting her VAT Liability, both with and without the flat rate scheme, for the proposed contract and the alternative contract. Identify whether the flat rate scheme is beneficial for each contract.** (12)
- 2) **Explain how taxpayers using a Flat Rate Scheme should show VAT in their financial accounts.** (3)

Total (15)

13. Hattie and her company are your clients. Hattie owns all the shares in the company which operates a sheep farm. The company is registered for VAT. However, as she is now 74, she has decided to sell the farm and retire. The farm consists of grazing land for the sheep, some equipment, the sheep and a farmhouse. There is no option to tax on the land.

She has invited buyers to make a bid either for the whole farm or for parts of it. She is currently considering the following offers. All the potential buyers are registered for VAT.

- 1) Buyer 1 wants to buy all of Hattie's shares;
- 2) Buyer 2 already owns the farmland next to Hattie's farm. She wants to buy the farmhouse, land and sheep to operate as part of her own farm, but does not need any of the equipment. The company will need to sell the equipment separately to a second-hand dealer (she previously recovered VAT on this equipment);
- 3) Buyer 3 wants to buy the whole farm, with the intention of converting the farm to a cattle farm over the next year or so, as he believes that is more profitable;
- 4) Buyer 4 is a property dealer who wants to buy the farm but will immediately sell it on at a substantial profit to one of her clients who will continue to operate it as a sheep farm; and
- 5) Buyer 5 wants to buy all the assets but will then immediately sell the sheep and the equipment and build houses on the land.

Hattie expects to complete the sale by June 2022. She has advised you that there will be no other sales transactions in this period.

Hattie has advised that once this work is complete, she will have lots of time to complete her own tax returns and will have no further need of your services.

Requirements:

- 1) **Write an email to Hattie in which you explain the VAT Liability of each of the above offers, and what output VAT should be declared on the company VAT return for the period ending June 2022 for each of the offers.** (8)
- 2) **Explain the impact if there had been an option to tax on the land (excluding the farmhouse).** (3)
- 3) **Explain what action you should take on ceasing to act for Hattie.** (4)

Total (15)

14. Ashraf owns a group of companies which provides stabling facilities for horses. He owns all the shares in the holding company, Ashraf Holdings Ltd. Ashraf Holdings Ltd is a UK based entity which holds 100% of the shares in the following three subsidiary companies and provides management services to them.

Steady and Stable Ltd is a fully taxable company based in the UK. The company provides the stabling services to customers.

Fields of Dreams Ltd owns the land on which the stables are located. It is not VAT registered as it only has exempt income from leasing the land to Steady and Stable Ltd, from renting a house to Ashraf and from leasing other land which it owns.

Foreign Fields s.r.o. is based in the Czech Republic. It provides accounting and IT services to the other companies.

Ashraf is himself registered for VAT. He provides consultancy services to all the companies.

Ashraf is concerned about the VAT incurred in Fields of Dreams Ltd and is looking for ways of reducing this. He is thinking about forming a VAT group or just charging less for the services provided by the other companies. He is also considering providing his own consultancy services to Field of Dreams for no cost in return for being able to live in the house without paying any rent.

Requirements:

- 1) **Explain which of the above entities could be included in a potential VAT group.** (4)
- 2) **Explain whether forming a VAT group would be effective in reducing the cost of irrecoverable VAT.** (3)
- 3) **Explain whether the other suggestions for reducing VAT costs would be effective.** (3)

Total (10)