

CIOT - ATT-CTA

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 1**

Answer-to-Question-_1_

To join the cash accounting scheme, turnover of taxable supplies in the next 12 months must be less than or equal to 1,350,000.

All VAT returns must be up to date and VAT paid.
Must not have been convicted of a VAT offence in the past year.

$850,000 \times 120\% = 102,000$ which is under 1,350,000

Therefore all is satisfied and may join scheme.

Benefits are that it helps cash flow, which could help the partnership. it provides automatic bad debt relief, which could also help here as there has been outstanding debt in the past. It is also easier to identify the tax point for transactions. It would be beneficial due to helping cash flow and bad debt relief.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question-_2_

He does not account for vat or submit returns so cannot claim input tax. But he can charge and keep a flat rate addition when he sells goods, or goods and services, to VAT registered customers.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question-_3_

Smoking cessation patches - reduced rate
Newspapers - zero rated
Dispensed prescribed medicines - exempt
Bottled water - standard rated
Takeaway pre-packed sandwiches - zero rated
Hot coffee from a self-service machine - standard rating
Baby clothes - exempt
Adult gloves - standard

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question-_4_

- 1) They might get taxed on the exempt income if they do not spilt it out. They might want to apply for a special method rather than using the standard method. This may be more fair and they can claim relief for the amounts which are exempt.
- 2) $2,400 \times 20\%$ is recoverable = £480

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

the entity must be a corporate body
the body corporate must be established in the UK or has an
established place of business in the UK.
The companies must be under the common control of one
person, own more than 50% of the company.

Therefore Blue and Green can form the VAT group, but Pink
cannot as it is established in Canada.

The implications of VAT group registration is that all the
companies within the VAT group are treated as 1 single
taxable person although they remain jointly and severally
liable for any VAT due.

Just one group return must be made by the representative
member.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question-_6_

For failure to notify, the penalty charged is a % of the potential lost revenue.
This is the amount of vat due from the date registration should have occurred to the date HMRC are notified.

Should have notified = 30 June 2021
Did notify - 31 August 2021

This is deliberate and unprompted.
The max penalty is 70% and the min is 10%

it is less than 12 months from the date of the tax becoming due so therefore the min is 10% of tax due.

$$11,000 + 10,000 + 9,000 + 87,000 = 117,000 \times 0.2 = 23,400$$

$$23,400 \times 0.1 = 2340$$

$$23,400 \times 0.7 = 16380$$

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question-_7_

Pre-registration input tax can be recovered on goods purchased in the previous 4 yrs and still held on reg or on services supplied in previous 6 months.

- 1 - can recover. no uk supply but import vat payable by uk importer
- 2- service, more than 6 months, cant recoer
- 3- goods, can recover, still in use
- 4- hotel is not recoverable

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

Answer-to-Question-_8_

generally, b2b services, treated as supplied in the country to which the recipient belongs - uk here
outside of eu
reverse charge obligation applies, uk customer adds correct output tax to own vat ewturn and recovers this as input tax

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9_

- 1 - no btp, atp is 22 October 21
- 2- btp - 23 July 21, actual tax point - 21 July 2021
- 3- btp is 16 September 21, atp - 2 Oct 21
- 4- btp is 22 June 21, atp - 22 August 2021

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question-_10_

Appeal against it or ask hmrc for a review to consider cancelling the appeal. Must be made in writing within 30 days of the assessment. Therefore must do this by 20 Nov 2021.

if no agreement after this then you have another 30 days to ask hmrc for an internal review. If there is not agreement after this then the tp can appeal to the first tier tax tribunal. A further appeal is permitted after this.

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question-_11_

- 1) This is an old conversion, residential. reduced rate 5%
- 2) This is a old charity builing, non-res, zero rated
- 3) If she sells them or leases them she can opt to charge standard rate and then recover all costs at standard rate. Standard rated
- 4) This is a new residential care home which is a business. Standard rating

-----ANSWER-11-ABOVE-----

CIOT - ATT-CTA

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 2**

-----ANSWER-12-BELOW-----

Answer-to-Question-_12_

1) a) $6,000 + 3,600 + 1,600 = 11,200$

b) 0

c) $12,000 + 25,000 \times 0.2 = 7,400$ recoverable

d) 1,600

$3,000 \times 0.2 = 600$

$1,600 - 600 = 1,000$ recoverable

2) Bad debt relief is available to traders where the following conditions are met:

- They have supplied goods or services and have accounted for and paid the output tax to HMRC
- The whole or part of the debt has been written off as a bad debt in their accounts
- The value of the supply being written off must not be more than the normal selling price
- The debt itself must not have been paid or sold on
- The debt must be at least 6 months old (since the later of the date of the supply and the due date for payment as on the invoice)

It appears the debt have not been sold on.

Where part payments are made these must be allocated to the older invoices first. Therefore on 2 October 2020, the 25,000 paid goes against the 36,000 due for the 15 August invoice. There is more than 6 months outstanding from 15 August 2020 to 31 March 2021. Therefore the rest of the debt can be claimed. I.e $36,000 - 25,000 = 9,000$, plus the 1 Sept and 5 Sept invoices have not been paid for more than 6 months. Assuming all the other requirements above have been met then they can claim for this as bad debt.

3) That the professional owed a duty of care
That that duty of care was breach
And that that breach was a cause of loss to the claimant.

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

Answer-to-Question-_13_

To: Anderson@mail.com
From: ATaxAdvisor@att.co.uk

Date: 8 November 2021

Subject: Your VAT enquiry

Dear Miss Anderson,

Thank you for your recent enquiry regarding the VAT on your properties. I will seek to answer all of your queries below:

20 High Street:

You can change your mind within 6 months of opting to charge VAT if you meet certain conditions. Unfortunately it seems that this time limit has passed now. You would now need to wait 20 years before you can revoke your option to tax again, provided that you also meet the certain conditions.

8 Mitre Square:

This does not fall into any of the categories for buildings under zero rating. As it is a commercial building and you have opted to tax, you must charge VAT on your rental supplies.

107 Forder Drive:

This is a qualifying conversion, assuming that you are selling a major interest - as outlined below, then you do not need to charge VAT on the sale.

56 and 57 Allied Green:

For these to be zero-rated, there must be the grant of a major interest. This means that you are selling the freehold or a lease exceeding 21 years. It appears it will be a relevant charitable building. Therefore you do not need to charge VAT on these properties, they are zero rated.

If you do need to charge VAT on any of your properties, you can then recover any past costs and any future costs.

I hope that the above clarifies any queries you had however if you require further assistance please do not hesitate to contact me.

Kind regards,

Your Tax Advisor

2) It is possible to advise both clients, however, as there is a potential conflict of interest, some measures must be taken:

- You must make both parties aware that you represent the other one.
- Separate members of the firm must represent the parties.
- Must give both parties the opportunity to seek new representation.
- Can act if the clients agree on all the relevant terms and these can be shared openly between them
- Should not normally act for both clients in conflict of interest cases, but this does not mean you cant always
- Must always be sure that it is in each client's best interest for you to act

-----ANSWER-13-ABOVE-----

-----ANSWER-14-BELOW-----

Answer-to-Question-_14_

1) DR Cash/bank 738,000,000
CR VAT Control account 120,000,000

2) The standard partial exemption calculation is as follows:

Value of taxable supplies in the period (excluding VAT) /
Total value of supplies in the period (excluding VAT) x 100
= recoverable percentage of residual input tax.

This percentage is rounded up to the nearest whole number.
Rounding up is only available to businesses whose residual
input tax is less than £400,000 a month.

Income from share sales and FX trading is exempt, therefore
it should only form part of the 'total value of supplies'
part of the calculation.

3) When the standard method is not producing a fair outcome
a business might want to use a special method. Ultimately it
is about saving the business money. A business may be able
to recover more using a special method than the standard
method. It is possible to apply to HMRC in writing to use a
special method.

4) Audio visual equipment is standard rated.

The total expenditure is: 95,341,000
VAT on this is 1/6 of 95,341,000 = 15,890,166.67

15,890,166.67 / 875 * 850 = 15,436,161.91

Taxable supplies 600,000,000
Exempt supplies 18,000,000
Total 618,000,000

600,000,000 / 618,000,000 x 100 = 97.087

Cannot round up as residual input tax greater than 400,000 per month.

5) Test 1 - if total input tax incurred is less than £625 per month on average and the value of exempt supplies is less than 50% of the value of all supplies then it is de minimus

Test 2 - If the total input tax incurred less input tax directly attributable to taxable supplies is no more than £625 per month on average and the value of exempt supplies is no more than 50% of the value of all supplies, then all input tax is recoverable.

The total expenditure is: 95,341,000
VAT on this is 1/6 of 95,341,000 = 15,890,166.67

15,890,166.67 / 12 =

This will be more than £625 per month on average and therefore the first test and second test will not be met.

Value of all supplies:

600,000,000
11,000,000
7,000,000
= 618,000,000

Exempt supplies is 18,000,000, which is not more than 50% of the value of all supplies.

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

The threshold for VAT registration is £85,000. There are two tests that must be considered, the historic test and the future test. The historic test looks at past taxable supplies for the previous 12 months. This is done at the end of each calendar month. If taxable supplies are over £85,000, then HMRC must be notified in the next 30 days. The business will be registered for VAT and must start charging VAT from the start of the next month.

The future test looks at taxable supplies in the next 30 days only. If £85,000 is exceeded then HMRC must be notified within those 30 days.

The future test will not be relevant as at no time was Otis going to sell over £85,000 in any one go.

The samples given away will not be counted as this is unlikely to be a taxable supply and he received no income from this. This is an exempt supply and so will not be included in the test. Taxable supplies are usually made for consideration in the furtherance of business. While you could argue that these samples are given away in the furtherance of business, Otis hopes to get more business from them, there is no consideration.

It looks like the historic test is not met either. At no point, looking back were taxable supplies over £85,000 for the past 12 months. The refund to the UK retailer will come off of the total amount of taxable supplies. Online sales to UK individuals will still count towards the amount to be registered for VAT. As the sales to the Swiss retailer take place outside of the UK these will not be inside the scope of VAT.

2) Advantages include creditabilty, some business only deal

with VAT registered businesses. Otis will be able to recover input tax on any purchases and he will avoid any late penalties if he becomes liable to register at any point in the future.

Disadvantages include, output tax will be chargeable on all taxable supplies at either the standard or reduced rate. This may be problematic for the customer who is unlikely to be able to recover the VAT. There will also be the compliance burden of doing his accounting if VAT registered.