

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

November 2021

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. Manning & Co is a partnership supplying electrical installation and repair works. The business became VAT registered on 1 February 2019. While all VAT returns have been submitted on time, cashflow was an issue for the business and it failed to settle the VAT liabilities on time for the first three VAT returns. All outstanding debt was, however, settled by 31 March 2020. The business has not committed any VAT offences or incurred any penalties since registration.

Turnover in the year to 31 January 2021 was £850,000 and projected annual turnover is expected to grow by around 20% per annum.

Invoices are issued to all customers at the end of each month, with four-week settlement terms, but most customers take up to eight weeks to pay, with some outstanding invoices dating back to October 2020.

Explain whether cash accounting can be used by Manning & Co and whether it would be beneficial. (4)

2. Fred has been a crop farmer for many years. He is not VAT registered and instead is newly registered for the farmer's flat rate scheme as he thinks it might simplify his VAT affairs.

Explain how the farmer's flat rate scheme works for Fred and his customers. (2)

3. Halstead Registered Pharmacy & Convenience Store is VAT registered. It sells a variety of goods.

State the VAT liability of each of the following items:

- 1) **Smoking cessation patches;**
- 2) **Newspapers;**
- 3) **Dispensed prescribed medicines;**
- 4) **Bottled water;**
- 5) **Takeaway pre-packed sandwiches;**
- 6) **Hot coffee from a self-service machine;**
- 7) **Baby clothes; and**
- 8) **Adult gloves.**

Ignore the impact of any temporary COVID measures. (4)

4. Rhodes Property Ltd has the following income and expenditure in the quarter to 31 October 2021:

Income

Exempt residential property rental income – £1,200.
Taxable holiday letting income – £2,400 plus VAT.

Expenditure

Repair to holiday property roof – £4,000 plus VAT.
Legal fees to agree lease terms for the residential property – £3,000 plus VAT.

- 1) **Explain the implications of Rhodes Property Ltd having both taxable and exempt income.** (2)
- 2) **Explain, with supporting calculations, how much input VAT is recoverable in the quarter to 31 October 2021.** (2)

5. Red Ltd owns 100% of the shares in Blue Ltd and 51% of the shares in Green Ltd.

All three companies are based in and operate in the UK.

Blue Ltd also owns 100% of Pink Corp, a company which is based in, and only operates in Canada.

Red Ltd wants to include as many companies as possible in a VAT group.

- 1) **Explain which of the companies can and cannot form a VAT group.** (2)
 - 2) **Explain the implications of VAT group registration.** (2)
6. Peter Glass runs a business consultancy service. He breached the VAT registration threshold at the end of May 2021 when his turnover in the prior 12 months totalled £87,000.

He knew he was required to notify HMRC by 30 June 2021 that he had breached the VAT registration threshold and that he was liable to be registered for VAT from 1 July 2021. However, he decided, for cash flow reasons, to delay notifying HMRC until 31 August 2021.

Total turnover for the months of June to August 2021 was as follows:

	£
June	11,000
July	10,000
August	9,000

Explain, with supporting calculations, the maximum and minimum penalties that HMRC may charge Peter for failure to notify. (4)

7. Mills Consulting has been VAT registered since 1 July 2020. While preparing the accounting records for a VAT visit, the bookkeeper has come across the following entries on the submitted VAT returns.

- 1) Import VAT paid to a freight company for the import of equipment into the UK from China, dated 1 June 2021.
- 2) VAT on an invoice for legal fees relating to agreeing business contracts, dated 18 June 2019.
- 3) VAT on an invoice for purchase of a computer used wholly for business purposes and still in use now, dated 17 April 2019.
- 4) VAT on a hotel bill in the name of the sales manager for accommodation during a business trip to London in February 2021.

Explain whether the VAT was properly reclaimable for each item. (4)

8. **Explain how a VAT registered UK business must account for UK VAT on services received from an Australian based supplier.** (2)

9. **State the basic and actual tax point for each of the following supplies:**

- 1) Ongoing tax consultancy services. Invoice issued 22 October 2021 and payment received 29 October 2021.
- 2) Lawnmower delivered to customer on 23 July 2021. Invoice issued 21 July 2021 and payment received 22 July 2021.
- 3) Completed survey report emailed to client on 16 September 2021. Invoice issued 2 October 2021 and payment made 16 October 2021.
- 4) Children's entertainer booked for a party on 22 August 2021. Paid for in full at time of booking on 22 June 2021. Invoice issued 23 August 2021.

(4)

10. Casey & Co has been trading for many years and recently had a VAT visit. The HMRC officer disagreed with the VAT treatment of a mixed supply of training and accommodation and accordingly raised a VAT assessment for £46,000.

Having taken advice, Casey & Co disagree with the HMRC officer and want to know all of their options in terms of appealing the decision. The assessment was raised on 21 October 2021.

Explain the appeals process to Casey & Co, noting the relevant time limits for both Casey & Co and HMRC. (4)

11. Kelly & Sons is a VAT registered construction business which has been asked to quote for the following work:

- 1) Mr A has an old barn on his land for which he has planning permission, to convert it into a new dwelling. The barn has been used to store farming equipment for at least 20 years.
- 2) Charity B runs a drop-in advice centre from a building it has owned for 12 years. The charity carries out only non-business activities. The building needs an extension, which will be attached to the back of the existing property, to provide extra space for consultations.
- 3) Mrs C is building three new commercial units on surplus land she owns. She expects that all three will be let to tenants but may sell them if an offer is made.
- 4) Miss D runs residential care homes across the country. One of the homes was badly damaged by fire and was demolished to ground level. She plans to build a new residential care home in its place but it will be slightly larger. No part of the former home remains.

Explain the VAT rate applicable to each supply made by Kelly & Sons, if they do the work. (4)

PART II

12. Big and Small Ltd bought a number of items of adult's and children's clothing from its UK supplier, Trystich Ltd.

Trystich Ltd raised the following invoices to Big and Small Ltd. All invoices were due for settlement within 21 days of the invoice date.

<u>Invoice Date</u>	<u>Net (£)</u>	<u>VAT (£)</u>	<u>Gross (£)</u>
15 August 2020	30,000	6,000	36,000
1 September 2020	20,000	-	20,000
5 September 2020	18,000	3,600	21,600
5 July 2021	<u>8,000</u>	<u>1,600</u>	<u>9,600</u>
Total	<u>76,000</u>	<u>11,200</u>	<u>87,200</u>

The VAT shown on the invoices dated in 2020 was recovered as Input Tax on Big and Small Ltd's VAT return for the quarter ended September 2020.

The company made the following lump sum payments on account to Trystich Ltd:

<u>Payment date</u>	<u>Amount (£)</u>
2 October 2020	25,000
6 April 2021	12,000
18 May 2021	25,000
4 July 2021	<u>3,000</u>
Total	<u>65,000</u>

Big and Small Ltd has not yet paid the remaining £22,200.

Neither Trystich Ltd nor Big and Small Ltd operate the cash accounting scheme.

Requirements:

- 1) **Showing your workings, calculate how much Input Tax Big and Small Ltd should repay/recover on the following VAT returns in respect of the purchases from Trystich Ltd:**

- (a) Quarter ending 31 December 2020;
- (b) Quarter ending 31 March 2021;
- (c) Quarter ending 30 June 2021; and
- (d) Quarter ending 30 September 2021.

(7)

Continued

Continuation

- 2) **Explain whether Trystich Ltd can claim bad debt relief relating to the 15 August 2020 and 5 September 2020 invoices in its VAT return for the quarter ending 31 March 2021 making reference to the relevant conditions.** (2)
- 3) **Explain the three matters that the claimant must prove to make a successful claim for professional negligence.** (3)

Total (12)

13. You have received the following email from your client, Miss Anderson, who owns a number of properties in the UK.

Date: 2 November 2021

To: VATadvisor@propertyadvisors.com

Hello

I require VAT advice regarding some of the properties in my portfolio, as follows:

- 1) 20 High Street: I opted to tax this commercial building as soon as I purchased it, which was just over a year ago. I have been letting the property to a clothes retailer but they have given me notice that they will vacate. I have already found a new tenant, a high street bank, but they are not happy about me charging VAT on the rent. Can I revoke my option to tax on this building so I do not need to charge VAT to the new tenant?
- 2) 8 Mitre Square: I opted to tax this piece of bare land in October last year. In January this year, I had a commercial building constructed on the land, and have now found a suitable tenant for the building, a firm of accountants. The firm has instructed me that they will sublet some of the building and that they have already opted to tax the building in preparation. Do I need to charge VAT on my rental supplies to the firm considering the options to tax in place?
- 3) 107 Forder Drive: I wish to sell this commercial property, which I opted to tax five years ago. The purchaser told me on the telephone that he will convert the building into residential dwellings immediately upon purchase. Should I charge VAT on the sale of this building to the purchaser?
- 4) 56 and 57 Allied Green: A charity is buying the freehold in both of these commercial properties from me. I constructed and opted to tax these properties. 56 Allied Green is two years old (from the date of construction) and the charity has told me that it will use it for relevant charitable purposes. 57 Allied Green is five years old and the charity will use it as an office. Do I need to charge VAT on the sale of these properties?

If you conclude that I do not need to charge VAT on one or more of the above supplies please could you explain how this will affect my input VAT recovery on expenditure incurred in the past (purchase of the building, refurbishment etc.) and in the future (professional costs relating to the transactions).

Thank you in advance.

G Anderson

Shortly after receiving the above email, you also receive an email from Mr Jakobs, the purchaser of 107 Forder Drive, asking for advice on the purchase. Mr Jakobs is also one of your clients.

Continued

Continuation

Requirements:

- 1) Write an email to Miss Anderson in which you:
 - (a) Respond to her questions in paragraphs 1) – 4) above, explaining your reasoning. (12)
 - (b) Explain whether her historic and/or future input VAT recovery may be impacted as a result of your conclusions in (a) above. (3)

- 2) Explain whether it is possible, under the ATT's Professional Rules and Practice Guidelines, to advise both Miss Anderson and Mr Jakobs. (3)

Total (18)

14. Graham is the Tax Manager at a large quoted company. The company's principal activity is the manufacture and sale of audio visual (AV) equipment to UK retailers.

The company has a Treasury department which has been managing the company's cash position for many years. On 1 April 2020, the department increased its headcount with the specific intention to actively trade in shares and foreign exchange (Forex).

In total, there are 875 employees at the company, 850 of whom work exclusively in the making of taxable supplies. Of the remaining 25 employees, all of whom are in the Treasury department located in the company's headquarters (HQ), 15 of these employees cover the finance function for the entire company and 10 work exclusively in share and forex trading.

The company is registered for VAT and has always been fully taxable for VAT purposes. However, Graham is concerned that the new activity of the Treasury department will result in the company being partially exempt and has approached you for advice.

Income for the year to 31 March 2021 is as follows:

	<u>VAT exclusive</u>
	£
Income from AV equipment sales	600,000,000
Exempt income from share sales	11,000,000
Exempt income from forex trading	7,000,000

Expenditure (all subject to standard-rated VAT) for the year to 31 March 2021 is as follows:

	<u>VAT exclusive</u>
	£
Rent of HQ (landlord has opted to tax)	3,000,000
Cleaning, security and IT services for HQ	1,640,000
Electricity for HQ	85,000
Office equipment for HQ	360,000
Raw materials for AV equipment manufacture	82,000,000
Factory cleaning, security and electricity	3,680,000
Factory equipment	4,200,000
Legal fees re new sales agreement with retailers	28,000
Legal fees re Forex dispute	38,000
Audit and Corporation Tax compliance	310,000

Requirements:

- 1) Show the journal entries required to record the income from the AV equipment sales. (2)
- 2) Explain how the standard partial exemption method (values-based) is applied for calculating recoverable VAT (ignore the de minimis tests for the purposes of this requirement). Explain whether this company should include the income from share sales and Forex trading in the calculation. (4)

Continued

Continuation

- 3) **Explain why a business might want to operate a special partial exemption method, and the process that allows it to use a special method.** (3)
- 4) **Calculate the VAT recoverable for the year ended 31 March 2021, assuming that the company uses a special partial exemption method, taking staff numbers exclusively employed in taxable activity as a proportion of total staff numbers.** (8)
- 5) **Explain whether this company meets either of the two simplified de minimis tests which exist to save businesses the need to perform a full partial exemption calculation quarterly.** (3)

Total (20)

15. Otis, who lives in Nottingham, has designed some adult cycling socks made from a new type of waterproof material. He found a suitable manufacturer in China to make his socks and entered into a contract with them to manufacture 20,000 pairs. The shipment of socks from China arrived at his new rented storage unit in Nottingham on 8 March 2021.

Otis used a Customs clearance agent to bring the goods into the UK and was required to pay the agent's services as well as the VAT and Customs Duty due on importation of the goods into the UK. The VAT totalled £3,472 and the Customs Duty £1,860.

The cost of renting the storage unit is £1,250 plus VAT per month.

Otis received interest from cycling retailers in the UK after sending them each a free sample of a pair of the socks. The cost price (to Otis) of a pair of socks is £1.55 and he sent out a pair to 3,000 potential customers. He also secured an order from a Swiss retailer.

After paying for a website with an online shop to be set up, he was also able to sell directly to UK consumers from 1 July 2021.

He had the following transactions in the period 25 March 2021 – 30 September 2021:

<u>Transaction type</u>	<u>Value (£)</u>	<u>Invoice date(s)</u>
Sales to UK retailers	38,000	25 March – 30 September
Refund to a UK retailer	(4,000)	Goods returned to Otis on 2 August
Online sales to UK individuals	13,000	1 July – 30 September
Sales to a Swiss retailer	35,000	29 September

The socks ordered by the Swiss retailer on 29 September were not sent out until mid-October.

Requirements:

- 1) Explain, with supporting calculations, whether Otis has exceeded the VAT registration threshold making reference to the VAT liability of all sales made and the samples given away. (5)**
- 2) Explain the advantages and disadvantages of Otis registering for VAT as an intending trader before he made his first sale. (5)**

Total (10)