

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Kit runs a small supermarket selling:

Fresh vegetables;

Chocolate;

Alcoholic beverages;

Olive Oil;

Potato crisps;

Newspapers;

Baby clothes; and

Fruit juice.

State the VAT liability of the above items.

(4)

2. Farmyard Friends Ltd sells parts for agricultural machinery from its premises in the UK. In the quarter ending 31 March 2024, the company had the following transactions:

- 1) The sale of a part to a UK based customer who has farms in France and in the UK. The goods were delivered to the customer in the UK.
- 2) The sale of a part to a Belgian farmer who collected the part whilst they were visiting the UK.
- 3) The sale of a part to a company based in the Czech Republic. The company asked for the part to be delivered in March 2024 to a third-party UK-based company where it was incorporated into agricultural machinery. The machinery will then be sent to the Czech Republic in June 2024.
- 4) The sale of a part to an Australian customer. Although the part was paid for and was collected by the customer's delivery contractor from Farmyard Friends Ltd, the customer has advised that they cannot provide evidence of export because the part was stolen before it reached the airport to be flown out of the UK.

In all cases, the customer had agreed, as part of the purchase agreement, to provide evidence that the goods have been exported.

Explain whether Farmyard Friends Ltd can treat the above transactions as zero-rated exports.

(4)

3. Lina is VAT registered and her sales are liable to VAT at 20%. On 1 February 2024, she started using the cash accounting scheme and is now completing her VAT return for the period ending 30 April 2024. In that period, Lina received payments of £140,000 some of which related to sales invoices from previous periods. In March 2024, she sent one invoice for £2,000 plus VAT with unusual payment terms that allow payment to be made in nine months' time.

She also sells some of her goods through a third-party shop. The shop sells the goods, collects the money for her and then deducts a 10% commission fee. Three days after the end of each month, the shop sends her: a statement showing how much has been sold in the previous month, a VAT invoice for the commission due and a cash payment for the net balance. Lina is unsure how to deal with the statement and cash received on 3 May 2024 for April 2024 sales.

- 1) **Explain which sales should be included on Lina's return for the quarter ending 30 April 2024, and whether she needs to include the invoice with unusual payment terms.** (2)
- 2) **Explain in what period Lina needs to account for output tax on the income from the shop and what value she should use.** (2)

4. Bambini is a charity which provides after-school childcare. There is a fixed charge of £2.50 per child per session and there are normally about 20 children in each session. There are no free places. In the year ending 31 December 2023, the charity had income of £38,000 and expenditure of £40,000. The income was made up of £10,000 from charges made to parents for the sessions and £28,000 which came from grants and donations. Bambini wants to understand if they would be regarded as being in business for VAT purposes.

1) State what tests Bambini should apply to determine if it is in business for VAT purposes. (2)

2) Explain why HMRC are likely to consider that Bambini is in business. (2)

5. Healthy Wealthies Ltd is a partially exempt business. For the year ending 31 March 2024, the company calculated that it was able to reclaim 35% of the input tax on residual costs. In previous years, the company has incurred VAT on the following projects:

1) £600,000 of VAT on a refurbishment of its main office building. The project was completed in January 2019 and 25% of the VAT was reclaimed.

2) £1,000,000 of VAT on the purchase of the freehold of a new building in October 2016 which was wholly used for the company's taxable supplies. All the VAT was reclaimed. The building is now used for both taxable and exempt supplies.

3) £40,000 of VAT on alterations to the main office building in August 2021. 40% of the VAT was reclaimed in that year.

4) £200,000 of VAT on an extension to a building. The project was completed in June 2018, but no VAT was reclaimed as the building was wholly used for exempt purposes. It is now used wholly for taxable purposes.

Calculate the total Capital Goods Scheme adjustment for the year ending 31 March 2024. (4)

6. Imap Retender owns all the share capital in Foofita Ltd, Mendel Ltd and Grohl GmbH. All the companies are UK based except for Grohl which is wholly based in Germany. Imap is in business as a management consultant and he provides management services to each company for £200,000 each per year. Foofita Ltd and Grohl GmbH only make taxable supplies in the UK and Germany respectively. Neither of these two companies makes supplies to other members of the corporate group. Mendel Ltd makes only exempt supplies of insurance and is not currently VAT registered. Mendel Ltd supplies insurance to Foofita Ltd and Grohl GmbH.

1) Explain which of the above businesses can be included in a VAT group. (2)

2) Explain what impact forming a VAT group with all possible businesses will have on the input tax incurred by each of the group members. (2)

7. In the VAT quarter ending 30 April 2024, We Sell Everything Ltd has the following transactions:

1) The construction of a building in France for a German company;

2) The sale of a ticket to a business in Brazil for a place at a one-day conference in Manchester (UK);

3) The provision of consultancy services to a private individual in Dubai; and

4) The provision of catering in a UK restaurant to business customers from Bulgaria.

Explain what is the place of supply of the above services. (4)

8. Cointon Crust Ltd is a construction company, registered with HMRC under the Construction Industry Scheme, which is involved in a project to build a new storage facility. The accounts team are raising invoices to their customer, for the work the company has done demolishing the building which was previously on site and for constructing the new building. They are also raising an invoice to a separate customer for selling scrap which was taken from the demolition works. Both customers are registered for VAT.

Explain whether Cointon Crust Ltd should add VAT to the invoices. (4)

9. Bruce owns all the shares in a VAT registered company which owns a shop selling sewing machines and telescopes. There is no option to tax on the shop. He needs to raise some money and is considering various options. These are as follows:

- 1) He could continue to operate the telescope business from the shop, but the company sell the stock and customer list for the sewing machine business. There is a prospective purchaser who would start the business immediately.
- 2) The company could sell the shop and continue to operate the business from a cheaper property elsewhere in the town.
- 3) He could sell shares in his company and start a new business with the funds raised.
- 4) The company could sell all the assets of the business to another local business. The owner of that business has advised that they would keep the shop going for another few months until they have sold the stock and then they would sell groceries from the shop.

Each prospective purchaser is VAT registered.

Explain whether each option above could be treated as the transfer of a going concern for VAT purposes. (4)

10. SOS-Tresses-in-Distress is a VAT registered hairdressing business. This week, they are celebrating their first year in business and during the week they intend to reward two of their most loyal customers with a special surprise.

One customer will be given a free haircut and colour for which they would normally charge £90 including VAT. They will use about £10 of hair products in doing this.

The other customer will receive a set of very high-quality shampoos and hair products. These cost £55 plus VAT and normally sell in the salon for £120 including VAT. They will be taken from stock in the salon.

Every other customer who comes to the shop this week will also get a small bottle of shampoo with a normal selling price of £8 including VAT. These items cost £4 plus VAT when purchased.

Explain whether the business will need to declare output VAT on the gifts. (4)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

11. You have been asked to present a seminar on HMRC's new penalty regime for VAT. To make the seminar more practical, you have been given two made-up emails to use as examples. They are set in the future so assume that you are reviewing them on 20 May 2025. This means there is no need to take into account any easements which HMRC may apply in the first year of the new penalties. There is also a file note in relation to the second client.

From: navarro@minimo.co.uk;
To: adviser.t@imposta.co.uk;
Subject: VAT returns

Hello tax adviser

I seem to have got into a bit of a mess with my VAT returns. I split up with my partner in February last year. They used to help me out quite a lot with my paperwork including getting my VAT returns in on time and making the payments when due. Since then, I have struggled to get all my VAT returns in on time, and I've been a bit late paying HMRC as well. Can you let me know what penalties HMRC will apply, I can't work it out from my on-line account?

<u>Quarter End</u>	<u>Date of filing</u>	<u>VAT liability (box 5)</u>	<u>Date of payment</u>
31 Mar 2024	7 Jul 2024	£ 15,000	7 Jul 2024
30 Jun 2024	6 Aug 2024	18,000	6 Aug 2024
30 Sep 2024	23 Nov 2024	20,000	23 Nov 2024
31 Dec 2024	10 Feb 2025	5,000	7 Mar 2025
31 Mar 2025	18 May 2025	17,000	9 May 2025

Thanks

Navarro

From: kenny@coltello.co.uk
To: adviser.t@imposta.co.uk
Subject: VAT returns

Hello tax adviser

The last few months have been quite difficult for me. I work nights as a security guard in the big clubs, but I got into a big fight at New Year and ended up in hospital for six weeks. Since going into hospital, I am very behind with my paperwork, so haven't got round to filing my 31 December 2024, 31 January 2025, 28 February 2025, or 31 March 2025 VAT returns. I also had a couple of late returns back in October and November 2024. I know that I still owe HMRC £14,000 in VAT for February 2025, and £10,000 for March 2025. I have set time aside to bring everything up to date and make payment to HMRC when I have a day off on 31 May. Do you think that HMRC will understand and let me off any penalties?

Cheers

Kenny

File note:

In 2021 Kenny gave us some information relating to his VAT situation that subsequently was found to be incorrect. It is unclear whether this information was given deliberately or in error.

Continued

Requirements:

- 1) **Calculate:**
 - a) **How many ‘points’ Navarro has for late filing of quarterly VAT returns and what penalties will be charged to Navarro for late filing. Identify the period to which any penalty relates.** (2)
 - b) **The penalties HMRC will charge to Navarro for late payment.** (5)
 - c) **The penalties HMRC will issue to Kenny for late filing of his monthly VAT returns.** (2)
 - d) **Assuming Kenny does not pay until 31 May, the penalties HMRC will issue to Kenny for late payment of VAT.** (3)
- 2) **Explain whether Kenny or Navarro have a reasonable excuse for not filing their returns on time.** (2)
- 3) **Explain what you should consider, and any actions you could take, in relation to the ‘Professional Conduct in Relation to Taxation’ (PCRT) principles before you submit to HMRC any request to cancel Kenny’s penalties.** (3)

Total (17)

12. Hortus Ltd is a garden landscaping company. The company started trading in May 2023, and is not VAT registered. When setting up the company in May 2023, the managing director took advice from an accountant about VAT. The company purchased a van in June 2023, but sold it and purchased a different van in July 2023 because it was not suitable. The company also received a grant in August 2023 from their ‘Local Enterprise Partnership’ (LEP) to help with marketing. Hortus Ltd engaged a marketing company in the US in October 2023. This company did not charge them any VAT as it was based overseas.

The managing director is now wondering whether Hortus Ltd should now be registered for VAT, and whether it can claim back all the input VAT paid out since the business started.

The company’s income and expenditure (excluding materials) for the first 11 months of trading is as follows:

<u>Month</u>	<u>Sales</u>	<u>Income</u> <u>Grant from LEP</u>	<u>Sale of van</u>	<u>Accounting advice</u> <u>(inc VAT)</u>	<u>Expenditure</u> <u>Marketing</u> <u>from US</u>	<u>Van purchases</u> <u>(inc VAT)</u>
	£	£	£	£	£	£
May-23	1,000			600		
Jun-23	2,000					15,000
Jul-23	5,000		14,000			18,000
Aug-23	13,000	17,000				
Sep-23	15,000					
Oct-23	23,500				8,750	
Nov-23	14,000					
Dec-23	5,000					
Jan-24	5,000					
Feb-24	10,000					
Mar-24	14,000					

Continued

Requirements:

- 1) Explain, with supporting calculations, when Hortus Ltd exceeded the VAT registration threshold, when it should have notified HMRC, and from what date it should have been registered for VAT. (6)
- 2) Explain whether Hortus can recover the input VAT on the purchase of the vans, the accounting advice, and the US marketing costs, as VAT on pre-registration expenses. (4)
- 3) State the journal entry required to correct the company's records for any recoverable pre-registration input VAT. (2)

Total (12)

13. Fleetwell Foods Ltd is a VAT registered business which supplies food and soft drinks to catering outlets in the local area. The company's standard terms are that invoices are due seven days from presentation. The company has been making strong sales but has been struggling to get all its customers to settle their invoices.

During April 2024, the company accountant reviewed all outstanding invoices from the last nine months and has detailed them below:

Customer	Invoice Date	Amount at 0%	Amount at 20%	VAT	Amount out-
		VAT	VAT		standing
		£	£	£	£
Billy's Burgers	03-Nov-23	8,000	5,000	1,000	14,000
Billy's Burgers	04-Jan-24	7,500	3,500	700	11,700
Eat Fresh	31-Oct-23		5,500	1,100	6,600
Lettuce Eat	05-Sep-23	800	400	80	1,280
Lettuce Eat	03-Nov-23	900	350	70	1,320
Lettuce Eat	03-Feb-24	1,025	750	150	1,925
Thai Tanic	31-Oct-23	<u>3,000</u>	<u>1,000</u>	<u>200</u>	<u>4,200</u>
Total		<u>21,225</u>	<u>16,500</u>	<u>3,300</u>	<u>41,025</u>

The company accountant made some calls, and he has now received payment from the following customers:

Customer	Amount paid	Comments
	£	
Billy's Burgers	15,000	Did not specify which invoice the payment relates to
Eat Fresh	5,000	Did not specify which invoice the payment relates to
Lettuce Eat	1,320	For invoice of 3 Nov 23
Thai Tanic	<u>3,000</u>	Did not specify which invoice the payment relates to
Total	<u>24,320</u>	

There is an invoice not shown in the above which is a year old. The customer believes they have paid Fleetwell Foods Ltd, but there was a fraud and the payment went to the bank account of an ex-employee of Fleetwell Foods Ltd.

Requirements:

- 1) Explain what steps the company accountant needs to take in order to claim bad debt relief on any of the unpaid invoices, and how bad debt relief is claimed in the company's VAT return. (2)
- 2) Calculate the amount of bad debt relief that Fleetwell Foods Ltd is entitled to claim on its quarter ended 30 June 2024 VAT return. Show your treatment of each invoice. (7)
- 3) Explain how the invoice which has been subject to a fraud should be treated for bad debt relief. (2)

Total (11)

14. Greenfield Ltd is a VAT registered business that specialises in multi-use property development. It has just purchased a parcel of land with a disused factory, and is currently putting together a business plan to develop it in several phases:
- 1) Phase 1 will be to build a holiday home complex with eight holiday cottages, a swimming pool, and a three-bedroom house which will be rented to the manager of the site. The swimming pool will mainly be for the use of visitors to the holiday cottages, but Greenfield Ltd would also like to rent it out to local schools or sports clubs in the early mornings and evenings.
 - 2) Phase 2 will be to build office space which will be rented out to start-up businesses. Greenfield Ltd will also provide maintenance services to the tenants as part of the rental agreement.
 - 3) Phase 3 will be to convert an unused factory on the site into flats. Greenfield Ltd hopes to be able to grant a lease, the length of which is yet to be decided, on the flats to a housing association who will rent them out to tenants. The construction work for this phase will be carried out by a specialist building company.

Greenfield Ltd has not opted to tax the site but is considering whether it should.

Greenfield Ltd has secured a mortgage on the site to provide funds for the development.

Requirements:

- 1) **Write a letter to the Directors of Greenfield Ltd which explains:**
 - a) **The VAT liability of the rental of holiday cottages, the three-bedroom house, the swimming pool, and office space including the maintenance contract.** (4)
 - b) **The impact opting to tax the site would have on the VAT liability of the holiday cottages, the three bedroom house, and office space including the maintenance contract.** (2)
 - c) **The benefit to Greenfield Ltd, and the potential negative impact on Phase 2 prospective tenants of opting to tax the site.** (3)
 - d) **If Greenfield Ltd does opt to tax the site, whether it will be able to revoke the option.** (2)
 - e) **Whether Greenfield Ltd will be entitled to recover any input VAT on Phase 3.** (4)
- 2) **Explain what a mortgage is and what impact it has on the ownership of the site.** (3)

Total (18)