

CIOT - ATT

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

Fresh vegetables - zero rated  
Chocolate - standard rated  
Alcohol - standard rated  
Olive oil - zero rated  
Potato crisps - standard rated  
Newspapers - zero rated  
Baby clothes - zero rated  
Fruit juice - standard rated

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question-2

- 1) Cannot be treated as a zero rated export as this was delivered to the UK so should be standard-rated.
- 2) This could be treated as a zero rated export provided that the Belgian farmer exports the part within 3 months of the supply, and provides evidence of the export to Farmyard Friends.
- 3) Zero rating applies to repairs that are intended for export. Provided that the parts are exported within 3 months , by June 2024 as stated, and evidence is provided, the supply may be zero rated.
- 4) Zero rating applies to goods intended to be exported. Where the part was stolen before the export occurred, this can still be zero rated provided that evidence of the intention to export is kept.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question-3\_

1)

Lina should include the payments of £140,000.

And the cash amounts received on 3rd February, 3rd March, and 3rd April.

She should not include the invoice with unusual payment terms as it has not yet been paid.

2)

Lina should account for output tax on the income from the shop as follows:

Cash received on 3rd February, 3rd March, and 3rd April to be included in the VAT return for the period ended 30 April 2024, as detailed above.

Cash received on 3rd May 2024 should be included in the VAT return for the period ended 31st July 2024.

The value that Lina should use is the amount of cash that she received.

Lina should not include the commission amount or the gross amount before commission was deducted as she is only required to account for VAT on cash received /paid under the cash accounting scheme.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question-\_4\_

1) There are 5 basic tests:

- the supplies amount to supplies of goods or services
- must be made by a taxable person
- supply must have been made in the UK
- in the course or furtherance of business
- must be a taxable supply by definition.

2) Grants and donations do not meet the criteria. However, HMRC are likely to consider that Bambini is in business based upon there being a charge of £2.50 per child for the sessions intended to generate income. There are no free places. This is an economic activity which meets all of the above conditions.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

1)

$$600,000 \times (25\% - 35\%) / 10 = \mathbf{\pounds 6,000 \text{ claim}}$$

2)

$$1,000,000 \times (100\% - 35\%) / 10 = \mathbf{\pounds 65,000 \text{ pay}}$$

3)

£40,000 is less than £250,000 and so this does not fall under the capital goods scheme

$$4) 200,000 \times (0\% - 100\%) / 10 = \mathbf{\pounds 20,000 \text{ claim}}$$

**Total adjustment: £26,000 is recoverable and £65,000 is payable. Therefore £39,000 will be payable to HMRC**

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

1)

Impap Retender can be included in the VAT group as UK based and owns all shares and is in control of the other entities.

Foofita Ltd can be included in a VAT group as it is UK based and under common control.

Mendel Ltd can also be included in a VAT group as it is UK based and under common control. It does not matter that Mendel only makes exempt supplies for the purposes of joining a VAT group.

Grohl cannot join the VAT group as it does not have a place of establishment in the UK.

2) Supplies made by entities within the VAT group to other entities in the VAT group will be disregarded for VAT purposes.

Therefore VAT will not be charged on the management consultancy services from Imap to Foofita or Mendel.

However the VAT treatment of management consultancy services to Grohl will not change.

As Mendel makes exempt supplies, the VAT group will be partially exempt. This will mean that Imap and Foofita will no longer be able to fully recover all input VAT on costs.

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

Place of supply:

- 1) France - outside scope of UK VAT
- 2) UK - standard rated supply
- 3) Dubai - outside scope
- 4) UK - standard rated

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question-\_8\_

VAT should be added to the invoice for demolishing the building and constructing the new storage facility.

Sales of scrap are not exempt from VAT and VAT should also be charged on those sales.

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9\_

1) This could be treated as a TOGC as the part of the business being sold is capable of separate operation as a business in its own right and both parties are VAT registered.

2) This would not be a TOGC as this is not a transfer of assets to be used for carrying on the same kind of business.

3) Sales of shares are not a TOGC this would be an exempt sale.

4) This could be treated as a TOGC as whilst the transferee must be carrying on the same kind of business for it to be a TOGC, the conditions do not dictate any specific time frame for how long the business must be continued. The criteria is that there should be no specific break in trading, before or after the transfer. And there must be no consecutive transfers of the business. Therefore, as the buyer will initially continue the same kind of business, all assets are to be transferred and both parties are VAT registered, the criteria for a TOGC is met.

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

On a gift of goods input tax is clawed back by way of a deemed supply. Output tax is declared on the deemed supply due to the fact that input tax was originally claimed, however this does not occur when input tax was not recovered. Where a gift is known in advance the business can choose instead to restrict input VAT recovery.

The deemed supply is subject to a business gift limit of £50 excluding VAT.

The business should declare output VAT on the gift of the haircut and colour, based on the replacement value.  $(90 * 1/6)$  £15

Output VAT of £11  $(55 * 20\%)$  should also be declared on the shampoos and hair products.

For the customers who get the small bottle of shampoo no output tax needs to be declared as these gifts are below £50.

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-----ANSWER-10-ABOVE-----  
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CIOT - ATT

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 2**

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 -----ANSWER-11-BELOW-----  
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Answer-to-Question- \_11\_

a)

- 31 March 2024
- 30 Sept 2024
- 31 Dec 2024
- 31 March 2025

The VAT returns for the quarter ends listed above were filed late and so Navarro will receive 4 penalty points.

On issue of the 4th penalty point a financial penalty of £200 could also be charged to Navarro, in respect of the return for the period ended 31 March 2025.

However HMRC has a time limit to issue penalty points for late returns and for quarterly returns this must be done within 11 weeks from the date the failure occurred. Therefore if not already issued, only one penalty point can be issued in relation to the 31 March 2025 invoice and no financial penalty.

b)

Quarter end	Payment due	Days late	penalty 16-30 days	penalty day 30	penalty 31 + days	Total penalty
31 Mar 2024	7 May 2024	61	15,000 * 2% = 300	300	(15,000 * 4%) / 365 = 1.64 = £2	£602
30 June 2024	7 Aug 2024	n/a	n/a	n/a	n/a	n/a
30	7 Nov	16	20,000	n/a	n/a	£400

Sept 2024	2024		* 2% = 400			
31 Dec 2024	7 Feb 2025	28	5,000 * 2% = 100	n/a	n/a	£100
31 Mar 2025	7 May 2025	2	n/a	n/a	n/a	n/a
					<b>total</b>	<b>£1,102</b>

c)

Kenny will have already incurred 2 penalty points for the late returns in October and November 2024. An additional point will be incurred for the late returns for periods ended December 2024, January 2025 and February 2025. Totalling 5 points.

No more than 5 points can be incurred for monthly returns however a financial penalty of £200 will be incurred for the February 2025 return.

An additional financial penalty of £200 will be incurred for the March 2025 return.

d)

2)

Kenny has a reasonable excuse for not filing his returns on time for the periods December 2024 to March 2025 as this was caused by being in hospital. However no reasonable excuse for late returns October or November 2024.

Navarro does not have a reasonable excuse for the late returns.

3)

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 -----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question- \_12\_

1)  
Grants are not supplies for VAT purposes and are excluded.  
Sale of van is also excluded as this would distort the calculation

Marketing from US is included as this should have been accounted for via reverse charge.

Month	Cumulative total		
May 23	1,000		
June 23	3,000		
July 23	8,000		
Aug 23	21,000		
Sept 23	35,500		
Oct 23	68,250		
Nov 23	73,250		
Dec 23	78,250		
Jan 24	83,250		
Feb 24	93,250		
March 24			

Hortus exceeded the VAT registration threshold at the end of February 2024. It should have notified HMRC within 30 days (30th March 2024) and been registered for VAT from the following month, it should therefore have been charging VAT from the 1st April 2024.

2) Pre-registration input tax can be recovered on goods purchased in the last 4 years where a valid invoice is held and goods still held at registration. Or on services supplied in the last 6 months.

VAT cannot be recovered on the accountancy costs as this was

more than 6 months prior.

VAT cannot be recovered on the initial Van purchase in June 2023 as this is no longer held.

Input VAT can be recovered on the van purchased in July 2023.

In respect of the marketing costs, they are subject to the reverse charge and net to nil so there is no input tax to recover.

3)

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-----ANSWER-12-ABOVE-----  
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-----ANSWER-13-BELOW-----  
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Answer-to-Question- \_13\_

1) Bad debt relief can be claimed where the debt has remained unpaid for a period of 6 months after the date of the supply or the date payment was due, whichever is later.

In order to claim the bad debt relief the consideration must be written off as bad debt and records kept of this.

Goods or services must have been supplied and accounted for with the output tax paid to HMRC.

The value of the supply being writted off cannot be more than the normal selling price.

Additionally the claim must be made within 4 years and 6 months from the later of the date of supply or due date for the payment as specified on the invoice.

There is no obligation to inform HMRC in advance of a bad debt relief claim. It may be claimed in the relevant box of the VAT return (box 4 - input tax claim).

No documentation is required to be provided to HMRC however records should be kept for 4 years.

2)  
payments must be allocated to the oldest invoices where it is not specified by the customer which invoice is being paid.

	Outstanding	paid	balance	payment due	Over 6 months at 30 June 2024 (VAT)	
Billy'	14,000	14,000	0			

s Burgers						
Billy' s Burgers	11,700	1,000	10,170	11 Jan 24		
Eat fresh	6,600	5,000	1,600	<b>7 Nov 23</b>	1,600 * 1/6 = £267	
Lettuc e eat	1,280		1,280	<b>12 Sept 23</b>	£80	
Lettuc e eat	1,320	1,320	0			
Lettuc e eat	1,925		1,925	10 Feb 24		
Thai Tanic	4,200	3,000	1,200	<b>7 Nov 23</b>	£57	
				<b>TOTAL</b>	<b>£404</b>	

Total bad debt relief that can be claimed on the 30 June 2024 VAT return is £404

3) The unpaid invoice meets the criteria for bad debt relief and relief may still be claimed. This does not impact the customer and they would not be required to adjust their input tax under normal bad debt relief procedures. If the payment is received at a later date then this must be accounted for.

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 -----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question-\_14\_

Firm's name and address

Greenfield Ltd  
Client's address

Date: dd/mm/yyyy

Dear Sirs,

Thank you for providing the information. I would be happy to provide VAT advice in respect of your property development project.

Please find below my advice; I have dealt with each query in turn.

#### VAT liability

The VAT treatment will depend on the intended use. Supplies of land are normally exempt from VAT, unless there is an option to tax in place in which case it is normally standard rated. However there are exceptions to this.

The supply of holiday accommodation is a taxable supply for VAT purposes, and is specifically excluded under the VAT exemption for the supply of land or buildings. Therefore the supply of holiday cottages is subject to the standard rate of VAT, currently 20%

The three-bedroom house which will be rented to the site manager is classed as a dwelling. A short term lease of a new dwelling will be an exempt supply. However if the lease were to be over 21 years this could be zero rated as the first grant of a major interest in the land. This does not appear to be the case here and so the supply is exempt.

The swimming pool will be standard rated in respect of the supply to visitors, however there are exceptions to this

where the supply of land is a facility for sport.

One of those exceptions relates to a single let for a period of over 24 hours.

I understand there is an intention to rent it out to schools or sports clubs regularly but this will not exceed 24 hours so this will not apply.

The other exception is where the let is for more than 10 in a series, for the same sport, in the same location and where exclusive use is provided. Provided that all of these conditions are met the supply will be exempt to the schools and sports clubs.

Therefore the supply of the swimming pool will need to be apportioned.

The office space will be an exempt supply.

#### Opting to Tax

Should you decide to opt to tax (OTT) the site, this would not affect the liability of the three-bedroom house as dwellings disapply the OTT.

It also would not affect the supply of holiday cottages as they are already standard-rated supplies.

The supply of office space would be standard rated.

This would provide a benefit to Greenfield Ltd, as it will be able to recover input VAT on any costs directly associated with the supply.

However this may not be favourable to the tenants as this will increase the cost of their rent. As start up businesses, they are unlikely to be VAT registered and so may not be able to recover the input VAT on the rental costs.

Additionally where the office space is being let to businesses providing wholly exempt supplies, they would not be able to recover the input VAT.

If Greenfield does choose to opt to tax the site, it will have a 6 month cooling off period and provided that no taxable supplies are made in that time the OTT can be revoked. After that time the OTT will remain in place for at least 20 years, after which it can be revoked. If the land is sold, any OTT will be revoked automatically once an interest has not been held for more than 6 years.

Phase 3

The conversion of a commercial building to a dwelling will be reduced rated supply. As such no input VAT would be incurred on the qualifying services in respect of the conversion.

Please do not hesitate to let me know if you have any further questions.

Yours sincerely,  
Tax Adviser