



May 2024 Examination

PAPER 6

VAT

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1. The VAT liabilities are as follows:

Fresh vegetables	Zero Rated	(1/2 mark).
Chocolate	Standard Rated	(1/2 mark)
Alcoholic beverages	Standard Rated	(1/2 mark)
Olive Oil	Zero Rated	(1/2 mark)
Potato crisps	Standard Rated	(1/2 mark)
Newspapers	Zero Rated	(1/2 mark)
Baby clothes	Zero Rated	(1/2 mark)
Fruit juice	Standard Rated	(1/2 mark)

2.

The sale of the part to the UK based customer cannot be treated as a zero-rated export **(1/2 mark)** because it was delivered in the UK and the customer is based in the UK. **(1/2 mark)**

The sale of the part to the Belgian farmer can be treated as a zero-rated export **(1/2 mark)** provided that Farmyard Friends Ltd holds evidence that the goods were exported within 3 months of the time of supply. **(1/2 mark)**

The sale of the part to the Czech Republic can be treated as a zero-rated export **(1/2 mark)** provided that Farmyard Friends Ltd holds evidence that the goods have been exported within 6 months of the time of supply. **(1/2 mark)**

The sale of the part which was stolen cannot be treated as a zero-rated export **(1/2 mark)** because it was delivered to a third party in the UK and there is no evidence of export. **(1/2 mark)**

3.

1) Lina will need to identify how much of her income is for invoices which were raised in earlier periods as she will have already accounted for VAT on these when she was not using the cash accounting scheme. **(1 mark)** Output tax will be due on the invoice for £2,000 because the due date for payment is more than 6 months after the date of the invoice. **(1 mark)**

2) In the cash accounting scheme, output tax must be accounted for on sales made on your behalf when the person receives the payment on your behalf. As the statement and payment received on 3 May is for income received in April, the output tax is due on the return for the period ending 30 April 2024. **(1 mark)** The output tax should be calculated on the gross amount not the net amount received after the commission has been deducted. **(1 mark)**

4.

1) To test whether an activity is a business activity, there are two steps to consider. The first is whether the activity consists of making a supply for consideration. **(1 mark)** The second is whether that consideration consists of remuneration. **(1 mark)**

2) In this case, Bambini receive payment for supplying childcare and they are therefore making supplies for a consideration. **(1 mark)** The income is likely to be considered as remuneration because it is received on a continuing basis, **(1 mark)** it is not negligible compared the cost, **(1 mark)** and the activity is part of an active market. **(1 mark)**
(2 marks max, credit given for any reasonable point)

5. The Capital Goods Scheme Adjustment for Healthy Wealthies is as follows:

1) £600,000/10 x 35% -25% (1/2 mark)	=	£6,000 (1/2 mark)
2) £1,000,000/10 x 35% - 100% (1/2 mark)	=	(£65,000) (1/2 mark)
3) No adjustment required – cost less than £250,000		£0 (1/2 mark)
4) £200,000/10 x 100% - 0% (1/2 mark)	=	£20,000 (1/2 mark)
Total		(£39,000) (1/2 mark)

6.

- 1) Imap can be included in the group because he is the person who controls the companies. (1/2 mark) Foofita Ltd and Mendel Ltd can be included in the group because they are both controlled by Imap. (1 mark) It does not matter that Mendel Ltd makes only exempt supplies. Grohl GmbH cannot be included in the group because it is not established in the UK. (1/2 mark)
- 2) The VAT group will be regarded as a single taxable person with exempt and taxable income. (1/2 mark) As Imap provides services to Mendel Ltd which has exempt income, some of Imap's input VAT will be wholly or partly restricted because it relates to exempt supplies made outside the group (by Mendel Ltd). (1/2 mark) Some of the input VAT incurred by Mendel Ltd may become wholly or fully reclaimable if it is linked to taxable sales made by Foofita. (1/2 mark) The input tax incurred by Foofita Ltd will still be fully recoverable. (1/2 mark)

7.

- 1) The construction of a building is a land related supply which is supplied where the land is located, (1/2 mark) which is in France. (1/2 mark)
- 2) A conference ticket would be regarded as admission to an event which is supplied where the event is held, (1/2 mark) which is in the UK. (1/2 mark)
- 3) Consultancy services provided to an individual are supplied where the customer belongs, (1/2 mark) which is Dubai. (1/2 mark)
- 4) Supplies of catering are made where the service is physically carried out (1/2 mark) which in this case is the UK. (1/2 mark)

8.

The services of supplying demolition and construction are both within the Construction Industry Scheme and may therefore be subject to the domestic reverse charge. (1 mark) The accounts team would need to establish whether the customer has advised whether they are an end user or intermediary supplier. (1 mark) If they have advised that they are an end user or an intermediary supplier, then VAT should be charged. (1/2 mark) Otherwise, the supply will be subject to the domestic reverse charge and the customer will account for VAT themselves. (1/2 mark)

mark) VAT should be added to the sale of scrap as this is a supply of goods and not a construction service. **(1 mark)**

9.

- 1) The sale of part of a business does qualify as a TOGC provided it is capable of separate operation. **(1 mark)**
- 2) The sale of the shop premises would not qualify as a TOGC because it is only the sale of a single asset of the business and the business itself will continue to be run by the company. **(1 mark)**
- 3) The sale of shares is not considered to be a TOGC. **(1 mark)**
- 4) The sale of all the assets will qualify as a TOGC if the business continues to be run in its current form even if there is an intention at some future date to change the nature of the business. **(1 mark)**

10.

Where a business provides a gift consisting of services, such as the haircut and colour, for free no output VAT is due on the service, **(1 mark)** but if any input has been reclaimed on the costs of providing the service, an equivalent amount of output tax is due, so the business will need to pay output tax equal to the input VAT claimed on the hair products. **(1 mark)**

A gift of goods costing over £50 is liable to VAT, so output VAT will be due on the cost of providing the high quality hair products to the second customer. **(1 mark)**

A gift of goods costing up to £50 is not liable to VAT so no output tax is due on the gifts of the shampoos. **(1 mark)**



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Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

11.

1) Calculations

Navarro - filing

Quarter End	Due date	Date of filing	Late?	Points
<u>31 Mar 2024</u>	<u>7 May 2024</u>	<u>7 Jul 2024</u>	<u>Yes</u>	<u>1</u>
<u>30 Jun 2024</u>	<u>7 Aug 2024</u>	<u>6 Aug 2024</u>	<u>No</u>	<u>0</u>
<u>30 Sep 2024</u>	<u>7 Nov 2024</u>	<u>23 Nov 2024</u>	<u>Yes</u>	<u>1</u>
<u>31 Dec 2024</u>	<u>7 Feb 2025</u>	<u>10 Feb 2025</u>	<u>Yes</u>	<u>1</u>
<u>31 Mar 2025</u>	<u>7 May 2025</u>	<u>18 May 2025</u>	<u>Yes</u>	<u>1</u>
<u>Total</u>				<u>4</u>

- a) Navarro has failed to submit 4 returns on time **(1/2 mark)**. He will have the max points for quarterly returns ie 4 **(1/2 mark)**

HMRC will issue a penalty of £200 **(1/2 mark)** for the March 2025 return **(1/2 mark)**

- b) Navarro – late payment penalties

VAT liability (box 5)	Date payment due	Date of Payment	Days late	Flat Penalty 2% £	Flat Penalty 4% £	Day Penalty* £	Total £
<u>£15,000</u>	<u>7 May 2024</u>	<u>7 Jul 2024</u>	<u>61</u>	-	600	50	650 (2)
<u>£18,000</u>	<u>7 Aug 2024</u>	<u>6 Aug 2024</u>	<u>0</u>	-	-	-	-(1/2)
<u>£20,000</u>	<u>7 Nov 2024</u>	<u>23 Nov 2024</u>	<u>16</u>	400	-	-	400 (1)
<u>£5,000</u>	<u>7 Feb 2025</u>	<u>7 Mar 2025</u>	<u>29</u>	100	-	-	100 (1)
<u>£17,000</u>	<u>7 May 2025</u>	<u>9 May 2025</u>	<u>2</u>	-	-	-	-(1/2)
<u>Total</u>							1,150

* allow rounding – accept £50 or £51

- c) Kenny – filing

Kenny has failed to submit 6 returns on time **(1/2 mark)** so he will have exceeded the max points for monthly returns ie 5 **(1/2 mark)**, so HMRC should have issued penalties of £200 for the February return **(1/2 mark)** and £200 for the March return **(1/2 mark)**.

- d) Kenny payment

VAT liability (box 5)	Date payment due	Date of Payment	Days late	Flat Penalty 2%	Flat Penalty 4%	Day Penalty	Total
£14,000	07-Apr-25	31-May-25	54		£560.00	£36.82	£596.82(2)
£10,000	07-May-25	31-May-25	24	£200		£	£200.00(1)
							£796.82

2)

HMRC may waive penalties where there is a reasonable excuse for late filing. Navarro is unlikely to have a reasonable excuse because the situation has gone on for a long time [also accept that struggling with paperwork or losing the help he previously had would not be an accepted reasonable excuse]. **(1 mark)**. Notwithstanding that Kenny has already filed a couple of late returns, HMRC would consider an unexpected stay in hospital such as Kenny's, which resulted in him breaching the 5 point threshold, to be a 'reasonable excuse' **(1 mark)**.

3)

Before contacting HMRC to ask them to cancel the penalty, you should be mindful that you are responsible to your client for the accuracy of the information to be provided to HMRC **(1/2 mark)** and you should act in good faith **(1/2 mark)**. However, you should take reasonable care and exercise appropriate professional scepticism when making statements or asserting facts on behalf of a client **(1/2 mark)**. As such you may wish to consider asking Kenny for any alternative evidence around his stay in hospital such as a hospital discharge letter or a Doctor's fit note **(1 mark)**. You may also consider asking Kenny to review the information you intend to provide to HMRC before it is submitted **(1/2 mark)**¹

¹ <https://www.att.org.uk/professional-standards/professional-conduct-relation-taxation>

12.

- 1) Hortus Ltd exceeded the registration threshold in December 2023 **(4 marks)**. They should have notified HMRC within 30 days ie by 30 January 2024 **(1 mark)**, and they should have been registered for VAT from 1 February 2024 **(1 mark)**.

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Sales	1,000	2,000	5,000	13,000	15,000	23,500	14,000	5,000	5,000	10,000
Grant from LEP				omit						
Sale of van			omit							
Reverse charge services (US marketing costs)				-		8,750				
Total	1,000	2,000	5,000	13,000	15,000	32,250	14,000	5,000	5,000	10,000
cumulative	1,000	3,000	8,000	21,000	36,000	68,250	82,250	87,250	92,250	102,250

- 2) Input tax on goods acquired within the previous four years and still owned or services supplied in the six months prior to registration can be recovered on a trader's first VAT return. Hortus Ltd can recover the input VAT on the second van (£3,000) **(1 mark)**. They cannot recover the input VAT on the accounting costs as this was more than 6 months ago **(1 mark)**. They cannot recover the input VAT on the first van as this is no longer owned by the business **(1 mark)**. There is no input VAT on the marketing costs **(1 mark)**
- 3) DR VAT a/c £3k **(1 mark)** , CR Motor vehicles (assets) £3k **(1 mark)**

a) In order for Fleetwell Ltd to claim bad debt relief, they must write off any debts which are unpaid more than six months after the due date for payment in their ledger **(1 mark)**. The claim must be made within four years and six months of the due date for payment. The amount of VAT claimed as bad debt relief is added to the input tax figure and included in Box 4 of the VAT return. **(1 mark)**.

b) Fleetwell Ltd will be able to recover £404 in bad debt relief on their next VAT return.

Customer	Invoice Date	Amount at 0% VAT	Amount at 20% VAT	VAT	Amount out-standing	Paid	Still out-standing	Bad debt	Bad debt VAT
Billy's Burgers	03-Nov-23	8,000	5,000	1,000	14,000	14,000	-	-	(1/2 mark)
Billy's Burgers	04-Jan-24	7,500	3,500	700	11,700	1,000	10,700	0 (Not more than 6 months)	(1/2 mark)
Eat Fresh	31-Oct-23		5,500	1,100	6,600	5,000	1,600	1,600	267 (1 mark)
Lettuce Eat	05-Sep-23	800	400	80	1,280		1,280	1,280	80 (1 mark)
Lettuce Eat	03-Nov-23	900	350	70	1,320	1,320	-	-	(1/2 mark)
Lettuce Eat	03-Feb-24	1,025	750	150	1,925		1,925	0 (Not more than 6 months)	0 (1/2 mark)
Thai Tanic	31-Oct-23	3,000	1,000	200	4,200	3,000	1,200	1,200	57 (2 mark)
Total		21,225	16,500	3,300	41,025	24,320	16,705	4,080	404 (1 mark)

c) Although the customer may have evidence of settling their outstanding invoice, because the money has been diverted by a fraudster to another bank account, then bad debt relief is available **(1 mark)** as the supplier has not been paid **(1 mark)**.

14.

1)

Greenfield Ltd
Address
Date

Dear Directors,

Thank you for the information about your development. Please find below an explanation of what the VAT position will be and the impact of opting to tax the site.

- a) The rent on the holiday cottages will be standard rated **(1/2 mark)** but the rent on the 3 bedroom house will be exempt **(1/2 mark)**. Rent of office space will also be exempt **(1/2 mark)**. The liability for the swimming pool depends upon the contract for hire **(1/2 mark)**. The starting point is that rental of the swimming pool will be standard rated **(1/2 mark)**, however if the agreement is for a series of 10 or more periods at a time it would be exempt **(1/2 mark)**. The liability for office space will be exempt **(1/2 mark)** The liability for office space maintenance will also be exempt if part of the rental agreement **(1/2 mark)**.
- b) If Greenfield Ltd opts to tax the site, this will have no impact on the VAT liability of the holiday cottages or the 3 bedroom house **(1 mark)**. The option to tax will change the liability of the office space, and maintenance charge, to standard rated **(1 mark)**.
- c) The benefit to Greenfield in opting to tax the site is that they would be able to recover the input VAT on the costs of building the office space and any costs relating to maintenance **(1 mark)**. They should consider whether the tenants who are likely to occupy the office space will be able to recover input VAT on the rent **(1 mark)**. One example is that if the tenants are start-up businesses they may not be registered for VAT and so could not recover input VAT **(1 mark)**. A second example is that if the tenants make exempt supplies, they may not be able to recover some or all of the input VAT.
- d) Greenfield would be able to revoke the option in two situations. The first is that the option can be revoked within the first six months after making it, provided that no supplies have been made which are affected by the option **(1 mark)**. Thereafter the option can only be revoked 20 years after it was made **(1 mark)**.
- e) If Greenfield Ltd grants a long lease (more than 21 years) to the housing association this will be zero rated **(1 mark)**, and so Greenfield will be able to recover the input VAT on the costs of this phase **(1 mark)**. However, if the grant is not a long lease, then this will be exempt **(1 mark)**, and Greenfield Ltd will not be able to recover any input VAT on this phase **(1 mark)**.

Please let me know if you would like to discuss any of the above further.

Yours Etc

Ann Adviser

- 2) A mortgage is the transfer of an interest in land in order to secure a loan. **(1 mark)** The person mortgaging the land retains their interest **(1 mark)**, and the person giving the loan does not own the land but does gain an interest in the land. **(1 mark)**