

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

November 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. Vicky owns a wellness centre in North Devon (UK). As well as holding yoga classes she also operates a vegan cafe and shop on the premises. Vicky operates the wellness centre as a commercial enterprise and takes the profits as her salary. Vicky is registered for VAT. Her supplies include:
- 1) Yoga class admission;
 - 2) Yoga mats;
 - 3) Gluten-free chocolate cake to eat inside the cafe;
 - 4) Cappuccino to take-away;
 - 5) Flapjack to take-away;
 - 6) Yoga books;
 - 7) Vegan recipe books; and
 - 8) Vegan cheese sandwich to take-away.

State the VAT liability of each of the above items supplied by Vicky. (4)

2. Paul is an online influencer. He became successful during 2024, receiving over £100,000 in the first three months of the year alone. His expectation is that he will earn even more in 2025.

One of his clients is a multinational fashion brand and they asked him in October 2024 for an invoice so they could recover input tax on the advertising services that Paul provided to them. Paul duly raised an invoice showing VAT. Paul is not registered for VAT.

Explain which VAT penalty(ies) Paul may suffer. You are not required to comment on behaviours. (4)

3. Helenia Ltd is a start-up company providing search engine optimisation services and has 10 employees. The company registered for VAT when the company was incorporated on 1 April 2024. The accounts payable (AP) team received the invoices for the following in the VAT quarter ended 30 September 2024:

- 1) 10 bottles of wine costing £60 each, plus VAT. A bottle was given to each staff member to thank them for their hard work;
- 2) Hire of a car for one week for a sales rep to visit clients;
- 3) Catering services for an event held by the company, in order to win new UK clients; and
- 4) Legal advice relating to the incorporation of the company dated 1 June 2023. A member of the AP team found this at the bottom of a drawer when preparing the VAT return for quarter ended 30 September 2024.

Explain whether Helenia Ltd can recover input tax on these items. (4)

4. Dr Davis is a qualified doctor and practices from their surgery in London. Dr Davis is VAT-registered and leases part of their surgery building to a cosmetic beautician. Dr Davis has opted to tax the building.

Dr Davis received the following during the last VAT period:

- 1) Payments from the NHS for providing medical care to patients;
- 2) Rental income for leasing part of the building;
- 3) Income from individuals for drafting 'sick notes'; and
- 4) Payments from the NHS for dispensing prescriptions to specified patients.

State the VAT treatment of each of these income streams. (4)

5. Sarah made supplies of dog beds to four UK customers, shown below as supplies A to D.

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
Delivery of goods	10 September	15 September	21 October	25 October
Issue of invoice	8 September	22 September	12 November	26 October
Receipt of payment	12 September	25 September	20 November	23 October

State the tax point of each supply A to D.

(4)

6. Samster Parts Ltd has been registered for VAT since 2020 and has always submitted calendar quarterly VAT returns. In the 12 months ended 30 June 2024 the total VAT due was £125,000.

On 5 July 2024 the company applied to HMRC to join the annual accounting scheme and specified that its annual accounting year be the same as its financial accounting year, namely the year to 31 December 2024. It did not request to make quarterly payments under the scheme.

- 1) Explain Samster Part Ltd's first accounting period under the annual accounting scheme ('transitional accounting period').** (2)
- 2) Calculate the first VAT payment due under the scheme and state the due date.** (2)

7. Brex Brix made two donations to the charity 'Supporting Bricklayers' during 2024. Both Brex Brix and the charity are registered for VAT.

The first donation was for £2,000 and only entitled Brex Brix to be named as a donor in the annual newsletter produced by Supporting Bricklayers.

The second donation was for £10,000 and entitled Brex Brix to attend the annual conference held by the charity and to have a stand there to market its new eco-friendly bricks.

Explain whether Supporting Bricklayers should account for VAT on these donations, and whether Brex Brix is entitled to recover input tax on these payments. (4)

8. Saqib received a VAT assessment from HMRC for £10,000. The letter stated that the VAT liability of his services should be standard-rated. Saqib believes they are exempt.

Saqib asked HMRC to review its decision but HMRC's review letter confirmed its view that the supply is standard-rated. Saqib's VAT advisor has confirmed that this area of VAT law is unclear and that he would be well advised to appeal against HMRC's decision.

Saqib would like a Tribunal to rule on two matters: the first being his view that the VAT liability of his services is exempt and, secondly, to give an opinion on the VAT liability of a new type of service he intends to supply in future.

Saqib has not yet paid the £10,000 assessment. He is a wealthy individual but is refusing to pay on principle until the whole matter is settled.

Explain the role of the First-tier Tribunal and state whether it can rule on Saqib's two matters. No marks are available for comments relating to time limits. (4)

9. Sinqos Ltd, a supplier of carbon bike frames, shipped £200,000 of its own stock from its warehouse in Cambridge to its warehouse in Londonderry, Northern Ireland, in October 2024. This stock in Northern Ireland will be used to supply Irish customers.

Explain the VAT treatment of this movement of goods to Northern Ireland.

(4)

10. Robin makes only standard-rated supplies for VAT purposes. He applied to cancel his VAT registration (as the value of supplies fell below the threshold) and HMRC sent him his final VAT return for the remaining period.

In that remaining period Robin made the following supply:

	£
Sale of copyright (net of VAT)	100,000

There were also the following business assets on hand at the date of deregistration:

	<u>Market Value (excluding VAT)</u>
	£
Patent	150,000
Unsold stock	1,500

Explain whether output tax is due on the patent and the unsold stock, and calculate the output VAT liability (box 1 figure) on Robin's final VAT return. (4)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

11. JoBuysThem Ltd is a partially exempt business which sells insurance and provides consultancy services. The company uses the standard method for its partial exemption calculations. It operates from a single office building. The company sold its old office building and bought a new building in February 2024.

In the partial exemption year ending 31 March 2024, the company had the following income:

	£
Exempt sales	85,000,000
Taxable sales	22,000,000 (excluding VAT)

The taxable sales include an exceptional amount of £10,000,000 from the sale of the old office building.

In the same year, JoBuysThem Ltd had attributed £490,000 of input tax to taxable sales, £850,000 to exempt sales and had £6,000,000 of residual input VAT on overheads. The company also paid VAT of £3,500,000 on the purchase of the new office building that it intends to keep for at least 15 years.

The total input tax claimed on the VAT returns for the year ending 31 March 2024 was £1,590,000.

The Finance Director has also passed you an invoice dated 15 March 2024 for legal advice for the sale and purchase of the office buildings. The invoice shows two transactions which are £8,000 for the sale of the old building and £12,000 for the purchase of the new building i.e. a total of £20,000 plus VAT. The invoice was not included in the input tax claim for the previous quarter.

Requirements:

- 1) Calculate the partial exemption annual adjustment for the year ending 31 March 2024. Do not make any adjustments for the late invoice for legal advice. (6)
- 2) Calculate how much VAT can be reclaimed on the invoice for legal advice. (2)
- 3) Explain on which VAT return the annual adjustment should be included. (2)
- 4) Explain how the input tax paid on the purchase of the new building should be treated in future years. Calculations are not required. (3)
- 5) Show the accounting entries which should be made for the annual adjustment. (2)

Total (15)

12. Ronald Trumpet is a successful businessman and author who lives in the UK. He is VAT registered and has recently published a new book, 'The Start of the Meal' and is planning to visit Austria to promote the new book. As part of this promotion, he intends to hold a seminar where he will talk about the book and for which he will sell tickets at £100 each. He expects customers to include both businesses and individuals.

He has arranged a sponsorship deal with a charity based in Austria in which their logo will be shown prominently on his shirt and at any press conferences while he is there in return for £10,000. The charity does not have any business activities.

The publishing company for the book is based in the USA. They will pay him a royalty fee of 25% of any income received from sales of the book.

He has also recorded an audio version of the book which is not included in his agreement with the publisher. Customers, who he expects to be individuals and not businesses, can pay for and download the audio book on his website.

While he is in Austria, he will also visit a company based there to provide some advice on how to run their business more successfully. After the visit, he will write a report back at his office in the UK and send that on to the customer. He will spend a day with the customer and then two days writing the report.

Ronald has hired a large room for presenting the Austrian seminar. He will hire a car from a company based in Austria for the week that he is in the country and he will have meals at restaurants. He has hired an Austrian security firm to look after him while he is there. He has also bought services from a translator based in the UK who will come to Austria with him.

Ronald is currently in dispute with the translator about the price for the translation services. He says that he has accepted an offer made by the translator, although his email accepting the offer stipulated a lower price and said that the acceptance was subject to contract. The translator has also pointed out that the offer was made to the publishing company rather than to Ronald.

Requirements:

- 1) **Explain what is the place of supply of the various services provided by Ronald.** (7)
- 2) **Explain what is the place of supply of the services purchased by Ronald for the Austrian tour.** (5)
- 3) **Explain whether Ronald has accepted the offer made by the translator.** (3)

Total (15)

13. You have received the following letter.

Dear highly trusted adviser

You do not know me, but I am working with a current client of yours, Pamela Hammish, who owns a construction company and may provide some of the services I need below. Pamela also owns the land that I am about to buy.

The land that I am about to buy currently has two houses on it. One of those, the Manse, has been empty for about three years. Pamela lives in the other, the Cottage, but she will move out when the sale is complete. I am considering a number of different options for the site and want to understand how much VAT I should expect to be charged on the costs. I am not yet sure if I will sell the properties or rent them, though in all scenarios they will be used as dwellings, so for now, please assume that any VAT will not be reclaimed. I have listed the options below:

Option 1

This is the easiest option. I would engage a builder to refurbish both houses, though I would also add an extension to the Cottage to make it larger and have a new garage built for the Manse. I would also need to buy the services of architects and surveyors.

Continuation

Option 2

This is a bit more complicated. I would engage a specialist demolition company to demolish both houses and then buy in construction services from another company to build a single new house in the centre of the site. The construction services would include building a new driveway up to the house, a new garage and I would need connections to the water and electricity supplies. In this case, it makes sense for the construction company to provide the architect as part of their overall contract, but I will still need to engage surveyors separately.

Option 3

This is similar to the first option, except that the Cottage will be extended so that it consists of two dwellings. I will also have a new small annex built in the grounds of the Manse so that it can be used as extra accommodation for parents, children or visitors. The annex will have all the features of a small house including bathroom and cooking area but will not be able to be sold separately from the Manse. No need to explain the VAT on the Manse itself as that is already covered above.

Please could you let me know what the VAT treatment will be of the different options above?

Many thanks

Jeri

Requirements:

- 1) Explain whether the letter from Jeri contains any information which might prevent you from accepting Jeri as a client and what steps you should take to manage this. (3)
- 2) Assuming Jeri has been accepted as a client, write a letter to Jeri explaining the VAT treatment of the different services she will buy for:
 - (a) Option 1 (5)
 - (b) Option 2 (7)
 - (c) Option 3 (2)

Total (17)

14. Tim's Total Eclipse Ltd fits solar panels to buildings including some residential buildings. The company registered for VAT on 1 November 2023. It has been approved to use the flat rate scheme from 1 August 2024. The normal flat rate percentage applicable to the company's business is 9.5%. The company accountant has decided that it will use the turnover-based method of calculating income.

In the quarter ending 31 October 2024, the company raised invoices of £25,000 plus VAT to commercial customers and £10,000 to domestic customers for fitting panels to houses. The company raised an invoice in March 2024 for £2,750 plus VAT which has still not been paid. Payment was due in April 2024.

In the same quarter, the company spent £18,000 plus VAT on solar panels. It received some advice from a solar expert based in Germany at a cost of £2,000 but was not charged VAT on this. It purchased a new van at a cost of £9,000 including VAT, and tools and ladders for £1,000 plus VAT.

Requirements:

- 1) Calculate the output tax, input tax and VAT payable/ repayable figures that the company should include in boxes 1, 4 and 5 of its VAT return for the quarter ended 31 October 2024. (6)
- 2) Calculate the company's VAT payable/ repayable for the quarter ended 31 October 2024 if it had not been using the flat rate scheme. (5)

Total (11)