



November 2024 Examination

PAPER 6

VAT

Part I Suggested Answers

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

1.

- 1) Yoga class admission is standard-rated (Vicky is not an eligible body) (1/2)
- 2) Yoga mats are standard-rated (1/2)
- 3) Gluten-free chocolate cake to eat inside the cafe is standard-rated (1/2)
- 4) Cappuccino to take-away is standard-rated (1/2)
- 5) Flapjack to take-away is zero-rated (1/2)
- 6) Yoga books are zero-rated (1/2)
- 7) Vegan recipe books are zero-rated (1/2)
- 8) Vegan cheese sandwich to take-away is zero-rated (1/2)

2.

Paul could be liable for a penalty for failure to notify liability for VAT registration (1) and for the issue of an invoice showing VAT by an unauthorised person (1). However, if the penalty is based on the same VAT liability (the 'potential lost revenue') then the appropriate action in these circumstances is to charge the penalty for failure to notify HMRC for VAT registration (1).

There will be no liability to a penalty if Paul has a reasonable excuse (1).

Candidates making other **relevant** points will be awarded marks accordingly.

3.

- 1) Input tax is recoverable as it is a legitimate business expense and provided for the purposes of the business (to reward staff). (1) **Tutorial note:** *There would be no charge to output tax if the gift is provided to all employees.*
- 2) Input tax is recoverable as this is the short-term hire of a car. (1)
- 3) Input tax on the catering services is irrecoverable as it was incurred solely for business entertainment purposes. (1)
- 4) The invoice is outside the 6-month limit for recovering input tax on services incurred pre-registration, so the VAT is irrecoverable. (1)

4.

- 1) Payments from the NHS for providing medical care to patients is exempt from VAT. (1)
- 2) Rental income for leasing part of the building is standard-rated, as they opted to tax the building. (1)
- 3) Income from individuals for drafting 'sick notes' is standard-rated. (1)
- 4) Payments from the NHS for dispensing prescriptions to specified patients is zero-rated. (1)

5.

Supply A = 8 September (1)
Supply B = 22 September (1)
Supply C = 21 October (1)
Supply D = 23 October (1). (As basic tax point is overridden by earlier payment)

6.

- 1) The transitional accounting period will run from 1 July 2024, being the first day of the accounting period in which the application is made (1) until the chosen year end, being 31 December 2024. (1)

2) The VAT due is £12,500 (1) (1/10th of 125,000) and is due on 31 October 2024 (ie the end of month 4 of the accounting period). (1)

7. Max 4 marks

The first donation is not consideration for a supply and is outside the scope of VAT. (1) An acknowledgement of the donation is not treated as a supply provided no minimum payment is specified (freely given). (1/2) Brex Brix, therefore, cannot recover VAT on this donation. (1/2)

The second donation is made in return for the charity providing a service to the company by allowing it to promote its products at the conference ie it is a taxable supply (1). The charity should therefore account for VAT on this payment (1/2) and Brex Brix can recover the input tax on receipt of a valid VAT invoice (1/2) as it is a supply used solely for business purposes. (1/2)

8. The role of the First-tier Tribunal (FTT) is to hear the majority of appeals against HMRC's assessments, apart from a small number of the most complex appeals that transfer to the Upper Tribunal at first instance (1).

The FTT can hear Saqib's appeal against HMRC's assessment for output tax on his supplies as that is an appealable matter (1). The FTT has no jurisdiction in relation to future supplies, namely the new type of supply Saqib intends to make in future (1).

Nevertheless, the appeal will not be held case unless Saqib pays the disputed VAT liability as that is a condition for the appeal to be heard (we know that Saqib would not suffer hardship by paying this). (1)

9. When a VAT-registered business moves its own goods (business assets) from the UK to Northern Ireland UK VAT will be due. (1) Sinqos Ltd will need to account for VAT on the movement. This should be included as output VAT on its VAT return. (1)

As the goods will be used for future taxable sales (1) this VAT may also be reclaimed as input VAT on its UK VAT return, subject to the normal rules. (1)

10.

No output tax is due on the patent (1/2) as it is an intangible asset and counts as services for VAT purposes (1)

The output tax on the unsold stock would be $20\% \times 1,500 = £300$ (1/2). As this is less than £1,000 (1) no VAT due on the unsold stock (1/2)

Output VAT on sales

Box 1 = Copyright: VAT = £20,000 (20% x 100,000) (1/2)*

***1/2 for getting the £20,000 and no other adjustment**



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Part II Suggested Answers

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

11. (15 marks)

1) Taxable supplies = £22M less £10M sale of building which is a distortive supply = £12M (1).

Total supplies = £12M + £85M = £97M (1/2)

Reclaim rate = £12M / £97M x 100% = 12.38% (1)

Residual input tax = £6M (overheads) (1/2) + £3.5M (office purchase) (1/2) = £9.5M

Reclaimable residual input tax = £9.5M x 12.38% = £1,176,100 (1/2)

(Note the reclaim rate must not be rounded up to a whole number and must be rounded to 2 decimal places – marks will not be awarded for an incorrect calculation here, though credit will be given if the error is followed through)

Total input VAT reclaimed in year = £1,590,000

Less input tax wholly attributable to taxable supplies = £490,000 (1/2)

Residual input tax reclaimed in year = £1,100,000 (1/2)

Additional input tax to be reclaimed is £1,176,100 - £1,100,000 = £76,100 (1)

2)

Invoice for legal advice – input VAT relating to the sale of the old office building is reclaimable in full as the sale was taxable.

Input tax to reclaim = £8,000 x 20% = £1,600 (1/2)

Input VAT relating to the purchase of the new building is residual.

Input tax to reclaim = £12,000 x 20% = 2,400 (1/2) x 12.38% = £297. (1/2)

Total additional input tax = £1,897. (1/2)

3) The partial exemption annual adjustment may be done either in the last period of the partial exemption year, which in this case would be March 2024 (1), or on the return for the period immediately following the end of the partial exemption year, which in this case would be June 2024. (1)

4) The new building will be a capital item subject to capital goods scheme adjustments over the next ten years. (1) In each subsequent year, one tenth of the input tax incurred (1) should be adjusted for the difference between the actual reclaim rate applied and the reclaim available for that year. (1)

5) The accounting entries will be:

DR VAT control account (BS) (1/2)	76,100 (1/2)	
CR Purchases (P&L) (1/2)		76,100 (1/2)

Credit also given if candidates attempt to relate some of the adjustment to the asset value of the building.

12. (15 marks)

- 1) The sale tickets for the seminar in Austria will be supplies of admission to an event and as such the place of supply will be where the event physically takes place which is Austria for both business customers (1) and individuals (1).

The sponsorship by the charity is a supply of advertising and the supply will be a B to C supply. (1)

There is an exception to the normal rule for B to C supplies for advertising services, under which it is supplied where the customer belongs in Austria. (1)

The royalty income is a B to B supply and the normal rules apply so the place of supply is where the customer belongs which is the USA. (1)

The download of audio books is an electronically supplied service and for B to C supplies, the place of supply is where the customer belongs. (1)

The supply of consultancy services is a B to B supply and the normal rules apply irrespective of where the work is carried out, so the place of supply is where the customer belongs in Austria. (1)

- 2) The hire of the room is a land related supply which takes place where the land is located which is Austria. (1)

The car hire is a short-term hire and as such the place of supply is where the car is made available to Ronald which is in Austria. (1)

The supply of catering services is made in the country in which the services are physically carried out which is Austria. (1)

The supply of security services is a normal B to B transaction and the place of supply will therefore be where the customer belongs, which is in the UK. (1)

The supply of translation services is also covered by the normal rules and will be supplied in the UK. (1)

- 3) Ronald is unlikely to be viewed as having legitimately accepted an offer made by the translator. (1)
This is because:
the offer was made to another person, the publishing company and only the person to whom an offer has been made can accept it; (1)
the acceptance must be on the terms proposed by the offeror, but Ronald has proposed a different price; (1) and
by using the phrase 'subject to contract' Ronald has anticipated that a further document will be required to complete the acceptance. (1)

(4 marks available, max score 3)

13. (17 marks)

- 1) The letter makes it clear that Pamela is already a client of the adviser and there may therefore be a conflict of interest. (1) In that case, the advisor has the option of acting for only one client, (1/2) acting for both clients (1/2) or acting for neither party (1/2). The adviser may only act for both parties if both clients are aware of the potential conflict (1/2), adequate steps are taken to manage the conflict (1/2) and both clients agree in writing that the advising may represent them both (1/2).

(4 marks available, max score 3)

2) Dear Jeri,

Thank you for your recent letter. Please find below some information about the VAT liability of the services you will be using for each of the options you have described.

- a) *Option 1* - The Manse has been empty for more than two years (1), so the construction services supplied will be liable to VAT at 5%. (1) The construction of the new garage will also be subject to VAT at 5%. (1) The Cottage has not been empty and the standard rate of VAT at 20% will apply to the extension and refurbishment works. (1) The services of architects and surveyors are not included in the lower rate for the renovation of empty buildings and will therefore all be subject to VAT at 20%. (1)
- b) *Option 2* - The construction of a new dwelling is zero rated for VAT. This includes the cost of demolition (even if provided by a separate company) (1), the construction of the new building (1), the garage (1) and the driveway leading to the house (1). Connections to utilities are also included within the scope of the zero rating. (1) The architect services will be regarded as being part of the supply of construction services and will therefore also be zero rated. (1) The surveyor's services which are supplied separately are excluded from the zero rating and so would be standard rated. (1)
- c) *Option 3* - The annex cannot be zero-rated as a new dwelling because it cannot be disposed of separately. As it is being constructed at the same time as the Manse is being renovated it may be included within the works which are eligible for 5% VAT. (1) (Tutorial note: credit will also be given if candidates state that this is standard rated on the basis that it is not part of the renovation as such. The key point is that zero-rating is not available.) The works to convert the Cottage into two dwellings will be subject to 5% VAT under the relief available for a changed number of dwellings. (1)

I hope that the above is helpful, but please do not hesitate to ask any questions.

Best wishes

An Adviser

14. (11 marks)

1) Calculation of output tax due:

Turnover from sales to businesses	$£25,000 \times 120\%$	=	£30,000 (1/2)
Turnover from sales to domestic customers		=	£10,000 (1/2)
Total turnover		=	£40,000 (1/2)

Output tax due on turnover = $£40,000 \times 8.5\%$ (first year discounted rate) (1/2) = £3,400 (1/2)

Reverse charge output tax due on services purchased from Germany = $£2,000 \times 20\%$ = £400 (1/2)

Total output tax due in Box 1 of return = £3,800 (1/2)

Input VAT claimable on solar panels, tools and ladders	=	£0 (1/2)
Input VAT claimable on purchase of van = $£9,000/6$	=	£1,500 (1/2)
Input tax due on reverse charge supply	=	£400 (1/2)

Bad debt relief due on unpaid invoice = $£2,750 \times 20\%$ = £550 (1/2)

Total input tax shown in Box 4 = £2,450 (1/2)

Net VAT due in Box 5 = $£3,800 - £2,450 = £1,350$ (1/2)

(6.5 marks available, max score 6)

2) Calculation of output tax due:

Turnover from sales to businesses	$£25,000 \times 20\%$	=	£5,000 (1/2)
Reverse charge output tax due on services purchased from Germany	$= £2,000 \times 20\%$	=	£400 (1/2)

Total output tax due in Box 1 of return = £5,400 (1/2)

Input VAT claimable on solar panels	$= £18,000 \times 20\%$	=	£3,600 (1/2)
Input tax claimable on tools and ladders	$= £1,000 \times 20\%$	=	£200 (1/2)
Input VAT claimable on purchase of van = $£9,000/6$	=	£1,500 (1/2)	
Input tax due on reverse charge supply	=	£400 (1/2)	

Bad debt relief due on unpaid invoice = $£2,750 \times 20\%$ = £550 (1/2)

Total input tax shown in Box 4 = £6,250 (1/2)

Net VAT due in Box 5 = $£5,400 - £6,250 = (£850)$ (1/2)