Institution **CIOT - ATT**
Course **ATT Paper 6 VAT**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**60**	**299**	**351**
Section 2	**177**	**814**	**989**
Section 3	**122**	**577**	**695**
Section 4	**72**	**343**	**411**
Section 5	**78**	**317**	**387**
Section 6	**120**	**527**	**644**
Section 7	**122**	**630**	**750**
Section 8	**156**	**702**	**856**
Section 9	**116**	**550**	**665**
Section 10	**104**	**446**	**546**

Answer-to-Question-_1_

1) Yoga class admission is standard rated
2) Yoga mats are standard rated
3) Gluten-free chocolate cake eaten on the premises is standard rated
4) The cappuccino takeaway is standard rated
5) The flapjack takeaway is zero-rated
6) The yoga books are zero-rated
7) The recipe book is zero-rated
8) The vegan sandwich is zero-rated (assuming it is served cold)

----------ANSWER-1-ABOVE----------

----------ANSWER-2-BELOW----------

Answer-to-Question-_2_

As Paul exceeded the VAT registration threshold in the first 3 months of 2024, then by the historic test he would have been required to register for VAT from 1 May 2024 and should have notified HMRC by 30 April 2024.

The penalty for failure to notify is a percentage of the potential lost VAT revenue calculated based on the tax payers behaviour, as such, Paul could face penalties ranging from 30% - 100% which may be mitigated by submission of a disclosure. Unless Paul can demonstrate to HMRC that there is a reasonable excuse for the delay, in which case no penalty is due.

HMRC could issue penalties for late payment and late filing of the returns, any tax captured by these penalties would be deducted from the penalty for failure to notify. We would expect however that the registration is backdated and Paul will be expected to submit a long return. Therefore all of the potential lost VAT revenue is captured by the penalty for failure to notify and no other penalties will be due.

----------ANSWER-2-ABOVE----------

----------ANSWER-3-BELOW----------

Answer-to-Question-_3_

1) The input tax on the wine is recoverable as the bottles were provided to employees of the taxable business and is therefore deemed to be wholly for business purposes.
2) As the car is leased, only 50% of the input tax incurred will be recoverable where the car is avaialble for both business and private use.
3) As the catering service has been provided in the course of winning new UK clients, this relates to the businesses taxable trading activities and therefore the input tax incurred is fully recoverable.
4)As the legal advice is a service and the cost was incurred more than 6 months prior to the VAT registration, the input tax incurred is not recoverable as pre-registration input tax.

----------ANSWER-3-ABOVE----------

----------ANSWER-4-BELOW----------

Answer-to-Question-_4_

1) As Dr Davis is a qualified doctor performing surgery which we can assume serves to restore the health of the patient, the supply is likely to be exempt from VAT.
2) The rental income is standard rated because Dr Davis has opted to tax the building.
3) The income from individuals drafting sick is exempt from VAT.
4) The income from dispensing prescriptions to specified payments is zero-rated for VAT purposes.

----------ANSWER-4-ABOVE----------

----------ANSWER-5-BELOW----------

Answer-to-Question-_5_

A:
The tax point is 8 September as the invoice was issued prior to payment or delivery of the goods.

B:
The tax point is 22 September as the invoice is issued within 14 days of the delivery of the goods.

C:
The tax point is 21 October as the invoice is raised more than 14 days after the delivery of the goods.

D:
The tax point is 23 October as payment takes place before delivery or invoicing.

----------ANSWER-5-ABOVE----------

----------ANSWER-6-BELOW----------

Answer-to-Question-_6_

1) The annual accounting period starts from the first day of the current VAT period. As the application was made on 5 July 2024, the period will start on 1 July 2024 provided the application is approved before 30 September. The period will run from this date until 31 December 2024 because Samster Part Ltd has requested this date to suit their business needs.

2)

As the period is 6 months long, interim payments will be required. The interim payment will be 10% of the VAT liability for the previous 12 months i.e. 10% x £125,000 = £12,500 due at the end of the 4th month of the period. Payment will therefore need to be made by 31 October 2024.

----------ANSWER-6-ABOVE----------

----------ANSWER-7-BELOW----------

Answer-to-Question-_7_

The first donation of £2,000 is likely to be considered a donation as opposed to consideration for advertising, as Supporting Bricklayers name is only mentioned as a donor. As such, the supply wull be exempt from VAT because it relates to the charities non-business activities.

The second donation entitled Brex Brix to attend the annual conference and advertise their business. As such, the consideration paid is likely to be considered a supply of advertising by the charity which will be standard rated. Supporting Bricklayers should therefore account for VAT on this donation (10,000 / 6) of £1,667. Brex Brix would be entitled to recover the input tax as the cost is directly attributable to their taxable supply of bricks / bricklaying services.

----------ANSWER-7-ABOVE----------

----------ANSWER-8-BELOW----------

Answer-to-Question-_8_

The First-tier Tribunal is the lowest court in the UK for the purpose of VAT cases. All VAT cases should first be heard at the First-tier tribunal unless they are categorised as complez. The First-tier tribunal establishes the facts involved in the dispute and will make a decision to resolve it. Subsequent appeals may be made to higher courts, who are not bound by the decision of the First-tier tribunal, but any these appeals may only be heard on a point of law and not a point of fact.

The First-tier Tribunal can rule on the case relating to the assessment raised by HMRC but not on the new type of service he intends to supply in the future. This is because there is no such assessment pertaining to the supply in question which can be appealed to the first-tier tribunal i.e. HMRC have not formed a view and therefore, there is no fact to establish.

----------ANSWER-8-ABOVE----------

----------ANSWER-9-BELOW----------

Answer-to-Question-_9_

As Singos ltd is moving goods from Great Britain to Northern Ireland, the business is likely to require an EORI number.

The movement of stock from Great Britain to Northern Ireland is treated as an import and is therefore technically liable to pay Northern Ireland import VAT at the border and the movement outside of Great Britain is treated as a zero-rated export. However, no import VAT will be due under this arrangement, and the supply will instead attract domestic VAT. The business should treat the tax incurred as output VAT on their VAT return. The business will also be entitled to treat the tax incurred as input tax and recover this on their VAT return.

----------ANSWER-9-ABOVE----------

----------ANSWER-10-BELOW----------

Answer-to-Question-_10_

When deregsitrering for VAT, a business should account for VAT on any stock and assets on hand at the time of de-registration in which input tax recoverd. As a patent is intangible property, this item is excluded from the charge to VAT.

The output VAT due on the unsold stock is equal to:
1,500 x 0.2 = £300

The output tax on the unsold stock is less than £1,000 and therefore, HMRC would not expect Robin to account for any VAT on the unsold stock and assets on hand.

The VAT liability is therefore 100,000 x 0.2 = £20,000 for the final VAT return.

----------ANSWER-10-ABOVE----------

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Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 11	**412**	**1895**	**2430**
Section 12	**531**	**2402**	**2918**
Section 13	**754**	**3874**	**4732**
Section 14	**201**	**817**	**995**

----------ANSWER-11-BELOW----------

Answer-to-Question-_11_

1)

y.e 31 March 2024

Taxable sales for partial exemption calculation = 22,000,000 - 10,000,000 = 12,000,000 as we exclude capital items.

Partial exemption recovery percentage = 12,000,000 / 85,000,000 + 12,000,000 = 12.37%

Check rounding:
Residual input tax = 6,000,000 / 12 = 500,000 per month on average, therefore round to 2.d.p as this is greater than 400,000.

6,000,000 x 12.37% = 742,200 - recoverable residual input tax

490,000 - recoverable input tax attributable to taxable supplies

Total recovery = 742,200 + 490,000 = 1,232,200

Annual adjustment = 1,232,200 - 1,590,000 = (357,800) repayment to HMRC.

NB not checking de-minimis given huge residual input tax figure.

2)

Legal advice:

Invoice relating to the sale - the sale of a commercial building (which is not new) is exempt from VAT unless an option to tax has been made. As this does not appear to be the case, the cost is directly attributable to an exempt supply, so none of the input tax can be recovered.

Invoice relating to purchase - as the office is used to make both taxable and exempt supplies, the cost will be considered an overhead cost as no option to tax has been made over the building.

Input tax = 20,000 x 20% = 4,000

4,000 x 12.37% = £495

£495 of input tax can be recovered on the legal advice.

3)

The annual adjustment should be accounted for on the first VAT return following the end of the partial exemption tax year i.e. the return covering the period 1 April 2024 - 31 June 2024. JoBuysThem ltd may instead choose to account for the VAT in the final VAT return of the year i.e. the return covering the period 1 Jan - 31 March 2024.

4)

As the VAT expenditure on the new building is £3.5m, the VAT exclusive cost is £17.5m. This is greater than £250,000 and the input tax incurred shoudl therefore be recovered under capital goods scheme adjustments.

The input tax should be recovered upfront based on the taxable use of the building, i.e. at 12.37% given that the input tax is residual. Adjustments should then be performed over the next 9 years to 1/10th of the input tax incurred based on the taxable use of the building in that period. If taxabale use increases, the business would be entitled to a repayment of VAT from HMRC.

5)

	£	£
Cr VAT account	357,800	
Dr Purchases		357,800
Dr VAT account	357,800	
Cr Cash		357,800

----------ANSWER-11-ABOVE----------

----------ANSWER-12-BELOW----------

Answer-to-Question-_12_

1)

Where services are provided by a business to another business, the general rule is that the place of supply is where the customer is located. Where the customer is a non-business customer, the place of supply is instead where the supplier is located. There are however various exceptions to these rules.

The seminar is being held in Austria, and therefore, the place of supply of this service provided by Ronald to business customers is also Austria. This is because the supply falls into the category of admission to events, and is therefore taxable where the supply takes place. Where admission is provided to individuals, the place of supply is also in Austria. This is because the supply will fall into the category of services relating to entertainment.

Ronald is providing an advertising service to a charity. As the charity is not undertaking business activities, the supply is considered to be made to a non-business customer. As such, the place of supply is Austria as this is the place where the customer belongs subject. This is contrary to the standard rule but is due to special rules relating to advertising services.

The place of supply associated with the royalty fee is the USA, this is because the supply is one made on a business to business basis. The place of supply is therefore where the customer is located, which is the US in this case.

The place of supply of the audio book is the UK. This is because the supply is made to individuals, and the place of supply therefore falls back to where the supplier is located which is the UK in Ronald's case.

The place of supply of the written advice is Austria, this is because the customer is a business customer located in Austria and we therefore revert to the basic place of supply rule.

2)

The hire of the room has a place of supply in Austria, this is because the room hire is a supply of land or buildings, taxable where the building is physically located.

The hire of a car has a place of supply in Austria too. This is because the car is put at Ronald's disposal in Austria for a short term hire.

The supply of security services has a place of supply in the UK, this is because Ronald is a business customer and therefore the place of supply is where he is established.

The place of supply of the translator is the UK, again this is because Ronald is a business customer established in the UK and we revert to the normal rules.

3)

Only a person to whom an offer has been made can accept an offer As the offer was made to the publishing company, this would suggest that Ronald is not in a position to accept the offer made by the transalator. In addition, as the offer is subject to contract, this is not

considered acceptance. It means that Ronald was happy with the terms but should negotiate a formal contract first, neither party to the contract is bound until a formal one is signed.

As such, Ronald has not accepted the offer made by the transaltor.

----------ANSWER-12-ABOVE----------

----------ANSWER-13-BELOW----------

Answer-to-Question-_13_

1)

As Jeri is purchasing services and land from one of our exisitng clients, there is potentially a conflict of interest arising as we are acting for more than one party to a transaction, which may prevent us from acting objectively and independently.

To manage this, the existence of the potential conflict should be acknowledged immediately and if deemed appropriate, both clients should be informed of the existence of the conflict. If it is not feesible to maintian objectivity, we may consider recommending that Jeri obtains independent advice and declining to act.

How the conflict is handled should be noted on file and communicated in writing to the cleints, including any agreement where a member continues to act.

2)

ADVISORS ADDRESS

JERI'S ADDRESS 07 October 2024

Dear Jeri

Thank you for sending through your letter, I would be happy to share some comments explaining the VAT treatment of the services which you will be buying under the different options outlined in your letter.

Option 1:

The cost of services incurred in refurbishing the house named the Manse may be reduced rated. This is because the refurbishment will qualify as a renovation to a single household dwelling which has been empty for at least 2 years. However proof will need to be obtained to demonstrate that this was the case. The costs which may be reduced-rated also includes the costs of building materials when supplied alongside the renovation services, as well as the cost of services relating to the building of the garage, this is becasue these costs are deemed as improvements to the fabric of the building.

Services provided by the architects and surveyors will however be standard rated as these supplies are specifically excluded from the reduced rating.

Any costs incurred in refurbishing the Cottage however, including the extension, will need to be standard rated. This is becuase the building has been lived in in the 2 years prior to the renovation based on the information provided. Although an extension has been built, this would not qualify as a 'new' building as the fabric of the cottage remains.

Option 2:

As the buildings will have been demolished completely, the supply of construction services may be zero-rated as qualifying services provided in the construction of a new dwelling. The demolition services may only be zero-rated if the work is carried out after planning permission for construction of the new building has been granted, otherwise the

supply will be standard rated. As you intend to engage seperate companies for demolition and construction, it appears that this is not the case.

Again, the zero-rating is extended to include costs of building materials supplied alongside the construction services. Similarly, the supply of services relating to the water and electricity connections will also be zero-rated as these supplies are closely connected to the construction itself, the same point also applies to the driveway because it is needed to ensure the building can be used. The supply of services in connection with building the garage will also be zero-rated. Please note that building materials only includes items ordinarily incorporated into the construction of a building. This includes kitchen units, but would not include free standing furniture or ovens for example.

As noted under option 1, the supply of architects is always standard rated, except where the architects sevices are supplied as part of the overall contract. This is because the architects supply is no more than a cost component of the contractor supply. As such, even the cost element associated with the architect may be zero-rated as part of the wider contract.

Option 3:

Although the extension will not qualify as a new building, changing the Cottage from a single dwelling into two dwellings will be considered a qualifying conversion. As such, qualifying services provided in the course of performing the construction may be reduced rated. The services captured under the reduced rating is more restrictive however, and only includes those relating to the fabric of the building. Any building materials provided alongside the qualifying services may also be reduced rated however.

The building of an annex will not however be considered a qualifying conversion, the

building of an annex is not considered to be changing the Manse from a single household dwelling to a multiple occupancy dwelling. As such, any services supplied in the course of undertaking the Manse annex will be standard rated.

I hope this answers all of your questions but please do get in touch if any of the above is unclear.

Yours sincerly

Ben

----------ANSWER-13-ABOVE----------

----------ANSWER-14-BELOW----------

Answer-to-Question-_14_

QE 31 October 2024:

1)

First year of VAT registration - therefore use flat rate percentage of 8.5%

VAT inclusive turnover to commercial customers = 25,000 x 120% = 30,000
VAT inclusive turnover to domestic customers = 10,000 (zero-rated)

VAT inclusive turnover = 30,000 + 10,000 - (2,750 x 120%) = 36,700

3,700 x 8.5% = 3,094 - output tax

Van - capital asset costing more tha £2,000 (VAT inclusive), therefore, full input tax recovery
9,000 / 6 = £1,500

Input tax on the solar panels not recoverable as not a capital item.
Input tax on the tools and ladders not recoverable as the VAT inclusive cost = 1,000 x 120% = £1,200 < £2,000

Box 1 = 3,094

Box 4 = 1,500

Box 5 = 1,594

2)

If the company had not used the flat rate scheme:

Output VAT = 25,000 x 20% = 5,000

Input VAT:

Van = 1,500

Solar panels = 18,000 x 0.2 = 3,600

Tools and ladders = 1,000 x 0.2 = 200

Total input VAT = 5,300

Box 5 = 5,000 - 5,300 = (300)

£300 repayment from HMRC would be due for the quarter if the business had not used the flat rate scheme.