

CIOT - ATT-CTA

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 1**

Answer-to-Question-_1_

- 1) Standard rated - 20%
- 2) Zero rated - 0%
- 3) Standard rated - 20%
- 4) Standard rated - 20%
- 5) Standard rated - 20%
- 6) Zero rated - 0%
- 7) Standard rated - 20%
- 8) Zero rated - 0%

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

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

Answer-to-Question-_2_

Output VAT		Output VAT	
Holiday cottage income (standard rated)	6000 / 6	1000	
Sale of eggs (zero rated)	N/A	Nil	
Plant sales (standard rated as ornamental)	175 / 6	29	

Output VAT on goods held at deregistration:

Small tractor	16000
Chicken coop	350
Polytunnel	-
Total	16350

Output VAT due:	
16350 x 20%	3270

As the VAT is greater than £1000, output VAT must be accounted for.

No output tax due on polytunnel as no input tax was recovered upon the purchase of the asset, due to the supplier not being registered for VAT.

Total VAT payable (Box 5):

3270 + 1000 + 29	4299
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-----ANSWER-2-ABOVE-----

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

Answer-to-Question-_3_

1)

The first stage is making the decision to opt. Fresh and Natural Co must notify internally their decision making process in opting to tax. However, once a decision is reached, you should keep a written record, showing clear details of the land or buildings you are opting to tax, as well as the date you made your decision.

The second stage is to notify HMRC of this. Once an option to tax has been made, it must be notified to HMRC within 30 days of being made.

If a property is currently being let on an exempt basis, HMRC's permission will be required before the option to tax can be made, unless the conditions for automatic permission are met.

2)

The landlord's option to tax does not bind with someone with a different interest in the land. As Fresh and Natural are subletting part of the office space to the accountancy firm, Fresh and Natural co will have to make a separate option to tax the sub-lease.

As Fresh and Natural have not made their own option, the VAT paid to the head landlord will become irrecoverable because it relates to the making of the exempt sub-letting.

HMRC may allow Fresh and Natural to opt but they may need to adjust their VAT position as they will have accounted for VAT incorrectly. As they will have been charging VAT to the accountancy firm, they will have been overdeclaring output VAT.

At the same time, they may have been recovering input tax on expenditure to do with the letting to the accountancy firm and this may have led to over-recovery of input VAT.

The option has effect from the date on which the election is made, or any later day specified in the election. This means you cannot backdate an option to tax.

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

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

Answer-to-Question-_4_

1) Zero rated

This is classed as a 'relevant charitable' use and is used in the course of their business.

2) Zero rated

Advertising is within Schedule 8, Group 15. Therefore, zero rated

3) Zero rated

Business purposes and in the course of their business

4) Zero rated

Business purposes and in the course of their business

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

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

Answer-to-Question-_5_

A condition to joining the annual accounting scheme is that turnover of taxable supplies in the next 12 months must be less than £1.35 million (VAT exclusive).

Their sales to UK wholesalers are classed as taxable supplies. Their exports to US wholesalers have a UK place of supply and therefore contribute toward the taxable supplies. Any capital disposal are ignored as they distort the taxable supply figure. As such, the disposal of the factory fixtures and fittings are not a taxable supply for these purposes.

The taxable supplies add to $(850000 \times 5/6) = 708333$ and therefore is less than the threshold and meet this condition. Exports are zero rated.

Secondly, they must not be a member of a VAT group registration. As the VAT group disbanded long ago, they are not actively part of a VAT group and also meet this condition.

Thirdly, they must not have an outstanding VAT debt that is continuing to increase. As they have been paying VAT due on a calendar quarter basis for many years and there is no mention of any VAT due, they also meet this criteria.

Also, they must not be registered under a divisional VAT registration. As they are a single entity and have their own VAT registration number, they meet this criteria.

Another condition is that the trader must not have ceased to operate the annual accounting scheme in the past 12 months. As they have been paying quarterly for years, they have not entered the annual accounting scheme and as such, meet this criteria.

After reference to all criteria, Foxtrot Ltd are

eligible to join the annual accounting scheme.

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

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

Answer-to-Question-_6_

1)

Listing of a freehold commercial premises that is less than 3 months old is standard rated for VAT purposes. As the newly-constructed office block meets these criteria, this disposal is standard rated at 20%.

The freehold sale of a car park that is 5 years old will be exempt for VAT purposes. If it was less than three years old, this disposal would be standard rated, however because it is no longer classed as 'new' it is exempt.

2)

The basic tax point is the date the goods are delivered, made available or collected. As they are buildings and car parks, it is when the properties are made available to the buyer.

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

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

Answer-to-Question-_7_

Under Making Tax Digital ("MTD"), businesses must use digital links to transfer data or exchange data between software programs and applications that make up the functional compatible software.

It is not acceptable for there to be any manually transferred data within or between the software programs, products or applications that make up the MTD-compatible software.

As such, when the accountant manually enters the shop's daily gross takings amounts and purchase invoice details into the software, this is not compliant with MTD and there should be no manual entering, as this could cause human error from entering incorrect values.

The process of uploading the 'online sales' report values from the spreadsheet into the API-enabled software and the API-enabled software to create and submit the VAT return, is compliant for MTD purposes.

The submission of information to HMRC must always be via an API.

Under MTD provisions, it is necessary for VAT-registered business to submit their VAT return information electronically using software that is compatible with HMRC's systems.

Jethro must have his 'shop daily gross takings' taken by online software, to ensure he is capturing all sale receipts. When printing receipts and providing these to his accountant by hand, there, again, may be human error. Therefore, this is not compliant with MTD as you must keep records digitally, using compatible software.

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

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

Answer-to-Question-_8_

1) B2B supply, no exceptions, place of supply is Switzerland

2) B2C supply, considered E-services - distance teaching, therefore place of supply is where the customer belongs, therefore place of supply is France.

3) B2C supply, via email but not classed as electronically supplied, but services of a consultant, so place of supply is where the recipient belongs - place of supply is The Netherlands

4) Place of supply is UK

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

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

Answer-to-Question- 9_

1) Goods sold from GB to NI is classed as a normal domestic VAT charged on the invoice by the supplier. Therefore, VAT must be charged on the sale to the business in Belfast.

2) Classed as an export, therefore goods are leaving the UK, therefore have a UK place of supply. As such, it is zero-rated by way of VATA 1994 s.30(6) and evidence of export movement is required.

3) Normal domestic VAT is charged on the invoice by the supplier. VAT will be payable by Totesalpaca and can be reclaimed from the UK authorities under the UK's refund scheme (13th Directive claim).

4) Purchase from an EU country therefore classed as an import. Goods are arriving in the UK and it is not a UK place of supply. Import VAT will be payable by Totesalpaca.

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

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

Answer-to-Question-_10_

A default is where either a VAT return is submitted late or a payment of VAT is made late.

QE June 2021

There is a late VAT return and late VAT payment so a default has occurred. As this is his first default, HMRC issue a warning called a surcharge liability notice.

This is effective for a period of 12 months and is called the 'surcharge period'. If a default occurs during this period, a surcharge is calculated based on unpaid tax due and the surcharge is extended.

As such, this surcharge period is active until 30 June 2022

As his turnover is over £150000, he will not receive a letter offering help. The next default will result in a surcharge liability notice being issued.

No penalty or default surcharge is payable here.

QE September 2021

This is his first default during the surcharge period, therefore there will be a penalty of 2% of the unpaid VAT as at the normal due date.

As such, this will be $2\% \times 12000 = £240$. However as this surcharge is less than £400 and is only the 2% penalty, HMRC will not collect this. Therefore amount payable for this quarter is nil.

His surcharge period is extended to the 30 September 2022.

QE December 2021

He has a late VAT return but not a late payment. This is still classed as a default and it is his second one during the surcharge period. As such, the penalty increases to 5% of unpaid VAT.

As such, the penalty due is $5\% \times 13000 = \text{£}650$. However, as he has paid this VAT on time, there will be no amount payable this quarter.

The surcharge period is extended to 31 December 2022.

QE March 2022

If Matt is correct in thinking the March 2022 return will be late for payment and submission, then the following applies:

This will be his third default under the surcharge period, therefore the penalty increases to 10% of unpaid VAT.

Therefore the amount payable is $10\% \times 12000 = \text{£}1200$.

The surcharge period is extended to 31 March 2023.

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

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Paper: **ATT Paper 6 VAT**

Part/Module: **Part 2**

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

Answer-to-Question-_11_

1a)

The sale of the two newly constructed houses in the garden that will be sold freehold or through a 150-year lease will be classed as a First Grant of a Major Interest. For VAT purposes, a major interest is a freehold or a lease exceeding 21 years.

As such, these will be a zero-rated supply and the sale will charge VAT at 0%, effectively charging no VAT.

The other house, which involved the façade being retained at the insistence of the construction company, but everything else is being demolished, this will be classed as the construction of a new residential property.

As such, if they sell this residential property as a freehold or through a 150-year lease, it will again, be classed as a First Grant of a Major interest. Therefore, it is a zero-rated supply and effectively, no VAT will be charged on the sale of the property.

In the case of the sale of the three residential properties, there is no difference between selling at freehold, or through a leasehold at 150 years. This is a long lease that is greater than 21 years and so they both have the same treatment - First Grant of a Major Interest.

1b)

The fitted kitchen with cupboards is zero-rated on the basis it is classed as 'building materials'.

However the cooker, fridge freezer and carpets are not building materials and are therefore standard rated.

1c)

The building materials are supplied in the course of qualifying construction and are therefore zero rated in the course of construction.

However, if the building materials are supplied on their own, they will be standard-rated. It is only when they are supplied with a qualifying service that they become zero-rated.

In the case of the construction company, it seems that they are only buying building materials. Therefore, VAT at the standard rate will be charged.

The services of the electrician will be zero rated, on the basis that these are services related to the construction. Any construction materials that come with the electrician are also zero rated.

The services of the carpet fitter and carpet is standard rated as it is excluded from qualifying building materials.

However, zero rating does not apply to the services of the architect. These costs will be standard rated.

2)

Pre conversion: 6 apartments
Post conversion: 6 apartments

As the ground floor will be converted from shops (commercial premises) to 2 flats, this will be reduced rated on qualifying services.

However, as for the second floor, as this is also a change in the number of dwellings, as it increases from 2

apartments to three, this will also be liable to VAT at the reduced rating.

The top floor will decrease the number of dwellings from two apartments to one, therefore, a changed number of dwellings is liable to VAT at the reduced rating.

3)

A freehold estate is a period of time without end. Whereas a leasehold estate is a period of time of defined duration, such as a lease of a building for 99 years.

In a freehold estate, the have "fee simple absolute in possession", meaning the owner of the estate has the present right to the immediate enjoyment if the estate without any conditions attached. However, with a leaseholder, can has limited enjoyment for a period of time. Thghe freeholder grants a lease to the lease holder.

The freeholder does not cease to own the freehold estate in the land.

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

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

Answer-to-Question-_12_

Flat rate for publishing = 11%. However, limited cost trader, therefore flat rate = 16.5%

Limited Cost Trader?

VAT inclusive expenditure:

$$(1600 \times 1.2) + (2000 \times 1) + (3000 \times 1.2) = 7520$$

Not less than 2%, so not a LCT

Flat rate with proposed contract:

Output tax:
100000 x 11% 11000

Input tax:
New laptop and phone -

VAT due 11000

Flat rate with alternaive contract:

Agent fees:
(100000 x 1.2) x 20% = 24000

Output tax:
(100000 - 24000) x 11% 8360

Input tax:
New laptop and phone -

VAT due 8360

FRS: New laptop and phone although capital assets, do

not have a VAT inclusive value of more than £2000. Therefore input VAT irrecoverable.

Without flat rate, proposed contract:

Output tax:	
100000 x 20%	20000
Input tax:	
New laptop and phone:	
1600 x 20%	(320)
Train fare costs:	
2000 x 0%	0
Accountancy fees:	
3000 x 20%	(600)
VAT due	19080

Without flat rate, alternative contract:

Agent fees:	
(100000 x 1.2) x 20% = 24000	
Output tax:	
(100000 - 24000) x 20%	15200
Input tax:	
New laptop and phone:	
1600 x 20%	(320)
Train fare costs:	
2000 x 0%	0
Accountancy fees:	
3000 x 20%	(600)
VAT due	14280

For both contracts, it is more beneficial to use the flat rate scheme as less VAT is payable.

2)

VAT on outputs:

Dr Bank / creditors - Gross amount
Cr VAT account - Flat rate % x Sales
Cr Sales - Gross, less flat rate % VAT

VAT on inputs:

Dr Purchases / expenses - Gross amount
Cr Bank / creditors - Gross amount

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

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

Answer-to-Question-_13_

1)

Hattie
ATT Student
Address Line 1
Address Line 1
Address Line 2
Address Line 2
Postcode
Postcode
Telephone
Telephone

05 May 2022

Dear Hattie,

I hope you are well since we last spoke. As discussed, please see my comments in relation to the VAT liability and VAT implications of your offers.

Buyer 1)

As buyer 1 wants to buy all your shares, this is classed as a sale of shares and as such, it is not a supply for VAT purposes. As such, no output VAT will be accounted for on the company VAT return.

Buyer 2)

Sale of sheep are zero rated so effectively, no output VAT should be declared on the VAT return.

The sale of the land is exempt from VAT therefore, no output VAT should need to be accounted for on the VAT return.

The sale of the farmhouse will be standard rated as this is an outbuilding used for the purpose of the farm.

The sale of the sheep is zero rated for VAT purposes and as such, no output tax will need to be declared.

The sale of the equipment to a second hand dealer will require VAT to be charged on the sale and therefore output tax will need to be accounted for. This is on the basis that she previously recovered VAT on this equipment.

Buyer 3)

As buyer 3 wants to buy all the assets and maintain the same kind of business, this could qualify as a transfer of a going concern. If a business is transferred as a going concern, the supply is outside the scope of VAT and therefore no output tax is due to be accounted for on the supply of that business.

However, the following conditions must apply (in brief):

The assets are to be used by the transferee in carrying on the same kind of business. As it still remains a farm, this applies.

The transferee must already be a taxable person or as a result of the transfer, make them a taxable person.

If it is only a part transfer, that part is capable of separate operation.

There should be no significant break in trading.

There are no consecutive transfers of the business

Buyer 4)

As buyer 4 will purchase all of the assets, but he himself (as the transferee) will not carry on the business, the VAT liability on the sale of all the assets will be at the respective rate of VAT for each asset.

Additionally, this will be considered as a consecutive transfer of the business, which is a condition for the TOGC (Transfer of a Going Concern).

The sale of the land will be exempt from VAT.

The sale of the equipment will require VAT to be charged on the basis you previously recovered VAT upon acquisition).

The sale of the sheep are zero rated and therefore VAT at 0% will need to be accounted for. However, effectively no output tax is payable in relation to the sale of the sheep.

Buyer 5)

As buyer 5 is not maintaining a similar business and is selling the assets immediately, he will be charged VAT on the assets.

The sale of the land is exempt from VAT therefore, no output VAT should need to be accounted for on the VAT return.

The sale of the farmhouse will be standard rated as this is an outbuilding used for the purpose of the farm.

The sale of the sheep are zero rated and therefore VAT at 0% will need to be accounted for. However, effectively no output tax is payable in relation to the sale of the sheep.

The sale of the equipment will require VAT to be charged

on the basis you previously recovered VAT upon acquisition).

Please let me know if you have any further questions.

Yours sincerely,
ATT Student

2)

If there had been an option to tax on the land, this would convert the exempt supply of land to elect it to be treated as a standard rated supply.

The impact of this in our case is that the buyers who wanted to buy the land would be charged VAT at the standard rate.

As such, Hattie would have to additionally account for this output tax on her VAT return.

3)

Upon ceasing to act, a member should notify the client in writing that they are no longer acting and address the following in their letter of disengagement:

A summary of services provided up to the date of ceasing to act.

A note of any further action to be taken by a member.

A note of any outstanding matters that either the ex-client or the new advisers will need to address.

Details of any impending deadlines and the action required.

Details of any outstanding fees.

A note indicating whether a member or their successor is to advise HMRC of the change.

A member who receives communication from a successor should ask the client for permission to discuss their affairs with the prospective new adviser.

If, after ceasing to act, a member subsequently receives any correspondence relating to the former client, they should forward that correspondence without delay and advise the sender to address future correspondence direct to that client.

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

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

Answer-to-Question-_14_

1)

Ashraf himself, Ashraf Holdings Ltd, Steady and Stable Ltd, Field of Dreams Ltd can form a VAT group. This is on the basis that:

Firstly, that Ashraf is an individual that controls the body corporates in the group and are all established in the UK and all making supplies.

Also, The entities are all body corporates that are established in the UK and are all under common control of the same person. As Ashraf holds 100% of the shares in all of the companies listed, this can form a VAT group.

Foreign Fields s.r.o cannot be in a VAT group as they are not established or have a fixed establishment in the UK.

Ashraf Holdings Ltd, Steady and Stable Ltd and Field of Dreams Ltd may also form a VAT group as they are all body corporates that are established in the UK and are under the common control of the same person.

2)

By setting up a VAT group and choosing which entities to include in that group, it is possible to include an exempt company in the group. Exempt companies cannot usually register for VAT but can be included in a VAT group.

In our case, Field of Dreams Ltd only has exempt income. Therefore this now allows recovery of some input tax which would otherwise be irrecoverable.

However, on the other hand, including Field of Dreams Ltd would mean that the group becomes partially exempt. As such, their input tax on expenditure will no longer become wholly recoverable and some will be attributable to exempt supplies only, or to both exempt and taxable supplies.

However, at least it means that certain input tax incurred by the exempt company may go into the 'residual pot' and in theory could be recovered

3)

If Ashraf provides his own consulting services to Field of Dreams for no cost in return for being able to live in the house without paying rent, this would be classed as non-monetary consideration.

In this case, a 'barter transaction' takes place. Where this occurs, it is necessary to value such a provision of the services where VATA 1994 deems a taxable supply to have taken place.

You must determine the amount that would have been given in money for the supply if the services had not instead been used for all of the payment and multiply that amount by the VAT fraction. Therefore, this would still be a deemed supply and would not help reducing VAT costs.

The formation of a VAT group would allow Field of Dreams Limited to enable recovery of some input tax which would otherwise be irrecoverable. Therefore, benefit as this would reduce the VAT costs as a portion becomes recoverable.

