

CIOT - ATT-CTA - 2020 November Exams

Paper: **ATT Paper 6**

Part/Module: **Part 1**

Answer-to-Question-_1_

1) Oscar is permitted to join the annual accounting scheme as his turnover is below the £1.35 million turnover limit for joining the scheme

2) In joining the annual accounting scheme, Oscar would benefit from the following;

1. He would have the advantage of paying his VAT on a monthly basis, based on the estimate of his VAT due. This would give Oscar certainty of his monthly outgoings

2. Oscar would have less administrative duties as his VAT return would only require completing once per year

3. The balancing payment for the VAT after the first year is not payable until 2 months after the year end, this gives Oscar a cash flow advantage

4. Oscar would not have the potential risk, four times per year, of penalties and surcharges for late filing of his VAT returns

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

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

Answer-to-Question- _2_

The VAT liability is as follows;

1. Zero rated
2. Zero rated
3. Zero rated
4. Zero rated
5. Zero rated
6. Standard rated
7. Zero rated
8. Standard rated

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

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

Answer-to-Question-_3_

Charities cannot recover input tax on any activities that are determined as "Non business"

It is also important for a charity to assess business and non business activities when registering for VAT as charities with no business activities will not be allowed to be VAT registered

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

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

Answer-to-Question-_4_

1. Making Tax Digital was introduced with effect from 1 April 2019 for all UK VAT regisitered businesses with a turnover in excess of £85,000.

Therefore, at present Greta's Fashions Ltd does not need to comply with the MTD for VAT rules.

However, all VAT registered businesses will need to comply from 1 April 2021

2. Businesses can continue to use a spread sheet to calculate their VAT return figures under the MTD rules. The spreadsheet must have digital links and be submitted to HMRC via bridging software under these circumstances.

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

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

Answer-to-Question-_5_

As Markus is in the position of receiving regular VAT refunds, he would benefit from changing his VAT return periods from quarterly to monthly. This would have the effect of Markus receiving part of his VAT refunds more quickly than he does currently.

However, this would mean that Markus would have the additional administration of submitting 12 vAT returns per year rather than just 4

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

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

Answer-to-Question-_6_

Anna and Rachelle are both providing services which means that the basic tax point for the supply of the services is the date the service is performed. In Anna's case this was on 1 October 2020. Rachelle's basic tax point date was 27 September 2020.

The actual tax point for Anna's services is 29 September 2020 as the payment was received on this date and this creates an early overrider.

The actual tax point for Rachelle's services is 8 October 2020 as this is the date the invoice was raised and there is no early overrider.

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

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

Answer-to-Question-_7_

Tanya will benefit from the 1% reduction of the flat rate scheme percentage in her first year of joining the flat rate scheme.

Assuming this is a VAT period of 3 months and that the Misc expenses qualify as relevant goods then the flat rate trader rules will not apply (Misc expenses of £950 is above the limit of 2% of turnover (£20,000 x 2% = £400)

Therefore, Tanya's flat rate percentage will be 10% of her VAT inclusive turnover.

Tanya will be able to reclaim the VAT incurred on the purchase of the camera as the VAT inclusive cost is over £2,000.

Output VAT due (£20,000 +20%) x 10%	=	£2,400
Input VAT to claim (£1,800 + 20%) x 1/6	=	£360
Tanya's VAT liability	=	£2,040

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

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

Answer-to-Question-_8_

Interest is only charged by HMRC on VAT errors when they deem the error represents commercial restitution, such as when the VAT is withheld for a long period of time or HMRC has lost use of the VAT for a period of time.

In this case, if Sindon Ltd had originally applied the correct treatment then Grandol Ltd would have reclaimed the Input tax at the same time so HMRC would not be losing use of the VAT monies.

I wouldn't expect interest to be charged here.

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

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

Answer-to-Question-_9_

A business that does not feel the standard method for apportioning residual input tax is fair, can agree a special method with HMRC by applying directly to HMRC.

HMRC will discuss the proposed special method and agree it with the VAT registered business if it agrees that it is fair and reasonable.

Two common special methods that HMRC may accept would be based on;

1. Staff numbers - the number of staff employed on the standard rated supplies versus the number of staff employed on exempt supplies
2. Floor area - the floor area used to generate standard rated supplies versus the floor area used to generate exempt supplies

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

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

Answer-to-Question-_10_

Output tax due

Confectionery	(£6,000 / 6)	=	£1,000
Newspapers, mags, books	(Zero rated)	=	£0
Potato crisps	(£3,000 / 6)	=	£500
Point of sale system	(£4,000 x 20%)	=	£800
Stock of confectionery	(£2,300 x 20%)	=	£460

Input tax to reclaim

Newspapers, mags, books	(zero rated)	=	£0
Rent	(£3,000 / 6)	=	£500

VAT due to be paid = £2,260

The computer has not been included as this was purchased from an unregistered business.

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

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

Answer-to-Question-_11_

Lakshmi Ltd would need to complete an option to tax application with HMRC in order to register their intention to charge VAT on the sublet.

Once opted the rent charged by Lakshmi Ltd will be standard rated for VAT purposes meaning that the VAT paid on the rent by Lakshmi Ltd would be reclaimable

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

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

Answer-to-Question-_12_

1. Gifts where the VAT inclusive cost is less than £50 are normally not treated as a deemed supply for VAT purposes. However, in this case there are a series of gifts to the same staff member that exceed £50 so this would be a deemed supply and each large candle would incur an Output tax charge of £9 each

2. Samples do not fall under the deemed supply rules so no VAT would be due on these items.

3. There is no output tax due on a deemed supply if there is input tax recovered by the trader on the goods or services. Therefore the back massage will not incur any output tax charge

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

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Paper: **ATT Paper 6**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

Dear Cunning Conversions Ltd,

1. Further to your enquiry, in relation to the purchased goods and services I can advise as follows;

Plot A

The services supplied by the subcontractors should be reduced rated at the 5% VAT rate. Materials purchased for the provision of the building works will be standard rated for VAT purposes. The cookers, fridges and freezers should all be standard rated when purchased. The new water mains connections will be reduce rated at 5%

Plot B

The services that relate to the conversion into flats will be reduce rated and the VAT incurred on these costs will be 5%. The costs in relation to services on the conversion into the shop will be standard rated.

All materials will be standard rated.

Plot C

The services that relate to the house being converted into four flats will be reduce rated at 5%

Plot D

As the number of dwellings will not change all works to this house will be standard rated

2. The VAT liability on the income generated will be as follows;

Plot A

The sale of the new houses will be zero rated as the first grant of a major interest in residential properties

Plot B

The rental of residential flats will be an exempt supply but the rental of the shop will also be exempt

Plot C

The sale of the four flats will be a standard rated sale as this is not the first grant of an interest in this property

Plot D

This sale of the house on Plot D will be a standard rated sale

3. Cunning Conversions Ltd will be able to reclaim the VAT on the following costs;

Plot A, Plot C and Plot D.

Plot B is an exempt supply so VAT cannot be reclaimed on this.

4. In our letter to the seller of the land we will include;
- Details of our reasons for ceasing to act
 -

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

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

Answer-to-Question-_14_

1. When goods are sold to a customer based outside of the EU then the place of supply is in the UK and the goods are zero rated for VAT purposes.

The supplier must keep records to prove the export of the goods, examples of evidence are a bill of lading or an air waybill.

2. The supplier must obtain some other commercial evidence to prove that the goods have been exported, this could be the customers shipping information. The supplier could insert the requirement for the buyer to provide export evidence into the sale contract. If this is not felt adequate then the supplier could take a deposit equal to the potential VAT liability from the customer and only release the deposit once satisfactory evidence has been received from the customer.

3. - Insurance and freight charges documentation
 - Sales contract
 - Customers order
 - Consignment note

4. The helpline is a service so the place of supply is where the supplier belongs, which is in the UK.

The App is a standard rated sale and the place of supply is where the supplier belongs, which is in the UK

The repair work is carried out in the UK, as this is a service the place of supply is in the UK and is standard rated

5. The accounting entry for the tax advice would be;

Debit Professional fees (Profit and Loss) £10,000

Debit	VAT Account (Balance Sheet)	£2,000
Credit	Purchase ledger (Balance Sheet)	(£12,000)

When the purchase invoice is paid the accounting entry would be;

Debit	Purchase ledger (Balance Sheet)	£12,000
Credit	Bank (Balance Sheet)	(£12,000)

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

Hi A Partner,

Thanks for your email, I have looked into the points raised and can advise as follows;

Sharon has made an error which HMRC will define as being careless. If she reports the error to HMRC on a voluntary disclosure and pays the VAT that is due then she will be liable for a maximum penalty of 30% of the VAT due but this may be reduced to 0% due to her unprompted disclosure. Sharon cannot correct this error on her next VAT return as the level of the error is too high (More than £10,000)

The directors of Marney Ltd have acted in a deliberate way and are now considering not disclosing this deliberate action to HMRC. Deliberate actions of this type will attract penalties of varying levels. These actions appear to be concealed by the company. If Marney Ltd have a compliance visit and the deliberate actions are picked up by HMRC then the penalties for a concealed action could be 100% of the VAT owed. If HMRC take the view that the actions were not concealed then the penalty may be just 70% of the VAT owed. We should point out to Marney Ltd that the penalties reduce significantly if they disclose the actions without being prompted. The minimum penalties in these circumstances would be 20% if not concealed and 30% if it is deemed to have been concealed.

Please note that there is no suspension of a penalty if the action is deemed to be deliberate.

Deliberate errors cannot be corrected on a later VAT return, these types of actions must always be disclosed to HMRC on a separate disclosure.

Failing to prevent the facilitation of tax evasion is an offence under the Criminal Finances Act 2017

The three essential features are;

- Tax evasion by a tax payer
- Facilitation of the tax evasion by an associated person of a relevant body
- The relevant body failing to prevent its person from committing the criminal facilitation

The financial penalty for this offence are unlimited and offenders can also face jail.

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question-_16_

Option 1

Stella's employment income can be disregarded for VAT registration purposes.

In the first 12 months of her self employment she is estimating a turnover of £4,000 per month, which is below the VAT registration limit of £85,000

However, as Stella becomes self employed her self employed income increases and by 30 June 2022 her rolling 12 month turnover should breach the VAT registration limit and she will be required to register for VAT from the beginning of August 2022,

Months 9 - 12 (£4,000 per month)	=	£16,000
Months 13 - 20 (£9,000 per month)	=	<u>£72,000</u>
		<u>£88,000</u>

Option 2

After 12 months Stella will be required to register for VAT and this will be effective from the beginning of month 1 December 2021;

Months 1 - 6 (£6,000 per month)	=	£36,000
Months 7 - 12 (£9,000 per month)	=	<u>£54,000</u>
		<u>£90,000</u>

Option 3

Stella does not need to register for VAT as although she knows on 1 November 2020 that her turnover in the next 30 days alone will breach the VAT registration limit, this is only temporary and her turnover in the next 12 months is below £83,000 so she can apply to HMRC for exception to

being VAT registered.

Option 4

The £50,000 investment is not a taxable sale so can be ignored for VAT purposes. If the company turns over £12,000 per month from 1 November 2020 then it will exceed the VAT registration limit by 30 June 2021 and will be required to be VAT registered by 1 August 2021

2. Stella has the following advantages for voluntarily registering for VAT;

- She can reclaim the VAT incurred on goods purchased in the last 4 years and still in her possession at the date of registration
- She can reclaim the VAT incurred on services in the last 6 months prior to registration
- She can reclaim the VAYT incurred on any goods and services after registration

Stella has the following disadvantages for voluntarily registering for VAT;

- If she is selling her gardening tool to consumers who are not VAT registered, her customers won't be able to recalim the VAT incurred and will see the cost of the goods as being higher than they would have done if Stella had avoided being VAT registered originally
- If Stella registers for VAT then she will have additional administative duties