

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 6 VAT

**November 2020**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- 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. Oscar makes only taxable supplies. His turnover for the 12 months to 31 March 2020 was £1.2 million (excluding VAT) and is expected to remain at the same level for the foreseeable future. He has always submitted his VAT returns, and paid the VAT due, to HMRC on a quarterly and timely basis.

1) **Explain whether Oscar is entitled to join the annual accounting scheme.** (2)

2) **State four advantages for Oscar of the annual accounting scheme.** (2)

2. Bobby's Books sells a variety of books, stationery, newspapers and magazines from its retail premises in Birmingham.

**State the VAT liability of the following items sold by Bobby's Books:**

- 1) **Children's colouring book.**
- 2) **Folded map of Birmingham.**
- 3) **2021 Diary (blank for completion).**
- 4) **Exercise books (lined, blank).**
- 5) **English dictionary.**
- 6) **Cycling magazine.**
- 7) **Newspaper.**
- 8) **Wrapping paper.**

(4)

3. The charity, Carbon ReNew, obtains income from a number of activities such as fundraising, donations and income from its shop selling environmentally-friendly gifts. Carbon ReNew is registered for VAT.

**Explain why it is important for Carbon ReNew to determine whether each activity is a 'business' or 'non-business' activity for VAT purposes.** (2)

4. Greta's Fashions Ltd is registered for VAT in the UK as a result of making sales of clothes online to UK consumers. Its turnover to 31 March 2020 was £82,000 and is expected to be similar in the following year.

The company has always used a spreadsheet to calculate the VAT return figures, which are then submitted by the bookkeeper via the HMRC portal.

1) **Explain whether the Making Tax Digital (MTD) for VAT rules apply to Greta's Fashions Ltd.** (2)

2) **Explain whether, under the MTD rules, businesses can continue to use a spreadsheet to calculate their VAT return figures before transmitting these figures to HMRC.** (2)

5. Markus is registered for VAT and submits his VAT returns quarterly. He makes only supplies that are zero-rated for VAT purposes and incurs VAT on various related expenses.

**Explain whether Markus would benefit from changing the length of his VAT accounting periods.** (2)

6. Anna provided gardening services to her customer on 1 October 2020. She asked for payment upfront before performing the services and this was received on 29 September 2020. She raised her VAT invoice to the customer on 30 September 2020.

Rachelle provided VAT advice to her UK-based client on 27 September 2020. It was agreed that the work was complete at that time and nothing further from Rachelle was required. Rachelle subsequently raised a VAT invoice to her client on 8 October 2020 and the client paid promptly on 15 October 2020.

**With reference to the basic tax point and actual tax point rules for the supply of services, explain the tax point for both Anna's and Rachelle's supplies.**

(4)

7. Tanya is a photographer who has just registered for VAT and is using the flat-rate scheme (FRS). The standard FRS percentage for photography is 11%.

For her first VAT period she has the following income and expenses:

	£
<u>Income</u>	
Photograph sales (exclusive of VAT)	20,000
Rent received on sub-let of property (not opted to tax)	4,500
Bank interest	105
<u>Expenses (all exclusive of VAT at the standard rate)</u>	
Purchase of camera	1,800
Rent	10,000
Misc expenses	950

**Calculate Tanya's VAT liability for this VAT period.** (4)

8. Sindon Ltd, a VAT registered trader, made some standard-rated supplies to Grandol Ltd, another VAT registered trader. However, Sindon Ltd treated them as zero-rated supplies in error. Sindon Ltd is just about to pay the under-declared VAT to HMRC.

**Explain whether HMRC is likely to levy interest on Sindon Ltd.** (2)

9. Crimple Ltd is a partially exempt business. Crimple Ltd does not feel that the standard method of apportionment gives a fair apportionment of Residual Input Tax.

**Explain how Crimple may obtain permission to operate a different, fairer method of apportionment of Residual Input Tax, and identify two common methods for apportionment that HMRC may accept.** (4)

10. A newsagent business, News Alert, applied to HMRC to deregister for VAT with effect from 15 December 2019. The last VAT return News Alert submitted to HMRC was for the quarter ending 30 September 2019. HMRC then issued a final VAT return for the period 1 October 2019 to 15 December 2019.

News Alert's VAT-inclusive income for the period was as follows:

	£
Confectionery	6,000
Newspapers, magazines and books	5,000
Potato crisps	3,000

The VAT-inclusive purchases for the period were as follows:

	£
Newspapers and magazines	3,000
Rent (landlord has opted to tax)	3,000

News Alert had the following goods on hand at the date of deregistration:

	<u>Market value (excluding VAT)</u>
	£
Unsold stock of confectionery	2,300
Unsold stock of recipe books	5,000
Point of sale system	4,000 (original cost £5,000 plus VAT)
Computer	1,500 (bought from an unregistered business)

**Calculate the VAT liability (box 5 figure) on News Alert's final VAT return. Show your treatment of each item.** (4)

11. Lakshmi Ltd, a VAT registered business, operates a gym in a commercial building which it leases from its landlord. There is spare space in the building so Lakshmi Ltd has decided to sublet this space. Lakshmi Ltd wishes to add VAT to the subletting charges so it can recover the VAT incurred on the lease charges from the landlord in full.

**Explain the process for Lakshmi Ltd to charge VAT on the subletting. (3)**

12. Rollaston Manor is a health spa located in the countryside. In the last three months it has gifted the following items, on which it recovered input tax where applicable:

- 1) A large candle costing £45 (excluding VAT) to their top-performing staff member for the month. The same person has won this award for three months in a row.
- 2) Samples of face cream to guests at the spa. The spa bought these for 10 pence (excluding VAT) per sachet, and has given out approximately 1,000 sachets.
- 3) A back massage (worth £85 including VAT) to a guest who won a competition. The massage was performed by in-house staff.

**Explain the VAT implications of each gift. (3)**

## PART II

13. Your firm is advising Cuning Conversions Ltd, a company buying some land on which there are four buildings. The seller has already obtained planning permission for the conversion project. There is currently no option to tax on the land, but the company may opt to tax some of the properties.
- 1) Plot A is a factory building. The company will demolish this building and intends to build new houses in the space created by the demolition. A new road will be built to provide access to this part of the site and there will be new connections to the water mains. The company will buy cookers, fridges and freezers which will be sold with the houses.
  - 2) Plot B is also a factory building. However, the plan is to convert this building into 30 self-contained flats, except for an area on the ground floor which will be made into a shop. Once they are finished, the company will continue to own the flats and shop and they will be rented out.
  - 3) Plot C is a house which the current owner of the land will live in until the land sale is agreed. The company will convert this into four flats which will be sold.
  - 4) Plot D is also a house which will be occupied until the sale of the land goes through. The company intends to keep this as a single house, but will do substantial building works inside to modernise the house. It will then be sold.

All the construction and demolition services will be bought from a construction contractor with a separate contract for each building area.

Professional services, such as architects, will be bought under a separate single contract which applies to the whole site.

The company has asked if you can provide advice about the VAT implications of the land purchase, construction works and associated costs, and sale.

The seller of the land is also a client of your firm and you have agreed that in order to avoid a conflict of interest, you will cease to act for them.

### Requirements:

- 1) **Explain the rate of VAT applying to the various goods and services purchased to convert each plot.** (8)
- 2) **Explain what the VAT liability will be in relation to the income generated by Cuning Conversions Ltd once each plot is completed.** (5)
- 3) **Explain on which costs of developing the site Cuning Conversions Ltd will be able to reclaim Input Tax.** (4)
- 4) **Identify three items you should include in the letter, to the seller of the land, in which you confirm that you will be ceasing to act.** (3)

Total (20)

14. Olde English Ales Ltd sells brewing equipment to customers who are based in the USA. The equipment comes in a variety of forms including small kits which are purchased by private individuals for their own enjoyment and much larger kits of equipment which are bought by small businesses entering the brewing business. Sometimes customers from the USA visit the company premises in the UK and collect the kits to take back to the USA with them.

In addition to the equipment, customers can also sign up for a helpline which provides advice from expert brewers on setting up and operating the kits and equipment. There is an extra charge for this.

Those customers who do not want to pay for the helpline can instead download a computer application (app) which includes an online manual for the equipment, lists of common problems and solutions and other useful information. There is a small additional charge for this.

Recently, one of the business customers damaged their equipment and it was returned to the UK for repair. The company charged £3,000 for repairing the equipment and sent it back to the US customer.

In the period ending 31 October 2020, the company paid a purchase invoice for tax advice at £10,000 plus £2,000 VAT.

**Requirements:**

- 1) **Explain the VAT treatment of the sales of kits and equipment, stating any conditions which need to be met.** (4)
- 2) **Explain any additional points the company should include in its contract for sale of kits which are collected in the UK, to avoid the risk of an unexpected VAT liability.** (2)
- 3) **State four different types of evidence that Olde English Ales Ltd could use to demonstrate that goods have been exported.** (2)
- 4) **Explain what the place of supply of services is for the helpline, the app when used wholly in the USA and repair work.** (5)
- 5) **Show the accounting entries for the tax advice invoice.** (2)

Total (15)

15. You are a trainee tax technician and have received the following email from your partner.

Date: 2 November 2020  
To: trainee@afirm.com

Hi

As discussed yesterday, we have received queries from two of our clients about what penalties may apply to errors they have made on their VAT returns. I would like you to look into these.

### **Sharon**

Sharon has recently discovered that, due to a spreadsheet error, she understated the output tax on her last VAT return by £18,000. She has now corrected the problem so the error will not occur in future. She would like to sort this error out as soon as possible.

### **Marney Ltd**

Our colleagues in the corporate tax department discovered that Marney Ltd had processed three purchase invoices twice, and manually amended one invoice so significantly increasing the Input Tax recovered on a recent VAT return. They have suggested that the directors may have intentionally done this to reduce the profits subject to Corporation Tax. The directors of Marney Ltd have suggested that they will pay the additional VAT due if HMRC find it during a compliance visit.

I shall be passing on some of this information to Sharon and Marney Ltd, so please could you include the best case and worst case scenarios for each client and details of ways to potentially reduce the penalties.

In addition, I have heard about an offence of failure to prevent the facilitation of tax evasion. I don't know much about this and would be grateful if you would explain how this offence is committed and the potential punishment.

Many thanks

A Partner

### **Requirements:**

#### **Write an email to your partner:**

- 1) **Explaining the potential penalties applying to the errors on Sharon and Marney Ltd's VAT returns, and the actions that may lead to the penalties being reduced.** (9)
- 2) **Explaining the three essential features of an offence of failing to prevent the facilitation of tax evasion, and the potential penalties for this offence.** (4)

Total (13)



16. Stella has developed a new gardening tool. She is now drawing up business plans to manufacture and sell the tool. She is thinking about the following options:

Option 1

Stella will continue to work part time for the first year before becoming wholly self-employed. Her monthly earnings from employment will be £3,000 per month. She estimates that in this first 12 month period, she will have £4,000 of sales per month. She will also receive £20,000 from a loan that she takes out at the start in order to fund the purchase of machinery. After the first year, she will become fully self-employed. She expects sales to be £9,000 per month from this time onwards. She will at this point sell her equipment with an expected value of £15,000 so that she can upgrade to larger machinery.

Option 2

Stella will immediately become wholly self-employed. She expects sales to be £6,000 per month for the first six months and then £9,000 a month. She expects to get a government funded start up grant of £15,000.

Option 3

On 1 November 2020 an investor offered to pay Stella £100,000 within the next few days for the rights to the tool. The investor will then pay her for consultancy services for which Stella expects to receive about £4,000 per month for the next year.

Option 4

Stella will set up a limited company. The investor will buy £50,000 of shares in the company. The company will make sales of £12,000 per month.

Stella has asked you to advise when she should expect to have to register for VAT assuming that the VAT registration limit does not change and that in all cases she starts to make taxable supplies in early November 2020.

She has also asked whether it would be easier just to register for VAT straight away and what the advantages of that would be.

**Requirements:**

- 1) **For each of the above options, explain the registration date from which VAT must be charged, showing your workings.** (10)
- 2) **State two advantages and two disadvantages of making a voluntary registration for VAT.** (2)

Total (12)