

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

November 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- 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. Sofia sells furniture. Her terms of business are that payment must be made within 30 days of the date of the invoice. As at 31 October 2022, she has the following invoices with outstanding balances and these have been written off in the accounts as a bad debt:
 - 1) An invoice dated 31 January 2022 for £3,000 plus VAT which is wholly unpaid.
 - 2) An invoice dated 15 February 2022 for £2,000 plus VAT. The customer paid £1,800 but is refusing to pay the balance as she believes that there is a fault with the furniture.
 - 3) An invoice dated 3 March 2022 for £2,400 plus VAT. The customer paid the net amount but refused to pay the VAT because he intended to export the goods but has not provided any evidence of export.
 - 4) An invoice dated 9 April 2022 for £1,600 plus VAT. The customer has paid £600 so far.

Explain how much bad debt relief Sofia can claim for each invoice on her VAT return for the quarter ending 31 October 2022. (4)

2. Brixand Ltd is a construction company. In the VAT quarter ended 30 September 2022, the company raised or received the following invoices:
 - 1) A sales invoice for refurbishing an office building. The customer is the owner of the building.
 - 2) A purchase invoice for services provided to them by an electrician in refurbishing the same office at 1) above.
 - 3) A sales invoice for waste materials recovered from the office refurbishment in the same office at 1) above.
 - 4) A sales invoice for construction services provided to another construction company which is building some new retail units.

Explain whether the company should declare output VAT on the above invoices in the September 2022 VAT return. (4)

3. Hamsters Have Rights is a charity which is funded in part by donations or grants and in part by the sale of hamster accessories. The charity provides shelter for unwanted hamsters and raises awareness of hamster welfare. It buys food, bedding and cages for the hamsters, buys in the hamster accessories for resale and has overhead costs such as electricity. The charity is registered for VAT.

Explain whether any output tax is due on the income received by Hamsters Have Rights and whether it can reclaim any input tax. (4)

4. A University has income from providing the following services:
 - 1) A degree course in fashion for undergraduates;
 - 2) A finance course provided to commercial companies;
 - 3) Catering provided to students on the fashion course; and
 - 4) Catering provided to members of staff.

Explain the VAT liability of the above supplies. (4)

5. James Hickok helps owners of small businesses to sell their companies. Where this is done by a sale of shares, James's fees are exempt from VAT as financial intermediary services. Where the sale is a sale of the trade and assets, the fees are subject to VAT. James uses the standard method for partial exemption calculations. He has heard that there are simplified tests that can make it easier to determine how much input tax he can reclaim.

In the quarter ending 31 August 2022, James had £400,000 of taxable income (VAT exclusive) and £200,000 of exempt income. There are very few running costs, but, in that quarter, James had input tax of £2,000 on office running costs and £1,300 on an advert for his financial intermediary services.

Apply all relevant de minimis tests to calculate how much input tax James is entitled to claim on his VAT return for the quarter ended 31 August 2022. (4)

6. In a random sample of sales made by Hooves Enterprises Ltd, you have found the following transactions:

- 1) Sale of a computer for £2,000. A £500 deposit was received on 1 July 2022, the computer was delivered on 25 July 2022, an invoice was raised on 30 August 2022 and it was paid on 30 September 2022.
- 2) Sale of a software licence for £12,000 for three years access to an accounting system. The fee is payable in three annual instalments.
- 3) The lease of an office for a period of two years. A monthly statement is issued showing how much rent is due and, when payment is received, a VAT invoice is issued. A security deposit of £5,000 was collected at the start of the lease.

Explain the basic and actual tax points of the above transactions. (4)

7. Rodney has been using the cash accounting scheme. His taxable income excluding VAT in the 12 months to 31 October 2022 has increased significantly to £2 million. In the quarter ending 31 October 2022, Rodney raised invoices for £800,000 of sales and received £600,000, of which £100,000 was for invoices raised in the quarter to 31 July 2022. All the figures are exclusive of VAT and all Rodney's sales are liable to VAT.

Explain when Rodney should declare the output tax due on the above sales. (4)

8. Arlo owns shares in a number of companies including some which are not registered for VAT or only have exempt income and some of which are based overseas. She owns less than 50% of the shares of some of the companies. She is considering which companies could be in a VAT group.

Explain with reference to Arlo's group of companies, who is eligible to join her VAT group and state four consequences of forming a VAT group. (4)

9. In the VAT quarter ending 31 August 2022, CZR Ltd received purchase invoices for the following items:

- 1) 30 bottles of vintage champagne costing £95 each which are to be given to clients;
- 2) A four year lease of a new car for the Finance Director at a cost of £5,000 per month;
- 3) A meal for the sales team to celebrate winning new contracts at a cost of £500; and
- 4) A bill for £80 for calls made on the Finance Director's mobile phone which she is allowed to use for personal calls.

Explain whether CZR Ltd can claim input tax on the above transactions. (4)

10. River is an artist who sells their artworks to the public and is registered for VAT. They have decided to de-register as their turnover is less than £83,000 per year. At the time of de-registration River expects to have the following assets in the business:
- 1) A car worth £6,000.
 - 2) A van worth £8,000.
 - 3) Copyright in their artworks valued at £20,000.
 - 4) Unused materials on which they have claimed input tax of £1,000.
 - 5) Unsold artworks valued at £3,000.
 - 6) Old workshop and gallery valued at £300,000 – there is no option to tax on these.

All assets were purchased from VAT-registered traders.

Explain whether River should include VAT on their final VAT return for each of the above items.

(4)

PART II

11. Pet Diagnostics is a Scottish based limited company that buys and sells veterinary equipment and provides consultancy services to veterinary practices that require advice on the best equipment to purchase.

The equipment is purchased from Spain and the US Pet Diagnostics imports it into Great Britain where it is stored at Pet Diagnostic's premises in Glasgow until it is sold. The majority of the equipment is sold on to veterinary practices based in Great Britain, however some of the equipment is sold to veterinary practices in both France and Northern Ireland. Pet Diagnostics is not sure how the VAT is dealt with on the import and subsequent sale of the equipment.

Pet Diagnostics also provides consultancy services to veterinary practices based in Northern Ireland, Germany and Australia.

Recently the business has been looking to expand and has found an online business based in Italy which it would like to purchase. Pet Diagnostics has therefore engaged a legal team based in Italy and has received a first bill for 10,000 Euros. Neither Italian nor UK VAT has been charged.

Requirements:

1) Explain the UK VAT implications for Pet Diagnostics of:

- a) **bringing the equipment into Great Britain from Spain and the US, specifying the place of supply, and detailing all VAT compliance requirements, including how to report on the VAT return. (8)**
- b) **supplying the equipment from Great Britain to France and Northern Ireland, specifying the place of supply and detailing all VAT compliance requirements, including how to report on the VAT return. (6)**

2) Explain:

- a) **the UK VAT treatment of the supply of the consultancy services to businesses in Northern Ireland, Germany and Australia. (3)**
- b) **whether the VAT treatment of the invoice from the Italian legal team is correct and how to deal with this on the UK VAT return. (3)**

Total (20)

12. Blue Build Let Ltd (“BBLL”) and its wholly owned subsidiary Red Financial Solutions Ltd (“RFSL”) are in a VAT Group (“BBLL VAT Group”).

BBLL constructed Castle Court, a large commercial property over two floors. Work started on 1 May 2020 and was completed on 31 October 2020. The construction cost was £900,000 plus VAT. BBLL VAT Group has opted to tax Castle Court and because of this the group decided to recover the £180,000 of VAT on the construction in full by December 2020.

On 1 January 2021 BBLL entered into a rental agreement for the ground floor with a local manufacturing business which had to vacate its former premises as a result of fire. The lease was for a short term of just over two years while the manufacturer’s property was rebuilt. This lease is due to expire on 31 March 2023. Since 1 January 2021, as no other tenant had been found, RFSL has occupied the upper floor of the property to carry out its financial intermediary business which generates wholly exempt income.

BBLL VAT Group’s only income is from the taxable rental of Castle Court and the exempt financial intermediary services. It completes VAT returns on a calendar quarterly basis and the partial exemption recovery rate each year has been as follows:

Year to 31 March 2021 – 25%
Year to 31 March 2022 – 53%

The partial exemption recovery rate for the year to 31 March 2023 is expected to be 50%.

The Finance Director is already looking to secure a new tenant to take on the lease for the ground floor from 1 April 2023 and has identified a local dog rehoming charity which would like a two year lease. The ground floor will be wholly used for a relevant charitable purpose, i.e. to operate as a dog rehoming shelter.

Before the Finance Director commits to this tenant he has asked whether renting to the charity has any implications for the option to tax on the property and, if so, whether it would be more beneficial to rent to a non-charitable tenant.

The Finance Director is aware that the Capital Goods Scheme (CGS) is relevant for larger value construction projects but is not entirely sure how it works.

Requirements:

Write a letter to the Finance Director in which you:

1) Explain:

- a) **why the Capital Goods Scheme (CGS) is applicable to the construction of Castle Court, briefly stating the implications of the CGS whilst the BBLL VAT Group owns the property. (4)**
- b) **whether renting to a charity has any impact on the option to tax, and whether renting to the charity, or to a non-charitable tenant would maximise VAT recovery. (3)**

2) Prepare:

- a) **a calculation of the actual amount of VAT that should have been recovered on the construction of Castle Court and quantify any over-recovery of VAT for the year ended 31 March 2021. (2)**
- b) **the accounting journal entries required in relation to any over-recovery of VAT per requirement 2a) above. (2)**
- c) **a calculation of each of the Capital Goods Scheme adjustments for the period to 31 March 2025, assuming the property is rented to the charity for two years from 1 April 2023. State on which VAT return each adjustment should be reported. (9)**

Total (20)

13. Louie has been trading for a number of years but has not been good at keeping his financial affairs up to date.

You have recently been asked to act for Louie in helping him prepare his last two years of sole trader accounts and deal with any issues of non-compliance in relation to VAT. At the initial meeting, you can see from his figures that his turnover exceeded the VAT registration threshold at the end of March 2022. Louie's supplies are all standard rated for VAT purposes.

Louie admitted he was made aware of breaching the VAT registration threshold in March 2022, by his previous accountant, but consciously decided to ignore this as he did not want to be VAT registered before now and have to account for VAT to HMRC, for cashflow reasons.

You have advised Louie that he must submit a backdated VAT registration application to HMRC immediately and account for the output VAT that should have been paid to HMRC.

Turnover in April, May and June 2022 was £8,000 per month and has been £8,500 per month since July 2022. Louie has no reclaimable input VAT during this period.

Louie has signed and returned your firm's letter of engagement but has asked you to explain why an engagement letter is required.

Requirements:

- 1) **Explain how Louie's penalty for late VAT registration is calculated. You are not required to make calculations for this part.** (3)
- 2) **Calculate the maximum penalty that may be charged by HMRC, assuming Louie notifies HMRC on 1 December 2022 of his requirement to be registered.** (5)
- 3) **State two purposes of the engagement letter with Louie.** (2)

Total (10)

14. The Keith Foundation, a registered charity, purchased a historic country manor house in a dilapidated state, two years ago. The charity has raised £2 million so far to enable it to renovate and restore the house.

The only income generated by the charity to date has been from grants and donations. However once the renovation is complete (anticipated Summer 2023) it is expected that the following income will be generated:

- 1) Sale of books – £20,000 per annum.
- 2) Other gift shop sales – £60,000 per annum.
- 3) Café sales (not takeaway) – £135,000 per annum.

The house will be used wholly for business purposes.

The charity has incurred the following expenditure:

- 1) Architect fees of £20,000 plus VAT – invoice dated 2 June 2022.
- 2) Construction services to make the house wind and watertight, totalling £120,000 plus VAT – invoice is dated 4 July 2022.
- 3) Purchase of scaffolding to be used throughout the period of the renovation costing £50,000 plus VAT – invoice dated 5 January 2022.
- 4) Hire of a digger for on-site works costing £5,000 plus VAT – invoice dated 15 May 2022.

The Finance Director, Laura, is planning to VAT register the charity with effect from 1 January 2023 as she is keen to recover as much VAT as possible.

Laura is also in the process of reviewing the contract terms for building services for the next phase of renovation works and has asked you for some advice.

Requirements:

- 1) **Identify the VAT status of each item of projected income. Explain whether the charity can be registered for VAT and why this would be beneficial.** (2)
- 2) **Explain whether VAT can be reclaimed on each of the expenses assuming VAT registration is from 1 January 2023.** (4)
- 3) **Explain any action the Finance Director could take now to improve the VAT recovery position.** (1)
- 4) **State the essential elements that need to be present in a valid contract.** (3)

Total (10)