



November 2022 Examination

PAPER 6

VAT

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1. Sofia can claim bad debt relief as follows:

1) The due date for payment is more than 6 months old so the £600 VAT due on the invoice can be reclaimed in full. (1 mark)

2) The total amount due for payment was £2,000 plus £400 VAT. The due date for payment is more than 6 months old. As £1,800 has been paid, Sofia can claim the VAT element of the outstanding £600 which is £100. (1 mark)

3) Although the amount under dispute is the VAT element, Sofia will have to assume that the amount she has received is inclusive of VAT and she can only claim relief on the VAT element of the outstanding amount which is $\frac{£480}{6} = £80$. (1 mark)

4) The due date for payment is not yet more than 6 months old, so Sofia cannot claim any relief on this invoice. (1 mark)

2. Brixand Ltd should account for VAT on the transactions as follows:

1) This is a supply of standard rated construction services to an end user, so VAT will be due on Brixand Ltd's VAT return. (1 mark)

2) As the electrician's services are subject to CIS, and Brixand Ltd is not the end user, Brixand Ltd should account for VAT on its own return applying the domestic reverse charge for construction services. (1 mark)

3) The sale of waste materials is not subject to the domestic reverse charge, so Brixand Ltd should account for output tax on its return. (1 mark)

4) The sale of construction services to a company which is not an end user is subject to the domestic reverse charge and Brixand Ltd will not need to account for output tax on its return. (1 mark)

3. VAT is not due on donations and grants (1/2 mark) but will be due on the sale of accessories. (1/2 mark) Apart from the sale of accessories, the activities of Hamsters Have Rights will be regarded as a non-business activity. (1 mark) The charity will need to identify how much VAT on purchases relates to its non-business activity. This VAT cannot be reclaimed. (1/2 mark) VAT on goods purchased for sale can be reclaimed. (1/2 mark) VAT on overheads such as electricity will need to be apportioned. (1/2 mark) There is no set method

of doing this, but the apportionment must lead to a fair and reasonable recovery of VAT. (1/2 mark)

4.

1) The degree course is exempt from VAT (1/2 mark) as it is the provision of education by an eligible body. (1/2 mark)

2) The finance course is also exempt from VAT (1/2 mark) as the exemption does not depend on the status of the customer. (1/2 mark) (credit also given if candidates simply restate that the supply is education provided by an eligible body)

3) The catering is exempt from VAT (1/2 mark) as a supply which is closely related to education. (1/2 mark)

4) The catering provided to staff is liable to VAT (1/2 mark) as it is not a supply made to students. (1/2 mark)

5. Total input tax is £3,300 which is more than £625 per month on average therefore simplified test 1 is not met. (1/2 mark)

No input tax is directly attributable to taxable sales, so total input tax less input tax directly attributable to taxable sales is £3,300 which is more than £625 per month on average therefore simplified test 2 is not met. (1/2 mark)

Partial exemption calculation:

Taxable sales /total sales = £400,000/ (£400,000+£200,000) = 66.67% (1/2 mark)

This is rounded to 67% (1/2 mark)

Reclaim of non-attributable input tax = £2,000 x 67% = £1,340 (1/2 mark)

Input tax attributable to exempt supplies = £2,000 - £1,340 + £1,300 = £1,960. (1/2 mark)

This is more than £625 per month. Therefore, James is not de minimis. (Credit also given if candidates conclude not de minimis due to exceeding 50% of input tax test) (1/2 mark)

Input tax reclaimable = £1,340 (1/2 mark)

6.

1) The basic tax point for the sale of goods is when the goods are made available to the customer which would be 25 July 2022. (1/2 mark) An actual tax point is created if payment is made before the basic tax point or if an invoice is raised within 14 days of the basic tax point. The receipt of the deposit on 1 July 2022 creates an actual tax point, (1/2 mark) but the invoice is outside 14 days and therefore does not over-ride the basic tax point of 25 July 2022. (1/2 mark)

2) This is a continuous supply of services. Therefore, the basic tax point is when the services are performed. (Will also accept there is no basic tax point as HMRC often state this). (1/2 mark) The actual tax point is created every time payment is received or a VAT invoice is issued whichever is the earlier. (1/2 mark)

3) This is also a continuous supply of services and the actual tax point is created every time payment is received or a VAT invoice is issued whichever is the earlier. (1/2 mark) The issue of the statement does not create a tax point. (1/2 mark) The security deposit is not liable to VAT (1/2 mark) and therefore does not create a tax point. (1/2 mark)

(4.5 marks available – maximum 4)

7. As Rodney has exceeded the limit for the cash accounting scheme, he must leave the scheme. (1 mark) However, he will not need to leave the scheme until after the current return and should therefore declare output tax only on the payments he has received i.e. on £600,000. (1 mark) Once he has left the scheme, Rodney can either account for any outstanding output tax on invoices in the period in which he stopped using the scheme (January 2023 return) (1 mark) or can opt for a further 6 months to account for the VAT. (1 mark)

8. Arlo would be able to include any company which she holds more than 50% of shares (1/2 mark) and is established in the UK (1/2 mark) including those which make exempt supplies or is not registered (1/2 mark). She would not be able to include companies which are not established in the UK. (1/2 mark)

The key features of a VAT group are:

There is a single VAT registration for all members of the group. (1/2 mark)

A single VAT return (1/2 mark) is submitted for the whole group by the representative member. (1/2 mark)

VAT is not charged on supplies between group members. (1/2 mark)

Group members are jointly and severally liable for the VAT due on the return. (1/2 mark)

(2.5 marks available – maximum 2)

9.

1) CZR Ltd can claim input tax in full as this is a business expense (1 mark). Output tax will be due on the gift when it is given to the client.

2) 50% of input tax is claimable on the cost of long-term car hire. (1 mark)

3) Staff entertainment is an allowable cost and therefore input tax can be claimed. (1 mark)

4) Input tax can only be claimed for business use and not for personal use of services, therefore only a proportion of the input tax will be reclaimable. (1 mark)

10. At the time of deregistration, River will need to account for VAT on the van (1/2 mark) and the unused materials where input tax was claimed (1/2 mark) as the VAT on these two items exceeds £1,000. (1/2 mark) No VAT is due on the car as any input tax would have been blocked (1/2 mark) or on the copyright as it is an intangible asset. (1/2 mark) VAT will only be due on the unsold artwork if it includes material on which input tax was claimed (1/2 mark) and the VAT will be calculated on the cost not the value. (1/2 mark)

VAT will not be due on the old workshop and gallery as there is no option to tax in place. (1/2 mark)



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Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

11. (20 marks total)

1)

a) (8 marks – 8 1/2 available)

When goods arrive into Great Britain (GB) from either an EU or a non-EU supplier this is regarded as an import. (1/2 mark). This is therefore the case whether the goods come from the US or Spain (1/2 mark).

The place of supply is not the UK as the goods are arriving into the UK (1/2 mark). Therefore, the overseas supplier does not have any UK VAT obligations as it is not making a UK supply (1/2 mark).

Instead Pet Diagnostics is required to account for the UK VAT (1/2 mark) on the value of the goods at the same VAT rate that would have applied if the goods had been bought in the UK (1/2 mark)

This import VAT can either be

- paid straight away (1/2 mark)
- accounted for using Postponed VAT Accounting (PVA) (1/2 mark) or
- deferred using a credit arrangement with HMRC (1/2 mark)

If the VAT is either paid straight away or deferred and then paid, it is treated like any other type of input VAT and so will be deductible in the next VAT return in the normal way, subject to the usual VAT recovery rules. (1/2 mark)

Pet Diagnostics would need to have the C79 certificate or deferment statement as issued by HMRC to support this VAT recovery. (1/2 mark)

If PVA is used the VAT is deferred at the time of import (1/2 mark) and so it is designed to ease the cash flow issues which would arise for many businesses (1/2 mark). The importer needs to obtain a statement from HMRC detailing the amount of VAT on imports each month (1 mark). This VAT is declared as output VAT in the UK VAT return in box 1 (1/2 mark - **Candidate does not need to specify Box number to get the 1/2 mark**)

If a business is fully taxable then the business will include the same value as input VAT in Box 4 on the same VAT return. (1/2 mark - **Candidate does not need to specify Box number to get the 1/2 mark**)

b) (6 marks – 7 available)

When goods are sold from a trader in Great Britain (GB) and are moved to a customer based either inside or outside the EU (1/2 mark) this is an export of goods (1/2 mark) The place of supply is in the UK as goods are leaving the UK (1/2 mark) and the liability of the supply is zero-rated (1/2 mark), irrespective of the type of goods being sold (1/2 mark), providing the relevant conditions have been met (1/2 mark).

Pet Diagnostics must ensure they obtain and retain the necessary evidence that the goods they sold have been exported and so treated as zero rated (1 mark). The sort of evidence that HMRC will accept is a Bill of Lading, an Air Waybill or other commercial evidence. (1 mark)

The net value of the exported goods must go in Box 6 of the VAT return (1/2 mark - **Candidate does not need to specify Box number to get the 1/2 mark**)

Goods sold to Northern Ireland (NI) from GB are treated in line with the NI Protocol. The UK supplier will still charge domestic UK VAT (1 mark).

Sale of goods to NI are reported on Pet Diagnostics' VAT return in the same way as a supply of goods to a GB domestic customer (boxes 1 and 6) **(1/2 mark - Candidate does not need to specify Box number to get the 1/2 mark)**

2)

a) **(3 marks)**

The supply of consultancy services to a business outside of the UK is supplied where the customer belongs **(1 mark)**.

The place of supply of consultancy services to the businesses in Germany and Australia is not the UK ie is outside the scope of UK VAT, therefore no UK VAT should be charged **(1 mark)**.

Northern Ireland does not follow EU rules for overseas services and so a supply of services to a business based in NI is a UK domestic supply and VAT should be charged by Pet Diagnostics at the standard rate **(1 mark)**.

b) **(3 marks– 3.5 available)**

The receipt of consultancy services by a UK based business from a non-UK supplier is treated as supplied in the UK (Business-2- business) **(1 mark)**.

Neither foreign nor UK VAT should be charged by the supplier therefore the VAT treatment adopted by the Italian supplier is correct **(1 mark)**.

Pet Diagnostics should report 20% of the value of the service (converted into sterling at an approved exchange rate **(1/2 mark)**) as output VAT in Box 1 of the VAT return **(1/2 mark)** and also as input VAT in Box 4 of the VAT return (if able to fully recover VAT) **(1/2 mark)** **Sufficient to mention to treat as output VAT and input VAT without specifying box numbers**

12. (20 marks total)

To : Finance director , BBLL Group
From A Tax advisor
Date
Subject – Castle Court

Presentation 1

Dear FD

Thanks for your email. I can address the points raised as follows:

Capital Goods Scheme and Option to Tax

1) a) (4 marks – including format)

The Capital Goods Scheme (CGS) applies to the construction of Castle Court as it applies to capital expenditure on land and buildings with a value of £250,000 or more (exclusive of VAT) (1/2 mark) which was subject to VAT at the standard rate (1/2 mark)

Under the CGS, input VAT is initially recovered based on the actual or intended use of the property under the partial exemption rules (1/2 mark). Then adjustments must be made to the initial amount of VAT claimed to reflect the change in the use of capital items over a period of time – 10 years for land and buildings (1/2 mark). If, during the ten years there is any change in the proportion of taxable use of the asset, you must make an adjustment to your input tax to take account of this. (1/2 mark). Additional VAT may be recovered from or repaid to HMRC. (1/2 mark).

b) (3 marks – 4 1/2 available)

The option to tax will not apply in relation to the supply (rental here) to the charity, if the tenant informs you before the supply is made that they intend to use it solely for a relevant charitable purpose (as in this case) (1 mark), other than as an office for general administration (1/2 mark). As such, the rent would be exempt from VAT (1/2 mark).

BBLL VAT Group's income would then all be exempt from VAT and so the property would be put to wholly exempt use (1/2 mark).

As the property is subject to the Capital Goods Scheme (CGS) there would be a clawback of VAT previously recovered from HMRC during the time of the tenancy(1/2 mark) .

If BBLL were to rent to a non-charitable tenant the option to tax would remain and rent would be taxable (1/2 mark) resulting in either less of a clawback (if any), or even further VAT recovery during the time of the tenancy (1/2 mark).

Therefore renting to a non-charitable tenant would maximise VAT recovery (1/2 mark).

Calculations and journal entries

Set out below are the calculations and journal entries that you requested.

2) a) (2 marks)

VAT incurred between 1 May and 31 December 2020 - £180,000 was recovered in full

The purchase falls into VAT year ended 31 March 2021 when the annual partial exemption recovery rate is 25% **(1/2 mark)**

Therefore VAT recovery should have been £180,000 x 25% = £45,000 **(1 mark)**

Hence there is an over-recovery - £180,000 - £45,000 = £135,000 **(1/2 mark)**

b) **(2 marks)**

Dr land and buildings additions (B/S) 135,000 **(1 mark – ½ for account, ½ for amount)**
 Cr VAT Account (B/S) 135,000 **(1 mark – ½ for account, ½ for amount)**

c) **(9 marks)**

The capital goods scheme adjustments are set out below, including details of which VAT returns these should be included.

Interval	Recovery rate		(Due to / from HMRC)	
			£	
1	1/1/21 to 31/3/21	25% (baseline)	Net cost £900,000 VAT @ 20% = £180,000	45,000 1 mark
2	Y/e 31/3/22	53%	180,000/10 (1/2 mark) x (53% -25%) (1/2 mark)	5,040 1/2 mark
			Goes into q/e 30 Sept 2022 return	1/2 mark
3	Y/e 31/3/23	50%	180,000/10 x (50% -25%) (1/2 mark)	4,500 1/2 mark
			Goes into q/e 30 Sept 2023 return	1/2 mark
4	Y/e 31/3/24	0% (1 mark)	180,000/10 x (0% -25%) (1/2 mark)	(4,500) 1/2 mark
			Goes into q/e 30 Sept 2024 return	1/2 mark
5	Y/e 31/3/25	0% (1/2 mark)	180,000/10 x (0% -25%) (1/2 mark)	(4,500) 1/2 mark
			Goes into q/e 30 Sept 2025 return	1/2 mark

Please let me know if you need any further assistance

Regards

A. Tax advisor

13. (10 marks total)

1) (3 marks – 5 available)

When a trader is late notifying HMRC that they should be registered for VAT they are liable to a penalty for the period of default, unless they can demonstrate to HMRC that there is a reasonable excuse for their delay.

The penalty is based on the behaviour of the business (1/2 mark) and is a percentage of the 'potential lost revenue' (PLR). (1/2 mark)

The potential lost revenue is the net VAT due for the period between when the date of registration should have taken place and the day before HMRC are actually notified of the requirement to register. (1/2 mark)

As Louie has consciously decided not to tell HMRC about his requirement to be VAT registered this will be deemed a deliberate act. (1/2 mark)

HMRC are likely to class this as deliberate but not a concealed failure (1/2 mark), therefore the maximum penalty is 70% of the PLR. (1/2 mark) If Louie discloses the failure to notify on 1 December 2022 this will be an unprompted disclosure and HMRC may reduce the penalty to a minimum of 20% of PLR (assuming Louie provides all information on a timely basis). (1/2 mark) If HMRC discover the failure before this time then any disclosure would be prompted and so the minimum penalty would be 35% of PLR. (1/2 mark)

If he continues to keep this information from HMRC and not register for VAT now then this may become a deliberate and concealed failure (1/2 mark), the penalty would be a maximum 100% of the PLR (1/2 mark)

2) (5 marks)

VAT registration threshold breached end March 2022, VAT registration required from 1 May 2022 (1/2 mark)

Potential Lost Revenue (PLR)

Turnover from 1 May 2022 to 30 November 2022 =

£8,000 (1/2 mark) x 2 (May and June 2022) (1/2 mark) - £16,000

£8,500 (1/2 mark) x 5 (July to November 2022) (1/2 mark) - £42,500

Total turnover = £58,500 – deemed VAT inclusive, so take 1/6th = £9,750 (1 mark) is PLR to HMRC.

Max applicable penalty

Deliberate but not concealed – 70% (1/2 mark)

Apply to PLR = £9,750 x 70% = £6,825 (1 mark)

3) (2 marks)

The purposes of an engagement letter are that it :

1 mark for each of any of the following to max of 2:

- can be used to manage Louie's expectations
- should clearly set out the basis upon which fees are charged,
- should set out the scope and nature of the assignment.

14. (10 marks total)

1) (2 marks – 3 marks available)

- Sale of Books – taxable – zero rated (1/2 mark)
- Other gift shop sales – taxable – likely to be mainly standard rated (1/2 mark)
- Café sales – taxable - standard rated (1/2 mark)

As the charity plans to generate taxable income from these future activities it would be able to register for VAT voluntarily as an intending trader (1/2 mark) to enable it to reclaim VAT incurred on costs of renovating the property and other relevant costs. (1/2 mark). The charity will need to provide evidence of the intention to make taxable supplies (1/2 mark).

2) (4 marks)

- **Architect fees** - VAT could not be claimed as invoice for services dated more than 6 months prior to potential effective date of VAT registration of 1 January 2023 (1 mark)
- **Construction services** - VAT could be claimed since invoice for services is dated within 6 months of potential effective date of VAT registration of 1 January 2023 (1 mark)
- **Purchase of scaffolding** – VAT could be claimed as invoice for purchase of goods is dated within 4 years of potential effective date of registration of 1 January 2023 and is still owned at the date of registration (1 mark)
- **Hire of a digger** – VAT could not be claimed as invoice for services is dated more than 6 months prior to potential effective date of VAT registration of 1 January 2023 (1 mark)

3) (1 mark)

VAT registration could be applied for sooner, say with effect from 1 December 2022, then the VAT on the architect fees could be claimed too, as the invoice would then be dated within 6 months of the effective date of VAT registration (1 mark)

4) (3 marks)

Under English Law:

1. The parties intend to create legal relations (1 mark)
2. There is an agreement between the parties signified by an offer and acceptance, (1 mark) and
3. The agreement is supported by consideration or is contained in a deed (i.e. a written document created by observing certain formalities) (1 mark)

Scots Law variation:

The 3rd point above re consideration is not required under Scots law. A gratuitous promise in Scotland must be constituted only in writing (i.e. without further formality) but a gratuitous promise given in the course of business may simply be oral (1 mark in lieu of point (3) above)