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CIOT - ATT-CTA

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 1**

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Answer-to-Question-\_1\_

Bad debt relief is available to traders where certain conditions are met:

Have supplied goods or services and have accounted for and paid the output tax to HMRC.

The whole or part of the consideration has been written off in their account as a bad debt.

Value of the supply being written off is not more than the normal selling price.

Debt is at least six months old. This is six months from the later of the date of supply and the due date for payment specified on the invoice.

Sofia's terms of business state payment must be made 30 days after invoice has been issued.

For the invoice for 31 January 2022, the output VAT is £600 (£3000 x 0.2). This is wholly unpaid. The payment due date is 2 March 2022. As this is more than six months before 31 October, bad debt relief can be claimed.

For the invoice dated 15 February 2022, the unit price is £2,000, VAT on which is £400. £1,800 has been paid, which amounts to £360 VAT. Where Sofia has paid the full output tax (£400) on this sale, she is able to claim £40 (£400-£360) back as this relates to a bad debt outstanding. 30 days from 15 February 2022 is 17 March 2022. As this is also six months before 31 October 2022, Sofia is eligible to claim bad debt relief.

For the invoice dated 3 March 2022, payment date is therefore 2 April 2022 and as this is six months before 31 October 2022, Sofia is eligible to claim bad debt relief. Unit price is £2,400, VAT due is £480. As client has refused to pay the VAT and is unable to prove that this is a zero rated supply. The £2,400 must now be treated as VAT inclusive, ( $£2,400 * 1/6 = £400$ ). The £80 difference between the original output tax £480, and the amount actually paid, £400 is the bad debt relief

Invoice dated 9 April 2022 has a payment dated of 9 May 2022, this is less than six months from 31 October 2022 and

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so bad debt relief can not yet be claimed.

Total bad debt relief that can be claimed is  $\pounds 600 + \pounds 40 + \pounds 80 = \pounds 720$

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question-\_2\_

- 1) Sales invoice for refurbishment of office building is standard rated and should declare output VAT.
- 2) Purchase invoice for services provided by an electrician. A reverse charge is required for construction services where a contractor such as a electrician is used.
- 3) Sales invoice for waste materials recovered from the office refurbishment
- 4) Sales invoice for construction services to another construction company which is building some new retail units. These should be standard rated as this amounts the supply of a grant of interest.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question-\_3\_

If registered, a charity must account for VAT on all taxable supplies it makes by way of business. It is making the supply of hamster accessories which is classed as a business activity.

Input tax incurred on the business activity will be recoverable subject to normal rules. Any input tax incurred on the non-business activity is irrecoverable.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question-\_4\_

- 1) Degree course in fashion for undergraduates. Education is an exempt supply for VAT purposes.
- 2) Finance course provided to commercial companies. Education is an exempt supply for VAT purposes.
- 3) Catering provided to students of the fashion course. Standard rated.
- 4) Catering provided to members of staff. Standard rated.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

£2,000 of office costs are treated as residual input tax as they relate to both the exempt and taxable sources of income. This gives a total residual input tax of £2000, which is £666 per month for the quarter.

Total input tax includes the office costs and the advert for the exempt financial intermediary services £3,300, which gives an average of £1,100 per month for the quarter.

The first simplified de minimis test. If total input tax is no more than £625 on average and the value of exempt supplies is no more than 50% of all supplies, then it is de minimis.

James fails this test as his average input tax is above £625 per month for the quarter.

The second simplified de minimis test. If the total input tax incurred less input tax directly attributable to taxable supplies is no more than £625 per month on average and the value of exempt supplies is no more than 50% of the value of all supplies, then all input tax is recoverable.

James again fails this test as the residual input tax is above £625 on average per month.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

1) Basic tax point is 25 July 2022 when the computer is delivered. There is an actual tax point is on the receipt of the deposit, 1 July 2022. There is also an actual tax point on the balance, which is the invoice date 30 August 2022.

2) For the continuous supply of services, there is not a basic tax point because the service is never completed, only the earlier of a payment or an invoice marks a tax point.

3) The security deposit does not have a tax point as it will be returned to the customer at some point, it is not viewed as a consideration for supply. This is another continuous supply of services and so as payments precede the VAT invoice, the date of payments become actual tax points. Monthly statements will not qualify as an invoice.

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-7\_

Cash accounting requires that output tax be charged / accounted for on receipt of cash, not when a sale is made. Therefore output VAT would be due on the £600,000 actually received.

However as Rodney's taxable income has reached £2 million for the year, he has exceeded the cash accounting threshold of £1.6 million.

Businesses that leave the cash accounting scheme because they have exceeded the turnover limit, can bring outstanding VAT into account on a cash basis for six months after they leave the scheme.

HMRC will notify Rodney about leaving the scheme.

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question- 8\_

In order to be eligible for VAT group registration, the following conditions are required to be met:

The entity is a body corporate.  
The body corporate is established in the UK or has an established place of business in the UK.  
The companies are under common control of the same person(s) (more than 50%)

Therefore some of Arlo's companies wont be eligible for VAT group mebership.

Consequences of forming a VAT group:

All members included within the VAT group are treated as one single taxable person, although they remain jointly and severally liable for any VAT due.  
Only one group return is to be made by the representative member.  
Any supplies made between members of the same VAT group are disregarded (subject to anti-avoidance provisions).  
Supplies to or from outside of the group are treated as made by the representative member.

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9\_

- 1) Input tax will be blocked on the champagne as the provision of food and drink is regarded as business entertainment by HMRC. Business entertainment has a blocking order regarding input tax recovery.
- 2) Input tax will again be blocked.
- 3) Meal for sales team. Input tax can be reclaimed. Entertainment for staff is considered to be in the furtherance of the business.
- 4) Input tax must be apportioned if possible for private and business usage.

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

- 1) It has not been stated whether input tax has been claimed on the car.
- 2) It has not been stated whether input tax has been claimed on the Van.
- 3) It has not been stated whether the copyright has an input tax related to it.
- 4) The unused materials have had input tax claimed and therefore will be a deemed supply upon deregistration.
- 5) Has not been stated whether the unsold artworks have had any materials against which input tax has been claimed.
- 6) No option to tax on the land so no input tax was claimed.

Even if all assets have been purchased from VAT-registered traders, this does not necessarily mean River has claimed input tax on the purchases. Some of these purchases may have occurred well before VAT registration and therefore may not have been outside the window for pre-registration input tax.

As only the unused materials have explicitly stated that input tax has been claimed, the total input tax is to be treated as output tax for HMRC £1,000.

As output tax is £1,000 or less, there is no charge required by HMRC.

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-----ANSWER-10-ABOVE-----  
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CIOT - ATT-CTA

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 2**

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-----ANSWER-11-BELOW-----  
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Answer-to-Question-\_11\_

1)

a) Goods arriving into the UK from Spain and the US, is not deemed as a UK place of supply. However, import VAT is due upon import of the goods. The rate of VAT applied is whatever rate would have been applied if the goods had been bought in the UK.

Import VAT can be paid or deferred via a duty deferment account. Where a business uses duty deferment to pay the import VAT it will need a Monthly Import VAT certificate (C79) as this is required to recover import VAT paid.

The VAT paid to import the goods is treated like any other type of input VAT and so will be deducted in the next VAT return in the normal way.

UK VAT registered traders can account of import VAT under Postponed VAT accounting which allows the VAT to be declared as output VAT on the VAT return and not paid at the time of import.

As some of Pet Diagnostic's sales are domestic, it can reclaim the import tax incurred on UK sales of imported goods.

b) For goods that are then exported abroad, such as France, these are treated as zero rated. Necessary evidence is required by HMRC to prove the goods have been exported, HMRC accept evidence by way of a Bill of Lading or an Air Waybill.

Goods that have been exported are treated as zero-rated, which still allows import input tax to be reclaimed.

For goods supplied to Northern Ireland, normal domestic VAT

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is charged to the Northern Irish customer.

2)

a) UK VAT treatment of business to business consultancy services to Northern Ireland. Business to business supply of services is treated as a place of supply where the customer belongs, as the customer is in Northern Ireland, this is treated as a domestic supply.

For Germany and Australia business to business consultancy services, the place of supply is where the customer is based, therefore these supplies will be zero-rated as these are not a UK place of supply.

b)

When a UK business buys a service from an overseas company. A reverse charge will be due. A reverse charge constitutes a VAT charge in Box 1 of the VAT return with the value of the supply being entered in Box 6.

Pet Diagnostics would then attempt to recover the VAT in Box 4 (with the resultant value being included in Box 7).

The Italian company is correct with not charging Italian nor UK VAT, it is the responsibility of the UK client to account for VAT by way of reverse charge.

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

Finance Director  
Blue Build Let Ltd  
Blue Build Street  
Blue Build Town  
BL1 1BU

Dear Finance Director,

Thank you for your correspondence regarding the VAT implications of Castle Court. I can respond as follows:

1)  
a) The Capital Goods scheme applies to any land or buildings that cost £250,000 or more. As Castle Court cost £900,000 + VAT to construct, it falls under the Capital Goods Scheme. The initial recovery of £180,000 of VAT was not correct, and the initial recovery should of been the 25% partial exemption recovery rate.

The Capital Goods Scheme requires annual adjustments to the input tax recovered based on the business usage of the building. These are based on VAT years, not accounting years. The adjustment period for land and buildings under the Capital Goods Scheme is 10 years.

b) Renting to the charity would have no impact on the option to tax. Only a supply of a new building to a charity to be used for a charitable purpose would be zero-rated. As this is not the first grant of major interest, nor a new building, nor a building designed specifically for the relevant charity. The rent would be subject to standard rated VAT.

Furthermore, the charity would not be able to claim back the VAT on the rent as the building is being used for a charitable purpose and not for business purposes.



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2)

a) £180,000 was initially reclaimed as input tax.  
However the partial exemption for the year ending 31 March 2021 was 25%.

$(£180,000 / 10) * 25\% = £4,500$ , this represents the true recoverable usage of the building. Therefore  $£180,000 - £4,500 = £175,500$  must be repaid to HMRC as way of adjustment. Only £4,500 should of been initially recovered.

b)

Dr VAT account 175,500  
Cr Bank 175,500

c)

Year ended 31 March 2021

$(£180,000 / 10) \times (25\%) = £4,500$  initial recovery

Year ended 31 March 2022

$(£180,000 / 10) \times (25\% - 53\%) = (£5,040)$  recover from HMRC

Year ended 31 March 2023

$(180,000 / 10) \times (25\% - 50\%) = (£4,500)$  recover from HMRC

Year ended 31 March 2024

$(180,000 / 10) \times (25\% - 50\%) = (£4,500)$  recover from HMRC

Year ended 31 March 2025

$(180,000 / 10) \times (25\% - 50\%) = (£4,500)$  recover from HMRC

Adjustments are made in the second VAT return following the end of the VAT year. Therefore the adjustments will be shown on the quarter ending 31 September for each respective year.

Yours sincerely,

A Tax Technician

Tax Technicians Ltd

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-----ANSWER-12-ABOVE-----  
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-----ANSWER-13-BELOW-----  
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Answer-to-Question-\_13\_

1) Louie exceeded the VAT registration threshold at the end of March 2022. From that point he had 30 days to notify of his chargeability to VAT, and should of been charging vat from 1 May 2022.

As Louie was aware that he breached the VAT registration threshold, this was a deliberate action, he made no attempt however, to cover up the action. (Not concealed)

Louie's reasoning is for cash flow reasons, which is not an allowable excuse for HMRC as for justification of a late registration, return or payment.

The late registration penalty is based on the behaviour of the person concerned and is a percentage of the 'potential lost revenue' (PLR).

This would likely fall into the 'deliberate but not concealed failure' category so the maximum penalty is 70% of potential lost revenue.

Reductions in the penalty are available for unprompted and prompted disclosures.  
If prompted, the minimum penalty is 35%, if unprompted, the minimum penalty is 20%.

2)  
Default period runs from the date of Louie should have been registered to the date of notification (1 May 2022 to 1 December 2022),  
Potential Lost Revenue:  
May and June 2022 (£8,000 x 2) / 6 = £3,000  
July, August, September, October and November 2022 (£8,500 x 5) / 6 = £7,083

Total potential lost revenue is £7,083.

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Maximum penalty for deliberate but not concealed behaviour  
is 70% = £4,958

3)

The define the terms and limitations of the engagement and  
to agree these with the client.

To be used to manage clients' expectations and can provide  
significant protection to the Practitioner against potential  
claims,

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-----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question-\_14\_

1)

Sale of Books - The sale of books is zero rated.

Gift Shop Sales - Standard rated as this is a business activity. Unless these are goods that have been donated to the charity, which is therefore zero rated.

Cafe Sales - Catering so therefore standard rated.

For VAT registration, a charity only takes into account its income from taxable business activities. Where that income exceeds the limit for registration, the charity must register for VAT. As the projected income is above the £85,000 threshold, it will be required to register for VAT where it expects its income to exceed this threshold in the next 30 days.

It is beneficial for a charity to register for VAT as it allows it to recover input tax related to business activities.

2)

Pre-registration Input tax is recoverable where:

Goods acquired for business within the previous for years are still owned at date of registration.

Services supplied for the purpose of the business in the six months prior to registration.

The cut off for services is 6 months before 1 January 2023, which is 1 July 2022.

The Architect fees are incurred before 1 July 2022, and are therefore not recoverable.

Construction services for the repair of the historic country manor house fall within the six month pre-registration period. The question has not specified whether the country manor is actually a protected building.

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Assuming it is, a protected building that is designed to become a dwelling for a relevant charitable purpose. As it seems that this building will generate business income and does not specify a charitable purpose. These will be standard rated and reclaimable.

Purchase of scaffolding, assuming this is purchase of the good that is scaffolding and not the service of erecting of scaffolding which could be considered a service, this falls within the period of pre-registration goods. Will be standard rated in relation to the construction services.

For the digger, assuming again that is is a supply of a good. As there is a provision of a digger for use and enjoyment. As this again relates to construction services this will be zero-rated.

3) not attempted

4)

Essential Elements of a contract:

The parties intend to create legal relations.

There is an agreement between the parties signified by offer and acceptance.

The agreement is supported by consideration or is contained in a deed (written document created by observing certain formalities)