

CIOT - ATT

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

VAT due for the quarter ended 31 March 2023 under FRS is as below:

Outputs: £  
Income  $(148000+2000)*7.5\%$  = 11,250

Inputs:  
Laptop  $(2200*20\%)$  = 440

VAT due to HMRC = **10,810**

1. Under FRS, turnover will include all the supplies made the supplier, including exempt supplies and VAT.
2. If capital asset has VAT inclusive value of greater than £2000, full input VAT tax reclaim can be made.

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

1. Cat Calendars: Zero Rated item under Group 3, Schedule 8.
2. Books about Cats: Zero Rated item under Group 3, Schedule 8.
3. Gluten free chocolate cake to take away: Zero Rated item under Group 1, Schedule 8.
4. Bottles of water to drink inside the cafe: Standard rated supply.
5. Cat Magzines: Zero Rated item under Group 3, Schedule 8.
6. Greeting Cards: Zero Rated item under Group 3, Schedule 8.
7. Cheese and Tomato baguelles to eat inside the cafe: Standard rated supply.
8. Gingerbread cats covered in chocolate to take away: Standard Rated supply.

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

The options available to Scandley Good for paying import VAT due, other than paying the time of import are:

1. Duty Deferement Scheme:

A line of credit can be set up with the HMRC to allow deferred payment of the import VAT. Import VAT can be paid at a later date under the duty deferment scheme. There is a credit limit that applies to the scheme which is usually 100% of the estimated monthly debt for VAT. Bank guarantees are usually required to support this credit limit. The import VAT on a monthly's import is then paid on the 15th day of day of the following month.

Scandley Good has to ensure that Monthly import VAT certificate (C79) is obtained, as this document must be used to recover any import VAT paid. This import VAT will be treated as input VAT credit available to Scandley Good for recovering in VAT returns filed.

2. Postponed VAT accounting:

Scandley Good can also opt to use PVA. this means that the VAT is deferred at the time of import and is put as output VAT on their VAT return instead. If Scandley Good has fully taxable business, it can deduct the output VAT as input VAT on the same VAT return.

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

1. 50 cases to a restaurant in USA:  
As goods are leaving from UK, place of supply is UK. The supply will be zero rated by ways of VATA 1994, s30(6).
2. 24 bottles to an individual residing in France:  
As goods are leaving from UK, place of supply is UK. The supply will be zero rated by ways of VATA 1994, s30(6).
3. 50 cases to a retailer in Northern Ireland:  
Chris will have to charge UK VAT to the customer and will be shown on the invoice. The VAT will be accounted for as output VAT on the VAT return.
4. Wine consultancy services to restaurant group in Norway (delivered by email)\*:  
B2B supply of consultancy services: Place of supply is where the customer belongs, i.e. Norway. Therefore, it will not be subject to UK VAT.  
\*Where the parties to a supply communicate by email, this does not in itself make it an electronically supplied services.

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

If a trader discovers an error themselves, they should disclose that error to HMRC immediately. Sarah will have to notify HMRC, if an error was identified, by the letter to the local VAT office, or on form VAT 652.

HMRC has to be notified immediately of the underdeclared VAT.

Business records must have been kept for a minimum period of 6 years unless an agreement is reached with HMRC for shorter retention period.

As purchase invoices had been thrown away by Sarah, she will not be entitled to input VAT credit.

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

Where a tax return contains a careless inaccuracy which leads to an understatement of tax, a penalty will be charged on Potential lost revenue.

Potential Lost revenue:

Particulars	2020/21	2021/22	2022/23
Output VAT	20,000	21,667	25,833
Input VAT	3,000	1,000	3,600
VAT liability	17,000	20,667	22,233

Maximum Penalty  $(59,900 \times 30\%) = \text{£}17,970$

Minimum Penalty  $(59,900 \times 15\%) = \text{£}8,985$

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-----ANSWER-6-ABOVE-----  
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-----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

Output tax due to HMRC are as follows:

1. Letting holiday cottages for seven nights at a time to holiday makers =  $375,000/6 = \text{£}62,500$
2. Admission to the House and Garden = Nil
3. Pheasant shooting days including hospitality = Nil
4. The grant of grazing rights to local farmers = Nil

Total output VAT =  $\text{£}62,500$

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

Where HMRC issue an appealable decision, they must also offer the taxpayer (Zak) a review of that decision. Once the offer is received by Zak, he has 30 days to notify HMRC of his wish to have a review, i.e. until 30 May 2022.

HMRC should carry out this review within 45 days or such longer period as agreed with Zak.

If Zak still disagrees with the outcome of the review, he can appeal to the tribunal within 30 days.

Zak is not obliged to accept the offer of a review and can appeal the decision directly to the tribunal. The appeal can be made within 30 days of the original disputed decision.

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

If ElectraCity does not know whether the customer intends to take the advantage of the discount when they raise the invoice, VAT must be levied on the full amount charged for the supply and the invoice must show the full price and full VAT amount. The invoice must also show the rate of the discount offered on the invoice.

The 2 options available to ElectraCity for accounting of the Prompt payment discount taken by the customer as follows:

**Method 1** - ElectrCity can issue a credit note to evidence the reduction in consideration. A copy of the credit note must be retained as proof of that reduction.

**Method 2** - If ElectraCity does not intend to raise a credit note, it can include the discounted price, the VAT due on the discounted amount and total amount due, if the customer takes advantage of the prompt payment discount, on their sales invoices. It can later adjust their accounts to record the amount of VAT actually due on the supplies, if prompt payment discount is opted by the retailer.

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

The VAT liability on Mohamed's final VAT return is computed as below:

Particulars	Amount (£)	
Output VAT:		
Sale of Copyright (35k*20%)	7,000	
Sale of Stock (5k*20%)	1,000	
Patent (100k*20%)	20,000	
Computer (No input VAT claimed)	Nil	
Unsold Stock	1,600	
Less Input VAT:		
10 boxes of luxury chocolates to loyal customers	Nil	
<b>VAT liability</b>	<b>29,600</b>	

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

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. The VAT liability of the services of the architect and the builder are detailed as below:

**Farmhouse:**

Services provided by the builder to convert a farmhouse into 2 apartments will be a reduced-rated supply to Lisa. Services provided by architect to provide the designs for this will be a Standard Rated supply. The onward sale of this apartments by Lisa will be a Zero Rated supply.

**Cottage:**

The services provided by the builder for restoring and redecorating the cottage will be a reduced-rated supply, as the cottage has not been lived in for 2 years. If any architect services are taken to restore the cottage, it will be subject to standard rate of VAT. The onward sale of cottage by Lisa will be an exempt supply.

**Barn:**

Services provided by both, the builder and architect will be subject to standard rate VAT.

2. The VAT reclaim that Lisa can make are summarised below:

**Farmhouse:**

As Lisa is making taxable onward supply of the apartments, she can claim the input VAT charged by Architect and builder.

**Cottage:**

As the onward supply of cottage is an exempt supply in relation to land, Lisa will not be able to claim any input VAT that is charged by the builder and architect.

**Barn:**

Recovery on VAT charged by the builder and architect will depend upon the business that is run by Lisa. If the business is fully taxable, Lisa is able to recover all of the VAT incurred for converting Barn into office space,

however if her business is exempt from VAT, she will not be able to recover any VAT. If she has mix of the supplies, this input VAT will be considered as residual and recovered as per PESH agreed with HMRC.

3. Liquidated damages are the damages payable to the injured party as a compensation upon a specific breach. The amount of liquidated damages should be equal to the loss which will be incurred by Lisa if the office is not constructed on time and the cost of appeal. Courts will likely order for the payment of only the rent amount that Lisa has suffered along with the compensation for costs of appeal.

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

1. Place of Supply of the services provided by Riz is summarized below:

a. Sale of digital downloads to private individuals and businesses:

This services is categorised as e-services as it is dependent on information technology for its delivery. Place of supply to private individuals will be where the customer is located and therefore, outside of UK. Place of supply for businesses will be dependent on the use and enjoyment rules.

b. Hire of a painting to private customer:

To the extent painting will be used outside the UK, Place of Supply to that extent will be Japan, and for proportiante value which will be used in UK, Place of Supply will be UK.

c. Valuation services:

To private customer: Place of Supply will be where the customer is located.

To businesses: Place of Supply will be where the business is located.

d. Ticket Sales for the exhibition in Spain:

To businesses: The entry fees charged for admission to the exhibition in Spain will be outside the scope of UK VAT, as place of supply is outside UK.

To private customer: The entry fees charged to private customer for admission to the exhibition will be subject to UK VAT, as the place of supply will be UK.

e. Ticket Sales in the UK:

The Place of Supply for providing Gallery on hire to Spanish owner will be outside the UK, i.e. in Spain. Riz's will have to assess his VAT liability in Spain.

Summary is as below:

Particulars	Private customer	Businesses
a. Sale of digital downloads	POS where customer is located	Use and Enjoyment rules will apply
b. Hire of Painting	POS divided proportionately between Japan and UK	POS divided proportionately between Japan and UK
c. Valuation Services	POS where customer is located	POS where business is located
d. Tickets Sale for exhibition in Spain	POS is UK	POS is Spain
e. Hire of Gallery to Spanish Gallery owner		POS is Spain

2. The place of supply for car hire services provided in Spain, is outside UK i.e. in Spain.  
 The place of supply for catering services provided to Riz will be in UK, as the supply is B2B.

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

Hi Chelle,

Hope you are doing good.

Thank for wirting to us. I have summarised my responses below on all your query points and hoping that it will be helpful for you in assessing your VAT liabilities.

1. Burglary at your store:

The theft of the cash from till is not a permitted adjustment for VAT purposes, as the supply was already made to a customer. Therefore, you won't be getting any VAT refund for this cash theft and you will have to account for output VAT on the supply for which this cash relates. However, contract to this the goods which are stolen from the shop. As the supply was not made by you for this goods, you need not account for output VAT on the goods. The amount received from Insurance company is exempt from UK VAT.

2. Donations & Gifts:

Where there is a supply of goodes by vitue of gifts of business assets, then the value of the supply will be such consideration as would be payable to purchase the goods identical/similar in every respect.

Therefore, you will have to account for output VAT on the necklace and free mugs provided to the customer, at market value.

The Output VAT on mugs provided to first 20 customers will be computed on £3.

3. The timing and value of Voucher transactions:

The consideration received on the sell of Voucher is £4.8 and therefore, VAT has to be computed on this amount. The cash against the goods to be sold at a later date is received by you when the voucher is issued. Therefore, the

tax point will be when the payment is received for purchasing the voucher.

4. Input VAT on the costs incurred on Paris trip:  
The place of supply for train fares to Paris is outside the UK and therefore, you will not be able to recover any foreign VAT levied on the invoice.

Similarly, hotel stays POS will also be outside the UK, as it is Land related services. Therefore, you cannot reclaim any VAT on the invoice in your UK return.

However, you can reclaim the input VAT on these costs under 13th Directive from Paris government.

The UK VAT levied on your train fares to UK can be reclaimed in VAT return.

2. The 6 key features for client complaints procedure are:

1. Complaint Channel
2. Categorise Feedback
3. Complaint Handling Procedure
4. Complaint Analysis
5. Resolution
6. Provide a follow up

Thanks & Regards,  
Adviser,T

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-----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question- 14

1. Input tax recovery if standard method is used.

Particulars	Taxable Supply (£)	Exempt Supply (£)
Rental of the bulding	75,200	4,800
Purchase & Maintenance of Vans for transporting goods to store	24,000	
Office running costs	7,520	480
Design fees for brochure of insurance product		8,000
Electricity	5,640	360
Packaging materials for sale to customers	2,400	
Audit Fees	1,880	120
<b>Total input VAT reclaim</b>	<b>116,640</b>	<b>Nil</b>

W1:

Taxable Ratio =  $937,000 / (937,000 + 63000) = 93.7\%$

Rounded up = 94%

2. Input VAT recovery if Special Method was approved:

Particulars	Taxable	Exempt
Directly attributable input VAT as per 1 above	26,400	8,000
Step 1 attribution	95,470	530
Step 2 attribution	497	33
<b>Total VAT reclaim</b>	<b>122,367</b>	<b>Nil</b>

W1: Non attributable VAT = 96000

Step 1 attribution =  $96000 * 90000 / 90500 = 95,470$

W2: VAT remaining after step1 = 530

Step 2 attribution =  $937000 / 1000000 * 530 = 497$

3. Hj will have to apply to HMRC to use a special method if it considers that the standard method does not provide a fair and reasonable result. HMRC will require a precise details of how the proposed method will work in practice and are prepared to discuss proposals before a formal application is submitted. There is list of 43 items which needs to be submitted to HMRC along with application letter for approving a special method.

Written approval from HMRC is required before starting to use a special method. HMRC will make a contact with the approval or request for further information within 30 days of the application.

4.

Recoverable input tax on operating costs and capital assets is debited to VAT Control Account and when recovered from HMRC, it will be credited to the same nominal.

Non-recoverable input tax on operating costs will be debited to the P&L account and VAT on capital asset which cannot be recovered is added to the cost of the asset.