

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 6 VAT

**November 2023**

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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.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. White House Foods Ltd is registered for VAT and runs a café, shop, and also offers home delivery using the TaxiEats App. Max is responsible for preparing the quarterly VAT return for White House Foods using API enabled accounting software. They receive the following information:
- 1) The café sends individual daily sales reports created from each till, detailing the daily gross takings (DGT). This information is printed, scanned, and sent by email to Max who manually enters it into the accounting software.
  - 2) The shop keeps its sales and purchase records using a different accounting software and sends through a PDF copy of the weekly profit and loss account, which Max manually enters into the accounting software.
  - 3) TaxiEats sends the sales invoice information in a file which Max uploads directly into the accounting software.

**Explain whether the information provided by the café, shop and TaxiEats are digital links, and whether White House Foods Ltd meets the data transfer requirements for Making Tax Digital.** (4)

2. The Friends of Pentagon Park are planning to open a food van to sell takeaway sandwiches and coffees. They have taken advice from a takeaway consultant who anticipates that if they open in January their monthly sales for the first nine months will be as follows:

<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
£	£	£	£	£	£	£	£	£
5,000	6,000	7,000	10,000	15,000	20,000	25,000	25,000	15,000

- 1) **Explain how the Friends of Pentagon Park should calculate when they will need to register for VAT.** (1)
  - 2) **If the anticipated sales figures are accurate, determine when they will exceed the VAT registration threshold, when they need to notify HMRC and from what date they will be registered.** (3)
3. Sharon Clinton, owner of Abraham Accountants, has agreed to sell her business to Hilary Bush. Hilary will take over and immediately start running the business from the same premises. The sale includes the freehold of an office building which the business has occupied for the past 10 years, the ground floor is currently leased to another business. Abraham Accountants has not opted to tax the office building.
- 1) **Explain the VAT treatment of the sale of the business.** (2)
  - 2) **Explain how the VAT treatment would differ if Abraham Accountants had opted to tax the office building.** (2)
4. Kamala is reviewing her expenditure in October and wondering how much VAT she has paid on her purchases, all of which are from VAT registered suppliers.

**State the VAT liability of the following supplies she has purchased:**

- 1) Daycare fees from OFSTED registered nursery;
- 2) Vet fees;
- 3) Bus fare;
- 4) Taxi fare;
- 5) Home insurance;
- 6) Four cans of cold beer;
- 7) A cold vegan sausage roll (takeout); and
- 8) A subscription to an online newspaper.

(4)

5. Luther has set up a UK company to run exhibitions. Their first exhibition is in Belgium. They have received invoices for the following costs:

- 1) Fee for hire of an exhibition stand in Bruges;
- 2) Consultancy fee from a Belgian company;
- 3) Bus ticket from the station to a hotel in Bruges; and
- 4) Hotel in Bruges.

**State where the place of supply is for each item.** (4)

6. Michele and Jo's company runs a hosiery factory in Leicester (GB). They have received an order from a shop in Belfast, Northern Ireland (NI). They have heard that sales to and from NI are treated differently to sales within the rest of the UK but are confused about whether they should charge VAT on the company's invoice to the customer in Belfast.

The company is registered for VAT.

**Explain whether the company should charge VAT on the invoice to the customer in Belfast.** (2)

7. Lincoln Ltd is registered for VAT and is a small business specialising in selling parts for boilers. They also offer customers boiler breakdown insurance (a supply which is exempt from VAT). In the quarter to 30 June 2023, Lincoln Ltd made the following sales and purchases:

<u>Sales</u>	£
Taxable supplies (excl VAT)	150,000
Exempt supplies	<u>45,000</u>
Total sales	<u>195,000</u>
<u>Input VAT on purchases</u>	
Purchase of boiler parts	5,000
Costs of office which only sells insurance	1,500
General overheads	<u>4,000</u>
Total input VAT	<u>10,500</u>

Lincoln Ltd does not satisfy either of the simplified tests in the quarter to 30 June 2023.

**Calculate the recoverable input tax for this quarter.** (4)

8. Dupont Duvets manufactures bedding and sells its products to high street stores. The company's standard terms are that invoices are due on presentation. The company has been struggling financially and so did not make payment to HMRC for its 31 December 2022 VAT return, but has made payment for its 31 March and 30 June returns.

<u>VAT return quarter</u>	<u>To 31 Dec 2022</u>	<u>To 31 Mar 2023</u>	<u>To 30 Jun 2023</u>
	£	£	£
Output tax (box 1)	250,000	300,000	200,000
Input tax (box 4)	<u>220,000</u>	<u>280,000</u>	<u>150,000</u>
Net payment due (box 5)	<u>30,000</u>	<u>20,000</u>	<u>50,000</u>

The company has recently appointed Martin as credit controller. He is reviewing two aged invoices issued to BJP for £150,000 plus VAT and £75,000 plus VAT issued in December 2022 and March 2023 respectively. Following a phone call from Martin, BJP made a part payment to Dupont Duvets of £120,000 in September.

**Explain whether Dupont Duvets can claim bad debt relief on the two aged invoices to BJP in the VAT quarter ending September 2023.** (4)

9. Roosevelt Ltd is a project management company. The company has recently engaged a new tax adviser, Frankie, from Hill Capitol LLP. In the introductory meeting, Frankie suggests that Roosevelt could increase the company's profitability by making some changes to the business model which would create a substantial VAT saving. The changes would not impact on the business in any other way and would have no purpose other than to save VAT. Frankie says that the advice would be virtually risk free, because Hill Capitol would only charge Roosevelt a fee equal to a percentage of the VAT saved. Hill Capitol would require Roosevelt to sign a confidentiality letter.

**Explain why Roosevelt should be concerned about the proposal.** (2)

10. Smithsonian Ltd is a start-up company selling and fitting air source heat pumps. They registered for VAT when the company was incorporated. The accounts payable team received the following invoices in the VAT quarter ending 30 September 2023:

- 1) Lease rental payments for a director's car which will be used 40% for business use;
- 2) Purchase of a second car for another director;
- 3) Purchase of a van; and
- 4) Hire of a car for one week for a sales rep to visit customers.

**Explain whether Smithsonian Ltd can recover input VAT on these items.** (4)

11. Congress is a charity which is registered for VAT. One of its activities is the distribution of donated second-hand school uniforms. The chief executive, Hari Hoover, is reviewing the different types of income received by the charity which include:

- 1) Grants from the local council and The National Lottery Community Fund;
- 2) Sales of uniforms to parents;
- 3) Donations received from fundraisers through an online platform; and
- 4) Sponsorship from local companies who are then acknowledged by displaying their logos on the charity's website.

**Explain the VAT liability of each of these income streams.** (4)

## PART II

**Presentation skills** – awarded for quality of presentation.

(2 marks)

12. Mortimer & Edwards (M&E) is a UK company supplying technical cycling clothing to both individuals and businesses in the UK and Spain.

During 2023 M&E:

- 1) Received a £10,000 deposit from a UK corporate customer on 10 April. M&E dispatched the goods on 15 April along with a tax invoice for the £10,000 deposit. A tax invoice for the balance was then issued to the customer on 22 April. The balance was paid on 24 April.
- 2) Issued a tax invoice for the full amount to a Spanish individual by email on 29 June. Later that day M&E received an agreed £500 part-payment from the customer and so it dispatched the goods on 1 July. The balance was paid on 18 July.
- 3) Provided consultancy services to a UK business with the work finishing on 3 June. It was agreed that the customer would pay in three stages: £10,000 on each of 1 May, 1 June and 1 August. The tax invoice was raised on 18 July.

Its ultimate parent company is established in the US, and provides quarterly management services to M&E. No invoice is raised for these services but an agreed amount of £250,000 is transferred on the last day of each calendar quarter to the parent company.

M&E granted a 25-year lease on a commercial property (which has been opted to tax) to an unconnected tenant. A lease premium was paid by the tenant on 1 May 2023 and the tenant took occupation of the property on 10 May 2023. M&E raised an invoice on 15 May 2023 for the lease premium, and an invoice on 18 May 2023 for the first month's rent. M&E paid this on 1 June 2023.

To promote connectivity amongst its employees M&E arranged to hold an annual staff conference in Ipswich in May 2023. By the end of April 2023 it had booked and paid a deposit for the conference venue and received a VAT invoice for the deposit.

Unfortunately, the US parent company later decided that the conference should not go ahead. M&E contacted the conference venue and was informed that the deposit was non-refundable.

### Requirements:

- 1) **Explain all the applicable tax points in items 1 to 3 above and state which should be used by M&E as the actual tax point.** (9)
- 2) **Explain the tax point for the quarterly management services received from the US parent company.** (2)
- 3) **Explain the tax points for the lease premium and the rent.** (3)
- 4) **Explain whether M&E is entitled to recover input tax on the non-refundable deposit and whether the conference venue should account for VAT thereon.** (2)

Total (16)

13. Percivals of Devon Ltd (Percivals) is a partly exempt business which files VAT returns on a calendar quarterly basis.

In January 2019, Percivals purchased a new freehold building for £1.8 million plus VAT. The reclaim percentage for the year ended 31 March 2019 was 80%.

In April 2021, the company purchased computer software costing £250,000 plus VAT.

Later in 2021, Percivals refurbished an existing office building with the internal walls, ceilings, floors and windows costing £265,000 plus VAT. The office furniture and carpets cost an additional £20,000 plus VAT.

The reclaim percentage for the year ended 31 March 2022 was 65%.

In August 2022, the company sold a commercial property that it had not opted to tax for £3 million. The property was originally purchased in January 2017 for £1 million plus VAT. The reclaim percentage for the year ended 31 March 2017 was 30%.

All the assets have been used for making both taxable and exempt supplies and the VAT reclaim rate for each year was applied to the input tax on each purchase. The partial exemption calculation of the year ended 31 March 2023 shows that 75% of residual input tax can be reclaimed.

**Requirements:**

- 1) Calculate the capital goods scheme adjustment for the year ending 31 March 2023. (8)
- 2) Prepare the accounting journal entries required in relation to the capital goods scheme adjustment on the retained properties only. (2)

Total (10)

14. Nicky and her company are your clients. The company is VAT registered and owns a substantial commercial building which it has opted to tax. It bought the building eight years ago and incurred over £1 million of VAT on the purchase. Nicky now wishes to raise money to expand her business and so has decided to sell the freehold in the property. A number of interested potential purchasers have come forward with their ideas for how they would use the building in the future, as set out below. All potential purchasers are VAT registered.

Purchaser 1: a charity for rehoming stray dogs. It is currently in discussions over whether it will house the dog kennels in this building or whether it will use it as its administrative headquarters.

Purchaser 2: a property developer wishing to convert the building into 15 separate apartments.

Purchaser 3: a financial institution wishing to use this building as its regional headquarters.

You are also aware of another potential purchaser for the property who is an acquaintance of yours and who has agreed to pay you a commission for introducing them to Nicky.

**Requirements:**

- 1) Write an email to Nicky in which you explain the VAT liability of the supply to each potential purchaser 1 to 3. (7)
- 2) Explain whether it is possible to accept commission for introducing your acquaintance to Nicky. (3)

Total (10)

15. Sacha owns a restaurant on the north coast of Cornwall. Turnover has declined significantly this year due to decreased visitor numbers in the seaside town and they are very concerned about the restaurant's financial position.

Whilst preparing the VAT return for the quarter ending April 2023, they realised that they did not have enough money in the bank to pay the Box 5 figure on the VAT return. Instead of contacting HMRC to try to agree a time to pay arrangement, Sacha decided to include, on the April 2023 VAT return, all the purchase invoices that they had received in May 2023 in order to increase the input tax figure. As they did not include the output tax from May sales on this VAT return the net effect was to reduce the VAT payable for the quarter ended 30 April 2023.

In addition, Sacha realised that they had erroneously treated sales of take-away coffees as zero-rated in the month of April due to a till point of sale (POS) coding error. Sacha had not carried out any checks that the VAT liabilities had been correctly coded as they had been too busy.

The input VAT on invoices dated May 2023 but included in the April 2023 quarter VAT return totalled £27,000.

The under-declared VAT on coffee sales in April 2023 totalled £1,450.

Sacha has been reading up about VAT and penalty assessments and challenging HMRC's decisions at Tribunal, just in case this issue develops. Sacha has not indicated whether HMRC have been in contact recently about any issues with this return.

**Requirements:**

- 1) **Explain which category of offence these penalties are likely to fall into and the actions that could lead to Sacha's penalties being reduced.** (4)
- 2) **Calculate the minimum and maximum penalties applicable to Sacha's April quarter VAT return.** (5)
- 3) **Explain which type of Tribunal is likely to hear a dispute over the errors in the April 2023 VAT return.** (3)

Total (12)

16. Faisal has a chain of convenience stores and operates the Apportionment 2 retail scheme.

For the 12 months to 31 March 2023 his purchases were as follows:

<u>VAT liability of purchase</u>	<u>Cost price (excluding VAT)</u>	<u>Expected selling price (excluding VAT)</u>
	£	£
Standard-rated	10,000,000	14,000,000
Zero-rated	30,000,000	37,500,000

His takings for the quarter ended 31 March 2023 were as follows:

<u>Payment method</u>	<u>Sales (including VAT)</u>
	£
Credit/debit card	8,500,000
Cash	4,300,000

The electronic till showed that £4,300,000 of cash receipts was recorded. However, there was only £4,295,000 in the till drawer. Faisal discovered that a staff member had stolen £5,000 in the March quarter, which explained the discrepancy.

Of the £8,500,000 of debit/credit card payments £500,000 of this was in respect of sales made to VAT-registered business customers.

**Requirements:**

- 1) Calculate the output tax (Box 1) due for the quarter ended 31 March 2023. (8)
- 2) Explain Faisal's options for accounting for VAT if his VAT-exclusive turnover exceeds £130 million in the previous 12 months. (2)

Total (10)