

CIOT - ATT

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 1**

Answer-to-Question-_1_

Under the MTD provisions, which started to come into effect from 1 April 2019, it is necessary for VAT registered businesses to keep VAT records electronically and submit VAT return information electronically using software that is compatible with HMRC`s systems.

As White House Foods Ltd is using API enabled accounting software for VAT return submission, they met one of the important requirements of MTD provisions.

Under MTD, businesses use digital links to transfer data or exchange data between software programs and applications that make up the functional compatible software. It is not acceptable for there to be any manually transferred data within or between software programs.

1)For the Cafe, entering the data manually into accounting software is not acceptable for MTD. The data should be taken as electronic data from the till such as CSV or excel file and Max should upload this electronic data to the accounting software.

2)Although the shop is using a different accounting software, they send a PDF report and Max enters this manually to the software. Again, is not acceptable. There should be digital linkt between the software and the data should not be entered manually.

3) For TaxEats, there is no manual transaction and they upload directly to the accounting software. This is acceptable for MTD provisions.

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2

The VAT registration threshold is £85,000.

If the value of taxable supplies in the previous 12 months exceeds the VAT registration threshold (historic test) or at any time there are reasonable grounds for believing that the value of taxable supplies to be made in next 30 days on their own will exceed the VAT registration threshold (future test), they will be required to register for VAT.

However, as The Friends of Pentagon Park are planning to sell takeaway sandwiches, these type of supplies will be zero-rated because they are categorised as cold food. Coffee sales will be standard rated (20%).

If the anticipated sales figures are accurate, they will exceed the VAT registration threshold in July because they will have £88,000 turnover so far. They need to notify HMRC by 31 August and should start to charge VAT from 1 September.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question-3_

1) The sale of the business will be considered as transfer of a going concern if all the requirements are met. Since Hillary will start running the business immediately, there will be no significant break on trading. It is one of the requirements of transfer of going concern. Therefore, the transfer will be outside the scope of VAT.

If TOGC requirements are not met, the sale of freehold of an office building and the ground floor will be exempt from VAT because they are not new (should be less than 3 years).

2) If Abraham Accountants opted to tax the building then the sale will be standard-rated. Also the input VAT incurred on the costs will be reclaimable. If Hilary Bush is registered for VAT, option to tax might be beneficial as there will be no extra cost for them.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- _4_

- 1) Exempt
- 2) Standard-rated
- 3) Zero-rated
- 4) Standard-rated
- 5) Exempt
- 6) Standard-rated
- 7) Zero-rated
- 8) Zero-rated

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

When a UK business buys in services from overseas (EU or non-EU) a reverse charge will be due if the service is a B2B supply or any other services where the place of supply is the UK under Schedule 4A Parts 1 or 2 and the recipient of the service is UK VAT registered.

Reverse charge do not apply to any of the exempt services.

- 1) Reverse charge VAT should be applied
- 2) Reverse charge VAT should be applied
- 3) Place of supply is Belgium. As the supply is exempt, no reverse charge needed.
- 4) Reverse charge VAT should be applied

If Luther`s company is not VAT registered, the UK obligation would still fall on the UK company for B2B services and the service will count towards their VAT registration threshold.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question-_6_

As the goods are moving within the UK (from GB to Northern Ireland) it is not an export. Therefore, the company should charge VAT (20%) on their sales to the shop in Northern Ireland. The supply will be considered made within the UK.

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question-_7_

Lincoln Ltd is a partial exempt business for VAT purposes as they make exempt supplies. Therefore, they are recover all the input VAT for their purchases and a partial exemption calculation must be performed:

$$150,000 / 195,000 = 77\% \text{ (rounded)}$$

$$\text{Residual input tax} = 4,000$$

$$4,000 \times 77\% = 3,080 \text{ (recoverable)}$$

$$\text{Total input tax for the quarter} = 5,000 + 3,080 = \mathbf{\pounds 8,080}$$

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

Answer-to-Question- 8_

Bad debt relief is available to traders where certain conditions are met: (only relevant ones to the question)

- They have supplied goods or services and have accounted for and paid the output tax to HMRC.
- The debt is at least six months old

Dupont Duvets has not paid net VAT due for the quarter Dec`22 and the first invoice to BJP (£150,000 + VAT) was in this period. Although the debt is more than 6 months old, they cannot claim bad debt relief for this invoice as the output VAT has not paid to HMRC.

For part payments, the general rule is that cash received is allocated the older invoices first. So the payment of £120,000 in September will be allocated to the oldest invoice which £150,000 + VAT.

The second invoice of £75,000 + VAT will still be due as it not paid. However, as the invoice is more than six months old (assumed that the invoice issued before 31 March) as of 30 September, Dupont Duvets can claim bad debt relief for the second invoice.

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question-_9_

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question-_10_

1) When leasing a car which is available for business and private use, the company is able to recover 50% of the VAT on the lease charges.

2) In certain cases, input tax specifically irrecoverable. The blocking order includes input tax on motor cars. Therefore, the company cannot recover input VAT for the car purchase.

3) Vans are not cars and therefore VAT is not blocked. The company can recover input VAT for the purchase of a van.

4) The 50% input tax restriction does not apply to short term self-drive hire cars where the lease does not last for more than ten days. Therefore is recoverable.

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question-_11_

- 1) Grants are considered as non-business activities so outside the scope of VAT
- 2) Sale of donated goods (uniforms) will be zero-rated
- 3) Donations are considered as non-business activities so outside the scope of VAT
- 4) Sponsorship by displaying their logos on the website should be considered as a business activity and will be subject to standard rate VAT as it not covered by related schedules (20%)

-----ANSWER-11-ABOVE-----

CIOT - ATT

Paper: **ATT Paper 6 VAT**

Part/Module: **Part 2**

-----ANSWER-12-BELOW-----

Answer-to-Question-_12_

The basic tax point for goods is the date the goods delivered, made available or collected.

The basic tax point for services is the date the service is performed (this is the date that the work is completed)

1-a) The basic tax point for the first supply is the date the goods dispatched on 15 April. However, a deposit was paid earlier than 15 April therefore the actual tax point will be 10 April for the deposit £10,000 amount. For the balance, 22 April will be the actual tax point as the invoice is issued at this date.

1-b) The basic tax point for the second supply is 1 July as the goods are dispatched on this date. However, a tax invoice is issued for the full amount before the basic tax point so 29 June will be the actual tax point.

1-c) The basic tax point for the third supply is 3 June as the service completed on this date. However, for the first two payments on 1 May and 1 June, the actual tax points will be the payment dates. For the last £10,000 payment, the invoice was not issued within the 14 period after the basic tax point. Therefore, the actual tax point will be the same with basic tax point which 3 June.

2) The management services will be considered as continuous service. For this type of supplies, there is no basic tax point because the service is never completed. There is only invoice and payment - so the earlier of the two will determine the tax point. In this case, the date £250,000 transferred become the actual tax point.

3) For the lease premium, as the service is not completed

yet there is no basic tax point. However, the lease premium was paid by the tenant on 1 May 2023, will become the actual tax point.

For the rent, end of the first month will be the basic tax point. The actual tax point will be 18 May 2023 as the invoice is issued earlier than the payment.

4) The deposit should be considered as compensation / damages for breach of contract as is therefore outside the scope of VAT.

However, if VAT has been accounted for the advance payment received from M&E, VAT cannot be reclaimed if they cancels the booking and the conference venue retains the deposit. The output VAT only be claimed if the venue refunds the deposit.

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

Answer-to-Question-_13_

The capital goods scheme deals with input tax recovery on the following capital assets:]]

- Land and buildings costing £250,000 or more
- Computers, ships, and aircrafts costing £50,000 or more

The recovery period (or adjustment period) for land and buildings is **ten years** and for computers, ships and aircrafts **five years**.

The formula for calculating the CGS adjustments is as follows:

Total VAT on purchase X (initial% - actual%) / number of years (5 or 10)

31 March 2023 Adjustments:

Adjustment for freehold building = £1.8 million + VAT

£360,000 X (80% - 75%) / 10 = **£1,800 will be paid to HMRC**

Adjustment for computer software = £250,000 + VAT

£50,000 X (80% - 75) / 5 = **£500 will be paid to HMRC**

* Assumed the reclaim percentage stayed same in 2021 as 80%

Adjustment for refurbishment = £245,000 + VAT (furniture and carpets are ignored)

£49,000 X (80% - 75%) / 10 = **£245 will be paid to HMRC**

-----ANSWER-13-ABOVE-----

-----ANSWER-14-BELOW-----

Answer-to-Question-_14_

1) Dear Nicky,

I set out below answers to your questions in the order that you have raised them.

Purchaser 1: You will need to charge VAT on the sale because you opted to tax the building. However, As charities have exempt supplies, it is not possible to recover input VAT on the purchase of the building.

Purchaser 2: Again, the sale will be standard-rated but in this case, the purchaser will be able to recover input tax on the purchase as they are wishing to convert the building into 15 seperate apartments. The sale or lease (>21 years) of the flats will be zero-rated.

Purchaser 3: Financial institutions make exempt supplies. Therefore, cannot recover input VAT on all their purchases. As the building opted to tax, the purchaser cannot recover the input VAT.

I hope this answers your queries, but please do let me know if I can be of further assistance.

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

1) Including purchases made in May on the April VAT return is a deliberate action. Because Sacha made this decision deliberately. If she try to hide this action will also be considered deliberate and concealed action.

Treating sales of take away coffees as zero rated erroneously should be considered as careless action. It was not deliberate. The coding error should not be a reasonable excuse as Sacha had not carried out any checks.

2) The penalty percentage for deliberate but not concealed actions is 70%. Therefore, Sacha should pay a maximum penalty of £18,900 (27,000 X 70%) penalty for this action. However, if she notify HMRC about this error, the penalty might reduce to 20% which equals £5,400 (minimum).

The penalty percentage for the error for coffee sales will be 30%. Therefore the maximum penalty will be £435 (1,450 X 30%). If she notify HMRC about this error, the penalty might reduce to a 0%. Therefore, she might not pay any penalty.

3) Initially appeals against VAT decisions are made to the tax chamber of the `First-tier` Tribunal.

An `Upper Tribunal` hears appeals on more complex matters and appeals from decisions of the First-tier Tribunal.

Therefore, the First-tier Tribunal is likely to hear a dispute over the errors in the April 2023 VAT return.

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question-_16_

1) The scheme should not be used for the sales made to the VAT registered customers. Therefore, we need to ignore £500,000 in our calculations.

Gross takings = 8,000,000 + 4,300,000 = £12,300,000

ESP of SR goods (including VAT) = £16,800,000

$12,300,000 \times (16,800,000 / 54,300,000) = £3,813,000$ standard-rated supplies.

Therefore, £635,500 (£3,813,000 / 6) output tax will be due for the quarter ended 31 Marc 2023.

2) The apportionment scheme 2 is not available for use by retailers with supplies exceeding £130 million per annum. Faisal is required to agree a bespoke scheme with HMRC. A bespoke scheme effectively is a tailor-made scheme just for that retailer which has to be agreed between the retailer and HMRC.

