



November 2023 Examination

PAPER 6

VAT

Part I Suggested Answers

PART I

1.
 - 1) This is not a digital link. It is not possible to create a digital link and so the daily gross takings from the café can be input manually into the tax accounting software. **(1 mark)**
 - 2) This is not a digital link. The accounting software used by the shop creates a digital link requirement and so the sales and purchase records must be digitally linked (mandatory digital link) to the tax accounting software. **(1 mark)**
 - 3) This is a non-mandatory digital link. **(1 mark)**

Because the data transfer from the shop is not a digital link White House Foods Limited does not meet the data transfer requirements for Making Tax Digital. **(1 mark)**

2.
 - 1) At the end of each month, the Friends of Pentagon Park must calculate the value of taxable supplies in the last 12 months or less. If taxable supplies in this period have exceeded the registration threshold of £85,000 they must register for VAT. **(1 mark)**
 - 2) At the end of July taxable supplies in the period since the start of trading (less than 12 months) amounted to £88,000 **(1 mark)**. This is now above the limit so the Friends of Pentagon Park will exceed the registration threshold of £85,000.

The Friends of Pentagon Park must notify HMRC no later than 30 days from the end of July, ie by 30 August. **(1 mark)**

The Friends of Pentagon Park will be registered from 1 September and must charge VAT on supplies from that date. **(1 mark)**

3. Because Hilary will take over and immediately start running the business from the same premises **(1/2 mark)**, assuming that she is already registered for VAT or will register **(1/2 mark)**, the sale of the business should be treated as a Transfer of a Going Concern (TOGC) **(1/2 mark)** which will be outside the scope of VAT **(1/2 mark)**.

If Abraham Accountants had opted to tax the office building, Hilary Bush would also need to opt to tax the office building and notify HMRC on or before the date of the purchase **(1 mark)**. Otherwise, the Transfer of a Going Concern (TOGC) would not cover this part of the sale **(1 mark)** and the sale of the office building would be standard rated.

4. The VAT liabilities are as follows:

Daycare fees from OFSTED registered nursery	Exempt	(1/2 mark) .
Vet fees	Standard Rated	(1/2 mark)
Bus fare	Zero Rated	(1/2 mark)
Taxi fare	Standard Rated	(1/2 mark)
Home insurance	Exempt	(1/2 mark)
4 cans of cold beer(takeout)	Standard Rated	(1/2 mark)
A cold vegan sausage roll (takeout)	Zero Rated	(1/2 mark)
Subscription to an on line newspaper	Zero Rated	(1/2 mark)

5. The place of supply for each item is:

Fee for hire of an exhibition stand is covered by the general rule and is supplied where the customer belongs.	UK	(1 mark)
Consultancy fee from Belgian company (Belgium) is covered by the general rule and is supplied where the customer belongs.	UK	(1 mark)
Bus ticket from the station to a hotel in Bruges is covered by the rule for transport services which take place where the transport actually is.	Belgium	(1 mark).
Hotel in Bruges is covered by the rule for land related supplies and is supplied where the land is situated.	Belgium	(1 mark)

6. By virtue of the Northern Ireland Protocol, goods arriving into NI from GB are treated as an import and so technically are liable to Import VAT (1 mark). However, in practice the VAT is charged by the seller. Therefore, the company should charge VAT on its invoice to its customer in Belfast (1 mark).

7. Lincoln Boilers

Sales	30 June 2023	
Taxable supplies	150,000	
Total supplies	195,000	
% recovery	76.92%	(1/2 mark)
Rounded to:	77%	(1/2 mark)
Input VAT on purchases		
Residual input VAT	4,000	(1/2 mark)
Recovery %	77%	
Recoverable amount of residual input VAT	3,080	(1/2 mark)
Directly attributable to taxable supplies	5,000	(1/2 mark)
Total input VAT recoverable	8,080	(1/2 mark)

Total VAT attributed to exempt sales is £2,420 which exceeds the de minimis limits. (1 mark)

8. Dupont Duvets has made a part payment which is allocated against the earlier invoice **(1/2 mark)**. Martin the credit controller must now write off the remaining bad debt **(1/2 mark)**. Dupont Duvets can now reclaim all the VAT on the March invoice **(1 mark)** but cannot reclaim the VAT on the first invoice because the output VAT has not been paid to HMRC **(1 mark)**. The total bad debt relief claim is for £15,000. **(1 mark)**

VAT return quarter	To 31 Dec 2022	To 31 Mar 2023	
Output tax (box 1) on sales to BJP	30,000	15,000	
VAT on part payment from BJP	20,000	-	
Remaining debt	10,000	15,000	
VAT unpaid to HMRC	30,000	Nil	
Claim for bad debt relief (box 4)	Nil	15,000	

9. The proposal from Roosevelt's tax advisers is probably a disclosable scheme under the anti-avoidance legislation **(1/2 mark)**. The proposal from Hill Capitol is only designed to give a tax advantage **(1/2 mark)** and has two hallmarks of a contingent fee **(1/2 mark)** and a confidentiality agreement. **(1/2 mark)**
10. Smithsonian can recover input VAT as follows:
1. Lease car, 50% of all input VAT recoverable **(1 mark)**
 2. Purchase of a car, block all input VAT **(1 mark)**
 3. Purchase of a van, all input VAT recoverable **(1 mark)**
 4. Short term hire of a car, all input VAT recoverable **(1 mark)**
11. Congress
- a. Grants from the local council and The National Lottery Community fund – Outside the scope of VAT **(1/2 mark)** as no supply to the funding bodies. **(1/2 mark)**
 - b. Sales of uniform to parents – zero rated supply **(1/2 mark)** as sale of donated goods by charity. Credit also available if stated that this is children's clothing. **(1/2 mark)**
 - c. Donations received from fundraisers through online platform – Outside the scope of VAT **(1/2 mark)** as no supply to the individual donors. **(1/2 mark)**
 - d. Sponsorship from local companies – Standard rated supply **(1/2 mark)** as this would be considered to be a supply of advertising services **(1/2 mark)**.



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Part II Suggested Answers

12.

1) **(9 marks)**

1) The basic tax point for the supply of goods is when the goods are removed from the supplier to the customer - in this case, 15 April (1). However, before this occurs M&E receives a £10,000 deposit from its customer which creates an actual tax point on 10 April (1) for the deposit. As the tax invoice was issued within 14 days of the basic tax point the actual tax point for the balance is 22 April (1).

2) The basic tax point for the supply of goods is when the goods are removed from the supplier to the customer - in this case, 1 July (1). However, before this occurs M&E issues a tax invoice for the full amount so this creates an actual tax point on 29 June (1).

3) The basic tax point for the supply of services is when all the services have been performed - in this case, 3 June (1). However, before this occurs M&E receives two payments of £10,000 so this creates an actual tax point on 1 May (1) and a further actual tax point on 1 June (1). As the tax invoice has not been issued within 14 days of the basic tax point the actual tax point for the final balance of £10,000 is 3 June (1).

2) **(2 marks)**

Continuous services supplied from outside the UK are treated as separately and successively supplied at the end of each billing or payment period (1). The actual tax point for applying the reverse charge is therefore the end of each payment period being the last day of each calendar quarter (1).

3) **(3 marks)**

The grant of a 25-year lease is treated as a supply of goods. The goods are treated as separately and successively supplied each time that part of the consideration is received by the supplier or the supplier issues a VAT invoice relating to the grant, whichever is the earlier (1). There is, therefore, a tax point on 1 May (payment of the premium) (1) and on 18 May (issue of invoice for rent) (1).

4) **(2 marks)**

M&E is in possession of a tax invoice for the deposit paid (1/2). As it cancelled its booking with the conference venue, and the venue is retaining the deposit and not refunding it to M&E, the supply by the venue is taxable (1/2) and not treated as compensation (1/2). M&E is entitled to recover the related input tax (1/2).

13.

1) **(8 marks)**

	Capital item	VAT on purchase (£)	Original VAT recovery (%)	VAT recovery (%) as at 31/03/23	Calculation	Adjustment due (£)
1	New building purchase	360,000	80	75	$\frac{360,000}{10} \times (75-80)$ (1)	-1,800 (1/2)
2	Software					Not a CGS item (1)
3	Office refurb	53,000 (1/2)	65	75	$\frac{53,000}{10} \times (75-65)$ (1)	530 (1/2)
4	Property sale	200,000	30	75	$\frac{200,000}{10} \times (75-30)$ (1)	9,000 (1/2)
	(remaining 3 intervals)	200,000	30	0	$\frac{200,000}{10} \times (30-0) \times 3$ (1)	-18,000 (1/2)
					Total adjustment	-10,270 (1/2)

Follow-through marks will be awarded if candidates erroneously include the £4,000 VAT on office furniture and carpets or VAT adjustment on computer software.

£

2) (2 marks)

DR fixed assets (property) (1/2)	1,270 (1/2)
CR VAT account (1/2)	1,270 (1/2)

Calculation: $(1,800) + 530 = (1,270)$

14.

1) (7 marks)

To: Nicky

From: A Tax Advisor

Date:

Subject: Freehold sale

Dear Nicky

Please find below our comments on the VAT liability of the sale of the opted freehold commercial property to each of the three potential purchasers.

Purchaser 1: the sale of an opted freehold commercial property is standard-rated (1). However, if the purchaser is intending to use the building for a relevant charitable purpose (non-business purposes), such as housing the dog kennels, then your option to tax would be disapplied (1). However, use of the building as the charity's administrative headquarters would not be regarded as solely for a relevant charitable purpose and hence your supply of the building to this purchaser would be standard-rated (1).

Purchaser 2: if the purchaser is intending to convert the building into use as a dwelling or number of dwellings, and certifies this as such, then your option to tax would be disapplied (1). Consequently, your supply of the building would be exempt (1). The certificate must be issued before the price has become legally fixed. (1)

Purchaser 3: the fact that the purchaser makes solely or mainly exempt supplies has no bearing on the VAT liability of your supply of the property. Your supply remains standard-rated (1) and the VAT charged will be a cost to them.

Please let us know if you have any questions.

Kind regards

A Tax Advisor

2) (max 3 marks)

It is possible to accept the commission provided that the member informs the client of their relationship with the third party (1), and of the amount and terms of commission which the member will receive (1). Moreover, a member should be able to justify the introduction of the client to the third party as being in the best interests of the client (1). The way in which commission is to be treated should be agreed with the client (1) and it is recommended that this is documented in writing e.g in the engagement letter or otherwise (1).

15.

1) **(4 marks)**

There are two errors in Sacha's case: the first being the inflated input tax claim on the April VAT return; the second being the under-declared output tax for the month of April. As the return contains more than one inaccuracy a penalty is payable for each inaccuracy.

The inflated input tax claim is a deliberate action on Sacha's part, but they have made no attempts to conceal it (1).

The under-declared output tax is likely to fall into the category of failure to take reasonable care as Sacha had not made any checks that the VAT coding was correct (1).

Making an unprompted disclosure will significantly reduce the penalties HMRC will impose (1/2). A disclosure is considered to be unprompted if the person has no reason to believe that HMRC have discovered or are about to discover the error (1/2).

The reduction in percentage is based on the quality of the disclosure (1/2) i.e. telling HMRC, giving HMRC reasonable help in quantifying and allowing them access to records (1/2).

2) **(max 5 marks)**

Inflated input tax claim

PLR = £27,000 (May input tax)

Maximum penalty: $27,000 \times 70\% = £18,900$ (1)

If unprompted the minimum penalty will be 20%: $27,000 \times 20\% = £5,400$ (1)

If prompted the minimum penalty will be 35%: $27,000 \times 35\% = £9,450$ (1)

Under-declared output tax

PLR = £1,450

Maximum penalty: $1,450 \times 30\% = £435$ (1)

If unprompted the minimum penalty would be zero. (1)

If prompted the minimum penalty will be 15%: $1,450 \times 15\% = £217$ (1)

3) **(max 3 marks)**

Such a dispute is likely to be heard by the First-tier Tribunal (FTT) (1/2) which is the lowest court in the UK court hierarchy (1/2) and is a court of first instance only (1/2). If there is a dispute between a taxpayer and HMRC the dispute must be brought to the FTT for adjudication (1/2) unless it is regarded as a complex case (1/2). The FTT establishes the facts and makes a decision to resolve it (1/2).

Only if it is regarded as a complex case would it be heard by the Upper Tribunal (1/2).

16.

1) **(8 marks)**

Firstly, calculate Gross Takings (GT):

	£
Credit/debit card	8,500,000 (1/2)
Cash	4,300,000 (1/2)
Less: sales to VAT-registered businesses	<u>(500,000) (1)</u>
GT	<u>12,300,000</u>

There should not be an adjustment for the stolen £5,000 cash as a taxable supply has been made. (1)

Next, use estimated selling prices:

Standard-rated:	16,800,000 (1)
Zero-rated:	37,500,000 (1)

Quarter's standard-rated supplies: $12,300,000 (1) \times \frac{16,800,000 (1)}{54,300,000} = \text{£}3,805,524$
(Including VAT)

Output tax: $1/6 \times \text{£}3,805,525 = \text{£}634,254 (1)$

2) **(2 marks)**

If VAT-exclusive taxable supplies by way of retail exceed £130 million in the previous 12 months
Faisal can no longer use the Apportionment 2 retail scheme or any other published scheme.

His options would be to:

1. Agree a bespoke retail scheme with HMRC (1)
2. Account for VAT in the normal way (1)