

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 6 VAT

**May 2025**

---

TIME ALLOWED

3 HOURS 30 MINUTES

---

- 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 of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Maria owns a wine bar and shop in Brighton (UK) and is registered for VAT.

Customers can buy bottles of wine to take away, or they can choose a bottle of wine from the shelf or fridge and drink it in the bar area for a corkage fee of £10 (in addition to the bottle price).

Maria purchases the wine directly from Spanish producers and imports it into the UK. The goods are not entered into any special Customs procedures and Maria pays all import VAT and duties due. Maria recovers, as input tax, all the import VAT she pays.

The wines are in demand across the UK and Republic of Ireland so she has a number of business and private customers. Maria has a storage unit in Brighton and she ships wine from this unit direct to UK and Irish customers.

Due to increased demand from Irish customers, she recently hired temperature-controlled warehouse space in Belfast, Northern Ireland, and shipped £50,000 of her stock from Brighton to Belfast last week. As a result she can supply to these customers more quickly and reduce delivery costs when they place an order.

From a business promotion perspective, Maria undertakes the following three activities:

- a) Gives out 25ml taster samples of different wines to customers in the wine bar and shop. She finds that doing this encourages customers to purchase one or more bottles of wine.
- b) She supplies two free bottles of wine per year to private customers placing large orders of wine. These retail in her shop for £35 each, including VAT, but cost her £8 excluding VAT.
- c) She occasionally waives the £10 corkage fee to regular customers of the wine bar so they only pay the take-away price of the bottle of wine.

At Christmas time, Maria gives each member of staff a £75 gift card which she has purchased from the neighbouring chocolate shop. Only standard-rated goods are sold in the chocolate shop, which is VAT-registered.

Maria's husband has a brewery business and is registered for VAT separately. His brewery has just opened an on-site bar and has asked Maria to supply the wines for his business to sell. In return, he will supply the equivalent value of cans of beer to the wine bar and shop for them to sell. No money will change hands between the two parties although title to the respective goods will be transferred.

Finally, most weekends, Maria takes a bottle of her favourite wine off the shelf and shares it with her husband. The bottle sells in her shop for £35, including VAT, and she buys it directly from the Spanish producer in cases of 24 bottles for £12 each a bottle, excluding VAT.

#### Requirements:

**1) State the UK VAT treatment of Maria's:**

- a) **Supplies of wine to private customers in the Republic of Ireland. Maria shipped the wine from Brighton to the Republic of Ireland.**
- b) **Supplies of wine to VAT registered business customers in Northern Ireland prior to hiring the warehouse in Belfast. Maria shipped the wine from Brighton to Northern Ireland.**
- c) **Movement of stock from Brighton to the new warehouse in Belfast.**

(4)

**2) Explain the input tax and output tax treatment of Maria's three business promotion activities and the gift card given to staff at Christmas.**

(7)

**3) Explain the input tax and output tax implications of Maria taking wine home for personal use.**

(2)

**4) Explain the VAT implications of supplying wine to the brewery in return for beer.**

(2)

Total (15)

2. 'Hola Chelmsford!' Ltd is a company located in Essex (UK) supplying Spanish food, drink and gifts direct to consumers. It was established in 2022 and is registered for VAT, submitting VAT returns quarterly.

The company has had a high staff turnover in the last year, particularly in the Finance Department.

When the new Finance Manager, Paul, joined the company three months ago he believed he spotted some tax coding errors meaning that no VAT was accounted on some items, although he has not yet checked the correct VAT liability in the VAT legislation. It has become clear that any errors were careless and not deliberate. He will shortly submit an Error Correction Notice to HMRC after checking the correct VAT liability of these items.

Paul has listed these items and the total sales since the company was established (see table below):

<u>Item</u>	<u>Total</u>
	£
Jars of salted fried almonds (not in shells)	5,500
200g bars of chocolate	120,000
Paella rice	135,000
Sherry	135,000

Paul also discovered that the system had inadvertently been programmed to create a timing error. The system allocates the last day's transactions in each VAT return period to the first day of the next period. Nobody had noticed this since the system had been updated in 2024.

On 1 May 2025 Paul was emailed a spreadsheet so he could complete the latest VAT return for the sister company, 'Guten Morgen Chelmsford' Ltd. Paul had not been aware of the existence of the company so had not completed any VAT returns since his arrival. He has looked at the history of this company's VAT return submission and payment and is concerned about penalties. The late filings began in 2024. The company is on monthly VAT return periods.

<u>VAT return period end</u>	<u>Date of filing and payment</u>	<u>VAT liability (Box 5)</u>
		£
31 May 2024	18 July 2024	2,750
30 June 2024	9 August 2024	2,000
31 July 2024	1 October 2024	4,500
31 August 2024	15 November 2024	4,250
30 September 2024	29 October 2024	2,570
31 October 2024	10 January 2025	0
30 November 2024	26 January 2025	3,000
31 December 2024	31 January 2025	6,000
31 January 2025	Not yet filed or paid	750
28 February 2025	Not yet filed or paid	800

**Requirements:**

- 1)

a) Calculate the correct 'potential lost revenue' to HMRC relating to the tax coding errors. (2)

b) Calculate the possible maximum and minimum penalties based on a) above. (2)

c) Explain whether any VAT penalty rules apply to the timing error. (2)
- 2)

a) State the number of penalty points 'Guten Morgen Chelmsford' Ltd has for late filing of its monthly VAT returns and calculate the amount of the penalties for late filing. Identify the periods to which any penalty relate. (3)

b) Explain when all of 'Guten Morgen Chelmsford' Ltd's penalty points will be removed, making specific reference to the start date and duration of any required period of compliance. (3)

c) Calculate the penalties due for late payment of VAT, making reference to each VAT return period. (5)

Total (17)

3. ALLBC Ltd is a commercial property landlord and also a provider of insurance intermediary services to insured parties. The company has opted to tax every commercial property it owns. All its tenants and insurance customers are based in the UK.

ALLBC Ltd's employees occupy a 10-story building in London. Each floor has the same square footage. There are 245 employees providing insurance services and they fully occupy six floors of the building. There are 65 employees involved in commercial letting and they fully occupy three floors of the building. There are 25 employees on the remaining floor. They make up the finance department, IT department and other departments which work across the entire business (both letting and insurance).

Historically, ALLBC Ltd has been calculating input tax in accordance with the standard partial exemption method. However, the Finance Director read an article recently about agreeing special partial exemption methods and would like to understand if a better VAT recovery rate is possible.

ALLBC Ltd's breakdown of turnover for the year ended 31 March 2025 is as follows:

	£ (excluding VAT)
Rental income	120,000,000
Insurance commission	40,500,000

The principal costs for the year are as follows:

	<u>VAT</u> £
Commercial property repairs	8,000,000
Miscellaneous costs relating to insurance services	1,500,000
Rent of headquarters	4,000,000
Utilities and other costs relating to headquarters	2,000,000

ALLBC Ltd will shortly purchase a second office building for £15,000,000 plus £3,000,000 of VAT, to be used by employees engaged in both insurance and property letting.

ALLBC Ltd is VAT registered and submits VAT returns on a calendar-quarterly basis.

**Requirements:**

- 1)

a) Calculate the amount of recoverable input tax for the year ended 31 March 2025 using the standard partial exemption method. (5)

b) Explain whether input VAT recovery would be greater if ALLBC Ltd's insurance customers were based outside the UK, rather than in the UK. No calculations are required. (2)
- 2) Calculate the amount of recoverable input tax for the year ended 31 March 2025 using:

a) A floor space special partial exemption method (ratio of floorspace occupied by taxable income generating staff to total floor space of income-generating staff); and

b) A staff headcount apportionment special partial exemption method (ratio of taxable income generating staff to all staff). (6)
- 3) Explain briefly how the amount of input VAT recovery on the proposed purchase of the office should be determined and over what period. (3)

Total (16)

4. Barney Brass is a VAT registered property developer who has bought some land on which there are two houses and a block of four garages.

The larger house has been unoccupied for three years and the smaller house has been unoccupied for the past five years.

Barney plans to renovate both houses.

Barney will let the larger house as a holiday cottage, and he will live in the smaller house himself. At the same time as the renovation, he will make the smaller house energy efficient, including fitting solar/PV panels. Barney thinks he can buy the solar panels more cheaply himself and get the builder doing the renovation work to fit them or he might separately engage a specialist contractor to supply and fit the panels.

The garages will be demolished, and a new block of flats will be built in their place. Barney may let out the flats to tenants himself. Alternatively a housing association has indicated that they would be interested in taking a 25-year lease on the flats.

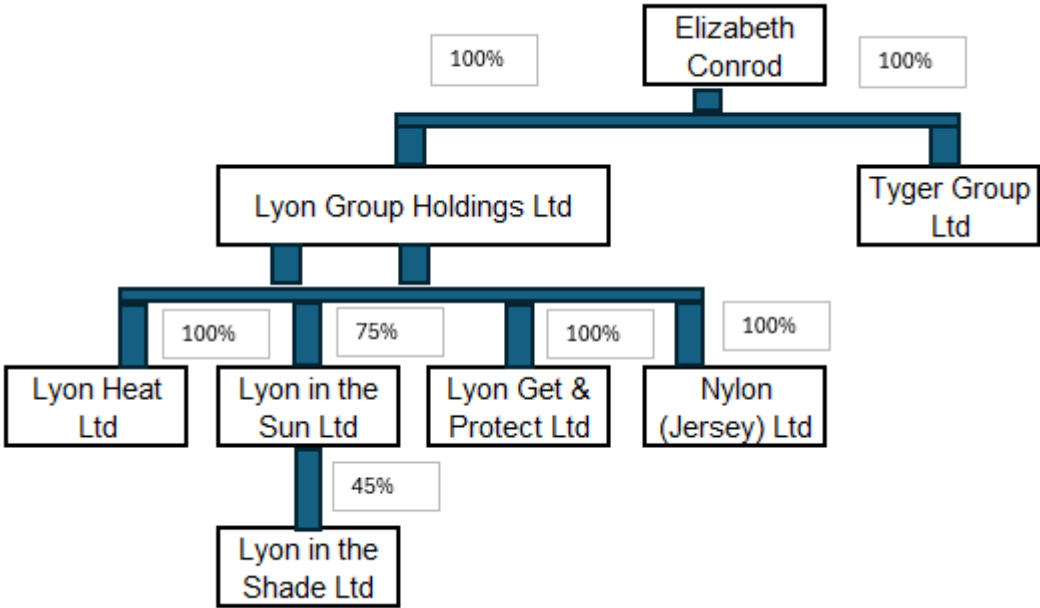
Barney has found an award-winning architect to draw up the designs, and he plans to get started with the demolition work straight away before he even applies for planning permission, so he can get started as soon as it comes through. The demolition contractor has asked Barney if he can make all or part payment for the work in cash to avoid paying VAT.

**Requirements:**

- 1) Explain what the VAT liability will be of the services of the architect, builder, and demolition contractor for the work to be done on renovating the houses and constructing the new block of flats. (6)
- 2) Explain the VAT impact on Barney’s cost if he purchases the solar panels online and gets the builder to fit them, compared to using a specialist contractor to supply and fit the panels. (4)
- 3) Explain whether Barney will be able to reclaim any input tax on the services he buys. (7)
- 4) Advise Barney whether he should accept the demolition contractor’s offer for a cash payment. (3)

Total (20)

5. Davina Singh has just been appointed Finance Director of The Lyon Group, which is owned by a wealthy venture capitalist, Elizabeth Conrod.



## Continuation

Lyon Group Holdings Ltd is VAT registered and provides management services to all the companies in The Lyon Group and to Tyger Group Ltd, which is also owned by Elizabeth.

Lyon Heat Ltd is VAT registered and is the longest established company in the group and sells and fits multi-fuel stoves. Unfortunately demand for stoves is falling, and so the turnover for this company has fallen significantly over the last 12 months.

Lyon in the Sun Ltd is also VAT registered and sells and fits solar panels. Its subsidiary company, Lyon in the Shade Ltd, is also VAT registered and sells underground heat pumps.

Lyon Get & Protect Ltd offers finance and insurance to its customers.

Nylon (Jersey) Ltd is a captive insurance company registered, resident and operating in Jersey.

All companies, other than Nylon (Jersey) Ltd, are registered and operate in England.

As the VAT adviser to the Lyon Group, respond to the email below:

From: dsingh@lyongroup.uk  
To: aaranadviser@attcandidates.uk  
Subject: VAT deregistration and VAT grouping

I hope this finds you well. I am a bit worried about Lyon Heat Ltd. Although the company is still above the VAT registration limit, its sales are falling. (I have provided the information from its management accountant below) and I want to deregister the company from VAT. When can I do this and is there any cost to do so? It doesn't have many assets or stock (also provided below).

Also, in my previous role, I worked for a large multinational group, and they had a group VAT registration, and I think that made our VAT affairs very simple, no downsides, and we got all our VAT back. So, I think that the Lyon Group should go for a VAT group because it's a lot of work doing individual returns and some of the companies in the group aren't getting their VAT back. Can you confirm that this is a good plan?

Look forward to hearing from you  
Best wishes  
Davina

Expected VAT exclusive turnover for Lyon Heat for the 18 months to 31 December 2026 is as follows:

<u>Quarter end</u>	<u>30-Jun-25</u>	<u>30-Sep-25</u>	<u>31-Dec-25</u>	<u>31-Mar-26</u>	<u>30-Jun-26</u>	<u>30-Sep-26</u>	<u>31-Dec-26</u>
	£	£	£	£	£	£	£
Sales	27,000	24,000	22,500	21,000	18,000	20,000	19,000

Assets currently owned by Lyon Heat (all amounts exclude VAT) are:

	<u>Original Cost</u>	<u>Cost of identical goods</u>
	£	£
Stoves (stock)	9,000	9,000
Van for deliveries	28,000	7,500
Car used by sales rep	31,000	17,000
Roller banners (bought from unregistered business)	5,000	1,000

The value of these assets is expected to be approximately the same over the next 18 months.

### Requirements:

Write a letter to Davina and explain:

- 1) When Lyon Heat Ltd can notify HMRC that it wishes to deregister from VAT. (3)
- 2) The approximate VAT charge that would arise if Lyon Heat were to deregister for VAT. (3)
- 3) Which of the Lyon Group companies are eligible to be part of a VAT group. (2)

- 4) Whether Tyger Group Ltd is eligible to join the VAT group. (1)
- 5) Whether Davina is correct that having a VAT group will be much easier, there are no downsides, and as a VAT group, the Lyon Group will be able to reclaim all its input VAT. (4)
- 6) The VAT liability for the supplies of management services if Davina includes all eligible companies into a VAT group. (2)

Total (15)

6. Max Fou runs a very successful garage specialising in selling parts and servicing Mercedes cars.

The garage has had some difficulties with customers who don't pay.

The table below shows Max's outstanding invoices at his VAT quarter end of 30 April 2025. Invoices are due on presentation. Max has now written off these invoices in his accounts.

<u>Customer</u>	<u>Goods date of sale</u>	<u>Date of invoice</u>	<u>Gross invoice value</u>
			£
Mr John Forest	Servicing so n/a	15 October 2024	600
Dendros Ltd	Servicing so n/a	30 October 2024	960
Mrs Alice Samuel	15 October 2024	4 November 2024	150
Hortuss Ltd	Servicing so n/a	5 November 2024	480

The garage already takes a security deposit of £250 when customers take a courtesy car whilst their car is being serviced. Max has started taking deposits before they carry out any work.

One customer paid a deposit of £500 in March for work that will be completed in May. He is also offering service plans where customers make 12 fixed monthly payments of £30 by direct debit rather than paying £400 in full when they come in for their car service. The payments made under the service plan are refundable if the customer changes their mind and cancels the agreement. Three customers have already signed up for the service plan and have made four payments in January, February, March and April.

#### Requirements:

- 1) Explain which of the outstanding invoices are eligible for bad debt relief in the period ending 30 April 2025. Calculate the amount of bad debt relief that Max can claim, and explain how Max would claim relief. (6)
- 2) Explain the VAT liability and time of supply for:
- a) A security deposit paid for courtesy car hire. Consider the situation where the deposit is returned or retained by Max. (3)
- b) A deposit paid in March for work to be done in May. Consider the situation where the customer goes ahead with the work or decides not to go ahead. (3)
- c) Monthly service plan payments. Consider the situation if a customer goes ahead with the annual service or cancels their service plan and receives a full refund on their monthly payments. (3)

Total (15)