

May 2025 Examination

## PAPER 6

### VAT

Suggested Answers

*Candidates will be given credit for relevant points not on the mark scheme.*

1.

1. a) This is a zero-rated export of goods. **(1)**

b) This is a standard-rated supply of goods. **(1)**

c) This is a standard-rated movement of own goods. Maria will need to account for VAT as output VAT on her VAT Return. **(1)**

As the goods are being used for taxable sales, the VAT may also be reclaimed as input VAT on the same VAT return, subject to the normal rules. **(1)**

2)

**Sample tasters**

Input tax on the purchase of the samples is reclaimable **(1)**. No output tax is due on the free samples provided they meet the criteria for being a sample. **(1)** Each sample of each wine should be sufficient to assess the qualities of the wine without being excessive. Otherwise, the rules for free gifts would apply.

**Free bottles of wine**

These are gifts of goods carried out for business promotional reasons. The cost to Maria of these gifts is £16 per year to each customer. As such, assuming that the total value of gifts to the same customers does not exceed £50 in the same 12 months she is entitled to recover the related input tax in full **(1)** with no equivalent output tax charge **(1)**.

**Waive of corkage fee**

Candidates writing either of these answers will gain the mark:

Waiving the corkage fee is akin to waiving the charge for service. As such, there are no input tax or output tax consequences of this free supply of services (supplied ‘in-house’). **(2)**

Alternatively, Maria should treat this as a discount on the drink-in price of the bottle. Input VAT on the purchase of the bottle should be recovered in the usual way **(1)**, and output VAT accounted on the discounted price of the bottle. **(1)**

**Gift card**

The present of the £75 gift card to staff at Christmas time is regarded as the supply of a Single-Purpose voucher as the voucher can only be redeemed against goods chargeable to the same rate of VAT. This is therefore a supply of goods and, as the cost exceeds £50, the gift rules do not apply **(1)**. As the gift card can only be redeemed against standard-rated goods output tax is due on the cost value. **(1)** Input tax is recoverable in full on the purchase of the voucher, subject to the usual rules. **(1).**

Maximum 7 marks

3)

Maria is entitled to recover input VAT on the purchase of the wine as the wine was destined for sale in the shop/bar. **(1)** On this basis, Maria will need to make an output tax charge on the bottle which is calculated as the VAT due on the cost of the bottle (£12) when she takes it home for personal use. **(1)**

4)

This is a barter transaction. Maria must account for VAT on the supply of wine.**(1)** Her husband should issue an invoice to her for the supply of beer and she can recover the VAT shown as input VAT. **(1)**

2.

1. a) Potential Lost Revenue

£5,500 + £120,000 + £135,000 = £260,500 (paella rice is zero-rated) **(1)**

PLR: (1/6th of £260,500) = £43,416 **(1)**

b) Maximum penalty percentage for an unprompted disclosure of a failure to take reasonable care = 30% **(1/2)**

Max penalty: 30% x £43,416 = £13,025 **(1/2)**

Minimum penalty percentage for an unprompted disclosure of a failure to take reasonable care = 0% **(1)**

c) As the timing error results in VAT being declared later **(1)** than it should have been a penalty of 5% pa of the potential lost revenue **(1)** applies to the delayed tax.

2)

| VAT return period end | Date of filing and payment | Late? | Points | VAT liability (Box 5) (£) |
| --- | --- | --- | --- | --- |
| 31 May 2024 | 18 July 2024 | Yes | 1 | 2,750 |
| 30 June 2024 | 9 August 2024 | Yes | 1 | 2,000 |
| 31 July2024 | 1 October 2024 | Yes | 1 | 4,500 |
| 31 August 2024 | 15 November 2024 | Yes | 1 | 4,250 |
| 30 September 2024 | 29 October 2024 | No | 0 | 2,570 |
| 31 October 2024 | 10 January 2025 | Yes | 1 | 0 |
| 30 November 2024 | 26 January 2025 | Yes | 1 | 3,000 |
| 31 December 2024 | 11 January 2025 | No | 0 | 6,000 |
| 31 January 2025 | Not yet filed or paid | Yes | 1 | 750 |
| 28 February 2025 | Not yet filed or paid | Yes | 1 | 800 |

a) Guten Morgen has failed to submit eight VAT returns on time **(1/2)**. The company has, therefore, reached the maximum points allowed for monthly returns i.e. 5 **(1/2)**.

HMRC will levy the following penalties:

VAT return for the month ended:

31 Oct: £200 **(1/2)**

30 Nov: £200 **(1/2)**

31 January: £200 **(1/2)**

28 Feb: £200 **(1/2)**

b) Guten Morgen will need to meet the following two conditions:

1. complete a period of compliance, submitting all returns by the deadline. **(1/2)**
2. submit all outstanding returns for the previous 24 months. **(1/2)**

In relation to the period of compliance, this will begin on 1 May **(1)** (the 28 Feb VAT return was due on 7 April) and last for six months. **(1)** In this time all six VAT returns must be submitted on time.

c)

| VAT return period end | Date payment due | Date of payment | VAT liability (Box 5) (£) | Days late | Fixed penalty (2%) £ | Fixed penalty (4%)£ | Day penalty £ | Total £ |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 31 May 2024 | 7 July 2024 | 18 July 2024 | 2,750 | 11 | - | - | - | - **(1/2)** |
| 30 June 2024 | 7 August 2024 | 9 August 2024 | 2,000 | 2 | - | - | - | - **(1/2)** |
| 31 July 2024 | 7 September 2024 | 1 October 2024 | 4,500 | 24 | 90 | - | - | 90 **(1/2)** |
| 31 August 2024 | 7 October 2024 | 15 November 2024 | 4,250 | 39 |  | 170 **(1/2)** | 4.19 **(1/2)** | 174.19 **(1/2)** |
| 30 September 2024 | 7 November 2024 | 29 October 2024 | 2,570 | 0 | - | - | - | - **(1/2)** |
| 31 October 2024 | 7 December 2024 | 10 January 2025 | 0 | 34 | - | - | - | - **(1/2)** |
| 30 November 2024 | 7 January 2025 | 26 January 2025 | 3,000 | 19 | 60 | - | - | 60 **(1/2)** |
| 31 December 2024 | 7 February 2025 | 31 January 2025 | 6,000 | 0 | - | - | - | - **(1/2)** |
| 31 January 2025 |  | Not yet paid | 750 |  |  |  |  |  |
| 28 February 2025 |  | Not yet paid | 800 |  |  |  |  |  |

3.

1. a)

Amount of recoverable input tax for the year to 31 March 2025 using the standard partial exemption method:

120,000,000 x 100 **(1)** = 74.77% (rounded up to 2 decimal places as residual input tax is greater 160,500,000 than £4,800,000 a year) **(1)**

**Costs**

Directly attributable to taxable income: 8,000,000 **(1)**

Directly attributable to exempt income: 1,500,000

Recoverable proportion of residual input tax: 6,000,000 x 74.77% = £4,486,200 **(1)**

The de minimis limit does not apply as exempt output tax is clearly more than £625pm.

Total recoverable input tax: 8,000,000 + 4,486,200 = £12,486,200. **(1)**

b) Insurance services provided to insured parties located outside the UK are outside the scope for VAT purposes **(1/2)**. However, directly attributable input VAT may be recovered. **(1)** As such, input VAT recovery would be greater for ALLBC Ltd than if it is supplied to UK customers only. **(1/2)**

2.

i) **Floor space:** Taxable floor space

 Taxable + exempt floor space

3

9 **(1)** x 100% = 33.33% (calculated to 2 decimal places as it is a special method) **(1)**

**Costs**

Directly attributable to taxable income: 8,000,000

Directly attributable to exempt income: 1,500,000

Recoverable proportion of residual input tax: 6,000,000 x 33.3% = £1,999,800 **(1)**

The de minimis limit does not apply.

Total recoverable input tax: 8,000,000 + 1,998,000 = **£9,999,800**. **(1/2)**

ii) **Staff headcount**: Staff spent making taxable supplies

 All staff

65

335 **(1)** x 100 = 19.40%

**Costs**

Directly attributable to taxable income: 8,000,000

Directly attributable to exempt income: 1,500,000

Recoverable proportion of residual input tax: 6,000,000 x 19.4% = £1,164,000 **(1)**

The de minimis limit does not apply.

Total recoverable input tax: 8,000,000 + 1,164,000 = £9,164,000. **(1/2)**

1. As the cost of the building is at least £250,000, excluding VAT, **(1/2)** the building will be a capital item to which the Capital Goods Scheme applies **(1/2)**. As the building will be used for both taxable and exempt supplies a proportion of the £3 million VAT can be initially recovered according to the partial exemption residual recovery rate, unless otherwise agreed with HMRC. **(1/2)** Annual adjustments**(1/2),** to the amount of input tax claimed on the building, must be made over a 10-year period **(1/2)** by comparing the partial exemption recovery rate for that year with that of the period of acquisition **(1/2)**.

4.

1) The VAT liability of the services of the architect will be standard rated for both the houses and the block of flats **(1 mark).** The services of the builder to renovate the larger house will be standard rated **(1 mark)**, because it is not intended to be used as a dwelling. **(1 mark)** The services to renovate the smaller house which was empty will be lower rated 5% because the house has not been lived in during the 2 years immediately before work starts **(1 mark).** The services of the builder to construct the block of flats will be zero rated **(1 mark)** because the flats are designed as dwellings **(1 mark)**. The services of the demolition contractor will be standard rated if the work takes place before Barney has planning permission **(1 mark)**.

**[max 6 for the question]**

2) Supply and installation of energy savings materials for a dwelling, including solar PV panel is zero rated **(1 mark)**. However, where panels are purchased separately, they are standard rated **(1 mark)**. Where the supply and installation of the panels forms part of a larger building project, this would be a single supply, **(1 mark)** and the VAT liability would be the same as the principal supply **(1 mark),** which is 5% in this case. So, Barney should evaluate whether the cost of the solar panels he buys online plus 20% VAT and fitting charge is less than the price charged by a specialist contractor who can zero rate the entire supply, or the builder who will charge 5%. **(1 mark)**.

**[max 4 for the question]**

3) Barney will not be able to reclaim any input tax on the input VAT on the costs of renovating the house that he will occupy **(1 mark)**.

As he is VAT registeredand the liability of holiday lets is standard rated **(1 mark)**, he will be able to recover the input VAT on the cost of renovating the house to be used as a holiday let **(1 mark).**

If Barney decides to let out the flats to directly to tenants himself, this will be an exempt supply **(1 mark)**, and he will not be able to recover any of the input VAT on the costs of constructing the flats **(1 mark)**. If he grants a long lease to a housing association, this would be a zero rated **(1 mark)** supply being a grant of first major interest **(1 mark)**, and he will be able to recover all the input VAT on the costs of constructing the flats **(1 mark)**. He will be able to make a partial recovery of input tax on any costs which relate the site as a whole **(1 mark)**.

**[max 7 for the question]**

4) Under the professional practice guidelines, amember must not engage in or be party (directly or indirectly) to any illegal activity **(1 mark).** The offer made by the demolition contractor indicates that they will gain an advantage through receiving payment in cash, most likely through illegal evasion of VAT and income and/or corporation taxes **(1 mark).** Making payment in cash would facilitate this avoidance **(1 mark).** You should advise Barney to make payment to the contractor through normal channels such as payment by bank transfer or credit card **(1 mark). [max 3 for the question]**

5.

From: aaranadviser@attcandidates.uk

To: dsingh@lyongroup.uk

Subject: Re: VAT deregistration and VAT grouping

Hi Davina

Thank you for your email. I have dealt with each of your questions in turn below. Do get in touch if you have any questions on this.

Best wishes

Aaran

1) Lyon Heat can deregister if HMRC agree that its taxable turnover in the next 12 months will not exceed the VAT registration cancellation limit of £88,000 **(½ mark)**. From the information given, the sales for the year to 30 Jun 2026 are expected to be £85,500 **(1 mark)**, and so Lyon Heat can notify HMRC from 1 July 2025 **(½ mark)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Quarter end | 30-Jun-25 | 30-Sep-25 | 31-Dec-25 | 31-Mar-26 | 30-Jun-26 | 30-Sep-26 | 31-Dec-26 |
| Sales |  27,000  |  24,000  |  22,500  |  21,000  |  18,000  |  20,000  |  19,000  |
| Cumulative sales for 12m |   |   |   | 94,500  | 85,500  | 81,500  | 78,000  |

2) The approximate deregistration VAT charge for Lyon Heat would be £3,300 **(1 mark)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|   | Original Cost | Cost of identical goods | VAT on de-registration |   |
| Stoves (stock) |  9,000  |  9,000  |  1,800  |  **(½ mark)** |
| Van for deliveries |  28,000  |  7,500  |  1,500  |  **(½ mark)** |
| Car used by sales rep |  31,000  |  17,000  |   |  **(½ mark)** |
| Roller banners (bought from unregistered business) |  5,000  |  1,000  |   |  **(½ mark)** |
| Total |   |   |  3,300  |   |

3) Lyon Group Holdings Ltd, Lyon Heat Ltd, Lyon in the Sun Ltd, Lyon Get and Protect Ltd are all under common controland so are eligible to be part of a VAT group **(1 mark)**. Nylon Jersey is not resident in the UK **(½ mark)**, and Lyon in the Shade is not under common control **(½ mark)**, and so they are not eligible to be part of a VAT group.

4) Tyger Group Ltd is eligible to join the VAT group as it is also under the common control of Elizabeth. **(1 mark)**

5) The advantages of having a VAT group include submission of one group return **(½ mark)** and transactions between entities in the group are outside the scope of VAT **(½ mark)**. Disadvantages include HMRC will issue a new group VAT number to be used by all entities in the group **(½ mark)** and so the businesses will have to advise customers and suppliers and update its website, accounting system and stationery **(½ mark)**. The group will need to agree a new Partial Exemption Method with HMRC if they do not use the standard method **(½ mark)**. And finally, all companies in the VAT group have joint and several liability for the group’s VAT liabilities **(½ mark)**. The group may be partially exempt and so may not be able to recover all its input VAT **(1 mark)**.

6) The supplies of management services to companies in the VAT group will be outside the scope of VAT **(1 mark)**. The supplies to the company or companies outside the VAT group will be standard rated **(½ mark)** or outside the scope of VAT where the company is based overseas **(½ mark)**.

6.

1) The invoices from Mr Forest **(½ mark)**, Dendros Ltd **(½ mark)** are at least 6 months overdue and so are eligible for bad debt relief. The time of supply and tax point of Mrs Samuel’s invoice is 15 October **(1 mark),** but eligibility for bad debt relief is calculated from the later of the date of supply and the date the payment is due ie six months after 4 November 2024 **(1 mark)**.”

Max can claim bad debt relief of £260. **(2 marks)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Customer | If goods date of sale | Date of invoice | Gross invoice value | Tax Point | Due date | Days late | VAT | Bad debt relief |
| Mr J Forest |   | 15-Oct-24 | £600 | 15-Oct-24 | 15-Oct-24 | 199 | £100 | £100 |
| Dendros Ltd |   | 30-Oct-24 | £960 | 30-Oct-24 | 30-Oct-24 | 184 | £160 | £160 |
| Mrs A Samuel | 15-Oct-24 | 04-Nov-24 | £150 | 15-Oct-24 | 04-Nov-24 | 179 | £25 |  |
| Hortuss Ltd |   | 05-Nov-24 | £480 | 05-Nov-24 | 05-Nov-24 | 178 | £80 |   |
| Total |   |   |   |   |  |   |   | £260 |

Max should claim bad debt relief on the VAT return for the accounting period in which the entitlement to make a claim arises ie on the VAT return for the quarter to 30 April 2025. The amount claimed should be included in box 4 **(1 mark)**.

2)

a. There is no supply made where a customer pays a security deposit for a courtesy car hire **(1 mark)** and so this is outside the scope of VAT **(1 mark)**. This is the case where the deposit is refunded **(½ mark)** or retained **(½ mark)** by Max.

b. The £500 deposit paid by a customer for work to be done at a future date is subject to VAT at the standard rate **(1 mark)**, and the time of supply is the earlier of the date of payment or issue of an invoice **(1 mark)**. This is the case even if the customer does not go ahead with some or all of the work, and Max retains the deposit **(1 mark).**

c. The £30 monthly service plan payment is subject to VAT at the standard rate **(1 mark)**, and the time of supply is the earlier of the date of payment or issue of an invoice **(1 mark)**. If the customer cancels the contract, then Max will issue a credit note and refund/ reclaim the VAT **(1 mark).**