

Institution **CIOT - ATT**
Course **ATT Paper 6 VAT**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	540	2262	2790
Section 2	535	2003	2417
Section 3	430	2022	2399
Section 4	504	2317	2807
Section 5	778	3609	4330
Section 6	666	2799	3423
Total	3453	15012	18166

Answer-to-Question- _1_

1) a) Where goods are sold from a trader in Great Britain and moved to a customer inside the EU, this will be an export of goods.

The place of supply is in the UK as goods are leaving the UK and liability of this supply will be zero-rated. This is irrespective of the goods sold, providing certain conditions are met. Maria is required to obtain evidence of the export movement such as a bill of lading or airway bill.

b) The goods are moving from GB to NI and although this is technically an import, normal domestic VAT is charged on this supply and therefore this will be standard rated as this is the usual treatment for the sale of wine.

c) The movement of stock to Belfast will create an import VAT charge as it is an import. This must be accounted for as output VAT and will be at the standard rate of VAT, 20%.

2) On the gift of goods, input tax is clawed back by way of a deemed supply, by making an output tax charge on the replacement cost of such goods. There are exemptions from this rule, such as where:

- The cost is less than £50 per person per 12 month period
- The gift is made in the course of business
- The gift is a sample

The tasters are samples and therefore will fall under the exemptions as above. Therefore no output tax needs to be accounted for and input tax can fully be reclaimed.

The free bottles of wine will be exempt for VAT purposes as the gift is made in the

course of business. In addition the cost to Maria is £16 per year per customer and therefore under the £50 limit. Therefore the exemption applies and no output tax needs to be accounted for and input tax can fully be reclaimed.

The fee for corkage will be due for output tax as it is a taxable supply of a service, therefore where this fee is waived, the output VAT should be accounted for at 20% of the £10 fee. It is not made in the course of the business so will not meet any exemptions and no input tax clawed back.

The christmas gift to staff will not be exempt and as it is over £50. Where she has recovered the input tax, she would either have to make an output tax charge for the same amount or repay the input tax recovered.

3) By taking home wine for personal use, this would be seen as a self supply. Input tax can only be recovered to the extent that the items are being used to make a taxable supply. Therefore if no output VAT should be accounted for on this supply and input tax can be reclaimed. The input tax total should be apportioned to reflect this deemed supply.

4) This will be a taxable supply even though no money has changed hands. Consideration can be non-monetary and as such this would need to be valued in order to ascertain the VAT due on this supply.

You should use the open market value and calculate the VAT based on this amount and output tax accounted for accordingly.

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

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

Answer-to-Question- _2_

Careless and not deliberate errors

1) a

Jars of salted fried almonds	SR as not in shells	5,500	1,100
Chocolate bars	SR	120,000	24,000
Paella rice	ZR - cereal	nil	nil
Sherry	SR	135,000	27,000
Total VAT			52,100

Potential lost revenue (PLR) is the net amount due that should have been paid.

Therefore it will be £52,100.

Assume sales are VAT exclusive.

b) Hola will make an unprompted disclosure:

Minimum penalty with unprompted disclosure = 0%

52,100 @ 0% = nil

Maximum penalty = 30%

52,100 @ 30% = £15,630

c) As the VAT has still been accounted for and paid to HMRC, it is unlikely that HMRC will raise a penalty on this amount. It will also be fairly small.

There is also no PLR to HMRC and therefore if penalties were raised, it would be based on nil.

2.

a)

Month	Late	Penalty point	due date
31 May 24	Yes	1	7 July 24
30 June 24	Yes	1	7 August 24
31 July 24	Yes	1	7 September 24
31 August 24	Yes	1	7 October 24
30 September 24	No		7 November 24
31 October 24	Yes	1	7 December 24
30 November 24	Yes	1	7 January 25
31 December 24	No		7 February 25
31 January 24	Yes	1	7 March 25
28 Feb 24	Yes	1	7 April 25
	Total points	8	

Penalty point threshold for monthly returns is 5.

Once receive 5 points, fine of £200 applicable

Then for each subsequent late return additional £200 penalty added.

$$3 \times £200 = £600$$

£800 total penalty.

This must be paid within 30 days

b) The penalty points will reset to zero once there are 5 consecutive VAT returns submitted on time and all of the previous VAT returns for the last 2 years are submitted. This does not have to be on time so can be late.

Therefore for Guten Morgen Chelmsford, if they submit the March 2025 return on time and the next 3, so up to the June 2025 return.

From July 2025, all penalty points will be removed providing all of the other returns have been filed including January and February 2025.

c)

31 May 24	7 July 24	11 days late - therefore no penalty	
30 June 24	7 August 24	2 days late - therefore no penalty	
31 July 24	7 September 24	More than 16 days - 2%	90
31 August 24	7 October 24	More than 16 days - 2% = 85 more than 30 days - 2% = 85 more than 31 days - 4% per annum = £18 4250 @ 4% x 39/365 = 18	188
30 September 24	7 November 24	on time	
31 October 24	7 December 24	2% of nil	0
31 November	7 January 25	More than 16 days - 2% = 60	60
31 December	7 February 25	on time	
31 January 25	7 March 25	More than 16 days - 2% = 15 more than 30 days - 2% = 15 more than 31 days - 4% per annum = £4 750 @ 4% x 55/365 = 4	34
28 February	7 April 25	more than 16 days late - 2%	16

	Penalty		£388

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

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

Answer-to-Question- 3

1) a

supplies			
Taxable	120,000,000		
exempt	40,500,000		
%	74.77%	$\frac{120,000,000}{120,000,000 + 40,500,000}$	Don't round as residual is more than 400k per month

	Taxable	Exempt	Residual
Commercial repairs	8,000,000		
Costs to insurance		1,500,000	
Rent of head quarters			4,000,000
Utilities			2,000,000
%			74.77
Taxable			4,486,200
Exempt			1,513,800
Total	12,486,200	3,013,800	

No de minimis as the total exempt income is more than £625 per month. It is less than 50% of the total input tax but both conditions must be met for this.

Input tax recoverable = £12,486,200

b) If the insurance customers were based outside the UK, the services are treated as being supplied in the country where the recipient belongs. Therefore the place of the supply will be outside the UK and therefore is OTS for UK VAT purposes.

This would not have to be included in the VAT returns and therefore, less exempt supplies would mean a higher PE % and more input tax recoverable.

2. a) Floor space

From previous question - residual = £6 million

Use 3 floors for purely taxable supplies, disregard 1 floor of admin/ finance employees

Taxable % = $3/10 = 30\%$

6,000,000 @ 30% = 1,800,000 taxable input

6,000,000 @ 70% = 4,200,000 exempt input

Input tax recoverable = £1,800,000

No de minimis as the total exempt income is more than £625 per month. It is less than 50% of the total input tax but both conditions must be met for this.

b) Head count

Have 65 employees for purely taxable supplies, disregard 25 admin/ finance employees

From previous question - residual = £6 million

Taxable % = $65/245 = 26.54\%$

6,000,000 @ 26.54% = 1,592,400 taxable input

6,000,000 @ 73.46% = 4,407,600 exempt input

No de minimis as the total exempt income is more than £625 per month. It is less than 50% of the total input tax but both conditions must be met for this.

Input tax recoverable = £1,592,400

3) The new office building will qualify for the Capital goods scheme. This scheme ensures that input tax reclaimed on an asset reflects the use of the asset over its lifetime. The scheme will measure the exempt and taxable activity in this building and adjust the VAT accordingly.

To determine the VAT amount initially it is:

$3,000,000 \times \text{Initial taxable \%}$

For the following years it will be:

$3,000,000 \times (\text{Initial taxable \%} - \text{taxable \% for that year}) / 10$

This calculation should be made every year for 10 years. This is the recovery period.

An adjustment should be made when sold if sell before the 10 years is up.

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

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

Answer-to-Question- _4_

1)

Large House - Provided the the larger house was unoccupied for the previous 3 years, the qualifying services will be 5% (RR). If there are any architects costs incurred these will be standard rated (SR) as it is not a qualifying cost.

Small House - As the house has been empty for at least two years, the qualifying services will be 5% (RR). If there are any architects costs incurred these will be standard rated (SR) as it is not a qualifying cost.

Block of flats - this construction will be zero rated (ZR) for VAT. Therefore all qualifying costs will be zero rated, including the builders and the demolition contractors fees. This will not include the architects fees or building materials bought direct.

2) Solar panels

If Barney buys the solar pannels himself and gets them installed by the builder, the panels will be SR. The services provided by the builder will be RR as it is a qualifying service.

Instillation of energy saving materials in residential accomadation and the fee for someone to instal will be ZR for VAT purposes. This will include solar panels.

Therefore if he get the specialist contractor to supply an fit the panels, no VAT will be charged.

3) Input tax recoverable

Large House - Yes he can recover any input tax as he is intending to let it out as a holiday homes which is SR and therefore a taxable supply.

Small house - He can reclaim under the DIY housebuilders schee. The claim must be completed within 3 months of the conversion.

Block of flats - If he decides to let out the building himself, the lease of a domestic property is exempt for VAT purposes. As no taxable supply has been made, no input

VAT is recoverable. However if he decides to lease the building to the housing association, this will qualify as a first grant of a major interest which is zero rated. This is a taxable supply and so he can recover the VAT incurred in the services bought.

Please note that for all of the above, there may be blocked recovery in the form of builder's block. This means no VAT can be recovered where it related to something that is not a buidling material such as carpets, furntiure and white goods.

The domestic reverse charge will not apply here.

None of the above can be opted to tax either as they are all residential buildings.

4) Whilst he would be spending less money, Barney should not accept this cash payment as he will not be paying the VAT at the approriate rate. This is tax avoidance and is a criminal offence. VAT should be chargeable on all demolition services where that company's taxable turnover is over £90,000 per annum.

He must dislcose this arrangement to HMRC under the DASVOIT legislation. (Disclosure of Tax Avoidance Schemes for VAT and Other Indirect Taxes.). If he doesn't and HMRC discover this, he may be liable for the VAT and any penalties applicable.

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

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

Answer-to-Question- _5_

My Address

Davina Singh
Lyon Group
Client Address

1 May 2025

Dear Davina,

Lyon Group VAT liability

Thank you for your previous email. I have set out my replies to your queries below.

Deregistering for VAT

You can deregister from VAT in 2 scenarios:

1. Compulsory deregistration
2. Voluntary deregistration

Compulsory deregistration would occur where a business is sold or ceases to make taxable supplies.

Voluntary registration is available where a business is expected to make taxable supplies in the next 12 months of less than the current deregistration threshold. This threshold is £88,000.

For Lyon Heat, compulsory deregistration would apply.

The deregistration is effective from the date of notification or an alternative date agreed with HMRC.

Lyon Heat will fall below the threshold in the quarter ending 30 June 2026. Therefore if

you should notify HMRC within 30 days which would be the 30 July 2026. After this, no VAT should be charged on any supplies made.

When you de-register for VAT, any goods still at hand must be accounted for on the final VAT return, unless the VAT is not more than £1,000. This is the total VAT on all chargeable assets.

Please see my calculation set out below.

Item	Net Market value	VAT amount	
Stoves	9,000	1,800	
Van for deliveries	7,500	1,500	
Car used by sales rep	17,000	3,400	
		6,700	

I have assumed no VAT has been incurred on the roller banners when these were bought as they were purchased from an unregistered business. Therefore no VAT has been charged on these previously.

I have also assumed that the car used by the sales representative is for business use only and that full input tax recovery has been claimed on this item when it was purchased.

Therefore I have determined that £6,700 of VAT must be included in the net VAT return. This will be output VAT and should be included in Boxes 1 and 6 of the VAT return (VAT and net amount respectively).

VAT group

In order to be in a UK VAT group, the following conditions must be met:

- The entity is a body corporate
- The entity is established in the UK, or has an established place of business in the UK
- The company are under the control of the same person(s) and therefore have more than 50% ownership.
- They must be carrying on a business making supply

Lyon in the Shade Ltd cannot be included in the VAT group as there is less than 50% ownership.

Nylon (Jersey) Ltd also cannot be included in the VAT group as it is not established in the UK.

All of the other entities can be included in the VAT group as they meet the conditions set out above.

Tyger Group is under the common control of the same person and therefore can be included provided that they are making business supplies and registered in the UK.

A VAT group may be easier as it simplifies the accounting and centralises the groups affairs, reducing the compliance burden, due to only having one return.

It also allows exempt companies such as Lyon Get & Protect Ltd, to recover some of the input tax incurred which it would not usually be able to do.

The supplies made between companies will also be disregarded for VAT purposes so this will be beneficial for Lyon Group Holdings Ltd's supplies.

However I would like you to note that there are disadvantages to a VAT group. This includes that it can be difficult to obtain the information to complete the return as there will be more information to compile and if this is not done in a timely manner it could lead to late filings. The penalty applicable will also be bigger as it will be assessable on a higher amount. This extends to late payment.

The company may also then qualify for payment on accounts where the group VAT liability exceeds £2.3 million, meaning more payments and the admin associated.

In addition if Lyon Get & Protect Ltd is included, the group will become partially exempt and will restrict the recovery of the input tax.

Therefore you will need to weigh up whether the registration would be beneficial.

Management services

I understand that Lyon Group Holdings Ltd provides management services to the Lyon Group and Tyger Group Ltd.

If a VAT group is created, as above, all supplies made between group members are disregarded for VAT purposes. This means they are outside the scope and no VAT should be charged on these.

If you have any questions on the above, please let me know and I would be happy to arrange a call.

Kind regards,

A. Adviser.

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

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

Answer-to-Question- _6_

1) BDR for QE 30 April 2025

Bad debt relief can be claimed where a supplier has supplied goods or services and accounted for and paid the output VAT to HMRC. The debt must be at least 6 months old. This is the later of either the date of supply and the due date for payment as specified on the invoice.

Assuming the later date will be the date of invoice as no date for payment given.

Date of sale	Date of invoice	BDR?	Gross amount
n/a	15 October	Yes, more than 6 months old	600
n/a	30 October	Yes, more than 6 months old	960
15 October	4 November	Yes, more than 6 months old	150
n/a	5 November	No, less than 6 months old	nil
Total qualifying for BDR			1,710

$1,710 \times 1/6 = £285$ of Bad debt relief to be claimed.

To claim this relief, Max must make a claim to HMRC within 4 years and 6 months from the later of the date supply and the due date for payment as specified on the invoice.

The figure of £285 should be added to the input tax figure and therefore included in box 4 of the VAT return.

(W1) The basic tax point for this will be the date of sale, 15 October. The early overrider will not apply as there is no payment or tax invoice before this date. The late overrider will also not apply as no invoice is issued within 14 days, 29 October. Therefore the tax

point will be 15 October and the debt is more than 6 months old.

2) VAT liability and time of supply

a) Security deposit for courtesy car hire

If a deposit is taken against the safe return of goods on hire, then this is not viewed as a consideration for a supply. The contract should specify that the deposit is refundable subject to the safe return of the goods.

If the deposit is returned, there is not consideration paid for a supply and therefore no VAT should be accounted for on this amount. There is no time of supply.

If the deposit is retained, the payment will be outside the scope of VAT as it is viewed as compensation. Therefore no VAT due on this deposit and no time of supply applicable.

b) Deposit for work in May

The services performed will be chargeable to VAT at the standard rate.

The basic tax point for deposit for the services is the date that the services are performed. This will be in May.

However this is overridden where there is a receipt of payment before the basic tax point. As the customer has paid a deposit of £500, VAT should be accounted for when this is received in March.

The VAT liability will be $£500 \times 1/6 = £83$.

Where the customer is not refunded the deposit after canceling the booking, VAT cannot be reclaimed in the return as the supply will be deemed to have taken place.

If the customer is refunded, the output VAT must can be reclaimed through the return as no supply has taken place.

c) Monthly service plan payments

This is not a continuous supply as he is only making one supply of servicing the car.

The basic tax point for a credit sale is created at the time he supplies the service to his

customer. At this point the full amount of VAT should be accounted for on the value of the service.

It can be overridden by the early override. This will be the earliest of either a payment or tax invoice where issued before the basic tax point.

If this does not apply, and an invoice issued within 14 days after the basic tax point, the late override will occur.

If the service is cancelled and a refund is made, the VAT declared as output tax should be reversed and included in the input tax figure in the period's return in which the refund takes place.