

ATT May 2025 Paper 6 VAT

Examiners Report

Question 1

This question tested fundamental aspects of VAT such as the place of supply of goods and the input and output tax implications of free supplies. On the whole, the vast majority of candidates achieved at least half of the available marks although it was surprising that some candidates could not correctly identify the VAT treatment of goods being shipped from Brighton (UK) to the Republic of Ireland, and from Brighton to Northern Ireland.

Candidates are urged to look at the marking scheme - if there are four marks available to answer three questions (1(a), (b), and (c)) and the requirement says to 'state' the answer (rather than 'explain' the answer), there is no point writing a paragraph for each - a simple 'zero-rated export of goods', for example, would suffice for the mark. Quite a few candidates would have lost a lot of time here.

A number of candidates demonstrated that they did not understand the input and output tax implications of gifting goods by writing that input tax was not recoverable and that there would also need to be an output tax charge.

Question 2

This question tested candidates' understanding of penalties as they pertain to errors, the late filing of VAT returns and the late payment of VAT and, on the whole, candidates achieved good marks.

Candidates were asked to correctly calculate the potential lost revenue and many identified that paella rice was zero-rated so should be excluded from the calculation. However, the background to the question clearly stated that Hola Chelmsford! is a company supplying goods directly to consumers. It was therefore expected that candidates would know to treat the sales values as VAT-inclusive (1/6th). Instead, the majority of candidates treated the values as VAT-exclusive (applying 20%) so they lost a very easy mark. Nevertheless, most candidates went on to achieve maximum marks for calculating the maximum and minimum penalties for the errors (as follow through marks were awarded).

The calculation of the late payment penalties was done well. The exception was the additional daily penalty calculation required for the August VAT return where only a couple of candidates managed this.

Question 3

Standard and special partial exemption methods were tested in this question, as well as the Capital Goods Scheme, and candidates answered this question well on the whole.

Common errors were: not calculating the residual VAT recovery percentage to 2 decimal points in the standard method considering that residual input tax is greater than £4.8M a year, treating the cost values as 'net of VAT' (even though the column header was labelled 'VAT'), and including the £8M commercial property repair cost as residual.

When calculating the floor space partial exemption method a large number of candidates used the formula: taxable floor space/total floor space, whereas the question asked candidates to calculate: taxable floor space/taxable and exempt floor space. Follow-through marks were awarded however.

The final part of this question asked candidates to identify that the second building would fall within the CGS and almost all candidates achieved high marks here.

Question 4

Candidates were familiar with the rules for liability of supplies and handled this aspect well. Some struggled with the question on solar panels, perhaps because of the reduction in rate from 5% to 0%, but also comparing the two options.

Most candidates answered the question on VAT recovery well, identifying the difference between granting a long lease to a housing association and letting directly on short term tenancies. A few candidates suggested opting to tax despite this being a residential development. Most missed the final point that site costs were supporting both exempt/personal usage and so were partially recoverable.

The answers to the final part of the question covering ethics professional practice were disappointing with many failing to identify the issue in hand. Some candidates even noted that the builder should decline the offer on the grounds that it was not worth avoiding VAT in this case as it was recoverable, and one noting that it was worth avoiding the VAT to help with liquidity.

Question 5

Many candidates answered this question well. Most were aware of the deregistration threshold, but some did not do the calculation, and a number did it incorrectly. Very few realised that this was a forward look and so the company could notify HMRC and deregister in July 2025. Most candidates were able to calculate the deregistration charge. Most candidates identified the companies that could join the group, including the company with a common individual shareholder. Explanation of the advantages and disadvantages of VAT grouping was well answered. Most scored 1 mark for explanation of intragroup management services, although almost all candidates failed to note that two of the group companies were not in the VAT group and so the treatment of these supplies would differ.

Question 6

Most candidates handled the bad debt relief question well. There was some confusion where the tax point was earlier than the due date, and many candidates failed to state that the relief is claimed in box 4 of the VAT return.

On the second half of the question, most candidates struggled to identify that the security deposit was not a supply. On the second and third questions candidates were more proficient, although many lost easy marks by failing to state that the liability of the supply was 20%.

Overall candidates answered the questions well.