

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

November 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. You are a trainee tax technician working for a firm of accountants. One of your partners has asked you to do some research in relation to the following email received from a new client.

Hi Ann Adviser

I am writing to you for some tax help.

I completed an apprenticeship in Motor Vehicle Engineering three years ago in September and I now run a car servicing and repair business from a garage in West Yorkshire employing two apprentices. The business has been a big success. I am just about to buy or lease a new car or van for myself. I will use it for commuting to work. The team and I have regular social nights out, sometimes with clients. I even repaired my mother-in-law's car which required £500+VAT worth of parts last time it came in. I didn't make any charge for the work or parts in the hope that she will like me a bit better!

Most of my customers pay by cash but some pay by PayPal as I am not yet able to accept card payments. When my sales went over the VAT registration limit back in 2024 I registered for VAT and have been filing returns with all my sales and all purchases using free accounting software which I also use to record my sales and purchases. I don't use the invoicing bit because it's time consuming and it's only occasionally that I get asked for an invoice anyway, so in that case, I just write one out on a piece of paper. But recently one of my customers who is VAT registered said that an invoice I wrote had been rejected by his accountant. I included my name and address, details of the work done and the total payable of £200. I thought that was good enough. What else did it need?

I am looking to start using new and better accounting software, but if I do that, I don't know what to do about the records I have on the current accounting system.

I received a letter recently from HMRC asking me to let them know whether I was blocking my input VAT where required. I have no idea what this means. I just include all the VAT on invoices that I pay in box 4 of the VAT return, so I think I need a bit of help to answer HMRC. I am now worried that the input VAT on my VAT returns may be wrong.

I hope that you are the right person to help me out – I look forward to hearing from you.

Best wishes

Cecily Smart

Requirements:

Prepare notes for use by the partner in a client meeting to cover the following:

- 1) Explain what 'blocking input VAT' means. With reference to each of her purchases, explain whether Cecily's input VAT is recoverable. (7)**
- 2) Explain when Cecily should provide her customers with invoices and what additional information she should have included on the invoice that her customer's accountant rejected. (2)**
- 3) Explain what Cecily needs to do, if anything, about keeping the accounting records on the current accounting system if she moves over to a new system. (4)**
- 4) Explain whether HMRC will charge a penalty and interest if the input VAT on the VAT returns is wrong. Explain how much this could be if Cecily makes a disclosure to HMRC. (3)**

Total (16)

2. Victor & Old (V&O) is a successful accountancy practice and is registered for VAT. V&O operates from an office that it has occupied in Brighton for over 10 years on which V&O owns the freehold, and it rents space in New York for a small team of staff who work independently of the UK firm servicing one large US client. V&O's UK staff specialise in providing consultancy advice to start-up companies in the UK and Asia. As well as consultancy they provide self-study online training courses to both business customers and private individuals.

V&O buys in consultancy advice from specialist firms outside the UK, in particular from India and China. The Indian and Chinese specialist firms sometimes charge local VAT or Goods and Services Tax on their invoices. This advice is often very expensive, and V&O is not always able to add a mark-up on the cost. V&O's business operations manager, Lisa Marie, is exploring whether V&O could utilise its existing knowledge base and publicly available information sources to provide this advice instead of using the overseas specialist firms.

The owner of V&O, Gerald Eve, is approaching his 70th birthday. He has received a very appealing offer from another UK accounting firm to take over his practice by taking on the staff and clients and acquiring the office building. If he decides to sell he would like to retain a small number of clients whom he would continue to advise.

Requirements:

- 1) **Explain the place of supply of V&O's supplies of consultancy and online training when sold to customers in the UK and Asia, and the supply of consultancy to the US client provided by the New York office team.** (5)
- 2) **Explain whether the supplies of consultancy from the advisers in China and India are subject to the reverse charge when the suppliers have charged local VAT or GST on their invoices.** (3)
- 3) **Explain which of the fundamental principles in Professional Conduct in Relation to Taxation may be threatened by Lisa Marie's plan to reduce the spend on consultancy advice from India and China.** (3)
- 4) **Explain the VAT liability of the potential sale of the business including the Brighton office building.** (5)

Total (16)

3. Yusuf is the managing director of Yappy Hounds Ltd, which offers dog walking and boarding services. The company started in business in January 2025 with a grant of £50,000 from the Canine Trust to help with set up costs. Yappy Hounds Ltd doesn't yet have any employees but is looking to take on two apprentices early in 2026 and Yusuf thinks that the company can triple its turnover. Yappy Hounds Ltd's biggest expenditure includes the cost of hiring a van to transport the dogs. It also pays for a Customer Relationship Management (CRM) system, an accounting system, and social media advertising (all of which are invoiced without VAT from Dublin, Ireland).

The accounting system (Rapid Books) is an off-the-shelf system with standard functionality to submit VAT returns using Making Tax Digital (MTD). To get the information from the CRM into Rapid Books, Yusuf prints out a report of total sales from the CRM each week and saves it in pdf format. He does not have time to type in each line of the report, so he just keys the summary sales information into Rapid Books. He is sure that there is a way of automating this, so all the sales data goes into Rapid Books, but he is so busy that he claims he doesn't have time to work it out.

He met a friend for lunch this week and they suggested that he should check out whether Yappy Hounds Ltd needs to register for VAT because, if it does, it can get all its VAT back on purchases to date. His friend also mentioned something about a special VAT scheme where it's much easier to work out what you owe to HMRC. As they were leaving, Yusuf's friend also said something about making sure the company was digital compliant.

Here is the actual data and budgeted data for Yappy Hounds Ltd from January 2025 to April 2026:

Continued

<u>Month</u>	<u>Sales</u>	<u>Set up grant from Canine Trust</u>	<u>Van rental (inc. VAT)</u>	<u>Equipment – Dog cages (inc. VAT)</u>	<u>CRM, accounting software & social media costs (no VAT invoiced from Dublin, Ireland)</u>	<u>Canned pet food</u>
<u>Actual income recorded in Rapid Books</u>			<u>Costs recorded in Rapid Books</u>			
Jan-25	2,150	50,000	600	3,500	375	800
Feb-25	2,715		600		392	800
Mar-25	3,280		600		409	800
Apr-25	3,845		600		426	800
May-25	4,410		600		443	800
Jun-25	4,975		600	2,800	460	800
Jul-25	6,540		600		477	800
Aug-25	7,105		600		494	800
Sep-25	8,670		600		511	800
Oct-25	9,235		600		528	800
Total	52,925	50,000	6,000	6,300	4,515	8,000
<u>Budgeted sales</u>			<u>Budgeted costs</u>			
Nov-25	7,570		600		545	800
Dec-25	7,905		600		562	800
Jan-26	8,240		600		579	800
Feb-26	8,575		600	1,150	596	800
Mar-26	8,910		600		613	800
Apr-26	9,245		600		630	800
Total budgeted	50,445		3,600	1,150	3,525	4,800

Requirements:

- 1) Explain, with supporting calculations using the sales and expenditure data to 31 October 2025, whether Yappy Hounds Ltd needs to register for VAT. (4)
- 2) Explain, with supporting calculations using the budgeted sales data from 1 November 2025 to 30 April 2026, how much VAT Yappy Hounds Ltd would need to pay in relation to that period, if it was registered for VAT from 1 November 2025. (5)
- 3) Explain, with supporting calculations, whether it would be better financially for Yappy Hounds Ltd to use the Flat Rate Scheme. The services are regarded as the 'boarding or care of animals' under the Flat Rate Scheme. (6)
- 4) Explain whether the transfer of data from the CRM to Rapid Books is a digital link, whether a digital link is required, and whether Yappy Hounds Ltd is complying with the requirements of Making Tax Digital. (3)

Total (18)

4. Polly is registered for VAT. She owns a shop which sells a variety of goods. She also sells coffee and cake to customers in the shop. Polly uses the annual accounting scheme and currently makes monthly payments of £1,800.

At her annual accounting year end of 31 October 2025, she had £328,000 of sales of which £270,000 were standard rated sales. This income includes VAT. In the same period, she paid £295,000 (including any VAT) on the costs of operating the shop. This included the following:

	£
Cost of wages	85,000
Standard rated goods for resale	120,000
Zero rated goods for resale	60,000
Other expenses (all liable to VAT at the standard rate)	<u>30,000</u>
	<u>295,000</u>

Polly is intending to expand the range of items sold in the shop and café to include cold sandwiches and hot pies which can be eaten in the café or taken away. She is also installing a charging point for electric cars outside and will charge people for using this.

She hopes that these changes may increase her income by more than 25% but will not know for sure until later in the year.

Sometimes, Polly opens the café in the evenings for local clubs or small events. As these are sometimes around the end of October, she needs to understand the tax point to make sure that she accounts for the VAT in the right period. For some events she will charge a 50% deposit at the time of booking and then provide an invoice for the balance in the seven days after the event. Where the customer is someone she knows, she will not take a deposit and will raise an invoice for the full amount after the event. She normally does so within seven days after the event but sometimes waits until the end of the month following that in which the event took place.

Requirements:

- 1) Calculate the amount of Polly's last payment of VAT for the year ended 31 October 2025 and state when that payment will be due. (5)
- 2) Calculate the monthly instalments for the year ending 31 October 2026 and explain whether she needs to notify HMRC of the expected increase in her sales income. (3)
- 3) Explain when Polly's monthly instalments will be due for the year ending 31 October 2026. (2)
- 4) Explain what the VAT liability is of each of the new items/services that Polly intends to sell. (4)
- 5) Explain what the basic and actual tax points are for the evening café events described above. (4)

Total (18)

5. Themajor Ltd owns several properties which are a mixture of houses and commercial properties. The company has opted to tax all of the commercial properties.

In the year ended 31 May 2025 the company received rental income of £4,600,000 from its commercial properties and £1,500,000 from its houses. It leases an office from which it runs the whole business. The landlord of the property has opted to tax the office.

The company had the following input tax in the year:

	£
Repair and maintenance of housing	40,000
Repair and maintenance of commercial properties	75,000
Lease of office	30,000
Audit fees	16,000
Legal fees for creating housing-rental contracts	24,000
Advertising of commercial properties	32,000

Continued

Continuation

On the VAT returns for the year it has claimed input tax of £139,000 and uses the standard method to calculate input tax recovery.

In previous years the company has also had the following capital costs:

Lease premium of £1,000,000 paid on the company office when it was first leased in January 2012. 77% of the input tax was reclaimed on this.

Construction of a new road in October 2017 to serve an area owned by the company which has both commercial properties and houses at a cost of £600,000. 65% of the input tax was reclaimed on this.

A large extension added to one of the houses in April 2019 at a cost of £300,000. No input tax was claimed on the invoices for this.

Refurbishment of a commercial building for £400,000 in April 2020. No input tax was claimed at the time as the building had not yet been opted to tax.

Purchase of software for the new finance system for the company at a cost of £80,000 in July 2023. 90% of the input tax was claimed on this.

All the above capital costs are exclusive of VAT.

Requirements:

- 1) Calculate the annual adjustment for the year ending 31 May 2025. (7)
- 2) Calculate the Capital Goods Scheme adjustment for the year ending 31 May 2025. If no adjustment is due for any of the items listed, explain why. (8)

Total (15)

6. You have received the following letter from one of your clients:

Dear adviser

As you know, three months ago, I purchased Forty Towers Ltd which owns a hotel and a large area of land and other properties around the site of the hotel.

You may remember that the previous owner of Forty Towers Ltd had converted two buildings in the grounds into offices and had opted to tax each of them separately about a year ago. We now have two potential tenants who would like to lease the offices. One is not VAT registered and would like us to cancel the option to tax. Can we do this? The other is a charity which intends to use the building as its main office. The charity has advised us that as it is involved wholly in non-business activity, it does not need to pay VAT on the rent payments. Is this correct?

If we cannot remove the option to tax on either of these buildings, there is another one available which might suit one of the prospective tenants. This is an older building which was opted to tax 22 years ago. We would need to spend about £80,000 plus VAT improving the building, so it is suitable for renting. Could we remove the option to tax on this building?

I am also considering selling some of the properties which the company owns on the land around the hotel. The company built a new house which the previous owners lived in until I purchased the company. There was no rental agreement or lease between the company and the owners. I do not need the house and have decided to sell it. The company is also selling the gatehouse (a domestic dwelling) at the entrance to the hotel. This was previously let on a 25-year lease, but the tenant did not like the idea of new owners and left last week. A property rental company has expressed an interest in buying both properties to let as houses.

A local farmer has also expressed an interest in buying the freehold of the storage facility which was built two years ago.

What is the VAT liability of these potential sales and is there any advantage in opting to tax any of these properties?

Continued

Continuation

Finally, the company has some other income sources. Could you please explain whether I need to charge VAT on the fishing rights which we sell to the local fishing club, the hire of the tennis courts to guests, and the bedrooms which we provide for overnight stays on a room-only basis without any catering provided.

I look forward to receiving your reply.

Ben Hombre

Requirements:

Write a reply to the client in which you explain:

- 1) Whether the option to tax can be removed on any of the office buildings which are intended to be rented and what the implications for the proposed improvement costs would be. (7)**
- 2) What is the VAT liability of the potential sales of property and whether there is any advantage in opting to tax these properties. (5)**
- 3) What is the VAT liability of the other income sources described in the letter. (3)**

Total (15)