

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 | 721 | 3497 | 4182 |
| Section 2 | 1024 | 4854 | 5851 |
| Section 3 | 651 | 2956 | 3538 |
| Section 4 | 502 | 2274 | 2762 |
| Section 5 | 365 | 1844 | 2173 |
| Section 6 | 372 | 1736 | 2269 |
| Total | 3635 | 17161 | 20775 |

Answer-to-Question-__1__

1/

Meeting notes for use in a client meeting

To: Cecily Smart business owner

From: Ann Adviser

Date: 06/11/2025

Subject: Meeting notes for use in a client meeting

The purpose of this meeting is to discuss various vat issues with regards to Cecily Smart's business (a car servicing and repair business in West Yorkshire).

Blocking input tax means that in certain cases input VAT is irrecoverable.

The blocking order includes input tax on business entertaining and motor cars.

Under SI 1992/3222 input tax can never be recovered on these items even if the trader meets all the conditions outlined in it.

Buy or lease a new car or van by Cecily Smart

Generally vat cannot be recovered on on the purchase of a motor car (apart from one or two exeptions). One of exeptions is on the purchase of a motor car where exclusive business use is intended. According to Cecily Smart her intention is to use this vehicle to commute to work. Based on this I would assume that she would be able to recover VAT on this purchase.

With regards to vans, vans are not cars and therefore the VAT is not blocked (Cecily would be able to recover vat on van purchase.

Regular social nights

There is a blocking order on busines entertaining generally. Business entertainment means entertainment provided by a taxable person in connection with a business carried on by him/her, but does not include the provision of any such entertainment for either or both:

- employees of the taxable person or
- if the taxable person is a company, its directors (or persons engaged in the management).

Based on Cecily's letter, business entertainment is provided to her employees, herself and sometimes to her clients.

Therefore business entertainment provided to employees is not blocked and she can recover input vat (staff entertainment). An apportioned of the input tax must be made between the eintertainment and other business use.

Mother-in-law car repairment

As this car belongs to the family member, Cecily cannot recover VAT on the repair as there is no direct and immediate link to business supply. Therefore Cecily will not be able to recover this VAT. She will not be able to recover £100.

2/

Cecily should issue an invoice as soon as the service is complred or product delivered. A registered taxable person must issue a VAT invoice where they make a standard or reduced-rated supply to another taxable person in the UK.

Cecily should include on the invoice following additional information:

- a sequential identifying invoice number
- the date of the supply

- the date when the vat invoice is being issued
- her business's VAT registration number
- according to Cecily she provided on the invoice details of the work done however this needs to be checked if her description is sufficient to identify the goods or services being supplied
- the total amount being charged, net of VAT (she included total payable of £200 so including VAT)
- the rate of discount if it was offered
- the total amount of tax chargeable, expressed in sterling
- the unit price.

3/

If Cecily is intending to change her accounting system into a new system she must keep copies of her records as each taxable person has an obligation to keep and preserve them.

This includes:

- her business accounting records
- all VAT invoices issued by her business (from the information provided its obvious that she is not using invoicing tool in her current accounting system therefore she is not complying with the regulation; all invoices should be issued with sequential identifying invoice numbers).
- copies of all VAT invoices which have been received by the business
- documentation relating to exports and imports if any
- credit notes/debit notes if any
- a VAT account, including her input vat, output vat, copies of all supplied vat returns etc.

4/

HMRC will charge a penalty if the input vat on the vat return is wrong. This would be a penalty for incorrect return. The penalties are expressed as a percentage of the potential lost revenue. The penalty for careless action would be 30% of the potential lost revenue.

If Cecily makes a disclosure to HMRC this penalty could potentially be reduced to 0%.

Cecily would still have to pay the outstanding input vat calculated.

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

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

Answer-to-Question- 2

1/

Place of supply

Consultancy

Victor & Old (V&O) operates from an office located in Brighton (England). With regards to its UK staff providing consultancy advice to start-up companies located in the UK general rules of place of supply are used. Section 7A(2) VATA 1994 provides the basic rule on where services are supplied. If services are supplied in the UK, then UK VAT is relevant. This supply is made in the UK.

With regards to consultancy advice to companies in Asia, as these services are B2B services (it says in the scenario that service is provided to Asian company, so business person), services are treated as being supplied in the country in which the recipient belongs (that is in Asia).

Self study online training courses

There are exceptions to the normal rules. The overrides which apply to B2B and B2C supplies are detailed in Part 1 Schedule 4A, VATA 1994.

Self study online training courses are electronic-services (e-services). These services are

supplied where the customer belongs unless the use and enjoyment provisions apply. E-services are essentially automated services involving minimal human intervention which are dependent on information technology for their delivery - the supply of distance teaching. Distance teaching is automated where there is minimal or no human intervention.

The supply of consultancy to the US client provided by the New York office

Small team of staff working from New York office independently. There is general exception e.g. land (place of supply is where the land is located). The office is located in New York (US) therefore the place of this supply is in US.

2/

When V&O as UK business buys services from overseas business (non-EU in this case; that is from services from India and China) a reverse charge will be due in two instances:
-the services is B2B supply (it is B2B in V&O case), or
- any other service where the place of supply is in the UK and the recipient of the service is UK VAT registered.

Therefore 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. A reverse charge constitutes a VAT charge in Box 1 of the VAT return with the value of the supply being entered in Box 4. The trader would then attempt to recover the VAT in Box 4.

3/

The following fundamental principles in Professional Conduct in Relation to Taxation

may be threatened by Lisa Marie's plan to reduce expenditure on consultancy advice:

Integrity - A member must act honestly in all their dealings with their clients, all tax authorities and other interested parties and do nothing knowingly or carelessly that might mislead either by commission or omission.

Lisa Marie therefore needs to make sure that by introducing this new plan, there is no omission of important regulation.

She may be able to put some safeguards in place to make sure that this principle is not breached i.e. engage Local IA (Chinese and Indian) tax advisor platform like IA platform provided in the UK by Tolley. But this would be costly as well therefore she would need to compare costs.

Professional competence and due care - a member has a professional duty to carry out their work within the scope of their engagement and with the requisite skill and care. A member should take care not to stray beyond the agreed terms of the engagement. If they do exceed the scope, they should agree revised terms with their client and check that their professional indemnity insurance covers the enhanced work.

She needs to take into account that when advising client, a member has a duty to serve that client's interests withing the relevant legal and regulatory framework.

Again, she may be able to mitigate this risk by placing some safeguards i.e. finding cheaper but qualified adviser.

Professional behaviour - a member must always act in a way that will not bring them or their professional body into disrepute. A member must comply with all relevant legal and regulatory obligations when dealing with a client's tax affairs and assist their clients to do

the same.

If she wants to reduce the spend on consultancy advice she needs to make sure that the alternative solutions are qualified so she is not in breach of the UK PCRT.

4/

If Gerald Eve's V&O business is transferred as a going concern, the supply would be outside the scope of UK VAT. In other words it would not be treated as a supply of goods or services and therefore no output VAT would be accounted for on the supply of that business (VATA 1994, s49; SI 1995/1268; VAT Notice 700/9).

No VAT is charged on the sale of a business assuming certain conditions are met:

- same kind of business - in V&O case Gerald received an offer from another UK accounting firm this would therefore be the same kind of business
- transferor is a taxable person and a transferee must be a taxable person or immediately become - V&O is registered for VAT; It is not clear from the scenario provided if an offer came from a VAT registered business, however transferee may immediately become if it is not registered yet
- with regards to a part transfer, that part must be capable of separate operation (in this case Gerald intends to retain a small number of clients, however assuming the part transferable is capable of separate operation, it meets the conditions
- the effect must be to put the new owner in possession of a business - this would be met as it says transferee would take over staff and clients and would acquire the office building

too

- the business or part transferred must be a going concern - and it looks that this would be a going concern

- no significant break in the normal trading - from the scenar
io provided is obvious that wouldn't be significant break

- there must not be a series of consecutive transfers of the trade and assets - and there are no such transfers.

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

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

Answer-to-Question- 3

1/

Yappy Hounds Ltd's sales for 10 months from Jan 25 to Oct 25 amounted to £52,925. When considering VAT registration we take into account 2 tests - historic test and future test. Historic test states the value of taxable supply in the previous 12 months exceeds vat registration threshold (£90,000) and in the future test at any time there are reasonable grounds for believing that the value of taxable supplies to be made in the next 30 days on their own will exceed the vat registration limit. None of the tests is not met for a period to 31 October 2025, when we consider actual sales.

Set up grant from Canine Trust may however be considered VAT taxable income. As grant may be taxable, historic test is met and the calculation would look as follows:

| Month-Year | Sales | Set up grant | Cumulative |
|-------------------|--------------|---------------------|-------------------|
| Jan 25 | 2150 | 50000 | 52150 |
| Feb 25 | 2715 | | 54865 |
| Mar 25 | 3280 | | 58145 |
| Apr 25 | 3845 | | 61990 |
| May 25 | 4410 | | 66400 |
| Jun 25 | 4975 | | 71375 |
| Jul 25 | 6540 | | 77915 |
| Aug 25 | 7105 | | 85020 |
| Sep 25 | 8670 | | 93690 |
| Oct 25 | | | |
| | | | |

| | | | |
|--|--|--|--|
| | | | |
| | | | |

The threshold would be breached at the end of Sep 2025 and Yappy Hounds Ltd would need to submit its VAT registration application within 30 days, so by 30 October 2025. It will be registered by HMRC from 01 Nov 2025.

2/

| Month-Year | Budgeted sales | Budgeted costs - van rental (inc VAT) | Budgeted costs - equipment (inc VAT) | Budgeted costs - CRM (Dublin Ireland no VAT) | Budgeted costs - food |
|-------------------|----------------|---------------------------------------|--------------------------------------|--|-------------------------------------|
| Nov 25 | 7570 | 600 | | 545 | 800 |
| Dec 25 | 7905 | 600 | | 562 | 800 |
| Jan 26 | 8240 | 600 | | 579 | 800 |
| Feb 26 | 8575 | 600 | 1150 | 596 | 800 |
| Mar 26 | 8910 | 600 | | 613 | 800 |
| Apr 26 | 9245 | 600 | | 630 | 800 |
| Total | 50,445 | 3600 | 1150 | 3525 | 4800 |
| VAT calc | x 20% | 1/6 | 1/6 | no VAT | SR x 20% VAT Notice 701/15 |
| VAT amount | 10089 | 600 | 192 | 0 | 960 |
| | | | | | |
| | | | | | |
| | | | | | |

Output VAT 10089
 Input VAT 1752(600+192+960)
 VAT payable 8337

If Yappy Hounds Ltd was registered for VAT from 1 November 2025, it would need to pay £8,337 VAT to HMRC for those six months to 30 April 2026.

VAN rentals costs include VAT we therefore divide by 6 to calculate input tax.
 Equipment costs also include VAT, so we divide by 6.

CRM expenditure is payable to company located in Dublin (no VAT from Dublin company). Canned pet food is standard rated as per VAT Notice 701/15.

3/

If Yappy Hounds Ltd were to use VAT Flat Rate Scheme we would take into account its turnover for the period including VAT £60,534 (50,445+10,089).

According to VAT Flat Rate Scheme FRS7300 Trade Sector - Boarding or care of animals - we use flat rate of 12%.

Therefore FRS calculation would be as follows:

£60,534 x 12%= £7,264.

Therefore it would be better financially for Yappy Hounds Ltd to use the Flat Rate Scheme instead of the standard method (the difference in favour being £1,073).

4/

According to "Find software for Making Tax Digital for VAT" online HMRC tool, Rapid Books **does not appear to be an acceptable HMRC MTD VAT software.**

Under the MTD provisions it is necessary for all VAT registered businesses to submit the vat returns electronically using software that is compatible with HMRC's systems.

Under MTD, businesses use digital links to transfer data or exchange data between software programs and applications that make up the functional compatible software. It is not acceptable for there to be any manually transferred data. **Therefore digital link is required.** Information is included in VAT Notice 700/22 Making Tax Digital for VAT.

Therefore, the transfer of data from the CRM to Rapid Books is not a digital link required.

Considering this, I would assume that Yappy Hounds Ltd is not complying with the requirements of Making Tax Digital. I would advise company to use HMRC acceptable MTD VAT software and I would disclose the above mentioned online HMRC tool.

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

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

Answer-to-Question- 4

1/

We take 12 months total VAT that the instalments are based, so it will be £270,000/6=£45,000. We then take 90% of that amount and divide it into nine equal installments, so £45,000 x 90% = £40,500/9=£4500. If Polly paid 9 x £1800 installments this equals £16,200 she would need to pay last payment of VAT for the year ended 31 October 2025 of £28,800 (£45000-£16200).

Interim payments are deducted from the amount due and the balance is submitted to HMRC.

The balance of VAT due is submitted with the single annual vat return on the last day of the second month following the year end, so she would need to pay by 31 December 2025.

2/

£270,000/6=£45000
90% x £45,000=£40,500/9=4500 per month

HMRC would normally estimate the amount of vat the business will be liable to pay in the next 12 months based on current figures up to 31 October 2025, so she does not need to inform HMRC separately.

3/

10% of 12 months of VAT will be paid on each installment date. These installments dates are the last dates of months 4, 5, 6, 7, 8, 9, 10, 11, 12 of the VAT year. The VAT year is the year ended 31 March, 30 April, 31 May depending on the stagger group of the trader (not the financial year or company accounting period).

4/

Cold sandwiches - zero-rated supply as prepared food unless supply made in the course of catering when standard-rated. We must always standard rate food supplied in the course of catering. Food products VAT Notice 701/14.

Hot pies eaten in the cafe - standard-rated hot food on the premises supply

Hot pies taken away - hot takeway food is standard-rated supply (VAT Notice 709/1)

A charging point for electric car - standard-rated supply

5/

The basic tax point is the date when the goods are delivered or made available or collected. In case of services, this is the date when the services are performed.

This basic tax point is overridden by a different date in two situations:

- receipt of payment
- tax invoice is issued before the basic tax point.

In Polly's business, in some events Polly will charge 50% deposit at the time of booking. The payment of 50% deposit will become the actual tax point date with regards to 50% deposit.

Polly provides an invoice for the balance in the seven days after the event. If the basic tax point has not been overridden by an earlier invoice or payment and tax invoice is issued in the 14-day period. Therefore this invoice date becomes the actual tax point for the balance.

In some situations Polly does not take the deposit and issue an invoice after the event (within 7 days). In this situation basic tax point is the date the services are performed (the date of event). However, as the invoice is issued within 14 days (in this case within 7 days) this date of issuing an invoice becomes the actual tax point.

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

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

Answer-to-Question- 5

1/

Two simplified de minimis tests calculation

Residential property rental income is exempt. Rental income from commercial property is opt to tax. The value of rental income from exempt supplies £1,500,000 is no more than 50% of all supplies (test 1 and test 2) - £6,100,000 (£1,500,000+£4,600,000=£6,100,000).

Total input tax is more than £625 per month x 12 (test 1)

Total input tax less input tax directly attributable to taxable supplies is more than £625 x 12.

So none of these simplified tests is met.

The annual adjustment calculation

The partial exemption calculations are made on a quarterly basis and input tax is recovered every quarter. These calculations are not final and annual adjustment is needed.

This is the same calculation but this time using annual supplies and annual input tax figures.

Partial exemption calculation using standard method

Taxable supplies (excluding vat)/Total supplies (excluding vat)

$\frac{£4,600,000}{£4,600,000+£1,500,000} = \frac{£4,600,000}{£6,100,000} = 0.7540 = 75.40\%$ we need to round it up so **76%**.

Input tax

| Inputs | Total £ | Taxable £ | Exempt £ | Residual £ |
|--|---------|-----------|----------|------------|
| Direct taxable repair and maintenance of commercial properties | | 75,000 | | |

| | | | | |
|---|--|----------------|---------------|---------------|
| Advertising of commercial properties | | 32,000 | | |
| Direct exempt | | | 40,000 | |
| Residual : | | | | |
| lease | | | | 30,000 |
| audit fees | | | | 16,000 |
| legal fees | | | | 24,000 |
| Total | | 107,000 | 40,000 | 70,000 |
| % | | | | 76% |
| | | 107,000 | 40,000 | 53,200 |
| | | | | |
| | | | | |

Summary:

Actual claimed £139,000

Themajor Ltd should claim £160,200

Therefore there is an underpayment of £21,200.

2/

Capital Goods Scheme adjustment

Lease premim of £1,000,000 is not a capital asset qualified for capital goods scheme.

A new road construction at a cost of £600,000 is within capital goods scheme as it is a capital asset worth at least £250,000.

YE 31 May 2018 - 1st

YE 31 May 2019 2

YE 31 May 2020 3

YE 31 May 2021 4

YE 31 May 2022 5

YE 31 May 2023 6

YE 31 May 2024 7

YE 31 May 2025 8

2 years left as 10 years needed.

A large extention added to one of the houses in April 2019. Cost £300,000. No input tax claimed, its within the capital goods scheme.

Refurbishment is not an asset qualified for capital goods scheme (land building computer

aircraft etc).

Purchase of software is not within capital goods scheme - as a computer only a **hardware** is accepted.

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

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

Answer-to-Question- _6_

Headed notepaper
Tax adviser
My address
Date: 06/11/2025

Mr. Ben Hombre
Address

Dear Ben,

Thank you for your recent enquiry regarding the tax implications of your several points.

With regards to the office buildings which are intended to be rented, as you purchased them three months ago, potentially you may be able to revoke option to tax. The option to tax can be revoked within the first six months. As the purchase took place three months ago, you still have a maximum of three months to remove option to tax.

If you decide to remove option to tax, you would need to pay back vat on the purchase recovered as a result of your option to tax. This is because the legislation makes it clear that any input tax repayable as a result of this change from taxable to exempt supplies must be repaid.

It may be possible to remove the option to tax on the old building as the initial option to tax was exercised 22 years ago (the regulations states it can be revoked 20 years after it was made). The implications for the proposed improvement costs would be that you would not be able to recover £16,000 (£80,000x20%) input tax spent on improving this building.

If you decide to sell a new built house - a dwelling - this would be zero-rated onward supply if there is a first grant of a major interest and it's either dwellings, relevant residential or relevant charitable.

Selling the gatehouse would be exempt for vat purposes. You could potentially opt to tax this particular building.

If you sell a freehold of the storage facility which was built two years ago this is commercial property within the standard rated supplies in VATA 1994 Schedule 9 group 1. You would need to add VAT at the rate of 20%.

You should now consider whether option to tax the property is commercially worthwhile, balancing vat payable to HMRC and balancing the issue of no recovering improvement costs. You also should consider vat liability on selling properties as mentioned above.

I trust this letter covers the points raised but if you have any other queries please do not hesitate to contact me.

Your sincerely
Tax Adviser
LTD