

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	<b>1187</b>	<b>5487</b>	<b>6661</b>
Section 2	<b>932</b>	<b>4275</b>	<b>5203</b>
Section 3	<b>784</b>	<b>3637</b>	<b>4407</b>
Section 4	<b>708</b>	<b>2992</b>	<b>3685</b>
Section 5	<b>334</b>	<b>1566</b>	<b>1880</b>
Section 6	<b>512</b>	<b>2337</b>	<b>2836</b>
Total	<b>4457</b>	<b>20294</b>	<b>24672</b>

Answer-to-Question- \_1\_

### **Notes to meeting with Cecily:**

#### **Part 1:**

Blocked input tax means input incurred on certain supplies are specifically irrecoverable.

The "blocking order" on input tax specifically includes input incurred on business entertaining and motor cars. Input on these expenses can never be recovered as they are "blocked".

Your input on the purchases mentioned are to be dealt with as follows:

purchase or lease of a car or van: in the majority of instances the VAT incurred on motor cars will not be recoverable.

In this instance, to be tax efficient, the purchase of a van would be better, since a van is not included as a motor car. In that case, you would be able to recover the input VAT.

Since you mentioned you will use the car for commuting as well, the other exception will not apply, since there is an exception for a car to be used exclusively for business purposes, and your normal commute is not part of business purposes.

If you choose to lease a car, you would be able to recover 50% of the input VAT on the lease where you use the leased vehicle for both business and private purposes. This applies only for longer term leases, longer than 10 days and not leased as a replacement car on an existing leased company car that is temporary unavailable.

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Social nights:

It is important to distinguish between staff entertainment and business entertainment in this case.

Where you entertain specifically clients only and not including employees, the VAT incurred will be blocked.

You however mentioned that primarily you go out with the team and on some instances clients are also there. As such, it does not seem like the purpose is to entertain clients in this regard.

Where entertainment is for the purposes of the business and takes the form of a reward for good work or team building, HMRC does not block the input VAT incurred. It is important to note that such rewards must be for all employees and not only for example directors. In your explanation, it seems like you invite the whole team, so it is likely to not be blocked.

Please also note that where the employees act like hosts for non-employees, for example on the occasion the client joins, the input tax would be blocked. This is an important distinction when considering the expenses for the occasions that a client happened to join you and team. In this case, it may be seen as a staff party with guests, where entertainment is provided to both employees and non-employees. The recovery in this instance needs to be apportioned to ensure only the portion incurred for the employees is recovered.

Cost of parts for mother in law's car:

The input VAT for the parts used was likely recovered on purchase but as you did not charge your mother in law, there was no subsequent output VAT charge. This is known

as a deemed supply. You need to raise an output charge equivalent to the input recovered initially.

## **Part 2:**

A VAT registered trader is technically required to provide a customer with an invoice for each supply made.

If an invoice is for less than GBP250, a simplified invoice can be issued.

The details you included on your invoice was your name and address, detail of work done and the total amount. These are all part of what is required for a valid invoice, but below are details of what was missing:

For your invoice to be a valid VAT invoice, the following further information is required:

- A sequential invoice number
- the date of the supply
- the date of issuing of the invoice
- your VAT registration number
- the customer's name and address
- a description sufficient to identify the work done and the quantity of goods used/extent of services supplied - not clear whether your details of work done addressed all of this - and then the rate of VAT and the amount being charged for the work described, i.e. the net charge
- the total being charged, net of VAT.
- the total amount of VAT on the invoice in GBP
- the rate of any discount if applicable
- the unit price of each item used if applicable

If a simplified invoice for less than GBP250 is issued, fewer details are needed, but given that your costs alone for just your mother in law's repairs was 500, this seems unlikely to apply often.

### **Part 3:**

A taxable person has an obligation to preserve their relevant records for a minimum of six years. When Cecily moves to the new system, she cannot forgo the records on the old system. She needs to ensure she obtains all of the following from the old system and securely stores it on the business computer or a cloud based storage for at least the next six years to ensure she adheres to her record keeping obligations.

Records to be kept are:

- business accounting records
- copies of all VAT invoices that have been issued
- copies of all VAT invoices that have been received
- any credit or debit notes changing an invoice previously recored
- maintain a VAT account.

The VAT account should account separately for VAT payable and VAT receivable. The balance when moving systems should accurately be noted on the old system and carried forward to the new one.

VAT is subject to HMRC's Making Tax Digital provions. As such, it would be expected that the old and new system would be able to submit the VAT return electronically to HMRC. It does not look like the old system can do that, so ideally you should chose a new system that can and will keep all the abovementioned records digitally and securely acoridngly.

If possible explore whether you can export your records from the old system and import them into the new system to maintain a full record in the new system should it be needed for future reference.

#### **Part 4:**

HMRC can levy a penalty for the previously incorrect claiming of input VAT. A penalty will apply based on whether it is a careless or deliberate inaccuracy. Based on your description, it does not seem like you deliberately tried to claim excess input VAT, which will help reduce the potential penalty.

Unfortunately, HMRC has already questioned your input claims and therefore you can no longer make an unprompted disclosure. However, it is still good to co-operate with HMRC and make a full prompted disclosure.

In this instance, prompted disclosure for a careless action (with no concealment) will be a maximum 30% penalty. That is penalty as a percentage of lost revenue. The careless action here resulting in an error in your HMRC assessment. If you make full prompted disclosure this penalty can be reduced down to 15% at the discretion of HMRC.

Interest can be levied on the underpayment due to the assessment from the day payment was supposed to be made until the day payment is made. Any penalty not paid within 30 days of issue can also be subject to interest.

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

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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

### **Part 1**

The general place of supply rule for the rendering of services operates as follows:

- When a business renders a service to another business, the place of supply is where the recipient belongs.

In the case of V&O, this means when they render services in the form of consultancy to Asian customers that are businesses, the supply is seen to take place in Asia, not the UK.

If the consultancy services are rendered to individuals (aka customers) in Asia, the place of supply is seen as the UK and these sales must be subject to UK VAT accordingly.

If the online training is largely automated with minimal or no human intervention, which it seems to be since it is self-study based training, this falls within the e-services scope and therefore seen as supplied as follows:

- if to businesses: where the business customer belongs, therefore if the Asian clients do the online training from Asia, deemed to be supplied there where they belong and where they use and enjoy the training. No UK VAT.

- if to customers: the same rule applies as to the consultancy service as no use and enjoyment provision is relevant for individuals in this case and as such UK VAT will apply.

When the consultancy and online training is made to UK businesses or UK customers, the supply is in the UK and subject to UK VAT.

The supply of the consultancy to the US client is provided by the New York office, which is also in the US. The New York team is said to be working independently in a space rented by V&A from the UK. This seems like the team operates as a branch in the US. The place of belonging is therefore likely still the UK. Regardless, this is a supply to a business and as such the place of supply is in the US and not UK VAT would apply in this instance.

## **Part 2**

The reverse charge applies when a UK business buys in a service from a non-UK business supplier.

The implication is that the UK customer adds the relevant output VAT that would apply had the supply taken place in the UK to the value of the supply and then, assuming the business makes fully taxable supplies, deducts that same value as input VAT. Therefore, resulting in a net nil value in the return but is adequately reported.

Where the supplier has added the local VAT or GST, it could be as a result of local place of supply rules resulting in a different conclusion than UK rules and making that local tax applicable. The UK business can seek to recover that local VAT if the local jurisdictions offer recovery to businesses in the way that the UK does to businesses from countries with whom the UK has a double tax agreement.

The charge of local tax will not change the place of supply for UK VAT reporting purposes and the reverse charge will still be applied and reported accordingly in V&O's

VAT return.

### **Part 3**

Lisa Marie's proposal could threaten the following fundamental principles:

- objectivity: the firm can be compromising its objectivity of what the best method to do the work is by the undue influence placed on the firm as a result of the costs, this results in an impaired view of what the best outcome may be.

- professional competence and due care: this principle requires members of the firm to maintain professional knowledge and skill at a level required to deliver competent services to their client. In the obtaining of advice from local professionals the firm ensured they enabled themselves to give adequate and competent advice. If they attempt to do this themselves using public sources, they are not likely to be delivering a competent service and may very well bring the profession into disrepute should inaccurate advice be given.

- professional behaviour: similarly, should the firm not uphold the standards of the profession or take care in ensuring their services are not rendered improperly or negligently, this could display as not upholding the profession and the behaviours expected.

### **Part 4**

The takeover of the practice may be seen as the transfer of a going concern, which would be outside the scope of VAT, if the conditions are met.

The conditions are as follows:

- the assets are to be used by the transferee in the same kind of business: *it would in this*

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*case as it is another accounting firm looking to takeover.*

- the transferor and transferee is registered for VAT: *very likely that the transferee is already given the industry, but if not must do so as a result of this transfer. V&O, transferor is VAT registered.*

- there should not be a significant break in trading and there should not be a series of transfers: *no indication that either is happening*

- where only part of the business is transferred, that part must be seen as capable of being a separate operation: *if Gerald retains some clients, the rest of the portfolio should be seen as sufficient to be capable of being a separate operation. It seems likely as he intends to keep a small number only.*

As such, the transfer is outside the scope of VAT and no liability should arise.

However, the building is not included in the scope of the transfer of a going concern.

The office building will be subject to VAT liability at the standard rate **unless** the buyer opts to tax the building in their hands. This is the decision of the buyer.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

### **Part 1**

The set up grant from the Canine Trust is not consideration for a supply as it was not in exchange for the supply of any goods or services. This is therefore outside the scope of VAT and is not considered in determining if Yappy Hounds are to register for VAT.

The actual sales are considered below to determine if a registration is required in terms of the historic test:

The actual income for Jan 2025 - Oct 2025 totals below the threshold for registration of GBP90,000. As such, no historic test registration obligation.

The future test looks at taxable supplies in the next 30 days, if that is expected to exceed the threshold of GBP90,000, a registration is required.

There is no single month, actual or budgeted, that has supplies of more than the registration threshold.

Yappy Hounds should continue to keep track of its cumulative sales, if the actual sales data for the budgeted months is accurate, the historic test will require them to have a registration in the near future. this is not yet an obligation, as the historic test only looks backwards for 12 months at the end of each month and as at 31 October 2025, the threshold is not yet exceed.

At present, no obligation to register as yet, but can consider a voluntary registration.

## **Part 2**

Budgeted sales for the period 1 November 2025 - 30 April 2026 is GBP50,445 - this is net as no VAT would have been included in the budget as at the time of budgeting they were not VAT registered:

$$50,445 * 0.2 = \textbf{Output VAT of 10,089}$$

Budgeted costs in this period are as follows:

Van rental: gross 3,600

Assuming the van is used exclusively for business purposes, the VAT on the van would be recoverable. Input VAT therefore  $3600 * 1/6 = \textbf{600}$

Equipment: recoverable:  $1150 * 1/6 = \textbf{192}$

Reverse charge accounting for the services invoiced from Dublin will have a net nil impact on VAT payable.

Canned pet food:  $4800 \text{ net value} * 0.2 = \textbf{960}$

Pre-registration costs recoverable:

- Services have no VAT, so no recovery relevant
- as 800 of dog food purchased each month, assume all is consumed and none still held at registration date.
- the cages purchased are likely still held and used at registration date and were all

purchased in the last four years:  $6300 * 1/6 = 1050$  recoverable

**Total input = 2802**

**Net VAT payable: 7287**

### **Part 3**

The flat rate scheme that applies for "boarding or care of animals" is 12%.

As this is within the first year of registration, a 1% reduction will apply to this rate.

Therefore Yappy Hounds would apply a rate of 11%.

The tax inclusive turnover for this period would be  $50445 * 1.2 = 60534$

The 11% flat rate is applied to the tax inclusive turnover to determine the VAT due:

$60534 * 11\% = 6658.74$  rounded **6659 VAT due** for the period.

Input VAT deductions are generally not allowed on the flat rate scheme, but can be deducted for capital asset valued VAT inclusive at more than 2000 and for pre-registration input tax.

Yappy hounds do not purchase a capital asset worth that value in this period and this is therefore not relevant.

The same pre-registration input VAT recovery would apply as above, therefore recovery of the cages purchased are likely still held and used at registration date and were all

purchased in the last four years:  $6300 * 1/6 = 1050$  recoverable

This results in a net VAT payable using the flat rate scheme of **5609**

This is **1678** less than using normal VAT rules for this period, and therefore it would be better financial for Yappy Hounds to use the Flat Rate Scheme if we base our decision on this period under consideration.

#### **Part 4**

The current process of Yusuf manually capturing the summarised sales information into Rapid Books is not compliant with MTD. MTD allows for the transfer of data between software programs using a digital link, but it is not acceptable for there to be any manually transferred data. As such, the current process would not comply with the requirements of MTD.

If Yusuf implements the proposed automation that would allow all the information to be digitally transferred directly from the CRM into Rapid Books, this can be seen as a digital link, as no manual intervention would apply. It is acceptable in MTD to transfer or exchange data via digital link between softwares and applications to enable submission using an API.

Yusuf should confirm that RapidBooks is API enabled for HMRC submission. If it is, the proposed solution would make Yappy Hounds MTD compliant once implemented.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

### **Part 1**

The due date for the annual return and final payment of VAT for the year ended 31 October 2025 is 2 months after the VAT year end, so therefore 31 December 2025.

Polly has made monthly payments of 1800 for months 4 - 12 =  $1800 * 9$  months = 16 200 VAT already paid.

Annual results:

Standard rate sales: 270 000 incl VAT \*  $1/6$  = 45 000 output VAT due

Remainder: 58 000 assumed cold food not for sit in and therefore zero rated.

Input claims:

- cost of wages: not subject to VAT
- standard rated goods for resale:  $120\ 000 * 1/6 = 20\ 000$
- zero rated goods for resale: no VAT paid
- other expenses:  $30\ 000 * 1/6 = 5000$

Total input claim: 25 000

Net amount due for the year:  $45000 - 25000 = 20\ 000$

Less already paid: (16200)

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Payable on 31 December for year ended 31 October = 3800

## Part 2

If Polly's income increases by approxiamtely 25% for the year ended 31 October 2026, her estimated turnover will be  $328\,000 * 125\% = 410\,000$ .

This is far below the threshold that will require Polly to leave the annual accounting scheme (1.6mil).

However, 25% increase is quite significant and it would be beneficial for Polly to inform HMRC of her expectation as this will allow them to issue a more accurate payment schedule for the coming year. Polly has an obligation to inform HMRC of significant changes to the business that will impact the VAT payable as HMRC will the adjust the payments accordingly. THis is beneficial for your cash flow and for HMRC.

The monthly instalments based on 25% growth are as follows:

In the prior year standard rated supplies made up about (270k/328k) 82% of sales. If the same ratio applies,  $410\,000 * 82\% = 336200$  of turnover would be standard rated and therefore an expected VAT liability of  $*1/6 = 56033$

$56\,033 * 90\% / 9\text{ months} = 5603$  due per month.

## Part 3

The instalments are due on the last day of each month from month 4 to month 12 of the VAT year. THerefore from the 28 February 2026, 31 March 2026 etc up to and including

31 October 2026.

The payment is made via direct debit on the last day of each relevant month.

#### **Part 4**

- Sale of cold sandwiches and hot pies for eating in cafe: this is considered catering and will be subject to the standard rate of VAT.
  
- sale of the cold sandwiches for take away: sold a zero-rate for food.
  
- sale of hot pies: if kept warm for example in warm display case etc, standard rate, but if allowed to cool naturally and sold for take-away, qualifies for zero rate
  
- charging point for electric cars: as this point will be in a public place, it does not qualify for the reduced rate and this supply would be subject to the standard rate of 20%

#### **Part 5**

The basic tax point for services is when the services are performed, i.e. when the cafe is made available for the event. The tax point would then be the event date.

The tax point can be overridden when there is a receipt of payment on a date before the date of the event, i.e. when Polly charges a deposit. When a deposit is charged, this will be a tax point and VAT should be levied on such deposit accordingly.

If the invoice is issued before the event, that can also override the basic tax point, but from the description Polly only issues invoices after the event and not before (other than

deposit invoices).

If Polly issues an invoice within 14 days of the event taking place, the invoice date will become the actual tax point. As such, when Polly does manage to issue the invoice within seven days of the event, then she can use invoice date for the supply and not the event date.

However, if she waits until the end of the month following the event, the invoice is definitely not issued within 14 days and as such in that case the tax point remains the date of the event.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

### **Part 1**

Input claimed during year: 139,000

Input VAT incurred:

- Repair and maintenance housing: *exempt only 40k*
- Repair and maintenance commercial: **taxable only 75k**
- Lease of office: not directly attributable 30k
- Audit fees: not directly attributable 16k
- Legal fees for housing rental contracts: *exempt only 24k*
- Advertising commercial: **taxable only 32k**

Total directly claimable input for year:

$$75k + 32k = 107\ 000$$

Exempt only:

$$40k + 24k = 64\ 000$$

Not directly attributable:

$$30k + 16k = 46\ 000$$

Exempt only is more than the annual de minimis of 7500, therefore de minimis not

applicable.

Supplies for the year:

Standard rated: 4.6mil (assumed exclusive)

Exempt: 1.5mil

Taxable % =  $4.6 / (4.6 + 1.5) = 75.4\% = \text{round up} = 76\%$  taxable.

Not directly attributable input can be recovered for 76%

$46\,000 * 0.76 = 34\,960$

Total recoverable input:  $34\,960 + 107\,000 = 141\,960$

Therefore annual adjustment is additional input recovery of  $141\,960 - 139\,000 = 2960$

## **Part 2**

Capital goods scheme adjustment per item:

Lease premium:

Incurred on January 2012, therefore full adjustment period of 10 years has passed and no adjustment is needed in the year ending 31 May 2025.

Construction of new road:

Adjustment period of 10 years applies.

Cost was 600 000, therefore VAT of  $* 0.2 = 120\,000$

Adjustment:  $120\,000 / 10 \text{ years} * (65\% - 76\% \text{ (as above)}) = -1320$  additional claim from

HMRC

Extension to houses:

No adjustment as the extension is fully for purposes of partial exemption, no input VAT recoverable. Property for dwellings cannot be opted to tax, it remains exempt.

Commercial refurbishment:

Adjustment period of 10 years applies.

Cost was 400 000, therefore VAT of  $* 0.2 = 80\ 000$

Adjustment:  $80\ 000/10\ \text{years} * (0\% - 76\% \text{ (as above)}) = -6080$  additional claim from HMRC

Software:

Computer software is not included in the capital goods scheme, only computer hardware.

As such no adjustment applies for this item.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

Adviser

Adviser address

Ben Hombre

Client's address

6 November 2025

Dear Ben

I trust you are well.

Please see below my responses to each of your queries.

Please reach out if you have any additional questions or concerns.

Yours faithfully

Adviser

### **Removal of option to tax**

There are three instances in which the option to tax can be removed from a building, these are:

1. revoking the option within 6 months of making the option: *this is not applicable to any of the buildings in your description unfortunately.*

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2. where no interest has been held in the property for over six years, the option to tax will automatically lapse: *this is not applicable to any of the buildings in your description unfortunately. As none of the buildings seems to have been without interest held in the past 6 years.*

3. The option can be revoked 20 years after it was made : this can therefore be applied for the older building that was opted to tax 22 years ago. You would need to notify HMRC within 30 days if you do decide to revoke the option to tax.

If this decision is made for the old building, the input VAT incurred on the estimated GBP80,000 improvement costs will no longer be recoverable as the supply is no longer taxable, after removal of the option to tax. This lease will now be an exempt supply for which input VAT is not recoverable.

Unfortunately, none of the other buildings have the possibility of revoking the option to tax.

Where a supply is made to a charity and it is confirmed that the purpose of the supply is wholly for non-business activities, then that supply can be made a rate of zero rather than a standard rated supply. As this building is opted to tax, lease would be subject to standard rate, but provided the charity has the sufficient documentary evidence and it is solely for their non-business activity only, for at least 95%.

### **VAT liability of sales of property**

Both buildings mentioned are houses that served as dwellings, therefore opting to tax in their current state would not make a difference, as dwellings are not affected by the option to tax.

The sale of the gatehouse would be a standard rated taxable supply, unless the number of dwellings changed in the time between when you acquired it and when you sold it.

The same applies for the house.

As this is not the first grant of the freehold in either properties, the zero rating provisions will not apply and it will be subject to tax at the standard rate.

The storage facility is still new, this will be the first interest in it and is for a commercial rather than residential purpose. This sale would be exempt.

### **VAT liability of other income sources**

1. fishing rights: this is a standard rate supply for VAT
2. hire of tennis courts: right to use sports ground is also a standard rate supply
3. overnight stays: accomodation in a hotel is a standard rated supply for VAT