

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

May 2026

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.

Important Information – Please read carefully

- An Excel spreadsheet is provided with each question. You do not have to use this, but where the requirements include calculations and workings, you may find it a useful tool. However, please note that all Excel calculations and workings that you wish to include as part of your answer **must** be copied into the word processor answer box, otherwise they will not be marked.

1. Nat is a successful playwright and poet, living in Exeter (UK). Recently they made the following supplies in return for monetary consideration:
 - a) Sale of the copyright to their new play 'Go Gently' to a film company based in the US;
 - b) License of their script 'Cheesefreak' to a theatre company based in France;
 - c) A live performance in Exeter of a reading from their latest book of poetry 'Wild Swimmers'. Nat sold entry tickets to the performance, via her website, to UK individuals and businesses;
 - d) Another live performance of 'Wild Swimmers' - this time in Berlin (Germany). Tickets to this performance were sold by a German ticket and events company as disclosed agent;
 - e) Online writing courses to individuals living in the UK, The Netherlands and Switzerland, who wish to improve their skills in poetry and playwriting. The tutoring and coaching is all done via pre-recorded videos and downloadable PDFs; and
 - f) Sale of 100 copies of their new poetry book to a bookshop in Amsterdam (The Netherlands). Nat arranged the transport of the goods from Exeter to Amsterdam.

Nat received invoices for the following purchases:

- a) Legal services from a US lawyer for USD 2,000.
- b) Theatre hire in Berlin for EUR 750.

Nat is registered for VAT in the UK.

Requirements:

- 1) Explain the place of supply of each of Nat's supplies. (9)
- 2) Explain the place of supply of each of Nat's purchases and how Nat should treat these invoices on their UK VAT return. (5)

Total (14)

2. Dreadknight Ltd is incorporated, and registered for VAT, in the UK. It manufactures clothing for children under the age of 11, as well as fancy-dress costumes designed for adults. Its customers are wholesalers and retailers based in the UK.

The company's standard terms are that invoices are due for payment 14 days after presentation.

The finance department compiled the following list of outstanding sales invoices to ascertain whether any bad debt relief could be claimed on its VAT return for the quarter ending 31 March 2026.

| <u>Customer</u> | <u>Invoice Date</u> | <u>Net chargeable at 0% VAT</u> | <u>Net chargeable at 20% VAT</u> | <u>VAT</u> | <u>Amount outstanding</u> |
|-----------------|---------------------|---------------------------------|----------------------------------|------------|---------------------------|
| | | £ | £ | £ | £ |
| Jellycod Ltd | 10 Sep 2025 | 10,000 | | | 10,000 |
| Jellycod Ltd | 14 Sep 2025 | | 12,000 | 2,400 | 14,400 |
| Jellycod Ltd | 2 Oct 2025 | 5,000 | 12,000 | 2,400 | 19,400 |
| Gingeree Ltd | 15 Jul 2025 | 12,000 | | | 12,000 |
| Gingeree Ltd | 2 Aug 2025 | | 50,000 | 10,000 | 60,000 |
| Sherat Ltd | 2 Jul 2020 | | 10,000 | 2,000 | 12,000 |
| Sherat Ltd | 14 Jul 2025 | | 35,000 | 7,000 | 42,000 |
| Sherat Ltd | 3 Aug 2025 | 14,000 | 35,000 | 7,000 | 56,000 |

Continued

Continuation

Before preparing the VAT return the credit controller telephoned each of the customers with the following results:

- a) Jellycod Ltd: unable to speak to anyone in the finance department.
- b) Gingeree Ltd: the company made a payment of £22,000 towards the total balance on 29 March 2026.
- c) Sherat Ltd: the accounts payable assistant stated that the company would only pay the net amount (£35,000) of invoice dated 14 July 2025 as the supply should have been zero-rated. Payment of the £35,000 was subsequently received on 27 March 2026. No further payments have been made as yet.

As a result of these telephone conversations, the credit controller arranged for any remaining outstanding amounts from above to be written off in the accounts of Dreadknight Ltd.

On 15 March 2026, another customer, Lightery Ltd, paid an amount of £4,000 towards an invoice dated 3 May 2025 for £5,400 (£4,500 plus £900 VAT). Dreadknight Ltd has already claimed £900 as bad debt relief from HMRC in a previous VAT period.

Finally, Dreadknight Ltd itself has not yet paid an invoice for raw materials for £120,000 plus VAT, which was due for payment on 28 September 2025. Dreadknight Ltd recovered the VAT as input tax on its 30 September 2025 VAT return. On 10 March 2026, the accounts payable team at Dreadknight Ltd received an email from the supplier, agreeing that Dreadknight Ltd could have a six-month extension to pay the outstanding amount.

Requirements:

- 1) **For each of the invoices issued by Dreadknight Ltd, explain whether VAT bad debt relief is available. Calculate the total amount of VAT claimable/repayable for the VAT quarter ended 31 March 2026.** (13)
 - 2) **Explain the VAT implications for Dreadknight Ltd of not having paid the raw materials invoice.** (1)
 - 3) **Explain how Dreadknight Ltd should claim bad debt relief, and repay a bad debt relief refund, on its VAT return.** (2)
- Total (16)

3. Fuchsia Wing Ltd (FW) is a property developer, incorporated and registered for VAT in the UK.

FW notified HMRC of its Real Estate Election eight years ago, and has never revoked its option to tax on any building it subsequently acquired.

FW is currently involved in three different projects, as follows:

Project 1

FW acquired the freehold to a four-story building in East London (UK) five years ago. It leases the second and third floors to an insurance company as their headquarters, and raises quarterly invoices for the rent.

The entire top floor is a penthouse apartment which FW rents to an individual under a one-year tenancy, raising monthly invoices to them for the rent.

The ground floor is configured as three commercial shop units, all of which FW leases to retailers, charging a monthly rent.

It is intending to sell the freehold to another property developer who will immediately convert the commercial areas of the building into six new residential apartments. Only the penthouse on the top floor will remain.

Continuation

Project 2

FW is constructing a new building in Mayfair, London (UK) for use as residential apartments. It has engaged a local firm of VAT-registered builders to do the construction work and fit the building out as apartments. FW will market the new apartments to individuals normally resident outside of the UK, with the intention of granting 25-year leases to them once the building is complete. There would be no restrictions placed on residing in the building all year round.

The builders have been instructed to purchase and fit out the apartments with the following additional items: fire alarms with sprinkler systems, luxury carpets and coffee machines.

Project 3

FW recently acquired the freehold to a large mansion house in Blackpool (UK). Until the sale the building was occupied in its entirety by a family as their main home. FW has engaged a local VAT-registered builder to convert the house into a residential care home.

FW does not have the expertise to run the care home itself so it will instead lease the care home to a care provider for an initial 10-year period.

Requirements:

- 1) **Explain the VAT liability of the following:**
 - a) **Each supply of land currently made by FW in Project 1.** (4)
 - b) **The proposed sale of the freehold in Project 1.** (4)
 - c) **The construction services, including the supply of fire alarms with sprinkler systems, luxury carpets and coffee machines, made by the builder to FW in Project 2.** (5)
 - d) **The proposed supply of the 25-year leasehold to non-UK resident buyers in Project 2.** (2)
 - e) **The construction services made by the builder to FW in Project 3.** (2)
- 2) **Explain whether FW is entitled to recover any VAT it incurs relating to Project 3.** (3)

Total (20)

4. Peanutz is a VAT registered organisation which provides new clothes for the parents and children of families in need. Peanutz buys in the clothes from a local wholesaler. The clothes are given away for free to people in need although, the people receiving the clothes are asked if they would like to make a voluntary contribution. Peanutz receives an annual grant of £150k from the local authority which may only be spent on the clothing.

In the same premises where it provides the clothes, Peanutz also runs a small café which sells hot food, a range of hot and cold sandwiches, fizzy drinks and confectionery. All items can be bought to be eaten in the café or taken away.

Peanutz declares VAT on all its income from the café and pays VAT on all its costs except for zero rated food and children's clothes. Peanutz buys adverts which publicise both the clothes and the café.

Continuation

In the year ending March 2026, Peanutz had the following income and expenditure:

| | <u>Income</u> | <u>Expenditure</u> | <u>VAT</u> |
|---|---------------|--------------------|------------|
| | £ | <u>Net</u> | £ |
| | | £ | |
| Local authority grant: | 150,000 | | |
| Voluntary contributions for clothes | 17,262 | | |
| Sales from the café | 80,500 | | |
| | | | |
| Purchase of adult clothing | | 90,000 | 18,000 |
| Purchase of children's clothing | | 65,000 | |
| Audit fee | | 10,000 | 2,000 |
| Food for café (zero rate) | | 40,000 | |
| Confectionary and fizzy drinks for café | | 16,000 | 3,200 |
| Electricity bills | | 18,000 | 3,600 |
| Advertising costs | | 5,000 | 1,000 |
| Rent | | 24,000 | 4,800 |

Until recently Peanutz had been reclaiming all the VAT on its costs, but it has recently been advised by its accountant that giving clothes away for free is a non-business activity and it is now calculating how much VAT it has overclaimed using an income-based calculation.

Peanutz has heard that its grant from the local authority will be significantly reduced for the next financial year. In order to keep going, it intends to change such, that instead of asking for voluntary contributions for clothes, it will charge a fixed cost for each item which is 40% of the purchase price it paid, plus a further voluntary contribution if people can afford it.

Requirements:

- 1) **Calculate how much VAT Peanutz has overclaimed in the year ending 31 March 2026.** (8)
 - 2) **Explain whether the income Peanutz will receive from providing the clothing will be business income even if the income does not cover the full cost of the clothes.** (5)
 - 3) **Explain whether Peanutz is correct to charge VAT on each of the items sold in the café.** (3)
 - 4) **Explain whether, if it were a charity, Peanutz could claim VAT relief on any of the items it has purchased.** (2)
- Total (18)

5. Lucy owns all the shares in her company. The company, which is registered for VAT owns four shops which are rented to tenants who operate retail businesses from the shops. The company also owns a hotel which it operates. There is an option to tax on all the properties.

Lucy has decided to retire and is considering different options for either the company to sell the shops and hotel, or for her to sell the shares in the company.

The three options for the company disposing of the shops are as follows:

Option 1 – sell the freehold in all the shops to each of the existing tenants who will then continue to run their businesses from the shops.

Option 2 – sell the freehold in all the shops to another business who will continue to rent them to the existing tenants. Although the owner of the business has said that it will continue to rent the shops to tenants, Lucy has heard that they intend to end the tenancies and sell the land for property development when the leases are up for renewal which is six months after the expected sale date.

Continued

Continuation

Option 3 – sell the freehold in the shop properties to another business which will immediately pay the tenants to leave the properties and then use the properties to run its own shops.

For the company selling the hotel, Lucy is considering the following two options:

Option A - selling the hotel to a large company which operates a chain of hotels. The company will close the hotel for nine months to allow for an extensive refurbishment.

Option B - involving a property agent in the sale. The property agent has identified an undisclosed potential buyer and proposes to buy the hotel from the company before immediately selling on to the buyer who will then continue the hotel business.

Alternatively, Lucy would sell her shares in the company to another person who has offered to buy the shares and run the company.

Lucy has established that all the current tenants and prospective buyers are registered for VAT.

Lucy wants to understand whether VAT will be due on the income she will receive for the various options described.

Lucy also has a question about when the company should declare VAT on some of the income it currently receives. For the shops, she sends tenants a monthly statement showing how much rent and VAT is due. Once the statement is paid, the company then issues a VAT invoice on the same day that it receives payment.

For the hotel, the company normally takes a 50% deposit when a room booking is made and then once the guests have settled the bill it takes the remaining payment for the room and issues a VAT invoice for the full amount.

Requirements:

1) Explain whether VAT will be due on each of the proposed sale options for:

- a) The shops;** (7)
- b) The hotel and;** (3)
- c) The shares in the company.** (2)

For each option, the answer should consider whether the proposed sale is a transfer of a going concern.

2) Explain what the tax points are for the shop rentals and the hotel room bookings. (3)

Total (15)

6. You recently acquired a new client Linus, a sole proprietor, who has been providing environmental consultancy services to UK customers since 1 January 2025. He also exports environmental equipment to overseas customers. For the first nine months of his new business, Linus also received a salary from a customer who employed him rather than engaging him as a consultant. The table below shows the amount of consultancy income, salary and bank interest received by Linus up to the end of April 2026.

| <u>Month ending</u> | <u>Fees from UK customers</u> | <u>Fees from overseas customers</u> | <u>Salary</u> | <u>Bank interest</u> |
|---------------------|-------------------------------|-------------------------------------|---------------|----------------------|
| | £ | £ | £ | £ |
| 31 January 2025 | 4,000 | | 6,000 | |
| 28 February 2025 | 4,000 | | 6,000 | |
| 31 March 2025 | 4,000 | 2,000 | 6,000 | 100 |
| 30 April 2025 | 5,000 | | 6,000 | |
| 31 May 2025 | 5,000 | 3,000 | 6,000 | |
| 30 June 2025 | 6,000 | | 6,000 | 250 |
| 31 July 2025 | 5,000 | | 3,000 | |
| 31 August 2025 | 5,000 | 4,000 | 3,000 | |
| 30 September 2025 | 7,000 | | 3,000 | 300 |
| 31 October 2025 | 6,000 | | | |
| 30 November 2025 | 7,000 | | | |
| 31 December 2025 | 7,000 | 3,000 | | 400 |
| 31 January 2026 | 7,000 | | | |
| 28 February 2026 | 7,000 | 3,000 | | |
| 31 March 2026 | 8,000 | 5,000 | | 500 |
| 30 April 2026 | 9,000 | 3,000 | | |

In addition to the above, Linus received the following income:

- Royalties from the sale of a book he wrote a few years ago of £3,000 in November 2025;
- A government funded start up grant for new businesses of £10,000 in January 2025; and
- A gift from his parents of £5,000 in January 2025 to fund set up costs for his business.

Linus does not have many costs, but he bought a new laptop for £5,000 plus VAT when he started the business in January 2025, and at the same time had legal fees of £8,000 plus VAT in creating model contracts for clients. He also paid legal fees of £9,000 to a French lawyer based in Paris, in February 2026, to agree a contract with an overseas customer. Due to the volume of work, Linus has employed a VAT registered sub-contractor since September 2025.

Linus believes that as part of their tax support, his previous adviser should have been monitoring his turnover and should have notified him when VAT registration was due.

Requirements:

- Explain which sources of income described above should be omitted when calculating whether Linus should be registered for VAT. (4)**
- Identify the date on which Linus exceeded the VAT registration threshold and from what date he should be registered. Show your workings. (5)**
- Explain whether Linus could have registered from an earlier date and whether that is likely to have been beneficial. (3)**
- Explain what steps the previous tax adviser should have taken in relation to Linus meeting key tax deadlines, such as VAT registration. (3)**

Total (15)