1.

1) The place of supply of each supply is as follows:

Sale of the copyright to 'Go Gently': this is an intangible service falling within the general rule which means it is taxable where the business customer belongs so, in this case, the US. **(1)**

Licence of the script 'Cheesefreak": this is an intangible service falling within the general rule which means it is taxable where the business customer belongs so, in this case, France. **(1)**

Sale of tickets to the live performance of 'Wild Swimmers' in Exeter: the place of supply is where the event takes places so, in this case, the UK. **(1)**

Sale of tickets to the live performance of 'Wild Swimmers' in Berlin: the place of supply is where the event takes places so, in this case, Germany. **(1)**

Online writing courses: this is an electronically-supplied service being the supply of automated digital content with no or minimal human intervention **(1)**. The place of supply to consumers is the country in which the recipient belongs as follows:

UK individuals = the UK **(1)**
Dutch individuals = The Netherlands **(1)**
Swiss individuals = Switzerland **(1)**

Sale of 100 copies of their new poetry book: the place of supply is the UK as that is where the transport begins **(1)**

2) **Legal services from a US lawyer for $2,000**
The supply of legal services is an intangible service with the place of supply being the place where the business customer belongs so, in this case, the UK. **(1)**

Nat will firstly need to convert the USD amount into GBP using the market selling rate for the currency at the time of supply, an HMRC published rate of exchange or other published rate. **(1)**
Nat should then account for VAT under the reverse charge mechanism, declaring 20% output VAT and recovering the same as input tax on the same VAT return, assuming the usual conditions are met. **(1)**

Theatre hire in Berlin for EUR 750
This is a land-related service so subject to VAT where the land is located; the place of supply is therefore Germany. **(1)**

Nat should not include the invoice in their UK VAT return. **(1)**

2.

1)

Jellycod Ltd
<u>Invoice dated 10 September 2025</u>
Payment is due by 24 September 2025. In principle, BDR can be claimed 6 months from 24 September 2025 being 24 March 2026 **(1)**, which falls within the VAT period for the quarter ending 31 March 2026. However, the supply is zero-rated so there is no VAT to claim. **(1)**

<u>Invoice dated 14 September 2025</u>
Payment is due by 28 September 2025. In principle, BDR can be claimed 6 months from 28 September 2025 being 28 March 2026, which falls within the VAT period for the quarter ending 31 March 2026. **BDR of £2,400** can be claimed. **(1)**

<u>Invoice dated 2 October 2025</u>

Payment is due by 16 October 2025. BDR can only be claimed 6 months from 16 October 2025 being 16 April 2026. As such, BDR for this invoice cannot be included on 31 March VAT return as 6 months have not yet passed. **(1)**

Gingeree Ltd
Made a payment of £22,000 in the 31 March VAT period without specifying which invoice(s) against which the payment should be allocated. As such, the payment should be allocated as follows:

Invoice dated 15 July 2025: £12,000 of the payment should be allocated to this being the earliest supply **(1)**
Invoice dated 2 August 2025: £10,000 of the payment should be allocated to this supply:

£60,000-£10,000 =£50,000. **BDR = £8,333.33** (50,000 x 1/6) **(1)**

Sherat Ltd

Invoice dated 2 July 2020
BDR must be claimed within 4 years 6 months of the due date. As such, the company is out of time to claim BDR on this invoice. **(1)**

Invoice dated 14 July 2025
Payment of the net amount of £35,000 was made on 27 March 2026. The customer said that they were not paying the VAT amount. The payment of £35,000 should be allocated to this supply

£42,000-£35,000 = £7,000. **(1)**

BDR = £1,166.67 (7,000 x 1/6) **(1)**

Invoice dated 3 August 2025
Payment is due by 17 August 2025. In principle, BDR can be claimed 6 months from 17 August 2025 being 17 February 2026, which falls within the VAT period for the quarter ending 31 March 2026. **BDR of £7,000** can be claimed. **(1)**

Lightery Ltd
On 15 March 2026 Lightery Ltd paid £4,000 towards the invoice dated 3 May 2025 for £5,400 (£4,500 plus £900 VAT).

Dreadknight Ltd had already claimed £900 as bad debt relief from HMRC in a previous VAT period.

Dreadknight must **repay £666.67** (£4,000 ÷ £5,400 x £900) **(1)**

As all of these debts have been written off in the accounts **(1),** total VAT claimable in 31 March VAT return = £18,233.33 (£2,400 + £8,333.33 + £1,166.67 + £7,000 - £666.67) **(1)**

2) **Purchase by Dreadknight Ltd**
Usually, as Dreadknight has deducted the input tax and not paid the consideration by the relevant date (being within 6 months of the payment being due assuming this falls after the invoice date) it would need to repay it to HMRC. However, as a payment extension has been agreed repayment of input tax is not required.**(1)**

3) Dreadknight should claim bad debt relief in box 4 of its VAT return **(1)**. It should repay a bad debt relief refund (i.e. the VAT element of the payment from Lightery) in box 1 of its VAT return **(1)**.

3.

1)

a) FW has opted to tax the building by virtue of making a Real Estate Election **(1)**. As such, the option to tax applies to the commercial areas meaning the rental charges to both the insurance company and the retailers are standard-rated **(2)**.

The option to tax does not apply to residential areas of the building so the rent of the penthouse is exempt from VAT. **(1)**.

b) Although FW has opted to tax the building an option to tax on a building has no effect on the grant of that building if the recipient certifies **(1)** that the building or part thereof is intended for use as a number of dwellings (the six apartments). **(1)** The sale of this part will therefore be exempt from VAT. **(1)** The remaining part of the building is the penthouse, the freehold sale of which will also be exempt from VAT. **(1)**
Max 3

c) Services supplied in the course of construction of a building designed as a number of dwellings are zero-rated. **(1)** The supply of 'building materials', which are goods ordinarily installed as fittings by the builder in that type of building are also zero-rated, subject to certain exclusions. **(1)** Fire alarms with sprinkler systems are regarded as items ordinarily incorporated in a dwelling so their supply and installation are also zero-rated **(1)**. The supply of carpets is specifically excluded from the 'building material' definition and therefore standard-rated. **(1)** Coffee machines are articles not ordinarily incorporated in a dwelling and their supply is therefore standard-rated. **(1)**

d) This constitutes the first grant of a major interest (exceeding 21 years) in a dwelling where the grantee is entitled to reside in the building throughout the year **(1)**. As such, the grant by FW is zero-rated **(1)**.

e) A care home is regarded as a building with a 'relevant residential purpose'. **(1)** Services affecting the fabric of the building in the course of converting a single household dwelling into a relevant residential purpose building is subject to the reduced rate of VAT. **(1)**

2) The supply of the relevant residential purpose building (care home) under a short lease i.e. 21 years or less is exempt from VAT. **(1)** The REE will not apply to this building either as it is not a commercial building **(1)**. As such, FW will not be able to recover the 5% VAT charged by the builder or any other directly attributable VAT, subject to the de minimis rules. **(1)**

4.
1) Peanutz should not have reclaimed any VAT on the adult clothes which are wholly used for non-business purposes. The VAT overclaimed on this is £18,000 (1).

Peanutz is only entitled to a partial reclaim on items which have mixed use. To calculate the reclaimable proportion, Peanutz is using an income-based method. This would be as follows:

Non-business income = £150,000 + £17, 262 = £167,262. (1).

Business income = £80,500 (1/2).

Total income = £247,762 (1/2).

Proportion of overheads which should be allocated to non-business = £167,262/ £247,762 = 67.51% (1).

Overhead costs are:

Audit fee	2,000 (1/2).
Electricity Bills	3,600 (1/2).
Advertising	1,000 (1/2).
Rent	4,800 (1/2).
Total	11,400

Non-reclaimable proportion of overheads = £11,400 x 67.51% = 7,696 (1).

Total non-reclaimable VAT = £7,696 + £18,000 = £25,696 (1).

2) Peanutz should apply two tests to understand if it has a business activity. These are:

Whether the activity results in a supply of goods or services for consideration; (1) and

Whether the supply is made for the purpose of obtaining income or remuneration. (1)

As Peanutz will be receiving income in return for the clothes, this is consideration in return for the supply of goods. (1) The income will be received on an ongoing basis and is intended to offset some of the costs incurred by Peanutz and it would therefore be regarded as remuneration. (1) It is not relevant that the activity does not make a profit. (1)

3) Peanutz should charge VAT at the standard rate on all items which are consumed in the café. (1) For take away food, Peanutz should charge VAT at the standard rate on any hot food (1/2) and on any items such as confectionary and fizzy drinks which are excepted from zero rating (1/2). Sandwiches are zero rated when they are sold as a takeaway (1/2), unless they are heated in which case they are standard rated. (1/2)

One mark is available if a candidate states that deregistration is an option as Peanutz is currently below the VAT registration limit.

2) If Peanutz is a charity, then it can claim VAT relief on advertising costs (1) and a proportion of the electricity bills should be eligible for 5% VAT as the energy is used for a non-business purpose. (1)

5.

1) a) Option 1 – If Lucy's company sells the freehold in the properties to the existing tenants, this will be subject to VAT at the standard rate as she has opted to tax the properties. (1/2) The sale will not qualify as a TOGC as Lucy's business is one of property rental. The tenants will not be renting properties but continuing their own business. (1)

Option 2 – This will qualify as a TOGC as the buyer will continue to operate a property rental business and the sale would be outside the scope of VAT. (1) However, the buyer will need to opt to tax the properties before the TOGC takes place. (1) If this does not happen then the transfer will not be a TOGC and the company will need to charge VAT at the standard rate on the sale. (1) It does not matter that the buyer may convert the properties at some future date as the buyer will be continuing the same kind of business immediately after the sale. (1)

Option 3 - This will not qualify as a TOGC as the buyer will not be continuing the same kind of business immediately after the sale. (1) The company should charge VAT at the standard rate on the properties. (1/2)

b) Option A - The sale of the hotel would in principle qualify as a TOGC as the buyer intends to carry on the same kind of business. However, there is to be a break in trading of nine months whilst an extensive refurbishment is carried out. This is a substantial break and HMRC are likely to consider that there is an interruption to trade which means that the transfer is one of assets and not a going concern. (1) The company should charge VAT at the standard rate on the sale. (1/2)

Option B - If the sale is made to the property agent, there will be successive transfers of the property and it would not therefore qualify as a TOGC. (1) The company would need to charge VAT at the standard rate on the sale to the agent. (1/2)

c). The sale of shares is exempt from VAT, so Lucy would not charge VAT on the sale. (1) The sale of shares in a company does not involve any transfer of ownership of the properties and so TOGC is not in question. (1)

2) The rental of the shops is a continuous supply of services. (1/2) As such, the tax point arises whenever income is received or a tax invoice is issued. (1/2) Provided that the statement requesting payment makes it clear that it is not a VAT invoice then this does not create a tax point. (1/2)

For the room bookings, a basic tax point is created when the accommodation is supplied. (1/2) As the VAT invoice is issued at the same time then the basic and actual tax points are the same. (1/2) Where payment is received before the invoice is issued then a tax point is also created at that time. (1/2)

6.
1) Linus can omit the following from his calculation of taxable income:

Income	Reason for omission
Salary income (1/2)	Income earned from an employment relationship is outside the scope of VAT. (1/2)
Bank interest (1/2)	Bank interest is exempt from VAT (1/2)
Start up grant (1/2)	Grants are not payment for supplies and are therefore outside the scope of VAT.(1/2)
Gift from parents (1/2)	Gifts are not payment for supplies and are therefore outside the scope of VAT. (1/2)

2) Calculation of registration date

Month ending	Fees from UK customers	Fees from overseas customers	Royalties	Reverse charge on legal fees	Total	12 month cumulative total
31 January 2025	4,000				4,000	4,000
28 February 2025	4,000				4,000	8,000
31 March 2025	4,000	2,000			6,000	14,000
30 April 2025	5,000				5,000	19,000
31 May 2025	5,000	3,000			8,000	27,000
30 June 2025	6,000				6,000	33,000
31 July 2025	5,000				5,000	38,000
31 August 2025	5,000	4,000			9,000	47,000
30 September 2025	7,000				7,000	54,000
31 October 2025	6,000				6,000	60,000
30 November 2025	7,000		3,000(1)		10,000	70,000
31 December 2025	7,000	3,000			10,000	80,000
31 January 2026	7,000				7,000	83,000
28 February 2026	**7,000**	**3,000**		**9,000** (1)	**19,000**	**98,000**(1)
31 March 2026	8,000	5,000				
30 April 2026	9,000	3,000				

Linus exceeded the VAT registration limit on 28 February 2026 (1) and should be registered from 1 April 2026. (1)

3) Linus could have voluntarily registered for VAT from 1 January 2025 when he first started to trade. (1) If his customers (who are described as businesses) are VAT registered, then it is likely that they would be able to reclaim any additional VAT charged. The advantage of registering earlier, is that Linus would have been able to reclaim VAT on his costs including the sub-contractor fees and the legal costs. (1) Although when he registers for VAT, he will be able to reclaim some of those costs, such as on the laptop assuming he still owned it and was using it at registration) (1/2), he will only be able to claim VAT on services which are less than six months old (1/2). Another advantage of voluntarily registering is that there is then no danger of exceeding the registration limit without noticing, as has happened in this case. (1)
(4 marks available, max 3)

4) A previous adviser should have:

- made it clear who was responsible for monitoring deadlines;
- if appropriate made clear that monitoring was excluded from the services in the letter of engagement or other correspondence;

- if the adviser was responsible they should have maintained a system to ensure that time limits and deadlines were monitored and appropriate action taken;

- if there was any doubt about responsibility, then this should have been discussed with the client.

(3 marks – marks awarded for any other reasonable point)