



July 2026 Examination

PAPER 6

VAT

Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1.

1) .

Output VAT calculation	Gross	VAT
Invoices unpaid at 31 December 2025 (1/2 mark)	160,000	26,667
Sales invoices issued in period (1/2 mark)	220,000	36,667
Payments received (1/2 mark)	(260,000)	(43,333)
invoices unpaid for period (1/2 mark)	120,000	20,000
Output VAT on invoices paid for period (1/2 mark)	100,000	16,667

Additional bank payments received on 1 April excluded as not received by 31 March (1 mark)

Credit card income	70,000	
Adjust for transaction fees (exempt) (1/2 mark)	1,200	
Output VAT on credit cards (1/2 mark)	71,200	11,867
Agent's income	40,000	
Adjust for transaction fees (taxable) (1/2 mark)	7,200	
Output VAT on agent's fees (1/2 mark)	47,200	7,867
Output VAT on PVA (1/2 mark)		9,000
Total output VAT (1/2 mark)		45,400

Input VAT calculation

Purchase invoices		
Purchase invoices paid in period		21,000
Less unpaid at 31 December 2025		(7,000)
Input VAT on purchase invoices (1 mark)		14,000
Input VAT on PVA (1/2 mark)		9,000
Total input VAT (1 mark)		23,000
Net VAT payable (1 mark)		22,400

Input VAT on agent's fees paid in quarter to 30 June 2026 so not input VAT of this period **(1 mark)**

(11 marks)

2)

New Product	VAT liability
Publishing a book of photographs of its best designer kitchens; █	This is a book (1/2 mark) which is zero rated (1/2 mark)
Running cookery courses in its own show kitchen; █	Training courses are standard rated (1/2 mark) because FFF Ltd is not an eligible body (1/2 mark)
Charging for a cooking demonstration event to be held in Dublin; █	This is payment for admission to an event (1/2 mark) The place of supply is the country in which the event actually takes place ie Ireland (1/2 mark) . As this is outside the UK the supply is outside the scope of UK VAT (1/2 mark) .
Using surplus wood from the kitchens to create toys which will be sold to customers based in the UK and overseas	Sales of toys are standard rated (1/2 mark) . When exported the sale is zero rated (1/2 mark) subject to the supplier retaining evidence of export (1/2 mark) .

(5 marks)

2.

- 1) Building A - The income from the rent of the apartments will be exempt from VAT (1/2 mark) as the rent is the granting of an interest in land (1/2 mark). The rent from the shop units will also be exempt (1/2 mark) as the grant of an interest in land and Hera has not opted to tax the building (1/2 mark).

Building B – The income received for the sale of this building will be zero rated (1/2 mark) as the first grant of a major interest (1/2 mark) in a building which has been converted from non-residential use (1/2 mark) into a building designed as a dwelling (1/2 mark).

Sports facility – income for booking the five-a-side pitches will be standard rated (1/2 mark) as these supplies are excluded from the exemption for land (1/2 mark). However, if schools and clubs (1/2 mark) book the pitches for a series of 10 or more sessions (1/2 mark) with no longer than 14 days between each session (1/2 mark), the income will be exempt from VAT (1/2 mark).

Parking income – the parking charges to the apartment tenants will be exempt from VAT (1/2 mark) as this is considered an extension of the rent of the dwellings (1/2 mark) even if separately charged. Parking charges to the general public will be standard rated (1/2 mark) as parking is excluded from the general exemption for land (1/2 mark). Parking fines are considered to be outside the scope of VAT (1/2 mark) where they are not a contractual agreement to extend the period of parking (1/2 mark).

(10 marks)

- 2) Hera will pay VAT at 5% of the construction costs of converting the apartments as it results in a changed number of dwellings (1 mark). The costs of refurbishing the shop units will be standard rated as there is no relief available for commercial buildings (1 mark). The cost of converting Building B will also be reduced-rated at 5% as this is the conversion of a non-residential building into a residential building (1 mark).

Hera will be able to reclaim the VAT on Building B as she expects to make a zero-rated sale (1 mark). The VAT on building A will not be reclaimable as there is no option to tax in place and the rental income for the whole building will be exempt (1 mark).

(5 marks)

- 3) If Hera opts to tax Building A, then she will need to charge VAT on the rental of the shop units (1/2 mark). The option to tax will have no impact on the VAT liability of the rental income from the apartments (1/2 mark). The input tax on the construction and ongoing maintenance costs would become partially reclaimable (1 mark). However, Hera would also need to consider whether the tenants of the shops would be VAT registered and able to reclaim any VAT charged on the rent. If they cannot, then the rent may look expensive compared to the rent on a property which has not been opted. (1 mark)

(3 marks)

3.

1)

Option A – If Livia sells the assets of the business to another company then this qualifies as a TOGC as the effect of the transfer of assets is to make the purchaser capable of operating the business **(1 mark)**. It does not matter that the trading name will not be used as the relevant question is only whether the same kind of business will be carried on. **(1 mark)**. As there is an option to tax on the building, the purchaser will need to confirm that it has opted to tax the building and that its option will not be disapplied. **(1 mark)**

Option B – The analysis is the same as with Option A provided that the purchaser registers for VAT at the time of acquiring the business. **(1 mark)**.

Option C – The sale of shares is not a transfer of a going concern. **(1 mark)**.

Option D will not qualify as a transfer of a going concern for VAT purposes as the transfer of a client list is not on its own sufficient to enable a business to operate. **(1 mark)**.

(6 marks)

2)

Option A - If the business is transferred to another existing business, then the VAT registration would need to be cancelled as the company is no longer making taxable supplies **(1 mark)**.

Option B - If the business is transferred to an existing employee who is not currently registered for VAT, then the existing VAT registration can be transferred with the business **(1 mark)**. Alternatively, the purchaser can create a new registration and the existing registration would need to be cancelled **(1 mark)**.

Option C – If the shares of the business are sold, the company will continue to exist in the same legal form and hence there will no change to the existing VAT registration **(1 mark)**.

(4 marks)

- 3) If Livia de-registers for VAT without selling the practice, then she will need to account for VAT on the assets of the business **(1/2 mark)**. This includes the property as there is an option to tax in place **(1/2 mark)** but does not include the car **(1/2 mark)** or the goodwill which is an intangible asset **(1/2 mark)**.

The calculation of VAT due on de-registration is therefore:

	Value	VAT due
Building	£900,000	£180,000
Computer equipment	£40,000	£8,000
Company cars	£60,000	0
Office furniture	£30,000	£6,000
Goodwill	£170,000	0

Total		£194,000
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(2 marks)

(4 marks)

4) Livia will need to notify clients of the merger or ending of the practice **(1 mark)**. She should give them the option of deciding if they want to continue with the new practice or move elsewhere **(1 mark)**.

Even after she ceases in practice, Livia will remain liable for services which she provided to clients **(1 mark)**. As such, she will need to arrange continuing professional indemnity cover for at least six years in accordance with the CIOT and ATT PII Regulations **(1 mark)**. She may also need to respond to enquiries from the new advisers to her clients. **(1 mark)**.

(4 marks, max)

4.

1)

Julius	Julius can be included in the group as he controls the group through share ownership, and is in business through management charges. (1 mark)
Augustus Ltd	Can be included in the group as controlled by Julius. There is no requirement that corporate group members must have business activity (1 mark) .
Claudius Ltd	Can be included in the group as controlled by Julius through Augustus Ltd (1 mark)
Galba Ltd	Can be included in the group as controlled by Julius through Augustus Ltd. There is no requirement that group members must have taxable activity. (1 mark)
Hadrian Ltd	Can be included in the group as controlled by Julius through Galba Ltd. There is no requirement that group members must be VAT registered. (1 mark)
Otho Ltd	Cannot be included in the group as not controlled by Augustus Ltd or Julius (1 mark)
Nerva LLP	Can be included in the group registration as it meets the control conditions even though not a company (1 mark)

(7 marks)

2) The disadvantages of forming a VAT group would include:

The group may be partially exempt **(1 mark)** because it includes Galba Ltd which means that any entities within the group which provide services to Galba may not be able to reclaim all their input tax. **(1 mark)**

Hadrian Ltd would become VAT registered and would need to start adding VAT to its charges and so this would disadvantage the company's individual customers. **(1 mark)**

The group members are jointly and severally liable for VAT debts. **(1 mark)**

It may be difficult to get all the information from group members and also meeting MTD requirements in time for submitting a single VAT return. **(1 mark)**

The group may become liable for payments on account as a result of combining its turnover onto a single VAT return. **(1 mark)**

(Max 5 marks)

Credit given for any other relevant points.

- 3) Before accepting a new client, a member should comply with the client identification requirements set out in the anti money laundering guidance. **(1 mark)**

The member should also consider whether:

- the potential client will be an acceptable client in terms of the risks which will arise for the practice in managing the client; **(1 mark)**
- the company has the resources to manage those risks; **(1 mark)**
- the company has the skills and competence to service the clients requirements; **(1 mark)**
- there is any conflict of interest. **(1 mark)**

(4 marks, 5 available)

5.

1) Input VAT recovery

Expense type	Net cost in accounting system	VAT reclaimed	Comments	incorrectly claimed
Vehicle expenses				
Purchase of car	£35,000	£7,000	All input VAT on purchase of cars should be blocked (1/2 mark)	£7,000 (1/2 mark)
Lease of 2 cars	£10,000	£2,000	50% input VAT on lease cars should be blocked (1/2 mark)	£1,000 (1/2 mark)
Purchase of van	£30,000	£6,000	Personal use by employees of 5% de minimis (1/2 mark)	£0 (1/2 mark)
Speeding fine	£180	£36	No VAT on speeding fines (1/2 mark)	£36 (1/2 mark)
Travel costs				
Train fares	£1,000	£200	No VAT on train fares (1/2 mark)	£200 (1/2 mark)
Hotel costs in London	£3,400	£680	No restriction on quality of hotel on business trip (1/2 mark)	£0 (1/2 mark)
Hotel costs in Brussels	£620	£37	No UK VAT (1/2 mark)	£37 (1/2 mark)
Meal in Manchester to entertain clients	£480	£96	Business entertainment is blocked (1/2 mark)	£96 (1/2 mark)
Christmas party for staff	£1,400	£280	Allowable expense (1/2 mark)	£0 (1/2 mark)
Catering for staff meetings in the office	£800	£160	Allowable expense (1/2 mark)	£0 (1/2 mark)
Legal costs				
Advice on sales contracts	£2,000	£10,000	The base and VAT amounts have been transposed (1/2 mark)	£8,000 (1/2 mark)

Advice from lawyer based in Belgium	£4000	Nil	This should be subject to the reverse charge (1/2 mark)	£(800) (1/2 mark)
		Total input VAT claimed incorrectly		£15,569 (1 mark)

(13 marks)

- 2) The errors in Emperors Ltd's VAT return are likely to be considered careless **(1/2 mark)** and because HMRC have contacted Emperors Ltd to arrange a visit to review their VAT returns, it will be a prompted disclosure **(1/2 mark)**. The minimum percentage penalty is 15% **(1/2 mark)** and maximum penalty is 30% **(1/2 mark)**.

(2 marks)

6.

1). Penalties for late filing

Period	VAT Amount due	Filing date	Due date	Days late	Points	Cumulative points	Penalty
June 2024	£24,000	15 August 2024	07 August 2024	8	1	1	
September 2024	£38,000	08 November 2024	07 November 2024	1	1	2	
December 2024	£42,000	01 March 2025	07 February 2025	22	1	3	
March 2025	(£8,000)	28 May 2025	07 May 2025	21	1	4	£200.00 (1 mark)
June 2025	£68,000	24 August 2025	07 August 2025	17	1	4	£200.00 (1 mark)
September 2025	£39,000	30 October 2025	07 November 2025	-	-	4	
December 2025	£52,000	20 February 2026	07 February 2026	13	1	4 (1/2 mark)	£200.00 (1 mark)
							£600.00 (1/2 mark)

(4 marks)

2) Penalties for late payment.

Payment due date for December 2025 return

7 February 2026

(1/2 mark)

Payment date

7 April 2026

Days late

60

(1 mark)

First late payment penalty

	Outstanding amount	Penalty @ 3%	
Penalty at day 15	£ 52,000.00	£1,560.00	(1 mark)
Penalty at day 30	£ 52,000.00	£1,560.00	(1 mark)
Total		£3,120.00	(1/2 mark)

Second late payment penalty

Penalty interest from day 31 to 7 April 2026 ie one month at 10%	$10\% \times £52,000 \times 1/12$	=	£433 (1 mark)
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Total of first and second late payment penalty	£3,553 (1 mark)
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(6 marks)

3)

Hector can avoid future penalties for filing late VAT returns by filing on time **(1 mark)**

Where a taxpayer has reached the maximum penalty points threshold for filing quarterly returns, he can remove them by meeting both conditions A and B **(1 mark)**.

A: submit all returns by the filing deadline for 12 months from 1 March 2026 **(1/2 mark)**.

B: submit all outstanding returns for the previous 24 months **(1/2 mark)**.

(3 marks)

4) If a member of staff leaves suddenly and in close proximity to a filing deadline HMRC may consider this to be a reasonable excuse **(1 mark)**. HMRC would expect Hector to have replaced his administrator in the intervening 18 months and so they would not consider that Hector currently has a reasonable excuse for late filing of his VAT returns **(1 mark)**.

(2 marks)