

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

July 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.

1. Fine Fitting Fridges Ltd provides a service of fitting high quality designer kitchens for customers in their homes. Its annual turnover is approximately £900,000. Some customers are slow to pay the bills and at 31 December 2025, the company had sales invoices of £160,000 including VAT which were unpaid. As a result, the company was unable to pay the full amount of VAT due on its return for period ending 31 December 2025 and made a late payment.

To avoid this position in the future, the company started to use the cash accounting scheme from 1 January 2026.

In the period ending 31 March 2026, the company issued invoices with a value of £220,000 including VAT. It received payments of £260,000 including VAT which included settlement of all the invoices which were unpaid at the end of the previous period.

In addition to the above, on 1 April 2026 the company received bank transfers in its bank account of £36,000. The company believes that the customers made the payment the previous day.

On 15 April 2026, the company received payment from a credit card company for sales which customers paid by credit card. All the sales were made between 1 and 31 March 2026. The payment received was £70,000 after a deduction of £1,200 for transaction fees.

On 20 April 2026, the company received a fee of £40,000 from an agent who promotes and sells the company's services. The fee was for sales made by the agent in March where the customer had paid. The fee received was net of a deduction of £7,200 for the agent's fee. The agent is registered for VAT.

In the same period to 31 March 2026, the company had received purchase invoices with input tax of £20,000. In the period the company paid invoices with input tax of £21,000. Of this, £7,000 of input tax related to invoices which were unpaid at the end of December 2025.

The company imports some of its kitchen equipment and uses Postponed VAT Accounting (PVA) for these imports. There were no imports in January and February 2026. The statement for March 2026 was available from 13 April 2026 and showed that there was £9,000 of VAT on imports.

In order to increase its sales, the company is exploring some new ways of raising income by expanding its range of products.

These include:

- 1) Publishing and selling books of photographs of its best designer kitchens;
- 2) Running cookery courses in its own show kitchen;
- 3) Charging for a cooking demonstration event to be held in Dublin; and
- 4) Using surplus wood from the kitchens to create toys which the company will sell to customers based in the UK and overseas.

Requirements:

- 1) **Calculate how much VAT the company should declare on its VAT return for the period ending 31 March 2026, explaining any items you are omitting from the calculation.** (11)
- 2) **Explain the VAT liability of the new products which the company is developing.** (5)

Total (16)

2. Hera is a property developer who is registered for VAT. She has recently purchased some land and buildings from a company for £2m. The purchase was exempt from VAT. There are two buildings on the land and both have been empty for one year. There is a large car park around the buildings.

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Building A

Building A consists of two floors. The top floor consists of three apartments used as dwellings and the ground floor consists of three shop units. Hera intends to convert the top floor into two luxury apartments. The total cost of construction services for this will be £600,000.

The remaining units on the ground floor will be kept as shop units and will only have a small amount of refurbishment work done. The total cost of construction services for this will be £100,000.

Hera intends to rent the apartments and shops. She expects to get £1,500 per month rental for each of the two apartments and £800 per month for each of the three shop units. She is not yet sure who her tenants will be. Hera has not opted to tax Building A.

Building B

For the previous 20 years, Building B was used as a cafe. Hera intends to convert this into a dwelling at a cost of £200,000. Once complete, the freehold in the building will be sold. This work will be done by a separate contractor to Building A and completed at a later date.

Car park

As the car park is so large, Hera intends to build a sports facility, consisting of pitches for five a side football, on the site. She will then charge people an hourly rate to book the pitches. Some of the users will be private individuals, but some users will also be schools and clubs.

Of the remaining car park area, four parking spaces will be let to the tenants of the luxury apartments and there will be a separate charge for this of £40 per space per month. There will also be another 20 parking spaces which will be available for the general public for an hourly rate. Hera expects to receive about £8,000 per year in parking income plus another £2,000 from applying fines to people who do not buy a parking ticket.

Requirements:

- 1) Explain what the VAT liability is of the different sources of income Hera will receive from the development of the site. (10)**
- 2) Explain what rate of VAT Hera will pay on the construction costs of Buildings A and B, and explain whether Hera will be able to reclaim the VAT. (5)**
- 3) Explain whether it would be beneficial for Hera to opt to tax Building A. (3)**

Total (18)

3. Livia owns a limited company which provides tax advice. The company, which is registered for VAT, owns a building which it has opted to tax. Livia has decided that she no longer wishes to provide tax advice and is considering options for disposing of the business. The company has been valued at £1,200,000, excluding VAT, which is made up of:

	£
Building – the company paid VAT on the building at the time of acquisition	900,000
Computer equipment	40,000
Company cars	60,000
Office furniture	30,000
Goodwill	170,000

She is considering the following options:

Option A – sell the assets of the business, and transfer the staff, to another local company, which is registered for VAT. The purchaser absorbs the business into its own tax practice and will not use the current trading name.

Continued

Option B – sell the assets of the business including the trading name and transfer the staff to one of the existing employees who will then continue to provide tax advice. The employee is not currently registered for VAT.

Option C – sell the shares in the company to another person who will then provide tax advice using the current trading name.

Alternatively, (Option D) Livia is considering simply selling her list of clients at market value to another tax advisory firm, closing the business and keeping the property to convert into a house for her own use.

Requirements:

- 1) **Explain which if any of options A to D above will qualify as a transfer of a going concern.** (6)
- 2) **Explain what would happen to the company’s VAT registration in each of options A to C.** (4)
- 3) **If Livia chooses option D, and de-registers for VAT, calculate and explain how much VAT would need to be paid on the final return, assuming there is no income or expenditure in the final period.** (4)
- 4) **Explain Livia’s obligations in relation to her existing clients and her Professional Indemnity Insurance (PII) if she sells or ends her business.** (4)

Total (18)

4. Julius has just contacted your firm to ask if you are able to provide him with advice. He owns 60% of the shares in Augustus Ltd. Augustus is a holding company which holds shares in subsidiary companies but takes no active part in their management and as such is not involved in business activity.

Augustus Ltd holds 55% of the shares in Claudius Ltd which is fully taxable. Claudius provides services to all the other group members.

Augustus Ltd also holds 100% of the shares in Galba Ltd. This company’s income is exempt from VAT and it reclaims no input VAT. Galba Ltd holds 100% of the shares in Hadrian Ltd which sells consultancy services to non - VAT registered individuals but is not registered for VAT as its turnover is currently £80,000 per year.

Augustus Ltd also holds 30% of the shares in Otho Ltd which is fully taxable.

Julius is a 60% partner in a limited liability partnership, Nerva LLP which is fully taxable.

Julius charges each of the companies above an annual fee of £40,000 plus VAT for management services.

To simplify VAT accounting Julius would like to create a VAT group including as many of the above as possible.

All the entities are based in the UK.

Requirements:

- 1) **Explain which of the above entities can be included in a single VAT group registration and which cannot.** (7)
- 2) **Explain whether there are any disadvantages to forming this VAT group.** (5)
- 3) **Explain what you should do and consider before accepting Julius as a new client.** (4)

Total (16)

5. HMRC has contacted one of your clients, Emperors Ltd, to arrange a visit to review its VAT returns. The company has been registered for VAT since January 2025 and only has income taxable at the standard rate.

Your client is worried about how it has treated vehicle expenses and the VAT on some travel, catering and legal costs. The directors have asked for your assistance and have provided a report showing details of expenditure types and VAT from the accounting system and added some comments as follows.

<u>Expense type</u>	<u>Net cost in accounting system</u> £	<u>VAT reclaimed</u> £	<u>Comments</u>
<u>Vehicle expenses</u>			
Purchase of car	35,000	7,000	Employees' cars are available for personal use
Lease of two cars	10,000	2,000	Employees' cars are available for personal use
Purchase of van	30,000	6,000	Personal use by employees about 5%
Speeding fine	180	36	
<u>Travel costs</u>			
Train fares from the UK	1,000	200	These were all costs for a client meeting in Brussels. As a treat we stayed at a very expensive hotel in London for one night!
Hotel costs in London	3,400	680	
Hotel costs in Brussels	620	37	
Meal in Manchester to entertain clients	480	96	
Christmas party for staff	1,400	280	Only staff attended
Catering for staff meetings in the office	800	160	
<u>Legal costs</u>			
Advice on UK sales contracts	2,000	10,000	Looks a bit odd! Total cost on invoice was £12,000
Advice from lawyer based in Belgium on Belgian sales contracts	4,000	Nil	The invoice did not show any VAT

Requirements:

- 1) Explain whether the company was correct to reclaim input tax on each of the items listed above and calculate how much input tax Emperors Ltd has claimed incorrectly. (13)
- 2) Explain what is the minimum and maximum percentage penalty that HMRC could apply to the errors. (2)

Total (15)

6. In October 2024, Hector's office administrator retired and since then he has had difficulty recruiting a replacement. Part of the administrator's duties included filing the VAT return and recently, not all VAT returns have been filed on time. The filing dates of VAT returns since June 2024 are shown below. Prior to that date, all returns were filed on time. Hector is not in the payments on account regime.

Continued

<u>Period</u>	<u>VAT Amount due</u> £	<u>Filing date</u>
June 2024	24,000	15 August 2024
September 2024	38,000	08 November 2024
December 2024	42,000	01 March 2025
March 2025	(8,000)	28 May 2025
June 2025	68,000	24 August 2025
September 2025	39,000	30 October 2025
December 2025	52,000	20 February 2026

The payment for the VAT return for the period ending 31 December 2025 was paid on 7 April 2026.

Requirements:

- 1) Calculate what penalties would have been chargeable for the late filing of the returns shown above. (4)
- 2) Calculate how much penalty would be chargeable for the late payment of the December 2025 return. (6)
- 3) Explain what Hector needs to do to avoid future penalties for filing late VAT returns and remove his penalty points. (3)
- 4) Explain whether Hector has a reasonable excuse for the late filing of the returns. (2)

Total (15)