[redacted]

[redacted]

**Question 1**

Question 1.1:

a. The copyright is a B2B supply and the normal rules apply so the place of supply is where the customer belongs which is the US.
b. The License is covered by the normal rules apply so the place of supply is where the customer belongs which is France.
c. Regarding the live performance this would class as an admission to an event supplied in the UK. The place of supply is where the performance takes place regardless of whether the customer is a business or an individual.
d. Similar to above, the place of supply is where the live performance takes place i.e. Germany. The agent fees for the ticket sales is a B2B supply and will be supplied where the customer is based i.e. the UK. So the fees by the German company will be liable to UK VAT but will be accounted for by Nat via the reverse charge.
e. Online writing course would be a electronically supplied service (ESS) – ESS services override the normal B2C rules. Where this is provided to an individual the place of supply is where the customer is based. Therefore, if provided in the UK the place of supply is the UK. And if the individual is in the Netherlands or Switzerland the place of supply will be in the Netherlands or Switzerland. If supplied to an overseas business then the rules would be difference.
f. When goods are sold from a trader in GB and are moved to a customer based either inside or output the EU this is an export of goods. The place of supply of the books is therefore the UK as the goods are leaving the UK and the liability of the supply is zero rated, irrespective of the type of goods being sold providing the relevant conditions have been met.

Question 1.2

The receipt of legal services by a UK based business from a Non-UK supplier (i.e. US) is treated as a supply in the UK (B2B supply), irrespective of where the work is carried out, so the place of supply is where the customer belongs (i.e. the UK)

Neither foreign nor UK VAT should be charged by the US supplier therefore Nat should not expect VAT on the invoice.

Instead, NAT should report 20% of the value of the service (converted into sterling at an approved exchange rate) as output VAT in Box 1 of the VAT return and also as input VAT in Box 4 of the VAT return (if able to fully recover VAT).

The Theatre hire is a land related supply which takes place where the land is located which is Berlin, Germany. There will therefore be German VAT on the invoice. Nat would be able to recover this via a $13^{th}$ directive claim.

**Question 2:**

Question 2.1

For a business to claim bad debt there must be certain conditions which need to be met. One of which is the debt must be at least 6 months old from the later of the date of the supply or due date for payment.

Invoice 1 – Jellycod Ltd – Date 10 September 2025: Bad debt can be claimed since the amount has been written off in the accounts and its been 6 months since the due date of the invoice (24 September 2025).

Dreadknight should claim bad debt relief on the VAT return for the accounting period in which the entitlement to make the claim arises i.e. on the VAT return for the quarter to 31 March 2026. The amount claimed should be included in Box 4.

Since this was a zero-rated supply no input VAT can actually be claimed.

Invoice 2 – Jellycod Ltd – Date 14 September 2025:

Bad debt can be claimed since the amount has been written off in the accounts and its been 6 months since the due date of the invoice (28 September 2025).

Dreadknight should claim bad debt relief on the VAT return for the accounting period in which the entitlement to make the claim arises i.e. on the VAT return for the quarter to 31 March 2026. The amount claimed should be included in Box 4.

Amount claimable = 2,400

Invoice 3 – Jellycod Ltd – Date 2 October 2025:

Bad debt cannot be claimed since it has not been 6 months since the due date of the invoice i.e. 16 October 2025. If this is still not paid in the next VAT return quarter and all the other conditions have been met it can be claimed then.

Invoice 4 – Gingeree Ltd – Date 14 July 2025:

Since a part payment was made this is allocated against the earlier invoice being 14 July 2025 on the whole amount of 12,000 so no bad debt can be claimed with respect to this invoice.

Invoice 5 – Gingeree Ltd – Date 2 August 2025:

Since a part payment which is allocated against the earlier invoice first (above) there is still a remaining amount of £10,000 which can be allocated against this invoice. Dreadknight will be able to claim the remaining amount as a bad debt since they have written off the amount in the accounts and 6 months has lapsed since the payment was due to be made i.e. 16 August 2025.

Therefore, 10,000 *(50,000/60,000) = £8,334 can be claimed as a bad debt

Invoice 6 – Sherat Ltd – Date 2 July 2020:

It has been more than 4 years since the payment was due so no bad debt relief can be claimed.

Invoice 7 – Sherat Ltd – Date 14 July 2025:

Bad debt can be claimed since the amount has been written off in the accounts and its been 6 months since the due date of the invoice.

If Sherat is correct and this is a zero rated supply. No bad debt relief can be claimed but this means Dreadknight would owe HMRC money if they reclaimed the input VAT of £7,000.

Invoice 8 – Sherat Ltd – Date 3 august 2025:

Bad debt can be claimed since the amount has been written off in the accounts and its been 6 months since the due date of the invoice i.e. invoice was due 17 August 2025. The debt has also been written off in the accounts. Therefore bad debt claimable = £7,000.

Bad debt claimable.

Invoice  - 2,400

Invoice 5 - £8,334

Invoice 7 - £-7,000 (repayable)

Invoice 8 - £7,000

Total amount claimable from HMRC = £10,734

<u>Question 2.2</u>

Input VAT which has been claimed by HMRC in relation to an invoice which has not been paid within 6 months of the due date must be paid back to HMRC. Therefore, Dreadknight must report £120,000 *20% = £24,000 as output tax (box 1) on its 31 March 2026 VAT return.

Question 2.3

Dreadknight should claim bad debt relief on the VAT return for the accounting period in which the entitlement to make the claim arises i.e. on the VAT return for the quarter to 31 March 2026. The amount claimed should be included in Box 4.

The amount from Lighterary Ltd will go in Box 1 as output tax.

**Question 3**

Question 3.1

a) The rental payments to the insurance company will have VAT charged to them at the standard rate as this is a commercial property which has been opted to tax. The insurance company will unlikely to be able to recover this VAT as they are likely to be making wholly exempt supplies.

   The rental payments from the penthouse will not have VAT charged on them even thought the block has been opted as it is residential.

   The ground floor shop units will have VAT at the standard rate on their rental payments. This is because the building has been opted to tax. Usually the letting of the shops would be exempt from VAT (if there was no option to tax).

b) Purchase of the insurance floors and shops will be subject to VAT at the standard rate as the seller has opted to tax. The purchase of the penthouse will not be subject to tax, even though the building is opted, because it is residential. Therefore, the VAT will need to be apportioned to work out what should be charged.
   This might meant the buyer asks the seller to disapply their option to tax because there is an intention to covert the building into residential use. The request is made by serving the seller with a completed VAT1615D form. The conversion costs of non-residential buildings to dwellings is reduced rated. The reduce rate only applies to construction work, it will not apply to professional fees which will be standard rated.
c) The some construction costs of a new dwelling can be zero rated, provided they are qualifying services.
   As a general rule the services of the builder to construct the new building will be zero rated because the flats are designed as dwellings. However, there are some exceptions, for example, services of an architect are excluded from the zero rating available for construction services and will therefore be liable to VAT at 20%.

The supply cost of the builders (carpets fitters) will be subject to VAT at 0% as it is a service supplied in the course of construction however, the carpets themselves would be standard rated as they are not incorporated into the building
The coffee machines will be standard rated, as this is not incorporated into the building.
The fire alarm will qualify as a zero rated building material.

d) The sale of a first grant of major interest of a new dwelling is zero rated for VAT purposes. This is provided it is a major interest of 21 years or more. Even if the supplier is based outside the UK, this is a supply of land therefore the place of supply is where the land is situated I.e. London, UK.
e) As an normal rule the construction of a building or part of building which classed as a relevant residential building i.e. a care home is zero rated. However, since there it is only going to be a 10 year lease, it will not class as a first grant of a major interest therefore construction costs will not be subject to the zero rate and will be subject to VAT at the standard rate of 20%.

2) Since the construction costs will be liable to VAT at the standard rate, input tax might be recoverable. This will be to the extent that the onward supply is also standard rated / zero rated. Ordinarily the rent paid by the care home would be exempt. However, if the building has been opted to tax the rent would be subject to VAT at 20%. This would mean that construction costs could be recovered in full.

**Question 4**

Question 4.1:

| Income | Taxable Sales | Exempt Sales | Total |
|---|---|---|---|
| | 80,500 | 167,262<br>\ | 247,762 |
| Recovery rate | | 32.49 | =80500/247762*100 |
| Rounded up to nearest % | | 33%. | |

| | Total VAT | Attb. Tax | Non attributable |
|---|---|---|---|
| Adult clothing | 18,000 | 18,000 | |
| Children's clothing | zero rated | - | |
| Audit fee | 2,000 | | 2,000 |
| food for café | zero rated | - | |

| | | | | | |
|---|---|---|---|---|---|
| Confectionary | 3,200 | 3,200 | | | |
| electricity bills | 3,600 | | 3,600 | | |
| advertising costs | 1,000 | | 1,000 | | |
| Rent | 4,800 | | 4,800 | | |
| **Total** | **32,600** | **21,200** | **11,400** | **-** | |
| | Total VAT recovered | | 32,600 | | |
| | Input tax which should have been claimed | | | 10,758 | =32600*33% |
| | Input tax overclaimed and repayable to HMRC | | | 21,842 | =32600-10758 |

Question 4.2

In order to determine whether a supply is a business supply and merits a charge to VAT it must:

- Amount to a supply of goods or services – there is a supply of clothing (goods) to another party;
- Must be made by a taxable person – since Peanutz is registered for VAT the supply of providing the clothing has been made by a taxable person;
- Must have been made in the UK – the supplies of clothes have been made in the UK;
- Must have been made in the course of furtherance of business – Penutz has plans to continue business i.e. by asking for voluntary contributions next year;
- Must be a taxable supply by definition – Both the adult clothing and children's clothing are taxable supplies (standard rated and zero rated respectively).

Since the above conditions hold true, the income received from providing the clothing (although it will not cover the costs) will be business income.

Question 4.3

The basic rule for

Hot food is standard rated regardless of whether it is eaten in the café or take away.

Fizzy drinks and confectionary are standard rated goods so the correct treatment is applied.

Cold sandwiches taken away will be zero rated. But if they are eaten in the café will be standard rated.

Question 4.4

Supplies of advertising to a charity are zero rated. Therefore would be able to claim input tax recovery on costs incurred in the course of its charity work.

Voluntary donations of clothing are not generally supplies and money has not been given in return for the provision of the goods. Even though there is a suggested amount, as it is only a suggestion and someone does not need to contribute this is not a supply.

**Question 5**

Question 5.1:

The shops

The normal rules when supplying a commercial building which has been opted is that it is a standard rated supply. Where the sale of an opted building falls within the TOGC

rules then special rules apply. In certain circumstances, this can mean that the sale of the building is outside the scope of VAT.

Option 1: The normal rules are that the sale of the shops will be standard rated since they have been opted. This would continue to apply and this would not be a transfer of going concern as the rental business would not be being continued.

Option 2: The normal rules are that the sale of the shops will be standard rated since they have been opted. As the buyer is planning to transfer to another party this cannot be a TOGC. The sale will therefore be viewed as a supply subject to VAT and not outside the scope.

Option 3: The normal rules are that the sale of the shops will be standard rated since they have been opted. As the buyer also intends to operate the business as a shop, this is likely to qualify as a TOGC. Even if HMRC were to consider the shops as a different business, the shops will operate in a similar fashion.

The hotel

Option A: The buyer intends to continue operation of the hotel business, and it will therefore qualify as a TOGC, which is outside the scope of VAT. HMRC state that there must be no significant break in the normal trading pattern before or immediately after the transfer. The break in trade needs to be considered in the context of the type of business concerned and might vary between different types of trade or activity. HMRC do not consider a short period of closure that does not significantly disrupt the existing trading pattern, for example, for refurbishment will not prevent the business from being transferred as a TOGC. Therefore the transfer will be outside the scope of VAT and there will be no VAT charged.

Option B: The agent wants to buy and immediately transfer to another party therefore as the hotel has been opted this will be subject to VAT at the standard rate and cannot be a TOGC as there will be an immediate transfer of the assets on to another party.

The shares in the company

Regardless of whether the sale is a TOGC or not the sale of shares in the company is exempt from VAT, so if Lucy sold your shares to another business, there would be no output tax due on the sale or the VAT return.

Question 5.2

The basic tax point for rental payments is the earlier of when payment is received or when a tax invoice is issued. Since rental payments and the tax invoice are done on the same day this is when the tax point will be.

With respect to the deposits of the hotel booking the deposit and the balance are treated separately. The basic tax point of the deposit will be overridden as payment is taken earlier so the actual tax point will be the date the deposit is made.

The tax point for the remaining balance will be a separate tax point. This will be the earlier of payment or the date the VAT invoice is issued if within 14 days of payment.

**Question 6**

Question 6.1:

Liability to register for VAT is determined by the value of a person taxable supplies. This includes both standard rated and zero-rated items.

Income from employment is not within the scope of VAT and wages can therefore be excluded – therefore, the salary received from the customer should not be included.

The disposal of capital assets is also excluded from the calculation because it would be distortive to include these amounts.

The grant funding, lottery win and dividend are not consideration for supplies and can be omitted – therefore, the government grant should be omitted.

Gifts are also not included in the calculation – therefore, the gift from his parents should be excluded form the calculation.

Only income which is made in the course of the furtherance of your business is capable of being a taxable supply, therefore bank interest would not count towards the threshold.

Similar to the above the royalties from the sale of a book would not count towards the registration threshold as this is not in relation to his taxable supplies and not in the course of the furtherance of business.

Consultancy income would class as taxable income which would be used when calculating whether the threshold has been breached.

Question 6.2

| | Uk customers | Overseas customers | Salary | Bank interest | Total |
|---|---|---|---|---|---|
| Jan-25 | 4000 | | - | - | 4000 |
| Feb-25 | 4000 | | - | - | 4000 |
| Mar-25 | 4000 | 2000 | - | - | 6000 |
| Apr-25 | 5000 | | - | - | 5000 |
| May-25 | 5000 | 3000 | - | - | 8000 |
| Jun-25 | 6000 | | - | - | 6000 |
| Jul-25 | 5000 | | - | - | 5000 |
| Aug-25 | 5000 | 4000 | - | - | 9000 |
| Sep-25 | 7000 | | - | - | 7000 |
| Oct-25 | 6000 | | | - | 6000 |
| Nov-25 | 7000 | | | - | 7000 |
| Dec-25 | 7000 | 3000 | | - | 10000 |
| Jan-26 | 7000 | | | - | 7000 |
| Feb-26 | 7000 | 3000 | | - | 10000 |
| Mar-26 | 8000 | 5000 | | - | 13000 |
| Apr-26 | 9000 | 3000 | | - | 12000 |

| | | |
|---|---|---|
| Jan 2025 - Dec 2025 | 77000 | =SUM(G3:G14) |
| Feb 2025 - Jan 2026 | 80000 | =SUM(G4:G15) |
| March 2025 - Feb 2026 | 86000 | =SUM(G5:G16) |
| April 2025 - March 2026 | 93000 | =SUM(G6:G17) |

The Vat registration threshold is £90,000. At the end of March 2026, the taxable turnover in the previous 12 months was £93,000, which breaches the £90,000 threshold. HMRC should be notified of this by 30 April 2026 and you will be registered for VAT with effect from 1 May 2026.

Question 6.3

A person may register for VAT voluntarily if they make taxable supplies or intend to make taxable supplies by plan to in the near future– at this point they will become a taxable person. The VAT registration can be backdated to a maximum of 4 years. This would be beneficial it would have meant he could have claimed input tax on his costs incurred pre registration. For example, the new laptop and legal fees. Since the legal fees were incurred 6 months prior to VAT registration they would now no longer be recoverable. Therefore, it would have been beneficial for Linus to voluntarily register for VAT.

Question 6.4

The previous VAT advisor should have been keeping a proper record of all dealings with the client.

They should have also been monitoring Linus taxable turnover each month against the VAT registration threshold. Once the threshold was breached they should have notified Linus of his responsibility to register and instructions on how this could be done.