Question 1. Nat

1.1.Place of supply:

a. The Sale of copyright to flim company based in US is a supply of intellectual property services, therefore the place of supply is where the customer belong i.e. US, following the B2B genera rules of International services. Since they are supplying the services to company in US. The supply is outside the scope of VAT In UK.

b. The License of the script is also supply of intellectual property therefore The place of supply is France and the VAT is outside scope. This supply also follows the B2B general rules since the company is based in France.

c. Live performace in Exeter, the tickets are sold via website to Uk Individuals and Business, This will be Addmission to event therefore the place of supply is where the event is physically taking place.
So Place of supply is UK, so the sale of ticket is subject to UK VAT as general UK VAT Rule.

d. Live performance in Germany (EU), this is also Admission to event, therefore the place of supply is where the event is physically taking place so, the place of supply therefore is Germany. The VAT implication will be subject to Germany VAT. Since the ticket was sold by a german tickets and events company as disclosed agent, the supply of Ticket is basically made by the agent.

e. Online writing courses to individual living in UK, the Netherlands and Switzerland, the tutoring and coaching is all done VIA pre -recorded videos and downloadable PDFs. Therefore this supply counts as electronic supplies services so the place of supply is where the customer belongs.

- UK: The Place of supply is UK and General UK VAT is due on the courses.
- The Netherlands: The Place of supply is Netherlands and VAT is subjected to Netherland VAT. This supply is outsie the scope for VAT in UK
- Switzerland – The Place of supply is Switzerland and VAT is subjected to Switzerland VAT. This supply is outsie the scope for VAT in UK

f. Sale of 100 copies of their new pottery book in The Netherlands is supply of the goods,

Nat arranged transport of goods from Exeter (UK) to Amsterdam (The Netherlands) this is export and the supply is movement of goods to the EU from UK. The Sales is qualified as Zero rated, however NAT must obtain the necessary evidence that the goods are sold has been exported. The Evidence that HMRC will accepts is Bill of Landing, Air Waybill or other commercial Evidence.

1.2. Place of supply of NAT's Purchase and UK VAT Return treatment.

a. Legal services from US lawyer for USD 2,000:

Nat is registered for VAT in UK therefore the gener B2B rules applies, THE place of supply is UK, as Nat is living in Exeter (UK). The services are importing from US lawyer therefore reverse charge apply.

To recover the Input VAT on USD2,000, Nat Must include the output VAT on the UK VAT return then recover the same amount as input VAT, which he can recover as normal recovery rules.

b. Theatre hire in Berlin for EUR 750.

The Hire of Theatre is treated as supply of land and building therefore the Place of supply is where the land and building is. The Theatre hire is in Berline Germany therefore the place of supply is Germany, There is no reverese charged apply and the VAT is outside the scope from UK VAT. The supply is however subject to German VAT implication.

Question No 2: DreadKnight Ltd:

2.1.BAD Debt Relief:

The condition for DreadKnight Ltd to claim bad debt relief are:

a. The Goods and services must be supplies and Output VAT must be paid for HMRC already.
b. The Debt should be written off as a bad debt in account and it can be claimes within 4 years and 6 month old.
c. The Debt must be atleast 6 month old and the amount that is written off must not exceed normall selling price.

CUSTOMER	INVOICE DATE	VAT ON INVOICE	NOTES/ WORKINGS	VAT DEBT RELIEF
JELLYCOD LTD	10/09/2025	Nil	Zero rated supply only, therefore no VAT to reclaim	£ -
JELLYCOD LTD	14/09/2025	£ 2,400	More than 6 month overdue and writtern off	£ 2,400
JELLYCOD LTD	02/10/2025	£ 2,400	Not yet 6 month overdue so not eligible by 31 March 2026	£ -
Gingeree Ltd	15/07/2025	Nil	Zero rated supply	£ -
Gingeree Ltd	02/08/2025	£ 10,000	working (W1)	£ 6,333
Sherat Ltd	02/07/2020	£ 2,000	More than 4 years and 6	£ -

			month so cannot recover.	
Sherat Ltd	14/07/2025	£ 7,000	Working (W2)	£ 1,167
Sherat Ltd	03/08/2025	£ 7,000	More than 6 month old and writtern off so can recover	£ 7,000
Total VAT Relief	-	-	-	**£ 16,900**

Workings (W1) Invoice dated 02 Aug 2025	**Gingeree Ltd:**	
Invoice Total		£ 60,000
VAT		£ 10,000
Payment received	VAT inclusive	£ 22,000
	Orginal VAT	£ 10,000
Payment received VAT	22000*1/6	£ 3,667
Therefore Outstanding VAT	10000-3667	**£ 6,333**

<u>Working 2 (W2) Invoice dated 14 July 2025</u>	**<u>Sherat LTD</u>**	
Invoice Total		£ 42,000
VAT		£ 7,000
NET amount Paid	VAT inclusive	£ 35,000
	Orginal VAT	£ 7,000
Payment received	35000*1/6	£ 5,833
<u>Outstanding VAT</u>	**<u>7000-5833</u>**	**<u>£ 1,167</u>**

Lightery LTD:	**Repayment of previosu Bad debt relief:**		
Payment Received		£ 4,000	
VAT element	4000*1/6	£ 667	To repay HMRC by Deradknight Ltd

Total VAT reclaimable	
Total Bad debt relief claim (See above)	£ 16,900
Less: Repayment of Lightery LTD	£ (667)
Total VAT recoverable from HMRC as bad debt	£ 16,233

2.2. VAT Implication for Dread knight Ltd:
The Input Tax of £24,000 (£120,000*20%) must be paid to HMRC even if a supplier invoice remain unpaid, for six months after the due date for repayment.

Dreadknight recovered the input tax on 30 Sepptember 2025, But on 10 March 2026, the accounts payable team at Dreadknight received an email from supplier agreeing that Dreadknight Ltd could have a six month extension to pay the outstanding amount so, the new due date is changed because of six month extension and Dreadknight ltd does not need to repay the input tax.

2.3. Dreadknight Ltd Should claim Bad debt relief through VAT return by including the VAT amount in Box 4, Input Tax.
If the payment is later received for debt, and if the bad debt has already been claimed to HMRC, the VAT which is recovered should be repaid to HMRC, as Output Tax which is in BOX 1 of VAT return.

Before Claiming the Bad debt relief, Dreadknight Its must keep VAT invoices, record showing VAT was paud and proof the the debt was wriiten off as a bad debt.

Question 3. Fuchsia Wing Ltd (FW)

3.1. VAT liability of following:

a. Land Currently Made by FW in project 1:

The freehold four story building was acquired five years ago, so this is not "New Building" i.e. the building is not New, three year old Building.

- The lease of second and third floors to an insurance company as their headquarters is generally exempt supply. But as FW has opted to tax over the building and the lease is with commercial building therefore the supply is taxable at standard rated i.e. 20%.
- Lease of top floor penthouse apartment, the rent is exempt. The supply is for residental tenancy therefore it is exempt. Even though the building is opted to Tax, for residential accommodation the option to tax is not eligible.
- Lease if ground floor to three commercial shops unit, The rent is normally exempt, but since the building is opted to tax, and the lease are provided to commercial building therefore the rent is standard rated.

b. Proposed Sale of the freehold in Project 1.

- Since the building has been opted to tax, sale of commercial areas will be standard rated i.e. 20%, which includes Sale of commercial parts second and third floor and ground floor commercial shops.
- The sale of residental penthouse is exempt, as the option to tax disapply.

The sale of freehold Project 1 therefore be Partially taxable and partially exempt, so partial exemption rules apply where an apportionment of the sale is required.
If FW wants to sell the freehold to another property developer who will immediately convert the commercial areas of the building into six new residential apartments, this doesnot affect the VAT liability of FW sales and will remain same.

c. Construction services made by builder to FW in Project 2:

- Construction of New building in Mayfair, London Uk as a residental apartment are Zero rated, as this related to First Grant New Dwellings.
- The Fire – alarms with sprinkler system is zero rated as this are incorporated into the building as a part of construction work and not sperate.

- Luxury Carpet are standard rated as they are not incorporated items into the building and also not building materials.
- Coffee Machines are also standard rated as they are not building materials but moving appliances.

d. Proposed supply of 25 year leasehold to non-UK resident buyer in Project 2:

- The Grant of 25 year lease of new residental building is zero rated. As this falls under first grant major interest of dweling. Even though the buyers are non-Uk resident, this doenot affect the VAT liability.

e. Construction services made by the builder to FW in project 3:

FW recently acquired the freehold of large mansion house in Blackpool (UK) to convert into residential care home. Therefore the conversion of Single household dwelling into residential home for care purpose is Reduced rate at 5%.

3.2. Recovery of VAT incurs relating to Project 3.

- Lease of completed care home to care provider is exempt supply of land. Since the Supply of land is exempt the VAT is not recoverable. FW is planning to lease the carehome to a care provider for initial 10 year period, The onward supply is exempt, FW cannot recover the VAT incurred on project 3 costs, subject to De minimis rules of partial exemption.

Candidate Number: [redacted]

Question 4. Peanutz:

4.1. VAT overclaimed by Peanutz year ending 31 March 2026.

Total Taxable Supplies (W1)		£ 80,500
Total Exempt Supplies (W1)		£ 167,262
Total		**£ 247,762**

Direct Attributed Input Tax (W2)		
Direct Taxable Supplies	(W2)	£ 3,200
Direct Exempt supplies	(W2)	£ 18,000
Residue	(W2)	£ 11,400
Total		**£ 32,600**

Calculate percentage:

Total taxable supplies / Taxablesupplies+exempt supplies	80500/247762	32.5%	**33%**	Always round up since residue not exceed £400K

		Taxable Supplies		**Exempt Supplies**
Direct		£ 3,200		£ 18,000
Residue	33%*11400	£ 3,762	(100%-33%) 67%*11400	£ 7,638
Total	-	**£ 6,962**	-	**£ 25,638**
		(Always recoverable)		

De Minimis Test

Test 1	25638/12 months	£ 2,137		> £625 per month - Test Failed
Test 2	25638/32600		79%	>50% - Test Failed

Since both the De Minimis test Failed The Total Input Tax recoverable is: £6,962. As both de Minimis test failed, The simplified De Minimis test is also likely to be failed.

Workings: (W1)	**W1 - Calculate taxable and exempt business Income**	
Local Authority Grant	exempt supplies	£ 150,000
Voluntary Contribution for clothes	Exempt Supplies	£ 17,262
Total exempt Supplies		£ 167,262
Café Sale	Taxable supplies	£ 80,500

Working 2 (Direct Attributed Income)

Expenses	**Treatment**	**VAT**
Purchase if adult clothing	direct attributed to exempt supply)	£ 18,000
Confectionery and fizzy drink	Direct attributed to taxable business	£ 3,200
Residual		

Audit Fee	Residual	£ 2,000
electricity Bill	residue	£ 3,600
advertising cost	residue	£ 1,000
Rent	residue	£ 4,800
Total Residue		£ 11,400

Total VAT overclaimed year ending 31 March 2026.

Adult Clothing VAT fully overclaimed	£ 18,000
Residual VAT overclaimed	£ 7,638
Total vat overclaimed	£ 25,638

4.2. Income from Clothing:

Peanutz is planning to charge a fixed cost of each item which is 405 of the purchase price and the income which Peanutz will receive providing the clothing business will become condieration of supply, which would make the activity business activity of VAT purposes. The Voultary contribution will always be outside scope of VA because it is Voluntary and there is no direct link between the paymet and the supply received.

The charge would not make the cost fully recoverable.

4.3. VAT liability for item sold:

Peanuts is incorrectly charging the VAT on all café income because the takeaway cold sandwiches are zero rated.

The Hot food and sandwiches are always standard rated as sold hot, the cold sandwich is zero rated if takeaway, but if eaten in café standard rated as it will be supply of catering. The fizzy drinks are standard rated and confectionery is also standard rated.

4.4. VAT relief if Peanutz Were a Charity:

It Peanutz were a charity it can get VAT relief on certain items that it purchases. The advertising cost will be zero rated for qualifying charity but evidence and certificated has to be provided.

The Electricity will be reduced rate for qualifying charitable business for non-business use.

For the Purchase of clothing stock there is no relief given for qualifying charity.

Question 5. Lucy:

5.1. VAT Due on each proposed Sale option.

a. The Shop

- **Option 1.**
  The sell of freehold in all the shops each of the existing teanants who will continue to run their business from the shops, this qualifies as Transfer of Going Concern (TOGC), there is option to tax on the properties and the purchasers are VAT registered, the TOGC condition met so, the sale will be outside scope of VAT and there is no VAT chargable.
- **Option 2:**
  The sale of freehold in all the shops to another business who woll also continue to rent them to existing tenants, this also qualiy as TOCG.
  even though the owner of the business has intention to sell the land for property development, this will however only appen when the leases are up for renewal which is six months after the expeted sales date so the business is continuing immediately after transfer so it would be TOGC.
  The purchaser is VAT registered and the properties are opted to tax, therefore No VAT should be charged as it qualifies for TOGC.

b. The Hotel:

- **Option 3:**
  Sale of freehold to another business, which will immediately pay tenants to leave and run their own shop, this does not qualify as TOGC as TOGC condition are not satisfied.
  The property is opted to Tax therefore the sale will be standard rated i.e. 20%.

  Option 3.a.
  The company selling the hotel to another hoten operator, the transfer is qualified for TOGC. The purchaser is pkanning to operate a chains of hotel business following the refurbishment, Since the refurbishment is only for 9 months this doesnot affect TOGC rules as after refurbishment they are

planning to operate same business. Therefore the sale is outside the scope of VAT.

Option 3.b.

If the sale of the property is done by property agent it is consider sale from third party which doesnot satisfy TOGC rules therefore does not qualify for TOCG rules.

The purchaser who is property agent is not planning to continue to operate the business, but will immediately sell to another buyer. Therefore the sale will be standard rated since the building is opted to tax.

c. The Shares in the company:

The sale of share by Lucy will be exempt, Since the ownership is changing The TOCG rules doenot apply because it does not satisfy the TOCG conditions.

5.2. Tax points for Shops rental and Hotel room booking:

The basic tax point is when the dated if the good and services are delivered or removed. The basic tax point is overridden on certain conditions:

- The shops rentals is continuous supply services, Lucy send tenants monthly statement showing how much rent and VAT is due which actus as actual tax point because it acts as invoice.

  The VAT will be due when the statement will be issued, or the payment has been received if earlier.

- The Hotel Bookings: The company normally takes 50% deposit when the room booking is made and then once the guest settled the bill it takes the remaining payment for the room and issue a VAT invoice, Therefore the actual tax point is when the deposit is given. The second tax point raised for the remaining balance when the final payment is received for when the VAT invoiced is issued.

Question 6. Linus:

6.1. VAT registration:

To be VAT registered Linus taxable supplies made in previous 12 months should exceed the VAT registration threshold i.e. currently £90,000. Only taxable supplies are counted as a supply to be considered for VAT registration.
The income to be omitted when calculating whether Lius should be registered for VAT.

- The salary received from a customer who employed him as a consultant is out of scope for VAT therefore this doesnot need to be included when deciding whether to register for VAT.
- The Bank Interest is exempt from VAT and is ignored, as this is not taxable supplies. Therefore can be omitted when calculating whether to be registered or not.
- Government Start-up Grant are outside scope as there is no direct lik between payement and supply. So can be omitted.
- Gift from parents are outside scope of VAT so not considered taxable supply.

The following Income is considered taxable supply and should be included when considering registration:

1. Fees from UK Customer
2. Fees from overseas customer
3. Royalties from the book.

6.2. VAT registration threshold:

Months Included	Uk Fees	Overseas Fees	Royalties	Total
Apr-25	£ 5,000			£ 5,000
May-25	£ 5,000	£ 3,000		£ 8,000
Jun-25	£ 6,000			£ 6,000

Jul-25	£ 5,000			£ 5,000
Aug-25	£ 5,000	£ 4,000		£ 9,000
Sep-25	£ 7,000			£ 7,000
Oct-25	£ 6,000			£ 6,000
Nov-25	£ 7,000		£ 3,000	£ 7,000
Dec-25	£ 7,000	£ 3,000		£ 10,000
Jan-26	£ 7,000			£ 7,000
Feb-26	£ 7,000	£ 3,000		£ 10,000
Mar-26	£ 8,000	£ 5,000		£ 13,000
Total	**£ 75,000**	**£ 18,000**	**£ 3,000**	**£ 96,000**

The value of taxable supplies made in previous 12- months cumulative period should exceed £90,000 for Linus to be VAT registered. The VAT registration threshold exceed at 31 March 2026 therefore the Linus must notify HMRC by 30 April 2026 and the effective date of registration will be 1st May 2026.

6.3. Earlier Registration and its benefit:

Linus can apply for VAT registration before exceeding the registration threshold, this would be Voluntary pre registration. This would be benfifial for Linus because:

- The VAT incurred on the laptop and YK legal fees at the start of the business can be recovered.
- He employed VAT registerd Sub contractor, he could recover VAT on this cost as well.
- The overseas consltancy services are outside the scope of VAT but still considered taxable supplies for Input tax recovery purposes. That means he can recover the UK VAT without charging his overseas customer the UK VAT.

However, The Voluntary registration also would increase administration work to Linus as they would need to file VAT returns, Charge VAT on supplies to UK customer and also comply with MTD (making tax Digital).

6.4. The steps that the previous tax advisor should have taken in relation to Linus meeting key tax deadline such as VAT registration are:

- They should have identified when the VAT registration threshold was close to being exceeded and informed Linus accordingly also ensuring key deadline including VAT registration notification deadline were monitored properly.
- They should have informed linus promptly regarding the requirement to register for the VAT by monitoring 12 month taxable turnover regulary.
- They should also have advised Linus about advantages and disadvantage of voluntary registration before his taxable turnover exceeded.