Practical Tax People

Association of Taxation Technicians

May 2017 Examination

PAPER 6

VAT

Part I Suggested Answers

MARKS WILL BE GIVEN FOR VALID POINTS NOT INCLUDED IN THE MODEL ANSWERS

Candidates are not expected to quote statutory references in their answers.

Q1 (4 marks, 1 mark each)

Refer to VATA Schedule 1

1) Natasha's taxable supplies over a rolling 12-month period first exceeded £83,000 at the end of February 2017 (£88,150) so she became liable to register on 28 February 2017. (1 mark)

2) Natasha should apply to register within 30 days of becoming liable to register for VAT i.e. by 30 March 2017. (1 mark)

3) Natasha will be registered from the beginning of the month following the month in which she became liable to register, i.e. from 1 April 2017. (1 mark)

4) Since Natasha will have been registered from 1 April 2017, she will need to declare 20% VAT on her taxable supplies of £7,000 i.e. £1,400 of VAT. (1 mark)

Q2 (2 marks, ½ mark each)

Refer to VATA Schedule 7A

1) The construction of a new office building:	Standard rated (½ mark)
2) The renovation of an existing block of flats*:	Standard rated (½ mark)
3) The conversion of an office building to a block of flats:	Reduced rated (½ mark)
4) The maintenance of a 19th century office building:	Standard rated (½ mark)

* Candidates will also receive credit for stating lower rating applies if the flats had been empty for two years prior to the renovation.

Q3 (4 marks)

Refer to General Regulations 1995 SI 1995/2518 Part 15

The Capital Goods Scheme applies to VAT incurred in respect of:

- land, buildings and work on buildings where the value of the building or work is £250,000 or more (1 mark); and

- single items of computer equipment and aircraft, ships, boats and other vessels worth £50,000 or more. (1 mark)

The purpose of the CGS is to adjust VAT recovery in respect of higher value purchases of assets to reflect their use over a longer period rather than simply by reference to use in the year in which they were acquired. (1 mark)

Matadeep Ltd will need to make a CGS adjustment in the quarter ended 31 October, i.e. two quarters after its tax year which ends on 30 April. (1 mark)

Q4 (4 marks, 1 mark each)

Refer to VATA Schedule 8

- Milk is zero-rated. VAT due: £nil (1 mark)
- Bread is zero-rated. VAT due: £nil (1 mark)
- Fizzy soft drinks are standard-rated. VAT due = £5,400 x 20% = £1,080 (1 mark)
- Crisps are standard-rated. VAT due = £4,400 x 20% = £880 (1 mark)

Q5 (4 marks, 1 mark each)

Refer to Value Added Tax (Input Tax) Order 1992 SI 1992/3222

- Car lease – 50% of the VAT is recoverable. £5,600 x 20% x 50% = £560 (1 mark)
- Staff entertainment – VAT is fully-recoverable. £4,500 x 20% = £900 (1 mark)
- Client entertainment – VAT is not recoverable. £nil (1 mark)
- Office furniture – VAT is fully-recoverable. £4,450 x 20% = £890 (1 mark)

Q6 (2 marks, 1 mark each)

1) Robert's VAT return for the quarter to 30 June 2017 will be due by 7 August 2017. (1 mark)
2) His ECSL for the calendar quarter to 30 June 2017 will be due by 21 July 2017. (1 mark)

Q7 (4 marks, ½ mark each)

Refer to General Regulations 1995 SI 1995/2518 Part 8

Cash accounting criteria: Four of the following (2 marks, ½ mark each):

- Its VAT taxable turnover will be £1.35 million or less in the next 12 months.
- It does not use the VAT Flat Rate Scheme.
- It is up-to-date with its VAT returns.
- It does not owe any money to HMRC or has an agreed repayment schedule in place if there is debt.
- It has not committed a VAT offence in the past 12 months.
- Use of the scheme has not been withdrawn in the previous year

Transactions outside cash accounting: Two of the following (2 marks, 1 mark each):

- When the payment terms of a VAT invoice are six months or more.
- When a VAT invoice is raised in advance of making the supply.
- When buying or selling goods using lease purchase, hire purchase, conditional sale or credit sale.
- When receiving goods from within the EU.
- When moving goods outside a customs warehouse.

Q8 (3 marks)

Refer to General Regulations 1995 SI 1995/2518 Part 19

(a) More than six months overdue. £12,000 x 20% = £2,400 (1 mark)

(b) More than six months overdue.

VAT element of amount paid is £4,500 x $^{1}/_{6}$ = £750 (½ mark)

VAT remaining unpaid is (£18,500 x 20%) - £750 = £2,950 (1 mark)

(c) Less than six months overdue. £nil (½ mark)

Q9 (3 marks)

Refer VATA Schedule 4A

- Services supplied to UK businesses and individuals will be standard-rated. (1 mark)
- Services supplied to EU businesses will be outside the scope. (1 mark) (1 mark will also be given for stating services supplied in the destination country) (½ for zero-rated)
- Services supplied to EU individuals will be subject to UK VAT. (1 mark)

Q10 (2 marks)

VAT return for 1 August to 31 October 2016:

Debit Cash	£1,500	
Credit VAT Account	£1,500	(1 mark)

VAT return for 1 November 2016 to 31 January 2017:

Debit VAT Account	£244,000	
Credit Cash	£244,000	(1 mark)

Q11 (3 marks)

Refer to VATA Section 43A

Conditions: Two of the following (1 mark, ½ mark each):

- Each proposed member is a corporate entity.
- Each proposed member has a UK or IOM establishment.
- One entity or person controls all members (directly or indirectly).
- Anti-avoidance does not prevent the VAT grouping.
- HMRC does not deny the VAT grouping.

Advantages: Two of the following (1 mark, ½ mark each):

- Simpler VAT accounting.
- Cash flow improvement from supplies between members being disregarded for VAT purposes.
- Holding companies and wholly exempt companies may join a VAT group which may lower VAT costs.

Disadvantages: Two of the following (1 mark, ½ mark each):

- All members are jointly and severally liable for the VAT liabilities of the VAT group.
- May be more difficult to pull together VAT accounts when preparing the group return.
- An exempt or partly-exempt member will cause the whole group to become partly exempt which may increase VAT costs.

Q12 (3 marks, 1 mark each)

Refer to Schedule 41 Finance Act 2008 and amendments

The following penalty rates may apply:

(a) No penalty where reasonable care taken (½ mark if assumed careless).

(b) 0% to 30% for a careless error.

(c) 20% to 70% for a deliberate but unconcealed error.

Q13 (2 marks)

Refer to VATA Section 6

<u>First invoice</u>

Basic tax point: 25 April 2017 (date the work was completed). (½ mark)

Actual tax point: 15 February 2017 (date the invoice was issued). (½ mark)

<u>Second invoice</u>

Basic tax point: 25 April 2017 (date the work was completed). (½ mark)

Actual tax point: 5 May 2017 (invoice issued within 14 days of the basic tax point). (½ mark)