

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 6 VAT

May 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Gordon's Garden Centre is a VAT registered business and sells a variety of plants, gifts and food.

State the VAT liability of the following items sold by the garden centre:

- 1) **Rose bushes;**
- 2) **Apple trees;**
- 3) **Homemade cakes (not for consumption on the premises);**
- 4) **Chocolate bars;**
- 5) **Charcoal for barbeques;**
- 6) **Pet food;**
- 7) **Gardening books; and**
- 8) **Diaries.**

(4)

2. Harriet discovered an error on her VAT return. It was not deliberate. She promptly notified HMRC of the error, setting out how it arose and what the value was. HMRC visited Harriet to review the process for completing the VAT return. During the visit they discovered another different error.

Explain what factors HMRC will consider in deciding the level of penalties to apply to each of the errors. (4)

3. Ayesha started a plumbing business in January 2020. The income for each of the first few months was as follows:

<u>Jan</u>	<u>Feb</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>Aug</u>
£ 4,000	£ 8,000	£ 18,000	£ 14,000	£ 16,000	£ 14,000	£ 15,000	£ 17,000

The income for March includes £8,000 from the sale of her van.

- 1) **State the date on which HMRC treats Ayesha as having exceeded the VAT limit. Show your workings.** (1)
- 2) **Explain the date by which Ayesha must notify HMRC that she is liable to register for VAT and from what date she will be registered.** (2)
- 3) **Explain whether Ayesha can claim input tax on any goods purchased before she becomes VAT registered.** (1)

4. Food for Free is a charity which organises food banks for people in need. This is a non-business activity. The charity is constructing a new building which will cost £2 million to build. The charity will lease the ground floor of the building to a local business. The remaining two floors will be used by the charity. In addition to the construction costs, the charity will commission an architect separately to design the building at a cost of £200,000.

1) **Explain what the VAT liability will be of both the construction services and the architect's services.** (3)

2) **Explain what VAT charges will arise if the charity changes the use of its own space in the building to a business purpose after five years.** (1)

5. In the VAT quarter ending 31 May 2020, Siddiq, who works in the accounts payable department of Marla Ltd, a large UK manufacturing company, received the following invoices (all amounts are inclusive of VAT):

- 1) Purchase of a new car, used 40% privately by the managing director for £30,000;
- 2) Cost of a staff party to celebrate winning a new contract. The invoice is for £4,000;
- 3) Cost of a meal to thank the new London-based client at a cost of £600; and
- 4) Repairs to the finance director's company car at a cost of £1,500.

Explain whether Marla Ltd can reclaim input tax on these items. (4)

6. A number of companies, some of which are based outside the UK, would like to form a VAT group. None of the companies has a turnover greater than £10 million.

Explain which conditions must be met for each of these companies to be eligible to join a VAT group. (2)

7. Stoja has been trading for many years with VAT liabilities in excess of £2.3 million. Recent VAT returns have shown the following liabilities.

<u>Quarter ended</u>	<u>Liability</u>
	£
31 December 2018	725,000
31 March 2019	720,000
30 June 2019	715,000
30 September 2019	675,000
31 December 2019	720,000
31 March 2020	740,000
30 June 2020	735,000
30 September 2020	695,000
31 December 2020	710,000
31 March 2021	680,000

Explain the dates by which Stoja Ltd was due to pay its VAT liability for the quarter ended 31 March 2021 and the amount payable at each date. (4)

8. The Disclosure of Tax Avoidance Schemes for VAT and Other Indirect Taxes legislation requires that certain avoidance schemes are notified to HMRC.

State two of the tests which must be met before a VAT avoidance scheme must be notified to HMRC. (2)

9. Capital Items Ltd, which is a partially exempt business, has the following assets:

- 1) A new building purchased for £350,000 plus VAT in March 2010 and 65% of the VAT was reclaimed.
- 2) A new building purchased in June 2015 for £800,000 plus VAT and 80% of the VAT was reclaimed.
- 3) A building which was refurbished at a cost of £400,000 plus VAT in January 2018 and 60% of the VAT was reclaimed.
- 4) An aeroplane which was purchased for £100,000 plus VAT in December 2019 and 70% of the VAT was reclaimed.

All of the assets are used for making both taxable and exempt supplies and the VAT reclaim at the time of the purchases was calculated using the standard method for partial exemption. The partial exemption calculation for year ending 31 March 2021 shows that 75% of non-attributable input tax can be reclaimed.

Calculate the capital goods scheme adjustment for year ending 31 March 2021. (4)

10. Dr Bob runs a UK business running educational courses and providing consultancy. In April 2021, he provided the following services:

- 1) An educational course for private individuals which took place in the USA;
- 2) Consultancy provided to an American company;
- 3) An educational course provided to employees of an American company which took place in the UK; and
- 4) Consultancy provided to a private individual who is based in the USA.

Explain where the place of supply is for each of the above. (4)

11. Joe owns a bicycle shop which is registered for VAT. In March 2021, Joe sold five bicycles to a customer in Japan.

State four documents which Joe could use as evidence that the bicycles were exported from the UK. (2)

12. Sue runs a shop which sells televisions. She purchased two televisions costing £600 plus VAT each. The normal selling price of the televisions in Sue's shop is £800 plus VAT. As a favour, she sold one of the televisions to a friend for cash of £300 and the other to her brother for cash of £200.

Explain how much output tax Sue should record on her VAT return for each of the televisions. (2)

PART II

13. Cosytub Ltd sells luxury hot tubs to both individuals and businesses in the UK.

The price paid by the customer is inclusive of delivery and installation. Customers are required to pay a deposit when placing the order. Tubs are usually delivered and installed within three weeks of order, although occasionally it can be quicker.

Customers are required to complete a property access survey at least 24 hours before delivery so that it is clear that the tub can be easily moved into position, otherwise the installation will be postponed, and a £400 administration fee will be charged to reschedule.

Customers can also take out an annual maintenance contract for the tub by making a non-refundable payment of £100 at the time of installation for a maintenance check one year later (which is booked at the time of installation).

The finance director has identified the following transactions and is concerned that the bookkeeper may not have understood the time of supply rules and therefore some transactions may have been included in the wrong VAT returns. The VAT returns are prepared and submitted on calendar quarters.

<u>Customer</u>	<u>Transactions</u>	<u>VAT return</u>
Mr Blue	<p>The customer paid a deposit of £500 on 5 September 2020.</p> <p>The balance of £4,500 was paid on 30 September 2020 and installation took place on 1 October 2020.</p> <p>The invoice was issued to the customer on 5 October 2020.</p>	<p>£500 deposit was reported on the VAT return to 30 September 2020.</p> <p>£4,500 balance was reported on VAT return to 31 December 2020.</p>
Mr Pink	<p>The customer paid £100 for his annual maintenance check the day his tub was installed on 26 November 2020.</p> <p>His check was booked for 25 November 2021.</p> <p>The related invoice is issued once the check has been performed.</p>	<p>This has not been reported on any return yet.</p>
Miss Purple	<p>The customer paid a deposit of £600 on 12 March 2021. Installation was booked for 24 March 2021, but the customer had not completed the access survey in time, so installation was delayed and the customer paid the £400 administration fee on 25 March 2021.</p> <p>The installation then took place on 31 March 2021; the client was issued with an invoice on 4 April 2021 and made payment of the balance of £6,000 on 20 April 2021.</p>	<p>All transactions were reported on the VAT return to 31 March 2021.</p>

Continued

Continuation

Requirements:

- 1) **Explain why it is important to identify the time of supply of goods and services.** (1)
- 2) **Explain how a tax point is determined in relation to both goods and services.** (2)
- 3) **Specify the basic and actual tax points that arise for each scenario and advise the finance director whether there have been any errors when preparing the VAT returns, giving explanations for each transaction.** (7)

Total (10)

14. Train Again Ltd provides training services to people looking to re-train for a new career. The finance director, Bob, was appointed a year ago and has concerns that certain VAT issues need addressing. You have been appointed as the company's new tax adviser and have been asked to attend a meeting to discuss two VAT issues specifically relating to property.

- 1) 15 years ago Train Again Ltd acquired a property which contains nine rooms. The company only uses three of the rooms for its own activities so the other six rooms are rented to six local businesses on leases which all have more than a year left to run.

The company is VAT-registered (all training income is subject to VAT at 20%) and opted to tax the property when it acquired it. It has been charging VAT on the rent to the tenants in each of the six rooms since the leases commenced.

Bob has advised you that the company plans to sell the current property and buy a smaller one. He has had two offers to purchase the building:

- a) Mr Ayton would like to buy the property vacant but has advised Bob he will not pay VAT on top of the purchase price and therefore suggested the company revoke the option to tax.
- b) Mrs Beem has offered to buy the property with the six tenants in place and she has advised that she would expect this to qualify as a transfer of a going concern (TOGC), being a property letting business. Bob is not sure of the significance of TOGC treatment.

- 2) Train Again Ltd plans to purchase a new building which is currently being constructed in a new business park. The company will run its training services wholly from this building. There will be no surplus space to rent out.

Train Again Ltd however will use surplus cash from the sale of the existing building to purchase a second newly constructed building, in the same business park, which will be rented out to third party tenants. The new tenants are likely to be either a firm of solicitors or a financial services business.

Each new building is advertised for £200,000 plus VAT and Bob has asked why VAT is being charged and whether the VAT charged will be recoverable by Train Again Ltd.

Bob has also approached you to act for him relating to his personal tax. He currently has a tax adviser but is not happy with the service he is receiving. He has told you that his personal tax affairs are complex involving various activities both in the UK and overseas. You already have details of his identity which are sufficient to satisfy the Anti Money Laundering guidance but need to consider other issues before deciding whether to accept Bob as a client.

Continued

Continuation

Requirements:

- 1) Write an email to Bob in which you:
 - a) Explain whether Train Again Ltd can follow Mr Ayton's suggestion and revoke the option to tax on the property that it currently owns. (6)
 - b) Explain how the sale of the existing property will be treated for VAT purposes on sale to either Mr Ayton or Mrs Beem, including any conditions that must be met. Assume Train Again Ltd's option to tax remains effective. (6)
 - c) Explain why VAT is to be chargeable on the sale of the new buildings to Train Again Ltd and whether such VAT can be reclaimed. (4)
- 2) State three of the main issues you should consider before agreeing to accept Bob as a client. (4)

Total (20)

15. Thomson Builders Ltd became VAT-registered on 1 October 2019 and is required to submit VAT returns on calendar quarters.

Jack Brown, the sole shareholder and director, decided he would take on the job of preparing and submitting the quarterly VAT returns himself, to save the additional cost of employing someone to do so.

In early 2020 Jack went away on holiday and, missed the filing deadline of the VAT return for the quarter to 31 December 2019. He filed the return and paid the amount due on 22 February 2020.

Jack also missed the filing deadlines for the March, June, September and December 2020 VAT returns. Jack realised he needed to hire a bookkeeper and so Peter started in January 2021.

Peter found a number of letters that HMRC had issued to the business in relation to the late VAT return submissions, which referred to an appendix detailing the default surcharges that have been charged. The appendix to this letter is missing and Peter has no experience of default surcharges. He has asked HMRC to reissue the paperwork but, in the meantime, he has asked you to help him understand default surcharges and the amounts that are due.

Details of the VAT returns and submission dates are as follows:

<u>Quarter Ended</u>	<u>Amount due to HMRC</u> £	<u>Date submitted and paid to HMRC</u>
December 2019	3,330	22 February 2020
March 2020	1,390	18 May 2020
June 2020	8,240	22 August 2020
September 2020	238	18 November 2020
December 2020	4,578	17 February 2020
March 2021	3,356	2 May 2021

Requirements:

- 1) Explain when a default surcharge is imposed by HMRC. (3)**
- 2) Calculate, with supporting explanations, the total of all default surcharges for the VAT returns specified and state the effect each default has on the surcharge period. (10)**
- 3) State two terms implied by the Supply of Goods and Services Act 1982 (SGSA) in relation to the services provided by a tax adviser to a client that are designed to protect the client. (2)**

Note: In your answer, ignore temporary relaxations in relation to penalties due to coronavirus.

Total (15)

16. Health Plus is a partnership operating as a medical practice. The partnership has not been VAT registered as all income received up to 31 March 2021 was from the NHS for exempt medical services provided by the GPs in the partnership.

On 1 April 2021 the partnership opened a dispensing pharmacy within the surgery building. The pharmacy does not sell any over the counter items; therefore, the income generated is from dispensing medication against NHS prescriptions.

One of the partners, Dr McGee, is aware that the dispensing of medicines is zero rated for VAT purposes and has therefore submitted a VAT registration application to HMRC. He is delighted that the partnership has become VAT registered as he has been told by a friend that he will be able to recover VAT on all of the partnership's expenditure.

Health Plus is a client of the tax advisory firm you work for and you have been asked to provide Dr McGee with some advice. When you read the initial note that you have been given, you can see already that Dr McGee needs some general advice about being partially exempt and how this affects input VAT recovery as he appears to have been misinformed.

The Partnership's income and expenditure for April 2021 was as follows:

<u>Income</u>	£
Exempt medical services from NHS	100,000
Zero rated dispensing services	35,000
<u>Expenditure</u>	£
Expenses related to medical practice	10,000 plus VAT
Expenses related to dispensing activities	8,000 plus VAT
General overheads	2,000 plus VAT

Monthly income and expenditure for the year to 31 March 2022 is expected to be very similar to the month of April 2021.

Continued

Continuation

Requirements:

- 1) **Explain to Dr McGee how having both taxable and exempt income affects input VAT recovery.** (2)

- 2) **Calculate the amount of input VAT that could be reclaimed for the projected year to 31 March 2022 and advise Dr McGee whether Health Plus will be able to reclaim all VAT incurred during the year. Use the values-based standard method.** (8)

- 3) **Explain the circumstances in which an alternative basis may be used by a newly partially exempt business.** (3)

- 4) **State the accounting entries required to reflect the adjustment to input VAT for general overheads. Assume that all input VAT on general overheads has all been extracted and posted to the VAT account as it is entered into the accounting system.** (2)

Total (15)