Practical Tax People

Association of Taxation Technicians

May 2017 Examination

PAPER 6

VAT

TIME ALLOWED – 3 ¼ HOURS
(for Part I and Part II)

- You are required to answer **all** questions in each part (both parts printed together).
- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. Calculators may not be used during this time.
- The Presiding Officer will inform you when you can start writing in the answer booklets.
- You are provided with two answer booklets (one for each part of the paper). Make sure you write your answers in the correct answer booklet.
- Please start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part I

Write your answers in the Part I answer booklet.

1. Natasha has been self-employed since 3 January 2016. Her turnover for each calendar month of trading was as follows:

	£
January 2016	1,200
February 2016	1,200
March 2016	5,700
April 2016	6,500
May 2016	8,000
June 2016	8,250
July 2016	7,700
August 2016	10,800
September 2016	9,400
October 2016	7,500
November 2016	4,600
December 2016	5,600
January 2017	6,600
February 2017	7,500
March 2017	6,000
April 2017	7,000

All of the above figures are VAT exclusive.

1) State the date on which Natasha becomes liable to register for VAT. (1)

2) State the date by which Natasha should apply to register for VAT. (1)

3) State the date from which Natasha will be VAT registered. (1)

4) Calculate the amount of output VAT that Natasha will need to declare for the first month that she is VAT registered. (1)

2. Elizabeth runs a construction company and would like advice on the VAT liability of her sales.

State the VAT liability of the following supplies:

1) The construction of a new office building.

2) The renovation of an existing block of flats.

3) The conversion of an office building to a block of flats.

4) The maintenance of a 19th century office building. (2)

3. Matadeep Ltd is a small retail bank that has a partial exemption year end of 30 April. It has incurred refurbishment expenditure which falls within the Capital Goods Scheme.

1) Explain briefly the scope and purpose of the Capital Goods Scheme. (3)

2) Explain in which quarter Matadeep Ltd will need to include a Capital Goods Scheme adjustment in respect of the refurbishment work. (1)

4. Winifred runs a small food shop and calculates VAT at the point of sale. In October 2016 she made the following VAT exclusive sales:

	£
Milk	5,600
Bread	7,600
Fizzy soft drinks	5,400
Crisps	4,400

Calculate the output VAT due on these sales. (4)

5. Anthony runs a marketing agency that makes fully-taxable supplies. The business incurred the following VAT exclusive costs:

	£
Car lease	5,600
Staff entertainment	4,500
Client entertainment	23,600
Office furniture	4,450

Calculate the VAT recoverable on each of these costs. (4)

6. Robert sells goods to customers in the UK and other EU member states. He files his quarterly VAT returns and EC Sales Lists online. Robert's current VAT quarter ends on 30 June 2017.

State the latest date that Robert must submit his next:

1) VAT return. (1)

2) EC Sales List. (1)

7. Warren Ltd is a small business that wants to use the Cash Accounting Scheme.

1) State four conditions for joining the Cash Accounting Scheme. (2)

2) State two types of transaction for which the Cash Accounting Scheme cannot be used. (2)

8. Jaggers Ltd is completing its VAT return for the quarter ended 31 March 2017. Three invoices to UK customers remain wholly or partially unpaid. Jaggers Ltd's payment terms are always 30 days. All its supplies were standard rated. The invoices were for:

(a) £12,000 plus VAT issued on 3 August 2016. No payment has been received.

(b) £18,500 plus VAT issued on 12 August 2016. Jaggers Ltd has so far received £4,500 but the rest remains outstanding.

(c) £4,200 plus VAT issued on 5 January 2017. No payment has been received.

Calculate the VAT bad debt relief available to Jaggers Ltd in respect of each of the three invoices. (3)

9. Marcus provides environmental consulting services to businesses and non-business individuals in the UK and other EU member states.

State the VAT treatment of the services Marcus supplies to his customers. (3)

10. Argenio received a VAT repayment of £1,500 from HM Revenue & Customs in respect of the quarter ended 31 October 2016. He paid VAT of £244,000 in respect of the quarter ended 31 January 2017.

State the accounting entries that Argenio needs to make in respect of these two VAT returns. (2)

11. The directors of Syrott Ltd are considering setting up a VAT group with several of the company's subsidiaries.

1) State two conditions for setting up a VAT group. (1)

2) State two advantages and two disadvantages of forming a VAT group. (2)

12. Bob is the VAT accountant for Hanby & Bartiya LLP. Bob has identified the following three VAT errors. None has been notified to HM Revenue & Customs and no VAT inspection has been arranged since these errors occurred.

(a) Output tax of £1,700 was under-declared on fees invoiced last year following advice received from a tax adviser who wrongly advised the LLP that the place of supply was outside the UK.

(b) Output tax of £6,400 was under-declared on the previous VAT return because the previous VAT accountant had accidentally omitted the relevant entries from the VAT account.

(c) Input tax of £14,900 was over-claimed last year on non-existent services because one of the LLP's partners was concerned that the LLP would not be able to pay the full amount of VAT owed to HM Revenue & Customs.

Explain what civil penalties may apply once Bob has submitted Error Correction Notices to HM Revenue & Customs in respect of these errors. (3)

13. Parker LLP provides consulting services. It issued two VAT invoices to a client in respect of a project that it began on 10 January 2016. All work, except invoicing, was completed on 25 April 2017.

The first invoice was issued on 15 February 2017 for an interim payment. The client received the invoice on 17 February and paid the invoice in full on 28 February 2017.

The second invoice was issued on 5 May 2017 for the remaining balance. The client received the invoice on 6 May and paid the invoice in full the same day.

State the basic and actual tax points for these two invoices. (2)

Part II

Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Mr Rutherford is the director of the Big Town Metropolitan Orchestra. A profit making limited company, Orchestra Ltd, runs the orchestra and it is registered for VAT.

   Orchestra Ltd is organising its first European tour this summer and it will be paid to perform in various cities across the EU. Orchestra Ltd will be incurring expenses from a number of EU suppliers and Mr Rutherford has asked you to advise him of the VAT implications.

   The EU expenses Orchestra Ltd will be incurring are as follows:

   (a) Hotel and restaurant costs.

   (b) Royalties because the copyright to the music the orchestra will be playing is owned by a French company.

   Orchestra Ltd is not registered for VAT in any other EU country and will be supplying its services to the promoter organising the tour. The promoter is incorporated in the UK.

   Orchestra Ltd has recently received two payments and Mr Rutherford is uncertain about the VAT treatment. The payments are as follows:

   (a) Orchestra Ltd has been involved in a legal dispute with a local nightclub because noise from the nightclub had disrupted some of its performances. Following mediation, the nightclub agreed to pay Orchestra Ltd £60,000.

   (b) Big Town Council has paid £30,000 to sponsor the European Tour. The Council hopes that the tour will promote Big Town as a holiday destination to European travellers. Orchestra Ltd will be required to display information about Big Town and give out literature about the town at its shows.

   You are required to:

   1) Explain where VAT will be charged on the expenses that Orchestra Ltd will be incurring. (2)

   2) Describe the process by which Orchestra Ltd may be able to reclaim VAT incurred in other EU member states, setting out the key conditions and any common exclusions. (7)

   3) Explain the VAT treatment of the two payments received by Orchestra Ltd. (3)

   Total (12)

2. You are a VAT adviser working for a firm of accountants, Dance & Co. The audit partner has asked you to contact a longstanding client, Faraday Financial Services Ltd. The company operates a financial advisory business, which includes undertaking regulated activities as specified in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

The business provides personal financial advice for a fee to individuals who are based in the UK. It also sells financial products and receives commission for this from the product providers. It has taken on a new bookkeeper, James Maxwell, who has never worked for a financial adviser before. He is uncertain how the VAT return should be prepared.

James has collected together the following information in relation to the quarter ending 31 March 2017:

<u>Sales:</u>

Income (net of any VAT chargeable) in the quarter was as follows:

	£
Supply of advisory services:	30,000
Commission received for sale of financial products:	55,000

<u>Expenses:</u>

	Net £	VAT £
Office running costs	3,000	600
Legal costs relating to an agreement with one of the financial product providers	2,000	400
Advertising services supplied by an internet search engine established in Ireland	500	
Office rent	1,500	300

You have checked the previous bookkeeper's workings and confirmed that Faraday Financial Services Ltd operates the standard method of partial exemption and its annual adjustment calculation is done after the year end on the VAT return to 30 June.

You are required to:

1) Draft an email to James in which you:

- **(a) State the VAT liability of Faraday Financial Services Ltd's income.** (2)
- **(b) Explain how the company's input tax recovery should be calculated each quarter.** (4)
- **(c) Explain how the company's annual adjustment should be calculated.** (2)

2) Calculate the company's VAT liability for the quarter ending 31 March 2017. (7)

3) State three activities which are regulated activities as specified in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. (3)

Total (18)

3. Franklin & Co Ltd is a commodities trader which receives commission for arranging the sale of a wide range of goods around the world. The company originally started as a chemicals broker, but over the last few years it has diversified into grain and precious metals. The trading in each commodity is done by a separate division of the business and, because the work is specialised, the employees only work for one division.

The directors have decided that in order to grow it would be best to hive each division down into a separate company. The intention is that Franklin & Co Ltd will be the holding company for four new companies, Franklin Chemicals Ltd, Franklin Grain Ltd, Franklin Metals Ltd and Franklin Data Ltd.

The restructure of the business will be undertaken as follows:

(a) The client contracts, employees and goodwill of the chemicals, grain and metals divisions will be transferred into Franklin Chemicals Ltd, Franklin Grain Ltd and Franklin Metals Ltd respectively;

(b) Franklin & Co Ltd will transfer two of its employees, their office equipment and other assets to Franklin Data Ltd. Franklin Data Ltd has been incorporated in order to monetise the Franklin companies' industry knowledge. The two employees being transferred are currently traders in the chemicals division. Their new roles will require them to write reports on the market for commodity suppliers and purchasers.

The business restructure will take place with effect from 31 May 2017. The new companies will pay for the assets transferred to them in cash.

Franklin & Co Ltd has incurred significant professional fees from the lawyers and accountants who advised it on how best to proceed. The directors are not satisfied with the quality of some of the tax advice they received and are considering making a complaint about this.

You are required to:

1) **Explain four conditions for the restructure to be treated as a transfer of a going concern (TOGC) for VAT purposes.** (4)

2) **Explain whether the transfers of assets described above could qualify as TOGCs and state the VAT liability of the transfers.** (3)

3) **Explain whether Franklin & Co Ltd will be able to recover VAT incurred on professional fees associated with the restructure.** (3)

4) **Explain whether, as a holding company, Franklin & Co Ltd will be entitled to remain registered for VAT after the transfers have taken place.** (2)

5) **Explain the procedures which, according to the Professional Rules and Practice Guidelines, a member of the Association of Taxation Technicians is recommended to have in place for handling complaints.** (5)

Total (17)

4. Hawking Ltd is a technology firm which manufactures hardware used by businesses in their supply chain management systems. Hawking Ltd ships goods from its factory to customers all over the world in both EU and non-EU countries.

The hardware is manufactured in the UK and materials are imported from a range of EU and non-EU suppliers. The director is concerned that these international sales and purchases of goods are not being dealt with correctly for VAT purposes and that his records are not sufficient.

He has sent you the following information for transactions recorded in the VAT period ending 31 March 2017. All figures are net of any VAT which may be due:

	£
Sales to UK customers	10,000
Sales to EU customers	25,000
Sales to non-EU customers	15,000
Goods purchased from EU suppliers	4,000
Goods purchased from non-EU suppliers	8,000

In addition, the company incurred office overhead expenditure of £3,000 plus VAT of £600 and it received import VAT certificates in the period showing VAT paid of £1,500.

You are required to:

1) **Explain the VAT liability of sales of hardware to EU and non-EU customers, stating any invoicing requirements, and explain any relevant evidence requirements.** (7)

2) **Explain the VAT liability of goods purchased from EU and non-EU suppliers and state the evidence needed to support VAT recovery.** (3)

3) **Calculate the input and output VAT due for the period ended 31 March 2017.** (3)

Total (13)