

1. Tardy Ted's Clock Shop has been late in submitting VAT returns and payments to HM Revenue & Customs. The late submission and payment for the quarter ending 30 April 2018 is the fourth in a row. Prior to this all returns and payments had been submitted on time.

The April 2018 return shows output tax due of £10,000 and input tax reclaimable of £4,000. The annual turnover of the company is more than £150,000 per year.

- 1) **State what penalties will have been applied to the previous three late returns/payments.** (2)
- 2) **Calculate how much penalty will be due on the return for the quarter ended 30 April 2018.** (1)

2. At 31 December 2017, Ben Button decides that over the following year he will reduce the amount of business he accepts as a prelude to retiring at some future date. He anticipates that by not renewing some contracts, his income for the next eight months will be as set out below, before settling into a regular pattern of £5,000 per month thereafter.

<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>July</u>	<u>August</u>
£15,000	£15,000	£15,000	£12,000	£12,000	£10,000	£10,000	£5,000

As an alternative, he is considering retiring fully at 31 July 2018.

- 1) **Explain and calculate the earliest date at which Ben can deregister for VAT.** (3)
 - 2) **State what difference, if any, it would make to the date of deregistration if Ben decided to retire rather than reduce his activity.** (1)
3. Colin's Café and General Stores sells a variety of food for consumption on and off the premises, along with a range of other products.

State the VAT liability of the following items sold by Colin:

- 1) **Sandwiches for consumption on the premises;**
 - 2) **Cups of hot soup for take away;**
 - 3) **Sandwiches for take away;**
 - 4) **Chocolate bars;**
 - 5) **Bottled water;**
 - 6) **Canned pet food;**
 - 7) **Hay for horses and ponies; and**
 - 8) **Vegetable plants.**
- (4)

4. For the quarter ending on 31 March 2018, Astrid has received cash payments of £25,800 from her market stall. In February 2018, £400 was stolen from her till and this has not been included in the amount of cash received.

She has recently acquired a machine for taking credit card payments and has taken £4,600 (gross) of credit card payments, from which the credit card company deducted a transaction charge of £200.

Calculate the total output tax due for the quarter, giving brief reasons for your treatment of the stolen cash and the credit card transaction charge. (4)

5. Hadrian's Walls Ltd supplies construction services and operates the flat rate scheme for VAT using a flat rate percentage of 9.5%. In addition to construction work, the company also provides a small amount of consultancy advice.

In the quarter ended 28 February 2018, the company made the following sales:

Standard rated sales	£10,000 plus £2,000 VAT
Reduced rate sales	£6,000 plus £300 VAT
Zero rated sales	£8,000

In addition, it incurred £1,200 of input tax on general overheads.

- 1) **Calculate whether in this quarter Hadrian's Walls Ltd gained any financial benefit from operating the flat rate scheme.** (3)
- 2) **State how a business should decide which flat rate sector applies where it is engaged in more than one kind of activity.** (1)
6. Conundrum Ltd is the UK holding company for a group of companies and it performs no activity other than holding 100% of the shares in each company.

The group consists of Problema S.R.L. based in Italy, Dilemma Ltd based in the UK, which only makes exempt supplies, and Complication Ltd, which is also based in the UK and makes only taxable supplies.

Explain which combinations of companies could, and which could not, form a VAT group. (4)

7. Victoria runs a shop selling household appliances and purchased ten vacuum cleaners for £100 each plus VAT. She claimed input tax on the purchases in full.

She sold seven cleaners to customers for £150 each plus VAT, retained one to use for cleaning her shop, sold one to her wholly owned partially exempt company for £90 plus VAT and gave one to her mother as a gift.

Explain the correct VAT treatment of the three vacuum cleaners which were not sold to customers. (3)

8. Scale plc maintains some cars which are used in the business. Input tax is claimed on all petrol purchased for the vehicles, including for private use.

The table below provides further details about each of the cars in the quarter ending 31 January 2018.

<u>Car</u>	<u>CO₂ emissions</u>	<u>Quarterly fuel scale charge for emission band (£)</u>	<u>Input tax reclaimed in quarter (£)</u>	<u>Period car is owned by the business</u>	<u>Estimated percentage of mileage which relates to business</u>
A	125	211	300	Whole quarter	90%
B	140	252	160	From 1 January 2018	80%
C	155	295	320	Until 31 December 2017	80%

Calculate any VAT payable as a consequence of the private use of the cars. (3)

9. William Doors purchased one computer from the United States and one from France for use in his business. Both computers were delivered to his VAT registered company in the UK.

1) Describe how VAT will be applied to each of these transactions. (2)

2) What evidence does William need to reclaim input tax on the computer purchased from the United States? (1)

10. The Home for Disappointed Donkeys is a charity. It intends to publicise its good work through an advertising campaign and will incur the following costs:

- 1) Design fees for the advert;
- 2) Charges from magazines and newspapers for carrying the advert;
- 3) Agency fees for managing the advertising campaign; and
- 4) Costs of producing and sending a different advert to the addresses of existing supporters of the charity.

Explain with reasons whether these costs will be eligible to be zero rated as charity advertising. (3)

11. Roland's Renovations Ltd is undertaking a project to refurbish a block of flats. The block currently consists of three floors, each of which contains three flats.

After the refurbishment, the ground floor will keep the same number of flats, but the middle floor will be reconfigured to contain four flats and the three flats on the upper floor will be made into two flats.

The company will buy in construction and architect's services to complete the project.

State the VAT liability of the construction services and architect's fees. (3)

12. **Explain what the Principal VAT Directive is and in what circumstances a taxpayer may rely on the 'direct effect' of the Directive.** (2)



May 2018 Examination

PAPER 6 PART II

VAT

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

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time, you may read and annotate your Part II question paper. You may also read the legislation and use your calculator.
- You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II 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.

1. You work as a tax manager for a small firm of accountants. One of your clients is Sarah Lynn, a sole proprietor who runs a cookery school. Her business has two main income streams; fees from course participants which are exempt from VAT and income from a shop selling cookery books and equipment. Both the cookery school facilities and the shop are located in the same building.

Sarah is registered for VAT. For many years she completed the VAT return herself but, as the business has expanded, she has taken on a bookkeeper to undertake this task. The new bookkeeper, Siobhan Smith, has no experience of partial exemption. Sarah has asked you to write to Siobhan to explain how input tax recovery should be calculated.

Sarah includes her annual adjustment on the last VAT return of the year and has given you the following information in relation to the year ending 30 April 2018.

Income and expenditure in the quarter to 30 April 2018:

		£
Income:	Course fees	15,000
	Book sales	5,000
	Equipment sales (net of VAT)	6,250
Expenditure:	Equipment for resale in the shop	3,000 + VAT of 600
	Building running costs	8,000 + VAT of 1,600

Nine months to date figures as at 31 January 2018:

		£
Income:	Course fees	25,000
	Book sales	4,000
	Equipment sales (net of VAT)	10,000
Expenditure:	Equipment for resale in the shop	10,000 + VAT of 2,000
	Building running costs	24,000 + VAT of 4,800

VAT recovered on the July 2017, October 2017 and January 2018 VAT returns totals £7,500.

You are required to write a letter to Siobhan setting out the following:

- 1) An explanation of how input tax recovery is determined using the standard method of partial exemption. There is no requirement to explain the simplified tests. (10)**
 - 2) A calculation of the VAT recoverable on the April 2018 VAT return. (6)**
- Total (16)

2. James White is managing director of IT Support Ltd, a company which supplies IT support services to business clients. The company has struggled in recent years. Although historically its turnover has been as high as £2 million per annum, in the year ending 31 March 2018 turnover was £1.1 million and James does not expect turnover to increase in the next year.

As well as a downturn in trade, the company has also suffered cash flow difficulties due to a number of clients who have been extremely slow to pay.

IT Support Ltd invoices clients on the last working day of the month and offers 30 day standard payment terms.

James is aware that he may be able to improve his cash flow by taking advantage of bad debt relief or the cash accounting scheme.

You are required to:

- 1) State the tax point for IT Support Ltd's services. (1)**
- 2) Explain what bad debt relief is and the conditions for making a claim. (6)**
- 3) Explain how the cash accounting scheme operates, the potential benefit of it to IT Support Ltd and whether the company may be eligible to join the scheme. (5)**

Total (12)

3. You have recently joined the accounts team at Jarjue LLP, a professional services firm established in the UK. The firm supplies legal and tax advice to clients in the UK and overseas.

The firm has recently taken on the McKenna family as a new client and, in accordance with the Professional Guidance issued by the Association of Taxation Technicians, Jarjue LLP has issued a letter of engagement to each of the members of the family.

The various family members have interests in the UK and overseas. The firm is in the process of issuing invoices for the following services:

- 1) Mr and Mrs McKenna owned a holiday house in Switzerland until March 2018 when it was sold. Jarjue LLP handled the contract for the sale of the house.
- 2) Edward McKenna, the family's eldest son, emigrated to Canada many years ago and he is now resident there. Jarjue LLP assisted in the drafting of his will.
- 3) Elizabeth McKenna, the family's eldest daughter, is resident in France. Jarjue LLP has been representing her in her recent divorce.

As the firm is expanding, Jarjue LLP has recently invested in new IT equipment costing £50,000 + VAT. The firm paid the invoice in full on presentation. It will use the IT equipment to hold personal data about its clients.

You are required to:

- 1) State, with reasons, the place of supply of the supplies made to the various members of the McKenna family. (6)**
- 2) State the double entries required to show the equipment purchase in the accounts. (2)**
- 3) State the purpose of the letter of engagement and the three core areas the letter should cover. (4)**
- 4) State the two main aims of the Data Protection Act 1998 and four of the eight principles of data protection with which data controllers must comply. (4)**

Total (16)

4. Mr and Mrs Wain have traded for many years as a partnership running a construction business designing and building new residential properties. The partnership is registered for VAT.

Mr and Mrs Wain are preparing to retire and are in the process of winding the business down. In the year ended 31 March 2018 they undertook two last projects; they built one property for a customer, Mr Littner, and have designed and built their own home. Mr and Mrs Wain moved into their new home on 1 September 2017.

HM Revenue & Customs are undertaking a routine compliance check of the partnership VAT returns and you have been asked by Mr and Mrs Wain to review the VAT returns in preparation for this. An analysis of the income and expenditure for the year ending 31 March 2018 has shown the following:

		£
Income:	Final instalment payment for construction of Mr Littner's new house	150,000
Expenditure:	Goods purchased from builders merchant	400,000 + VAT of 80,000
	Payments to self-employed labourers	95,000

Closer analysis of the invoices from the builders merchant shows that of the £400,000 net expense, £250,000 related to costs for Mr and Mrs Wain's new home. The remaining £150,000 was incurred on materials for Mr Littner's home which included £7,000 on kitchen units, £1,000 on kitchen appliances and £2,000 on wardrobes. All of the VAT on the goods purchased from the builders merchant has been recovered.

The partnership does not incur significant overhead expenditure as all of the developments are project managed by Mr Wain and there is no main office.

Mr and Mrs Wain believe that all new residential houses qualify for VAT relief and have recovered all of the VAT incurred in the year via their partnership VAT returns.

You are required to:

- 1) Explain the VAT liability of the partnership's income and why no VAT was incurred on labourers' costs. (2)**
- 2) Calculate and explain how much VAT the partnership was entitled to recover in the year ending 31 March 2018 and whether any VAT is repayable to HM Revenue & Customs. (8)**
- 3) Explain HM Revenue & Customs' likely actions following the VAT inspection visit. (6)**

Total (16)