

1. **State the VAT liability of the following supplies:**

- 1) **Public liability insurance.**
- 2) **Courier delivery service.**
- 3) **A cold sandwich consumed in a café.**
- 4) **Mathematics tuition provided by a sole trader.**
- 5) **Sale of a lottery ticket.**
- 6) **Prescribed drugs dispensed by a registered pharmacist.**

(3)

2. Blue & Co provide marketing consultancy services to a motor vehicle repair centre and the bookkeeper is due to raise an invoice for services provided of £3,000, along with a charge for expenses incurred (at no mark-up).

Blue & Co incurred the following expenses:

Advertisement in local paper	£240 (including VAT)
Train fares to and from client premises	£60 (zero rated)
Printing costs	£120 (supplier not VAT registered)

Calculate the output tax chargeable on the marketing consultancy fee and recharged expenses. (2)

3. Orange Ltd's bookkeeper is preparing the VAT return for the quarter to 31 August 2018 which includes the following transactions:

- 1) Purchase of a car for the Finance Director which she is entitled to take home each day.
- 2) Repair to the Finance Director's car.
- 3) Lease of a car for one of the sales team who is entitled to take the car home each day.
- 4) Dinner for one of the Directors with a new French client.

Explain whether VAT can be reclaimed on each of the above items. (4)

4. Pink Insurance and Advisory Ltd purchased the freehold of a new commercial building during the year ended 30 April 2016 for £280,000 plus VAT. Its partial exemption recovery rate was 75% for that year and therefore £42,000 was recovered from HM Revenue & Customs.

The partial exemption recovery rate for the year ended 30 April 2017 was 70% and for the year ended 30 April 2018 was 85%.

Calculate the capital goods scheme adjustment for the VAT years ended 30 April 2017 and 30 April 2018, stating which VAT returns the adjustments must be made on. (4)

5. Maroon Welfare is a VAT-registered charity operating from one floor in an office building.

50% of the floor space is occupied by staff providing exempt welfare services in the form of a day care centre for the elderly and 50% is occupied by staff providing taxable welfare advice.

The charity currently operates the standard partial exemption method for determining recoverable input VAT. Annual income is £100,000 from welfare advisory and £350,000 from the day care centre.

- 1) **Explain why a partial exemption special method might be appropriate for Maroon Welfare.** (2)
 - 2) **Describe the steps the charity must take to be able to operate a special partial exemption method.** (2)
6. The Red Kite Partnership sell kites to business customers in both the UK and in the US. They are due to have a VAT inspection shortly and want to ensure that they have treated the sales to the US properly for VAT purposes.
- Explain the VAT treatment of the sale of kites to the US customers, stating any conditions which must be fulfilled to ensure the VAT treatment applies.** (4)
7. Ruby Memorials is finding quarterly VAT return preparation a very time consuming task and would like to simplify their VAT accounting procedures.
- 1) **State three conditions that must be met to use the annual accounting scheme.** (3)
 - 2) **Outline two benefits of using the scheme.** (1)
8. Green Gables Community Council are planning to build a new village hall. It is intended that the hall will be available for use by the community on a bookings basis and will contain a community run café, staffed by volunteers.
- Explain the VAT treatment of the construction of the new village hall.** (3)
9. You work for a firm of accountants and have been preparing the year end accounts for a client, Violet Bakery Ltd. You discover that in the last VAT return the Finance Director made a journal entry to reduce the income from standard rated café sales and to increase the zero rated sales of bread rolls and take away cakes. He did this as the company was going to struggle to make its VAT payment for the quarter and this adjustment reduced the output VAT payable by £7,500.
- Explain the penalties that could apply and any action the Finance Director should take to minimise the potential charge.** (4)
10. Blackout Blinds Ltd is preparing the VAT return for the quarter to 31 August 2018 and has asked you to confirm when they must account for VAT in relation to the following two scenarios:
- 1) Customer A ordered blinds costing £2,500 plus VAT and paid a deposit of £1,000 on 20 August 2018. The blinds were fitted in the customer's property on 1 September 2018 and an invoice for the full amount was issued and payment made on the same day.
 - 2) Customer B did not pay a deposit. Their shutters were fitted on 29 August 2018 and the invoice for £3,750 plus VAT was issued and payment made on 3 September 2018.
- Explain on which VAT return(s) the above transactions should be reported.** (4)
11. Emerald Consultancy has recently attended business meetings in France and Germany with a view to attracting new business. Expenditure has been incurred on hotels and other meeting related costs and the client is aware that the foreign VAT charged cannot be reclaimed via their UK VAT return.
- Briefly explain how VAT incurred in other EU Member States may be claimed and any conditions which apply.** (4)



November 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. Penelope owns a limited company through which she intends to undertake a number of projects on buildings and land which is held by the company. No option to tax currently applies to any of the properties.

The first project consists of an old barn. Penelope has decided to renovate the barn and divide it into smaller units at a cost of £300,000 plus VAT. She will then rent the units to a number of small local businesses which are unlikely to be registered for VAT. Total rental income from the renovated barn is expected to be approximately £60,000 per year.

The second project consists of the construction of two small commercial properties. She intends to sell the freehold of one of the buildings as soon as it is complete. She will use the second as a facility in which customers can pay to store their goods.

The third project consists of the construction of a new building which consists of a small shop on the ground floor and a separate flat on the first floor. The two parts of the property will be let to separate tenants. As an alternative to renting the whole shop to a single tenant, Penelope is considering operating a chair rental scheme for hairdressers.

At the end of the financial year, the accounting records for Penelope's company show that throughout the year some irrecoverable VAT was incurred on expenditure and the VAT account at the end of the financial year showed that £45,000 was due to be paid to HM Revenue & Customs in respect of the last VAT return.

You are required to:

- 1) Explain whether it would be beneficial for Penelope to opt to tax the barn renovation project;** (5)
- 2) State, with reasons, the VAT liability of income derived from the two small commercial properties in the second project;** (2)
- 3) State the VAT liability of the costs of construction of the shop and residential property and of the expected rental income; and** (5)
- 4) Describe how the irrecoverable VAT and outstanding VAT liability will appear in the financial statements for Penelope's company.** (2)

Total (14)

2. After many years of producing Marvin's Magic Mix Maker, Marvin has decided to retire. He is considering two options for disposing of the business, which is a limited company with 20 employees. It is operated from a factory in Burnley which is also owned by the company. Marvin owns all of the shares in the company and it is registered for VAT.

A competitor has offered to buy the business. The purchase could take the form of either:

- (a) A sale of all of the shares in the company; or
- (b) A transfer of the assets, customer list, goodwill and employees.

The competitor is already registered for VAT. It is possible that the competitor will close the factory after three months to consolidate activity in one of their existing factories.

Marvin has already sought advice on this, but believes that his previous advisor may have been negligent in the advice that was provided.

Continued

Continuation

You are required to:

- 1) **State five conditions for the sale of a business to be treated as a transfer of a going concern;** (5)
- 2) **Explain with reasons whether the potential sale to the competitor by either a sale of shares or a sale of assets should be treated as the transfer of a going concern; and** (3)
- 3) **Define 'negligence' and identify the three things that Marvin would need to demonstrate to show that his previous advisor was negligent.** (4)

Total (12)

3. Alyson has contacted you for advice. She was previously using Bodge, Brake and Reckit Accounting Services Ltd as her advisers, but on reviewing her accounts has discovered that they have been persistently late in filing her VAT returns. She has therefore decided to engage you as her adviser.

She has asked for all working papers to be transferred to you and is considering making a claim against her former advisers.

Details of the returns are set out below. In each case, Alyson arranged for payment on the date they were submitted.

<u>VAT period ending</u>	<u>Date submitted</u>	<u>Amount due</u>	<u>Comments</u>
		£	
31 March 2017	15 May 2017	1,200	
30 June 2017	10 August 2017	3,400	
30 September 2017	16 November 2017	9,000	
31 December 2017	28 February 2018	(1,000)	Repayment due to equipment purchase
31 March 2018	13 May 2018	6,280	
30 June 2018	12 August 2018	120	

You are required to:

- 1) **Explain how the default surcharge penalty regime applies to Alyson's returns. You are not required to consider any defence she might have to a penalty.** (10)
- 2) **Describe what the Association of Taxation Technicians' Professional Rules and Practice Guidelines say about the transfer of working papers on ceasing to act.** (6)

Total (16)

4. You have received the following letter from a client:

Dear Ann Adviser

Please can you help? I am a sole trader working as a wholesaler in the catering industry. I have two main products which are ice cream and yoghurt. I know that ice cream would be standard rated and yoghurt would be zero rated if I was registered for VAT. However, I am not sure if I need to register yet or if I should have registered earlier and, if so, how much VAT I should have paid on my sales. If I do owe VAT, will I be able to charge it to customers?

I am so glad that I invested my modest lottery win in buying the ice cream equipment I needed, but business is really taking off and I have sold the original ice cream maker and purchased an upgraded ice cream maker which is really great. I also gave up my part time job as a traffic warden a few months ago so that I can concentrate fully on my business venture.

I have set out below details of the income received over the last 18 months.

	<u>Ice cream sales</u>	<u>Yoghurt sales</u>	<u>Wages</u>	<u>Other</u>	
	£	£	£	£	
January 2017	1,000	1,500	1,500	10,000	Lottery win
February 2017	1,200	2,000	1,500		
March 2017	1,400	2,400	1,500		
April 2017	2,500	3,800	1,500		
May 2017	3,000	3,400	1,500	5,000	Grant funding
June 2017	4,500	4,100	1,500		
July 2017	5,000	4,400	1,500		
August 2017	5,400	4,000	1,500	3,000	Share dividend
September 2017	5,500	3,600	1,500	5,000	Grant funding
October 2017	4,000	3,800	1,500		
November 2017	3,000	3,500	1,500		
December 2017	1,500	3,000	1,500		
January 2018	1,500	2,500	1,500	8,000	Sale of mixer
February 2018	2,500	3,000	1,500		
March 2018	4,000	4,000	1,500	400	Sale of toys on ebay
April 2018	4,000	3,800			
May 2018	5,500	3,900			
June 2018	6,000	4,100			

I also understand that, if I do register, I will be able to claim back the VAT on all my purchases for the business and can go back to when I started the business. On average I get through about £500 a month on packaging material used to send out the ice cream and yoghurts. The original ice cream making machine had VAT of £2,000 and the new one had VAT of £5,000 on it. I have also got some legal fees from when I first started. I am sure I can dig out some more if you can tell me what the rules are.

Look forward to hearing from you.

Margaret Whippy

Continued

Continuation

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

- 1) An explanation of which items of income in the letter should be included and which should be excluded in calculating the registration date; (6)**
- 2) A calculation of the dates on which the client should have notified liability and been registered for VAT, showing your calculations of turnover in the three months to the month in which the threshold was breached; (5)**
- 3) A calculation of any output tax due and advice as to whether this can be charged to customers; and (3)**
- 4) An explanation of the rules for reclaiming VAT on expenses incurred before registration with specific reference to the items described in the letter. (4)**

Total (18)