

1. Arundel Ltd has been VAT registered for many years. The company traded as a furniture restorer but on 25 September 2017 it ceased to trade.

The company has some assets on hand. It owns a collection of tools which are valued at £4,000 and a motor car. The car was purchased brand new in 2010 for £10,000 plus VAT, but its current market value is £3,000.

**Explain the VAT implications of Arundel Ltd ceasing to trade.** (4)

2. **State the VAT liability of the following goods and services.**

- 1) **French tuition provided by a sole trader.**
  - 2) **Home insurance.**
  - 3) **Child's car seat.**
  - 4) **Subscription to the online edition of a magazine.**
  - 5) **Domestic electricity.**
  - 6) **Railway ticket.**
- (3)

3. Joseph Marson runs a catering concession at his local railway station. The concession has no seating and all of the food and drink he sells is to take away. In the quarter ending 30 September 2017 the gross sales for his various product lines were as follows:

	£
(a) Hot drinks (tea and coffee)	850
(b) Cold drinks (fruit juice)	120
(c) Muffins	200
(d) Chocolate bars	225
(e) Jaffa cakes	60
(f) Sandwiches	700
(g) Hot sausage rolls	250

**Calculate the amount of output tax Joseph should declare on his VAT return for the quarter ended 30 September 2017.** (4)

4. Angela Middleford has designed an interactive website for children. She registered for VAT with effect from 1 August 2017.

On 31 January 2015 she had bought a new computer. The computer's memory was insufficient so she gave the computer to her daughter and bought another computer, exclusively for business use, on 31 August 2015.

In December 2016 Angela had commissioned web design services. The web designer issued two invoices; one dated 31 December 2016 and one dated 31 March 2017.

**Explain whether the VAT incurred on these pre-registration costs is reclaimable.** (4)

5. **Explain the advantages of the annual accounting scheme and the eligibility criteria to join the scheme.** (4)

6. The Smalltown Trust is a small charity which works to preserve historically interesting buildings in Smalltown. It purchases buildings and leases them as office space. The Trust is registered for VAT and has opted to tax all of the property which it owns. In addition to the rental income, it also receives income from donations and legacies.

In the quarter ending 30 September 2017, the charity received invoices from its solicitors for the following amounts:

- (a) £600 plus £120 VAT for work on a new lease over one of the offices.
- (b) £5,000 plus £1,000 VAT for work on a challenge to a planning application from a developer who wishes to build a new block of flats in Smalltown.
- (c) £500 plus £100 VAT for dealing with the executors of the estate of a benefactor who had made a bequest to the charity in their will.
- (d) £800 plus £160 VAT pursuing a tenant who defaulted on their rent payments.

**Calculate how much of the VAT charged by the solicitor can be recovered on the VAT return to 30 September 2017. If any VAT cannot be claimed include a brief explanation as to why.** (3)

7. Emsworth Ltd is a property investor. It purchases properties, redevelops them and then sells them on. It is currently undertaking the following projects:

- (a) Blandings Hall – this is a small stately home which is being divided up into several flats.
- (b) Galahad House – this is an office block which is being divided up into several flats.
- (c) 12 Baxter Street – Baxter Street is a terraced street and number 12 is being completely redeveloped. Because the property is part of an attractive terrace, instead of demolishing the property entirely, Emsworth Ltd is taking down everything behind the front façade (which is being retained at the insistence of the planners) before excavating the basement and building the house.

All of the construction work will be undertaken by Constance Construction Ltd.

- 1) **Briefly explain the VAT liability of the services to be supplied by Constance Construction Ltd on each of the three developments.**
- 2) **State whether Emsworth Ltd will be able to recover any VAT charged.** (4)

8. Nottle Ltd manufactures drones. The goods are manufactured at Nottle Ltd's factory in France and then shipped to the company's warehouse in the UK to be stored until they are sold.

**Explain Nottle Ltd's VAT obligations in the UK as a result of this movement of goods, including the timing of those obligations.** (3)

9. Beach Ltd is a partially exempt business. It uses the standard method of partial exemption. For the quarter ending 30 September 2017 you have the following information from its accounts:

Standard rated sales:	£25,000 plus VAT
Exempt sales:	£18,000
Purchases attributable to standard rated sales:	£15,000 plus £3,000 VAT
Purchases attributable to exempt sales:	£8,000 plus £1,600 VAT
Office costs:	£5,000 plus £1,000 VAT

**Calculate Beach Ltd's input tax recovery for the VAT quarter to 30 September 2017. (4)**

10. The directors of Tilbury Ltd decided that the company was not treating its sales correctly for VAT purposes and had been incorrectly charging VAT on sales which should have been exempt. A voluntary disclosure claiming a refund of the VAT was sent to HM Revenue & Customs.

**Explain the directors' possible courses of action if HM Revenue & Customs write back refusing to refund the VAT on the basis that the sales were properly standard rated, and any time limits which may apply. (3)**

11. During 2017 Fletcher Ltd had a number of issues with its VAT compliance. The company filed its VAT return for the period to 30 June 2017 on 17 September 2017 and paid the VAT due on the same date.

In addition, a review of its VAT return to 31 March 2017 has shown that input tax of £25,000 was overclaimed because a number of invoices had been double counted in the accounts.

The directors of Fletcher Ltd have sent a voluntary disclosure to HM Revenue & Customs declaring these errors. They are concerned about possible interest charges from HM Revenue & Customs.

- 1) State the date by which the June 2017 VAT return should have been submitted and paid.**
- 2) Explain whether HM Revenue & Customs would levy interest in respect of the two issues described above. (You are not required to discuss whether a penalty would be due.) (4)**



## November 2017 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.
- 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. Calculators may not be used during reading time.
- 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.

## Part II

### Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Land Holdings Ltd is a VAT registered property management company. It has recently raised additional funds for investment in new properties and is considering a number of opportunities. All figures shown are exclusive of any VAT chargeable.

- (a) The purchase of the freehold in a warehouse building for £20 million. The building is two years old and will be used by Land Holdings Ltd as a storage space where customers will be able to store goods in an allocated space in return for a monthly payment.
- (b) The acquisition of a 50 year lease in an old factory building. The owner has not opted to tax the property. Land Holdings Ltd will convert the building into residential accommodation in the form of apartments which it will then rent to tenants.

The lease will cost £10 million. In addition, Land Holdings Ltd estimates that it will incur construction costs of £2 million, and architects' fees of £400,000.

The seller has offered an alternative deal in which they will undertake the design and conversion works and grant a 50 year lease of the completed apartments to Land Holdings Ltd for a fee of £12.5 million.

- (c) The acquisition of a 10 year lease in an office building for £8 million. The building currently has no tenants. The seller has not exercised an option to tax and does not intend to.

The seller constructed the building five years ago at a cost of £5 million, excluding VAT, and reclaimed 50% of the VAT. Taxable use of the building in the current year was calculated at 40%. The sale will take place at the end of the seller's current partial exemption year and there are five remaining capital goods scheme intervals following the end of the current interval.

The seller of the office building is aware that you have been engaged to provide advice to Land Holdings Ltd in respect of the potential purchase. In order to save time and costs, they have asked if you could also advise them, as seller, on any VAT issues arising on the sale.

**You are required to:**

- 1) **Explain whether Land Holdings Ltd will pay any VAT on the acquisition of the warehouse building, whether it can reclaim any input tax incurred and whether it should charge VAT on the income received.** (4)
- 2) **Explain the VAT treatment of the acquisition and development of the factory building and calculate whether the seller's alternative offer is beneficial to Land Holdings Ltd.** (6)
- 3) **Explain the VAT treatment of the acquisition of the office building and calculate the Capital Goods Scheme adjustments which would need to be undertaken by the seller.** (5)
- 4) **Explain how you should respond to the request to act for both parties in the office sale.** (4)

Total (19)

2. A colleague of yours has asked you explain the HM Revenue & Customs penalty regime applicable to errors on VAT returns. In addition to describing the overall scheme of penalties, you have been asked to illustrate how penalties work in practice using the following two examples which your firm is currently dealing with.

Honesty Ltd is a small business with simple accounts. In the process of putting together the VAT return, the accounts assistant has made a transposition error which has resulted in an over-claim of input tax of £4,000. The error became clear once the entry of the payment from the VAT account had been entered on the financial system and the client immediately asked you to notify HM Revenue & Customs. The client is not expecting a visit from HM Revenue & Customs.

Liberality Ltd reduced the amount of output tax shown on a VAT return by £3,000 so that the directors of the company could afford a holiday. HM Revenue & Customs discovered the error on a recent visit and have advised that they intend to raise an assessment for the error plus a penalty. The client has refused to assist HM Revenue & Customs in calculating the value of the error.

Following the discovery of the error by Liberality Ltd and their subsequent behaviour, the tax partner in your firm has become concerned that the client may be involved in money laundering.

**You are required to:**

- 1) **Describe the system of penalties which HM Revenue & Customs may apply to errors on VAT returns.** (7)
- 2) **Explain, giving reasons, what penalties you would expect HM Revenue & Customs to apply to Honesty Ltd and Liberality Ltd.** (3)
- 3) **State five things the Money Laundering Regulations 2007 require firms to do to ensure that they have adequate procedures in engaging clients.** (5)

Total (15)

3. Arkwright is a retailer using the flat rate scheme for accounting for VAT. The applicable percentage for this kind of retail business is 4% and Arkwright is in her fourth year of trading.

In the quarter ending 30 June 2017, Arkwright had standard rated sales totalling £24,000 (including VAT) and zero rated sales of £15,000. She also received £900 gross cash for the sale of an old refrigerated display on which she had reclaimed the VAT when originally purchased.

She incurred VAT of £2,000 on goods for resale, £500 on utility bills, £3,000 on a new refrigerated display and £200 on a computer for her accounts. She also acquired confectionery costing £600 from a supplier in France which showed no VAT on the invoice.

**You are required to:**

- 1) **Describe three advantages and three disadvantages of using the flat rate scheme.** (3)
- 2) **Calculate Arkwright's VAT liability for the quarter ending 30 June 2017, clearly identifying any items on which VAT cannot be reclaimed.** (7)

Total (10)

4. You have received the following note from a client, who is the lead singer of a reputable band, 'A Raccoon ate my Homework'. The band has formed a limited company and is registered for VAT in the UK.

Hey dude,

We're planning a tour of Sweden and Norway for this summer. Drew the drummer reminded me we had problems with working out the VAT rules during our last tour and suggested we ask you to advise before we start this tour. So here are our plans.

We are playing in several cities in Sweden and Norway (Drew said to remind you that Norway is not in the EU, as if you didn't know). We are selling tickets for the gigs to fans and also some corporate groups. Some tickets will be sold to business customers in the UK through agents who will charge the customers a separate fee. The agents are based in the UK and in Sweden.

We will have to pay a fee in each location for hire of the venue and also will need to hire some equipment from electrical suppliers in some places. We are going to hire a big van for two weeks in France while we travel north and then hire a smaller van for 100 days in Sweden. We will borrow a friend's van in Norway.

We have sold the rights to the recordings to a multinational company. They have studios in London and Stockholm. I expect the one in Stockholm will do all the mixing, marketing and receive most of the income, but we have been asked to invoice the London studio. As part of the deal, we can also put recordings on our website for fans to download at £1 each. We expect fans in the UK, Norway and Sweden to download.

Finally, we will all have our company-owned mobile phones with us so that we can call our parents back in the UK. We expect the bills for this to be high. Will our UK based service provider charge VAT?

Let me know if Drew needs to worry about the VAT.

Captain Insensible.

**You are required to write an email to the band setting out the place of supply and VAT treatment of the following income and expenditure items:**

- |  |     |
|--|-----|
| 1) The ticket income and agents' fees.                 | (5) |
| 2) Vehicle, venue and equipment hire.                  | (5) |
| 3) Sale of the recording rights and digital downloads. | (4) |
| 4) The mobile phone bills.                             | (2) |

Total (16)