



Practical Tax People
Association of
Taxation Technicians

May 2015 Examination

PAPER 6

VAT

Candidate Script

QUESTION NO.1.....

CANDIDATE NO. ..

Sebastian can de register for VAT as he has reason to expect his gross turnover in the next 12 months to fall well below the deregistration limit of £79,000.

If Sebastian does de register he will be obliged to repay the VAT on the ^{value of} capital items he holds at deregistration as the value of these items ~~exceeds~~ ^{exceeds} £1,000 of VAT. ~~the~~

QUESTION NO.2.....

CANDIDATE NO. ...

- a) The £12,000 donation from the local authority is given as a donation without any expectation in return therefore it is outside the scope for V.A.T.
- b) The £10,000 from the business woman is given in return for advertising in the tournament programme therefore it is taxable.
- c) £7,000 from the local centre in return for advertising is also taxable as it is payment for advertising.
- d) The £5,000 from the school in return for running sports lessons is exempt under VATA 1994 ~~Schedule~~ Sch 9. As it is sports lessons for pupils.

QUESTION NO.3.....

CANDIDATE NO.

Tools & Equipment	750.
Car for new sales director (no allowable)	—
Servicing of car	120
Fuel. w2.	<u>120</u>
Reclaimable	990.

w1).

$$\begin{aligned} & \text{€150 of VAT} \times (900 - 100 - 80) \\ & \quad \times \frac{720}{900} \\ & = \text{€120.} \end{aligned}$$

All of the VAT could be reclaimed on the VAT on fuel if a Fuel Scale Charge was applied on the car.

Interest will be charged on the error from the date ~~18th~~ of the quarter end in which the errors occurred to the date of the voluntary disclosure.

As the error has been made penalties of £ can also be imposed by HMRC. The maximum penalty for a careless error is £ 30%. This can be reduced to 0% for an unprompted disclosure.

In some cases HMRC can suspend a careless inaccuracy penalty for up to 2 years.

Part I



QUESTION NO. 5.....

CANDIDATE NO.

a) $\text{€}500 / 20 = \text{€}25 + \text{VAT}$ each.

The input VAT is recoverable on the cost of the hampers as they are under the €50 limit for gifts.

b) The watch was $\text{€}100 + \text{VAT}$ and was to one individual. This is over the €50 limit and therefore no VAT is recoverable on the gift.

QUESTION NO. 6.....

CANDIDATE NO.

Mr Smith had been deliberately understating his taking
However the Inspector decided it was not concealed.

The maximum penalty for deliberately and
concealed is 70% of the potential lost revenue.
(or €300 if greater).

Mr Smith can ~~be~~ possible reduce his penalty
by helping HMRC with their enquiries.

HMRC can reduce the penalties based on the
behaviour of Mr Smith, how well he co-operates, the
quality of the information that Mr Smith provides
information & how quickly the information is provided.

Boyle would be eligible to register for the flat rate scheme as his expected turnover is under the limit of €150,000.

The implications for Boyle of registering for the scheme is that he would still charge his customer VAT in the normal way. He would then pay output VAT to HMRC at 12% of the gross turnover. As a member of the flat rate scheme Boyle would be unable to recover input VAT on any purchases.

The only ~~for~~ ~~the~~ input VAT that would be recoverable by Boyle is on capital purchases of goods costing more than €2,000 inclusive of VAT. VAT on these items is recoverable.

If Boyle Ltd is in its first year of trading there is also a 1% reduction in the flat rate scheme.

If Boyle's turnover exceeds €230,000 he will have to leave the ~~scheme~~ scheme.

$$\begin{aligned}
 \text{Gross turnover} &= 130,000 \times (12\% - 1\% \text{ as first year}) \\
 &= 130,000 \times 11\% \\
 &= \underline{\underline{€14,300 \text{ estimated VAT liability.}}}
 \end{aligned}$$

Part I

QUESTION NO. 8

CANDIDATE NO.

Rebecca is turning her garage into an office.
As the office is to be used 90% for business
and 10% for personal use Rebecca will be able
to reclaim 90% of the cost of the VAT on the
conversion.

The cost for business use is allowable. The cost
for private use is not allowable.

QUESTION NO. 9.....

CANDIDATE NO.

In order to join the cash accounting scheme:

- A business must ~~not~~ expect that turnover in the next 12 months will not exceed €1,350,000.
- In the previous 1 year all VAT returns and payments have been made ~~is~~ up to date.
- In the previous 1 year ~~has~~ has not been convicted of any offence in connection with VAT.

QUESTION NO.10.....

CANDIDATE NO.

Partial exemption recovery rate = 63%.

Let ^{or} New head office = 750,000 × 20%
= 150,000.

£150,000 × 63% = £94,500.

The cost of the building is over £250,000 so
an adjustment should be done over the next 10 years
to adjust for any differences in the partial
exemption recovery rate in following years.

Part I

QUESTION NO.11.....

CANDIDATE NO.

Cost to Summonds Ltd of Import VAT will be on the total cost of the goods + the cost of transporting it to the UK and the cost of insurance.

Therefore Import VAT will be calculated on the cost of $(€15,000 + €2,000 + €500) = €17,500$.

a) The basic tax point for the new washing machine is 3 April when it is delivered.

An actual tax point overrides the basic tax point if a tax invoice is raised within 14 days of the basic tax point. Here the invoice is raised on 10 April so 10 April becomes the actual tax point.

b) The basic tax point for the repair of the washing machine is 10 April - the day it was fixed.

The basic tax point is overridden by an actual tax point if a tax invoice or payment is received before the basic tax point or within 14 days after the basic tax point.

The actual tax point for the 25% deposit that was received is 31 March as it is received before the basic tax point.

The actual tax point for the remaining payment is 10 April when the bill was handed out as the tax invoice is only raised on 30 April - more than 14 days later.

Part I

QUESTION NO.13.....

CANDIDATE NO. .

	COST	VAT AMOUNT
Charge for accountancy services	5,000	1,000.
Train travel for visiting	100	—
Hotel accommodation.	200	40.
Interest charged on debt.	20.	—
Cost of debt recovery *	<u>750</u>	<u>150</u>
	6070.	1190.

* Assumed cost of debt recovery involves hiring of
Someone to recover the debt if time spent chasing debt.

= £1190 VAT shown on the remainder.

QUESTION NO.1.....

CANDIDATE NO.

1) a) Selling the shares alone would be exempt from VAT.

b) Transferring the trade and assets to a new company within the ITS VAT group would be disregarded for VAT purposes as supplies between group members are ~~also~~ disregarded.

2) Four conditions for a transfer of trade & assets to qualify as a transfer of a going concern for VAT:

1) The assets are to be used by the transferee in carrying on the same kind of business.

2) Where the transferor is a taxable person, the transferee must be or immediately become a taxable person.

3) There is no significant break in trading as a result of the transfer (no longer than a short period for redecoration for example).

4) If only part of the business is being transferred then that part must be capable of separate & independent operation.

3) Potential conflict of interest can be dealt with by:

- Discussing conflict with both clients & seeing if either wants to choose someone else to act.
- Choosing to act with one party only.
- Choosing to act for neither party.

1) The implications for EICs of supplying exempt services is that they are only able to recover input VAT attributable to taxable services. The input tax directly attributable to the exempt services is not recoverable. A calculation is done to allocate the % of non-attributable costs such as overheads and split the cost between both the taxable & exempt supplies.

$$2) \text{Revenue - taxable} = \frac{27,450,000}{\text{Revenue - taxable + exempt } 27,450,000 + 3,560,800}$$

$$= \frac{27,450,000}{31,010,800}$$

$$= 88.51 - \text{Rounded to } 89\%$$

$$\text{Partial exemption recovery} = 89\%$$

Expenditure

The Riverside Services (Leases) - Exempt - not included

Brand Lease - not taxable - not included

Salonés - not taxable - not included.

Riverside rental - Residual $€155,000 \times 20\%$ 31,000

Re-lubricating Mercedes - Residual $€34,000 \times 20\%$ 6,800

Computer services & Stationery - exempt $€178,000 \times 20\%$ 35,600

For MBI Contact. Supplies.

Part II

QUESTION NO. 2

CANDIDATE NO.

Directly Taxable	0
Directly Exempt	35,600.

Residual (31,000 + 6,800) 37,800.

Partial exemption recovery rate = 89%.

Taxable (37,800 × 89%)	33,642
Exempt (37,800 - 33,642)	<u>4,158.</u>
	37,800.

Taxable	33,642.
Exempt (35,600 + 4,158)	39,758.

More than £600 per month & more than 50% of all therefore no de minimis.

Input tax recoverable by Elos UK = £33,642.

3) Elos Ltd should make a disclosure to HMRC regarding the amount of input tax recovered in error. Due to the amount of turnover it is unlikely that Elos Ltd will be able to adjust for the error on a later return as it is likely to be more than £10,000 & more than 1% of the tax & value (total value of sales in the period excluding VAT).

Interest will be payable on the amount of VAT overclaimed.

HMRC will issue an assessment for the amount overclaimed. This should be settled within 3 days of issue.

QUESTION NO. 2

CANDIDATE NO.

4. Tax Avoidance is an allowable means of reducing a tax liability. Tax planning, payments to pension schemes are classed as tax avoidance.

tax evasion is illegal. It is a criminal offence.

5 If a tax adviser becomes aware that a client is ~~avoiding~~ evading tax he should report to the Crime Money Laundering Reporting Officer (CMLERO) The MLRO will then decide if it needs to be reported to SOCA. (Serious Organised Crime Association).

6 ~~When a VAT assessment is raised for a business which has been dormant for a period of 2 years or more, the VAT assessment will be raised on the basis of the VAT returns for the period of 2 years or more.~~

Debit VAT Account by the overclaimed VAT Amount.
Credit Bank Account " " " " as
it will be raised as an assessment for payment.

QUESTION NO.3.....

CANDIDATE NO. ..

TAX DRAFTER

ADDRESS

MS WEAKEG

ADDRESS

DATE

Dear Ms Weakeg:

Thank you for your recent ^{enquiry} regarding the treatment of your recently purchased land. Below I have outlined some information for you.

Refurbishment of existing block of flats.

As the block of flats have been empty for more than 2 years the refurbishment of the flats will be zero rated. This means that the building contractor will charge you zero rate on his services for time and materials.

The Hotel.

The construction of the new hotel will be a standard rated supply as it is the building of a building for commercial use - not for relevant residential purpose.

Construction of New Flats and Ground Floor Shops.

The construction of the new flats are the first grant of a household and one for residential use therefore the input VAT incurred in relation to the flats will be zero rated.

The building of the shops is undertaken the ground floor flats are for commercial use & therefore the costs for the shop buildings will be standard rated.

Selling the properties.

If you choose to sell the flats they are zero rated sale as they are new flats for residential accommodation.

If you choose to sell the shops underneath the flats they are new - as they are under 3 years old it will therefore be sold as a standard rated supply. The sale of the hotel will also be standard rated.

Letting the properties.

If building Securities plc. choose to let out the flats prior to selling them this is an exempt supply.

Input VAT is not recoverable on exempt supplies.

If they choose to let out the input tax recovered in relation to the building of the flat would have to be repaid.

If building Securities plc choose to let out the ~~flats~~^{shops} this is also an exempt supply. This would mean input tax recovered on the building of the shops would also be repayable.

If Building Securities plc opt to tax (made an election) the flats & shops - as they are adjacent one election would cover ~~both~~ both the flats and the shops.

This would mean VAT would then become chargeable on the rent for the shops, but not on the flats in any case as residential letting is always exempt. This would allow input VAT on the shop to be recovered.

If an option to tax is made the election stays in place for 20 years. The option can be revoked within the first 6 months if no taxable supplies have been made.

Part II

QUESTION NO. 3.....

CANDIDATE NO. ...

If the option to tax is made as the properties are sold at a later date - VAT is charged on the sale.

The option to tax election can be made by the buyer at the time of the sale to allow them to recover the VAT incurred on the sale.

The option to tax on the property may make the rental properties shops less appealing to some business dependent on whether they are able to recover the VAT on the rental.

Email:

To: Mrs Jones.

From: Tax Advisor.

Subject: VAT Registration Enquiry.

Date May 2013.

Dear Mrs Jones.

Thank you for your recent enquiry. Below I have outlined some information for you.

VAT Registration.

A business or individual has an obligation to register for VAT when their turnover exceeds £81,000 - the current threshold.

You can check when you should become VAT registered in 2 ways:

The Historic test - Looking back over turnover in the last 12 months (or less) if at any point turnover exceeds £81,000 you should register within the next 30 days and charge VAT on the first day of the calendar month following these 30 days. *

The Future test - If at any point in the next 30 days above ~~your business~~ your turnover ~~is~~ ~~likely to~~ will exceed the registration limit you must register with HMRC within 30 days and start charging VAT with immediate effect.

To apply for VAT Registration you should complete a VAT Form 1. The same form is used whether registration is voluntary or compulsory.

The form can be completed on paper or online.

QUESTION NO. 4

CANDIDATE NO.

Voluntary Registration.

One advantage of voluntary registration is it allows you to reclaim ~~VAT~~ input VAT incurred on purchases of taxable supplies.

One disadvantage of voluntary registration is you must charge VAT on your services. This makes them more expensive to non-business customers who are unable to recover input VAT.

VAT Liability on Services.

The liability on your services to business & non-business customers in the UK is standard rated. You will charge VAT at the standard rate on all services provided in the UK.

For business customers located outside the UK but inside the EU the services will be where the customer belongs. Therefore for you clients in France & Italy there will be no UK VAT to pay.

Input Tax.

When you are VAT registered you can reclaim input VAT incurred on expenses incurred for business purposes & for buying taxable supplies.

This would mean any VAT incurred on the car lease use to travel to meetings - as it is also used for private use - 50% of the VAT would be reclaimable. Any VAT incurred on business travel in the UK eg. Hotels in the UK would be reclaimable in the normal way.

QUESTION NO. 4

CANDIDATE NO. ...

The Electronic Border refund Scheme is set up to enable individuals to recover VAT incurred in other EU States etc.

To qualify to recover the VAT through the Scheme you must not be VAT registered or established (have business premises) in the country you are claiming from. Must be established and make supplies in the UK.

The repayment period must cover 3 or more months ~~to~~ within a repayment year or the remainder of the year if it commences after the 30 September.

The repayment amount must be at least €35.

The information must be completed on a form & sent with evidence of the claim to HMRC who will make the claim from the other country on your behalf.

Returns required:

Once you have become VAT Registered you will be required to complete a VAT return & submit to HMRC. These returns are usually submitted quarterly - dependent on your stagger group.

The completed return & payment is due 1 month & seven days following the quarter end.

Any services provided to EU Countries should also be included in the box 1 and box 6 figures of the VAT Return.

Should you have any further queries please do not hesitate to contact me. *2.

Very Kind Regards -

A Tax Advisor.

QUESTION NO.4.....

CANDIDATE NO. ...

* .

There also be ~~reg~~ requirements to be registered for ~~for~~ ~~for~~ other ~~business~~ to other member states - depending on the limit of the individual country.

*2 .

An EU sales list may also need to be completed within 21 days following the month end if EU supplies have exceeded €35,000 excluding VAT.

An EU sales list records each EU ~~supplier~~ ~~customer~~ supplied - identified by a two letter prefix for their country and ~~then~~ their VAT registration number along with the value of the supplies made in the period.

Part II

QUESTION NO.4.....

CANDIDATE NO.

1) Mrs. Jones will have an obligation to register for VAT if she has any part in the process of a

Q

QUESTION NO.4.....

CANDIDATE NO. ..

1) Mrs Jones will have an obligation to register for VAT when her turnover exceeds ~~£81,000~~ £81,000.

She can do this in 2 ways:

If at any point when she is trading she looks back over the previous 12 months (or less) and her turnover has exceeded £81,000 she must register with HMRC within 30 days.

If she uses the future test & at any time becomes aware that her turnover in the next 30 days alone will exceed the turnover she must register for VAT within the next 30 days and start charging VAT with immediate effect.

VAT Registration is applied for by completing a VAT 1 Form & submitting to HMRC either on paper or online. The same form is used whether registration is

Original Tax

CR
CR

SALES
VAT

DR VAT to make payment
CR Bank

DR
DR

PURCHASES
VAT

Credit Bank to pay
DR VAT a

DR