



Practical Tax People
Association of
Taxation Technicians

May 2015 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. You are not permitted to write in the answer folders. The Presiding Officer will inform you when you can start writing. Calculators may not be used during this time.
- You are provided with two answer folders (one for each part of the paper). You must put your candidate number on the front cover of both folders.
- You must write your answers on the paper provided. Please start each answer on a new sheet of paper and write on one side of the paper only. Put your candidate number at the top of each page and make sure you place your answers in the correct answer folder.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part I

You must use the Part I answer folder.

1. Sebastian has been trading as a self-employed plumber for many years. As he approaches retirement, he is scaling back his business. In the year to 31 December 2015 he expects his gross turnover to fall to £50,000 because he has not renewed several substantial commercial contracts.

Sebastian's business assets comprise tools and equipment which have a gross market value of £7,500. He also uses a car for his business which has a market value of £5,000.

State whether Sebastian could deregister for VAT and explain the consequences of deregistration. (3)

2. Bats and Balls is a registered charity whose objects are to provide opportunities for deprived children to participate in sports activities.

Bats and Balls received the following income in the year to 31 December 2014:

- (a) £12,000 from a local authority as a contribution towards maintaining the charity's premises. Although it is under no obligation to do so, the charity will acknowledge the funds in its newsletter;
- (b) £10,000 from a prominent businessman to sponsor a football tournament. The charity agreed to print adverts for the sponsor's companies in the tournament programme;
- (c) £7,000 from a leisure centre in return for advising the centre on how to attract children to use the facility; and
- (d) £5,000 from a junior school in return for running sports lessons for the pupils.

Bats and Balls is registered for VAT.

State, with a brief explanation, the VAT liability of the items listed above. (4)

3. Wiggins Ltd supplies computer equipment to large commercial companies. In the quarter ending 31 March 2015 the input tax it incurred was as follows:

	£
Tools and equipment	750
Purchase of new car for sales director	2,000
Servicing of sales director's car	120
Fuel for sales director's car	150

The sales director keeps detailed mileage records and out of the 900 miles travelled in the quarter, 80 were for personal travel and 100 were for travel between the office and his home. The remaining miles were travel to client meetings. The director does not reimburse the company for his personal use of the car.

Calculate the total amount of input tax Wiggins Ltd can recover on its VAT return for the quarter to 31 March 2015. (3)

4. Following a year-end review of its VAT returns, construction company Phelps & Co has picked up two invoices which were incorrectly zero-rated, as follows:

- (a) An invoice for repairs to the roof of a large photography studio; and
- (b) An invoice for the installation of a new kitchen in a private home.

Phelps & Co has submitted a voluntary disclosure to HM Revenue & Customs for the under declared output tax, which totals £12,000, and is waiting to receive an assessment for this sum.

Explain whether Phelps & Co will incur interest charges on the late payment of these amounts. (3)

5. In the run up to Christmas 2014, Daley Ltd incurred the following exceptional items of expenditure. These were the only gifts made by the company in the year:

- (a) £500 plus VAT on twenty hampers which were given to the company's receptionists and support staff. The managing director negotiated a substantial discount on the purchase of the hampers as they retail for £75 plus VAT.
- (b) £100 plus VAT on a watch which was given to the head of the company's design team.

Explain whether the VAT incurred on these items is recoverable as input tax and whether input tax recovery has any consequences in this case. (3)

6. Mr Smith runs a restaurant and was recently the subject of a VAT inspection by HM Revenue & Customs. During the visit the inspector identified that Mr Smith had been deliberately understating his cash takings in order to avoid paying output VAT on this income. The inspector is satisfied that no attempt was made to conceal this under declaration.

State the penalties Mr Smith could be exposed to as a result of his actions and whether there are steps he could take to reduce the potential penalty. (3)

7. Boyle Ltd commenced business on 1 May 2015 providing dry cleaning services and has applied to be registered for VAT with effect from this date. The company expects its gross turnover in the year to 30 April 2016 to be £130,000. It is considering joining the flat rate scheme. The flat rate percentage for dry cleaning services is 12%.

State whether Boyle Ltd is eligible to join the flat rate scheme, explain the implications of using the scheme and calculate the company's estimated VAT liability in its first year of trading. (4)

8. Rebecca is a self-employed architect who has been VAT registered for many years. She works from home and is currently considering converting her garage to create an office for use in the business. Rebecca estimates that the converted garage will be

used for business purpose for 90% of the time with the remaining 10% being personal use.

State, with reasons, whether input tax incurred on the conversion costs for the new office will be recoverable. (2)

9. **State three conditions which must be fulfilled in order for a business to join the cash accounting scheme.** (3)

10. Peacock Ltd runs a chain of opticians supplying eye tests, spectacles and contact lenses. The company is partially exempt and in the year ending 31 March 2015 its partial exemption recovery percentage was 63%.

In December 2014 the company purchased a new head office building for £750,000 plus VAT.

Explain how much of the VAT incurred on the building Peacock Ltd will be able to recover. (3)

11. Simmonds Ltd runs a shop selling sports equipment. It purchases most of its stock from suppliers in China and is responsible for shipping the goods itself.

In May 2015 it will purchase £15,000 of stock which will cost £2,000 to transport to the UK and a further £500 to insure during transit.

Explain how much import VAT will be payable when the goods arrive in the UK and the evidence Simmonds Ltd will need in order to recover this.

(3)

12. Grainger & Co supplies and repairs washing machines. It has recently made the following supplies:

(a) Sale of a new washing machine which was delivered to a customer on 3 April. The customer received a VAT invoice on 10 April and paid for the goods on the same date.

(b) Supply of washing machine repair services. 25% of the fee was paid in advance when the repair was booked on 31 March. The machine was fixed on 10 April. A VAT invoice for the work was issued on 30 April and the outstanding fee was paid on the same date.

Explain the basic and actual tax points for the above supplies. (3)

13. J Hill & Co is an accountancy practice. It has been attempting to recover a debt for some time and is sending out a reminder of the outstanding amounts. It contains the following items, all of which exclude VAT:

	£
Charge for accountancy services rendered	5,000
Train travel for staff visiting client premises	100
Hotel accommodation for staff visiting client premises	200
Interest charged due to debt being over six months old	20
Costs of debt recovery	750

Calculate the amount of VAT which will be shown on the reminder. (3)

Place your answers for Part I in the Part I answer folder.

Part II

You must use the Part II answer folder.

Marks are specifically allocated for appropriate presentation.

1. You work as a tax technician for an accountancy firm. One of your clients is International Tax Services (“ITS”). ITS plans to sell one of its divisions that develops and supplies software to help businesses complete their tax returns. The software business operates from a building in Birmingham in which ITS owns the freehold. ITS will transfer the freehold in the building to the new owner along with all the staff and equipment used to run the software business. ITS will also transfer the right to use the name ‘ITS Software Solutions’.

Mrs Jobbs, ITS’s finance director, has asked for your advice on the VAT issues associated with selling the software business. ITS’s management is considering either selling the trade and assets directly to the new owner or transferring the trade and assets into a new company in the ITS VAT group before it sells the share capital in the new company to the new owner.

You are required to:

- 1) **Explain the VAT liability and VAT recovery implications of:**
- (a) **Selling the shares.** (1)
 - (b) **Transferring the trade and assets.** (2)
- 2) **State four conditions for a transfer of trade and assets to qualify as a transfer of a going concern for VAT purposes.** (4)

One of your colleagues has asked you to help advise a new client who is thinking of bidding for a tax software business.

- 3) **You are required to explain how you should deal with a potential conflict of interests.** (3)

Total (10)

2. Elos Global Services (“EGS”) provides consulting, outsourcing, and IT services to clients around the world. EGS operates in the UK through a private company called Elos UK Ltd (“Elos UK”). The head of finance for Elos UK, Mr Gray, has asked you to advise him on the company’s recent work in a new sector of its business.

Elos UK has for the past few months been working with a banking network called MBI to take on some of the bank’s day-to-day banking operations. When Elos UK first took on the MBI contract, Mr Gray assumed that the services would be taxable consulting and IT services and therefore fully recovered input tax incurred in supplying these services. However, a tax adviser whom Mr Gray met recently at a seminar suggested that Elos UK might in fact be acting as a financial intermediary in bringing customers together with the bank, such that Elos UK’s services were actually exempt from VAT.

Having little experience with VAT exemption, Mr Gray wants to know more about the implications for Elos UK of providing exempt services. After an initial phone call Mr Gray explained that all staff providing services under the MBI contract occupy just over half the floor space of one of Elos UK’s offices called ‘The Riverside’ which is located in Newcastle. The building also accommodates other Elos UK staff who do not work on the MBI contract.

Mr Gray also provided the following summary information. All figures below are for the 12 months to 30 April 2015 and are exclusive of any VAT that may apply:

Revenue

	£
Elos UK income excluding MBI contract (all taxable supplies)	27,450,000
Elos UK income from the MBI contract	3,560,800

Expenditure

	£
The Riverside rental (the landlord has opted to tax)	155,000
The Riverside service charges	45,000
Refurbishing The Riverside	34,000
Computer services and stationery used for the MBI contract	178,000
Brand licence from Elos Global head office in Germany	37,000
Salaries	1,430,000

You are required to:

- 1) **Explain the implications for Elos UK of supplying exempt services.** (3)
- 2) **Calculate the amount of input tax Elos UK may reclaim for the year to 30 April 2015.** (6)
- 3) **Explain what action Elos UK should take to correct the amount of input tax recovered and any action that HM Revenue & Customs may take in response.** (4)
- 4) **Explain the difference between tax avoidance and tax evasion.** (2)
- 5) **Explain what steps a tax adviser should take if he or she becomes aware that a client is evading tax or that information provided to HM Revenue & Customs was false or misleading.** (3)
- 6) **Show the double entry needed to correct the overclaimed input tax. (Figures are not required.)** (2)

Total (20)

3. Building Securities plc is a long-standing client of yours. It recently acquired a plot of land in South London which is partly undeveloped and partly occupied by an art deco block of flats constructed in the 1930s which has been empty for more than two years. The new head of finance at Building Securities plc, Ms Weakleg, has emailed you with information about the company's plans for the site which include refurbishing the existing flats, constructing a hotel on part of the empty land, and constructing a new block of flats on the remainder of the land which will have some shops on the ground floor. Building Securities plc will sub-contract all the refurbishment and building work to a third party construction company.

Ms Weakleg is uncertain at this stage about whether Building Securities plc will let out the hotel to an operating company or will sell the freehold in the hotel. She is certain that the flats and shops will eventually be sold freehold, although she wants to understand the VAT implications of short-term letting the flats and shops in the event the company cannot find buyers immediately after the buildings are finished.

You are required to write a letter to Ms Weakleg explaining the VAT treatment of:

- | | |
|--|------------|
| 1) Refurbishing the existing block of flats. | (2) |
| 2) Constructing the new hotel. | (1) |
| 3) Constructing the new block of flats and ground floor shops. | (2) |
| 4) Letting or selling the hotel, flats and shops, including details of any election Building Securities plc may want to make. | |
| (10) | |

Total (15)

4. Mrs Jones has worked in marketing for many years and has just decided to set up her own marketing consultancy. She lives and works in the UK although she has several business contacts in France and Italy whom she hopes will become clients. This would involve her travelling to meetings in Paris and Milan, both of which are in the EU. She also intends to rent a car on a long lease that she will use to drive to business meetings as well as for her own private use.

Mrs Jones expects her consulting income to be at least £70,000 in her first year, of which about half should come from business clients outside the UK. Mrs Jones would like to understand more about any VAT obligations she may have and if there are any advantages in registering for VAT early.

You are required to write an email to Mrs Jones explaining:

- 1) When and how she must apply for VAT registration in the UK.**
(4)
- 2) One advantage and one disadvantage of registering voluntarily.**
(2)
- 3) The VAT liability of her services.** (2)
- 4) Her right to claim input tax once she becomes VAT registered, including VAT on the car lease, and how she may be able to claim VAT she incurs in France and Italy.**
(5)
- 5) What regular returns or reports she will need to submit to HM Revenue & Customs once she is VAT registered.** (2)

Total (15)

Place your answers for Part II in the Part II answer folder.