



Practical Tax People

Association of
Taxation Technicians

May 2015 Examination

PAPER 6

VAT

Part I Suggested Solutions

1.

Sebastian is eligible to deregister for VAT because he expects his turnover in the coming 12 months to be below £79,000 (1 mark).

If he deregisters he will have to pay output VAT of £1,250 ($£7,500 / 6$) (1/2 mark) on his business assets via his final VAT return (1/2 mark).

He will not have to account for VAT on the car (1/2 mark) because he could not recover input tax on the purchase of this asset (1/2 mark).

2.

Local authority donation – outside the scope of VAT because donations which are freely given without expectation of any benefit in return are not consideration for a supply (1 mark);

Sponsorship – standard rated because the charity is supplying advertising services to the businessman in return for his funding (1 mark).

Leisure centre – standard rated because the charity is providing an advisory service (1 mark).

Junior school – exempt because the charity qualifies as an eligible body and is providing education (1 mark).

3.

Tools and equipment	£750 (1/2 mark)
Purchase of new car for sales director	0 (1/2 mark)
Servicing of sales director's car	£120 (1/2 mark)
Fuel costs ($720/900 * £150$)	<u>£120 (1 mark)</u>
Total	£990 (1/2 mark)

4.

Interest is only charged by HM Revenue & Customs if there has been a loss to the revenue (1 mark).

Invoice issued to the photographer: interest will not be due on the late payment (1/2 mark). As the VAT charged to the photographer would have been recoverable as input tax, there has been no loss to the revenue as a result of this error (1/2 mark).

Invoice issued to the private individual: interest will be due on the late payment (1/2 mark). Because the customer cannot recover the VAT charged there has been a loss to the revenue in this case (1/2 mark).

5.

Hampers – VAT incurred on the hampers can be recovered because the cost incurred by the company on each gift does not exceed £50 (1 mark).

Watch – VAT incurred on the watch is recoverable as input tax (1/2 mark), but because the watch cost more than £50, output tax must be accounted for on the gift (1/2 mark). Therefore the gross cost of the watch to the company is £120 (1/2 mark).

As an alternative to calculating the output tax charge, the company could treat the VAT incurred on purchase as being irrecoverable (1/2 mark).

6.

Mr Smith will be due for a penalty totalling 35-70% of the under declared output tax (1/2 mark) because his actions would be classed as 'deliberate but not concealed' (1/2 mark).

Because the underpayment was picked up at a VAT inspection, the disclosure will be classed as being a prompted disclosure. (1/2 mark) Therefore no discount is available for making an unprompted disclosure. (1/2 mark).

Where Mr Smith's penalty is in the 35-70% range will depend upon the quality of the disclosure he makes to HMRC (1/2 mark). Reductions are available for telling, helping and giving HM Revenue & Customs access to records (1 mark).

Max 3 marks

7.

Boyle Ltd is eligible to join the flat rate scheme because its annual turnover is expected to be below the joining threshold of £150,000 excluding VAT (1 mark).

Under the scheme Boyle Ltd will not be able to recover VAT incurred on its purchases (1/2 mark), with the exception of VAT incurred on capital items purchased for more than £2,000 (incl VAT) (1/2 mark).

Boyle Ltd will charge VAT to its customers in the normal way (1/2 mark) but will calculate its output tax based on its flat rate percentage of gross turnover (1/2 mark).

In the first year of registration Boyle Ltd will get a 1% discount off the normal flat rate percentage. Therefore its estimated VAT liability in year one will be £14,300 (11% * £130,000). (1 mark, ½ mark if use 12%).

8.

Input tax incurred on the personal use of the new office will not be recoverable as this is not a business expense (1/2 mark).

Rebecca must restrict the amount of VAT she recovers on the construction cost and only claim a refund of 90% of the VAT (1 mark).

It is no longer possible to recover 100% of the VAT and account for output VAT on the personal use of purchases of land and property (1 mark).

Max 2

9.

Estimated taxable turnover in the next 12 months should be £1,350,000 or less (1 mark).

Business must be up to date with all VAT returns and payments (1 mark).

Must not have been convicted of a VAT offence in the previous 12 months (1 mark).

10.

Peacock Ltd would have been entitled to recover input tax of £94,500 in the year of purchase. ($£750,000 * 0.2 = £150,000 * 0.63 = £94,500$). (1 mark).

Because the building cost more than £250,000, it is subject to the capital goods scheme (1/2 mark) and VAT recovery must be adjusted over the first 10 years of ownership (1/2 mark).

If Peacock Ltd's partial exemption recovery rate increases additional VAT is reclaimable and if it decreases VAT must be repaid (1 mark).

11.

Import VAT is calculated based upon the cost of the goods, including transport and insurance. (1 mark).

Therefore the value at import will be £17,500 and import VAT of £3,500 will be due. (1 mark)

This import VAT is recoverable provided Simmonds receives a C79 import VAT certificate from HMRC (1 mark).

Note – candidates need to specify that Simmonds needs a certificate from HMRC they will not be penalised for not knowing the correct number.

12.

Supply of goods: basic tax point is 3 April when goods are delivered (1/2 mark), this is overridden by an actual tax point on 10 April because the VAT invoice was issued within 14 days. (1/2 mark)

Supply of service: basic tax point is 10 April when service is completed (1/2 mark). This is overridden by an actual tax point for the 25% deposit paid in advance on 31 March. (1/2 mark) It is not overridden by the invoice as this was issued more than 14 days afterwards. (1/2 mark) Therefore the actual tax point for the 75% is 10 April. (1/2 mark)

13.

Accountancy services: £5,000 (1/2 mark)

Train travel: £100 (1/2 mark)

Hotel accommodation: £200 (1/2 mark)

£5,300

VAT due at 20% £1,060 (1/2 mark)

Interest and debt recovery charges are not subject to VAT (1)