

Tolley[®] Exam Training

ATT PAPER 6

VAT

PRE REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

May and November 2024 Sitzings

PQ666

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This Pre Revision Question Bank for ATT Paper 6 contains 4 SFQ tests and 10 exam standard long questions all with answers updated to Finance Act 2023 and Finance (No 2) Act 2023. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2024** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours** and will have a mixture of computational and written questions with no question choice. The paper is split into 2 parts:

Part I consists of “short form” questions (“SFQs”) worth between 2 and 4 marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper. There are no presentation marks in this part of the paper and your answers should be bullet points and summary computations.

In Part II the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection. There are also 2 presentation skills marks available in this part of the paper.

Presentation Skills Marks

There are **no marks for ‘format’** within the long form questions in Part II. There are simply **58 marks for technical content and 2 marks for presentation skills across the whole of Part II.**

Typically two marks would be awarded where a candidate’s presentation is very good; full sentences are used where appropriate throughout; answers flow well and are in a logical order; explanations clearly relate to the question scenario.

There are likely to be letter/email style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying “yes I know that point, yes I understand that advice given” - the test is would you have actually put those points in your answer? You won’t find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated to that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

LAW AND ETHICS

The ATT Paper 6 syllabus includes Law and Ethics and these topics can be tested either as part of a long question or as a short form question.

The required depth of knowledge is “Principles” ie you will be expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of law and ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There will also be some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions will be good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (6th edition) that are included in the Paper 6 syllabus are:

- Chapter 6 Criminal and Civil Law
- Chapter 7 The Law of Property
- Chapter 8 Land Law
- Chapter 9 The Law of Contract
- Chapter 10 The Law of Contract: Specific Contracts

Ethics:

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (6th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)

- Chapter 4 New clients and engagements
- Chapter 5 Client service
- Chapter 6 Objectivity (including conflicts of interest)
- Chapter 7 Other client handling issues
- Chapter 8 Charging for services
- Chapter 9 Complaints
- Chapter 10 Ceasing to act

PCRT (2023)

- Chapter 19 The Fundamental Principles
- Chapter 20 The Standards for Tax Planning
- Chapter 21 Help sheet A: Submission of tax information and 'tax filings'
- Chapter 22 Help sheet B: Tax advice
- Chapter 23 Help sheet C: Dealing with errors
- Chapter 24 Help sheet C2: Dealing with errors – Members in business
- Chapter 25 Help sheet D: Requests for data by HMRC
- Chapter 26 Help sheet E: Members' personal tax affairs

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LONG QUESTIONS

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- 2 Robert
- 3 John Macey
- 4 George
- 5 Leticia Legume
- 6 Canny Ltd
- 7 Flog It Ltd
- 8 Peter
- 9 Portia L'Exempcion
- 10 Buildfast Ltd

ATT EXAMINATIONS

2024

TAX TABLES

INCOME TAX

	2023/24
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	1,000
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000
Scottish Tax Rates and Thresholds (Note 2)	
£	%
1 – 2,162	19
2,163 – 13,118	20
13,119 – 31,092	21
31,093 – 125,140	42
125,140+	47
Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	2,870
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000

- Notes:** (1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not-Scottish) taxpayers.
- (2) Scottish taxpayers pay Scottish income tax on non-savings income.
- (3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
- (4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
- (5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	Maximum subscription
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS

2024

TAX TABLES

Pension contributions

Basic amount qualifying for tax relief	£3,600
Annual allowance (Note 1) £	Minimum pension age
2023/24 60,000	55
Maximum tax-free lump sum	£268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles

Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2023/24

	Electric range (miles)	Car benefit % (Note 3)	
Emissions			
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (3) 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure £27,800

Taxable benefits for vans – 2023/24

Van benefit – No CO ₂ emissions	£ Nil
Van benefit – CO ₂ emissions > 0g/km	3,960
Fuel benefit	757

Official rate of interest - 2023/24 2.25%

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2024

TAX TABLES

Childcare

Employer supported childcare – basic rate taxpayer (Note 1) £55 per week

Note: (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£1,834 per month	£2,274 per month	£2,305 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold £1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay	Weekly rate
Average weekly gross earnings	£123.00 or more £109.40
Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £172.48 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £172.48

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2024	£18,140 per year	£375 per week	£450 per week

CHILD BENEFIT

Year to 5 April 2024

Rates	Weekly rate
	£
First child	24.00
Each subsequent child	15.90

Child benefit charge	Withdrawal rate
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES

Late payment interest	6.50%
Interest on underpaid corporation tax instalments	5.00%
Repayment interest	3.00%
Interest on overpaid corporation tax instalments	3.75%

ATT EXAMINATIONS

2024

TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

2023/24

Class 1 limits

	Annual £	Monthly £	Weekly £
Lower earnings limit (LEL)	6,396	533	123
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	9,100	758	175
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

2023/24

Employment allowance

Per year, per employer £5,000

Class 1 primary contribution rates

Earnings between PT and UEL 12%
Earnings above UEL 2%

Class 1 secondary contribution rates

Earnings above ST (Notes 3 & 4) 13.8%

Notes: (3) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(4) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions 13.8%
Class 1B contributions 13.8%

Class 2 contributions

Normal rate £3.45 pw
Small profits threshold (Note 5) £6,725 pa
Lower profits limit (LPL) (Note 5) £12,570 pa

Note: (5) Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the small profits threshold and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions £17.45 pw

Class 4 contributions

Annual lower profits limit (LPL) £12,570
Annual upper profits limit (UPL) £50,270
Percentage rate between LPL and UPL 9%
Percentage rate above UPL 2%

SIMPLIFICATION MEASURES

'Rent-a-room' limit £7,500
Property allowance/Trading allowance £1,000

ATT EXAMINATIONS

2024

TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses	First 10,000 business miles	45p per mile
	Additional business mile	25p per mile
Business use of home	25 – 50 hours use	£10 per month
	51 – 100 hours use	£18 per month
	101+ hours use	£26 per month
Private use of business premises	No of persons living there: 1	£350 per month
	2	£500 per month
	3+	£650 per month

CASH BASIS

Turnover threshold to join scheme	£150,000
Turnover threshold to leave scheme	£300,000

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

- Notes:** (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019.
- (2) The main pool rate applies to cars with CO₂ emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
- (3) The special pool rate applies to cars with CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred by a person on research and development.

New zero-emission goods vehicles.

New cars if the car either emits 0g/km of CO₂ or it is electrically propelled.

Electric vehicle charging points expenditure.

Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) between 1 April 2023 to 31 March 2026:

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50%

VALUE ADDED TAX

Standard rate	20%	VAT fraction	1/6
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Limits

Annual registration limit	£85,000
De-registration limit	£83,000

Thresholds

	Cash accounting	Annual accounting
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (as at 1 March 2023)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	10p	1600cc or less	13p
1401cc to 2000cc	15p	11p	1601cc to 2000cc	15p
Over 2000cc	23p	17p	Over 2000cc	20p

Electricity rate	9p
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TAX TABLES

CORPORATION TAX

Financial year	2023	2022
Main rate	25%	19%
Standard small profits rate	19%	N/A
Augmented profit limit for standard small profits rate	£50,000	N/A
Augmented profit limit for marginal relief	£250,000	N/A
Standard marginal relief fraction	3/200	N/A
Marginal rate	26.5%	N/A

Research and development expenditure

Financial year	2023	2022
Total relief for Small & medium enterprises (SMEs) (Note 1)	186%	230%
R&D tax credit for SME losses	10%	14.5%
Large companies – RDEC	20%	13%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	Lifetime rate	20%
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Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands (Note 3)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (3) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption	£3,000
Small gifts	£250
Wedding gifts – Child	£5,000
– Grandchild or remoter issue or other party to marriage	£2,500
– Other	£1,000

ATT EXAMINATIONS

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TAX TABLES

CAPITAL GAINS TAX

Annual exempt amount	2023/24 £6,000
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CGT rates for individuals (Notes 1 & 2)

Gains qualifying for business asset disposal relief/investors' relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%

CGT rates for trusts & individuals paying the remittance basis charge

Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%

CGT Rate for personal representatives (PRs)

All gains (Note 5)	20%
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Business Asset Disposal relief (BADR)

Relevant gains (lifetime maximum) (Note 6)	£1 million
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Investors' relief (IR)

Relevant gains (lifetime maximum)	£10 million
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- Notes:**
- (1) For individuals, gains are taxed as if they are the top slice of income.
 - (2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
 - (3) The remaining basic rate band is calculated as £37,700 (2023/24) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
 - (4) The rate is 18% if the gain is in respect of a residential property
 - (5) The rate is 28% if the gain is in respect of a residential property
 - (6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

ATT EXAMINATIONS

2024

TAX TABLES

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	—	—	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

PAPER 6
SHORT FORM QUESTIONS
TEST 1 (40 MARKS)

1. On 14 May, Very Fry Ltd signs a contract with a large retailer to supply them with 10,000 frying pans to be delivered within one month on 3 June, with payment due on delivery. The contract is worth £90,000. Very Fry Ltd is a new company and is not yet VAT registered.

State the date by which Very Fry Ltd must notify its liability to register and the date from which its registration will take effect. (2)

2. **State four advantages of using the annual accounting scheme.** (4)

3. A VAT registered limited company sells the following three computers for £10 each to:

- 1) a wholly owned subsidiary which is fully taxable;
- 2) a wholly owned subsidiary which is partially exempt; and,
- 3) a member of the public.

The normal selling price of a computer is £100 and each costs more than £10 to construct.

Explain whether each of these sales can be valued at £10 for VAT purposes and, if they cannot, explain how the value will be calculated. (3)

4. A partially exempt business purchased building A in October and building B in December. The costs of the buildings were £200,000 (plus VAT) and £400,000 (plus VAT) respectively. Both buildings have exempt and taxable use. The business' partial exemption recovery rates are as follows:

Year 1	50%
Year 2	40%

Calculate the amount of input tax that can be reclaimed in the year of purchase and the adjustment required in the following year. (4)

5. **State the VAT liability of the following items:**

- 1) A child's car seat
 - 2) Cold take-away food
 - 3) Medical care provided by a registered doctor
 - 4) A train ticket
 - 5) An electronically supplied newspaper
 - 6) An educational CD-ROM
- (3)

6. The sales ledger for Knot Bean Paid Ltd shows the following sales invoice transactions with its customer, Noke Ash.

<u>Date</u>	<u>Net</u>	<u>VAT</u>
	£	£
20 November 2023	1,000	200
15 January 2024	2,000	400
1 February 2024	2,000	400

Payment is due within 30 days of the invoice date.

On 1 April 2024, Noke Ash made a payment of £1,000 towards the first invoice, but refuses to pay the VAT. No more payments are received.

Explain how much bad debt relief can be claimed in respect of these invoices on the return for quarter ended 31 August 2024. (4)

7. Wayward plc is a fully taxable business which has recently undergone a visit from HMRC. During the visit it was identified that on the March VAT return, a large sales invoice for £650,000 plus VAT had been erroneously recovered as input VAT rather than accounted for as output VAT.

The March VAT return was submitted with figures as follows:

	£
VAT on sales	200,000
VAT on purchases	150,000

State the implications of this error. (4)

8. **Fred owns his own company. He has incurred the following expenses and wants to know if he can recover the VAT:**

- 1) The business had a fantastic sales record for the week, so on the spur of the moment Fred took all his staff out for lunch on Friday;
- 2) Fred's car broke down and had to go to the garage to be fixed. He leased a car from Quickhire Ltd for four days;
- 3) Fred went away to lecture at the university and incurred some taxi expenses – this is something Fred does on an occasional basis to share his experiences of work. He does not get paid and does it as a favour for his friend, a lecturer at the university.

(3)

9. HMRC have the power to give directions where an artificial tax advantage is being achieved by a partially exempt tax group.

Give three examples of these directions. (3)

10. **In which circumstances may an option to tax be revoked?** (3)

11. When a registered taxable person takes a lease on or hires a qualifying car, the registered person may recover 50% of the input VAT. To qualify for 100% input tax recovery, the vehicle must be used by the registered taxable person for one of several primary purposes.

List four of these purposes. (4)

12. Where a tax adviser has acted negligently, damages may be awarded to the client. They are assessed according to certain criteria.

State the three criteria. (3)

SFQ TEST 1 ANSWERS

1. Very Fry Ltd knows on 14 May that its supplies in the next 30 days will exceed the VAT registration threshold, so HMRC must be notified by 13 June. **[1]**

HMRC will register Very Fry Ltd with effect from 14 May. **[1]**

Total 2

2. Four advantages of using the annual accounting scheme are:

- A reduction in the number of VAT returns required;
- Management of cashflow with more certainty by paying a regular amount each month;
- An extra month to complete the annual return and account for any balance due;
- If partly exempt only one calculation is required;

[1 each for any 4]

[Credit given for other valid points]

Total 4

- 3.
- a) This sale can be valued at £10, because, although the company is a connected party, it has full recovery of input tax. **[1]**
- b) This cannot be valued at £10 because it is to a connected party which is not entitled to full recovery of input tax. The value to be used is the open market value of the goods. **[1]**
- c) The purchaser is not connected and so the sale can be valued at £10. **[1]**

Tutorial Note:

Para 1 Sch 6 VATA 1994 contains details on open market value.

Total 3

4. Input tax incurred on the buildings is £40,000 and £80,000. **[½]**

Year 1 - input tax deduction = £40,000 x 50% = £20,000 **[1]**
and £80,000 x 50% = £40,000 **[1]**

Year 2 – Building A is not a capital item as cost below £250,000 and therefore not liable to further adjustment. **[½]**

Building B adjustment = £80,000 x (50% - 40%) ÷ 10 = £800 payable to HMRC. **[1]**

Total 4

5.

- a) A child's car seat – reduced rate 5%
- b) Cold take away food – zero-rated (assuming it's not within the excepted items)
- c) Medical care provided by a registered doctor – exempt
- d) A train ticket – zero-rated
- e) An electronically supplied newspaper – zero-rated
- f) An educational CD-Rom – standard-rated (assuming not supplied in circumstances falling within Item 4, Group 6, Sch 9 VATA 94)

[½ each]

Total 3

6. Invoice 20/11– Payment date is more than six months overdue, therefore bad debt relief is available. KBP Ltd cannot claim relief for the full VAT amount, even though that is the amount the customer disputes. [½]

Therefore, amount of bad debt relief = $(£1,200 - £1,000) \times 1/6 = £33.33$ [1]

Invoice 15/01– Payment date is more than six months overdue, therefore bad debt relief is available in full. [½]

Therefore, total amount of bad debt relief = £400 [1]

Invoice 01/02– Although the invoice is six months old, the payment date was 3 March which is less than six months before the August quarter's return. Therefore, no bad debt relief is available in this quarter.

[1]

Total 4

7. A penalty is due since there has been an understatement of the VAT due.

If HMRC deem the error to have been due to careless action on behalf of the company the penalty will be: [1]

$650,000 \times 20\% \times 2 = 260,000 \times 30\% = 78,000$. [1]

The extra VAT payable is £260,000 since £130,000 was claimed as input tax. This needs to be repaid and £130,000 of output tax also needs to be paid. [1]

Hence £260,000 VAT is payable in total. Since HMRC have discovered the error the penalty may not be reduced for disclosure by the company. [1]

Total 4

8. The recovery of Fred's expenses is as follows:

- All VAT can be recovered as it relates to the employees of the business. [1]
- As Fred is leasing the car, only 50% of the input tax can be recovered. This is because the car is available for private use. (If Fred were hiring the car specifically for a particular business trip then, as the hire period was under 10 days, he could recover 100% of the VAT.) [1]
- Cannot be recovered as it is in relation to a non-business activity. [1]

Tutorial Note:

SI 1992/3222 provides the details.

There is case law (*The Towards Zero Foundation, FTT case, in 2022*) that suggests that Fred might be able to recover the expenses in relation to his lecturing, if it is not seen as a discrete activity in its own right but part of his overall business activity. Credit would be given for justifying this point.

Total 3

9. HMRC may direct that:

- Separately registered entities eligible to be treated as members of a VAT group are to be treated as grouped from a specified date (or for a specific period); [1]
- An entity within a VAT group is removed from that group from a specified date; [1]
- A supply within a VAT group that would normally be treated as a disregarded supply is to be subjected to VAT. [1]

Tutorial Note:

Sch 9A VATA 1994 contains the anti-avoidance about VAT groups.

Total 3

10. An option to tax may be revoked:

- In the six month "cooling off" period
- Where no interest has been held for six years
- Where more than 20 years have elapsed since the option first had effect.

[1 each]

Tutorial Note:

Paras 8.1, 8.2 and 8.3 of Public Notice 742A, which is reproduced in the Orange Part 1 Handbook, contain the rules.

Total 3

11.

- a) the motor car is a qualifying car let on hire to a taxable person who intends to use it exclusively for business purposes;
- b) to provide it on hire with the services of a driver, for carrying passengers;
- c) to provide it for self-drive hire – on less than 30 consecutive days and 90 days in total in a 12-month period; or
- d) use as a vehicle in which driving instruction is given by him.

[1 each]**Tutorial Note:**

See Art.7(2E) &(2F) of SI 1992/3222.

Total 4

12. Was the loss sustained foreseeable?

Did the claimant mitigate their loss?

Did the claimant contribute to the loss?

[1 each]**Tutorial Note:**This is covered in the 'Essential Law for Tax Practitioners' 6th edition book in Chapter 6, para 6.13**Total 3**

**PAPER 6
SHORT FORM QUESTIONS
TEST 2 (40 MARKS)**

1. Charlie raises a VAT invoice in May for £10,000 for the sale of sporting goods and offers a prompt payment discount of 2.5% if paid within 30 days. Payment is actually received after 42 days.

1) How much VAT must be shown on the invoice when it is raised?

2) How much VAT should be accounted for to HMRC?

(2)

2. Krazy Kars Ltd is a VAT registered car rental company. In March it has purchased one car for £10,000 plus VAT which will be used as a pool car and rented to third party businesses. It is also leasing one car for £1,000 per month plus VAT from a car dealer for the use of the managing director. All fuel is purchased by the business and supplied in both cars.

Explain the VAT recovery of the costs detailed above.

(3)

3. HMRC have reviewed the last VAT return that you have submitted and have raised an assessment. You do not agree with the reasons for the assessment being raised.

State the options that are available to you and any conditions you are required to meet in order to pursue these options.

(3)

4. A company registered for VAT in the UK makes the following supplies:

- 1) A sale of copyright to a private individual in the USA.
- 2) A sale of copyright to a company in the USA.
- 3) A sale of copyright to a charity in the USA, who is using it for business purposes at its establishment in the UK.

Briefly explain in which country the above sales of copyright will be supplied for VAT purposes.

(3)

5. **What are the consequences of forming a VAT group?**

(3)

6. A taxpayer is using the flat-rate scheme with an applicable rate of 8%. In a quarter there is £15,000 of turnover and the taxpayer has input tax of £3,000 including £1,000 incurred on the purchase of a piece of capital equipment which will not be resold/hired out.

Calculate the VAT liability for the quarter. The trader is not a 'limited cost' trader.

(2)

7.

1) State whether the following supplies are standard-rated, zero-rated, exempt or outside the scope:

- a) Sale of a house by the present owner/occupier.
- b) Hire of a hotel conference room for a meeting.
- c) Sale of a two-year old commercial building.
- d) The grant of an eight-year lease in a commercial building.

2) Briefly explain if an option to tax could affect the liability of any of these supplies. (4)

8. A new factory is bought by X Ltd for £400,000 plus VAT. X Ltd makes a mixture of exempt and taxable supplies from the premises which are 50% taxable for the first year, 40% taxable for the second and then stay constant at 70% for each subsequent year of use.

Calculate the amount of VAT deductible in year one and the Capital Goods Scheme adjustments required in each of the following relevant years. (3)

9. Alan is currently unemployed but has just come into an inheritance. He has decided to buy the assets and customer base of a local VAT registered printing business. Alan has heard that he may not have to pay VAT on the purchase price if certain conditions are met. He also has been told that the land and property of the sale has been opted for tax.

What are the main conditions that must be satisfied for this supply to be treated as a transfer of a going concern? (4)

10. Following a visit by HMRC to Slapdash Ltd, the company was found to have mistakenly under-declared output tax by £91,000 on the June VAT return. The return showed output tax due of £84,000 and input tax of £67,000.

Briefly explain the implications of this discovery. (4)

11. The question as to whether an undertaking constitutes a 'business activity' has often been considered by the Courts.

Explain how the courts decide if an activity is performed in the course or furtherance of business. (4)

12. A claim for negligence may arise if loss is caused to a client as a result of incorrect tax advice.

State what a client must prove in order to establish negligence. (3)

13. **Explain any two of the 'Fundamental Principles' which govern the professional conduct of members of the Association of Taxation Technicians.** (2)

SFQ TEST 2 ANSWERS

1. The amount of VAT to be shown on the invoice is £2,000 ((£10,000 x 20%). If the customer takes advantage of the discount the VAT is adjusted (by way of a credit note, for example).

[Credit given for alternative method of invoice detailing the terms of the discount and that recovery is for the actual VAT paid and no credit note will be issued.]

[1]

As the customer does not take up the prompt payment discount, the VAT remains as calculated above.

[1]

Total 2

2. The £2,000 VAT incurred on the purchase of the car for use in the car rental business should be fully recoverable. **[½]** However, as it is to be used as a pool car, for the VAT to be recoverable it needs to normally be kept at the business premises, not kept at an employee's home and not allocated to a single employee. **[½]**

Only 50% of the £200 VAT incurred on the monthly rental cost will be recoverable by the business. **[½]**

VAT on fuel purchased for use in the business is fully recoverable. **[½]**

VAT on fuel purchased and used for private purposes is not recoverable. However, if the 'flat rate basis' (fuel scale charge) is applied by the business then VAT incurred on the purchase of the fuel may be recovered. **[1]**

Tutorial Note:

Other options for recovery of the VAT on the fuel to gain credit – for example, the keeping of detailed mileage records. Art.7(2H) of SI 1992/3222 contains the '50%' rule for leases.

Total 3

3. You can accept HMRC's offer that a local review is undertaken. **[1]**

You can appeal to the First-tier Tribunal – however in order to do this you must make payment of the amount of VAT at stake. **[1]+[1]**

Total 3

4. The place of supply of copyright to a private individual in the USA is the USA (para.16 Sch.4A VATA 1994) **[1]**

The supply to the company in the USA is made in the USA, as that is where the recipient belongs (s.7A VATA 1994) **[1]**

The supply is for business purposes, so is made where the recipient belongs. As the UK establishment is using the copyright, then the supply is in the UK (s.7A & s.9(3)(b) VATA 1994) **[1]**

Total 3

5. The group has to nominate one entity as the representative member to submit returns. [1]
- Supplies between group members are disregarded for VAT purposes. [1]
- All members of a group are jointly and severally liable for VAT. [1]

Tutorial Note:

Credit will be given for mentioning other valid points such as one VAT number for the whole group.

Total 3

6. Output tax due = £15,000 x 8% = £1,200 [½]
- Input tax due (only allowed on capital item) = £1,000 [1]
- Net VAT due = £200 [½]

Total 2

7. Sale of a house by the present owner is either outside the scope of VAT where it is a private transaction or if it is a business activity it is an exempt supply.

[Only one of these needs to be stated.]

[½]

Hire of a hotel conference room for a meeting is an exempt supply (credit given for stating standard rated, if supplied for the purpose of catering or other situations involving other supplies which add significant value to the room). [½]

A two-year old commercial building is considered to still be a new building therefore its sale is a standard-rated supply. [½]

The grant of an eight-year lease in a commercial building is an exempt supply. [½]

An option to tax could be exercised only on the hire of a hotel conference room and the eight-year lease of a commercial building. It would change the VAT liability of these supplies to standard-rated. [1] + [1]

Total 4

8. In the first year/interval input tax deductible = (£400k x 20%) x 50% = £40k [1]
- In the second interval = £80k/10 x (50-40%) = £800 input tax repayable to HMRC [1]
- In the third & all remaining 7 intervals = £80k/10 x (70-50%) = £1,600 additional input tax to be claimed from HMRC. [1]

Total 3

9. The assets should be used to carry out the same kind of business. [1]

Alan must either be VAT registered or immediately become so at the date of transfer. [1]

There should be no significant break in the normal trading pattern before or immediately after the transfer. [1]

Alan must have elected to opt to tax the building and land through a written notification to HMRC by the date of transfer. [1]

Alan must also have notified the vendor that his option to tax will not be disapplied. [1]

Tutorial Note:

These conditions can be found in Art.5 SI 1995/1268 and para 1.4 of VAT Notice 700/9, which are reproduced in the Orange Part 1 Handbook.

Max 4

10. An error on a VAT return understating the amount of VAT due to HMRC will result in a penalty. [1]

If HMRC deems the error to have been made carelessly then penalty will be 30% of £91,000 = £27,300. [1] + [1]

No reduction of the penalty is available since HMRC discovered the error rather than it being disclosed by the company. [1]

Total 4

11. The courts have cited two principal tests:

- 1) The activity results in a supply of goods or services for consideration. [1]

This requires there to be a legal relationship with reciprocal performance between the supplier and the recipient. [1]

- 2) The supply is made for the purpose of obtaining income therefrom. [1]

Simply receiving a payment does not mean that an activity is economic. [1]

Tutorial Note:

These tests are in Revenue & Customs Brief 10 (2022) which is reproduced in the Orange Part 1 Handbook.

Other explanations will receive credit eg mentioning the factors from previous case law that are used as 'tools' to assist in the decision making process.

Total 4

12. The client must prove that:

- the adviser owed them a duty of care; and [1]
- there was a breach by the adviser of that duty to take adequate care; and [1]
- the client suffered loss or damage as a result of the breach. [1]

Total 3

Tutorial Note:

This is covered in the 'Essential Law for Tax Practitioners' 6th edition book in Chapter 6, para 6.13.

13. Integrity: To be straightforward and honest in all professional and business relationships.

Objectivity: To not allow bias, conflict of interest or undue influence of others to override professional or business judgements.

Professional competence and due care: To maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and act diligently and in accordance with applicable technical and professional standards.

Confidentiality: To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the member or third parties.

Professional behaviour: To comply with relevant laws and regulations and avoid any action that discredits the profession.

[1 each for any two of the above]

Max 2

PAPER 6
SHORT FORM QUESTIONS
TEST 3 (40 MARKS)

1. Mrs Fisher commenced self-employment as a management consultant in April 2023. Her monthly turnover since the business commenced was as follows:

<u>2023</u>	£
April	7,000
May	8,500
June	6,000
July	7,000
August	8,000
September	7,500
October	8,500
November	10,500
December	12,000
 <u>2024</u>	
January	11,500
February	12,500
March	10,500

Turnover increased in November because Mrs Fisher gained a new client, Alaha Inc, which agreed to pay her a flat rate of £2,000 per month. Alaha Inc is an American company.

Explain the date by which Mrs Fisher should have applied for VAT registration and when it should have taken effect. (4)

2. **State the VAT liability of the following supplies in 2024:**

- 1) **Home insurance.**
- 2) **Subscription to an online magazine.**
- 3) **Installation of energy saving roof insulation in Great Britain.**
- 4) **Pet food.**

(2)

3. Ford & Co is a legal firm which specialises in advising clients on property sales. It is about to issue an invoice to Mr and Mrs Harrison for the following costs:

	£
a) Time booked by staff working on the sale	2,500
b) Cost of copying documents	200
c) Postage costs	50
d) Train travel for staff attending meetings	20
e) Local authority search fees	300

The local authority search fee is an amount owed to the local council by Mr and Mrs Harrison which Ford & Co paid on their behalf. All other costs have been incurred directly by Ford & Co.

Calculate the VAT due on the sales invoice Ford & Co will issue to Mr and Mrs Harrison in respect of the services provided. (3)

4. Mr Hamil is a farmer who has traded for many years. He registered for VAT with effect from 1 January 2024 and is preparing his first VAT return. His pre-registration expenditure includes the following items:
- a) A plough, purchased for £10,000 + £2,000 VAT on 30 November 2019. The plough is still used on the farm and has a current market value of £500.
 - b) A tractor, purchased for £20,000 + £4,000 VAT, on 30 June 2020. The tractor is still used on the farm and its current market value is £3,000.
 - c) Fertilizer purchased for £2,000 + £400 VAT on 29 August 2023, half of which is still in stock.

Calculate and explain how much pre-registration input tax Mr Hamil is entitled to recover on his first VAT return. (4)

5. Mayhew Ltd is a garage business. In the course of a routine VAT visit, the VAT officer discovered that the company had overclaimed £2,000 of input tax due to the carelessness of the directors.

State the maximum and minimum penalty HMRC could levy and what steps Mayhew Ltd could take to reduce the penalty from the maximum level. (4)

6. David Prowse is a landscape gardener. He is registered for VAT and uses the annual accounting scheme. His net VAT liability for the VAT year ending 31 March 2023 was £35,000 and for the year ending 31 March 2024 it was £40,000.

Calculate the VAT payments David was required to make for the year ending 31 March 2024 and state the due dates for payment. (3)

7. **State three conditions a business must comply with in order to use the cash accounting scheme for VAT.** (3)

8. **Briefly explain the agricultural flat rate scheme available to farmers to simplify their VAT accounting.** (2)

9. Shelagh Fraser is employed by Tatu Ltd. Tatu Ltd provides Shelagh with a company car and pays for all her petrol, which she purchases using a company fuel card.

During the VAT quarter ending 31 March Shelagh purchased £480 of fuel (including VAT). Assume the published three-monthly scale charge for this car is £388.

Explain the purpose of fuel scale charges and calculate the net VAT payment/repayment due on Tatu Ltd's VAT return to 31 March. (4)

10. **State three conditions which must be met in order for a sale of business assets to qualify as a Transfer of a Going Concern for VAT purposes and explain the significance of a sale meeting these conditions.** (4)

11. Phil Brown has traded for many years as an electrical engineer, but due to his retirement he has closed his business down and deregistered for VAT. His final VAT return is for the quarter ending 30 April 2024.

The following information is available in relation to this quarter:

- a) Invoices for £2,000 + VAT were issued.
- b) £1,500 + VAT was incurred on the business running costs.
- c) At the date of deregistration Phil had some assets on hand. The assets and their estimated replacement costs are as follows:

	£
i) Computer and office equipment	1,500
ii) Tools	5,000
iii) Car	2,500

Calculate and explain the VAT due on Phil Brown's final VAT return. (4)

12. Baker Ltd provides IT technical support services to a range of businesses. It has a number of aged debtors in its accounts and would like to make a claim for bad debt relief.

State four conditions which must be met for Baker Ltd to claim bad debt relief and explain how a claim for bad debt relief is made. (3)

SFQ TEST 3 ANSWERS

1. Taxable turnover exceeded the VAT registration threshold at the end of February 2024 **[1 for correct date]**. Taxable turnover to this date was £91,000, excluding the income from Alaha Inc, which exceeds the VAT registration threshold of £85,000. **[1, for correct principle]**

Mrs Fisher should have notified HMRC by 30 March **[1]** and would have been registered for VAT with effect from 1 April 2024 **[1]**.

Tutorial Note:

The income received from Alaha is outside the scope of UK VAT, as the place of supply is the USA. This means that it is not a taxable supply and will not count towards the registration threshold.

Total 4

- 2.
- | | |
|--|-----|
| Home insurance – exempt | [½] |
| Subscription to an online magazine – zero rated | [½] |
| Installation of energy saving roof insulation in GB – zero rated | [½] |
| Pet food - standard rated | [½] |

Tutorial Note:

Credit will be given for stating that pet food is zero rated, where it is not packaged or prepared and that if the online magazine was predominantly devoted to advertising then it would be SR.

Total 2

- 3.
- | | | |
|---|--------------|-----|
| | £ | |
| Time booked by staff working on the sale: | 2,500 | [½] |
| Cost of copying documents: | 200 | [½] |
| Postage costs: | 50 | [½] |
| Train travel for staff attending meetings: | 20 | [½] |
| Local authority search fees (disbursement): | - | [½] |
| Total | <u>2,770</u> | |
| VAT due @ 20% | 554 | [½] |

Total 3

- 4.
- | | | |
|--------------|-----------------------|---|
| Plough - | Nil [½] | Expenditure incurred more than four years before registration [½] |
| Tractor - | £4,000 [½] | Expenditure incurred less than four years before registration and the tractor is still in use [½] No restriction for the use of the tractor prior to registration [½] |
| Fertilizer - | £200 (£400 x 50%) [1] | Expenditure incurred less than four years before registration but only half is still in stock [½] |

Total 4

5. Mayhew Ltd is exposed to a penalty of £600 (maximum) to £300 (minimum) [1], because penalties for careless errors which are discovered by HMRC are 30% - 15% of the error [1].

Mayhew Ltd can ensure that penalties are reduced to the minimum by assisting HMRC in their investigation [½]. The amount of reduction Mayhew Ltd will achieve depends upon the quality of the assistance, which is assessed by reference to three categories, telling, [½] helping [½] and providing access to records [½].

Tutorial Note:

Credit will be given if different terminology is used, eg 'timing', 'nature', 'extent' (see para 9(3) of sch 24 FA 2007) in the Orange Part 1 Handbook.

Total 4

6. Nine payments on account of £3,500 (£35,000 x 10%) [1] were due by the end of each month from July to March 2024 [½]

[Alternatively, candidates could specify three payments of 25% at the end of months 4, 7 and 10.]

A balancing payment of £8,500 ((£40,000 – (£3,500*9)) [1] was due by the end of May 2024 [½]

Total 3

7. Three conditions for using the cash accounting scheme, for example:
- you expect the value of your taxable supplies in the next year will be no more than £1,350,000
 - you have no VAT returns or VAT liabilities outstanding
 - you have not been convicted of a VAT offence in the last year

[1 each]**Max 3**

8. Flat rate farmers do not account for VAT or submit returns and so cannot reclaim input tax **[1]**. But they can charge and keep a flat rate 'addition' (FRA) of 4% when they sell goods or goods and services to VAT registered customers. **[1]**

Tutorial Note:

SI 1992/3220 & SI 1992/3221 contain details on the scheme.

Total 2

9. Fuel scale charges enable businesses to recover all VAT incurred on the purchase of fuel because output tax is accounted for on the deemed private use of the fuel (roundings to nearest pound acceptable) **[1½]**

	£	£	
Output tax due under scale charge:	388 x 1/6 =	64.67	[1]
VAT reclaimed on fuel purchase:	480 x 1/6 =	<u>80.00</u>	[1]
Net VAT reclaim:		<u>(15.33)</u>	[½]

Total 4

10. Three conditions which must be met for a sale to qualify as a TOGC are, for example:
- the assets must be sold as part of the transfer of a 'business' as a 'going concern'
 - the assets are to be used by the purchaser with the intention of carrying on the same kind of 'business' as the seller (but not necessarily identical)
 - where the seller is a taxable person, the purchaser must be a taxable person already or become one as the result of the transfer

[1 each, Max 3]

If these conditions are met the sale will not be subject to VAT **[½]**. If the conditions are not met the VAT liability of each asset being transferred must be assessed individually **[½]**.

Total 4

11.

	£	£	
Output tax due:			
On sales	$2,000 \times 20\% =$	400	[½]
On assets held at deregistration:	$6,500 \times 1/6 =$	<u>1,083</u>	[1]
Total		1,483	
Input tax claimed:	$1,500 \times 20\% =$	<u>(300)</u>	[½]
VAT due on return		1,183	

Businesses are required to account for output tax on goods held at deregistration if the VAT due on sale is more than £1,000 [1]. VAT does not need to be accounted for on the car because input tax could not be claimed on the car's purchase. [1]

Tutorial Note:

Credit will be given if candidates do not round to the nearest pound at individual points in the answer.

Total 4

12. For example:

- VAT must have been accounted for on the supply and paid to HMRC;
- The debt must be written off in the VAT accounts and transferred to a bad debt account;
- The debt must be unpaid for a period of six months after the later of due date for payment and the date of the supply;
- A claim must be made within four years and six months from the later of due date for payment and the date of the supply;

[½ each, Max 2]

Bad debt relief is claimed by including the VAT amount in Box 4 (or adding it to input tax claimed) on the VAT return. [1]

Tutorial Note:

See s.36 VATA 1994 and Reg 165 onwards of SI 1995/2518, for the conditions.

Total 3

PAPER 6
SHORT FORM QUESTIONS
TEST 4 (40 MARKS)

1. Thomas is setting up a new consultancy business. He expects to issue his first sales invoice in July 2024. He has incurred a large legal expense dated 1 November the previous year and wants to know whether he can reclaim the VAT he has been charged.

1) Explain whether Thomas can become registered for VAT. (1)

2) Explain the main benefit of VAT registration for Thomas and from which date he should register. (Assume that the current date is January 2024) (2)

Total (3)

2. Belle is retiring after running her gardening business as a sole trader for many years. She ceased to trade on 30 April 2024. Over the years she has accumulated a significant amount of gardening equipment which has an open market value of £6,600 and which she will retain for future personal use.

State the date by which Belle should notify HMRC that she has ceased to trade and explain the implications of deregistering for VAT. (3)

3. Emily is issuing an invoice to her client for accounting services valued at £500, excluding VAT. In the course of her work she incurred the following expenses which she will also recharge on to her client:

	£
Train fare to client meeting	210
Stationery costs	30
Subsistence while travelling to client meetings	24
Companies House confirmation statement fee paid on behalf of the client	15

Emily is registered for VAT and all of the above expenses are inclusive of VAT, where appropriate.

Calculate the total amount of VAT to be charged to her client. (3)

4. Ferdinand Ltd is hosting two parties to celebrate 25 years in business. The first will be attended by the directors and all staff. The second will be for directors, staff, clients and contacts. The staff will be expected to 'meet and greet' the clients and contacts in order to build business relationships.

Explain whether Ferdinand Ltd will be able to reclaim VAT incurred on the cost of the parties. (3)

5. **Briefly explain the implications of a business making both taxable and exempt supplies. (2)**

6. The Finance Manager of Gordon Ltd is preparing the company's first VAT return. Income received and VAT incurred on expenditure in its first quarter is as follows:

	£
Taxable income	20,000
Exempt income	33,000
Input tax attributable to taxable supplies	2,000
Input tax attributable to exempt supplies	500
Input tax on overheads	2,000

Calculate the VAT reclaimable in the period using the standard partial exemption method. (4)

7. James Ltd is a UK based company which has a subsidiary in Japan.

James Ltd issues quarterly invoices to the subsidiary and for the March quarter this will include general management services and surveying services for a property in the UK that the subsidiary plans to purchase.

Explain the place of supply rules for services in the context of the above scenario and how James Ltd should account for VAT on both supplies on the invoice. (4)

8. State, with a brief explanation, how much VAT incurred on the following purchases is claimable:

- 1) **A new car purchased for £20,000 plus VAT by a sole trader building contractor which he uses to visit sites; he also takes the car home.**
- 2) **Repairs to the above building contractor's car costing £420 plus VAT.**
- 3) **Car leasing for £1,050 plus VAT. The car is the sole car of a business consultant. As well as using it privately she uses it for travelling to and from clients.**
- 4) **A van purchased for £12,000 plus VAT by a painter and decorator which he uses to travel from home to work every day. He also has a car which he uses at the weekend.**

(4)

9. Annie has been VAT registered for five years but is newly registered to use the annual accounting scheme for VAT with effect from 1 May 2023. Her VAT year end is 30 April 2024.

Explain how the payments due under the annual accounting scheme are computed and when these amounts should be paid to HMRC. (4)

10. Percy has just taken a job as the Finance Director of a small charity. He is aware that there is a range of specific reliefs available in relation to activities carried on by charities.

State two supplies to charities and two supplies by charities that benefit from relief from VAT. (4)

11. Toby is planning to spend £300,000 plus VAT on a new commercial building which will be used by his fully taxable sole trader business.

State the journal entries required to record the expenditure in the company's accounts. (2)

12. Sodor Golf Club is a non-profit making members' club. It is VAT registered and wants to be sure that the club is charging VAT appropriately.

Calculate the output VAT due on each of the following amounts received:

- 1) **Golf Club membership fee of £465.**
- 2) **A meal in the members' club house costing £85.**
- 3) **Green fees of £55 for a non-member to play a round of golf.**
- 4) **The purchase of an adult golfing jersey from the club shop costing £45.** (4)

SFQ TEST 4 ANSWERS

1.

1)

Although Thomas has not yet commenced trading, because he plans to make taxable supplies in the foreseeable future [$\frac{1}{2}$] he is entitled to voluntarily register for VAT as an intending trader. [$\frac{1}{2}$]

2)

Being VAT registered voluntarily will allow him to reclaim VAT on expenditure related to his future taxable supplies [**1**]. In order to ensure he can claim back the VAT on the legal expense already incurred he must become registered by 1 May 2024 [$\frac{1}{2}$] otherwise that VAT will fall outside the six-month time limit for services received before the effective date of VAT registration. [$\frac{1}{2}$]

Total 3

2. Belle should notify HMRC that she has ceased to trade by 30 May 2024, ie 30 days after the business ceased [**1**].

Because she could recover VAT incurred on the purchase of her equipment and the VAT due on the sale of the equipment would be more than £1,000 [**1**], she will be required to account for output tax of £1,100 on her final VAT return (£6,600 x $\frac{1}{6}$). [**1**]

Total 3

3. Invoiced amount:

	£	
Accountancy services	500	[$\frac{1}{2}$]
Train fare	210	[$\frac{1}{2}$]
Stationery – (£30 x $\frac{5}{6}$)	25	[$\frac{1}{2}$]
Subsistence (£24 x $\frac{5}{6}$)	<u>20</u>	[$\frac{1}{2}$]
Total net	<u>755</u>	
VAT due @ 20%	<u>151</u>	[$\frac{1}{2}$]

Companies House fee - £15 - disbursement - outside the scope of VAT [$\frac{1}{2}$]

Tutorial Note:

If candidates state their assumption that the VAT inclusive costs are being re-charged to the client, then £30 and £24 will be acceptable figures to include.

Total 3

4. Where a business provides entertainment for the benefit of its employees, this is wholly a business expense and accordingly VAT can be recovered from HMRC [1]. Although VAT incurred in providing entertainment for directors only is blocked from recovery, HMRC will still allow VAT to be recoverable on the party costs if they attend the staff party along with all of the other staff. [1]

In relation to the second party, because employees are acting as hosts to clients and other business contacts [1] VAT incurred on the entire costs is blocked under the rules relating to business entertainment. [1]

Max 3

5. Making both taxable and exempt supplies means the business will need to consider how much input tax it can claim [½]. It needs to identify which input tax is incurred wholly and exclusively for either taxable or exempt purposes [½]. Residual input tax which cannot be wholly attributable to one category of supply will then be apportioned [½].

Taxable input tax is recoverable in full, exempt input tax may only be claimed if the business is de minimis [½].

Total 2

6. Taxable income/total income = 20,000/53,000 = 38% (rounded up)

	£	
Input tax related to taxable supplies	2,000	[½]
Apportion input tax on overheads - £2,000 x 38% =	<u>760</u>	[½]
	<u>2,760</u>	
Exempt input tax is £1,740 (£2,000 - £760 plus £500)		[1]

This is a maximum £1,875 and a maximum 50% of total input tax so meets the de minimis test, so the full £4,500 of input tax can be claimed. [1]

[1 - lose half if not rounded up]

Total 4

7. The basic rule for the place of supply of services between businesses is that the supply is made where the recipient belongs [1]. General management services fall within the basic rule and therefore James Ltd must not charge UK VAT on the invoice to the subsidiary [1].

An exception to the basic rule applies to services related to land; these services are deemed to be supplied in the country where the land is situated [1]. The land in question is in the UK therefore James Ltd should charge UK VAT at 20% to the subsidiary. [1]

Total 4

8. VAT on the purchase of the car is blocked from recovery because it is available for private use [1].

VAT of £84 can be claimed in full even though the car is available for private use; the blocking order for cars does not apply to repairs. [1]

50% of the VAT incurred on the leased car can be claimed as the car is available for both business and private use [$\frac{1}{2}$], ie £105 (£210 x 50%). [$\frac{1}{2}$]

£2,400 of VAT can be reclaimed on the purchase of the van as it is used for business with incidental private use. [1]

Total 4

9. Annie must make nine equal monthly instalments [$\frac{1}{2}$] equating to 10% of the previous year's VAT liability [$\frac{1}{2}$] on the last day of each month from August 2023 until April the following year. [$\frac{1}{2}$]

The balance is due on the last day of the second month following the year end - 30 June 2024. [$\frac{1}{2}$]

Alternatively, Annie may apply to make three interim payments instead of nine [$\frac{1}{2}$]. In this case, she will pay 25% [$\frac{1}{2}$] of the estimated VAT on the last day of August and November 2023 and February 2024 [$\frac{1}{2}$] with the balance due on the last day of the second month following the year end - 30 June as above. [$\frac{1}{2}$]

Total 4

10. Supplies to a charity (for example):

- Advertising in third party media is zero rated
- Zero rated construction services if supplied for non-business purpose

[1 each for any 2]

Supplies by a charity (for example):

- Sale of goods donated to a charity are zero rated
- Exemption for fundraising events, subject to certain conditions

[1 each for any 2]

Max 4

- 11.

	£
Dr Property additions/fixed assets	300,000
Dr VAT	<u>60,000</u>
Cr Bank/Cash/loan/capital introduced	<u>360,000</u>

[$\frac{1}{2}$ each debit/credit and $\frac{1}{2}$ for getting amounts correct]

Total 2

12.

- 1) Membership fee will be exempt so VAT due is £0.
- 2) Meal will be standard rated $£85/6 = £14$.
- 3) Exemption applies to green fees so VAT due is £0.
- 4) Standard rated - $£45/6 = £7$.

[1 each]**Total 4**

LONG QUESTIONS

1. MatsRus Ltd has been in business for many years selling floor mats to a variety of customers in the UK. The company also rents part of its premises to a third party for £12,000 per month. (No option to tax has been made.)

In the year ending 31 March 2024, MatsRus Ltd made the following taxable supplies of goods, excluding VAT:

	£
Quarter ended 30 June	179,543
Quarter ended 30 September	154,928
*Quarter ended 31 December	198,418
Quarter ended 31 March	140,416
Total	<u>673,305</u>

* This quarter includes the sale of an old press for £18,000 excluding VAT

The company's input tax for the same four quarters is analysed as follows:

	<u>Mat production</u>	<u>Rental area</u>	<u>Overheads</u>
	£	£	£
Quarter ended 30 June	16,718	1,705	1,186
Quarter ended 30 September	13,675	1,142	1,443
Quarter ended 31 December	13,011	1,940	1,410
Quarter ended 31 March	<u>17,352</u>	<u>1,612</u>	<u>1,276</u>
Total	<u>60,756</u>	<u>6,399</u>	<u>5,315</u>

There are no partial exemption special methods agreed with HMRC.

Requirement:

Calculate the recoverable input tax for each VAT quarter and the year-end adjustment. (Show all workings). (19)

2. Robert, a construction manager, has called you about the VAT treatment of a building project on which he would like advice. Robert has just bought an old mill site which consists of two buildings which have until now always been used for commercial purposes. He wants to convert one building into self-contained flats and the other into office space. After extensive refurbishment, he will sell all the properties. In order to make the flats more attractive he will include in the sale price carpets, washing machines and freezers and will build detached garages for the flats on an adjacent plot. On the phone Robert explained that he has several questions that he would like answering. These are as follows:

As far as selling the properties is concerned, will he have to charge VAT on the income? He has heard that he may be able to apply VAT to the sale income. What should he do if he wanted to apply this treatment, what information would he need to give HMRC and when should he do it? Would it apply to both of the buildings? Would the property be less attractive to any customers if he opted to tax the sale?

For the expenditure, will it be possible to reclaim any VAT incurred on the costs of developing the property? When he is building new houses, Robert's sub-contractors normally zero rate their invoices to him. Will this apply to those working on the flats or is there any other relief available? If so, what are the conditions of this relief? If there is any relief, will it also include architect's fees, laying pipes to supply water to the dwellings, the new garages and soft landscaping? Are there any VAT issues around buying the carpets, washing machines and freezers and having them fitted?

Requirement:

Draft a letter to Robert answering his questions.

(20)

You are not required to provide any advice on the operation of the domestic reverse charge.

3. You have recently received an email from one of your dearest friends, John Macey. Two years ago, he started a small double-glazing firm and, due to the great customer service that he provides, the business has become extremely successful.

“Dear Fred

I hope that you don’t mind me emailing you like this – I could do with a little advice. As you know my focus, since starting the business, has been on the service that I provide to my customers and I have been having some difficulty keeping my financial records up to date.

Over the past twelve months or so, the VAT returns have been completed and submitted (however not always on time!) and I have received various letters from HMRC, including penalties, which seem to be extremely large.

I do not understand all of the paperwork and terms used and would be grateful if you could enlighten me and confirm whether the penalties have been administered correctly.

For information, the VAT returns were submitted as follows;

<u>VAT Return</u>	<u>Submitted</u>	<u>Paid</u>	<u>Output Tax £</u>	<u>Input Tax £</u>
December 2022	31 January 2023	Same as submission date	250,000	57,000
<u>Returns in 2023:</u>				
March	15 May 2023	Same as submission date	420,000	74,000
June	31 July 2023	25 August 2023	474,000	96,000
September	30 October 2023	Same as submission date	555,000	320,000
December	14 February 2024	Same as submission date	780,000	222,000

Is there any way that I can get the penalties rescinded – it is hard enough building a business as well as trying to keep on top of all of the paperwork!

In April 2024, I was lucky enough to win a new contract – however I was so busy, that although I raised the invoice, I forgot to account for the output tax in the VAT return to June 2024. Turnover in that quarter was £650,000, in addition to the new contract. The value of the contract was £1million plus VAT. I am considering just putting this omission on my next VAT return – can you confirm that this is acceptable?

I look forward to hearing from you soon.

Kind regards

John”

Requirement:

Draft a response to John. Your reply should:

- 1) Explain when VAT returns should be submitted and outline the rules regarding penalties. (8)**
- 2) Explain the consequences of each of the VAT returns submitted by John. (4)**
- 3) Explain whether any of the penalties incurred may be reduced or rescinded by HMRC. (4)**
- 4) Explain how John should account for the output tax still due and whether any penalty may be incurred in relation to this. (4)**

Total (20)

You should assume that the penalty provisions in the Finance Act 2021 apply throughout and that HMRC issued all penalties where available.

4. Dear Arthur

Thank you so much for your time at the meeting last week. As you know, my business has been a booming success. It seems that as people get busier, they simply want someone trustworthy and reliable to undertake the decorating jobs around the house.

Given the fantastic summer weather I have also been really busy painting outside jobs. As you know I set up Paintbrush Ltd approximately six months ago.

The business was busy from the start and from simple beginnings I now employ four people and have a packed order book from now until after Christmas.

Given my push on the sales for the business, I have somewhat overlooked the general day to day accounting. It had not occurred to me that the business would have exceeded the VAT threshold so quickly and I am now concerned that I have got myself into a bit of a mess.

Consequently, I really do need some assistance to sort out the VAT registration and minimise any penalty that may arise. As you know, this was just a simple oversight, so I hope that there are no dire consequences!

For information, the turnover in 2024 to date has been as follows:

	£
May	15,000
June	20,000
July	25,000
August	30,000
September	35,000
October	40,000

I have not charged any VAT to date and will not be able to do so as all of my customers are private individuals with whom I have agreed a fixed price.

I look forward to speaking to you soon.

Thanks,
George

Requirements:

1) Respond to George explaining:

- i) From when Paintbrush Ltd should be registered for VAT purposes. (3)
- ii) How any VAT due at the date of registration will be calculated? (4)
- iii) Whether HMRC may levy any penalty for late registration. (5)
- iv) What information he needs to show on a VAT invoice. (4)

2) State four things a member of the Association of Taxation Technicians should do before accepting new instructions from a potential client according to the ATT's Professional Rules and Practice Guidelines. (4)

Total (20)

Assume that you are writing in early November 2024.

5. It is November 2024 and you have received the following letter from a client:

Dear Ann

Good news! Remember that training course I run on successfully growing vegetables in your back garden? Well I have finally managed to get a deal to run the course abroad in 2025 and beyond. It is for a series of events to be run in Kenya. I have heard that some of this overseas business can be done without charging VAT. Could you drop me a line to let me know how to decide whether I should be adding VAT to the course? If it makes a difference, some of the customers will be businesses and I also expect to attract a number of individuals who are preparing for a career in growing vegetables.

Also, as you know, after the courses I usually get further consultancy work with individual clients. Can I apply the same rules in deciding whether to charge VAT on the consultancy work to Kenyan customers? I expect the same types of customer (private individuals and businesses) as for the courses, and the actual consultancy time will be spent both here in the UK and at the overseas locations.

I will be incurring VAT in the UK on costs associated with my courses and the consultancy. If you advise that I should not charge VAT on the income, could you also advise whether I will still be able to reclaim the VAT on my costs?

I am hoping that I will be able to use the courses as a springboard for the sale of two other products. One is my new book of photographs of amusingly shaped vegetables. I will be selling these to individuals in Kenya. How are these treated for VAT? Do I need to keep any particular evidence? If so, please give me some examples.

Thanks for your help.

Leticia Legume

Requirement:

Write a letter to your client answering the points raised in her letter.

Marks will be awarded as follows:

1) Overseas courses	(5)
2) Overseas consultancy	(2)
3) Input VAT recovery	(1)
4) Sales of books	(4)
Total	(12)

6. Canny Ltd is a partially exempt company which bought a building in November 2020 for £2,000,000 plus VAT of £400,000. The company's tax year runs to 31 March each year and the percentage of taxable supplies that the building was used for were as follows:

Year 1 (to 31 March 2021) - 50% taxable supplies

Year 2 - 40% taxable supplies

Year 3 - 60% taxable supplies

60% taxable supplies then remained constant until sale.

The company sold the building in February 2024 (with no option to tax in place).

Requirements:

- 1) Calculate the amount of input tax recoverable in years one to three. (3)
 - 2) Explain what effect the sale will have on the calculations for the interval of sale and any remaining intervals. (2)
 - 3) Show, with calculations, why it may have been advantageous to delay the sale until after 31 March 2024. (5)
- Total (10)

7. Flog It Ltd makes supplies of stationery to both companies and individuals located in the UK. The company was set up thirteen years ago and since this time has grown very quickly. The company registered for VAT in late 2011 and is fully taxable for VAT purposes.

It has recently been approached by a larger competitor who has made an excellent offer for the business. The prospective purchaser has suggested that it either purchases the assets of the business or, alternatively, the shares of the business.

As the business has been fairly simple from a VAT perspective, no external advice has been required in the past. The prospective purchaser has been extremely helpful with the whole acquisition process and has suggested that the same advisers are used by the vendor and purchaser on the basis that this “may speed up the whole process”.

The vendor will incur some legal costs in relation to the proposed sale.

Requirements:

- | | |
|--|------|
| 1) Provide examples of those elements of a business which, if disposed of, would indicate a Transfer of a Going Concern ('TOGC'). | (3) |
| 2) Explain the conditions that must be satisfied for a disposal to be treated as a TOGC. | (5) |
| 3) Explain the options available with regard to VAT registration where there is a TOGC. What are the implications of these options? | (2) |
| 4) Explain the VAT implications for the vendor, if the conditions of a TOGC are not met. | (1) |
| 5) Explain the VAT treatment of a sale of shares by the vendor. | (1) |
| 6) Determine the VAT recoverability of costs incurred by the vendor on a sale of assets, a TOGC and a sale of shares. | (3) |
| 7) State what the Association of Taxation Technicians' Professional Rules and Practice Guidelines advise ATT members to do if they are asked to act for both parties to a transaction. | (5) |
| Total | (20) |

8. The tax partner in your office has recently received the following letter from a client, which raises a number of VAT questions:

Dear Fred,

I have a niece who is getting married soon and as neither she nor her fiancé have a well-paid job, they are having trouble affording their own house. I would like to help my niece and have bought a nearby piece of land with a derelict house on it, which I intend to demolish and have a small cottage newly built for them. As you know I am a builder so will do some of the work myself, but I will employ an architect to design the house and specialist sub-contractors for demolition/building work as required.

I would be grateful if you could confirm the following information for me, as outlined below.

Kind regards,

Peter

Requirement:

Draft a letter to Peter replying to the points he has raised below:

- 1) I am VAT registered and will sell the house to my niece for a profit as part of my business. Please confirm what the VAT provisions relating to the demolition/construction services and associated building materials of the house would be. (8)
 - 2) If I decided to provide my services for free to my niece in order to build the property as a wedding gift completely outside of my business, would they be able to mitigate any VAT incurred on other costs from the build? (6)
 - 3) Further to question 2) what would be the VAT consequences if I decided to renovate the derelict house (which has not been lived in for seven years) instead of building a new one, and what conditions apply? (5)
- Total (19)

You are not required to discuss the domestic reverse charge.

9. Portia l'Exempcion teaches French as a self-employed tutor. The income she receives from this is exempt from VAT. Portia also provides a translation service and the income from this is liable to VAT. Portia is unaware of the implications of being partially exempt and has reclaimed all of the VAT she has incurred on expenditure to date.

Portia's records show the following entries for the four quarters in year ending March 2024. All sales income is VAT exclusive.

Quarter ending 30 June

<u>Income</u>		<u>Expenditure</u>	<u>Input tax</u>
	£		£
Teaching	20,000	Business overheads	3,000
Translation	25,000	Costs of undertaking translation work	1,000
		Purchase of learning materials	600

Quarter ending 30 September

<u>Income</u>		<u>Expenditure</u>	<u>Input tax</u>
	£		£
Teaching	20,000	Business overheads	1,000
Translation	5,000	Costs of undertaking translation work	500
		Purchase of learning materials	500

Quarter ending 31 December

<u>Income</u>		<u>Expenditure</u>	<u>Input tax</u>
	£		£
Teaching	10,000	Business overheads	3,000
Translation	25,000	Cost of undertaking translations	1,000
Sale of office (VAT exempt)	100,000	Purchase of learning materials	500

Quarter ending 31 March

<u>Income</u>		<u>Expenditure</u>	<u>Input tax</u>
	£		£
Teaching	15,000	Business overheads	3,000
Translation	20,000	Cost of undertaking translations	1,000
		Purchase of new furniture for classroom	2,000

Requirements:

- 1) Prepare a memo for a meeting with Portia which explains briefly what partial exemption is and what the partial exemption standard method is intended to achieve. (5)
 - 2) Using the standard method, calculate the amount of input tax Portia is entitled to reclaim on each VAT return. (12)
 - 3) Calculate Portia's annual adjustment. (3)
- Total (20)

10. Dear Matt

As you are aware my first 18 months trading as Buildfast Ltd was a great start for the business. Work was busy and in general there was lots of it!

Last year my VAT-exclusive turnover was £150,000. Over the whole year, costs (mainly of building materials) associated with the business came to £75,000 plus VAT at the standard rate.

Sadly, the amount of work coming in this year has declined.

I was out with some old friends last night who also run their own businesses. One friend, a motor dealer, said that he was operating a scheme called “annual accounting” for VAT purposes and another said he used a “flat-rate” scheme. They both said they spent less time doing paperwork – this may give me more time to try to find more work to get more money!

The problem is, they could not really provide me with any details on the schemes. Can you advise me as to whether they would benefit me?

Kind regards

Billy

Requirement:

Write to Billy:

- | | |
|---|------|
| 1) Stating three features of the annual accounting scheme. | (3) |
| 2) Stating three advantages of using the annual accounting scheme. | (3) |
| 3) Stating the conditions for admission to the annual accounting scheme. | (2) |
| 4) Outlining how the flat-rate scheme works. | (2) |
| 5) Stating two conditions for admission to the flat-rate scheme. | (2) |
| 6) Stating what would happen if Billy was considered a ‘limited cost’ trader. | (1) |
| 7) Advising whether the annual accounting scheme and flat-rate scheme can be used together. | (1) |
| 8) Stating how much VAT would be paid to HMRC over a 12-month period (a) using the normal method of calculation and (b) using the flat-rate scheme. (Assume that the flat-rate percentage is 9.5%.) | (2) |
| 9) Showing the VAT control “T” account for Buildfast Ltd (a) using the normal method of accounting for VAT and (b) using the flat-rate scheme. | (3) |
| Total | (19) |

ANSWERS TO LONG QUESTIONS

1. MATSRUS LTD

Input tax calculation quarter ended 30 June

	£	
Directly attributable to taxable supplies	= 16,718	[½]
Non-Attributable =		
$1,186 \times 179,543 / (179,543 + 36,000) = (83.29\% \text{ rounded to } 84\%)$		
	= 996	[1]+[½]
Input tax recoverable in this quarter	= 17,714	[½]

£1,705 (directly attributable exempt input tax) + (1,186 – 996) = £1,895 > de minimis of £625 per month [½]

Input tax calculation for quarter ended 30 Sept

	£	
Directly attributable to taxable supplies	= 13,675	[½]
Non-Attributable =		
$1,443 \times 154,928 / (154,928 + 36,000) = (81.14\% \text{ ie } 82\%)$		
	= 1,183	[1]+[½]

However, $1,142 + (1,443 - 1,183) = 1,402 \leq$ de minimis of £625 a month on average and a maximum 50% of the total input tax for the period. Therefore, all the exempt input tax is recoverable. [1]
 $= 13,675 + 1,142 + 1,443 = 16,260$ [½]

Input tax calculation for quarter ended 31 Dec

	£	
Directly attributable to taxable supplies	= 13,011	[½]
Non-Attributable = $1,410 \times (198,418 - 18,000^*) / 216,418$		[1]+[1]
(*disregarded due to SI 1995/2518 reg 101) = $(83.4\% \text{ ie } 84\%)$	= 1,184	[½]
Not de minimis so the total input tax recoverable	= 14,195	[1]

Input tax calculation for quarter ended 31 March

	£	
Directly attributable to taxable supplies	= 17,352	[½]
Non-Attributable = $1,276 \times 140,416 / 176,416 = (79.6\% \text{ ie } 80\%)$	= 1,021	[1]+[½]
However, $£1,612 + (£1,276 - £1,021) = £1,867 \leq$ de minimis of £625 a month on average (£1,875) and a maximum 50% of the total input tax for the period. Therefore, all the input tax is recoverable. [1] $= £17,352 + 1,612 + £1,276 = 20,240$ [½]		

Year-end adjustment

	£	
Input tax directly attributable to taxable supplies	= 60,756	[½]

Non attributable =		[1]
--------------------	--	-----

5,315 x (673,305 – 18,000) / 817,305 – 18,000		
---	--	--

= (81.98% i.e. 82%)	= 4,358	[1]
---------------------	---------	-----

However, £6,399 + (£5,315 - £4,358) = £7,356 ≤ de minimis of £625 a month on average (£7,500) and a maximum 50% of the total input tax for the period.

Therefore, all the input tax is recoverable.		[1]
--	--	-----

= £60,756 + £6,399 + £5,315	= 72,470	[½]
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Already recovered £17,714 + £16,260 + £14,195 + £20,240	= 68,409	[½]
---	----------	-----

Therefore, under recovered input tax	= 4,061	[½]
--------------------------------------	---------	-----

This underclaim can be recovered on the VAT return for the quarter ended 30 June 2024 or if the business so chooses the return for the previous quarter ended 31 March.

[½]

Max for question 19

2. ROBERT

Your address

Our address

Date

Dear Robert,

Further to your recent query, I am writing to explain the VAT treatment of the refurbishment of the mill site that you have just acquired.

First, I will deal with the income from selling the properties on completion. **[1]** The sale of the offices is exempt from VAT. It is however possible, in certain circumstances, to make an option to tax over the properties. **[1]**

In order to do this, you must first decide that you are going opt to tax. **[1]** You should make a note of the date that you have made the decision and retain supporting evidence. You should then write to HMRC within 30 days setting out: **[½]**

- The effective date of the option; and **[½]**
- The land/building which is to be affected by the option. **[½]**

The decision to opt to tax should be made before any input tax is incurred on expenditure for the refurbishment. **[½]**

Please note that if you decide to opt to tax, then that will only apply to the commercial property. **[1]** It is not possible to opt to tax domestic accommodation. **[1]** However, the sale of the flats will be zero-rated as it is the first grant of a major interest in a building which has been converted to residential accommodation. **[1]**

If you decide to opt to tax the property, then you will need to charge VAT on the sale price. **[1]** This will make the property more expensive for businesses that are not VAT registered or that make exempt sales, because they will not be able to reclaim the VAT charged. **[1]**

For the commercial property, the treatment of the input tax will depend on whether you opt to tax the property. **[1]** If you opt then as you are making a taxable sale you will be allowed to reclaim VAT incurred on expenditure. **[1]** If you do not opt, then input tax will not be reclaimable as it will relate to an exempt sale. **[1]**

You will be able to reclaim the input tax incurred on developing the flats as the sale of these will be zero-rated, which is a taxable supply. **[1]**

Zero-rating of construction services only applies where a new building is being constructed. This is not the case here as the building already exists. **[1] + [½]**

However, the reduced rate of VAT may apply to any construction services used in creating dwellings. **[1]** The reduced rate applies where an existing building, which has not formerly been a dwelling, is converted into a dwelling or series of dwellings. **[1]** The planned project meets these criteria in respect of the building to be converted to flats. **[½]**

The reduced rate will include the laying of pipes and the construction of the new garages (provided they are constructed at the same time) and some of the landscaping (for example top soil and seeding with grass), but not architect's fees and further landscaping such as planting of shrubs and trees. **[1]**

The reduced rate will not apply to the carpets or the other items mentioned as these are specifically excluded from the reduced rate, even if they are bought from the sub-contractors who are performing the rest of the work. **[1]** The costs of fitting these items will also be liable to VAT at the standard rate. **[1]** The input tax on the carpets is not eligible for recovery (SI 1992/3222 article 6). The VAT on the freestanding goods is eligible for recovery but the onward supply of these will be standard rated. **[1]**

I hope that this answers your questions in full, but if you require further information please do not hesitate to ask.

Yours sincerely

A Candidate

Max for question 20

3. JOHN MACEY

To: John Macey
 From: Fred Bloggs
 Subject: VAT query

It was great to hear from you. Congratulations on the success that you are having with the business.

Before going into detail with regard to the implications of each VAT return, I thought that I would provide you with some information in general.

Completion of VAT Returns

VAT returns should be completed and paid to HMRC on a timely basis. For information, the VAT return must reach HMRC by the due date not later than one month and seven days following the end of the return period. **[1]**

Penalties

There are separate penalties for sending a return in late and paying the VAT late. **[1]**

For late filing penalties, each late filing can result in a penalty point being issued by HMRC. **[1]**

Once four penalty points have been issued, a financial penalty of £200 can be applied. **[1]**

The fifth late filing can result in another £200 penalty but no further penalty points. Penalty points re-set to zero once four consecutive returns are submitted on time. **[2]**

For a late payment, a 2% penalty of the late paid VAT is due where payment is received between 15-30 days late. Payments made within 15 days incur no financial penalty. **[2]**

Where payments are 30 days late a further 2% penalty can be applied. **[1]**

Max 8**Tutorial Note:**

All valid points will receive credit, for example, explaining the daily penalty rate for payments outstanding from day 31 onwards.

VAT Returns

Given the details that you have provided, I have summarised the implications of each of the VAT returns:

<u>VAT Return</u>	<u>Submitted</u>	<u>Paid</u>
12/2022	31/01/23	Same as submission date
On time		
03/2023	15/05/23	Same as submission date

Late return – one penalty point issued; and late payment within 15 days so no financial penalty. **[1]**

06/2023

31/07/23

25/08/23

Filed on time but payment late (15-30 days) so $2\% \times (£474k - £96k) = £7,560$. **[1½]**

09/2023

30/10/23

Same as submission date

On time

12/2023

14/02/24

Same as submission date

Late return so a further penalty point issued (you now have 2 points) and late payment within 15 days so no financial penalty. **[1½]**

Total 4

Reasonable Excuse

In deciding whether or not to impose a penalty, HMRC will take into account whether the circumstances giving rise to the lateness could have been foreseen and, if so:

- what steps were taken to make alternative arrangements
- whether HMRC were contacted
- whether sufficient priority was given to completing the VAT return
- and whether VAT was paid by the due date

[½ for each point – Max 2]

Examples of reasonable excuse are:

- Computer breakdown
- Illness
- Loss of key personnel
- Records

[½ for each point – Max 2]

Total 4

Please advise if any of the above applied to your business in the period affected. If not, it would be highly unlikely that HMRC would accept any other reasonable excuse.

New Contract

It is noted that you have failed to account for VAT of £200,000 on the June 2024 VAT return. **[½]**

Due to the size of the error, it being greater than the maximum (see below), this must be reported to HMRC via a voluntary disclosure. **[½]**

The maximum is the greater of:

- £10,000
- 1% of turnover (to a maximum of £50,000) which would be £16,500 ($1\% \times 1,650,000$) **[1]**

You should also note that a penalty may be incurred.

If HMRC feel your error was careless a 30% penalty of £60,000 (£200,000 x 30%) applies. However, if you make an unprompted disclosure (as I suggest above) this penalty may be reduced to £nil. **[2]**

However, you will incur interest when payment is made to HMRC. **[1½]**

Please give me a call if you would like to discuss.

Max 4

Total for question 20

4. GEORGE

1) Letter

Address

Dear George

VAT Registration

The VAT registration threshold of £85,000 was exceeded by the end of August 2024. **[1]**

Paintbrush Ltd should have notified HMRC of the liability within 30 days of the end of the relevant month, ie by 30 September 2024. **[1]** Unless mutually agreed otherwise HMRC would have registered Paintbrush Ltd with effect from the start of the following month ie 1 October. **[1]**

Total 3

Calculation of VAT Due

On the basis that Paintbrush Ltd should have been registered for VAT with effect from 1 October 2024, then VAT must be accounted for on all supplies from that date. **[1]**

As you are unable to charge your clients the additional VAT then the amounts you have received to date will be treated as gross. On this basis you will be required to pay HMRC £6,666 (£40,000 x 1/6) in respect of the sales to date. **[1]**

You should note that you will also be able to recover VAT that you have incurred in respect of your sales in October 2024. There is also some potential to look at the VAT you had incurred pre-registration as there is the possibility VAT incurred on both goods and services may be recovered: **[1]**

- VAT on supplies of goods acquired in the four years before registration is recoverable provided the goods are still on hand at the date of registration. **[1]**
- VAT on supplies of services is recoverable if incurred in the six months before the registration date. **[1]**

Max 4

Late Registration Penalty

As Paintbrush Ltd has omitted to notify HMRC of its requirement to register for VAT then it will incur a late registration penalty. **[½]**

The penalty is levied at a rate dependent upon the reason for the failure to notify. If the failure was due to: **[½]**

- Careless error – a 30% penalty is levied **[½]**
- Deliberate action but without concealment – 70% penalty **[½]**
- Deliberate action with concealment – 100% penalty **[½]**

The above percentage will be levied against the 'relevant amount' of VAT. The relevant amount of VAT is the output VAT due less any input VAT that may be recovered. **[1]**

If HMRC are told about the failure to notify they will allow a reduction to the penalty [$\frac{1}{2}$] for disclosure; with larger reductions if the disclosure is unprompted. [**1**] I would recommend that you notify the error to HMRC as a matter of urgency because if it is disclosed to them within 12 months of occurring, the penalty can be reduced to nil. [**1**]

Max 5

VAT invoices

A VAT invoice must show the following particulars: [$\frac{1}{2}$ for each point]

- a) A sequential number which uniquely identifies the document.
- b) The time of the supply, ie tax point.
- c) The date of issue of the document.
- d) The name, address and registration number of the supplier.
- e) The name and address of the person to whom the goods or services are supplied.
- f) A description sufficient to identify the goods or services supplied.
- g) The total amount payable excluding VAT.
- h) The rate of any cash discount offered.
- i) The rate of VAT chargeable and the total amount of VAT.

Max 4

I trust that this answers your queries. Please let me know if I can be of any further help.

Arthur

Tutorial Note:

The content of a VAT invoice is in Reg 14 SI 1995/2518 and other points from the regulation will gain credit.

2) New Client

Before accepting instructions from a new client, a member should:

- Comply with the identification requirements set out in the anti-money laundering/terrorist financing guidance.
- Consider whether the potential client will be an acceptable client in terms of the risks which will arise for the practice from acting for that client and whether the member has the capability/resources to manage those risks.
- Consider whether the member and firm will have the skills and competence to service the client's requirements during the course of the engagement.
- Consider whether there is any conflict of interest in accepting the client and, if so, whether and how it might be managed.

[1 for each point – other valid points will gain credit]

Max 4

Tutorial Note:

This is covered in para 4.3.1 of the 6th edition Ethics book.

Total for question 20

5. LETICIA LEGUME

Leticia Legume
Address

Date

Dear Leticia,

Thank you for your recent letter in respect of your new activities. I set out below answers to your questions in the order that you have raised them.

There are rules for determining where, for VAT purposes, an activity takes place [½].

These rules determine that the place of supply for an educational activity such as yours usually depend on whether the customer is in business or not. [1]

The type of course you are offering is likely to be considered admission to an educational event. When supplied to a business customer the country in which the course takes place determines the place of supply. [1]

If you supply other services to business customers (other than relating to the admission to the course) then these are deemed to be supplied where the customer is based. [1]

Where the customers are private individuals, the place of supply for both admission and any other services is where the course itself takes place. [1]

All of your supplies would, therefore, be outside the scope of UK VAT. [1]

Max 5

For consultancy work, the issue is similar. For supplies in Kenya, there is effectively no real difference in the treatment of business and individual customers. [1]

If the customer is not in business, then the place of supply is where the Kenyan customer belongs and therefore the Kenyan consultancy work to individuals will also be outside the scope of UK VAT. [½]

Similarly, if the customer is in business then the supply is deemed to be made also where the customer belongs – so once again in Kenya and thus outside the scope of UK VAT. [½]

Total 2

Even though you will not be charging VAT on all of your services, VAT can be reclaimed on services supplied overseas provided that the service would have been taxable had it been performed in the UK. Thus, you will be able to reclaim the VAT incurred on your associated expenditure. [1]

Total 1

Sales of the book to customers in Kenya will be zero-rated as an export. [1]

Acceptable evidence that you have exported the books could include any of the following:

- Goods departed messages generated by the NES;
- Endorsed SAD;
- Authenticated sea-waybills;
- Authenticated air-waybills;

[1 for each – max 3 – credit will be given for other examples]

Max 4

I hope this answers your queries, but please do let me know if I can be of further assistance.

Yours sincerely

Ann Adviser

Tutorial Note:

The export evidence is detailed mainly in paras 6.2 & 6.3 of Public Notice 703, which is reproduced in the Orange Part 1 Handbook.

Total for question 12

6. CANNY LTD

1)

Year 1: Initial input tax deduction = £400,000 x 50% = £200,000 [1]

Year 2: £400,000/ 10 x (50-40)% = £4,000 payment to HMRC [1]

Year 3: £400,000/10 x (50-60)% = (£4,000) to reclaim from HMRC [1]

Total 3

2)

The effect of the building sale within an uncompleted interval will be to treat the remaining part of the interval as if it was being used for the whole of that period. [1]

The remaining complete intervals will be treated according to the liability of the sale, which in this case will be exempt as no option to tax has been exercised. [1]

Total 2

3)

- As the building was sold on or before 31/3/24 then as per year 3 an additional £4,000 (£400,000/10 x (50-60)%) could be claimed for that year. [1]
- The remainder of the intervals would be treated as fully exempt so a repayment of £400,000/10 x (50-0)% x 6 (intervals left) = £120,000 must be made to HMRC. [1]
- If the sale of the building was delayed until after 31/3/24 then an additional £4,000 could be claimed for year/interval 5 [1] and the repayment for the remaining 5 intervals would be £400,000/10 x (50-0)% x 5 (intervals left) = £100,000. [1]
- Therefore, the advantage for delaying the sale until the next interval would be £120,000 – (£100,000 - £4,000) = £24,000. [1]

Total 5**Total for question 10**

7. FLOG IT LTD

1)

The following are elements of a business being transferred which, when combined, will be indicators of a TOGC:

- a) Goodwill
- b) Customer Lists
- c) Business Name
- d) Contracts and work in progress
- e) Stock
- f) Plant and equipment
- g) Premises
- h) Staff.

[see para 1.4 of Notice 700/9 for some of these]

[½ each]

Max 3

2)

The following conditions must apply:

- a) The assets are to be used by the transferee in carrying on the same kind of business;
- b) Where the transferor is a taxable person, then the transferee must also be a taxable person, or immediately become one;
- c) If a part transfer then that part of the business must be capable of separate operation;
- d) The business must be transferred as a “going concern”;
- e) There must not be a series of immediately consecutive transfers;
- f) There should be no significant break in trading.

[1 each]

Max 5

3)

If being acquired by the new business, the acquirer has the option to retain the existing VAT registration number or to register for VAT separately. **[1]**

If the existing VAT registration is retained, then the historic liability of the business is retained by the new owner. **[1]**

Total 2

4)

If it is not a TOGC then the sale will be a sale of assets and, as such, VAT will be incurred at the standard rate where relevant. **[1]**

Total 1

5)

A sale of shares is exempt for VAT purposes. **[Credit to be given for mentioning cases that have held a share sale to be a TOGC – eg where the business involves trading portfolios of shares and VAT recovery (in part 6 below) as a general overhead.][1]**

Total 1

Tutorial Note:

Public Notice 700/9 contains useful information on TOGCs. This is reproduced in the Orange Part 1 Handbook.

6) In relation to the recovery of the VAT on the costs incurred by the vendor:

- a) A sale of assets – the VAT is attributable to a taxable activity and as such will be fully recoverable; **[1]**
- b) A TOGC – VAT will be recoverable in accordance with the taxable status of the business being transferred ie if fully taxable, recoverable in full; **[1]**
- c) A sale of shares – the VAT will be irrecoverable, subject to the partial exemption de minimis limits. **[1]**

Total 3

7) Acting for two parties

In most circumstances, a member who is asked to act for both parties to a transaction should refuse to do so. However, this may present difficulties if both the parties are existing clients. **[½]**

The member has three choices:

- To act for neither party. This is often the best course of action where the conflict cannot be managed acceptably. **[1]**
- To advise both clients of the conflict and to give both the opportunity to consider whether or not they wish the member to act or whether they wish to seek alternative representation. **[1]**

If both clients are agreeable the member may act for both provided that there is adequate disclosure of all relevant facts to both parties. **[1]**

With the agreement of the clients the member may manage the potential conflict by appointing a separate team to act for each client, who maintain ethical 'walls' to prevent confidential information relating to one client becoming known to the team acting for the other. **[1]**

- To act for only one client. Generally, this will be the client who first sought advice. **[1]**

A member who decides to act only for the first instructing client should advise the other client of this decision in order to avoid any suggestion of acting improperly or misusing any confidential information concerning that client. **[1]**

Max 5

Tutorial Note:

Para 6.4.2. of the 6th edition 'Professional Responsibilities & Ethics for Tax Practitioners' book contains the choices.

Total for question 20

8. PETER

Yes Accountants
Silver Street
Northampton

Date

Address

Dear Peter

Thank you for your letter, I will answer your queries in the order you raised them.

1)

Subject to certain exceptions, the supply of any services in the course of the construction of a dwelling is zero-rated (Group 5 Sch 8 VATA 1994). **[2]**

The services supplied for the demolition of the existing building are considered to be closely connected to the construction of the building and can be zero-rated so long as a significant delay before construction does not occur. **[1½]**

The VAT on the architect's fees cannot be zero-rated but can be reclaimed as input tax through your VAT return. **[1]**

Goods supplied with the zero-rated construction services are zero-rated; provided that they are used in connection with those services and that the goods consist of builders' materials (defined in Note 22 to Group 5 Schedule 8 VATA 1994). **[2]**

The input tax on relevant goods (ie building materials incorporated in the building) purchased directly by you for the house can be reclaimed through your VAT return. **[1½]**

Total 8

2)

As with scenario 1) your niece would be able to gain zero-rating of the construction and demolition services provided to her. **[1]**

However, the input tax on relevant goods (ie building materials incorporated in the building) purchased directly by your niece for the house will have to be reclaimed using the DIY House builder's scheme (s.35 VATA 94). **[2]**

Form VAT 431 parts 1-4 is used to make the claim. **[2]**

The VAT on the architect's fees cannot be reclaimed. **[1]**

Tutorial Note:

VAT form 431 is referred to in reg 201A of SI 1995/2518.

Total 6

3)

When renovating a derelict building, a reclaim of VAT under the DIY scheme is not possible unless the building has been unoccupied for 10 years. **[1]**

In this case it would be possible to obtain a reduced rate of VAT (5%) for the qualifying services and eligible goods used in the renovation of this single household as the dwelling been empty for more than two years. **[2]**

You would need to obtain proof that the house had been empty for more than two years, such as electoral role evidence or council tax data, and provide this to the suppliers to receive this reduced rate. **[1]**

Also, any planning consent or building control needed for the renovation must have been granted. **[1]**

I hope this answers your queries. Please let me know if I can be of any further help.

Total 5

Kind regards

Fred

Total for question 19

9. PORTIA L'EXEMPCION

1)

Memo for meeting with Portia

Date: xx/xx/xx

Subject: Partial exemption.

VAT on expenditure can only be reclaimed when it relates to a taxable supply. VAT cannot be recovered on expenditure which relates to exempt supplies. **[1]**

VAT is often incurred on expenditure which relates to both exempt and taxable supplies – this is called non-attributable VAT and only a proportion of this VAT can be reclaimed. **[1]**

The calculation that determines what proportion may be reclaimed is called a partial exemption calculation – so called because part of the business' activity is exempt. The calculation is intended to work out a fair and reasonable apportionment of non-attributable VAT between taxable activity and exempt activity. **[1]**

The standard calculation assumes that the same amount of overhead is used to generate £1 of income, irrespective of whether that income is taxable or exempt. It therefore apportions the input tax on overheads in the same proportion as a business' taxable supplies to the total of the business' taxable and exempt supplies. **[1]**

If the total amount of VAT incurred on items bought wholly to produce exempt income and the amount attributed to exempt activity as a result of the apportionment is below certain limits, then the whole of the VAT can be reclaimed. **[1]**

Total 5

2)

The simplified de minimis tests do not apply to any of the quarters. This is due to the high level of residual input VAT in the June, December and March quarters and, in relation to the September quarter, more than 50% of the supplies were exempt supplies.

Quarter ending 30/6 **[1]**

Taxable sales = £25,000

Total sales = £20,000 + £25,000 = £45,000

Therefore reclaim % = £25,000/£45,000 = 55.5% rounded to 56% **[1]**

Non-attributable input tax = £3,000

Taxable proportion £3,000 x 56% = £1,680

Taxable input tax = £1,680 + £1,000 = £2,680 **[1]**

Exempt input tax = £1,320 + £600 = £1,920

Exempt input tax not more than 50% of input tax but greater than £625 per month, therefore not de minimis

Input tax claim for quarter = £1,680 + £1,000 = £2,680

Quarter ending 30/9

Taxable sales = £5,000

Total sales = £5,000 + £20,000 = £25,000

Therefore reclaim % = £5,000/£25,000 = 20% [1]

Non-attributable input tax = £1,000

Taxable proportion £1,000 x 20% = £200

Taxable input tax = £200 + £500 = £700 [1]

Exempt input tax = £800 + £500 = £1,300

Exempt input tax greater than 50% of input tax, therefore not de minimis. [1]

Input tax claim for quarter = £700

Quarter ending 31/12

Taxable sales = £25,000

Total sales = £25,000 + £10,000 = £35,000

Disposal of office excluded from calculation (reg 101(3))

Therefore reclaim % = £25,000/£35,000 = 71.42% rounded to 72% [1]

Non-attributable input tax = £3,000

Taxable proportion £3,000 x 72% = £2,160

Taxable input tax = £2,160 + £1,000 = £3,160 [1]

Exempt input tax = £840 + £500 = £1,340

Exempt input tax not more than 50% of input tax and £625 per month, therefore de minimis. [1]

Input tax claim for quarter = £4,500

Quarter ending 31/3

Taxable sales = £20,000

Total sales = £20,000 + £15,000 = £35,000

Therefore reclaim % = £20,000/£35,000 = 57.14% rounded to 58% [1]

Non-attributable input tax = £3,000

Taxable proportion £3,000 x 58% = £1,740

Taxable input tax = £1,740 + £1,000 = £2,740 [1]

Exempt input tax = £1,260 + £2,000 = £3,260

Exempt input tax more than 50% of input tax, and greater than £625 per month, therefore not de minimis. [1]

Input tax claim for quarter = £2,740

Total 12

3) Annual adjustment

Total taxable sales = £25,000 + £5,000 + £25,000 + £20,000 = £75,000

Total exempt sales = £20,000 + £20,000 + £10,000 + £15,000 = £65,000

Total sales = £75,000 + £65,000 = £140,000

Therefore reclaim % = £75,000/£140,000 = 53.57% rounded to 54%

Non-attributable input tax = £3,000 + £1,000 + £3,000 + £3,000 = £10,000

Taxable proportion £10,000 x 54% = £5,400

[1]

Exempt proportion = £4,600

Taxable input tax = £5,400 + £1,000 + £500 + £1,000 + £1,000 = £8,900

Exempt input tax = £4,600 + £600 + £500 + £500 + £2,000 = £8,200

[1]

Exempt input tax not more than 50% of input tax, but greater than £625 per month, therefore not de minimis.

Total input tax claimed = £10,620

Total input claimable = £8,900

[1]

Adjustment = £1,720 to pay to HMRC

Total 3

Total for question 20

10. BUILDFAST LTD

Dear Billy

As requested, I have now had the opportunity to look at this information from you.

The main features of the annual accounting scheme are: **[1 each, Max 3]**

- It allows business to complete one VAT return per year.
- Businesses must make interim payments on account usually based on the previous VAT year's liability.
- A balancing payment must be made with the VAT return two months after the end of the annual VAT year.

The advantages of using the annual accounting scheme are: **[1 each, Max 3]**

- A reduction in the number of VAT returns the business is required to complete.
- Management of cash flow with more certainty by paying a set amount each month.
- An extra month to complete the annual VAT return.

[Note: candidates were only required to give three advantages. Other 'features' and 'advantages' will gain credit eg fewer penalties such as for late payment.]

The requirements for admission to the scheme are as follows: **[1 each, Max 2]**

- All VAT returns must be up to date.
- There are reasonable grounds for believing that taxable supplies in the next 12 months will not exceed £1.35 million.
- Registration is not in the name of a group.
- The business has not ceased to operate the scheme in the 12 months preceding the application.

Flat-rate Scheme

How it works: **[1 each, Max 2]**

- The appropriate flat-rate percentage is applied to relevant turnover for the period.
- Relevant turnover is gross turnover including zero-rated and exempt supplies.
- There is no deduction for input tax (apart from on capital expenditure in excess of £2,000).

Conditions for Using the Scheme:

[1 each, Max 2]

- taxable turnover for the next 12 months is not expected to exceed £150,000
- the business is not a tour operator, is not required to make adjustments under the capital goods scheme and does not apply the second-hand margin scheme
- the business has not been convicted of any offence in the previous year
- the business has not stopped using the flat-rate scheme in the previous year.

If you were a 'limited cost' trader then you would use a flat rate percentage of 16.5%, as opposed to the appropriate rate for your business sector (which is 9.5% - see below).

[1]

Yes – the flat-rate and annual accounting schemes may be used together if the above requirements are fulfilled.

[1]

The amount of VAT payable for the year using the normal method of calculation is:

		£	
VAT Payable	150,000 x 20% =	30,000	
Less Input VAT	75,000 x 20% =	(15,000)	
Total VAT Payable		<u>15,000</u>	[1]

The amount payable using the flat-rate scheme is: 150,000 x 1.20 x 9.5% = £17,100.

[1]

VAT Control Accounting using normal VAT accounting principles:

[2]

Input VAT on Purchases	15,000	Output VAT on Sales	30,000
Balance c/fwd	<u>15,000</u>		
	<u>15,000</u>		<u>30,000</u>
		Balance b/fwd	15,000

VAT Control Accounting Using Flat Rate Scheme:

[1]

		Output VAT on Sales	17,100
Balance c/fwd			
	<u>17,100</u>		<u>17,100</u>
		Balance B/fwd	17,100

Total for question 19