



Association of Taxation Technicians

Examination

November 2007

PAPER 5 – PART II

VAT

TIME ALLOWED – 3 HOURS
(for Part I and Part II)

- You are required to answer **all** questions in Part I (printed separately) and Part II.
- The maximum number of marks for each question in Part II is shown in brackets.
- For Part II, start each answer on a new sheet of paper.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- Marks are specifically allocated for good presentation.

1. You have recently received the following letter:

Dear Fred

It was great to meet up with you at the golf club last weekend. Further to our discussion, I thought I would take you up on your very kind offer of some assistance.

As you know my hand crafted wooden toys have proved extremely popular – it seems that the “traditional” toy has come back into fashion and that children love playing with the old fashioned train tracks and yo yos that I make. Since Christmas 2005, I have been selling my toys at craft fairs and markets, but now with the increase in demand I have now set up an internet site.

In general, between 1 October 2005 and 31 October 2006, the sales were £4,000 per month. On 1 November 2006 the website went live and with the rush for Christmas we sold £11,000 of toys in the month to 30 November 2006 and £12,000 in the month to 31 December 2006. From this date onwards sales have been pretty constant at £8,000 per month.

Due to this expansion I have had to start employing two people and am wondering whether to create a limited company. I am worried that if I do create a limited company then I will need to register for VAT and am concerned that this will raise the cost for my customers (especially the children) and don't want this to happen.

As such I would be grateful if you would let me know if this is the case and, if so, when I would need to register with HM Revenue & Customs.

I look forward to hearing from you soon

Kind regards

Tony

- 1) You are required to respond to Tony's letter explaining:**
- (a) What the difference is for VAT purposes between a company and a self employed individual with regards to the registration liability. (1)**
 - (b) From what date Tony should register for VAT. (6)**
 - (c) How VAT is calculated on any income received between the due date of registration and the current date. (2)**
 - (d) Whether any penalties will apply, the applicable rates of penalty and whether they can be mitigated. (6)**
- For the purposes of this letter, please assume that you are responding on 6 November 2007.
- 2) You have made one of your clients aware of an irregularity in their taxation affairs, but they have decided not to make a disclosure to HM Revenue & Customs. You are required to state three consequences that may occur as a result of this. (3)**
- 3) In accordance with the Association of Taxation Technician's Professional Rules and Practice Guidelines, state what a member should do if a client refuses to disclose an irregularity to HM Revenue & Customs. (2)**

Total (20)

2. 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 election to waive exemption has been made.)

In the year ending 31 March 2007, MatsRus Ltd made the following taxable supplies of goods, excluding VAT:

	£
Quarter ended 30 June 2006	179,543
Quarter ended 30 September 2006	154,928
*Quarter ended 31 December 2006	198,418
Quarter ended 31 March 2007	<u>140,416</u>
 Total	 <u>£673,305</u>

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

The company's input tax is analysed as follows:

	<u>Mat production</u>	<u>Rental area</u>	<u>Overheads</u>
	£	£	£
Quarter ended 30 June 2006	16,718	1,705	1,186
Quarter ended 30 September 2006	13,675	1,142	1,443
Quarter ended 31 December 2006	13,011	1,940	1,410
Quarter ended 31 March 2007	<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 HM Revenue & Customs.

You are required to calculate the recoverable input tax for each VAT quarter and the year end adjustment. (Show all workings.) (20)

3. 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 on an adjacent plot detached garages for the flats. 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 HM Revenue & Customs 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 used the option to apply VAT to 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?

You are required to draft a letter to Robert answering his questions. (20)