



Association of Taxation Technicians

Examination

May 2008

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. Flog It Ltd makes supplies of stationery to both companies and individuals located in the UK. The company was set up in 2000 and since this time has grown very quickly. The company registered for VAT in late 2000 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.

You are required to:

- 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's 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)

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

May 2008

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

You are required to 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.** (9)
- 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 (20)

3. 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. All sales income is VAT exclusive.

Quarter ending 30 June 2007

<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 2007

<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 2007

<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 2008

<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

You are required to:

- 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)