

Level 3 EPA Knowledge Assessment (KNWA) reference material

Finance Act 2023 – for assessment from 27 January 2025

Reference material for AAT assessment of Level 3 EPA Knowledge Assessment

Introduction

This document comprises data that you may need to consult during your Knowledge Assessment computer-based assessment.

The material can be consulted during the practice and live assessments by using the reference materials section at each task position. It's made available here so you can familiarise yourself with the content before the assessment.

Do not take a print of this document into the exam room with you*.

This document may be changed to reflect periodical updates in the computer-based assessment, so please check you have the most recent version while studying. This version is based on Finance Act 2023 and is for use in Level 3 End Point Assessment Knowledge assessment in 2025.

*Unless you need a printed version as part of reasonable adjustments for particular needs, in which case you must discuss this with your tutor at least six weeks before the assessment date.

Contents

1. Rates of VAT	4
3. Failure to register for VAT	4
4. Changes to the VAT registration	5
5. Keeping business and VAT records	5
6. Contents of a VAT invoice	5
7. Partial exemption for VAT	6
8. International trade and VAT	6
9. Tax points for VAT	6
10. Time limits for issuing a VAT invoice Within 30 days of tax point which is either:	7
11. Blocked expenses and VAT Input VAT cannot be recovered on blocked expenses.	7
• Input VAT can only be recovered on cars if it is wholly for business (no private use).	7
• 50% of input VAT can be recovered when cars are hired/leased.	7
• VAT can be recovered on commercial vehicles such as vans/lorries.	7
Assets with private use	7
• The VAT recovery should be based only on the proportion related to business use.	7
13. Bad debt and VAT	8
14. Due dates for submitting the VAT return and paying electronically	8
15. Special accounting schemes for VAT	8
15.1 Annual accounting scheme for VAT	8
15.2 Cash accounting scheme for VAT	9
15.3 Flat Rate Scheme for VAT	9
16. Errors in previous VAT returns	10
18. Assessment of VAT	10
19. Penalties for inaccuracies in VAT return	10
20. Payroll record retention	11
21. Types of payroll submission	11
22. Payroll deadlines	11
23. Penalties for late submission of payroll filings	11
24. Penalties for late payroll payment	12
25. Penalties for inaccuracies in payroll filings	13

1. Rates of VAT

Taxable supplies:

Standard rate	20%
Reduced rate	5%
Zero rate	0%

Non-taxable supplies have no VAT applied:

- Exempt
- Outside the scope of VAT

3. Failure to register for VAT

- This can result in a penalty for failure to notify. The penalty is a % of potential lost revenue (PLR).

Type of behaviour	Within 12 months of tax being due		12 months or more after tax was due	
	unprompted	prompted	unprompted	prompted
Non-deliberate	0-30%	10-30%	10-30%	20-30%
Deliberate	20-70%	35-70%	20-70%	35-70%
Deliberate and concealed	30-100%	50-100%	30-100%	50-100%

- Penalties will not be applied if there is a reasonable excuse.
- HMRC will treat the business as though it had registered on time and will expect VAT to be accounted for as if it had been charged. The business has two choices:
 - i. treat the invoices as VAT inclusive and absorb the VAT which should have been charged, or
 - ii. account for VAT as an addition to the charges already invoiced and attempt to recover this VAT from its customers.

4. Changes to the VAT registration

HMRC must be notified of a change of:

Name, trading name or address	Within 30 days
Partnership members	Within 30 days
Agent's details	Within 30 days
Bank account details	14 days in advance
Change in business activity	Within 30 days

5. Keeping business and VAT records

Record retention period	6 years
Penalty for failure to keep records	£500

6. Contents of a VAT invoice

Full VAT invoice

- a sequential number based on one or more series which uniquely identifies the document
- the time of the supply (tax point)
- the date of issue of the document (where different to the time of supply)
- supplier's name, address, and VAT registration number
- customer's name and address
- a description sufficient to identify the goods or services supplied
- for each description, the quantity of the goods or the extent of the services, the rate of VAT, and the amount payable excluding VAT — this can be expressed in any currency
- the gross total amount payable, excluding VAT — this can be expressed in any currency
- the rate of any cash discount offered
- the total amount of VAT chargeable — this must be expressed in sterling
- the unit price (applicable to countable elements).

Simplified VAT invoices (<£250)

- suppliers name, address, and VAT registration number
- the time of supply (tax point)
- a description which identifies the goods or services supplied
- for each applicable VAT rate, the total amount payable, including VAT, and the VAT rate.

Modified VAT invoices

- a full VAT invoice showing the VAT inclusive rather than VAT exclusive values.

7. Partial exemption for VAT

De minimis amount	£625 per month
Proportion of total input VAT	<50%

- Generally, a partially exempt business cannot reclaim the input tax paid on purchases that relate to exempt supplies.
- If the amount of input tax incurred relating to exempt supplies is below a minimum de minimis amount, input tax can be reclaimed in full.
- If the amount of input tax incurred relating to exempt supplies is above the de minimis amount, only the part of the input tax that related to non-exempt supplies can be reclaimed.

8. International trade and VAT

Export of goods	Zero-rated
Import of goods	UK VAT applied using postponed accounting.
Export of services	Apply UK VAT if place of supply is in the UK: <ul style="list-style-type: none">• for supplies to business, place of supply is the location of the customer (outside the scope of UK VAT)• for supplies to non-business customers, place of supply is the location of the supplier (charge UK VAT).
Import of services	Reverse charge applies

9. Tax points for VAT

Basic tax point date	Date of despatch of the goods/carrying out of the service
Actual tax point date may be earlier	If either: <ul style="list-style-type: none">• payment is received earlier• invoice is issued earlier. Actual tax point becomes the earlier of these two dates.
Actual tax point date may be later	If: <ul style="list-style-type: none">• invoice is issued within 14 days of despatch/service (and advance payment didn't apply).

- Deposits are treated separately to final payment and so may have a different tax point.
- The tax point is always the date of payment if cash basis is being applied.
- Where services are being supplied on a continuous basis over a period in excess of a month but invoices are being issued regularly throughout the period, a tax point is created every time an invoice is issued or a payment is made, whichever happens first.
- Goods on sale or return will have a tax point date either on adoption (the customer indicates they will keep the goods) or 12 months after removal of the goods where this is earlier.

10. Time limits for issuing a VAT invoice

Within 30 days of tax point which is either:

- within 30 days of date of supply or
- within 30 days of payment if payment was in advance.

11. Blocked expenses and VAT

Input VAT cannot be recovered on blocked expenses.

Business entertainment

- The exception is that input tax can be reclaimed in respect of entertaining overseas customers, but not UK or Isle of Man customers.
- When the entertainment is in respect of a mixed group of both employees and non-employees (e.g. customers and/or suppliers), the business can only reclaim VAT on the proportion of the expenses that is for employees and on the proportion for overseas customers.

Cars

- Input VAT can only be recovered on cars if it is wholly for business (no private use).
- 50% of input VAT can be recovered when cars are hired/leased.
- VAT can be recovered on commercial vehicles such as vans/lorries.

Assets with private use

- The VAT recovery should be based only on the proportion related to business use.

13. Bad debt and VAT

VAT that has been paid to HMRC and which has not been received from the customer can be reclaimed as bad debt relief. The conditions are that:

- i. the debt is more than six months and less than four years and six months old
- ii. the debt has been written off in the VAT account and transferred to a separate bad debt account
- iii. the debt has not been sold or handed to a factoring company
- iv. the business did not charge more than the normal selling price for the items.

Bad debt relief does not apply when the cash accounting scheme is used because the VAT is not paid to HMRC until after the customer has paid it to the supplier.

14. Due dates for submitting the VAT return and paying electronically

Deadline for submitting return and paying VAT – quarterly accounting	1 month and 7 days after the end of the VAT period
Deadline if being paid by direct debit	HMRC will collect 3 working days after the submission deadline.

- Please see alternative submission and payment deadlines for special accounting schemes.

15. Special accounting schemes for VAT

15.1 Annual accounting scheme for VAT

Joining the scheme	Maximum (estimated) taxable turnover in next 12 months	£1.35m
Leaving the scheme	Compulsory if taxable turnover at the end of the VAT accounting year exceeds the threshold	£1.6m
VAT returns	One annual return	2 months after the end of the accounting period

VAT payments (monthly)	Nine monthly interim payments (10% of estimated VAT bill based on previous returns)	At the end of months 4 to 12 in the accounting period
	Balancing payment	2 months after the end of the accounting period
VAT payments (quarterly)	Three interim payments (25% of estimated VAT bill based on previous returns)	At the end of months 4, 7 and 10 in the accounting period
	Balancing payment	2 months after the end of the accounting period

15.2 Cash accounting scheme for VAT

Joining the scheme	Maximum (estimated) taxable turnover in next 12 months	£1.35m
Leaving the scheme	Compulsory if taxable turnover at the end of the VAT accounting year exceeds the threshold	£1.6m

15.3 Flat Rate Scheme for VAT

Joining the scheme	Taxable turnover (excluding VAT) in the next 12 months	£150,000
Leaving the scheme	On the anniversary of joining, turnover in the last 12 months (including VAT) or expected turnover in next 12 months	£230,000
Discount	In first year of being VAT-registered	1%
Limited cost business	Goods cost less than either: <ul style="list-style-type: none"> • 2% of turnover, or • £1,000 a year 	16.5%
Capital expenditure	Input tax can be recovered on individual large capital purchases	£2,000

- The appropriate flat rate % will be provided in the assessment.

16.Errors in previous VAT returns

Adjustments can be made to correct errors that are:

- below the reporting threshold
- not deliberate
- for an accounting period that ended less than 4 years ago.

The reporting threshold is;

- £10,000 or less or
- up to 1% (maximum £50,000) of total value of sales and all other outputs excluding any VAT
- When the next VAT return is submitted, the net value is added to VAT due on sales and other outputs for tax due to HMRC, or to VAT reclaimed in the period on purchases and other inputs for tax due to you.

If the value of the net VAT error discovered is above the reporting threshold, it must be declared to HMRC separately, in writing.

18.Assessment of VAT

If a VAT Return is not submitted on time, HMRC will issue a 'VAT notice of assessment of tax' which will state how much HMRC think is owed.

If HMRC issue an assessment that is too low, a penalty of up to 30% can be charged for not telling them it is incorrect within 30 days.

19.Penalties for inaccuracies in VAT return

A penalty can be charged as a percentage of the potential lost revenue (PLR):

Type of behaviour	Unprompted disclosure %	Prompted disclosure %
Careless	0-30	15-30
Deliberate	20-70	35-70

Deliberate and concealed	30-100	50-100
--------------------------	--------	--------

20. Payroll record retention

Retention period	3 years
Penalty for failure to maintain records	£3,000

21. Types of payroll submission

Full payment submission (FPS)

- File on or before employees pay day.
- Include payments to and deductions for all employees.

Employer payment summary (EPS)

- File if no employees were paid in the month.
- Send by the 19th of the following tax month.

22. Payroll deadlines

Registering for PAYE	You must register before the first payday. You cannot register more than 2 months before you start paying people
Month end date for PAYE	5 th of each month
Payment date for monthly payroll	22 nd of each month if paid electronically. 19 th otherwise. If monthly amounts are <£1,500, quarterly payments can be made
Provide employees with P60	31 st May
Filing deadline for Expenses & Benefits forms	6 th July
PAYE and Class 1A NIC payment date	22 nd July if paying electronically. 19 th July otherwise

23. Penalties for late submission of payroll filings

Penalties may apply if:

- the FPS was late
- the expected amount of FPSs was not filed
- an EPS was not filed.

Number of employees	Monthly penalty
1 to 9	£100

Number of employees	Monthly penalty
10 to 49	£200
50 to 249	£300
250 or more	£400

Penalties may not apply if:

- the FPS is late but all reported payments on the FPS are within three days of the employees' payday (unless there is regular lateness)
- a new employer is late but sends the first FPS within 30 days of paying an employee
- it is a business's first failure in the tax year to send a report on time.

24. Penalties for late payroll payment

Late payment of monthly/quarterly payments

- The first failure to pay in a tax year does not count as a default.
- Late payment penalties apply to late payments and payments of less than is due.

Number of defaults in a tax year	Penalty percentage applied to the amount that is late in the relevant tax month
1 to 3	1%
4 to 6	2%
7 to 9	3%
10 or more	4%

Additional penalties will apply if:

A monthly or quarterly amount remains outstanding after 6 months	5% of unpaid tax
A monthly or quarterly amount remains outstanding after 12 months	A further 5% of unpaid tax

These additional penalties apply even where only one payment in the tax year is late.

Late payments of amounts due annually or occasionally

30 days late	5%
6 months late	Additional 5%
12 months late	Additional 5%

25. Penalties for inaccuracies in payroll filings

A penalty can be charged as a percentage of the potential lost revenue (PLR):

Type of behaviour	Unprompted disclosure %	Prompted disclosure %
Careless	0-30	15-30
Deliberate	20-70	35-70
Deliberate and concealed	30-100	50-100

AAT
30 Churchill Place
London E14 5RE

aat.org.uk

AAT is a registered charity. No. 1050724