

Background information

Your role

You are a tax associate in a firm of Chartered Tax Advisers. Your client is PL87 Ltd along with its owners Peter and Louise Darke. Anti-Money Laundering checks are in place for all three parties. PL87 Ltd has been a client for many years.

Extracts from client file

PL87 Ltd is a private limited company that is in equal shares owned by husband and wife, Peter and Louise Darke. It was incorporated six years ago and has never had a VAT visit from HMRC. It has always submitted VAT returns on time and has not received any penalties.

PL87 Ltd is based in the Midlands and buys component materials from other UK manufacturers, makes them into finished toy/teddy bear products and adds personalisation to them (for example, ribbons with names on for teddy bears). It re-sells the finished products to retailers in the UK.

Currently Louise has held a passive role in the company, assisting where needed due to staff shortages, and at particularly busy times of year, such as the lead up to Christmas. Louise is a keen knitter in her spare time, and initially this has been a hobby. However, she has had some recent success with selling teddy hats and scarves etc on platforms such as Etsy, for a profit, and due to demand, she is thinking she might be able to make this into a viable business going forwards.

She has some friends who are also willing to knit accessories and would be paid on a 'piece' basis. She is concerned that being a new venture if it were to lose money it might be more beneficial to keep it separate to PL87 Ltd. However, she does intend to sell some of her products to PL87 Ltd, e.g. her scarves could be incorporated onto the teddy bears PL87 Ltd makes. We are awaiting more information from Louise about the revenue and costs involved with this venture.

PL87 Ltd – Draft VAT return for quarter ended 31 October 2026

Description	Box number	Amount
		£
VAT due on sales and other outputs	1	65,000
VAT due on acquisitions of goods made in Northern Ireland from other EU member states	2	0
Total VAT due	3	65,000
VAT reclaimed on purchases and other inputs	4	23,000
Net VAT to be paid/reclaimed	5	42,000
Total sales excluding VAT	6	337,000
Total value of purchases excluding VAT	7	78,000
Total value of dispatches of goods from Northern Ireland to EU Member states excluding VAT	8	0
Total value of acquisitions of goods in Northern Ireland from EU Member States excluding VAT	9	0

Email from Peter

From: peter@PL87Ltd.co.uk
Sent: 10 September 2026
To: layadviser@charteredadvisers.co.uk
Subject: New letting

Hi Lay,

As discussed over the phone, we currently have a 'lean to' extension on the end of our factory unit, that we are hoping to utilise to generate income.

At present it isn't waterproof (or particularly safe!), so it has sat there unoccupied. We have had a builder's estimate to knock it down and re-build it which would give us a self-contained new area that a local mechanic (who is not VAT registered) is looking to rent, for around £750 a month.

I am a bit concerned by the wording of the terms and conditions on the draft quote we have had in so far. The builder refers to potential 'environmental' taxes and that should they become due we would need to reimburse the builder for these additional costs, as the builder would be primarily liable for them. I'm hoping you can enlighten me about this. The relevant part of the terms and conditions states this:

"Removal of hardcore may result in a liability arising for Aggregates Levy/and or Landfill Tax. Should these become due, you will indemnify us to the extent of such taxes that become due."

The estimate shows that there could be 100-150 tons of brick/rubble removed from the existing lean to, and from the ground where the new foundations will need to go.

Can you give me an idea of how much, if any of these taxes, we might have to pay on the removal of this material, and whether this is recoverable by us?

I have also attached, as discussed, the WhatsApp message that Louise left for me, about an invoice we received for a new business liability insurance that we took out. She's concerned about how this should be treated on the VAT return. If you need any more information, then let me know.

Thanks again for all your help.

Peter

Attachment to email from Peter

Attachment

“Pete,

You know we took out that new liability insurance because of the new toy Regulations on safety...well the invoice has come through, and it's thrown me a bit. There doesn't appear to be any VAT on it (is this right?), but there is another tax shown on there. I've not yet done anything with it, as I thought you could ask Lay about this when you drop her an email about the other matters. I'm thinking it is a deduction in box 4 of the VAT return but worth confirming.

Lou”

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