

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

December 2025

MODULE 3.02 – EU VAT OPTION

ADVANCED INTERNATIONAL TAXATION (THEMATIC)

TIME ALLOWED – 3½ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- You must use the appropriate currency, unless otherwise stated. Any monetary calculations should be made to the nearest whole unit of currency. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A**You are required to answer BOTH questions from this Part.**

1. HairCare Solutions Ltd (HCSL) is a wholesaler of professional haircare products. It is established in Merkia, an EU member state.

HCSL imports the haircare products into Merkia and sells them to hair stylists and similar businesses in the cosmetics industry. Its customers are established in Merkia and in a neighbouring EU member state.

HCSL arranges the importation of its products from its supplier in the United States, and estimates that 40% of the imported goods will be sold to businesses in the neighbouring EU member state. HCSL arranges transport of the haircare products to the clients' premises, using the services of a locally based logistics company in all cases.

HCSL provides some extra training services to the clients in relation to hair styling techniques and procedures. HCSL will be charging separately for the training services.

Furthermore, HCSL recently overpaid a supplier by settling an invoice that included VAT at the standard rate, instead of applying the correct reduced rate of 5%.

You are required to provide a report to HCSL's finance director, identifying all relevant VAT aspects of HCSL's activities, with reference to relevant EU VAT legislation. (25)

2. Joan has recently graduated in online marketing and has decided to set up an online marketing consultancy business on a self-employed basis.

Joan is established in Valdemar, an EU member state, and will work from her home office. At this start-up stage, she does not expect to hire any employees to her business. During her first year of operation, Joan expects to generate a total turnover of approximately €42,000, which is currently below the domestic SME VAT threshold in Valdemar, although she expects her revenue generation to increase steadily over time.

Joan's clients will initially consist exclusively of other businesses established in Valdemar, but she hopes to eventually extend her client base to businesses established outside Valdemar, both EU and non-EU.

Joan is also planning to eventually diversify her practice by providing online, live (not pre-recorded) private tuition to university students on the subject of online marketing, in order to help them prepare for their university exams. The tuition would be paid for directly by the students, and would be based on their university curriculum.

You are required to provide a report to Joan, outlining her following queries:

- 1) Whether she is required to register for VAT upon commencement of her business and, if so, whether any alternative options are available to her in this regard.
- 2) The VAT treatment and reporting implications of providing online marketing consultancy services to businesses established in Valdemar.
- 3) The VAT treatment and reporting implications of providing online marketing consultancy services to businesses established in an EU member state outside Valdemar.
- 4) The VAT treatment and reporting implications of providing online marketing consultancy services to businesses established outside the EU.
- 5) The VAT treatment and reporting implications of providing online tuition services to private, individual students based in Valdemar and other EU member states.
- 6) The recoverability of input VAT incurred on the procurement of services which are exclusively attributable to the provision of online marketing consultancy services.
- 7) The recoverability of input VAT incurred on the procurement of services which are exclusively attributable to the provision of private tuition services.
- 8) The recoverability of input VAT incurred on the procurement of computer equipment which is used by Joan, both for the purpose of her online marketing consultancy work and for her private tuition services.

(25)

PART B

You are required to answer ONE question from this Part.

3. "The VAT treatment of transactions which comprise a bundle of elements is one of the most debated VAT issues. Generally, such transactions may be viewed as either constituting multiple supplies, or a single supply for VAT purposes."

You are required to discuss the above statement, and describe the relevant principles in the VAT treatment of multiple versus single/composite supplies, with particular reference to any relevant decisions of the Court of Justice of the European Union. (20)

4. A company has its head office in EU Member State 1 (MS1) and a branch in EU Member State 2 (MS2).

You are required to explain the VAT treatment of each of the following independent transactions, highlighting any specific VAT reporting requirements and, in the case of input VAT for transactions 5 and 6, specifying the extent to which it is deductible:

- 1) The head office transports a stock of goods from its warehouse in MS1 to the branch in MS2. The branch sells these goods to final non-business customers in MS2.
- 2) The branch sends industrial equipment from MS2 to the head office in MS1 to undergo repairs lasting for a period of six months. After the repairs are completed, the equipment is returned to the branch in MS2.
- 3) A general management and administration fee is charged by the head office to the branch in relation to services performed by the head office for the benefit of the branch. You should assume that the company does not form part of any VAT group in the EU.
- 4) A general management and administration fee is charged by the head office to the branch in relation to services performed by the head office for the benefit of the branch. You should assume that the branch joins a VAT group in MS2, consisting exclusively of that branch and a related company established in MS2.
- 5) The branch incurs domestic input VAT in MS2 on procurements which are exclusively attributable to VAT taxable supplies made by the head office in MS1. You should assume that the company does not form part of any VAT group in the EU, and that the supplies would also be VAT taxable if made in MS2.
- 6) The branch incurs domestic input VAT in MS2 on procurements which are exclusively attributable to VAT taxable supplies made by the head office in MS1. You should assume that the company does not form part of any VAT group in the EU, and that the supplies would be VAT exempt (without credit) if made in MS2.

(20)

PART C

You are required to answer TWO questions from this Part.

5. "EU member states are permitted to adopt reduced rates below the standard rate on admission to shows, theatres, circuses, fairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and facilities; access to the live streaming of those events or visits; or both."

You are required to discuss the above statement, with particular reference to any relevant decisions of the Court of Justice of the European Union. (15)

6. **You are required to explain where an individual, non-taxable natural person belongs for EU VAT purposes, and provide a brief description of supplies of goods and services for which this feature is important. You should include references to relevant EU legislation.** (15)

7. **You are required to compare and contrast the VAT status of 'active' and 'passive' holding companies, with reference to relevant decisions of the Court of Justice of the European Union.**

Your answer should explain the implications for each type of company regarding their status as a taxable person, their requirement to register for VAT, and their right to recover input VAT. (15)

8. Business A makes a domestic supply of goods to an unrelated third party, Business B. Both businesses are established in the same EU member state. The cost of the goods to Business A is as follows:

	€
Raw materials	120,000
<u>Labour cost</u>	<u>150,000</u>
Total cost of goods sold	270,000

The open market value of the goods is estimated at €380,000. All amounts referred to in this question are exclusive of any applicable VAT.

You are required to determine whether each of the following transactions gives rise to supplies falling within the scope of VAT and, if so, comment on the taxable amount on which VAT should be levied:

- 1) **Business A sells the goods to Business B at an agreed monetary consideration of €340,000.**
- 2) **Business A transfers the goods to Business B free of charge.**
- 3) **Business A transfers the good to Business B at an agreed consideration of €340,000, which will be settled by Business B providing professional services for the same value to Business A in return, instead of cash payment.**
- 4) **Business A sells the goods to Business B at a significantly discounted monetary consideration of €250,000. In addition, Business A receives a subsidy amounting to €50,000 directly linked to the price of this supply from its country's national investment incentive agency.**
- 5) **Business A sells the goods to Business B at an agreed monetary consideration of €340,000. Under the agreed terms of sale, if early payment is made within 10 days of the date of sale, the customer is eligible to a 10% discount. Business B takes advantage of this early payment discount by paying the invoice within 10 days.**
- 6) **Business A sells the goods to Business B at an agreed monetary consideration of €340,000, less redemption by Business B of a promotional 'money off' coupon amounting to €10,000 that Business A had awarded to Business B in recognition of their long-standing business relationship.**

(15)