

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2025

MODULE 3.02 – EU VAT OPTION

ADVANCED INTERNATIONAL TAXATION (THEMATIC)

TIME ALLOWED – 3¼ 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

- All workings should be made in appropriate monetary 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. Sodex SA (Sodex) is established and VAT registered in Bordonia, an EU member state. It imports bed linen into Bordonia and sells it to hotels and similar businesses in the hospitality industry. Its customers are established in Bordonia and two other EU member states.

Sodex arranges the importation of bed linen from its supplier in Asia, and estimates that 25% of the imported goods will be sold to customers in member states other than Bordonia. The bed linen is priced in US dollars, and is subject to EU customs duty at a rate of 7% and VAT at 25%.

Sodex is considering expanding its business by providing a linen laundry cleaning service which will be offered to existing customers across the three member states in which it currently operates. It has not yet decided whether to establish new companies in the member states in which the service will be provided, or whether to collect the dirty linen and bring it to Bordonia for cleaning before returning it to customers.

It is anticipated that laundry collections and deliveries will need to take place four times per week in each member state, requiring at least two delivery vans to be continually operating across member states. All customers will be businesses, and Sodex will review the possibility of extending the service to non-taxable persons after one year of operation.

You are required to write a report describing all of the VAT-related aspects of Sodex's current and proposed activities, highlighting the issues that need to be considered to ensure that Sodex is compliant with EU VAT law. (25)

2. Snake LLC (Snake), a business established in Hong Kong, has developed an electronic tag and app for use in tracking travellers' luggage. The tag is manufactured in Hong Kong and can be placed in luggage at the start of a journey; it then allows the user to continuously monitor the location of their luggage.

Snake has started directly selling the product into Vergonia, an EU member state, for a one-off cost of €25 per tag. It guarantees that the product will work throughout the world using existing mobile telephone networks. Snake uses its own website to sell the product. It is estimated that 80% of Snake's customers will be members of the public and the remaining 20% will be businesses.

You are required to write a letter to Snake's chief financial officer, advising on the classification of the luggage tracking product and the VAT treatment that should apply to sales in Vergonia, including options in accounting for sales to business customers.

You are not required to consider any arrangements between Snake and the mobile telephone network operators. (25)

PART B

You are required to answer ONE question from this Part.

3. The trustees of a community church group are responsible for the maintenance and use of a church building located in Theta, an EU member state. The church group makes minimal taxable supplies which raise less than €1,000 per year. The church group is not registered for VAT in Theta, relying mainly on donations to pay for the upkeep of the church building.

In 2024 the church group made the following expenditure payments:

- €2,500 on domestic supplies from local businesses;
- €10,000 on the importation of stone from Turkey for restoration of the church spire;
- €15,000 on the acquisition of stained glass from a supplier in a neighbouring member state; and
- the equivalent of €12,000 for advertising and membership register services paid to a business established in Switzerland.

The VAT registration threshold in Theta is €10,000.

You are required to write a letter to the trustees, advising them of the VAT aspects of the church group's activities and any VAT obligations in Theta. (20)

4. In 2021 the EU introduced new VAT requirements for electronic interfaces (online platforms) that facilitate the sale of imported goods valued at €150 or less to customers established in the EU.

You are required to describe the changes that were introduced, the reasons for them and the meanings of the terms "online platform" and "facilitate" for the purposes of the relevant legislation. Describe the fallback arrangements that apply where a business does not adopt the scheme introduced for imported goods. (20)

PART C

You are required to answer TWO questions from this Part.

5. **You are required to describe the principle that is used both to determine the place of supply of certain services, and to differentiate between supplies made within and outside the EU when an initial analysis may provide a differing treatment.** (15)

6. Thor SA (Thor) is a company whose head office is registered and established in Sigma, an EU member state; it is required to register for VAT in Azuria, a neighbouring member state in which it makes distance sales supplies.

Thor also purchases advertising and promotion services locally in Azuria and advises the suppliers to invoice their head office in Sigma, treating those supplies as subject to the reverse charge. When the tax authority of Azuria performs an audit of Thor's VAT registration, it concludes that suppliers should have charged Azurian VAT.

You are required to describe to Thor the circumstances which determine whether a reverse charge or domestic supply has been made, and explain what would indicate whether a fixed establishment exists in Azuria, with reference to relevant case law. (15)

7. When a subsidy is paid to a taxable person, for example by a local authority to meet a shortfall in receipts from running a public transport contract, it needs to be decided whether VAT must be accounted for on the payment.

You are required to identify the features that need to be considered, to enable a taxable person to determine whether or not a subsidy is subject to VAT, with reference to relevant case law. (15)

8. The Principal VAT Directive (2006/112/EC) provides that EU member states may derogate from the Directive and VAT regulations in certain circumstances.

You are required to provide a report detailing the relevant legislation, circumstances and scope of derogations which can be made by national governments, including two examples that have been introduced by specific member states. (15)