Tolley® Exam Training

ATT PAPER 1

PERSONAL TAXATION

PRE REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

May and November 2024 Sittings

PQ661

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INTRODUCTION

This Pre Revision Question Bank for ATT Paper 1 contains 4 SFQ tests and 10 exam standard long questions all with answers updated to Finance Act 2023 and Finance (No 2) Act 2023. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2024** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written questions with no question choice. The paper is split into 2 parts:

Part I consists of "short form" questions ("SFQs") worth between 2 and 4 marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper. There are no presentation marks in this part of the paper and your answers should be bullet points and summary computations.

In Part II the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection. There are also 2 presentation skills marks available in this part of the paper.

Presentation Skills Marks

There are **no marks for 'format'** in the long form questions in Part II . There are simply **58 marks for technical content and two marks for presentation skills across the whole of Part II.**

Typically two marks would be awarded where a candidate's presentation is very good; full sentences are used where appropriate throughout; answers flow well and are in a logical order; explanations clearly relate to the question scenario.

There are likely to be letter/email style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying "yes I know that point, yes I understand that advice given" - the test is would you have actually put those points in your answer? You won't find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up "proper" answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocation for that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as "not" or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

LAW AND ETHICS

The ATT Paper 1 syllabus includes Law and Ethics and these topics can be tested either as part of a long question or as a short form question.

The required depth of knowledge is "Principles", i.e. you will be expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of law and ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There will also be some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions will be good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law textbook "Essential Law for Tax Practitioners" (6th edition) that are included in the Paper 1 syllabus are:

Chapter 6 Criminal and Civil Law
Chapter 7 The Law of Property
Chapter 8 Land Law
Chapter 11 Employment and Other Working Relationships
Chapter 13 The Law of Persons and Family Law

Ethics:

The chapters from the ATT/CIOT Ethics textbook "Professional Responsibilities and Ethics for Tax Practitioners" (6th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)
Chapter 4 New clients and engagements
Chapter 5 Client service
Chapter 6 Objectivity (including conflicts of interest)
Chapter 7 Other client handling issues
Chapter 8 Charging for services
Chapter 9 Complaints
Chapter 10 Ceasing to act

PCRT (2023)
Chapter 19 The Fundamental Principles
Chapter 20 The Standards for Tax Planning
Chapter 21 Help sheet A: Submission of tax information and 'tax filings'
Chapter 22 Help sheet B: Tax advice
Chapter 23 Help sheet C: Dealing with errors
Chapter 24 Help sheet C2: Dealing with errors - Members in business
Chapter 25 Help sheet D: Request for data by HMRC
Chapter 26 Help sheet E: Members' personal tax affairs

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INCOME TAX

	2023/24
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35

Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	1,000
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000

Scottish Tax Rates and Thresholds (Note 2)

£	%
1 – 2,162	19
2,163 – 13,118	20
13,119 – 31,092	21
31,093 – 125,140	42
125,140+	47

Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	2,870
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000

Notes:
(1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not-Scottish) taxpayers.
(2) Scottish taxpayers pay Scottish income tax on non-savings income.
(3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
(5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS
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Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note 1) £	**Minimum pension age**
2023/24	60,000	55

Maximum tax-free lump sum £268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles		
Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2023/24

Emissions	**Electric range (miles)**	**Car benefit %** (Note 3)	
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (3) 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure £27,800

Taxable benefits for vans – 2023/24	**£**
Van benefit – No CO_2 emissions	Nil
Van benefit – CO_2 emissions > 0g/km	3,960
Fuel benefit	757

Official rate of interest - 2023/24 2.25%

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Childcare

Employer supported childcare – basic rate taxpayer (Note 1)	£55 per week

Note: (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£1,834 per month	£2,274 per month	£2,305 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold	£1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay		Weekly rate
Average weekly gross earnings	£123.00 or more	£109.40

Statutory maternity/adoption pay First 6 weeks @ 90% of AWE
Next 33 weeks @ the lower of £172.48 and 90% of AWE

Statutory shared parental pay/ paternity pay/parental bereavement pay For each qualifying week, the lower of 90% of AWE and £172.48

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2024	£18,140 per year	£375 per week	£450 per week

CHILD BENEFIT

Year to 5 April 2024

Rates	Weekly rate
	£
First child	24.00
Each subsequent child	15.90

Child benefit charge	Withdrawal rate
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES

Late payment interest	6.50%
Interest on underpaid corporation tax instalments	5.00%
Repayment interest	3.00%
Interest on overpaid corporation tax instalments	3.75%

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NATIONAL INSURANCE CONTRIBUTIONS 2023/24

Class 1 limits	**Annual** £	**Monthly** £	**Weekly** £
Lower earnings limit (LEL)	6,396	533	123
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	9,100	758	175
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

	2023/24
Employment allowance	
Per year, per employer	£5,000
Class 1 primary contribution rates	
Earnings between PT and UEL	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 3 & 4)	13.8%

Notes: (3) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(4) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.45 pw
Small profits threshold (Note 5)	£6,725 pa
Lower profits limit (LPL) (Note 5)	£12,570 pa

Note: (5) Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the small profits threshold and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions	£17.45 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£12,570
Annual upper profits limit (UPL)	£50,270
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

SIMPLIFICATION MEASURES

‘Rent-a-room’ limit	£7,500
Property allowance/Trading allowance	£1,000

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FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses	First 10,000 business miles		45p per mile
	Additional business mile		25p per mile
Business use of home	25 – 50 hours use		£10 per month
	51 – 100 hours use		£18 per month
	101+ hours use		£26 per month
Private use of business premises	No of persons living there:	1	£350 per month
		2	£500 per month
		3+	£650 per month

CASH BASIS

Turnover threshold to join scheme	£150,000
Turnover threshold to leave scheme	£300,000

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

Notes: (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019.

(2) The main pool rate applies to cars with CO_2 emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).

(3) The special pool rate applies to cars with CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses
Capital expenditure incurred by a person on research and development.
New zero-emission goods vehicles.
New cars if the car either emits 0g/km of CO_2 or it is electrically propelled.
Electric vehicle charging points expenditure.

Further FYAs available to companies
Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) between 1 April 2023 to 31 March 2026:

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50%

VALUE ADDED TAX

Standard rate	20%	VAT fraction	1/6

Limits

Annual registration limit	£85,000
De-registration limit	£83,000

Thresholds	**Cash accounting**	**Annual accounting**
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (as at 1 March 2023)

Engine size	**Petrol**	**LPG**	**Engine size**	**Diesel**
1400cc or less	13p	10p	1600cc or less	13p
1401cc to 2000cc	15p	11p	1601cc to 2000cc	15p
Over 2000cc	23p	17p	Over 2000cc	20p

Electricity rate 9p

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CORPORATION TAX

Financial year	**2023**	**2022**
Main rate	25%	19%
Standard small profits rate	19%	N/A
Augmented profit limit for standard small profits rate	£50,000	N/A
Augmented profit limit for marginal relief	£250,000	N/A
Standard marginal relief fraction	3/200	N/A
Marginal rate	26.5%	N/A

Research and development expenditure

Financial year	**2023**	**2022**
Total relief for Small & medium enterprises (SMEs) (Note 1)	186%	230%
R&D tax credit for SME losses	10%	14.5%
Large companies – RDEC	20%	13%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m *or* assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	**Lifetime rate**	20%

Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands (Note 3)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (3) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief	
Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief	
Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions		
Annual exemption		£3,000
Small gifts		£250
Wedding gifts	– Child	£5,000
	– Grandchild or remoter issue or other party to marriage	£2,500
	– Other	£1,000

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CAPITAL GAINS TAX

	2023/24
Annual exempt amount	£6,000

CGT rates for individuals (Notes 1 & 2)

Gains qualifying for business asset disposal relief/investors' relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%

CGT rates for trusts & individuals paying the remittance basis charge

Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%

CGT Rate for personal representatives (PRs)

All gains (Note 5)	20%

Business Asset Disposal relief (BADR)

Relevant gains (lifetime maximum) (Note 6)	£1 million

Investors' relief (IR)

Relevant gains (lifetime maximum)	£10 million

Notes:
(1) For individuals, gains are taxed as if they are the top slice of income.
(2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
(3) The remaining basic rate band is calculated as £37,700 (2023/24) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
(4) The rate is 18% if the gain is in respect of a residential property
(5) The rate is 28% if the gain is in respect of a residential property
(6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

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Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	–	–	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

PAPER 1
TEST 1
(40 MARKS)

1. Lohit was provided with a newly registered company car on 6 July 2023, which is available for his private use. The car has a 2000cc petrol engine and has CO_2 emissions of 150g/km. Lohit pays for all of his private fuel. The car's list price was £45,000 and Lohit's employer agreed to add accessories, which cost a further £7,500, providing Lohit made a capital contribution of the same amount.

   Calculate the taxable benefit arising from the provision of the car to Lohit for 2023/24. (3)

2. Elizabeth took out a single premium life assurance policy on 7 November 2016 for £26,000. She withdrew 3% of the premium annually for six years and she cashed in the policy for £32,000 on 7 June 2023.

   Calculate the total profit arising when the policy was cashed in on 7 June 2023. (2)

3. Amy was made redundant on 1 February 2024 and received the following termination package:

		£
a)	Statutory redundancy pay	2,600
b)	Non contractual termination payment	35,000
c)	Payment for holiday accrued but not taken before termination	1,500
d)	A contribution by her employer into her registered pension scheme	13,000

   Amy's employer allowed her to leave immediately without working her one month's notice period. Her annual salary had been £54,000, paid monthly.

   Explain the extent to which Amy's termination package is subject to Income Tax. (4)

4. Levi was granted a share option under the Enterprise Management Incentives (EMI) scheme on 4 May 2022. The market value of each share subject to the option was £2.25 on the date of grant and the exercise price of the option was £2.50 per share. Levi exercised his option on 31 March 2024 and immediately sold the shares he acquired for £5.00 each. Assume the option remained a qualifying EMI option for the entire period from grant to exercise. Levi is a higher rate taxpayer and made no other capital disposals during 2023/24.

   1) **Explain the Income Tax implications of the exercise of Levi's option.** (1)

   2) **Explain the Capital Gains Tax implications of the subsequent sale of the shares.** (2)

   3) **Explain how your answer to 2) above would differ if Levi had been granted the option on 4 May 2021.** (1)

5. Ellis purchased the freehold of Sea View Cottage in September 2006 for £78,000. He undertook extensive renovations during 2008 which cost £32,000 and repairs to the property in 2017 caused by general wear and tear which cost £8,000. On 7 May 2023, Ellis sold the house for £325,000.

   On 6 April 2018, Ellis purchased the freehold of Cliff Top Heights for £200,000. On 18 August 2023 he granted a 75 year lease to Harry for a premium of £136,000. Ellis incurred legal fees in relation to the preparation of the lease document of £2,750. The value of the freehold on 18 August 2023, after the lease was granted, was £280,000.

   Assume that Ellis made no other capital disposals during 2023/24 and has never occupied either property as his main residence.

   Calculate the taxable gain arising on the disposals made by Ellis in 2023/24. (4)

6. Onwar is married to Jessica. During 2023/24 Onwar received the following income:

	£
Pension	13,350
Dividends	444
Bank interest	5,181

   Jessica has total income of approximately £3,000 per year and she has made a marriage allowance election for 2023/24.

   Calculate Onwar's Income Tax liability for 2023/24. (4)

7. Chase purchased a house in the UK on 29 September 2011. She lived in the house until 1 October 2013, when she moved to Italy to work. She remained in Italy until the expiry of her employment contract on 18 November 2017 when she decided to go travelling and did not live in her house until she returned to the UK on 17 February 2020. She re-occupied the house as her main residence from this date until she sold the property on 14 July 2023. She had no other property throughout her period of ownership.

   Explain the Capital Gains Tax relief available in respect of the sale of the house. (4)

8. **Briefly explain the maximum personal pension contributions for which an employee can obtain Income Tax relief in 2023/24.** (3)

9. Henry sold one of his houses in January 2024 for £500,500. He gave the proceeds to his daughter, Elizabeth, on condition that she used the cash to purchase a house for him to live in. Elizabeth bought a house in March 2024 for £775,000 and Henry lives in it rent free. The annual rental value of the property is £47,000.

   In January 2023, Caterina gave a painting to her son Juan. The painting was valued at £268,000 at 6 April 2023. Caterina decided that she wanted the painting to hang on the wall in her new house and she agreed to pay Juan £325 per month for the use of the painting.

   Calculate the annual amount subject to Income Tax under the Pre-Owned Assets rules in respect of both gifts. Assume that neither gift is a gift with a reservation of benefit. (3)

10. **Explain when an individual will be subject to the remittance basis charge for Capital Gains Tax and the implications of being subject to such a charge.** (4)

11. Income Tax relief is available to an individual who subscribes for eligible shares in a qualifying Venture Capital Trust.

    Briefly explain the circumstances when the Income Tax relief will be lost and the amount of the claw back. (2)

12. Seamus received the following remuneration from his employing company in 2023/24:

    a) Salary of £35,000.

    b) £2,860 for Seamus to pay into the online childcare account he has set up for his son.

    c) A gift of 100 shares in his employing company.

    d) Mileage allowance of 30p per mile for any business use of his own car.

    Briefly explain whether Seamus will be liable to pay any National Insurance Contributions in respect of the above payments. (3)

TEST 1
ANSWERS

1.

	£	
List price	45,000	
Add: Accessories	7,500	**[½]**
Less: Capital contribution (maximum £5,000)	(5,000)	**[½] + [½]**
Revised list price	47,500	

Robert's car has emissions of 150g/km so the percentage to be applied is:
(150 - 75)/5 = 15% + 20% = 35% **[1]**

Taxable benefit: £47,500 x 35% x 9/12 = £12,469 **[½]**

Total 3

2.

	£	
Proceeds	32,000	**[½]**
Add: Withdrawals (less than 5%):		
6 x 3% x £26,000	4,680	**[1]**
Less: Initial premium	(26,000)	**[½]**
Overall profit	10,680	

Tutorial Note:

Up to 5% of the initial cost of a single premium life policy can be withdrawn annually as a tax free amount. However, on cashing in the policy, these withdrawals are added to the proceeds received to compute the taxable gain on the policy. This is then taxed as a 'non-qualifying' life policy, as the 'top slice' of income, at savings rates.

Total 2

3.

a) Statutory redundancy pay

This is charged to tax as a termination payment under s.401 ITEPA 2003 and is eligible for the £30,000 exemption. **[½]**

b) Non contractual termination payment

The post-employment notice pay (PENP) element of this payment of £4,500 (54,000/12 x 1) is treated as normal earnings **[½]**. The balance will be charged to tax as a termination payment under s.401. **[½]**

The £30,000 exemption is available to set against total payments assessable as termination payments under s.401. **[½]**

This gives a total chargeable termination payment of £3,100 ((35,000 – 4,500) + 2,600 – 30,000). **[½]**

c) Holiday pay

This payment is made under Amy's employment contract **[½]** and therefore is taxable as normal earnings. **[½]**

d) Pension scheme

A payment into a registered pension scheme is exempt from Income Tax **[½]**.

Tutorial Note: Candidates who explained the tax treatment adequately received full credit without the need for using section numbers as in the above answer.

Total 4

4.

1) The option was granted with an exercise price in excess of the market value at the date of grant. **[½]** This means that no Income Tax will arise on the exercise of the option. **[½]**

2) On the sale of the shares, a capital gain will arise on the difference between the disposal proceeds of £5 and the exercise price of £2.50 **[1]**. Levi will be able to deduct the annual exempt amount from his chargeable gain **[½]**. Capital gains tax will be due at 20%. **[½]**

3) As there is more than two years between the grant of the option and the subsequent sale, Levi will be entitled to claim Business Asset Disposal Relief on the gain on disposal of the shares and would then be taxed at 10% on any gain. **[1]**

Total 4

5. Sale of Sea View Cottage

	£	
Proceeds	325,000	
Less: Cost	(78,000)	**[½]**
Renovation costs	(32,000)	**[½]**
Repairs (income expense)	Nil	**[½]**
Chargeable gain	215,000	

Grant of long lease of Cliff Top Heights

Premium	136,000	**[½]**
Less: Legal costs	(2,750)	**[½]**
Less: Cost		
£200,000 x £136,000/(£136,000 + £280,000)	(65,385)	**[1]**
Chargeable gain	67,865	
Chargeable gain (£215,000 + £67,865)	282,865	
Less: Annual exempt amount	(6,000)	**[½]**
Taxable gain	276,865	

Total 4

6.

	Non Savings	Interest	Dividends	
	£	£	£	
Pension income	13,350			
Bank interest		5,181		
Dividend			444	**[½]**
Less: Personal allowance	(12,570)			**[½]**
Net income	780	5,181	444	
Tax thereon:				
780 @ 20%			156	**[½]**
4,220 @ 0%			Nil	**[½]**
5,000				
961 @ 0%			Nil	**[½]**
444 @ 0%			Nil	**[½]**
			156	
Less: Marriage allowance				
£1,260 @ 20% restricted			(156)	**[1]**
Tax liability			Nil	

Total 4

7. As Chase occupied the house as her main residence **[½]** she will be entitled to Private Residence Relief in respect of any periods of actual occupation. **[½]**

   In addition, she will be able to claim relief for periods of deemed occupation **[½]** as long as she occupied the property before **[½]** and after **[½]** her period of absence.

   Her period of absence whilst she worked abroad **[½]** will qualify as a deemed period of occupation. There is no time limit on the period of absence whilst employed abroad. **[½]**

   Her period of absence whilst travelling will qualify as a period of deemed occupation **[½]** as the period of absence was less than three years for any reason. **[½]**

   The last nine months **[½]** will always be treated as deemed occupation as Chase lived in the property at some point. **[½]**

   The periods of actual and deemed occupation cover the whole period of ownership so Chase will not pay CGT on the sale of the house. **[½]**

Max 4

8. The maximum contribution for which an employee can receive tax relief is the higher of 100% of their relevant earnings **[½]** and £3,600 **[½]**. This 100% of earnings or £3,600 is a gross amount and the payments are actually made net of 20% income tax. **[½]**

   Relevant earnings include employment income **[½]** and furnished holiday letting income. **[½]**

   There is an annual allowance of £60,000 for 2023/24 **[½]** which effectively sets a limit on the amount of contribution that can qualify for relief.

   This can be increased by carrying forward any unused annual allowance from the previous three tax years. **[½]**

   The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000. **[1]**

Max 3

9. Henry's gift to Elizabeth

As Elizabeth had to use additional cash to purchase the property only part of the annual rental amount will be subject to tax:

	£	
£47,000 x (500,500/775,000)	30,353	**[1½]**

Caterina's gift to Juan

£268,000 x 2.25%	6,030	**[½]**
Less: Rent paid £325 x 12	(3,900)	**[½]**
Notional income chargeable	2,130	**[½]**

Note: The £5,000 exemption does not apply as the rental value prior to the deduction of the rent actually paid exceeds £5,000.

Total 3

10. An individual will be subject to the remittance basis charge if:

- They are non-UK domiciled **[½]**;
- They are aged 18 or over **[½]**;
- They have been resident in the UK for seven of the nine preceding tax years **[½]**; and
- They claim the remittance basis of taxation. **[½]**

An individual must pay a £30,000 **[½]** remittance basis charge in respect of the non-UK gains that are not remitted to the UK. **[½]**

This increases to £60,000 **[½]** if the individual has been resident in the UK for 12 out of the 14 preceding tax years. **[½]**

Once the individual has been resident in the UK for 15 out of the previous 20 tax years, they are deemed to be UK domiciled and can no longer use the remittance basis at all. **[½]**

Where the charge applies, it is in addition to any tax due on gains remitted to the UK. **[½]**

Max 4

11. There will be a withdrawal of relief if the individual disposes of their shares within five years of acquisition **[½]** or if the Venture Capital Trust loses its HMRC approval within five years of the subscription date. **[½]**

The claw back of the relief will be equal to 30% of the sales proceeds. **[½]**

However, the claw back cannot exceed the amount of the original relief. **[½]**

If the shares are gifted then there is a full clawback of the initial relief. **[½]**

Where the VCT loses its HMRC approval, the claw back will be the relief originally obtained. **[½]**

Max 2

12.

a) Salary above the primary threshold will be subject to Class 1 employee’s NIC. **[½]**

b) This payment to Seamus is treated as ordinary remuneration (there is no longer any tax-free element where an employer pays towards an employee’s childcare costs (unless the employee joined an employer’s scheme before 5 October 2018)) **[½]**. This will be subject to Class 1 employee’s NIC. **[½]**

c) The shares will only be subject to Class 1 employee’s NIC if they are readily convertible assets. **[½]**

d) Mileage payments of less than 45p per mile **[½]** are not subject to employee’s NIC. **[½]**

Total 3

PAPER 1
TEST 2
(40 MARKS)

1. Charles sold a number of items in 2023/24. The following table gives details of his sale proceeds and acquisition costs.

	Proceeds	Cost
	£	£
Painting	5,800	2,100
Sculpture	4,000	11,000
Antique vase	9,000	3,500

Calculate, showing your workings, the capital gain or loss arising on each disposal. (3)

2. Angus left the UK to work abroad on 6 June 2023, leaving his flat unfurnished and unoccupied. A month after leaving he instructed a local estate agent to start the search for a tenant for the flat. A tenant moved in on 6 September 2023, paying rent of £750 per month, in advance. Whilst waiting for a tenant to be found, Angus paid £1,500 for the flat to be redecorated. Once the tenant moved in, she was responsible for paying the monthly Council Tax of £150 (which is payable on the 18th of each month) and all other utility costs. However, Angus continued to pay the water rates of £55 on the 12th of each month.

Calculate Angus's net rental income for 2023/24. (3)

3. On 6 October 2002, Quentin bought a family home in the UK for £1.8 million. Quentin has never been UK tax resident and this house is neither his main residence nor has he made an election for it to be treated as such. Quentin has lived at the house when he has been in the UK and in April 2015 he considered selling the property when it was valued at £4million but did not proceed. On 5 May 2024, he completed the sale of the house for £6 million, having exchanged contracts on 5 March 2024.

   1) Calculate the capital gain that will, by default, be subject to Capital Gains Tax in 2023/24 as a result of this disposal.

   2) Explain what action Quentin could take to reduce this gain and, if he decides to take this action, calculate his revised gain for 2023/24.

(3)

4. Natasha is employed by Oldfield Ltd and during 2023/24 she received the following from her employer:

   a) A salary of £40,000.

   b) An interest free loan of £15,000, which was outstanding for the whole year.

   c) Payment of 55p per mile for 16,000 miles of business travel in her own car.

   d) 500 shares in Oldfield Ltd worth £5 each. These shares were given to incentivise Natasha over the long term as there is no means by which she can encash them in the short term.

Show how much of the above receipts will be included within the calculation of earnings for the purposes of Class 1 National Insurance Contributions, including a brief explanation in relation to the shares. (3)

5. **Explain the distinction between tax planning and tax evasion and describe the actions you should take if you become aware that one of your clients has engaged in tax evasion.** (4)

6. Saira received a notice to file her 2022/23 tax return on 17 June 2023. She filed her tax return in paper form on 3 May 2024. Her tax return showed a tax liability for the year of £14,000 but, after allowing for £7,500 tax deducted at source and total payments on account already made of £4,000, the tax payable for the year was £2,500.

   State the date by which Saira should have filed her 2022/23 tax return in paper form, the earliest dates from which the various late filing penalties will apply and calculate the maximum amount of penalties that Saira may incur. (4)

7. Anatoly, an additional rate taxpayer, is UK resident but non-UK domiciled. He claims the remittance basis of assessment.

   Since becoming UK resident three years ago, dividend income from his 8% shareholding in an overseas company has been paid into an overseas bank account. This income does not suffer any overseas tax. On 12 June 2023 Anatoly used £100,000 of his dividend income to buy a home in the UK.

   1) Explain the effect on his UK tax exposure of Anatoly making a remittance basis claim.

   2) Calculate the Income Tax liability that arises as a result of the purchase of the house.

   (3)

8. In 2022/23, Bobby made a capital gain of £75,000 on the disposal of a painting.

   In 2023/24 he subscribed £50,000 for newly issued ordinary shares in Fischer Ltd and then purchased additional ordinary shares in the company from a fellow shareholder for £40,000. This second investment brought his total shareholding to 12% of the company's ordinary share capital.

   Bobby is an additional rate taxpayer and Fischer Ltd is a qualifying company for Enterprise Investment Scheme (EIS) purposes.

   Explain the tax relief available to Bobby as a result of his investments in Fischer Ltd. (3)

9. Interest paid on a loan taken out by an individual to purchase a rental property is eligible for relief as a tax reducer at 20% against the income tax liability.

   State the situations in which interest paid by an individual is deductible from their total income. (3)

10. During 2023/24 the following events took place:

    a) In May 2023 Mr Pink received a £200,000 insurance pay-out following the destruction of the milking parlour on his farm. The milking parlour had cost £120,000 to build. In February 2024, he used £150,000 of the insurance proceeds to buy a Ming dynasty figurine.

    b) Mr Brown gifted a property from his investment portfolio, worth £300,000, to his son. The property had cost him £135,000.

    c) Mr White settled shares in a quoted investment company into a trust for the benefit of his children aged 18 and 20. The shares had cost him £12,000 and were worth £100,000 when settled.

    Calculate the chargeable gains and/or allowable losses that arise in 2023/24 if no reliefs are claimed and show the holdover/rollover relief that could be claimed in each case. (4)

11. Kiran, aged 25, is a first-time buyer possibly looking to purchase a house in London. She has heard that a Lifetime Individual Savings Account (ISA) is available enabling cash to be saved in a tax free environment and possibly be used towards the deposit for a house.

    State the other features of a Lifetime ISA that are relevant to Kiran. (3)

12. Felicity, aged 56, has built up a defined contribution pension fund of £240,000. She works two days a week and is a basic rate taxpayer. She is interested in taking retirement benefits from her pension but has no desire to make any further pension contributions.

    Explain what is meant by taking flexi-access drawdown, together with the Income Tax consequences of this method of accessing retirement benefits. (2)

13. If an investor subscribes for shares in a qualifying Venture Capital Trust (VCT), they will receive income tax relief **State four conditions that must be fulfilled by the company in order to qualify as an eligible VCT.** (2)

TEST 2
ANSWERS

1.

			£	
Painting	Proceeds and cost < £6,000 so exempt		-	**[½]**
Sculpture	Proceeds	deemed	6,000	**[½]**
	Less: Cost		(11,000)	**[½]**
	Loss		(5,000)	
Antique vase	Proceeds		9,000	
	Less: Cost		(3,500)	
	Gain		5,500	**[½]**
	But limited to	5/3 x (9,000 – 6,000)	5,000	**[1]**

Total 3

2.

				£	
Rent	6/9/23 – 6/3/24	7 x 750		5,250	**[½]**
Redecoration			1,500		**[½]**
Council Tax	18/7/23 – 18/8/23	2 x 150	300		**[1]**
Water rates	12/7/23 – 12/3/24	9 x 55	495		**[1]**
				(2,295)	
				2,955	

Tutorial Note:

Care is needed when calculating the relevant months for the expenses being those incurred by Angus when the property was ‘available’ for letting.

Total 3

3.

Default capital gain

	£	
Proceeds	6,000,000	
April 2015 value	(4,000,000)	
Capital gain	2,000,000	**[1]**

Quentin could reduce the taxable gain by electing to calculate the gain on a time-apportionment basis. **[½]**

Revised gain

	£	
Proceeds	6,000,000	
Original cost	(1,800,000)	
Total gain	4,200,000	**[½]**

Element arising after 5 April 2015 = £4,200,000 x 107 **[½]** /257 **[½]** = £1,748,638

> **Tutorial Note:**
>
> The NRCG rules were introduced in 2015 so that non-residents pay UK CGT on gains on the disposal of UK residential properties. But remember it is only the gain arising after 5 April 2015 that is taxed.
>
> From 6 April 2019, NRCG rules also apply to disposals of UK commercial property by non-residents, but only the gain arising after 5 April 2019 is taxed in this case, (with no option for claiming a time-apportioned gain).

Total 3

4.

		Earnings for Class 1 NIC £	
Salary		40,000	**[½]**
Loan		Nil	**[½]**
Mileage	16,000 **[½]** x (55p – 45p) **[½]**	1,600	
Shares	Not a readily convertible asset **[½]**	Nil	**[½]**
		41,600	

> **Tutorial Note:**
>
> Ensure you answer the question as set – which was to show the amounts subject to Class 1 NICs – not Class 1A or 1B.

Total 3

5. Tax planning is legal, **[½]** whilst tax evasion is illegal **[½]**. [Chapter 22, para 22.10]

A tax adviser who becomes aware that a client has evaded tax should advise their client in writing **[½]** to make a full disclosure **[½]** and review the letter of engagement with the client regarding disclosure **[½]**. [Chapter 23, paras 23.5 and 23.6]

If the client refuses to disclose, then the adviser should consider ceasing to act for the client **[½]**. HMRC should be informed, without reasons, of the decision to cease. **[½]** [Chapter 23, para 23.9]

In addition, the actions of the client may constitute money laundering **[½]** and the MLRO **[½]** should be informed with the possibility of a Suspicious Activity Report to the National Crime Agency. **[½]** [Chapter 23, para 23.9]

[References to chapters and paragraphs are to the 6th edition of the 'Professional Responsibilities & Ethics for Tax Practitioners' book]

Max 4

6. Saira should have filed her tax return in paper form by 31 October 2023. **[½]**

		£	
1 November 2023 **[½]** - standard late filing penalty		100	**[½]**
From 1 February 2024 **[½]** - daily penalties for 90 days	90 x £10	900	**[½]**
1 May 2024 **[½]**	5% **[½]** x (14,000 - 7,500) **[½]**	325	
		1,325	

Tutorial Note:

As the question asks for dates from which penalties would apply you must state the dates by applying the rules to the scenario given. Be careful to ensure you use the late filing penalties (FA2009 Schedule 55 or HMRC Factsheet CC/FS18a in Tolley Yellow Handbook Part 2) and not the late payment penalties in this question. It is important to read the question carefully and answer the question as set.

Total 4

7. The remittance basis claim means that Anatoly only pays tax on:

a) His UK source income and gains **[½]**, and
b) His overseas income and gains that are remitted to the UK **[½]**

rather than his worldwide income and gains. **[½]**

The claim also means that he foregoes his Capital Gains Tax annual exempt amount. **[½]**

The purchase of the UK house represents a remittance of the £100,000 dividend income. However, it will be taxed as non-savings income without a dividend allowance available.

	£	
Dividend remitted	100,000	**[½]**
Income Tax at 45%	45,000	**[1]**

Max 3

8. Bobby can claim Capital Gains Tax deferral relief **[½]**, thereby deferring £50,000 **[½]** of the gain he made in 2022/23.

   Bobby can also claim an Income Tax reducer of 30% **[½]** of £50,000 **[½]** = £15,000. This reducer can be carried back **[½]** to the 2022/23 tax year.

   No relief can be claimed in relation to the £40,000 investment as this was not a subscription for new shares. **[½]**

Tutorial Note:

Additional credit would also be available for explaining the future exemption from CGT for gains on the sale of the EIS shares after three years, or the ability to offset a future allowable loss on the sale of the shares against income as well as against gains.

Total 3

9. An Income Tax deduction against total income can be claimed for interest paid on qualifying loans **[½]**. These are loans taken out by an individual for the following purposes:

   a) to purchase plant and machinery for use in their employment **[½]**
   b) to buy shares in, or provide funds for, a close company **[½]**
   c) to buy shares in an employee owned company **[½]**
   d) to invest in a co-operative **[½]**
   e) to buy into a partnership. **[½]**

Tutorial Note:

This question is referring to deductible payments against total income. The legislation might be useful here – ITA 2007 s.383 covers the rules for such interest payments.

Total 3

10. The chargeable gains arising are as follows:

	Mr Pink's milking parlour) £		Mr Brown's property £		Mr White's shares £	
Proceeds	200,000		300,000		100,000	
Cost	(120,000)		(135,000)		(12,000)	
Gain before relief	80,000	**[½]**	165,000	**[½]**	88,000	**[½]**
Holdover/rollover relief	(30,000)	**[1]**	-	**[½]**	(88,000)	**[1]**
Chargeable	50,000	(N1)	165,000	(N2)	Nil	(N3)

Notes:

N1: The insurance proceeds not reinvested in the figurine are not eligible to rollover.

N2: Investment properties are not business assets for holdover relief under s.165 TCGA 1992 (gift relief)

N3: Gifts into trust funds are eligible for relief under s.260 TCGA 1992

Total 4

11. Features of a Lifetime ISA:

- Available to open by UK resident individuals aged 18 and over but under 40 **[½]**
- Kiran may save up to £4,000 per tax year **[½]** up to her 50th birthday
- A 25% tax free bonus is paid **[½]** by the government on contributions made
- Some or all of the savings can be used to buy a first home worth up to £450,000, **[½]** provided the ISA has been held for 12 months **[½]**
- Alternatively, funds can be withdrawn tax free after reaching age 60 **[½]**
- If funds are withdrawn before age 60 (other than to buy a first home), the bonus will be lost **[½]** and there will be a 5% charge **[½]**

Max 3

12. Under flexi-access drawdown, up to 25% of the pension fund (ie £60,000) can be withdrawn tax free **[½]**; the balance is reinvested by the pension provider. **[½]**

Income can be taken by Felicity and taxed at her marginal rate of tax **[½]**, when required **[½]**.

Total 2

13. Shares must be quoted **[½]** on the UK stock exchange or an appropriate European exchange The income of the VCT must be derived wholly or mainly from shares or securities. **[½]**

The VCT company must ensure that at least 80% of its investments are in shares in qualifying companies, ie companies which meet the EIS conditions. **[½]**

A VCT cannot invest more than 15% of its funds in any one company. **[½]**

At least 85% of the VCT's profits must be distributed by way of dividends to its shareholders. **[½]**

Tutorial Note:

The eligibility conditions for a VCT are in ITA 2007 s.274.

Max 2

PAPER 1
TEST 3
(40 MARKS)

1. Adele was provided with a furnished apartment on 9 September 2020 by her employer, DDE Ltd. The company had purchased the apartment for £320,000 on 16 June 2016 and it had a market value of £550,000 on 9 September 2020.

   DDE Ltd pays the utility bills for the apartment which totalled £2,112 for 2023/24, and it provided new furniture and white goods worth £5,800 for Adele to use when she moved in. The annual value of the apartment is £2,500 and Adele contributes £250 a month towards the provision of the apartment.

   Calculate Adele's taxable benefits for 2023/24. (3)

2. Tej rented a furnished bungalow from Briony throughout 2023/24. Briony increased the rent she charged Tej from £1,160 to £1,360 per month from 6 November 2023. All rents were paid on the 6th day of each month.

   The following expenses were paid by Briony during 2023/24:

	£
Repairs	720
Buy-to-let mortgage interest	6,240
New conservatory	19,300
Replacement bed	450
Insurance (for year to 30 September 2024)	420

   Briony paid £390 insurance on 1 October 2022 for the year to 30 September 2023. Briony's only other income is a salary from employment of £65,000.

   Calculate Briony's property income assessment for 2023/24 including a brief explanation of the tax treatment of the mortgage interest. (4)

3. Christopher borrowed £85,000 from his employer, Rake Ltd, on 6 August 2021 to help him buy a holiday cottage.

   The arrangement is that Christopher repays 25% of the capital of £85,000 on 6 August in 2023, 2025, 2027 and 2029 and that he will pay interest each year, but at a rate below the market rate.

   In 2023/24 Christopher paid interest of £1,000 to Rake Ltd.

   Calculate Christopher's taxable benefit for 2023/24. (4)

4. The accrued income scheme ensures that when certain interest-bearing marketable stocks are sold, any interest accrued in the selling price of the stock is assessed to Income Tax, not Capital Gains Tax.

   Explain how the accrued interest is calculated and how it will be assessed to Income Tax, assuming a UK resident taxpayer sells stock cum-div. (2)

5. Eric has received an amendment to his 2022/23 self-assessment tax return, but he thinks that HM Revenue & Customs' amendment has incorrectly overstated his Income Tax liability.

Explain why Eric has the right to appeal, when an appeal should be made, and what the appeal should contain. (2)

6. Fatima purchased an investment property for £218,000 in June 2016.

In October 2022 the property was damaged in a storm and Fatima made a claim to her insurance company for compensation. In May 2023 the insurance company paid Fatima £120,000 in compensation and valued the property prior to restoration at £245,000.

In October 2023 Fatima spent £117,500 of the compensation received restoring the property and she sold it in May 2024 for £605,500. Fatima made a claim not to treat the receipt of compensation as a part disposal for Capital Gains Tax purposes.

Calculate, with brief explanations, any chargeable gains arising in 2023/24 and 2024/25 for Fatima. (4)

7. On 1 March 2019, Grace was granted options to buy shares in her employer's registered tax-advantaged company share option scheme at a price equal to their market value on 1 March 2019.

Grace exercised her options on 1 December 2023 and immediately sold the shares. She made no other capital disposals in 2023/24.

Explain the tax implications of the exercise of Grace's options and the sale of her shares in 2023/24. (4)

8. Martin received dividends from the trustees of a discretionary trust in 2023/24.

Describe how the trust income is assessed in Martin's Income Tax computation for 2023/24. (3)

9. Business asset disposal relief is available to taxpayers who make a 'material disposal' of shares or securities in a company, but it must be claimed.

Explain the meaning of a 'material disposal' in this context and state the date by which business asset disposal relief must be claimed in respect of a qualifying disposal in 2023/24. (3)

10. Jeremiah understands that the disposal of non-wasting chattels may give rise to chargeable gains subject to Capital Gains Tax. However, he is unclear as to the precise rules that apply to these assets.

Define a non-wasting chattel and explain how a chargeable gain is calculated on the disposal of a non-wasting chattel. (3)

11. Kathleen purchased shares in Lamp plc as follows:

Date	Purchases	Cost
		£
11 May 2012	4,600 shares	13,202
30 March 2018	5,100 shares	24,275
28 February 2024	1,400 shares	9,800

Kathleen sold 4,100 of her shares in Lamp plc on 15 February 2024 for £25,748.

Calculate the net chargeable gain arising on the disposal of the Lamp plc shares in 2023/24. (4)

12. Luther purchased a 20 acre plot of land in January 2015 for £21,000 and incurred acquisition costs of £3,120. In May 2017 he spent a further £4,000 flattening a five acre portion of the plot of land.

On 13 October 2023 he disposed of that five acre plot for £40,800. This was net of 15% auction fees. The remaining 15 acres were worth £65,000 on 13 October 2023.

Calculate the chargeable gain arising in respect of Luther's disposal in 2023/24. (4)

TEST 3
ANSWERS

1.

	£	
Annual value	2,500	**[½]**
Additional yearly rent (£320,000 – £75,000) x 2.25%	5,513	**[1]**
Utility bills	2,112	**[½]**
Use of assets (£5,800 x 20%)	1,160	**[½]**
	11,285	
Less: Employee contribution (£250 x 12)	(3,000)	**[½]**
	8,285	

Total 3

2.

	£	
Rent:		
(£1,160 x 7 months [6.4.23 – 6.10.23])	8,120	**[½]**
(£1,360 x 5 months [6.11.23 – 6.3.24])	6,800	**[½]**
	14,920	
Expenses:		
Repairs	(720)	**[½]**
Mortgage interest	(Nil)	
Conservatory (capital)	(Nil)	**[½]**
Replacement bed (replacement of domestic items relief)	(450)	**[½]**
Insurance (paid 1 October 2023)	(420)	**[½]**
Property income	13,330	

Relief for the the mortgage interest is given by way of a tax reducer at 20% against the income tax liability. **[1]**

Total 4

3. Average method:

	£	
(£85,000 + £63,750) x ½ x 2.25%	1,673	**[1]**
Less: Interest paid	(1,000)	
	673	

Strict method:

	£	
(£85,000 x 4/12 x 2.25%)	637	**[1]**
(£63,750 x 8/12 x 2.25%)	956	**[1]**
	1,593	
Less: Interest paid	(1,000)	**[½]**
	593	

Christopher will elect for the strict basis to apply and the taxable benefit for 2023/24 will be £593. **[½]**

Total 4

4. The accrued interest in the selling price is:

- calculated on a daily basis **[½]**
- from the date of the last interest payment **[½]**
- to the date of the sale. **[½]**

Any accrued interest included in the selling price is:

- taxable on the seller **[½]**
- as savings income **[½]** in the tax year in which the next interest payment is made. **[½]**

Max 2

5. A taxpayer has the right of appeal where they believe HMRC has made a mistake which has not been rectified and as a result the calculation of the tax liability is incorrect. **[½]** The taxpayer must appeal within 30 days of the amendment. **[½]**

The appeal must contain:

- the grounds for the appeal, **[½]**
- what the taxpayer thinks the correct figures should be and how they have worked them out (or a statement that they cannot work them out as it is too complex for them to understand). **[½]**

Total 2

6. May 2023 – Receipt of compensation for asset damaged

As the compensation not reinvested is small (ie £2,500 is less than the higher of £3,000 or 5% of the compensation received **[½]**) and a claim is made, there is:

- no part disposal **[½]**, and
- no chargeable gain arising in 2023/24. **[½]**

The base cost of the investment property becomes:

	£	
Original cost	218,000	**[½]**
Less: Compensation	(120,000)	**[½]**
Plus: Restoration costs (enhancement expenditure)	117,500	**[½]**
Base cost	215,500	

May 2024 – Sale of investment property

	£	
Sale proceeds	605,500	**[½]**
Less: Base cost	(215,500)	**[½]**
Chargeable gain – assessed in 2024/25	390,000	

Total 4

7. When Grace exercises her options:

   As Grace:

   - is exercising her option within 3 and 10 years of the granting of the option, **[½]** and

   - the CSOP scheme is a tax-advantaged scheme,

   there are no Income Tax **[½]** or NIC consequences **[½]** arising.

   When Grace sells the shares:

   - there will be a capital gain arising **[½]**

   - calculated as the difference between the sale proceeds and the actual cost of the shares acquired. **[½]**

   Grace will be liable to Capital Gains Tax **[½]** at either 10% and/or 20% **[½]** after the deduction of the annual exempt amount. **[½]**

Total 4

8. All income distributed from a discretionary trust, regardless of the nature of the source of income **[½]**, is deemed to be received net of a 45% Income Tax credit. **[½]**

   In Martin's Income Tax computation the income must be:

   - Grossed up by multiplying the amount received by 100/55 **[½]**
   - Treated as non-savings income **[½]**
   - Taxed in the normal way **[½]**
   - With a tax credit deduction of 45% from his Income Tax liability. **[½]**

Total 3

9. A material disposal in this context means that throughout the period of two years ending with the date of disposal: **[½]**

   a) The company is the individual's personal company **[½]** (ie must have at least 5% of the ordinary shares and voting rights of the company) **[½]** and is either a trading company **[½]** or the holding company of a trading group.

      In addition, the individual must either be entitled to at least 5% of the distributable profits available to equity holders and 5% of the assets available on a winding up, and/or be entitled to at least 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company [See Tutorial Note below], and

   b) The individual is an officer or employee of the company or (if the company is a member of a trading group) of one or more companies which are members of the trading group. **[½]**

   Election date for 2023/24: 31 January 2026 **[½]** (on or before the first anniversary of 31 January following the tax year of the qualifying disposal).

Tutorial Note:

This paragraph is an extension of the definition of a personal company that applies from 5.4.19 and was not required to score the marks in the question when set. It has been inserted for completeness.

Credit would also be available for explaining the conditions for relevant EMI shares as per Condition C s.169I TCGA 1992.

Total 3

10. Non-wasting chattels are:

- tangible, movable property **[½]**
- with a predictable useful life of more than 50 years. **[½]**

A chargeable gain arises if sale proceeds exceed cost. **[½]**

The two different circumstances that give rise to a gain are where:

- both the gross sale proceeds and cost exceed £6,000
  - a normal chargeable gain arises **[½]**

- gross sale proceeds exceed £6,000 and cost is £6,000 or less
  - chargeable gain is the lower **[½]** of
    a normal chargeable gain calculation, or
    5/3 x (gross sale proceeds – £6,000) **[½]**

Total 3

11. Identification rules

			No. of shares	
1)	Same day acquisitions		Nil	
2)	Purchases in the following 30 days			
	28 February 2024		1,400	**[½]**
3)	Share pool			
	11 May 2012	4,600		
	30 March 2018	5,100		
		9,700		
	Sale	(2,700)	2,700	**[½]**
	Shares remaining	7,000		
Shares sold on 15 February 2024			4,100	

Sale proceeds per share = £(25,748 ÷ 4,100) = £6.28

Disposal of shares purchased on 28 February 2024

	£	
Gross sale proceeds (1,400 x £6.28)	8,792	**[½]**
Less: Cost	(9,800)	**[½]**
Allowable loss	(1,008)	

Disposal of shares from share pool

	£	
Gross sale proceeds (2,700 x £6.28)	16,956	**[½]**
Less: Cost (W)	(10,432)	**[½]**
Chargeable gain	6,524	

Net chargeable gain on the disposal of 4,100 shares = (£6,524 – £1,008) = £5,516 **[½]**

(W) Share pool

	No. of shares	Cost	
		£	
11 May 2012	4,600	13,202	
30 March 2018	5,100	24,275	
	9,700	37,477	
Sale on 15 February 2024	(2,700)	(10,432)	**[½]**
Shares remaining	7,000	27,045	

Total 4

12.

	£	
Gross sale proceeds (40,800 x 100/85)	48,000	**[½]**
Less: Auction fees (48,000 x 15%) or (40,800 x 15/85)	(7,200)	**[½]**
Net sale proceeds	40,800	
Less: Deemed cost of acquisition		
(21,000 **[½]** + 3,120 **[½]**) x $\frac{48,000}{(48,000 + 65,000)}$	(10,246)	**[1]**
Enhancement expenditure (wholly related to the part sold)	(4,000)	**[1]**
Chargeable gain	26,554	

Total 4

PAPER 1
TEST 4
(40 MARKS)

1. Shannon rented out a furnished house throughout 2023/24, charging a monthly rent of £1,400, payable in advance at the start of each month.

   The freestanding fridge freezer in the house had to be replaced in May 2023. The replacement cost £450, and Shannon paid an additional charge of £15 for the old fridge freezer to be taken away and disposed of.

   In January 2024, Shannon purchased a flat to rent out and, whilst it was in a good condition, she decided to repaint the interior before letting it out. The repainting cost a total of £7,000.

   Shannon first let out the flat on 6 March 2024, with the tenant paying £6,000 for the first six months in advance. The flat is let unfurnished.

   Both properties are situated in the UK.

   Calculate Shannon's property income assessment for 2023/24.

   Briefly explain your treatment of the replacement fridge freezer and repainting costs. (4)

2. Alice provides foster care for children and as a result received qualifying care receipts throughout 2023/24.

   Explain how Alice's taxable qualifying care receipts for 2023/24 will be calculated. (4)

3. Zara, a higher rate taxpayer, left her job at Zed plc on 1 February 2024.

   Zed plc runs a Share Incentive Plan (SIP) for its employees and Zara was awarded the following free shares:

   - 1,000 shares in March 2016 when the share price was £3 per share.
   - 1,000 shares in February 2020 when the share price was £3.50 per share.
   - 750 shares in February 2022 when the share price was £4 per share.

   Zara withdrew all her free shares on 1 February 2024 when the share price was £4.50 per share.

   Calculate, with brief explanations, the amount treated as employment income for Zara in 2023/24. (4)

4. On 5 October 2023, Salim subscribed £25,000 for 1,200 shares in Breen Ltd, an Enterprise Investment Scheme (EIS) qualifying company.

   Explain the Income Tax and Capital Gains Tax deferral reliefs available to Salim in respect of this investment. (4)

5. Sean is studying full time at university and in 2023/24 had no earned income, but received £27,500 from The Smith Family Discretionary Trust.

   Sean also received amounts from the Jones Interest in Possession Trust in 2023/24. The R185 from the Jones trust shows he received net savings income of £4,125 and net dividend income of £2,200.

   Calculate Sean's taxable income for 2023/24. (2)

6. Jess inherited a diamond ring when her grandmother died in 2016. It was valued for probate purposes at £7,000.

   Jess decided to sell off some of her possessions, so she took the diamond ring and an antique chest of drawers to a local auction. She had purchased the chest of drawers for £3,750 in May 2014.

   At the auction in September 2023, the diamond ring sold for £5,200 and the chest of drawers sold for £7,500. Jess had to pay a fee of £300 in respect of each item entered into the auction.

   Calculate the chargeable gain/loss for each item for 2023/24. (4)

7. Flora is employed by Lender plc, working four days a week, earning a salary of £49,000 a year.

   She is also employed one day a week by an unconnected charity, earning a salary of £12,000 a year.

   Explain how Flora can avoid the need to claim a repayment of overpaid Class 1 National Insurance. (2)

8. Sonal purchased 3,000 shares in Redder Ltd on 1 February 2017 for £8,000.

   On 15 October 2020, Redder Ltd announced a 1 for 3 rights issue at £2 per share. Sonal took up the issue. On 15 October 2021, Redder Ltd announced a 1 for 4 bonus issue.

   On 1 March 2024, Bluer plc announced that they had taken over Redder Ltd and for every share held in Redder Ltd, shareholders received five shares in Bluer plc.

   Calculate Sonal's total shareholding in Bluer plc as at 5 April 2024 and the base cost of those shares for Capital Gains Tax purposes. (3)

9. In March 2024, Fernando sold 1,000 shares in Quant Ltd, a trading company to his son, Alain, for £55,000. He had originally purchased the shares for £38,000 in June 2019.

   The market value of the shares at the date of sale was £78,000.

   Calculate Fernando's chargeable gain in 2023/24 and Alain's base cost for the shares, assuming all available reliefs are claimed. (4)

10. David submitted his 2022/23 tax return on 15 February 2024 and HM Revenue & Customs have sent him a penalty notice for the late submission.

    David has never submitted a tax return late before and a close family member died on 15 January 2024.

    Explain whether the bereavement provides a valid ground for David to appeal against the penalty notice. (2)

11. Joy retired in May 2022, having worked abroad for a significant proportion of her working life.

    She is UK resident and UK domiciled, and is in receipt of the following pension income for 2023/24:

	£
UK State pension	750
Foreign pension (net)	24,750

    The foreign pension income arises on a pension held in Erewhon. The Erewhonese authorities have withheld tax at 10%. There is no double tax agreement between the UK and Erewhon.

    Calculate, with brief explanations, Joy's taxable pension income for 2023/24. (3)

12. On 6 April 2023, Sylvia gifted an antique vase to her niece. The vase was valued at £85,000 on this date.

    Sylvia has kept the vase in her house where it has continued to be displayed in a cabinet.

    The gift does not fall within the ‘gift with reservation’ rules for Inheritance Tax purposes.

    Explain how the Pre-Owned Assets rules work and whether Sylvia will have a Pre-Owned Asset charge in 2023/24. (4)

TEST 4
ANSWERS

1. House:

	£	
Rent:		
(1,400 x 12 months)	16,800	**[½]**
Less: Expenses		
Fridge freezer	(465)	**[½]**
Profit/(loss)	16,335	

Flat:

	£	
Rent (cash basis applies)	6,000	**[½]**
Less: Expenses		
Repainting	(7,000)	**[½]**
Profit/(loss)	(1,000)	

Property income assessment for 2023/24: 16,335 - 1,000 = £15,335. **[½]**

The fridge freezer is an allowable cost under the replacement of domestic items relief **[½]** and the cost of disposing of the old one is incidental and therefore allowable. **[½]**

As the flat was habitable, the painting works are not capital in nature and therefore an allowable expense. **[½]**

Total 4

2. If Alice's total qualifying care receipts in 2023/24 are lower than her individual limit in the year they will not be subject to tax. **[1]**

The individual limit consists of a fixed amount of £18,140 pa **[½]** and a weekly amount based on the age of each individual placed with her. **[½]** She will not be able to deduct expenses incurred when calculating the total receipts for this purpose. **[1]**

If Alice's qualifying care receipts exceed her limit, she will be taxed on the gross receipts, less expenses and capital allowances as normal (the profit method). **[1]**

Alternatively, Alice can elect by 31 January 2026 to be taxed on the gross receipts, less her individual limit (the simplified method). **[1]**

Max 4

3. The 1,000 free shares Zara was awarded in March 2016 are withdrawn more than five years **[½]** after the date of award and so there is no tax charge. **[½]**

   For the free shares awarded in February 2020, as they are being withdrawn between three and five years **[½]** after being awarded, the employment income will be the lower of:

   The initial value on receipt = 1,000 x 3.50 = £3,500 **[½]**

   Market value at withdrawal = 1,000 x 4.50 = £4,500 **[½]**

   For the free shares awarded in February 2022, as they have been withdrawn less than three years **[½]** after the date of award, the market value at withdrawal will count as employment income, ie 750 x 4.50 = £3,375. **[½]**

   This gives total employment income of (3,500 + 3,375 =) £6,875 **[½]** for 2023/24.

Total 4

4. Salim can claim an income tax reducer of 25,000 x 30% = £7,500 in 2023/24. **[½]**

   This can reduce his tax liability to nil, **[½]** but it cannot itself create a tax repayment **[½]** if Salim's tax liability is lower than £7,500 for the year.

   Alternatively, Salim can choose to carry back the income tax reducer one tax year to 2022/23. **[½]**

   Salim can also defer capital gains made up to a maximum of his investment of £25,000. **[½]** The gain will remain frozen until there is a chargeable event, **[½]** such as the sale of the shares in Breen Ltd, when the frozen gain will crystallise. **[½]**

   He can defer gains made in the period three years before he subscribed for the shares **[½]** and one year after he subscribed for the shares, **[½]** ie 5 October 2020 to 5 October 2024.

   Salim does not have to claim the full capital gains deferral, but can select the amount he wishes to defer. **[½]**

   As such, he can leave £6,000 of gains in charge in 2023/24 that will be covered by the annual exempt amount for the year. **[½]**

Max 4

5.

	£	
Discretionary trust (27,500 x 100/55)	50,000	**[½]**
Savings (4,125 x 100/80)	5,156	**[½]**
Dividends (2,200 x 100/91.25)	2,411	**[½]**
Less: Personal allowance	(12,570)	**[½]**
Taxable income	44,997	

Total 2

6. Diamond ring

	£	
Proceeds (deemed)	6,000	**[½]**
Less: Costs of sale	(300)	**[½]**
Net proceeds	5,700	
Less: Cost (probate value)	(7,000)	**[½]**
Allowable loss	(1,300)	

Antique chest of drawers

	£	
Proceeds	7,500	
Less: Costs of sale	(300)	
Net proceeds	7,200	**[½]**
Less: Cost	(3,750)	**[½]**
Gain	3,450	

Check the 5/3 rule:
5/3 x (7,500 – 6,000) = £2,500. **[1]**
The lower gain of £2,500 is therefore chargeable. **[½]**

Total 4

7. There are 'annual maxima' rules in a tax year where an individual has two employments. **[½]**

As Flora has more than one employment, she can apply for deferment of Class 1 contributions. **[½]**

The National Insurance Contributions Office (NICO) will determine whether the deferment will apply to her job at Lender plc or the charity. **[½]**

For whichever employment the deferment is granted to, Flora will pay Class 1 primary contributions at the rate of 2% **[½]** on earnings above the primary threshold. **[½]**

Max 2

8. Redder Ltd share pool:

Date	No. of shares	Cost £	
1 February 2017	3,000	8,000	**[½]**
15 October 2020 (1:3 rights issue at £2 per share)	1,000	2,000	**[1]**
15 October 2021 (1:4 bonus issue)	1,000	Nil	**[½]**
Total	5,000	10,000	

The total number of shares Sonal now holds in Bluer plc is (5,000 x 5) = 25,000 **[½]** and the base cost of these shares remains at £10,000. **[½]**

Total 3

9. Fernando:

	£	
Proceeds (market value)	78,000	**[½]**
Less: Cost	(38,000)	**[½]**
Gain	40,000	
Gift relief (balancing figure)	(23,000)	**[1]**
Chargeable gain (55,000 – 38,000)	17,000	**[1]**

Alain's base cost is therefore the market value of the shares, less the gift relief (78,000 – 23,000) = £55,000. **[1]**

Total 4

10. David can appeal the late penalty notice if he had a 'reasonable excuse' for failing to submit the return on time. **[½]**

Whilst 'reasonable excuse' is not defined in the legislation, **[½]** it does set out what is not a reasonable excuse, for example relying on a third party is not a reasonable excuse unless the taxpayer took reasonable care. **[½]**

As a close family member died around the time of the tax return deadline, David may well have valid grounds for appeal. **[½]**

He would need to appeal on the grounds the bereavement prevented him attending to his tax affairs in the proper time. **[½]**

Max 2

11. As Joy is UK resident and domiciled, she is taxable on both her UK and foreign pension on the arising basis. **[1]**

All pension income will be taxed as non-savings income. **[½]**

However, the foreign pension should be grossed up to include the amount before foreign tax. This means Joy will be taxable on £27,500 (100/90 x 24,750). **[1]**

She will then be given a credit for the foreign tax paid against the UK tax liability. **[½]**

Her total taxable pension income in 2023/24 is therefore (750 + 27,500) = £28,250. **[½]**

Max 3

12. There is a Pre-Owned Assets (POA) charge where a taxpayer gives away an asset or provides consideration for the acquisition of an asset and they can benefit from that asset after the gift, **[½]** but the gift is not covered by the 'gift with reservation' rules. **[½]**

    As Sylvia continues to enjoy the benefit of the vase by retaining it in her house, **[½]** the POA rules mean an income tax charge is levied on her. **[½]**

    For a chattel, the benefit is calculated by taking the value of the chattel at the date when Sylvia first becomes liable to the income tax charge (6 April 2023) **[½]** and multiplying it by HMRC's official rate of interest. **[½]** This income amount is reduced by any rents paid by the donor for using the chattel **[½]**.

    The notional income amount for 2023/24 is therefore £85,000 x 2.25% = £1,913. **[½]**

    Where the annual value is less than £5,000, there is no POA charge in the year, **[½]** so Sylvia will have no income tax charge in 2023/24. **[½]**

Max 4

PAPER 1
LONG QUESTIONS

1. On 1 June 2023 Ella returned to work on a full time basis after finishing her maternity leave. Between 6 April 2023 and 1 June 2023 Ella received statutory maternity pay of £172.48 per week for eight weeks.

Whilst Ella is at work, her daughter is at nursery. Ella's employer has explained that they no longer offer an employer's nursery voucher scheme. The nursery fees are expensive and Ella would like to know if there is any alternative scheme available.

Ella receives a gross salary of £60,800 per annum from her employment, from which PAYE of £9,000 was deducted during 2023/24. In addition, Ella received the following benefits:

1) Family medical insurance which cost her employer £656 per annum.

2) A meal allowance in the staff canteen (which all employees are entitled to) of £2.50 per day.

3) From 1 January 2024 Ella was provided with a new 1600cc petrol engined company car with a list price of £18,000 and carbon dioxide emissions of 125g/km. The car was made available for private use but no private fuel was provided.

4) An interest free loan of £15,000 on 1 July 2023. No repayments of capital were made during the year.

Prior to Ella being given the use of a company car she used her own car for business travel. During the period from 1 June 2023 to 31 December 2023 Ella drove 11,000 business miles and was paid at the flat rate of 50p per mile.

During 2023/24 Ella paid professional subscriptions of £475, which were not reimbursed by her employer. She also made regular charitable donations through gift aid of £100 (net) per month.

Ella received building society interest of £625 during 2023/24. She also held a joint bank account with her husband, on which total interest of £374 was received during 2023/24. In addition, Ella has a share portfolio and received dividends during the year of £2,500.

Ella's husband earns £80,000 per annum.

Requirement:

1) Calculate the Income Tax payable by Ella for 2023/24. (13)

2) Briefly explain the Tax-Free Childcare scheme the government now offers and whether it will be available to Ella. (3)

Total (16)

2. Dorothy, aged 35, works for Toto plc on a gross salary of £75,000. In 2023/24 PAYE of £22,000 was deducted at source.

Dorothy used her own car to travel 12,500 miles on the company's business in 2023/24 and Toto plc reimbursed her at a rate of 50p per mile.

On 6 April 2021 Dorothy borrowed a specialist piece of equipment from her employer and kept it until 5 January 2024 when she bought it from Toto plc for £250. The value of this piece of equipment on 6 April 2021 was £5,200 and it was worth £1,000 when she bought it in 2023/24.

Dorothy also has a small property portfolio, consisting of three properties: Straw Cottage, Tin Hall and Lion House.

Straw Cottage had been let for many years at £12,000 per annum, payable on the 1st of each month in advance. However, from 1 August 2023, this was, following arm's length negotiations, decreased to £10,000 per annum.

Tin Hall was occupied by Dorothy's nephew throughout 2023/24 at a rent of £4,000 per annum, paid monthly in arrears, which was significantly below the market value.

Despite Dorothy's best efforts to find a tenant, Lion House has been empty for a year or so but, following some refurbishment work, new tenants moved in on 1 May 2023 on a rent of £34,320 per annum, payable on the 1st day of each month in advance, with a two month initial rent-free period.

Expenses paid by Dorothy in relation to these properties during 2023/24 were:

	Straw Cottage	Tin Hall	Lion House
	£	£	£
Mortgage interest	10,000	-	12,000
Water rates	250	350	650
Council Tax	Paid by tenant	1,250	2,600
Redecorating throughout	-	3,800	2,500
Repairs to furniture	-	-	750
Adding a window to the attic extension	-	-	1,250
New bedroom furniture (previously none)			750
Replacement carpets			3,400

During 2023/24, Dorothy also received dividends of £5,000, bank interest of £11,250 and a dividend of £1,800 out of the rental profits of a real estate investment trust (REIT).

Dorothy makes an annual gift aid payment of £5,000.

Requirement:

Calculate the Income Tax payable by Dorothy for 2023/24. (20)

3. Jiten Shah is 45 and UK resident and domiciled. He earns £360,000 per annum and has provided you with the following details regarding capital assets.

   1) In May 2023 he sold 3,000 shares in Peaches plc, an unconnected quoted trading company, for £30,000. He had purchased 1,000 shares in March 2000 at £3 per share. In August 2005 there was a 2 for 1 rights issue at £4 per share which he took up in full. In December 2014, there was a bonus issue of shares at 2 for 3. Jiten has never worked for the company.

   2) In November 2023, he sold 10,000 shares in a company which was a qualifying Venture Capital Trust, for £20,000. He had subscribed for the shares at £1 each in September 2019.

   3) On 1 December 2023 he sold a lease over a local field for £65,000. He had bought the lease on 1 May 2017, when it had 30 years left to run, for £60,000.

   4) In February 2024 he sold 10,000 shares (< 5% holding) in the company which employs him for £40,000. The shares had been acquired under a tax advantaged Save as You Earn share option scheme, the options being exercised at £1 per share in January 2024.

   5) In March 2024, he sold a painting for £4,000 which he had purchased for £8,000 in April 2013.

   At 6 April 2023 Jiten had capital losses brought forward of £10,000.

   Requirement:

   Calculate the Capital Gains Tax payable by Jiten for 2023/24. Give explanations for omitting any of the above from your computation. (10)

4. Mina, who lived in Newcastle, was offered full time employment by Red Ltd, a marketing company based in Kent. Mina moved to Kent on 6 April 2023 in accordance with the terms of her new employment contract. She received written particulars of the terms of her employment on her first day.

In order to help Mina to meet the costs of this move, Red Ltd provided the following:

1) A £10,000 one off payment towards her moving costs, which was paid gross on 30 June 2023. This payment was in respect of the costs of selling Mina's old house and removal costs.

2) An apartment for Mina to live in. This cost the company £325,000 in March 2023 and has an annual value of £12,000.

3) Furniture and other assets (such as television sets and artwork) were provided in the apartment at a cost of £14,000.

In addition to the relocation costs, Red Ltd provided Mina with a company car on 6 July 2023. This was a new diesel fuelled car, which does not meet the RDE2 emissions standard. It has a CO_2 emissions rating of 100g/km and a list price of £26,000. Red Ltd also provides all fuel for the car.

Mina is a 45% rate taxpayer for the year. Unless otherwise stated, all benefits were provided throughout the tax year.

Requirement:

1) Calculate the Income Tax payable by Mina in respect of the benefits provided for 2023/24. (8)

2) Briefly explain whether National Insurance Contributions are payable in respect of these benefits (1)

3) State six items that must be included in the written particulars of employment provided to Mina. (3)

Total (12)

5. Hayley, aged 47, is employed by Fitzhugh Ltd, a publishing company, and earns a gross annual salary of £230,000 from which PAYE of £84,000 is deducted.

As Hayley is required to visit authors around the country, she is provided with a company car with a list price of £24,000, with carbon dioxide emissions of 110g/km. The company pays for all of her petrol, including private fuel. Fitzhugh Ltd also provides all employees with a mobile phone and a £300 per month clothing allowance to spend on unbranded clothes.

From 6 April 2023, Fitzhugh Ltd contributed the equivalent of 15% of Hayley's salary into a registered personal pension scheme. In 2023/24, Hayley made a net payment of £32,000 into her personal pension. Hayley had unused annual allowance from the previous three years of £8,000.

Hayley's only other source of income in the year was from a house she owns on the South Coast of England. The house is available for rental as a holiday property throughout the year. The house is fully furnished, and in 2023/24 it was rented for 37 weekly rentals. Her accountant has reported the following income received and expenditure paid for 2023/24:

	£
Rental income	18,500
Utility bills and insurance	6,450
Council Tax	1,200
Repairs	8,700

The repair costs related to repainting the property after a water leak caused damage throughout the house. Hayley also spent £8,000 buying new furniture.

Requirement:

1) **Explain the conditions that must be satisfied for a property to be classed as a furnished holiday letting.** (4)

2) **Calculate the Income Tax payable by Hayley for 2023/24.** (16)

Total (20)

6. You are a tax consultant at Chase & Co and act for Friendlyco plc, a listed company. One of the partners at Chase & Co has received an email from Robert Fairhead, the finance director at Friendlyco plc.

"We have been considering implementing a share option plan for our current employees for some time as we are keen to provide an incentive arrangement which aligns our employees' interests with those of our shareholders. If possible we would like to do this in a tax efficient manner. I have heard that there are two tax favoured option arrangements, which may be appropriate for the company: a Save As You Earn Share Option Scheme or a Company Share Option Plan. I should be grateful if you would provide me with some further information in respect of each of the plans I have mentioned."

The partner wants a summary of the key features of each plan.

Requirement:

1) Explain the key features of a Save As You Earn Share Option Scheme. (5)

2) Explain the key features of a Company Share Option Plan. (5)

Friendlyco plc has decided to implement both a Save As You Earn Share Option Scheme and a Company Share Option Plan. Friendlyco plc adopted both plans and granted options to its employees on 5 May 2023. The closing price for its shares on 4 May 2023 was £3.25.

Requirement:

3) State the minimum exercise price that can be set for the acquisition of a Friendlyco plc share under the Save As You Earn Share Option Scheme, to ensure there is no Income Tax charge at exercise. (1)

4) State the maximum number of Friendlyco plc shares that an employee can acquire under a Company Share Option Plan. (1)

Chase & Co also act for CF plc. CF plc operates its own tax advantaged share option schemes and a number of CF plc's employees have exercised their share options recently:

a) Jane Brown was granted a Save As You Earn Share Option in April 2022 over 500 shares with an exercise price of £2 per share. The option was exercised following her retirement from employment in April 2024.

b) Chase Young was granted a Company Share Option in June 2019 over 1,000 shares with an exercise price of £1.25.

c) Eliya Smith was granted a Company Share Option in January 2022 over 750 shares with an exercise price of £2.25.

The above employees' share options were exercised on 1 May 2024, in accordance with the terms of the relevant share plan rules. On the date of exercise the market value of CF plc's shares was £2.50.

Requirement:

5) Calculate the amount, if any, chargeable to Income Tax for Jane Brown, Chase Young and Eliya Smith on the exercise of each of their options. (3)

Total (15)

7. Last week one of the partners in your firm met with James, an entrepreneur who set up a new company in August 2023. James has previously been advised that the new company meets the requirements to qualify for the Enterprise Investment Scheme (EIS) and would like further details on the tax relief available to the investors in the company.

The shareholders are:

James, who owns 56% of the shares (investing £400,000) and is the managing director;

James's father, Ian, owns 5% of the shares (investing £40,000) and is not employed by the company;

James's brother, Charles, owns 5% of the shares (investing £40,000) and is not employed by the company;

James's friend, Sue, owns 5% of the shares and is employed by the company as a manager (investing £40,000); and

James's friend, Tara, owns the remaining 29% (investing £230,000). She is not employed by the company.

Requirement:

1) **Outline the Income Tax relief available to an individual who invests in qualifying EIS shares.** (3)

2) **Explain the Capital Gains Tax implications of investing in qualifying EIS shares.** (7)

3) **Explain whether each of these investors qualifies for the reliefs discussed above.** (10)

You are not required to discuss the withdrawal of any tax relief given.

Total (20)

8. Ciaron owned 100 shares in Teddy Ltd, a trading company, which he acquired in May 2000 for £10,000. On 15 May 2023 he sold these shares to Scrumpy plc in return for consideration of £400,000. The consideration comprised:

	Value
	£
Cash	100,000
75,000 £1 Ordinary shares in Scrumpy plc	75,000
150,000 £0.50 Preference shares in Scrumpy plc	200,000
£30,000 loan notes in Scrumpy plc	25,000

Advance clearance was obtained from HM Revenue & Customs that paper for paper treatment was available in relation to the disposal.

The loan notes meet the conditions to be treated as Qualifying Corporate Bonds for tax purposes.

Ciaron encashed the loan notes for £30,000 on 15 February 2024 and sold half of the preference shares for £2 per share on 5 April 2024.

Some years ago, Ciaron had bought a Renault Clio for £14,000, with £12,000 of the price being attributable to the personalised number plate 1 TAX. He sold the car in August 2023 for £21,000 with £20,000 being attributed to the number plate.

In March 2023, Ciaron's house was burgled and a valuable painting stolen. The painting had been bought for £7,000 and, in July 2023, the insurance company paid Ciaron £28,000 as market value compensation for the loss. In September 2023 Ciaron spent £15,000 on a painting to replace the one that was stolen.

Ciaron works full time in advertising earning £80,000 per annum.

Requirement:

1) Calculate Ciaron's Capital Gains Tax liability for 2023/24, clearly explaining your treatment of the receipt from the insurance company. (11)

(You should assume that Business Asset Disposal Relief will not be available.)

Ciaron is considering subscribing £260,000 in the autumn of 2024 for 50% of the shares in a new unlisted trading company; the company would provide office cleaning services.

Requirement:

2) Outline the effect that such a subscription could have on Ciaron's 2023/24 Capital Gains Tax liability. (2)

3) Explain whether Income Tax relief is available in respect of the subscription. (2)

Total (15)

9. You are a tax manager at Chase & Co and have received the following e-mail from Rick Brown one of the partners at Chase & Co:

"Last Monday I had a meeting with a new client, Janaki Smith. Janaki has been working in Overseabia for a number of years and returned to the UK in March 2023. Janaki was born in the UK and for tax purposes is resident and domiciled in the UK. Janaki is keen to ensure her tax affairs are in order and in particular is seeking advice in relation to her Capital Gains Tax position. Janaki owns a number of assets in both the UK and Overseabia and has made a number of capital disposals in the tax year 2023/24. I explained the basic rules of Capital Gains Tax to her during the meeting and have agreed to provide a written summary of the matters we covered.

Janaki's husband is Overseabian domiciled and came to the UK with her in March 2023. His assets are mainly in Overseabia and he has not made any disposals since arriving in the UK. Janaki is keen to find out how her husband would be subject to tax in the UK if he were to make any capital disposals. I have agreed to provide her with a summary of the relevant rules.

I have undertaken all the necessary client acceptance requirements and would be grateful if you would prepare a letter for me to send to Janaki."

Requirement:

Write a letter to Janaki explaining:

1) **Which individuals are chargeable to Capital Gains Tax, what is meant by a chargeable disposal, the annual exempt amount and rates of Capital Gains Tax.** (5)

2) **What assets are chargeable to Capital Gains Tax. (Your answer should include six examples of exempt assets.)** (4)

3) **When a chargeable disposal occurs and how any taxable gain is reported.** (3)

4) **Whether she will be liable to Capital Gains Tax in respect of the disposal of her Overseabian assets.** (1)

5) **How any gains made by her husband in respect of his Overseabian assets may be taxed.** (7)

Total (20)

10. Your firm has a new client, Daphne Ralf. Daphne was sent a notice to file a tax return for 2021/22, along with several reminders, which she did not receive as they were sent to her old address. After seeing the television reminders about filing a tax return the following year, Daphne finally submitted her 2021/22 tax return on 28 February 2024, showing an outstanding Capital Gains Tax liability of £10,000 on disposals from her share portfolio. She paid this tax liability at the same time.

Daphne also sent this email yesterday, forwarded to you by your manager, Tom Collins.

"I am buying a rental property and am thinking about putting this in joint names with my husband. He pays Income Tax at a lower rate than me and it will save us Capital Gains Tax when we sell it. Can you very briefly tell me if that is acceptable to the tax authorities? I am worried that they may think it sounds a bit dodgy."

Tom is meeting with Daphne in a few days to discuss her tax position.

Requirement:

1) Explain the penalties which will be incurred by Daphne in respect of the late filing of her tax return and the late payment of tax. (7)

2) Prepare a brief memo for Tom, explaining any tax or ethical issues raised by Daphne's email. (3)

Total (10)

ANSWERS TO LONG QUESTIONS

1. ELLA

1) Income Tax Computation 2023/24

	Non-savings £	Interest £	Dividends £	
Statutory maternity pay (172.48 x 8)	1,380			[½]
Salary (W1)	50,667			
Medical insurance (W2)	547			
Company car (W3)	1,350			
Loan interest (W4)	253			
Mileage allowance (W5)	750			
Building society interest		625		
Bank interest (½ x 374)		187		[1]
Dividends			2,500	
Less: Professional subscription	(475)			[½]
	54,472	812	2,500	
Less: Personal allowance	(12,570)			[½]
Taxable income	41,902	812	2,500	

39,200 @ 20% (W6)	7,840	[½]
2,702 @ 40%	1,081	[½]
41,902		
500 @ 0%	Nil	[½]
312 @ 40%	125	[½]
1,000 @ 0%	Nil	[½]
1,500 @ 33.75%	506	[½]
Tax Liability	9,552	
Less: PAYE deducted at source	(9,000)	[½]
Tax Payable	552	

Meal allowance is tax free as provided to all employees through the staff canteen. **[½]**

> **Tutorial Note:**
>
> It is assumed that the professional subscription is paid to an organisation approved by HMRC.

Workings

W1) 60,800 x 10/12 = 50,667 **[½]**

W2) 656 x 10/12 = 547 **[½]**

> **Tutorial Note:**
>
> The answer assumes that the premiums are paid monthly.
>
> If an annual premium was paid, the full £656 would be taxable in 2023/24. Full credit would be given for this approach as the question is unclear.

W3) Ella's car has CO_2 emissions of 125g/km so the percentage to be applied is

20% + (125 - 75)/5 = 20% + 10% = 30% **[1]**

18,000 x 30% x 3/12 = 1,350 **[1]**

W4) 15,000 x 2.25% x 9/12 = 253 **[1]**

W5) Any mileage allowance provided in excess of the HMRC agreed rates is a taxable benefit. **[½]**

11,000 x 50p	5,500	**[½]**
Less:		
10,000 x 45p	(4,500)	**[½]**
1,000 x 25p	(250)	**[½]**
	750	

W6) Basic rate band is extended to cover the gross gift aid donation

Gross charitable donations 1,200 x 100/80 = 1,500 **[½]**
Revised BRB 37,700 + 1,500 = 39,200 **[½]**

Max 13

2)

Under the tax free childcare scheme operated by the government, parents can set up an online account which is used to pay for approved childcare. **[½]**

Contributions to the account are topped up by the government by 25% **[½]** of the contribution, up to a maximum top up of £2,000 **[½]** per child per annum.

Only one account can be opened for each child. **[½]**

As part of a couple, both must be in paid work, working a minimum of 16 hours per week **[½]**, with net income not exceeding £100,000. **[½]** They must not be part of an employer childcare voucher scheme. **[½]**

It appears that Ella, and her partner satisfy these conditions and so are eligible. **[½]**

Max 3

Total for question 16

2. DOROTHY

Income Tax Computation 2023/24		Non-savings income	Interest	Dividends	
		£	£	£	
Salary		75,000			[½]
Mileage 10,000 miles @ (50p – 45p)		1,125			[½]
2,500 miles @ (50p – 25p)					[½]
Use of asset	(W2)	780			
Acquisition of asset	(W2)	2,090			
Dividends				5,000	[½]
Bank interest			11,250		[½]
REIT (1,800 x 100/80)		2,250			[½]
Property income	(W1)	28,950			
		110,195	11,250	5,000	
Less: Personal allowance	(W3)	(2,472)	-	-	[½]
Taxable income		107,723	11,250	5,000	
Tax					
43,950 (W4) @ 20%		8,790			
63,773 @ 40%		25,509			
107,723					
500 @ 0%		Nil			
10,750 @ 40%		4,300			[2½]
1,000 @ 0%		Nil			
4,000 @ 33.75%		1,350			
		39,949			
Less: Tax relief on interest					
22,000(W1) x 20%		(4,400)			[1]
		35,549			
Less: tax paid at source:					
PAYE		(22,000)			[½]
REIT		(450)			[½]
Income tax payable		13,099			

Workings

W1) Property Income

		Straw Cottage	Tin Hall	Lion House	
		£	£	£	
Rental income received	(12,000/12 x 3 + 10,000/12 x 9)	10,500			[½]
Rental income			4,000		[½]
Rental income received	(34,320/12 x 10)			28,600	[½]
Mortgage interest**		Nil		Nil	[½]
Water rates		(250)	(350)*	(650)	[½]
Council tax			(1,250)*	(2,600)	[½]
Redecorating			(3,800)*	(2,500)	[½]
Repairs to furniture				(750)	[½]
Attic window	(Capital improvement)			Nil	[½]
Bedroom furniture	(Capital as new)			Nil	[½]
Replacement carpets – replacement of domestic items relief				(3,400)	[½]
		10,250	Nil	18,700	
Total				28,950	[½]

* expenses restricted to income received on nominal lease **[1]**
** interest available for relief as tax reducer (10,000 + 12,000) = 22,000

Tutorial Note:

Property income is calculated on the cash basis as gross annual property income does not exceed £150,000.

W2) Use/Acquisition of Equipment

Benefit assessed in	2021/22	20% x 5,200	1,040	
	2022/23	20% x 5,200	1,040	**[½]**
	2023/24	(20% x 5,200) x 9/12	780	**[1]**
			2,860	

Benefit assessed on transfer in 2023/24 is higher of:

MV at acquisition by Dorothy		1,000	**[½]**
Original market value less assessed for use	(5,200 – 2,860)	2,340	**[½]**
Therefore:		2,340	**[½]**
Less: Employee contribution		(250)	**[½]**
		2,090	

W3) Personal Allowance

Standard personal allowance		12,570	**[½]**
Total net income (110,195 + 11,250 + 5,000)	126,445		**[½]**
Less: Gift aid (5,000 x 100/80)	(6,250)		**[½]**
	120,195		
Less: limit	(100,000)		
	20,195		
Less: (50% x 20,195)		(10,098)	**[½]**
		2,472	

W4) Basic Rate Band

Basic rate band	37,700	
Add: Gift aid (5,000 x 100/80)	6,250	**[½]**
	43,950	

Max for question 20

3. JITEN SHAH

Summary

	£
Peaches plc (W1)	23,400
Lease (W3)	10,924
Shares (W4)	30,000
Loss on painting (W5)	(2,000)
	62,324
Less: AEA **[½]**	(6,000)
Chargeable gain	56,324
Less: Capital Loss b/f **[1]**	(10,000)
Taxable gain	46,324
CGT liability:	
46,324 @ 20% **[1]**	9,265

> **Tutorial Note:**
>
> The shares in Peaches plc do not qualify for business asset disposal relief as Jiten has never worked for the company.
>
> The shares acquired by way of the Save as You Earn share option scheme do not qualify for business asset disposal relief as Jiten does not own at least 5% of the company's shares nor has he held them for 2 years.

Workings:

W1) Shares in Peaches plc

S.104 holding

	No. of shares	Cost £	
March 2000	1,000	3,000	**[½]**
August 2005 rights issue (2/1 x 1,000 shares @ £4)	2,000	8,000	**[1]**
	3,000	11,000	
December 2014 Bonus issue (2/3 x 3,000 shares)	2,000	Nil	**[½]**
	5,000	11,000	
Sale May 2023 (3,000/5,000 x £11,000) **[1]**	(3,000)	(6,600)	
C/fwd	2,000	4,400	

	£	
Proceeds	30,000	
Less: Cost	(6,600)	
Chargeable gain	23,400	**[½]**

W2) VCT shares

Gain exempt on first £200,000 acquired per tax year. **[1]**

> **Tutorial Note:**
>
> There is no minimum holding period for the gain to be exempt

W3) Lease

	£
Sale proceeds	65,000
Less: Cost	
% 23 yrs 5 months / % 30 yrs x 60,000	
78.708 (Note)/87.330 **[½]** x 60,000	(54,076)
Chargeable gain	10,924

Note

% 23 yrs 5 months = 78.055 + 5/12 (79.622 – 78.055) = 78.708 **[1]**

W4) Employer company shares

	£
Proceeds	40,000
Less: Cost (1 x 10,000) **[½]**	(10,000)
Chargeable gain	30,000

W5) Painting

	£
Deemed proceeds (non wasting chattel) **[1]**	6,000
Less: Cost	(8,000)
Allowable loss	(2,000)

Total for question 10

4. MINA

1)

The taxable benefits are as follows:

	£	
Removal expenses (W1)	2,000	
Living accommodation: annual value	12,000	**[½]**
Expensive living accommodation charge (W2)	5,625	
Use of assets (W3)	2,800	
Company Car (W4)	5,655	
Fuel benefit (W5)	6,047	
Total taxable benefits	34,127	
Income Tax payable @ 45%	15,357	**[½]**

Workings

W1)

Qualifying removal expenses of up to £8,000 are exempt from tax. The excess of £2,000 is taxable (£10,000 paid, less £8,000). **[1]**

W2)

Expensive living accommodation (where property has a cost to the employer of more than £75,000) gives rise to an additional tax charge. This is calculated as (£325,000 – £75,000) x 2.25% (the official rate of interest). **[1]**

W3)

The private use of assets belonging to the employer gives rise to taxable benefit calculated as 20% of the cost of the assets per year, ie £14,000 @ 20% = £2,800. **[1]**

W4)

Company car benefit calculated as:

Car benefit % (100 – 75)/5 = 5 + 20	25%	
Add diesel supplement	4%	
Benefit (£26,000 x 29%)	£7,540	**[1½]**
Available for 9 months (£7,540 x 9/12)	£5,655	**[1]**

W5)

Fuel benefit: £27,800 x 29% x 9/12	£6,047	**[1½]**

Total 8

2)

Mina's employer will have to pay Class 1A NIC on these benefits. **[½]**

There is no national insurance charge for Mina. **[½]**

Total 1

3) **[½ each]**

Any six from:

- names of employer and employee
- date employment began and date on which employee's period of "continuous employment" began
- details of remuneration including intervals at which it is paid
- terms and conditions relating to hours of work, holidays and holiday pay
- information on where rules on health and safety may be found
- length of notice required on either side
- period of employment (if not indefinite)
- job title or description of work to be undertaken and any probationary period
- place of work
- any collective agreements that affect the terms of employment and any training required for the job
- details of currency in which remuneration will be paid, additional remuneration & terms and conditions relating to return to UK if employee is required to work outside the UK for more than one month

Max 3

[Essential Law for Tax Practitioners - Chapter 11.5]

Total for question 12

5. HAYLEY

1)

A property is classed as a Furnished Holiday Letting if it is:

- in the UK or EEA **[½]**
- furnished **[½]**
- available for commercial letting to the public, as holiday accommodation, for at least 210 days a year **[1]**
- commercially let as holiday accommodation for at least 105 days a year **[1]**

and periods of longer-term occupation do not exceed 155 days. **[½]**

Longer-term occupation is a continuous period of more than 31 days. **[½]**

Total 4

2)

Income tax computation 2023/24

	£	
Employment income		
- salary	230,000	**[½]**
- car benefit (W1)	6,480	
- car fuel (W2)	7,506	
- mobile phone (W3)	Nil	
- clothing allowance (W4)	3,600	
FHL income (W5)	Nil	
Total income	247,586	
Less: Personal allowance (W6)	Nil	
Taxable Income	247,586	
77,700 (W7) @ 20%	15,540	**[½]**
87,440 @ 40%	34,976	**[½]**
165,140		
82,446 @ 45%	37,101	**[½]**
247,586	87,617	
Add: Annual Allowance Charge (W8)	7,894	
Less: PAYE	(84,000)	**[½]**
Income tax payable	11,511	

Workings

W1) Car Benefit

(110 –75) / 5 = 7 + 20 = 27%		**[1]**
24,000 x 27%	£6,480	**[½]**

W2) Fuel Benefit

27,800 x 27%	£7,506	**[1]**

W3)

Mobile phone is exempt from tax **[½]**

W4)

Clothing allowance is taxable in full

300 x 12	£3,600	**[1]**

W5) Furnished Holiday Letting

Rental income	18,500	**[½]**
Less:		
Utility bills & insurance	(6,450)	**[½]**
Council Tax	(1,200)	**[½]**
Repairs	(8,700)	**[½]**
Capital expenditure on furniture for a FHL (cash basis)	(8,000)	**[½]**
Loss	(5,850)	

This loss can only be carried forward and offset against future income from the furnished holiday letting. **[½]**

W6) Personal Allowance

Net income	246,911	
Less: Personal Pension contribution (32,000 x 100/80)	(40,000)	
Adjusted net income	206,722	**[½]**

Exceeds £125,140 so no PA available **[½]**

W7) Basic rate band

Basic rate band	37,700	
Pension contribution (100/80 x 32,000)	40,000	**[½]**
	77,700	
Higher rate band	125,140	
Pension contribution (100/80 x 32,000)	40,000	
	165,140	**[½]**

W8) Pension Savings

Annual Allowance tax charge:

Pension Savings in Year:

Employer Contributions (230,000 x 15%)	34,500	**[½]**
Employee Contributions (32,000 x 100/80)	40,000	**[1]**
Total Pension Savings	74,500	

Available Annual Allowance:

Threshold income (247,586 – 40,000) (exceeds £200,000)	207,586		[½]
Net income	247,586		
Add Employer pension contributions	34,500		
Adjusted income	282,086		[½]
Less	(260,000)		
Excess income	22,086		
2023/24 Annual Allowance		60,000	[½]
Less: Restriction (1/2 x 22,086)		(11,043)	[½]
Tapered annual allowance		48,957	
Unused b/f		8,000	[½]
Total Allowance		56,957	

Annual Allowance Tax Charge

(74,500 – 56,957) @ 45%	7,894	[1]

Tutorial Note:

Although employer pension contributions are generally a tax free benefit they do use up the Annual Allowance and where the Annual Allowance is exceeded the employee suffers an Annual Allowance charge as above.

Max 16

Total for question 20

6. FRIENDLY CO PLC

1)

- Under a Save as You Earn Share Option Scheme an employee is granted an option, which is conditional on the employee entering into an approved savings arrangement. **[1]**
- An employee is required to save a fixed amount up to £500 per month for a 3 or 5 year contract. **[1]**, **[1]**
- The accumulated savings can be withdrawn together with a tax-free bonus (which is currently nil) at the end of the savings period. **[1]**
- The number of shares under option is calculated by reference to the expected proceeds of the savings arrangement (including the bonus). **[1]**
- The exercise price cannot be less than 80% of the market value of the shares at the date of invitation to participate. **[1]**
- All UK resident employees and full-time directors must be invited to participate in an offer under a Save as You Earn scheme. **[1]**
- Normally a Save as You Earn option cannot be exercised before the savings plan matures and the employee has six months from this date in which to exercise the option. **[1]**
- There is no income tax liability on the grant of options. **[1]**
- Providing the option is exercised at least three years from the date of grant there will be no income tax on exercise. **[1]**

[Credit will be given for any other relevant points]
Max 5

2)

- Under a Company Share Option Plan a participant is given the right to purchase shares at a specified time in the future at a price set at the outset. **[1]**
- A company whose shares are placed under option is normally listed on a recognised stock exchange. However, an unlisted company can implement a scheme provided it is free from the control of another company. **[1]**
- Options can only be granted to employees and full-time directors, but they do not have to be offered to all employees or directors. **[1]**
- The exercise price for the shares must not be less than their market value at the date of grant. **[1]**
- The maximum value of shares that any one employee can hold under an unexercised option is £60,000. **[1]**
- There is no income tax liability on the grant of options. **[1]**
- Providing the option is exercised between 3 and 10 years from the date of grant there will be no income tax on exercise. **[1]**

[Credit will be given for any other relevant points]

Max 5

3) The exercise price cannot be less than 80% of the market value of the shares on the date of grant **[½]** therefore £2.60. **[½]**

Total 1

4) The maximum number of shares that can be acquired must not exceed a market value of £60,000 **[½]** therefore £60,000/£3.25 = 18,461 shares. **[½]**

Total 1

5) Jane Brown – the option is exercised within three years of grant but as her employment terminates due to retirement, the option can be exercised within six months of termination with no tax on exercise. **[1]**

Chase Young – the option is exercised more than three years from the date of grant **[½]** and therefore no tax arises on exercise. **[½]**

Eliya Smith – the option is exercised within three years of grant and therefore income tax arises on the option gain **[½]** £1,875 – £1,688 = £187. **[½]**

Total 3

Total for question 15

7. JAMES

1) <u>General Rules – Income Tax Relief</u>

- Maximum investment qualifying for relief £1 million **[½]**
- The limit is £2 million where at least £1 million is invested in knowledge-intensive companies **[½]**
- 30% tax relief on amount of qualifying investment as tax reducer **[½]**
- Can reduce IT liability to nil, excess relief cannot be repaid **[½]**
- Relief can be carried back to previous tax year, provided limit in that year is not exceeded **[½]**
- Cannot be 'connected' with EIS company (ie broadly cannot be an employee **[½]** (including an existing paid director) or hold > 30% shares together with your associates) **[½]** [ss.166,167 & 170 ITA 2007]

Max 3

2) <u>General Rules – Capital Gains Tax Relief</u>

- Gains arising on the sale of qualifying shares are not chargeable to CGT if held for three years before disposal **[1]** and the individual was entitled to income tax relief on the subscription **[½]**
- Loss relief is available on shares disposed of at a loss:
  - The capital loss is reduced by any income tax relief retained **[1]**
  - Can elect to offset the loss against net income of year of disposal, or against net income of prior year instead of using the loss against capital gains **[1]**
  - The loss is always allowable regardless of how long the shares have been held **[1]**
- EIS Reinvestment Relief (a form of capital gains deferral) is available even if income tax relief was not available: **[½]**
  - Unlimited gains may be deferred **[½]**
  - Gain deferred can be on any kind of asset **[1]**
  - Reinvestment in qualifying EIS shares must be within one year before or three years after the original gain arose **[1]**
  - Can specify the amount of relief required (ie to preserve annual exempt amount) **[1]**
  - The gain to be deferred is frozen and crystallises in the year:
    - (i) sale of the EIS shares occurs, **[1]** or
    - (ii) EIS shares cease to be eligible shares **[½]**

Max 7

3)

	Income Tax	Capital Gains Tax
James	• No income tax relief as James owns > 30% and also because he is employed by the company **[1 for either reason]**	• CGT EIS Reinvestment Relief available **[½]** • Gains/Losses on EIS shares taxed as for normal shares **[½]**
Ian	• No income tax relief as associated with son & joint shareholding > 30% **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains/Losses on EIS shares taxed as for normal shares **[½]**
Charles	• Income tax relief available as a brother is not an associated person for EIS purposes **[½]** • Income tax reducer available in respect of £40,000 investment. Max relief of £40,000 @ 30% = £12,000 **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains on EIS shares not chargeable to CGT if held ≥ 3 years **[½]** • Loss relief available for EIS shares even if owned < 3 years **[½]**
Sue	• No income tax relief as employed by company **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains/Losses on EIS shares taxed as for normal shares **[½]**
Tara	• Income tax relief available • Income tax reducer available in respect of £230,000 investment. Max relief of £230,000 @ 30% = £69,000 **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains on EIS shares not chargeable to CGT if held ≥ 3 years **[½]** • Loss relief available for EIS shares even if owned < 3 years **[½]**

Max 10

Tutorial Note:

s.253 ITA 2007 gives the definition of who an individual's 'associates' are for the purposes of calculating the individual's shareholding in the EIS company.

An 'associate' includes an individual's 'spouse or civil partner, ancestor or lineal descendant'. Therefore, James's father is an associate, but his brother is not.

Total for question 20

8. CIARON

1) Allocation of base cost on takeover

	Value of consideration	Percentage of consideration	Allocate base cost in same proportion	
	£	%	£	
Cash	100,000	25%	2,500	**[1]**
75,000 £1 Ordinary shares in Scrumpy plc	75,000	18.75%	1,875	**[1]**
150,000 £0.50 Preference shares in Scrumpy plc	200,000	50%	5,000	**[1]**
£30,000 loan notes in Scrumpy plc	25,000	6.25%	625	**[1]**
	400,000	100%	10,000	

Immediate gain on cash element:

	£	
Proceeds	100,000	
Less: Cost	(2,500)	
Gain	97,500	**[1]**

Encashment of loan notes

No charge on the increase in the value of the loan notes from £25,000 to £30,000. **[1]**

Crystallisation of the gain frozen on the takeover:

	£	
Proceeds	25,000	
Less: Cost	(625)	
Gain	24,375	**[1]**

Sale of half the preference shares

	£	
Proceeds – 75,000 x £2	150,000	**[1]**
Less: Cost – ½ x £5,000	(2,500)	
Gain	147,500	**[1]**

Renault Clio

The car is an exempt asset and not subject to CGT. **[½]**

The disposal of the personalised number plate is a chargeable disposal:

	£	
Proceeds	20,000	
Less: Cost	(12,000)	
Gain	8,000	**[1]**

Painting

The date of disposal for CGT purposes is the date on which the insurance proceeds are received. **[½]**

As Ciaron has reinvested in a replacement asset within 12 months of the receipt of the insurance proceeds, the immediately chargeable gain is limited to the amount of the proceeds not reinvested.

Insurance proceeds not reinvested = 28,000 – 15,000 = £13,000 **[1]**

CGT Summary

Gains	£
Cash on takeover	97,500
Encashment of loan notes	24,375
Sale of half the preference shares	147,500
Disposal of the personalised number plate	8,000
Insurance proceeds on painting	13,000
Chargeable gains	290,375
Less: Annual exempt amount **[½]**	(6,000)
Taxable gains	284,375

CGT:

284,375 @ 20% **[½]**	56,875

Tutorial Note:

The gain arising in respect of the cash element of the consideration may qualify for business asset disposal relief depending on whether Ciaron worked for the company. However, in the requirement you are specifically told to assume business asset disposal relief will not be available. Make sure you always follow the Examiner's instructions.

2)

If Ciaron were to subscribe £260,000 into the new company and that company was successful in claiming EIS status **[½]**, £260,000 of the 2023/24 gains could be held over against the EIS investment **[1]**, thereby reducing his CGT liability for 2023/24 by £52,000 **[½]**.

3)

No income tax relief would be available **[1]** as Ciaron would be considered to be connected with the company by reason of owning more than 30% of the share capital. **[1]**

Max for question 15

9. JANAKI SMITH

Advisor name and address
Date

Client name
Client address

Dear Janaki

UK CAPITAL GAINS TAX

Further to our meeting last week I have outlined the matters we discussed which will hopefully provide you with a useful summary.

1) <u>The charge to Capital Gains Tax</u>

Individuals who are UK resident **[½]** are subject to Capital Gains Tax (CGT) on all of their chargeable disposals. **[½]**

Non-UK residents are only subject to CGT on the disposal of:

- UK residential property and UK commercial property **[½]**;
- shares in companies whose interests in UK land make up at least 75% of its gross assets. **[½]**

Chargeable disposals include:

- the sale of an asset or part of an asset **[½]**
- the gift of part or all of an asset **[½]**
- the receipt of insurance proceeds on the loss or destruction of an asset **[½]**.

Most individuals are eligible for an annual exempt amount, which is £6,000 for 2023/24 **[½]**. The annual exempt amount is deducted from the total chargeable gains in order to arrive at the figure of taxable gains for the year. **[½]**

Taxable gains are treated as the 'top slice' of income **[½]**. Normally gains falling within the basic rate band are subject to tax at 10% **[½]** and any amounts above the basic rate band are subject to tax at 20% **[½]**. However, gains on the disposal of residential property are taxed at 18% and 28%, not 10% and 20%. **[½]**

Max 5

2) <u>Assets chargeable to Capital Gains Tax</u>

All assets are chargeable to Capital Gains Tax unless they are specifically exempted by legislation **[1]**.

Examples of exempt assets include:

- motor vehicles **[½]**;
- betting and lottery winnings **[½]**;
- medals (unless purchased) **[½]**;
- foreign currency **[½]**;
- wasting chattels (chattels with an estimated life of 50 years or less, such as racehorses) **[½]**;
- non-wasting chattels if the gross proceeds and costs are both £6,000 or less **[½]**.

[Any six from the legislation – ½ each]

Max 4

3) <u>When a chargeable disposal arises and how a taxable gain is reported</u>

Generally, a chargeable disposal occurs on the date of contract **[½]**. If the contract is conditional, the date of disposal is the date the condition is met. **[½]**

If you dispose of a UK residential property and make a taxable gain, the disposal must be reported to HMRC on an online property return **[½]** within 60 days of completion of the disposal **[½]**. The disposal will also need to be reported on your self-assessment return **[½]**.

All other taxable disposals should be reported on your self-assessment tax return for the tax year in which the disposal is made **[½]**. Alternatively, they can be reported using an online real-time return anytime up to 31 December following the tax year of disposal. **[½]**

Max 3

4) <u>Disposal of Overseabian assets</u>

As you are UK tax resident you will be liable to Capital Gains Tax on any gains made on the disposal of your worldwide assets. **[1]**

Total 1

5) <u>Your husband's Capital Gains Tax position</u>

As your husband is Overseabian domiciled he may be able to use the remittance basis of taxation. **[½]**

If the remittance basis applies, any gains arising on the disposal of your husband's Overseabian assets **[½]** will only become chargeable to capital gains tax when the gains are remitted to (ie brought into) the UK. **[½]**

Your husband will be automatically taxed on the remittance basis **[½]** if:

- he has unremitted income and gains below £2,000 **[½]** or
- he has no UK income or gains; **[½]** (or has only UK investment income of not more than £100); **[½]** and makes no remittances of foreign income or gains **[½]**; and either:
  - has been resident for not more than 6 out of the last 9 years **[½]**; or
  - is under 18! **[½]**.

If your husband does not meet the above criteria it will be necessary for him to make a claim **[½]** for every year in which he wants to be assessed on a remittance basis. **[½]**

Once your husband has been resident for at least seven of the past nine years he will also need to pay a remittance basis charge in order to use the remittance basis **[½]**, currently £30,000 per annum. **[½]**

This will increase to £60,000 once he has been resident for 12 out of the past 14 years **[½]**. Once he has been resident for 15 out of the past 20 years he will be treated as UK domiciled (ie deemed domiciled) and will no longer be able to use the remittance basis. **[½]**

Non-UK domiciled individuals who claim to be taxed on the remittance basis are not entitled to an annual exempt amount. **[1]**

If your husband does not make a claim, he will be subject to capital gains tax on the disposal of his worldwide assets as they arise. **[½]**

Max 7

If you have any questions or need any further information, please do not hesitate to contact me.

Yours sincerely
Rick Brown

Total for question 20

10. DAPHNE RALF

1) Late filing penalty

The penalty is calculated as follows:

- Initial penalty: failure to submit a tax return by the initial deadline (ie 31 January 2023 if filing electronically) will lead to an automatic penalty of £100. **[½]** This is payable even if no tax is due **[½]**

- More than 3 months late: if the tax return is still outstanding after 3 months the fine may increase by £10 for each day **[½]** it remains overdue, up to a maximum of £900; **[½]** Daphne could therefore be fined the maximum of £900 for being more than 3 months late **[½]**

- More than 6 months late: the fine increases by a further £300 or by 5% of the tax due if higher. **[½]** She will therefore receive a penalty of £500 (ie 5% of the tax due) for being more than 6 months late **[½]**

- More than 12 months late: the fine increases by another £300 or by 5% of the tax due if higher. **[½]** A second charge of £500 therefore applies for being more than 12 months late. **[½]**

The maximum total penalty for the late filing of the tax return is £2,000. **[½]**

Tutorial Note:

When calculating the additional penalties due where a return is more than 6 months and more than 12 months late, the penalty rate of 5% is applied to the net liability to tax of the year, taking into account tax deducted at source. The net liability is not reduced by any amount that has been paid towards this liability.

It is assumed in this question that any income tax liability has been met by tax deducted at source.

Late payment penalty

In addition to the penalties above, Daphne also incurs penalties for being late with her tax payment.

A penalty of:

- 5% of the tax due **[½]** is charged as the tax payment is more than 30 days late (£500) **[½]**

- plus a further 5% as more than 6 months late (£500) **[½]**

- plus a third surcharge of 5% as the tax payment is more than 12 months late (£500). **[½]**

Total penalty of £1,500 **[½]**

Daphne will also be charged interest on all late payments **[½]** at the rate set by HM Revenue & Customs at the time, as well as interest on the various penalties from the time they were payable. **[½]**

Max 7

Tutorial Note:

Strictly, the second late payment penalty is due if tax is unpaid more than 5 months after the first late payment penalty, ie more than 5 months and 30 days after the due date. Similarly, the third penalty is due if tax is unpaid more than 11 months after the first late payment penalty. However, credit was given for stating they were due if tax was outstanding more than 6 months and 12 months after the due date.

2) Memo to Tom Collins

Tax and ethical issues

The proposed joint ownership may reduce the couple's overall income tax liability as Daphne's husband pays tax at a lower rate than Daphne. **[½]**

Regardless of their actual shares in the property, as they are husband and wife the income will be split 50:50. So each will be taxed on 50% of the rental income. **[½]**

As long as this is a genuine gift **[½]** of the property then this is a legal method **[½]** of reducing their combined tax liability and is not tax evasion. **[½]**

There would need to be an outright gift of a share of the property to Daphne's husband to effect a genuine transfer of ownership. **[½]**

On a future sale, the proceeds of sale and any capital gain would be split with Daphne's husband, which may also save CGT on a future sale. **[½]**

However, this advice is with regard to Daphne's tax position, as we do not act for her husband. **[1]**

Max 3

Tutorial Note:

If for example, Daphne chose to transfer 95% of the property to her husband, then because they are husband and wife, the rental income will still be split 50:50. However, it is possible to make an election to split income in accordance with their beneficial entitlement. Then Daphne would be taxed on 5% of the rental income and her husband on 95%.

Total for question 10