Tolley® Exam Training

ATT PAPER 1

PERSONAL TAXATION

PRE REVISION QUESTION BANK

FA 2019

May and November 2020 Sittings

PQ761
ATT

Tax intelligence from LexisNexis®

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 FA 2019).

This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

Format of the exam

All the ATT exams are **3¼ 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.

Part I is printed as a **question and answer booklet** with each short form question (SFQ) at the top on the left hand side of the page – the rest of that page and the whole of the next page will be lined paper for you to write your answer to that SFQ. This booklet will be **green.**

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.

The Part II questions will be printed separately and there will be a Part II answer booklet which will be **orange** with lined paper for you to write your answers in.

Pre exam reading time

The initial 15 minutes of the exam are pre examination reading time (PERT). During this time you are permitted to **read and annotate the questions for Part II only** and read the legislation**,** but you **may not write in the orange answer booklet for Part II** and you **may not read/annotate the green question and answer booklet for Part I.**

Calculators may be used during this 15 minute period. There will be an announcement at the end of the 15 minutes reading time after which you may start writing in the answer booklets.

During the 3 hour writing period we recommend you initially **allocate 1.7 minutes per mark** to allow time for a final review stage at the end of each question.

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 **write the answers out** yourself.

Writing "proper" answers also gives you a good idea of how long an exam standard answer will take you to write.

Reviewing your answers

It is essential to read through your answer when you have finished writing it. 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 our 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? You want those red ticks to be flowing freely onto your page!

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

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. We have also included some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions is good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law text book "Essential Law for Tax Practitioners" (5th edition) that are included in the Paper 1 syllabus are:

Chapter 7	Criminal Law and Tort
Chapter 8	The Law of Property
Chapter 9	Land Law
Chapter 12	Employment and Other Working Relationships
Chapter 14	The Law of Persons and Family Law

Ethics:

The chapters from the ATT/CIOT Ethics text book "Professional Responsibilities and Ethics for Tax Practitioners" (5th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)

Chapter 4	New clients and engagement letters
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 (2019)

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 D: Request for data by HMRC
Chapter 25	Help sheet E: Members' personal tax affairs

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ATT EXAMINATIONS
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INCOME TAX

	2019/20
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	7.5
Dividend upper rate	32.5
Dividend additional rate and trust rate for dividends	38.1

Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,500
Higher rate band	37,501 – 150,000
Dividend Allowance	2,000
Personal 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 – 2,049	19
2,050 – 12,444	20
12,445 – 30,930	21
30,931 – 150,000	41
150,000 +	46

Reliefs	£
Personal allowance (Note 3)	12,500
Married couple's allowance (Note 4)	8,915
– Maximum income before abatement of relief - £1 for £2	29,600
– Minimum allowance	3,450
Transferable tax allowance for married couples and civil partners (Note 5)	1,250
Blind person's allowance	2,450
Enterprise investment scheme relief limit (Relief at 30%) (Note 6)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	100,000
Social investment relief limit (Relief at 30%)	1,000,000

Notes
(1) Welsh taxpayers pay Welsh income tax on non-savings income from 6 April 2019. For 2019/20, 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) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
(5) 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.
(6) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

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ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	4,368

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note)	**Lifetime allowance**	**Minimum pension age**
	£	£	
2019/20	40,000	1,055,000	55

Note The annual allowance is tapered by £1 for every £2 of adjusted income above £150,000 for individuals with threshold income above £110,000. It cannot be reduced below £10,000.

ITEPA mileage rates

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

Note For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2019/20

	Car benefit % (Note)	
Emissions		
0 – 50g/km	16%	
51 – 75g/km	19%	
76 – 94g/km	22%	
95g/km or more	23%	+ 1% for every additional whole 5g/km above 95g/km
165g/km or more	37%	

Fuel benefit base figure £24,100

Note 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard.

Taxable benefits for vans – 2019/20	**£**
Van benefit – No CO_2 emissions	2,058
Van benefit – CO_2 emissions > 0g/km	3,430
Fuel benefit	655

Childcare

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

Note 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.

2019/20 Official rate of interest 2.5%

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STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans
Plan 1 (loan taken out pre 1.9.12 or at any time if taken out in Scotland)

Employee earnings threshold at which repayment begins is £1,577 per month.

Plan 2 (loan taken out in England and Wales on/after 1.9.12)

Employee earnings threshold at which repayment begins is £2,143 per month.

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

Postgraduate Loans
Employee earnings threshold at which repayment begins is £1,750 per month.

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

STATUTORY SICK PAY

		Weekly rate
Year to 5 April 2020		**£**
Average weekly gross earnings	£118.00 or more	94.25

STATUTORY MATERNITY PAY

Period	**First 6 weeks**	**Remaining weeks**
From 6 April 2019	90% average weekly earnings	Lower of 90% of weekly earnings & £148.68

QUALIFYING CARE RELIEF

	Flat rate	**Placement < 11**	**Placement ≥ 11**
Year to 5 April 2020	£10,000 per year	£200 per week	£250 per week

CHILD BENEFIT

Year to 5 April 2020

Rates	**Weekly rate**
First child	£20.70
Each subsequent child	£13.70

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

HARMONISED INTEREST REGIME – HMRC INTEREST RATES

Late payment	3.25%
Underpaid corporation tax instalments	1.75%
Repayment	0.5%

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits		**2019/20**	
	Annual	**Monthly**	**Weekly**
Lower earnings limit (LEL)	£6,136	£512	£118
Primary threshold (PT)	£8,632	£719	£166
Secondary threshold (ST)	£8,632	£719	£166
Upper earnings limit (UEL)	£50,000	£4,167	£962
Upper secondary threshold for U21 (UST) (Note 1)	£50,000	£4,167	£962
Apprentice upper secondary threshold for U25 (AUST) (Note 2)	£50,000	£4,167	£962

	2019/20
Employment allowance	
Per year, per employer	£3,000
Class 1 primary contribution rates	
Earnings between PT and UEL (Note 3)	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 1 & 2)	13.8%
Other contribution limits and rates	
Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.00 pw
Small profits threshold	£6,365 pa
Class 3 contributions	£15.00 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£8,632
Annual upper profits limit (UPL)	£50,000
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

Notes (1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

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

(3) The married women's reduced rate payable with a valid reduced rate election is 5.85%

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SIMPLIFICATION MEASURES

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

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 (Notes 3 & 4)	6%
WDA on structures and buildings allowance (SBA) (Note 5)	2%

Notes (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019 to 31 December 2020 (£200,000 prior to 31 December 2018 and from 1 January 2021).

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

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

(4) The special pool rate was 8% prior to 6 April 2019 (1 April 2019 for companies).

(5) The SBA rate of 2% applies to expenditure from 29 October 2018 on new qualifying non-residential structures and buildings on a straight-line basis.

First year allowances available to all businesses

1) New energy-saving plant and machinery and water efficient plant and machinery (until April 2020).
2) Capital expenditure incurred by a person on research and development.
3) New zero-emission goods vehicles (until April 2021).
4) New cars registered before 31 March 2021 if the car either emits not more than 50 g/km of CO_2 or it is electrically propelled.
5) Electric vehicle charging points expenditure incurred from 23 November 2016 until April 2023.

CORPORATION TAX

Financial year	**2019**	**2018**
Patent box	10%	10%
Main rate	19%	19%

Research and development expenditure

SMEs (Note)	230%
Large companies - RDEC	12%

Note Small and medium sized enterprises (SMEs) must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

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VALUE ADDED TAX

Standard rate	20%
VAT fraction	1/6

Limits	**From 1.4.19**
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

INHERITANCE TAX

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

Note A lower rate of IHT of 36% applies where 10% of more of the deceased person'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 2021	£325,000

Residence nil rate bands (Note)

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 2021	£175,000

Note 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

	2019/20
Annual exempt amount	£12,000

CGT rates for individuals (Notes 1 & 2)

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

CGT Rate for PRs

All gains (Note 5)	20%

Entrepreneurs' relief

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 entrepreneurs' relief/investors' relief first.

(3) The remaining basic rate band is calculated as £37,500 (2019/20) less taxable income less any gains on which entrepreneurs' relief 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

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 “A”
(40 MARKS)

1. Jessica currently owns 6,000 Hardman plc shares. Her transactions in these shares have been as follows:

26 June 2017	Bought 10,000 shares for £1.20 each.
16 February 2020	Sold 8,000 shares for a total of £15,000.
10 March 2020	Bought 4,000 shares for £2.00 each.

Calculate the net chargeable gain arising in 2019/20 on Jessica's disposal of Hardman plc shares. (3)

2. In July 2019 Harvey sold his 100% shareholding in Specter Ltd, an unquoted trading company, to his daughter, Rachel. Harvey had subscribed for the £1,000 share capital at par twenty years ago. He has never been an officer or employee of the company. As at the date of sale, the value of the shareholding was £1 million but Rachel only paid £100,000. Specter Ltd holds no non-business assets.

Calculate the chargeable gain arising on this disposal and the base cost of the shareholding in Rachel’s hands, assuming that Harvey takes advantage of any reliefs available to him. (3)

3. The Statutory Residence Test is used to determine whether an individual is resident in the UK or overseas.

State the three tests that are used to determine whether an individual is classed as automatically overseas resident. (3)

4. Louis filed his 2018/19 tax return in paper form on 4 May 2020, having been issued with it on 5 April 2019.

State the penalties to which Louis is potentially subject. (3)

5. Before accepting an appointment in place of another tax adviser, an ATT member should obtain professional clearance from the outgoing adviser.

State the objectives of obtaining this clearance according to the Association of Taxation Technicians’ Professional Rules and Practice Guidelines. (3)

6. Daniel bought some land in 2014 for £30,000. He had intended to build a cycling track on the land, but he was unable to obtain planning permission. On 12 June 2019, when the whole plot was worth £75,000, he sold part of the land for £14,000. This was Daniel’s only disposal of land in the year and the remaining land was worth £65,000. In addition, he made some disposals of shares resulting in gains of £12,000.

Explain how and why Daniel can minimise the tax payable in 2019/20 as a result of this disposal and the consequences of doing so. You are not required to calculate the gain. (3)

7. Rajesh is provided with a house to live in by his employer, Gardner Ltd. The company acquired the property in 2001 at a cost of £80,000 and it has an annual value of £2,500. The property was worth £400,000 on 6 April 2019 and £300,000 when first made available to Rajesh in May 2016.

   Calculate the taxable benefit arising from the provision of the property for 2019/20. (2)

8. Karev Ltd provided Sonja, an employee, with a low interest loan of £18,000 on 5 July 2019. Sonja repaid £2,000 of the loan on 5 January 2020 and paid interest of £100 on the loan during 2019/20.

   Calculate the taxable benefit arising from the provision of the loan for 2019/20. (4)

9. Peter died on 26 June 2019. In his will he left a pecuniary legacy of £100,000 to his daughter, Grace, and the balance of his estate to his wife, Alicia.

   Income of £75,000 arose on Peter's estate in the period from his death to 5 April 2020. This came from rents received, interest on building society accounts and dividends from UK shares.

   On 17 January 2020, the executor of Peter's Will made an income distribution of £60,000 to Alicia.

   Explain whether Alicia and Grace will be subject to Income Tax on the income arising within Peter's estate in 2019/20 and, if so, briefly explain how the assessable amount will be calculated. (2)

10. Eli is UK resident but non-domiciled. He maintains a bank account with Gold Bank in Spain and with Lithium Bank in London. The Gold Bank account was opened in 2015 and received just the dividend income from his non-UK investment portfolio. During 2019/20, he made the following payments from each account:

    <u>Gold Bank account</u>

    a) Paid off a credit card that had been used to make purchases in the UK.

    b) Paid the Remittance Basis Charge direct to HM Revenue & Customs.

    c) Transferred funds into his Lithium Bank account.

    <u>Lithium Bank account</u>

    d) Paid off a credit card that had been used to make purchases overseas.

    Identify whether or not each of the above transactions represents a taxable remittance of income by Eli to the UK. You should ignore the impact of any double tax agreements. (2)

11. Kalinda acquired 100% of the share capital of Cary Ltd in 2007 for £25,000. On 23 May 2019, Florrick plc purchased Kalinda's shareholding in return for:

    a) £1 million in cash.

    b) 250,000 £1 ordinary shares in Florrick plc, valued at £5 each.

    c) A £2 million loan note, paying interest at 5% p.a. and redeemable in Sterling or US Dollars in instalments up to 2023. The loan note was valued at a 5% discount to par.

    Calculate Kalinda's chargeable gain in 2019/20 as a result of the takeover. (3)

12. Following on from the previous question, Kalinda redeemed 25% of her loan notes in Sterling in March 2020.

    Calculate the chargeable gain arising on the redemption of Kalinda's loan notes in March 2020. (2)

13. In May 2016, Diane, an additional rate taxpayer, subscribed for EIS shares in Lockhart Ltd and claimed EIS Income Tax relief. Lockhart Ltd has not been successful and on 11 June 2019 Diane sold her shares, realising a capital loss.

    Explain the ways in which Diane could relieve this loss and identify which is likely to be the most tax efficient. (3)

14. Donna owns shares in Paulsen plc, a UK Real Estate Investment Trust, and has also made a loan to Paulsen plc. During 2019/20 Paulsen plc made the following net payments to Donna:

    a) A dividend of £20,000 out of tax-exempt property income.

    b) A dividend of £15,000 out of tax-exempt property gains.

    c) A dividend of £10,000 out of other profits.

    d) An interest payment of £18,000 on the loan made by Donna to Paulsen plc.

    Calculate the gross amounts assessable on Donna for 2019/20 in respect of each of these payments. (2)

15. An individual can be in receipt of a number of different social security payments, including:

    a) Jobseeker's allowance

    b) Council Tax benefit

    c) Disability living allowance

    d) Employment and support allowance

    State whether or not each of these benefits is taxable. (2)

TEST "A"
ANSWERS

1. Initially she is treated as selling the 4,000 shares bought in the following 30 days: *[½]*

		£	
Proceeds	½ x £15,000	7,500	*[½]*
Less: Cost	4,000 x £2.00	(8,000)	*[½]*
Loss		(500)	

Then she is treated as selling 4,000 of the shares bought in June 2017: *[½]*

Proceeds	½ x £15,000	7,500	*[½]*
Less: Cost	4,000 x £1.20	(4,800)	*[½]*
		2,700	
Net gain		2,200	

Total 3

2.

Capital gain on Harvey's disposal

	£	
Proceeds (market value)	1,000,000	
Less: Cost	(1,000)	
Gain	999,000	*[1]*
Less: Gift relief	(900,000)	
Gain = Harvey's excess proceeds (100,000 – 1,000)	99,000	*[1]*

Rachel's base cost

Cost	1,000,000	
Less: Gift relief	(900,000)	
Base cost	100,000	*[1]*

Total 3

3.

- Resident in the UK for at least one of the preceding three tax years *[½]* and spend fewer than 16 days in the UK in the current tax year *[½]*
- Resident in the UK for none of the three tax years preceding the tax year *[½]* and spend fewer than 46 days in the UK in the tax year *[½]*
- Work full time overseas *[½]* during the tax year and spend fewer than 91 days in the UK in the tax year, *[½]* of which fewer than 31 days are spent working in the UK *[½]*.

Max 3

(FA 2013 Sch 45 para 12-14 or RDR 3 para 1.5-1.7)

4. Penalties for late filing of tax return:

£100 *[½]* for missing the 31 October 2019 *[½]* deadline

£10 per day for being more than 3 months late *[½]* up to a maximum of 90 days *[½]*

5% of tax due for filing more than 6 months late *[½]*, or £300 if greater. *[½]*

Total 3

5. To ensure that:

- The incoming adviser is fully aware of all factors that may be relevant to acceptance of the appointment and the effective handling of the client’s tax affairs. *[1]*
- The incoming adviser is fully aware of all factors that may have a bearing on ensuring full disclosure of all relevant facts to HMRC. *[1]*
- The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period. *[1]*

Total 3

6. Daniel can make a claim by 31 January 2022 *[½]* to treat the disposal as a small part disposal of land as a result of which:

- He will pay no tax on the gain in 2019/20 *[½]*
- The £14,000 proceeds will be deducted from his base cost on a future disposal of the land *[½]*.

This claim is possible because:

- The proceeds do not exceed 20% of the value of the land *[½]*; and
- The total proceeds of all land sales *[½]* in the year do not exceed £20,000 *[½]*.

Total 3

7.

<u>Accommodation benefit</u>		£	
Annual value		2,500	*[½]*
Additional yearly rent	2.5% *[½]* x (300,000 *[½]* – 75,000 *[½]*)	<u>5,625</u>	
		<u>8,125</u>	

Total 2

8.

Loan benefit		£	
Average method	(18,000 + 16,000)/2 x 2.5% x 9/12	319	*[1]*
Strict method	(6/12 x 2.5% x 18,000) *[1]* + (3/12 x 2.5% x 16,000) *[1]*	325	

Sonja would not elect for the strict method to apply and HMRC unlikely to insist as no significant distortion of the benefit

Benefit	319	*[½]*
Less: Interest paid	(100)	*[½]*
Taxable	219	

Total 4

9. Grace will not be subject to income tax in relation to her pecuniary legacy. *[½]*

Alicia will only be subject to income tax on distributions actually made to her in the year. *[½]*

The income distribution to Alicia will be deemed to come from net rental income before interest income and finally from dividends. *[½]*

The income received will be grossed up by the basic rate of tax if it derives from property income or interest. If it is derived from dividends it will be grossed up by 100/92.5. *[½]*

Total 2

10.

Transaction	Remittance?
Gold account	
Paid off a credit card that had been used to make purchases in the UK	Yes *[½]*
Paid the Remittance Basis Charge direct to HMRC	No *[½]*
Transferred funds into his Lithium Bank account	Yes *[½]* – a direct remittance
Lithium account	
Paid off a credit card that had been used to make purchases overseas	No *[½]*

Tutorial Note:

The Lithium account is a UK asset, so interest in respect of it is taxable on an arising basis

Total 2

11.

23 May 2019 transaction

	Value of proceeds		Allocation of base cost of Cary Ltd shares		Immediate gain
	£		£		£
Cash	1,000,000	*[½]*	6,024	*[1]*	993,976
£1 ordinary shares in Florrick plc	1,250,000	*[½]*	7,530		-
£2m Loan Note	1,900,000	*[½]*	11,446		-
	4,150,000		25,000		993,976

Chargeable gain only arises on the cash *[½]*

Total 3

Tutorial Note:

The loan notes are non-QCBs as redeemable in a foreign currency – they are therefore chargeable assets. The 'paper for paper' rules therefore apply on takeover in exactly the same way as for shares. In addition, a disposal of the non-QCB will give rise to a capital gain or loss – see question 12.

12. March 2020 redemption

		£	
Redemption proceeds	2,000,000 x 25%	500,000	*[1]*
Cost	11,446 x 25%	(2,862)	*[1]*
		497,138	

Total 2

13. The capital loss can be relieved:

- Against capital gains of 2019/20 if any, *[½]* saving tax at 20% (28% if against residential property gains). *[½]*

- And then against capital gains of future years, *[½]* saving tax at 20% (28% against residential property) and with a cash flow delay. *[½]*

Alternatively:

- Against net income of 2019/20 or 2018/19 *[½]* – likely to be most tax efficient *[½]* as it will save tax at 45%, rather than 20% (or 28%). *[½]*

Max 3

14.

		£	
Dividend from tax-exempt property income	20,000 x 100/80	25,000	*[½]*
Dividend from tax exempt property gains	15,000 x 100/80	18,750	*[½]*
Dividend from other profits	10,000	10,000	*[½]*
Loan interest	18,000 x 100/80	22,500	*[½]*
Total		76,250	

Tutorial Note:

Income paid from tax-exempt property income and gains on the disposal of investment properties is treated as UK property income in the hands of a UK REIT's shareholders. Such income is received by investors net of 20% tax.

Loan interest paid by UK companies to individual shareholders is paid net of 20% tax.

Total 2

15.

Benefit	Taxable?	
Jobseeker's allowance	Yes	*[½]*
Council Tax benefit	No	*[½]*
Disability living allowance	No	*[½]*
Employment and support allowance (contributory)	Yes	*[½]*

Tutorial Note:

S.660 and s.677 ITEPA 2003

Contributory Employment and support allowance is taxable and Income related Employment and support allowance is non-taxable so credit should be given for either explanation here.

Total 2

PAPER 1
TEST “B”
(40 MARKS)

1. Abigail sold 500 £1 ordinary shares in Bighand plc to her son on 15 March 2020 for £600. Bighand plc is quoted on the London Stock Exchange. On 15 March 2020 the shares were quoted at 149p – 153p per share. Abigail had acquired the shares at par on 15 March 2015.

   Calculate Abigail’s chargeable gain for Capital Gains Tax purposes. (3)

2. On 7 June 2019, Lucas withdrew all of the shares held on his behalf in his employer’s Share Incentive Plan (SIP). Lucas had received the following share awards under the terms of the SIP:

   a) 100 free shares awarded on 6 April 2014;
   b) 500 free shares awarded on 6 April 2017;
   c) 400 partnership shares awarded on 6 April 2015; and
   d) 200 matching shares awarded on 6 April 2016.

   Explain the Income Tax implications of the withdrawal of each of the above share awards from the SIP. (4)

3. Leon purchased 2,000 shares in a Venture Capital Trust in May 2017 for £67,000 and sold the shares for £107,000 in May 2019. During 2019/20, Leon also sold other assets which resulted in chargeable gains of £24,000 and he also had capital losses brought forward at the beginning of 2019/20 of £2,000.

   Calculate Leon’s taxable gain for 2019/20. (2)

4. In July 2014, Henry purchased 8,000 shares in Rabbett plc for £2,000. In August 2016, he bought a further 11,000 shares for £3,850. In September 2017, Rabbett plc announced a 1 for 4 rights issue at 75p per share and Henry took up the rights in full. In May 2019, Henry sold 4,000 shares for £3,000 and, in February 2020, he sold a further 15,000 shares for £12,750.

   Calculate Henry’s chargeable gains for 2019/20. (4)

5. Ellis purchased a house on 1 September 2004. He let the property until the end of April 2009, when he started to live in the house as his main residence. On 30 April 2019, Ellis sold the house. Ellis has never owned any other properties.

   Explain the Capital Gains Tax reliefs available in respect of the sale of the house. Assume that there are no deemed periods of occupation. (3)

6. On 2 February 2019, Jon separated from his wife Bella and moved out of their matrimonial home. The decree absolute was granted on 15 October 2019. On 17 July 2019, Bella sold shares to Jon for £20,000. She had acquired the shares on 12 July 2016 for £12,500. On 17 July 2019, the shares were worth £30,000. On 18 September 2019, Jon sold a holiday cottage to an unconnected third party for its market value of £175,000. Bella had transferred the cottage to Jon in March 2012 for nil consideration, although at that time it was worth £75,000. Bella had originally inherited the cottage from her aunt in December 2010, when the probate value was £40,000. Neither Jon nor Bella had occupied the cottage as their main residence.

   Briefly explain how the transfers between Bella and Jon will be treated for Capital Gains Tax purposes and calculate the chargeable gains arising in 2019/20. (3)

7. Wendy filed her 2018/19 self-assessment tax return online on 29 September 2020 and paid the balance of her Income Tax on the same day.

   Explain the penalties that Wendy may incur in respect of the late filing of her return and the late payment of Income Tax. (4)

8. Employees can provide for their retirement by paying into an occupational pension scheme if one is offered by their employer.

   Explain how tax relief is obtained by an employee for contributions to an occupational pension scheme and the maximum contribution that can be made by an employee for 2019/20 for which tax relief will be available. (3)

9. Raymond earns £5,000 in a part-time job at his local supermarket. His wife, Marsha, is an executive assistant earning £32,850. This is their only income in 2019/20.

   Calculate Marsha’s income tax liability for 2019/20 if Raymond makes a marriage allowance election. (2)

10. During 2019/20 Sarah received net income of £22,000 from a discretionary trust, of which she is a beneficiary, and pension income of £900 per month.

    Calculate the Income Tax repayable to Sarah for 2019/20. (3)

11. Chase owned 5,500 shares in Bounce Ltd, which represented a 55% shareholding. Chase purchased the shares for £85,000 in September 2008. In May 2019 Chase gave 2,000 shares to her sister Eva. In July 2019 Chase gave the remainder of her shareholding to Eva. At the date of both disposals, the value of a 55% shareholding was £225,000, a 35% shareholding was £95,000 and a 20% shareholding was £85,000.

    Calculate Chase’s chargeable gains on the above disposals. (3)

12. Happytimes Ltd has recently gone through a difficult trading period and has decided to make Emily redundant. Before leaving, Emily had a basic salary of £24,000 per annum and was paid monthly. Her employment contract specified a 1 month notice period although her employer terminated her employment immediately. She received the following termination package in 2019/20:

	£
Statutory redundancy pay	3,500
Non contractual termination payment	25,000
Payment for holiday accrued but not taken before termination	1,750

Explain the extent to which Emily's termination package is subject to Income Tax. (3)

13. Popular & Co, a firm of tax advisers, acts for Hardup Ltd. One of the partners of Popular & Co has had a telephone conversation with Douglas, a shareholder in Hardup Ltd, who also wants Popular & Co to act for him.

Explain what steps must be taken in accordance with the Association of Taxation Technicians' Professional Rules and Practice Guidelines if Popular & Co is to act for both Hardup Ltd and Douglas. (3)

TEST "B"
ANSWERS

1. Connected parties so deemed market value disposal (s.18 TCGA 1992) *[1]*

	£	
Deemed proceeds (W)	755	
Less: Cost (£1 x 500)	(500)	*[1]*
Gain	255	

Working:

Average value: (149p + 153p)/2 =	151p	*[1]*
Total disposal proceeds: 500 x 151p =	£755	

Total 3

2.

a) The free shares have been held for more than 5 years, so there is no income tax on their withdrawal *[½]*

b) The free shares have been held for less than 3 years *[½]*, so income tax will be due on the market value of the shares on the date they were withdrawn from the SIP *[½]*

c) The partnership shares have been held for more than 3 years but less than 5 years *[½],* so income tax will be due on the lower of the salary used to purchase the shares *[½]* and the market value of the shares on the date they were withdrawn from the SIP *[½]*

d) The matching shares have been held for more than 3 years but less than 5 years *[½],* so income tax will be due on the lower of the value of the shares at the date of award *[½]* and the market value of the shares on the date they were withdrawn from the SIP *[½]*

Max 4

3.

	£	
Gain on the VCT shares is exempt		*[1]*
Other gains	24,000	
Less: Current year capital losses	(2,000)	*[½]*
	22,000	
Less: Annual exempt amount	(12,000)	*[½]*
Taxable gain	10,000	

Total 2

4. Share pool

Date	Shares	Cost	
		£	
July 2014	8,000	2,000	
August 2016	11,000	3,850	
	19,000	5,850	*[½]*
September 2017 (1:4 rights issue @ 75p)	4,750	3,563	*[½]*
	23,750	9,413	
Less: Sale in May 2019	(4,000)	(1,585)	*[1]*
	19,750	7,828	
Less: Sale in February 2020	(15,000)	(5,945)	*[1]*
Carried forward at 5 April 2020	4,750	1,883	

Disposal: May 2019

	£	
Proceeds	3,000	
Less: Cost	(1,585)	
Gain	1,415	*[½]*

Disposal: February 2020

	£	
Proceeds	12,750	
Less: Cost	(5,945)	
Gain	6,805	*[½]*

Total 4

5. As Ellis occupied the house as his main residence *[½]* he will be entitled to claim Principal Private Residence relief *[½]* in respect of any periods of occupation.

As the house was let for a period of his ownership he will also be able to claim letting relief *[½]* for the period in which the house was let.

Letting relief will be available on the lower of:

- £40,000 *[½]*,
- the amount of the gain subject to PPR *[½]* and
- the amount of the gain attributable to the letting period *[½]*

Total 3

6. Sale of shares

As the disposal took place after the end of the tax year of separation but before the divorce, Jon and Bella will be connected and so the transfer will take place at market value *[½]*

	£	
Deemed proceeds	30,000	*[½]*
Less: Cost	(12,500)	*[½]*
Gain	17,500	

Sale of holiday cottage

When the transfer from Bella to Jon took place they were married and therefore the land was transferred on a nil gain/nil loss basis. *[½]*

	£	
Sale proceeds	175,000	*[½]*
Less: Cost (probate value)	(40,000)	*[½]*
Gain	135,000	

Total 3

7. Late filing penalty

As the tax return is more than 6 months late she may have to pay **all** of the following:

- £100 fixed penalty *[½]*;
- £900 penalty – this is £10 each day *[½]* from 1 May to 29 July, when the maximum 90 day penalty is reached *[½]*; and
- £300 or 5% of the tax due *[½]* - whichever is the higher *[½]*

Late payment penalties

5% of the tax unpaid *[½]* at 30 days after the due date; and *[½]*
5% of the tax unpaid at 6 months after the due date *[½]*

Tutorial Note:

Strictly, the second late payment penalty is due 5 months after the first late payment penalty, ie 5 months and 30 days after the due date. However, credit was given for stating it was due 6 months after the due date.

Total 4

8. Contributions are deducted from the employee's gross income before PAYE is applied and shown as a deduction from salary in the income tax computation *[½].* Therefore, tax relief is obtained at source *[½].*

The maximum contribution in any year is the higher of 100% of relevant earnings *[½]* and £3,600 *[½]*

However, total pension inputs (ie contributions to all schemes) are subject to an annual allowance, which is £40,000 in 2019/20 *[½]*

The 2019/20 annual allowance of £40,000 may be tapered down where threshold income exceeds £110,000 and adjusted income exceeds £150,000. It cannot be reduced below £10,000 *[½]*

Any unused annual allowance for the previous three years may be carried forward *[½]* and used to increase the amount of annual allowance available.

Max 3

9.

	£	
Employment income	32,850	
Less: PA	(12,500)	*[½]*
Taxable income	20,350	
20,350 @ 20%	4,070	*[½]*
Less: Tax reducer		
Marriage allowance: £1,250 @ 20% (W)	(250)	*[1]*
Tax liability	3,820	

W) Marriage allowance

As Raymond has income of £12,500 or less, and Marsha does not pay tax above the basic rate, he should make a claim to reduce his personal allowance and transfer that amount to Marsha.

The amount he can transfer for 2019/20 is £1,250, leaving him with a personal allowance of £11,250.

Total 2

10.

	£	
Trust income (£22,000 x 100/55)	40,000	*[1]*
Pension income (£900 x 12)	10,800	*[½]*
Total income	50,800	
Less: Personal allowance	(12,500)	*[½]*
Taxable income	38,300	
Tax thereon	£	
37,500 @ 20%	7,500	
800 @ 40%	320	*[½]*
Less: Tax credit		
Trust income (40,000 x 45%)	(18,000)	*[½]*
Tax repayable	(10,180)	

Total 3

11. May 2019 disposal

	£	
Deemed proceeds (2,000/5,500) x £225,000	81,818	*[1]*
Less: Cost (2,000/5,500) x £85,000	(30,909)	*[1]*
Gain	50,909	

July 2019 disposal

	£	
Deemed proceeds £(225,000 – 81,818)	143,182	*[½]*
Less: Cost £(85,000 – 30,909)	(54,091)	*[½]*
Gain	89,091	

Tutorial Note

Chase has made a 'series' of disposals to the same connected person, within six years of one another. The capital gain on each disposal is therefore calculated using the appropriate proportion of the aggregated market value of the shares transferred.

S.19 TCGA 1992

Total 3

12.

a) Statutory redundancy pay – This is taxable under s.401 ITEPA 2003 *[½].* It will not suffer income tax as it does not exceed £30,000 *[½]*

b) Non contractual termination payment – The Post-employment notice pay (PENP) element of this payment (£2,000 per month x 1) is taxable as normal earnings *[½]*. The rest of the payment (£25,000 – £2,000) will be taxable under s.401 *[½].* It will not suffer income tax as it does not exceed the balance of the £30,000 exemption (after taking into account the statutory redundancy pay) *[½]*

c) Accrued holiday pay – As this payment is contractual it will be taxable in the normal way *[½]*

Total 3

13. There is potential for a conflict of interest *[½]*

Both parties have to be advised of the potential conflict *[½]* and given the opportunity to consider whether they want Popular & Co to act for them. *[½]*

If both parties agree that Popular & Co may act for them both, there must be adequate disclosure of all facts *[½]* to enable both parties to formulate proper business judgments. *[½]*

No preference must be shown in advising one against the other. *[½]*

It may be necessary to maintain ethical safeguards within the firm *[½]* such as appointing a separate team to act for each client *[½]* in any future transaction concerning them both.

Max 3

PAPER 1
TEST "C"
(40 MARKS)

1. Ethel sold an antique mirror for £7,500, which she had bought the previous year for £2,500.

   Calculate Ethel's capital gain on disposal. (2)

2. Jonas was born in the UK and had always been UK resident and domiciled until 2011. In that year he left the UK and emigrated to Thailand, where he acquired a domicile of choice in 2014. He has recently returned to the UK to work for three years and is UK resident for 2019/20 under the statutory residence test. He does not intend to resume his UK domicile.

   Serge was born, and had always been resident and domiciled, in France until the 2005/06 tax year when he became UK resident. He has remained UK resident since then but has not acquired a UK domicile of choice.

   1) Explain whether Jonas and Serge will be deemed domiciled in the UK in 2019/20. (3)

   2) Explain the Income Tax and Capital Gains Tax treatment of deemed domiciled individuals. (1)

3. The liability of an individual to UK Income Tax depends on where they are resident for tax purposes.

   Explain the extent to which an individual who is not UK resident is liable to UK Income Tax. (3)

4. **Explain which periods of absence from an individual's only or main residence may be eligible for principal private residence relief.** (4)

5. Florence is 58 years old and has income from a cleaning job of £14,670 and bank interest of £4,000 in 2019/20.

   Calculate Florence's Income Tax liability for 2019/20. (3)

6. **State the dates by which a 2019/20 tax return must be submitted to HM Revenue & Customs if the notice to submit a tax return was issued on:**

   1) 6 April 2020.
   2) 9 August 2020.

   (2)

7. Anthea has filed her 2018/19 tax return and paid the balance of her Income Tax eight months late.

   Explain the maximum penalties that Anthea will incur in respect of the late filing and late payment. (4)

8. In 2019/20 Taylah's total income consisted of £21,100 of UK earned income and £4,000 (gross) of overseas interest, in respect of which overseas tax of £1,200 was paid. Taylah is 48 and is both resident and domiciled in the UK.

   Calculate the Income Tax payable by Taylah on the basis that there is no double tax treaty in place with the overseas country. (4)

9. Trevor is employed by Wrench Ltd as a plumber and in 2019/20 had employment income of £40,000. He has recently also started a part time job in a shop earning £15,000 per year**.**

   Briefly explain the impact of the second job on Trevor's liability to pay Class 1 National Insurance Contributions. (Calculations are <u>not</u> required.) (3)

10. Sam bought a set of antique cutlery for £40,000 and sold a part of it for £25,000 in 2019/20. The value of the remainder of the set at the time was £45,000. During 2019/20, Sam also sold an antique painting for £8,000 that she had bought for £30,000.

    Calculate Sam's capital gains for 2019/20 and identify any capital losses available to carry forward. (4)

11. On 1 August 2019, Kaia sold 10,000 shares in Bubble plc to her son Andrew for £10,000. She had bought the shares in January 2008 for £2.50 per share.

    On 1 August 2019, the shares were quoted at 335p – 339p.

    Calculate, with brief explanations, Kaia's capital gain on the disposal. (4)

12. In 2019/20, Henry sold the following holdings of company loan stock:

    1) £100,000 of loan stock in XY plc, 8% paid annually, cum-dividend of 56 days interest.

    2) £100,000 of loan stock in MN plc, 7% paid annually, ex-dividend of 15 days interest.

    Explain the impact of the Accrued Income Scheme on these disposals and calculate the adjustments. You should perform calculations on a daily basis, rather than to the nearest month. (3)

TEST "C"
ANSWERS

1.

		£	
Actual gain:	Proceeds	7,500	
	Less: Cost	(2,500)	
	Gain	5,000	*[½]*

Capital gain not to exceed £(7,500 – 6,000) x 5/3 = £2,500 *[1]*

Therefore, the capital gain is £2,500 *[½]*

Total 2

2.

1) Jonas will be UK deemed domiciled *[½]* because he is a "formerly domiciled resident", ie:

- he was born in the UK *[½]*
- he had a UK domicile of origin *[½]*
- he is UK resident for 2019/20. *[½]*

Serge will not be UK deemed domiciled *[½]* as he does not satisfy the definition of a "long-term resident", as he will only have been UK resident for 14 previous tax years in 2019/20. *[½]*

Once he has been resident for 15 out of the previous 20 tax years he will be treated as deemed domiciled for UK tax purposes. *[½]*

Max 3

2) Deemed domiciled individuals are treated in the same way as UK domiciled individuals for UK tax purposes, *[½]* ie they are taxed on their worldwide income and gains as they arise *[½]* and cannot take advantage of the remittance basis for their overseas income and gains. *[½]*

Max 1

Total 4

3. Non-residents have no UK income tax exposure on their non-UK source income. *[½]*

   UK sources of income, such as employment income and property income, are taxable on the arising basis. *[½]*

   Interest on FOTRA securities, such as Treasury Stock, is not taxable. *[1]*

   A non-UK resident's income tax liability is limited to the tax deducted (or treated as deducted or paid) in respect of disregarded income (i.e. savings and dividend income) plus tax in respect of other UK income, but ignoring the personal allowance. *[1]*

   Alternatively, a non-resident individual may elect to be taxed on all UK income with personal allowances given, where applicable. *[1]*

   Tutorial Note

   FOTRA securities and disregarded income for non-residents are not core topics. If you did not make reference to these points in your answer you would still have gained 1 of the 3 available marks by making the first two straightforward points which you could have written down quickly saving you time for the other questions.

   Max 3

4. The periods of absence that may be eligible for relief are:

   - Absences when a home is first purchased, whilst alterations or decorations are carried out, if occupation is within 12 months of purchase. This may be extended to two years in exceptional circumstances. *[1]*

   - Final 18 months of ownership. *[½]*

   - Working away from home:

     a) For any period where in employment outside the UK *[½]*

     b) For periods of not more than 4 years whilst working elsewhere (including self-employment). *[½]*

     The property should be occupied before and after the absence unless employment still requires the individual to work away from home. *[1]*

   - Periods of absence of up to 3 years in total, for any reason. Again, the property should be occupied before and after the absence. *[½]*

   Total 4

5. Florence:

		Non-Savings	Interest	
		£	£	
Total income		14,670	4,000	[½]
Less: Personal allowance		(12,500)		[½]
Taxable income		2,170	4,000	
Tax thereon:				
Non-Savings	2,170 @ 20%	434		[½]
Interest	2,830 @ 0%	-		[½]
Interest	1,000 @ 0 %	-		[½]
Interest	170 @ 20%	34		[½]
Total tax liability		468		

Total 3

6. 1)

- Paper tax return due by 31 October 2020 *[½]*
- Online filing by 31 January 2021 *[½]*

2)

- Paper tax return due by later of 9 November 2020 and 31 October 2020, ie 9 November 2020 *[½]*
- Online tax return due by later of 9 November 2020 and 31 January 2021, ie 31 January 2021 *[½]*

Total 2

7. Late filing penalty: over six months late so she may have to pay all of the following:

- £100 fixed penalty *[½]*
- £900 penalty – this is £10 each day for a maximum of 90 days. *[1]*
- £300 or 5% of the tax due – whichever is the higher *[1]*

Late payment penalties:

- 5% of the tax unpaid at 30 days (the penalty date), and *[1]*
- 5% of the tax unpaid at 5 months after the penalty date *[½]*

Total 4

8.

	Non Savings	Interest	
	£	£	
UK earned income	21,100		
Foreign interest (gross)		4,000	
Total income	21,100	4,000	
Less: Personal Allowance	(12,500)	(-)	
Taxable Income	8,600	4,000	
Tax: 8,600 @ 20%		1,720	*[1]*
1,000 @ 0%		-	*[½]*
3,000 @ 20%		600	*[½]*
		2,320	
Double Tax Relief (W)		(600)	
IT payable		1,720	

Working:

Tax Liability excluding foreign income:		
UK earned income	21,100	
Less: Personal Allowance	(12,500)	
Taxable Income	8,600	
Tax thereon: 8,600 @ 20%	1,720	*[1]*
DTR is lower of:		
Foreign tax paid	1,200	*[½]*
Marginal tax on foreign income (£2,320 - £1,720)	600	*[½]*

Tutorial Note:

Candidates will receive equal credit for calculating the UK tax on the overseas income as 1,000 x 0% + 3,000 x 20% = 600.

Total 4

9. The NICs on each employment are calculated separately. *[½]*

However, this will result in Trevor paying more than someone earning the same in total from only one employment. *[½]*

Where there are multiple employments, there is a maximum amount of NIC payable. *[½]*

There is a limit on the amount of earnings that are subject to NIC at 12%. *[½]*

Earnings above this limit are charged at 2%. *[½]*

Any amounts paid above this maximum can be reclaimed. *[½]*

Alternatively, a deferment can be obtained to avoid overpaying contributions at the 12% rate in respect of one of the employments. *[½]*

Max 3

10.

Cutlery:	£	
Proceeds	25,000	*[½]*
Less: Cost (below)	(14,286)	
Chargeable Gain	10,714	

The part of the cost apportioned to the disposal is:

£40,000 x £25,000/(£25,000 + £45,000)	£14,286	*[1½]*

Painting:	£	
Proceeds	8,000	*[½]*
Less: Cost	(30,000)	*[½]*
Loss	(22,000)	

Summary:		
Gain	10,714	
Loss	(22,000)	
No chargeable gains for 2019/20		*[½]*
Loss to carry forward	(11,286)	*[½]*

Total 4

11. Connected parties so deemed market value (MV) disposal (s.18 TCGA 1992), ie ignore actual proceeds and use MV *[1]*

		£	
Deemed Proceeds	(10,000 x 3.37)	33,700	*[1]*
Less: Cost	(10,000 x 2.50)	(25,000)	*[1]*
Gain		8,700	

Value at date of gift is the average of the bid and offer (ask) spread prices:
ie (335p + 339p)/2 = 337p *[1]*

Total 4

12. Under the accrued income scheme, the interest for the period which spans the date of sale is apportioned up to and from that date. *[1]*

The adjustments for Henry's sales are therefore:

1) XY plc: £100,000 x 8% x 56/365 =£1,227 *[½]*

2) MN plc: £100,000 x 7% x 15/365 =£(288) *[½]*

The adjustment for the XY plc stock will be treated as taxable income for Henry. *[½]*

The adjustment for the MN plc stock will be treated as a rebate and deducted from Henry's next interest receipt. *[½]*

Total 3

PAPER 1
TEST “D”
(40 MARKS)

1. Jessica has been granted some share options under the Enterprise Management Incentives scheme.

   1) Explain the Income Tax implications of the grant and subsequent exercise of a qualifying share option granted under the Enterprise Management Incentives scheme. (3)

   2) Explain the Capital Gains Tax implication of the subsequent sale of the shares. (1)

2. Harry and Freya have two children, Alex who is seven and Rosie who is 16. Harry and Freya both have an Individual Savings Account (ISA) and have heard that children can also have ISAs.

   Explain whether Alex and Rosie can have:

   1) an ISA, and/or

   2) a Junior ISA.

   (3)

3. Chase purchased an antique bracelet in September 2014 which cost her £22,500. In October 2019 she lost her bracelet whilst on holiday and received £41,000 from the insurance company in December 2019. In January 2020 she bought a replacement bracelet for £35,000 and made a claim to rollover the gain.

   Calculate Chase’s capital gain for 2019/20 and the base cost of the new bracelet.
   (3)

4. Sarah left the UK on 1 November 2019 to live in Overseabia. Prior to 2019/20, Sarah had always been UK resident. Throughout 2019/20, Sarah held a bank account in Overseabia.

   Briefly outline the circumstances in which 2019/20 could be a split year of residence for Sarah and explain the taxation of any Overseabian bank interest if it is a split year. (3)

5. Lucas received a salary of £105,000 from his employment during 2019/20. Lucas exercised a non-tax advantaged share option during the year, under which he acquired 30,000 shares for an exercise price of £1.50 per share. The market value of the shares on the date of grant was £2.50 and the market value on the date of exercise was £4.50. Lucas had no other income.

   Calculate Lucas’ Income Tax liability for 2019/20. (3)

6. Julian is employed by JC Ltd and paid monthly. During 2019/20 he received from his employer:

   1) £30,000 salary
   2) Private health insurance costing the employer £1,050
   3) 100 shares in JC Ltd worth £2 each. There is no current market for the shares.
   4) A £5,000 bonus paid in December.

   Show how much of the above receipts are included in the calculation of earnings for Class 1 National Insurance contributions and briefly explain how the Class 1 primary National Insurance Contributions are calculated. (4)

7.
   1) Explain what a Venture Capital Trust is. (1)

   2) State two conditions which must be met for a company to qualify as a Venture Capital Trust. (2)

8. Poppy and Douglas are married, have two children and receive child benefit for both of them. Poppy currently works and earned £10,000 during 2019/20. For 2019/20, Douglas earned £59,000 and paid net personal pension contributions of £6,000.

   Calculate the high income child benefit charge payable by Douglas for 2019/20. (4)

9. On 5 January 2019 Chyler separated from her husband Jack, and moved out of their matrimonial home. The decree absolute was granted on 22 September 2019. On 8 June 2019 Chyler sold an original water colour to Jack for £18,000 and at that time the market value of the painting was £25,000. She had paid £16,000 for the painting in May 2010.

   On 10 August 2019 Chyler sold a piece of land to Bob, an unconnected person, for £57,000. She had originally acquired the land from Jack on 7 April 2014. The market value of the land at that time was £30,000. Jack had originally acquired the land for £21,000 on 29 September 2012.

   Briefly explain how each gain will be treated for Capital Gains Tax purposes and calculate the capital gains for Chyler in respect of her disposals for 2019/20. (3)

10. Employees who are provided with a company car are subject to Income Tax on the car benefit. This benefit is calculated by applying a percentage to the list price of the company car.

    Explain how the list price of a company car is determined. (3)

11. On 22 January 2006 Jessica acquired a 40 year lease for £48,000. On 21 January 2020 she granted a 12 year sub-lease over the whole property for a premium of £39,000.

    Calculate Jessica’s capital gain for 2019/20. (4)

12. Ricky purchased shares in Happytimes Ltd in 1993. In 2017 the company lost one of its major contracts and eventually it was liquidated on 15 May 2018. Ricky did not find out about the liquidation until 7 June 2019.

    Explain the tax years for which Ricky may be able to make a negligible value claim in respect of these shares. (3)

TEST "D"
ANSWERS

1. There is no income tax charge on the grant of an EMI option. *[½]*

   If the EMI option was granted with an exercise price equal to or in excess of the market value of the shares on the date of grant *[½]* there will be no income tax charged on the exercise of the option. *[½]*

   If the option was granted at a discount (the exercise price is less than the market value at the date of grant), *[½]* income tax will be charged on the exercise of the option on the lower of:

   - The discount (the difference between the market value of the shares at the date of grant and the exercise price) *[½]*

   - The difference between the market value of the shares at the date of exercise and the exercise price. *[½]*

   On the sale of the shares, a capital gain will arise based on the difference between the disposal proceeds and the exercise price plus any amount charged to income tax on exercise. *[1]*

Total 4

2.
   1) As Rosie is 16 she can hold an 'Adult' Cash ISA *[½]*.

      Alex is under 16 and cannot hold an 'Adult' ISA *[½]*.

   2) As Alex is UK resident he is able to hold a Junior ISA *[½]* providing he does not already have a Child Trust Fund *[½].*

      Harry or Freya (or anyone who has parental responsibility for Alex) *[½]* can open a Junior ISA on his behalf.

      Rosie can hold a Junior ISA herself. *[½]*

Total 3

3. <u>Gain on loss of bracelet (disposal date December 2019)</u>

	£	
Proceeds	41,000	*[½]*
Less: Cost	<u>(22,500)</u>	*[½]*
	18,500	
Less: Gain deferred (£18,500 – (£41,000 – £35,000))	<u>(12,500)</u>	*[1]*
Chargeable gain	<u>6,000</u>	

<u>Base cost of new bracelet</u>

Price paid	35,000	*[½]*
Less: Gain deferred	<u>(12,500)</u>	*[½]*
Revised base cost	<u>22,500</u>	

Total 3

4. 2019/20 will be a split year of residence for Sarah if she is UK resident in that year *[½]* and any of the following cases apply:

Case 1: she starts full-time work overseas *[½]*
Case 2: she is the partner of someone starting full-time work overseas *[½]*
Case 3: she ceases to have a home in the UK *[½]*

Any Overseabian bank interest received whilst Sarah is UK resident will be taxable in the UK *[½]* but any interest received when she is not UK resident will not be taxable in the UK. *[½]*

Tutorial Note:

The legislation is very helpful for questions involving the Statutory Residence Test. See either RDR3 Section 5 or FA 2013, Schedule 45 paras 43, 44, 45 and 46. Note that you are not required to know the detailed conditions for each case.

Total 3

5.

Employment income:	£	
Salary	105,000	
Share options (30,000 x (4.50 – 1.50))	90,000	*[½ + ½ + ½]*
Less: personal allowance (fully abated)	(Nil)	*[½]*
Taxable income	195,000	

Tax thereon:

37,500 @ 20%	7,500	
112,500 @ 40%	45,000	*[1]*
45,000 @ 45%	20,250	
Total tax liability	72,750	

Total 3

6.

	Earnings for Class 1 NIC	
	£	
Salary	30,000	*[½]*
Private Health Insurance	Nil	*[½]*
Shares (Not a readily convertible asset)	Nil	*[½]*
Bonus	5,000	*[½]*

For 11 months of the year Class 1 primary NIC will be paid at 12% on the salary that exceeds the monthly primary threshold of £719. *[1]*

In December 2019 Julian’s earnings will exceed the monthly upper earnings limit of £4,167. Earnings between the primary threshold and the upper earnings limit will suffer NIC at 12%. Earnings in excess of the upper earnings limit are subject to NIC at the rate of 2%. *[1]*

Total 4

7. A VCT is a company whose ordinary shares are traded on a regulated market *[½]*. A regulated market includes the UK Stock Exchange and an appropriate European exchange. *[½]*

Any two of the following:

- Income from a VCT must be derived wholly or mainly from shares or securities
- At least 80% of the VCT’s investments must be in qualifying companies
- No more than 15% of a VCT’s funds can be invested in any one company
- At least 70% of the qualifying holdings must be in the form of eligible shares
- A VCT must distribute at least 85% of its profits by way of dividends to its shareholders

[Credit is given for all relevant points made – 1 each to a maximum of 2]

Tutorial Note:

The conditions which need to be met for a company to qualify as a VCT are clearly listed in ITA 2007, s.274.

Total 3

8.

	£	
Net income	59,000	
Less: Gross pension contributions (6,000 x 100/80)	(7,500)	
Adjusted net income	51,500	*[1]*
Less: Child benefit charge threshold	(50,000)	*[½]*
Excess	1,500	

Percentage clawback = 1,500/100 x 1% = 15% *[1]*

Child benefit received (20.70 + 13.70) x 52 = 1,789 *[1]*

Charge at 15% = £268 *[½]*

Total 4

9. Sale of painting

As the disposal took place after the end of the tax year of separation but before the divorce, Chyler and Jack will be connected and so the transfer will take place at market value. *[½]*

	£	
Deemed Proceeds	25,000	*[½]*
Less: Cost	(16,000)	*[½]*
Gain	9,000	*[½]*

Sale of land

When the transfer from Jack to Chyler took place they were married and therefore the land was transferred on a nil gain/ nil loss basis. *[½]*

Proceeds	57,000	
Less: Deemed cost	(21,000)	*[½]*
Gain	36,000	

Total 3

10. The list price is the on the road cost of the car when new, including standard accessories but ignoring any discounts. *[1]*

The list price should be increased by the cost of all optional accessories added to the car prior to it being provided to the employee. *[1]*

If an accessory is added to the car after it was first made available, its cost is only added to the list price if it is at least £100. *[1]*

Any capital contributions made by the employee in respect of the car are deducted from the list price up to a maximum of £5,000. *[1]*

Max 3

11. Grant of a short lease from a short lease

Calculating the capital element of the lease

= 2% x (Number of years of the lease – 1) x Premium
= 2% x (12 – 1) x 39,000 = £8,580 *[1]*

Calculate the allowable cost

26 years remaining on lease at grant of sub-lease = 82.496 *[½]*
14 years reaming on lease when sub-lease ends = 58.971 *[½]*
40 years remaining on lease at acquisition = 95.457 *[½]*

48,000 x (82.496 – 58.971)/95.457 = £11,829 *[½]*

Calculating the gain

	£	
Proceeds	39,000	
Less: Cost	(11,829)	*[½]*
Gain	27,171	
Less: Chargeable as property income (39,000 – 8,580)	(30,420)	*[½]*
Chargeable gain	Nil	

NB: no capital loss can be created

Total 4

12. Ricky can make a claim for the loss to be treated as a current year loss, i.e. a loss in the tax year in which he makes a negligible value claim *[½].*

(In Ricky's case, the year of claim is presumed to be 2019/20, although could perhaps be 2020/21 if the 2019/20 tax year has already ended. *[½]*)

In addition he can elect to treat the loss as a current year loss *[½]* in either of the two preceding years *[½]* provided the asset was of negligible value at that time *[½].*

Ricky's shares became valueless on 15 May 2018 *[½]* and therefore the earliest year in which the loss can be treated as arising is the 2018/19 tax year *[½].*

Max 3

PAPER 1
LONG QUESTIONS

1. On 1 June 2019 Ella returned to work on a full time basis after finishing her maternity leave. Between 6 April 2019 and 1 June 2019 Ella received statutory maternity pay of £148.68 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 2019/20. In addition, Ella received the following benefits:

   1) Family medical insurance which cost her employer £648 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 2020 Ella was provided with a 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 2019. 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 2019 to 31 December 2019 Ella drove 11,000 business miles and was paid at the flat rate of 50p per mile.

   During 2019/20 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 2019/20. She also held a joint bank account with her husband, on which total interest of £374 was received during 2019/20. In addition, Ella has a share portfolio and received dividends during the year of £2,500.

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

   You are required to:

   1) Calculate the Income Tax payable by Ella for 2019/20. (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 2019/20 PAYE of £22,000 was deducted at source.

Dorothy used her own car to travel 12,500 miles on the company's business in 2019/20 and Toto plc reimbursed her at a rate of 50p per mile.

On 6 April 2017 Dorothy borrowed a specialist piece of equipment from her employer and kept it until 5 January 2020 when she bought it from Toto plc for £250. The value of this piece of equipment on 6 April 2017 was £5,200 and it was worth £1,000 when she bought it in 2019/20.

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 2019, this was, following arm's length negotiations, decreased to £10,000 per annum.

Tin Hall was occupied by Dorothy's nephew throughout 2019/20 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 2019 on a rent of £43,200 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 2019/20 were:

	Straw Cottage	Tin Hall	Lion House
	£	£	£
Mortgage interest	14,600	-	15,000
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 2019/20, 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.

You are required to calculate the Income Tax payable by Dorothy for 2019/20.

(20)

3. Harry Smith 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 2019 he sold 3,000 shares in Peaches plc, an unconnected quoted trading company, for £30,000. He had purchased 1,000 shares in March 1996 at £3 per share. In August 2001 there was a 2 for 1 rights issue at £4 per share which he took up in full. In December 2010, there was a bonus issue of shares at 2 for 3. Harry has never worked for the company.

   2) In November 2019, 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 2015.

   3) On 1 December 2019 he sold a lease over a local field for £65,000. He had bought the lease on 1 May 2013, when it had 30 years left to run, for £60,000.

   4) In February 2020 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 share option savings scheme, the options being exercised at £1 per share in January 2020.

   5) In March 2020, he sold a painting for £4,000 which he had purchased for £8,000 in April 2005.

   At 6 April 2019, Harry had capital losses brought forward of £10,000.

   You are required to calculate the Capital Gains Tax payable by Harry for 2019/20. You should give explanations for omitting any of the above from your computation. (10)

4. Ethel, who lived in Newcastle, was offered full time employment by Red Ltd, a marketing company based in Kent. Ethel moved to Kent on 6 April 2019 in accordance with the terms of her new employment contract. She received written particulars of the terms of her employment in May 2019.

In order to help Ethel 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 2019. This payment was in respect of the costs of selling Ethel's old house and removal costs.

2) An apartment for Ethel to live in. This cost the company £325,000 in March 2019 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 Ethel with a company car on 6 July 2019. This was a diesel fuelled car with a CO_2 emissions rating of 100g/km and a list price of £26,000. Red Ltd also provides all fuel for the car.

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

You are required to:

1) Calculate the Income Tax payable by Ethel in respect of the benefits provided for 2019/20. (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 Ethel. (3)

Total (12)

5. Hayley, aged 47, is employed by Fitzhugh Ltd, a publishing company, and earns a gross annual salary of £200,000 from which PAYE of £64,000 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 and 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 2019, Fitzhugh Ltd contributed the equivalent of 15% of Hayley's salary into a registered personal pension scheme. In 2019/20, 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 2019/20 it was rented for 37 weekly rentals. Her accountant has reported the following income received and expenditure paid for 2019/20:

	£
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.

You are required to:

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 2019/20. (16)

Total (20)

6. Samuel, who was born in Bermuda, is non-UK domiciled but has been tax resident in the UK since April 2006. He intends to remain in the UK for at least another 5 years until his children finish their schooling.

   In 2019/20 Samuel had the following income and gains:

   1) £150,000 gross salary in respect of UK employment, paid into a UK bank account after deduction of PAYE of £52,000.

   2) £10,000 bonus in respect of UK employment, paid gross into a bank account in France.

   3) £260,000 bank interest (gross) in respect of funds held in a French bank account. French income tax of £50,000 was paid on this interest.

   4) £50,000 given to him by his father to help pay for a deposit on a property.

   5) £30,000 dividend received from Aardvark plc, a UK company.

   6) £22,000 gain in December 2019 on the sale of shares held in France (proceeds of £100,000 less a cost of £78,000). Samuel remitted £50,000 of the proceeds into the UK.

   All payments made into non-UK accounts have been retained in those accounts, unless stated otherwise.

   You are required to write a letter to Samuel which should include:

   1) A calculation of the UK Income Tax and Capital Gains Tax payable by Samuel assuming (i) he elects for the remittance basis and (ii) he does not elect for the remittance basis. (15)

   2) How any claim for the remittance basis needs to be made and whether the election is beneficial in Samuel's case. (2)

   3) The date on which the deemed domicile rules will begin to apply to Samuel. (1)

   4) A brief explanation of the impact of the deemed domicile rules on Samuel's UK tax position. (2)

   Total (20)

7. 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 Savings Related 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 has asked if you could provide him with a summary of the key features of each plan.

You are required to:

1) Explain the key features of a Savings Related Share Option Scheme. (5)

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

Friendlyco plc has decided to implement both a Savings Related Share Option Scheme and a Company Share Option Plan. Friendlyco plc adopted both plans and granted options to its employees on 5 May 2019. The closing price for its shares on 4 May 2019 was £3.25.

3) State the minimum exercise price that can be set for the acquisition of a Friendlyco plc share under the Savings Related 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 Savings Related Share Option in April 2018 over 500 shares with an exercise price of £2 per share. The option was exercised following her retirement from employment in April 2020.

b) Chase Young was granted a Company Share Option in June 2015 over 1,000 shares with an exercise price of £1.25.

c) Ellis Smith was granted a Company Share Option in January 2019 over 750 shares with an exercise price of £2.25.

The above employees' share options were exercised on 1 May 2020, 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.

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

Total (15)

8. Last week one of the partners in your firm met with James, an entrepreneur who set up a new company in August 2019. 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.

You are required to:

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)

9. Ciaron owned 100 shares in Teddy Ltd, a trading company, which he acquired in May 1997 for £10,000. On 15 May 2019 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 2020 and sold half of the preference shares for £2 per share on 5 April 2020.

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 2019 for £21,000 with £20,000 being attributed to the number plate.

In March 2019, Ciaron's house was burgled and a valuable painting stolen. The painting had been bought for £7,000 and, in July 2019, the insurance company paid Ciaron £28,000 as market value compensation for the loss. In September 2019 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.

You are required to:

1) **Calculate Ciaron's Capital Gains Tax liability for 2019/20, clearly explaining your treatment of the receipt from the insurance company.** (11)

   (You should assume that Entrepreneurs' Relief will not be available.)

Ciaron is considering subscribing £160,000 in the autumn of 2020 for 50% of the shares in a new unlisted trading company; the company would provide office cleaning services.

2) **Outline the effect that such a subscription could have on Ciaron's 2019/20 Capital Gains Tax liability.** (2)

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

Total (15)

10. Your firm has recently been asked to prepare the 2019/20 self assessment tax return for a new client, Mark. As part of the initial review of the client's position, it appears that a large plot of land was disposed of in 2018/19 but that no tax return was submitted for the year.

Mark has explained that he has never had to file a tax return before and that no return had been issued for the year. However, you estimate that a Capital Gains Tax liability of approximately £30,000 was due for the year. As no return has been submitted, no tax has been paid. Mark admits that he had thought that he should probably have paid tax, and that is why he has now sought advice.

Your senior partner would like you to explain the penalties which could apply in Mark's situation.

You are required to:

1) **Write a memo to your senior partner outlining the maximum penalties Mark could be exposed to if he:**

   a) **Files his 2018/19 tax return and pays his outstanding Capital Gains Tax on 30 November 2020;** (8)

   b) **Does not file a tax return for 2018/19 and does not pay his outstanding Capital Gains Tax.** (5)

You are not required to calculate any interest that may be due.

2) **Explain the obligations of your firm in accordance with the Association of Taxation Technicians' Professional Conduct in Relation to Taxation should Mark be unwilling to make disclosure of the chargeable gain to HM Revenue & Customs.** (5)

Total (18)

ANSWERS TO LONG QUESTIONS

1. ELLA

1) Income Tax Computation 2019/20

	Non-savings	Interest	Dividends	
	£	£	£	
Statutory maternity pay (148.68 x 8)	1,189			*[½]*
Salary (W1)	50,667			
Medical insurance (W2)	540			
Company car (W3)	1,305			
Loan interest (W4)	281			
Mileage allowance (W5)	750			
Building society interest		625		
Bank interest (½ x 374)		187		*[1]*
Dividends			2,500	
Less: Professional subscription	(475)			*[½]*
	54,257	812	2,500	
Less: Personal allowance	(12,500)			*[½]*
Taxable income	41,757	812	2,500	

39,000 @ 20% (W6)	7,800	*[½]*
2,757 @ 40%	1,103	*[½]*
41,757		
500 @ 0%	Nil	*[½]*
312 @ 40%	125	*[½]*
2,000 @ 0%	Nil	*[½]*
500 @ 32.5%	163	*[½]*
Tax Liability	9,191	
Less: PAYE deducted at source	(9,000)	*[½]*
Tax Payable	191	

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) 648 x 10/12 = 540 *[½]*

Tutorial Note:

The answer assumes that the premiums are paid monthly.

If an annual premium was paid, the full £648 would be taxable in 2019/20. Full credit would be given for this approach as the question is unclear.

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

23% + (125 - 95)/5 = 23% + 6% = 29% *[1]*

18,000 x 29% x 3/12 = 1,305 *[1]*

W4) 15,000 x 2.5% x 9/12 = 281 *[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 37,500 + 1,500 = 39,000 *[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 2019/20		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)	(2,402)	-	-	[½]
Taxable income		107,793	11,250	5,000	

Tax		
43,750 (W4) @ 20%	8,750	
64,043 @ 40%	25,617	
107,793		
500 @ 0%	Nil	
10,750 @ 40%	4,300	[2]
2,000 @ 0%	Nil	
3,000 @ 32.5%	975	
	39,642	
Less: Tax relief on interest		
22,200 (W1) x 20%	(4,440)	[1]
	35,202	
Less: tax paid at source:		
PAYE	(22,000)	[½]
REIT	(450)	[½]
Income tax payable	12,752	

Workings

W1) Property Income

		Straw Cottage	Tin Hall	Lion House	
		£	£	£	
Rental income received	(3/12 x 12,000 + 9/12 x 10,000)	10,500			[½]
Rental income			4,000		[½]
Rental income received	(10/12 x 43,200)			36,000	[½]
Mortgage interest	(14,600/15,000 x 25%)**	(3,650)		(3,750)	[1]
Water rates		(250)	(200)*	(650)	[½]
Council tax			Nil*	(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]
		6,600	Nil	22,350	
Total				28,950	[½]

* expenses restricted to income received on nominal lease [1]
** interest available for relief as tax reducer (14,600 + 15,000) x 75% = 22,200

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	2017/18	20% x 5,200	1,040	
	2018/19	20% x 5,200	1,040	*[½]*
	2019/20	(20% x 5,200) x 9/12	780	*[1]*
			2,860	

Benefit assessed on transfer in 2019/20 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		12,500	*[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]*
		2,402	

W4) Basic Rate Band

Basic rate band	37,500	
Add: Gift aid (5,000 x 100/80)	6,250	*[½]*
	43,750	

Max for question 20

3. HARRY SMITH

Summary

	£
Peaches plc (W1)	23,400
Lease (W3)	10,924
Shares (W4)	30,000
Loss on painting (W5)	(2,000)
	62,324
Less: AEA	(12,000)
Chargeable gain	50,324
Less: Capital Loss b/f	(10.000)
Taxable gain	40,324
CGT liability:	
40,324 @ 20%	8,065

Tutorial Note:

The shares in Peaches plc do not qualify for entrepreneurs' relief as Harry has never worked for the company.

The shares in the employee share option savings scheme do not qualify for entrepreneurs' relief as Harry does not own at least 5% of the company's shares and there is nothing in the question to suggest this is an EMI share option scheme.

Workings:

W1) Shares in Peaches plc

S.104 holding

	No. of shares	Cost £
March 1996	1,000	3,000
August 2001 rights issue (2/1 x 1,000 shares @ £4)	2,000	8,000
	3,000	11,000
December 2010 Bonus issue (2/3 x 3,000 shares)	2,000	Nil
	5,000	11,000
Sale May 2019 (3,000/5,000 x £11,000)	(3,000)	(6,600)
C/fwd	2,000	4,400

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

W2) VCT shares

Gain exempt on first £200,000 acquired per tax year.

W3) Lease

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

Note

% 23 yrs 5 months = 78.055 + 5/12 (79.622 – 78.055) = 78.708

W4) Employer company shares

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

W5) Painting

	£
Deemed proceeds	6,000
Less: Cost	(8,000)
Allowable loss	(2,000)

Tutorial Note:

When this question was set the ATT did not publish marking guides with their model answers.

4. ETHEL

1)

The taxable benefits are as follows:

	£	
Removal expenses (W1)	2,000	
Living accommodation: annual value	12,000	*[½]*
Expensive living accommodation charge (W2)	6,250	
Use of assets (W3)	2,800	
Company Car (W4)	5,460	
Fuel benefit (W5)	5,061	
Total taxable benefits	33,571	
Income Tax payable @ 45%	15,107	*[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 2.5% (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 – 95)/5 = 1 + 23	24%	
Add diesel supplement	4%	
Benefit (£26,000 x 28%)	£7,280	*[1½]*
Available for 9 months (£7,280 x 9/12)	£5,460	*[1]*

W5)

£24,100 x 28% x 9/12	£5,061	*[1½]*

Total 8

2)

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

There is no national insurance charge for Ethel. *[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
- place of work
- any collective agreements that affect the terms of employment
- 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

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]*
- periods of longer term periods of 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 2019/20	£	
Employment income		
- salary	200,000	*[½]*
- car benefit (W1)	6,240	
- car fuel (W2)	6,266	
- mobile phone (W3)	Nil	
- clothing allowance (W4)	3,600	
Total income	216,106	
Less: Personal allowance (W6)	Nil	
Taxable Income	216,106	
77,500 (W7) @ 20%	15,500	*[½]*
112,500 @ 40%	45,000	*[½]*
26,106 @ 45%	11,748	*[½]*
216,106	72,248	
Add: Annual Allowance Charge (W8)	23,400	
Less: PAYE	(64,000)	*[½]*
Income tax payable	31,648	

Workings

W1) Car Benefit

(110 – 95) / 5 = 3 + 23 = 26%		*[1]*
24,000 x 26%	£6,240	*[½]*

W2) Fuel Benefit

24,100 x 26%	£6,266	*[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 Lettings

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 (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	216,106	
Less: Pension contribution (32,000 x 100/80)	(40,000)	
Adjusted net income	176,106	*[½]*

Exceeds £125,000 so no PA available *[½]*

W7) Basic rate band

Basic rate band	37,500	
Pension contribution (100/80 x 32,000)	40,000	*[1]*
	77,500	

W8) Pension Savings

Annual Allowance tax charge:

Pension Savings in Year:

Employer Contributions (200,000 x 15%)	30,000	*[½]*
Employee Contributions (32,000 x 100/80)	40,000	*[1]*
Total Pension Savings	70,000	

Available Annual Allowance:

Threshold income (216,106 – 40,000) (exceeds £110,000)	176,106		[½]
Net Income	216,106		
Add Employer pension contributions	30,000		
Adjusted Income	246,106		[½]
Less	(150,000)		
Excess income	96,106		
2019/20 Annual Allowance		40,000	[½]
Less: Restriction (1/2 x 96,106) (restricted to £30,000)		(30,000)	[½]
Tapered annual allowance (minimum)		10,000	
Unused b/f		8,000	[½]
Total Allowance		18,000	

Annual Allowance Tax Charge

(70,000 – 18,000) @ 45%	23,400	[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.

When Threshold Income exceeds £110,000 and Adjusted Income exceeds £210,000 then the Tapered annual allowance will be reduced to £10,000. This is the case here and it would be sufficient to just state this fact rather than show the full calculation at W8) above. Remember that the tapered 2019/20 Annual Allowance can still be increased by any unused relief from the previous three years.

Total 16

Total for question 20

6. SAMUEL

Address

Date

Address

Dear Samuel

I have now had an opportunity to consider your UK tax obligations based on the information provided to me and have calculated (in the attached appendix) your UK tax liability for 2019/20.

Based on these calculations, it is beneficial for you to elect for the remittance basis of taxation to apply for the 2019/20 tax year as it results in a tax saving of £4,600 (being £80,068 – £84,668).

This election should be made within your self assessment tax return. Your tax return should be submitted by 31 January 2021 if you are filing online (which is also the due date for any tax payment).

You should be aware that, with effect from 6 April 2021, you will fall within the deemed domiciled rules as a 'long term resident' as you will have been UK resident for 15 out of the previous 20 tax years.

From the 2021/22 tax year, therefore, you will no longer be able to use the remittance basis (where your overseas unremitted income and gains exceeds £2,000) and will be taxed on your worldwide income as it arises. This will be the case unless you leave the UK and become non-UK resident for a period of at least six consecutive tax years.

If you have questions about the contents of this letter, please let me know.

Yours sincerely,

A. Adviser

<u>Tutorial Note:</u>

When this question was set the ATT did not publish marking guides with their model answers.

APPENDIX

	Remittance Basis	Arising Basis
	£	£
Salary	150,000	150,000
Bonus	10,000	10,000
French bank interest	Nil	260,000
Gift from father (not a taxable receipt)	Nil	Nil
Dividend	30,000	30,000
Net income	190,000	450,000
Less: Personal Allowance (Note)	n/a	(Nil)
Taxable income	190,000	450,000
Income Tax:		
NS: 37,500 @ 20%	7,500	7,500
NS: 112,500 @ 40%	45,000	45,000
NS: 150,000		
NS: 10,000 @ 45%	4,500	4,500
S: 260,000 @ 45%		117,000
D: 2,000 @ 0%	Nil	Nil
D: 28,000 @ 38.1%	10,668	10,668
	67,668	184,668
Less: Double Taxation Relief (W)	Nil	(50,000)
IT Liability	67,668	134,668
Less: Tax deducted at source		
- PAYE	(52,000)	(52,000)
Add: Remittance Basis Charge	60,000	Nil
Income tax due	75,668	82,668
Capital Gain Tax:		
Chargeable gain	22,000	22,000
Less: Annual exempt amount	N/A	(12,000)
Taxable gain	22,000	10,000
22,000/10,000 @ 20%	4,400	2,000
TOTAL TAX DUE	80,068	84,668

Notes:

Under arising basis PA is available, but fully abated due to Samuel's level of income.

As Samuel has been resident in the UK for at least 12 out of the previous 14 tax years, the remittance basis charge is £60,000.

Samuel has been previously resident from 2006/07 to 2018/19 = 13 years

Working: DTR on the French bank interest

Lower of:

- the French tax suffered of £50,000, and
- the UK income tax suffered on the grossed up French bank interest = 45% x £260,000 = £117,000

Tutorial Note:

When gains are taxed on the remittance basis, the first sale proceeds remitted are deemed to relate to the gain. Therefore, because Samuel has remitted at least £22,000 of the sale proceeds to the UK, the whole £22,000 gain will be taxed.

7. FRIENDLY CO PLC

1)

- Under a Savings Related 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 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 savings related plan. *[1]*

- Normally a Savings Related option cannot be exercised before the savings plan matures and the employee has 6 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 3 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 a 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 £30,000. *[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 £30,000 *[½]* therefore £30,000/£3.25 = 9,230 shares. *[½]*

Total 1

5) Jane Brown – the option is exercised within 3 years of grant but as her employment terminates due to retirement, the option can be exercised within 6 months of termination with no tax on exercise. *[1]*

Chase Young – the option is exercised more than 3 years from the date of grant *[½]* and therefore no tax arises on exercise. *[½]*

Ellis Smith – the option is exercised within 3 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

8. JAMES

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

- Maximum investment qualifying for relief £1 million
- The limit is £2 million where at least £1 million is invested in knowledge-intensive companies from 2018/19
- 30% tax relief on amount of qualifying investment as tax reducer
- Can reduce IT liability to nil, excess relief cannot be repaid
- Relief can be carried back to previous tax year, provided limit in that year is not exceeded.
- Cannot be 'connected' with EIS company (ie broadly cannot be an employee (including an existing paid director) or hold ≥ 30% shares together with your associates) (ss.166,167 & 170 ITA 2007)

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 and the individual was entitled to income tax relief on the subscription.
- Loss relief is available on shares disposed of at a loss
  - The capital loss is reduced by any income tax relief retained
  - 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
  - The loss is always allowable regardless of how long the shares have been held
- EIS Reinvestment Relief (a form of capital gains deferral) is available even if income tax relief was not available
  - Unlimited gains may be deferred
  - Gain deferred can be on any kind of asset
  - Reinvestment in qualifying EIS shares must be within one year before or three years after the original gain arose
  - Can specify the amount of relief required (ie preserve annual exemption and use capital losses)
  - The gain to be deferred is frozen and crystallises in the year:
    - (i) sale of the EIS shares occurs, or
    - (ii) EIS shares cease to be eligible shares

3)

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

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.

Tutorial Note:

When this question was set the ATT did not publish marking guides with their model answers.

9. 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
75,000 £1 Ordinary shares in Scrumpy plc	75,000	18.75%	1,875
150,000 £0.50 Preference shares in Scrumpy plc	200,000	50%	5,000
£30,000 loan notes in Scrumpy plc	25,000	6.25%	625
	400,000	100%	10,000

Immediate gain on cash element:

	£
Proceeds	100,000
Less: Cost	(2,500)
Gain	97,500

Encashment of loan notes

No charge on the increase in the value of the loan notes from £25,000 to £30,000

Crystallisation of the gain held in suspense from the takeover:

	£
Proceeds	25,000
Less: Cost	(625)
Gain	24,375

Sale of half the preference shares

	£
Proceeds – 75,000 x £2	150,000
Less: Cost	(2,500)
Gain	147,500

Renault Clio

The car is an exempt asset and not subject to CGT.

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

	£
Proceeds	20,000
Less: Cost	(12,000)
Gain	8,000

Painting

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

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

Summary

Asset	£
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	(12,000)
Taxable gains	278,375
CGT:	
278,375 @ 20%	55,675

Tutorial Note:

The gain arising in respect of the cash element of the consideration may qualify for entrepreneurs' relief depending on whether Ciaron worked for the company. However, you are specifically told to ignore entrepreneurs' relief in the requirement. Make sure you always follow the Examiner's instructions.

2)

If Ciaron were to subscribe £160,000 into the new company and that company was successful in claiming EIS status, £160,000 of the 2019/20 gains could be held over against the EIS investment, thereby reducing his CGT liability for 2019/20 by £32,000.

3)

No income tax relief would be available as Ciaron would be considered to be connected with the company by reason of owning at least 30% of the share capital.

Tutorial Note:

When this question was set the ATT did not publish marking guides with their model answers.

10. MARK

1) *[Format 1]*

MEMORANDUM

To: Senior Partner
From: A Trainee
Re: New client – Mark – non disclosure of tax liability
Date:

a) There are several grounds on which penalties may be assessed in these circumstances, which fall within 3 categories:

1. Failure to notify HM Revenue & Customs of chargeability to tax; *[½]*

2. Failure to submit a return on time; *[½]*

3. Failure to pay on time. *[½]*

Each of these could have a penalty attached to it, the level of which is heavily influenced by the behaviour of the taxpayer.

Assuming that Mark files his tax return on 30 November 2020, the penalties will be:

1. Failure to notify

(Unprompted disclosure within 12 months of 31 January 2020 due date) *[1]*
0% on the assumption HMRC apply the maximum reduction for disclosure

2. Late submission

Fixed penalty (even if no tax outstanding) – £100 *[1]*
Daily penalties
Up to £10 per day, max 90 days as > 3 months late. *[½]*
HMRC may decide to apply these but unlikely with unprompted disclosure – NIL *[1]*
Tax geared penalty (as tax return > 6 months late) – 5% x £30,000 = £1,500 *[1]*

3. Late payment of tax

5% on tax unpaid 30 days after the due date – 5% x £30,000 = £1,500 *[1]*
5% on tax unpaid 6 months after the due date – 5% x £30,000 = £1,500 *[1]*

Max 8

b) If the failure to notify continues (i.e. it becomes deliberate (and potentially concealed)) the penalties could increase:

1.	Failure to notify	Up to 100% of unpaid CGT	*[1]*
2.	Late submission		
	Fixed penalty	£100	*[½]*
	Daily penalties	£900 (£10 x 90 days)	*[½]*
	Tax geared penalty	Up to 100% of liability to tax. (However, this would be reduced by the amount of any penalty charged in respect of failure to notify.)	*[2]*
3.	Late payment of tax	Up to 15% of tax	*[1]*

Maximum potential penalty would be 115% x £30,000 + £100 + £900 = £35,500 *[1]*

<u>Tutorial Note:</u>

The above is based on the examiner's answer. In part a) it would also be reasonable to state a maximum penalty for failure to notify of 30% and to calculate a late submission daily penalty of £10 per day as the question asked for the maximum penalties. In part b) it could be argued that the maximum penalties should be based on 70% for deliberate but not concealed offences as there is no evidence of an act of concealment in the question. Credit should be given for any reasonable interpretation.

Max 5

2)

The code of conduct outlines the steps a member firm should take where there is reason to believe an error has occurred (which would include a deliberate non-disclosure of a capital gains tax liability) and the client is unwilling to make a disclosure:

1. The firm should explain the potential consequences of non-disclosure and the benefit of making a voluntary disclosure, namely reduced penalties and the wide ranging powers to obtain information from taxpayers, their agents and third parties available to HMRC. *[1]*

2. Where the client remains unwilling to make a disclosure the firm should advise the client in writing, confirming the advice to disclose and the consequences of non-disclosure. *[1]*

3. Where the client continues to refuse to disclose, we should cease to act and inform the client in writing of this. *[1]*

4. We should notify HMRC that we have ceased to act, without providing an explanation for this in order to maintain client confidentiality. *[1]*

5. We should consider whether a money laundering report should be made to the Money Laundering Reporting Officer/National Crime Agency. *[1]*

Total 5 – all valid points will gain credit

Total for question 18

<u>Tutorial Note</u>

The Professional Conduct in Relation to Taxation guidelines are reproduced in Tolley's Yellow Tax Handbook Part 2b (2019/20 version – page 2,082). The above is explained in PCRT Help Sheet C: Dealing with errors - sections 24 to 29 on page 2,100.