



Practical Tax People
Association of
Taxation Technicians

May 2017 Examination

PAPER 1

Personal Taxation

Part I Suggested Answers

1. Adele

	£	
Annual value	2,500	(1/2)
Additional yearly rent (£320,000 – £75,000) x 3%	7,350	(1)
Utility bills	2,112	(1/2)
Use of assets (£5,800 x 20%)	1,160	(1/2)
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	13,122	
Less: Employee contribution (£250 x 12)	(3,000)	(1/2)
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	10,122	
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2. Briony

	£	
Rent:		
(£1,160 x 7 months)	8,120	(1/2)
(£1,360 x 5 months)	6,800	(1/2)
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	14,920	
Expenses:		
Repairs	(720)	(1/2)
Buy-to-let mortgage interest	(4,680)	(1/2)
Conservatory (Capital)	(Nil)	(1/2)
Replacement bed (replacement of domestic items relief)	(450)	(1/2)
Insurance ((£390 x 6/12) + (£420 x 6/12))	(405)	(1)
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Property income – 2016/17	8,665	
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3. Christopher

Average method:

	£	
(£85,000 + £63,750) x 1/2 x 3%	2,231	(1)
Less: Interest paid	(1,700)	
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	531	
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Strict method

	£	
(£85,000 x 4/12 x 3%)	850	(1)
(£63,750 x 8/12 x 3%)	1,275	(1)
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	2,125	
Less: Interest paid	(1,700)	(1/2)
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	425	
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Christopher will elect for the strict basis to apply and the taxable benefit for 2016/17 will be £425. (1/2)

4. Accrued income scheme

The accrued interest in the selling price is:

- calculated on a daily basis (½)
- from the date of the last interest payment (½)
- to the date of the sale. (½)

Any accrued interest included in the selling price is:

- taxable on the seller (½)
- as savings income (½)
- in the tax year in which the next interest payment is made. (½) (Max 2 marks)

5. Eric

A taxpayer has the right of appeal where they believe HMRC has made a mistake which has not been rectified and as a result the calculation of tax liability is incorrect. (½)

The taxpayer must appeal within 30 days of the amendment. (½)

The appeal must contain:

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

6. Felix

May 2016 – Receipt of compensation for asset damaged

As the compensation not reinvested is small (i.e. £2,500 is less than the higher of £3,000 or 5% of the compensation received (½)) there is:

- no part disposal (½), and
- no chargeable gain arising in 2016/17. (½)

The base cost of the investment property becomes:

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

May 2017 – Sale of investment property

	£	
Sale proceeds	605,500	(½)
Less: Base cost	(215,500)	(½)
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Chargeable gain – assessed in 2017/18	390,000	

7. Grace

When Grace exercises her options:

As Grace:

- is exercising her option within 3 and 10 years of the granting of the option, (½) and
 - the CSOP scheme is a tax-advantaged scheme,
- there are no Income Tax (½) or NIC consequences (½) arising.

When Grace sells the shares:

- there will be a capital gain arising (½)
- calculated as the difference between the sale proceeds (½) and the actual cost of the shares acquired. (½)

Grace will be liable to Capital Gains Tax (½) at either 10% or 20% (½) after the deduction of the annual exempt amount. (½)

Note – Candidates who assumed the question related to an EMI scheme also received credit.

Max 4

8. Martin

All income distributed from a discretionary trust (½), is deemed to be received net of a 45% Income Tax credit. (½)

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

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

9. Entrepreneurs' relief

A material disposal in this context means that throughout the period of **one year ending with the date of disposal**: (½)

- (a) The company is the individual's **personal company** (½) (i.e. must **have at least 5% of the ordinary shares and voting rights** of the company) (½) and is either **a trading company** or the holding company of a trading group (½), and
- (b) The **individual is an officer or employee of the company** or (if the company is a member of a trading group) of one or more companies which are members of the trading group. (½)

Election date for 2016/17: 31 January 2019 (½)

(on or before the first anniversary of 31 January following the tax year of the qualifying disposal)

10. Jeremiah

Non-wasting chattels are:

- tangible, movable property (½)
- with a predictable useful life of more than 50 years. (½)

A chargeable gain arises if sale proceeds exceed cost. (½)

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

- both the gross sale proceeds and cost exceed £6,000
– a normal chargeable gain arises (½)
- gross sale proceeds exceed £6,000 and cost is £6,000 or less
– chargeable gain is the lower (½) of
a normal chargeable gain calculation, or
 $5/3 \times (\text{gross sale proceeds} - £6,000)$ (1)

(Max 3 marks)

11. Kathleen

Identification rules

	No. of shares		
(1) Same day acquisitions		Nil	
(2) Purchases in the following 30 days 28 February 2017		1,400	(½)
(3) Share pool			
11 May 2005	4,600		
30 March 2011	5,100		
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	9,700		
Sale	(2,700)	2,700	(½)
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Shares remaining	7,000		
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Shares sold on 15 February 2017		4,100	
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Sale proceeds per share = $£(25,748 \div 4,100) = £6.28$

Disposal of shares purchased on 28 February 2017

	£	
Gross sale proceeds (1,400 x £6.28)	8,792	(½)
Less: Cost	(9,800)	(½)
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Allowable loss	(1,008)	
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Disposal of shares from share pool

	£	
Gross sale proceeds (2,700 x £6.28)	16,956	(½)
Less: Cost	(10,432)	(½)
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Chargeable gain	6,524	
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Net chargeable gain on the disposal of 4,100 shares = $(£6,524 - £1,008) = £5,516$ (½)

Share pool

	No. of shares	Cost £	
11 May 2005	4,600	13,202	
30 March 2011	5,100	24,275	
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	9,700	37,477	
Sale on 15 February 2017	(2,700)	(10,432)	(½)
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Shares remaining	7,000	27,045	

12. Luther

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