



Level 4 Trailblazer Role Simulation

**SUGGESTED
SOLUTIONS**

MOCK – NOVEMBER 2018

Professional marks are awarded for quality of communication. This includes using a suitable format, writing for the intended recipient, clarity, courtesy, appropriate written style, directly addressing the task set, relevance to the information available and avoiding superfluous material.

Credit will be given for alternative valid points and approaches.

Credit will be given where possible where a candidate makes an error and then continues a task correctly.

Total marks 100; pass mark 70; distinction 90

Task 1

Client information in your hands: some practical points for trainees

What does client confidentiality mean?

Client confidentiality means not disclosing any client information to third parties. This is a professional duty, one of the five fundamental principles which apply to tax advisers. In addition, all Chauhan and Co's client contracts include a confidentiality clause.

How does this apply to my day-to-day work?

In your work you will be handling client information all the time – on computer and on paper. Treat all client information as confidential and share it only with the client team unless you are specifically told otherwise.

There are very limited circumstances in which the duty of confidentiality does not apply but you should always assume that it does.

Which legislation is relevant to handling client information?

The Data Protection Act.

This gives principles of data protection which all 'data controllers' must comply with when they process data.

The principles include storing information 'confidentially and securely'.

What does processing data mean?

Collecting, using, storing and destroying data are all forms of data processing.

Chauhan and Co is a data controller, processing personal information, and therefore has to be registered with the Information Commissioner's Office (ICO).

What does the ICO do?

The ICO keeps a register of data controllers.

It deals with complaints about breaches of data rights.

The ICO can take action to enforce compliance with the Data Protection Act, including prosecution.

I have some papers for a former client which are no longer needed. Should I recycle these?

Only after shredding them. Remember, disposal is still 'processing' of information.

There is no time limit on the duty of confidentiality.

What about client information that isn't written down? Is it OK to discuss clients with friends as long as I don't show them any documents?

No. This would breach our duty of confidentiality to clients.

Where can I find further information on handling client information?

This factsheet gives a brief summary.

You should also look at the section 'documents' in your Chauhan and Co handbook.

The duty of confidentiality is outlined in *Professional Rules and Practice Guidelines* and also covered in *Professional Conduct in Relation to Taxation*.

Your anti-money laundering induction will have covered steps to take if money laundering is suspected, and how this affects confidentiality.

What if I'm not sure how confidentiality applies to something I'm working on?

Ask your line manager or a senior colleague for advice.

18 marks:

Technical points including definitions and explanations (capped at 13) 13

Professional marks including using q-and-a format (capped at 6) 6

Note: 1-3 examples, referring to other information sources, and the instruction to ask advice would gain professional, not technical, marks. Further pro marks: not unnecessarily technical – paraphrasing rather than including long quotes; relevance of information to trainees.

Bonus 1-2 marks for anything sensible relating to GDPR/extra regulations (not in manual)
Overall marks capped at 18

Task 2

DRAFT

Conor
Tangent Tech plc
Address

22 November 2018

Dear Conor

Thank you for your letter of 14 November.

Planned capital expenditure February and March 2019

A draft capital allowances calculation is provided in the appendix to this letter and shows maximum capital allowances of £246,493. This is based on the projected brought forward pool balances and the details of estimated expenditure provided by you. The calculation is based on a seven-month period from 1 January 2019 to 31 July 2019.

The new machine with a 30-year expected useful life will be treated as a long-life asset. The expenditure will need to be included in the special-rate pool and will qualify for writing down allowances at 8%. Generally, where total expenditure on long life assets does not exceed £100,000 in an accounting period, the expenditure can be included in the main pool. However, for short accounting periods the £100,000 limit is pro-rated, so is £58,333 for a 7-month period. The limit is also adjusted because of your subsidiary companies (classed as related 51% group companies), by dividing by the total number of companies (five), so is £11,667. As the expenditure exceeds this amount, it must be included in the special rate pool.

The Annual Investment Allowance is best allocated against the special-rate pool items first since these would receive a lower writing down allowance than those in the main pool.

Patent

The costs of patent registration are allowable against trading profits as sundry expenditure.

We are not able to give legal advice as such, but my understanding is that notification to Companies House regarding the charge over the patent must be completed within 21 days. I would therefore suggest that you check the requirement with Tangent Tech plc's lawyer as soon as possible to ensure no deadline is missed.

Yours sincerely

Melanie

APPENDIX

Tangent Tech plc

Draft Capital Allowances calculation for the 7 months to 31 July 2019

	FYA £	General Pool £	Special Rate Pool £	Total £
TWDV b/f		30,877	16,928	
Additions:				
Water-efficient items	113,400			
General plant		47,000		
Vans 6 x 12,600		75,600		
Long-life asset: SRP (> 100k x 7/12 x 1/5)			59,000	
Fixed walkway – building – no CA				
Moving walkway			53,100	
FYA	(113,400)			113,400
AIA to SRP			(59,000)	
			(53,100)	
AIA balance (7/12 x 200k)		(4,567)		116,667
	<u>0</u>	<u>148,910</u>	<u>16,928</u>	
WDA @ 18% x 7/12		(15,636)		15,636
WDA @ 8% x 7/12			(790)	790
Total allowances		<u>133,274</u>	<u>16,138</u>	£246,493
TWDV c/f		133,274	16,138	

Notes:

Based on projected figures excluding VAT supplied 14 November 2018

Assumes that a change of accounting date to 31 July 2019 goes ahead and that additions are purchased within the new accounting period, with no disposals.

Calculated using FA 2017 rates and rules

24 marks:	
WDVs brought forward and plant into main pool	1+1
FYA on efficient toilets	1
Vans to main pool	1
LLA into pool per own explanation (if no explanation, into SRP)	1
Fixed walkway nil	1
AIA first use per own explanation (if no explanation, to SRP first)	1
AIA x 7/12	1
AIA x 1/5	1
AIA balance to main pool	1
WDAs 18% x 7/12	1
WDAs 8% x 7/12	1
Explanation of treatment of LLA	3
Explanation of allocation of AIA	1
Any other sensible note/assumption shown	1
Patent-related costs allowable	1
Companies House – ask lawyers/can't officially advise; urgent/21-day time limit	max 2
Professional marks (incl labelled figures, referencing letter to appendix)	6
Overall marks capped at 24	

Task 3

File Note – Tangent Tech plc 22 November 2018

Residence and domicile issues

Planned secondment of full-time employees from Finland to TT plc's head UK office from May 2019.

Proposed duration approximately 6 weeks but could be up to 4 months for Niilo. EEs are Finnish res and dom, and have never been UK resident previously.

- a) RESIDENCE UNDER SRT
- i) 42-day secondment

Fails first automatic overseas test as >16 days.

But meets second automatic overseas test as <46 days in the UK and non-UK res all of last 3 tax years.

Therefore non-UK resident, provided visit does not exceed 45 days.

- ii) 123-day secondment

Fails all automatic overseas tests as >90 days in the UK.

Appears not to meet automatic UK tests as <183 days in the UK and full-time UK work is for <365 days.

Consider whether Niilo's brother's UK property might be considered Niilo's 'home' for SRT purposes. Seems unlikely anyway – and Niilo having a home in Finland rules this out.

Between 46 days and 182 days in the UK, so need to apply sufficient ties test.

Family tie: will not apply (incl to Niilo – brother will not count) NO

Accommodation: will not apply re rented accommodation NO

but will apply re Niilo's stay >16 days with his brother YES

Work tie: >40 days >3hours per day seems likely but check contracted hours (?) YES

UK presence: <90 days last two tax years NO

Country tie: n/a for new arrivers never UK res before

'Arrivers' with no previous UK visits.

For >120 days in UK, at least 2 ties needed.

Preliminary conclusion

Based on above, Niilo would be UK resident, other EEs would not.

Further information which would be useful

Exact duration of secondments and whether in UK continuously during these

Terms of employment contracts – days per week, hours per day

Action point

Remind TT of importance of 45 day threshold for 6-week secondment, also 120 days for a stay of around 4 months.

- b) DOMICILE

All EEs have a Finnish domicile currently.

A secondment to the UK would not sever ties with home country, nor create sufficient links with the UK to establish a new domicile of choice. In order to acquire a domicile of choice in the UK, EE would need to leave Finland and permanently settle in the UK. Would need to take into account factors such as social/family interests, ownership of property etc. On this basis, short assignments to the UK will not affect domicile status. (Although if the exercise were repeated year on year, especially for Niilo, this could eventually change.)

21 marks:

ai) Residence: 42-day secondment	2
ai) Residence: 123-day secondment (technical marks capped at 12)	12
b) Domicile	3
Professional marks 5 (incl avoiding irrelevant tests, clarity)	5

Task 4

DRAFT EMAIL

To: conor@ttechplc.com
Subject: CSOP for Tangent Tech plc

Conor

Thank you for letting me know of your interest in a Company Share Option Plan (CSOP) for Tangent Tech plc.

You are correct that an Enterprise Management Incentive (EMI) scheme would not be a possibility for Tangent Tech, which has more than the maximum 249 full-time equivalent employees allowed for an EMI.

You could invite any full-time directors and any employees to participate in a CSOP. You would not be obliged to invite all your workers to do so. Your part-time employees could participate. In certain circumstances, there is an exclusion for employees holding more than 30%, but Garrett's 10% holding is below this limit so he would be able to participate anyway.

Taking as an example an employee who is granted an option over shares valued at the maximum £30,000 at the date of grant and who exercises after 4 years when the value has doubled, they would have a gain of £60k - £30k = £30,000. Using current rates, after an annual exemption of £11,300, the gain of £18,700 would be taxed at 20% for a higher-rate taxpayer, giving CGT of £3,740.

The charge to CGT rather than income tax, with the annual exemption available and the rate of tax only half the 40% income tax the employee would pay, gives a considerable advantage.

Regarding NICs, there is no income tax or Class 1 NI for employees to pay if options are exercised within 3 to 10 years of grant. Even if exercise is not within this window, giving an income tax charge, employees would only pay NI if the shares are 'readily convertible assets', ie if there is a ready market for them. If Tangent Tech plc becomes quoted, its shares would count as readily convertible. But employees could still escape a NI charge by timing exercise within the window of 3 to 10 years.

The rules for the operation of a CSOP are given in Schedule 4 of ITEPA 2003.

Before implementing a CSOP, I recommend

- Ensuring that all the conditions are satisfied: this will need to be certified to HMRC before going ahead
- Establishing the share price, bearing in mind options over CSOP shares must not be granted at a discount
- If application to trade on the Stock Exchange is going ahead, considering the best timing to set up the share scheme

Sincerely

Melanie

19 marks:	
Schedule 4 reference	1
Exclusion from EMI >249 staff (accept reference to 250)	1
Discussion of EEs' eligibility	3
NI treatment	4
CGT calc	3
One tax advantage for EEs	1
One further issue (any sensible tax/commercial point)	1
Professional marks (including flow based on own ordering of points)	5

Task 5

Schedule for Tangent Tech plc

Key dates for Corporation Tax

		7 months ended 31 July 2019	Year ended 31 July 2020
CT600 return		31 July 2020	31 July 2021
Instalment payments:			
First instalment		14 July 2019	14 February 2020
Second instalment		14 October 2019	14 May 2020
Third instalment			14 August 2020
Final instalment		14 November 2019	14 November 2020
Record keeping		31 July 2025	31 July 2026
Amendments:			
Own amendments		31 July 2021	31 July 2022
HMRC amendments		9 months from submission	9 months from submission
HMRC enquiries		(12 months from statutory filing date) 31 July 2021	(12 months from statutory filing date) 31 July 2022

22 November 2018

18 marks:	
Dates 1 each (must be dates, no marks for rules)	15
HMRC deadlines for amendments 1 each	2
Bonus for provisions if return late	1
Capped at 16	
Professional marks (including sensible layout)	3
Overall marks capped at 18	