CIOT - ATT-CTA - 2020 November Exams

Paper: **ATT Paper 1**

Part/Module: **Part 1**

Answer-to-Question-_1_

Generally only people who are UK Tax Resdients pay Capital Gains tax on their disposals.

Only gains arising on land such as Hugos are subject to CGT since 6 April 2019.

The default method is requires the land to be valued at 05 April 2019 and this is the value that will determine the gain. Hugo will pay CGT on the Proceeds less the value on the 5 of April 2019.

However Hugo can also elect for the gain to be taxed on a time apportioned basis, this should reduce the capital gain.

In this case Hugo will be taxed on the element of the gain arising after the 5th of April 2019.

Hugo must make a payment on account of the tax due within 30 days of the completion of sale.

Should the land have been sold prior to 6 April 2019 then there will be no capital gains payable on the sale of the land.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

There are no income tax implications on the exercise of company share options if the exercise of the shares is made within 3 years and 10 years of the date of Grant.

Therefore should the shares be exercised in December 2020 then there will be no income tax or national insurance payable.

However should the shares be exercised in November 2020 then Shaun will be taxed on the Market value at date of exercise less the option price. This figure will be subject to income tax. The amount subject to income tax however will be deducted when arriving at the gain chargeable to capital gains tax.

Should the shares be readily convertible assets and exercised in November 2020 then these shares will also be liable to national insurance.

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

Salim is eligble for entrepreneurs relied as he is selling his whole shareholding in his business.

Salim is elgible to pay 10% on his gain.

£1,500,000 x 10% = £150,000.

However as Salim has already claimed £9million in entrepreneurs relief only £1,000,000 of the sale is eligble for entrepreneurs relief.

£1,000,000 x 10% = £100,000
£500,000   x 20% = £100,000

Total CGT payable is £200,000

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Rose House - Meets the UK property, Furnished, available for 210 days,actually let for more than 105 days and has been let out on short term lets. Therefore Rose cottage meets the furnished hokiday lettings for 2019/20.

Lily Cottage - Lilly cottage does not meet the conditions for furnished holiday lettings as the longer term occupation is more than 155 days. All other conditions were met

Brynns cottage - Brynns cottage does not meet the furnished holiday letting conditons as it has been let for less than the 105 days threshold at 96 days only. All other conditons have been met.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

Assets transferred between civil partners are at no gain and no loss.

The deemed proceeds for the donor civil partner is the deemed cost for the donee civil partner.

However these rules will only apply until the tax year of seperation should the seperate.

The civil partners remain connected until the decree absolute, therefore until divcorce any transfers take place at market value.

Therefore there is no gain nor loss for either of Anne who is transferring or Sarah who is receiving the shares.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

4.5 years - occupied living in the house

2 years - occupied under the any reason rule

0.5 years - occupied living in the house

4 years - 1 year occupied any reason and last 18 months

Total years = 4 + 4.5 + 2 + 0.5 = 11 years

11 years x 12 months = 132 months

PPR relief available for 8.5 years x 12 = 102 months

247,500 x 102/132 = £191,250

Lettings relief is available to Harriet on the lowest of

- PPR relief
- The gain in the let period
- 40,000

Gain in let period = 30/132 x 247,500 = £56,250

Therefore Lettings relief is available at £40,000

Gain	£247,500
PPR Relief	(£191,250)
Lettings relief	(£40,000)
Annual exempt amount	(£12,000)
	£4,250

--------------ANSWER-7-BELOW---------------

Answer-to-Question-_7_

As Jane was born in 1933 the married couples allowance is available.

The married couples allowance is £8,915 and is given as a tax reducer at 10%.

NSI	SI	D
34,200		

34,200 X 20% = £6,840
Less 6615 x 10% = (£662)
£6178

MCA 8,915
Less 1/2 (34,200 -29,600) = (£2300)
£6615

--------------ANSWER-7-ABOVE---------------

--------------ANSWER-8-BELOW---------------

Answer-to-Question-_8_

Loan at 06 april 2019 - 50,000
Loan at 05 April 2020 - £30,000

$\frac{£50,000 + £30,000}{2} \times 2.5\% = £1,000$

--------------ANSWER-8-ABOVE---------------

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--------------ANSWER-9-BELOW---------------
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Answer-to-Question-_9_

Discretionary trust income - 5,500 x 100/55 = £10,000

Possession trust income - NSI - 10,000 X 100/80 = £12,500
                    Dividends - £4,000 x 100/92.5 = £4,324

Total income - £10,000
               £12,500
               £4,324
               £26,824
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--------------ANSWER-9-ABOVE---------------
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--------------ANSWER-10-BELOW--------------

Answer-to-Question-_10_

As Sharon is UK domiciled she is taxable on her UK income at all times. Should Sharon be UK domiciled and resident for the 2019/20 UK Tax year then Sharon will be taxable on both her UK income and her income from Brazil. Sharons residency will be driven by the statutory residency rules. As Sharon is returning to the UK on the 01 October 2019 she is likely to be very close to becoming resident under the 183 days rule and therefore all income will be taxable. This means that both her salary in Brazil, Salary in the UK, Dividends from investments in the UK and Brazil will all be taxable. However should Sharon not be resident in the UK then her foreign earnings will not be taxable in the UK despite her domicile. This means that only her Salry in the UK and Dividends from UK investments will be taxable.

As Sharon is a non domicled individual she is unable to elect for the remittance basis of taxation whereby she would only be taxed on her UK income and gains. Sharon is also not able to elect for the overseas work day relief.

It is possible that Sharon can split the year when re entering the UK and therefore be resident from the 1st of october onwards. Sharon could split the year based on the full time work in the UK rules. Under the split year rules the non UK income earned in the overseas part of the year is out of the scope of UK taxation and therefore any overseas income earned before returning to the UK is exempt from UK tax. Only overeseas income earned during the UK part of the tax year will be taxed under the UK.

--------------ANSWER-10-ABOVE--------------

--------------ANSWER-11-BELOW--------------

Answer-to-Question-_11_

60,000 x 2% x (25-1) = £28,800

28,800 x 1/12 = £2400

Rent received = 1/12 x 3,000 = £250

Premium	£60,000
Less	(£2,400)
Less	(£250)
	£57,350

--------------ANSWER-11-ABOVE--------------

--------------ANSWER-12-BELOW--------------

Answer-to-Question-_12_

- Professional clearance
-Quoting and setting fees, and retainers
-Scope of Services
- Deadlines and dates of disengagement
- Best wishes
- Advice
- Outline final matters to be taken care of
- Outline everything the client is responsible for
- Return of documents
-Period of time that you are keeping records

--------------ANSWER-12-ABOVE--------------

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Paper: **ATT Paper 1**

Part/Module: **Part 2**

--------------ANSWER-13-BELOW--------------

Answer-to-Question-_13_

1)
Jemma paid 5% salary into her pension scheme = 5% x 61,000 = £3,050

Jemma will received relief under the occupational pension scheme under net pay arragnements where PAYE is applied to salary after the pension contribution has been deducted.

61,000 - 3,050 = £57,950

The employer contribution at 6% is a tax free benefit

Jemma used her own car and 85% of miles were business related.

17,900 x 85% = 15,215 business miles

Jemma received 42 pence per mile however she is entitled to 45 p per mile.

Jemma received 15,215 x 42p = £6,390

Jemma could have received 10,000 miles at 45p	= £4500
Jemma could have received 5,215 x 25p	= £1,304
	£5,804

Therfore (6,390 - £5,804) = £586 is subject to national insurance

Living accomodation

Cost	£409,900
Improvements	£16,700
	£426,600

£426,600 - 75,000 x 2.5% = £8,790

	NSI	I	D
	61,000		
		1,390	
			2,310
			250
Pension	(3,050)		
PA	(12,500)		
	45,450	1,390	2,560

37,500 x 20% = £7,500
7,950 x 40% = £3,180

500 x 0% = £0
890 x 40% = £356

2,000 x 0% = £0
560 x 32.5% = £182

Total income tax = £11,218
Less PAYE dedcuted = £17,545

repayment of £6,327

National insurance

61,000 + 586 + 8,790 = £70,376

NIC PAYABLE

50,000 - 8,632 = 41,368 X 12% = £4,694
20,376 X 2% = £408

Total NIC payable = £5102

2)

Rent received -

8 x 1620 = £12,960

Recived basis 4 x 1760 = £7040

Total rent = £20,000

Letting agent fees 7% x 20,000 = £1400

Interest 7,440 x 25% = £1860
7,440 x 75% = £5580

Insurance - 4/960 = 240
8/1,120 = 140

Rental income

	20,000
Less agent	(1400)
Interest	(1860)
insurance	(380)
	£16,360

Less IT reduced 5,580 x 20% = £1116

£16,360 - £1116 = £15,244

3)

The lasting power of eternity covers desicions about financial affairs, health and care. It comes into effect if an individual loses their mental capacity or if that individual no longer wants to make decisions for themselves. You would set up a lasting power of eternity in order to ensure that you are covered in future years. This is usually provided to someone that you trust such as a family member.

In a lasting power of eternity, it must be signed by both the atorney and donor. Either the atorney or donor must make the application themselves. Legal rights must be included, details of what is to be incuded whether it be for health and finance or both.

--------------ANSWER-13-ABOVE--------------

--------------ANSWER-14-BELOW--------------

Answer-to-Question-_14_

Damaged GARDEN

25,000/ 25,000 + 50,000 X 40,000 = £13,333

Inherited land

378,000 - 10,000

260,000/260,000+750,000 x 368,000 = £94,733

--------------ANSWER-14-ABOVE--------------

--------------ANSWER-15-BELOW--------------

Answer-to-Question-_15_

MY ADRESS

MARIA
Clients address
30.9.20

Dear Maria,
I am writing to you in regards to your 2018/19 UK Tax Return which was due to be submitted to HMRC by the 31st of January 2020. I note that you have provided approval for your return and this has since been filed with HMRC.

You were required to notify HMRC of your chargeability by the 5th of October 2019. However as this was provided late there are penalties assocaited with the late notification. HMRC are likely to view your actions as a late notification but not deliberate or concealed and therefore you are likely to receive a maxiumum penalty of 30%. I do however note that as this was not a prompted disclosure the penalty may be reduced to 10% or 20%. The 10% or 20% penalty is to be set against the tax liability of £10,000.

You are entitled to appeal against any penalties and these appeals are held via a tribunal.

Should the payment be paid late then unfortunately further penalties will be due to HMRC. If the payment due is not made within 30 days of the 31st of January 2020 then a penalty of 5% of the total liability is due to HMRC. A further 5% penalty is due when the payment has not been made within 5 months of the first penalty date. In the event that you are unable to pay until the 31st of March 2021 then there will be a third additional 5% penalty as the payment is likely to be more than 11 months late after the first penalty date.

Where penalties for late notification have been correctly charged to HMRC your only ground for appeal is that you had a reasonable excuse for this failure.

Should you have any further concerns we will be more than happy to discuss.

Yours sincerly.

James

--------------ANSWER-15-ABOVE--------------

--------------ANSWER-16-BELOW--------------

Answer-to-Question-_16_

Andy

- Employees can be awarded up to £3600 worth of free shares per year
- Employees can buy partnership shares up to the lower of £1800 or 10% of salary plus a bonus
-The employer can provide Andy with up to two further matching shares for each of the partnership shares Andy has aquired
- Any dividends from the plan shares aquired by Andy can be reinvested to aquire dividend shares

Should Andy withdraw the free shares he has recieved within 3 years then he will pay income tax on the Market Value at withdrawl.

Should Andy withdraw the shares between 3 and 5 years then Andy will pay income tax on the market value of the allocation price or Market Value at the withdrawl price

Should Andy withdraw the shares after 5 years then there will be no income tax implications of withdrawl.

If Andy was to withdraw the Dividend shares within 3 years then the Dividends used to buy the shares become taxable.

If Andy was to withdraw the dividend shares after 3 years then no income tax is taxable.

Andy can aquire up to £3,600 worth of shares being 3,600/2.50 = 1440 shares.

Andy can buy partnership shares up to the value of £1700 (10% of salary) 1700/2.5 = 680 shares

Salary surrendered to buy partnership shares is deducted from gross salary before income tax and NIC is calculated

Andy can aquire 2 matching shares for each partnership share. Andy can therefore aquire 1360 matching shares.

Andy can aquire any dividend shares from using the dividends from plan shares.

Should Andy withdraw the Partnership shares within 3 years then Income tax on withdrawl, if withdrawn within 3-5 years then income tax on lower of amount used to purchase shares at Market value or at withdrawl. If parternship shares are sold after more than 5 years then no income tax.

Should andy withdraw Matching shares within 3 years then income tax on MV at withdrawl, between 3-5 years income tax on MV at allocation or MV at withdrawl. If sold after 5 years then no income tax.

Carol

Carol would have been entitled to free shares once she had provided 18 months service to the company. At this point the share value was 2.00

Carol shares aquired in 2015 and 2016 will have been withdrawn after 5 years and therefore no income tax is due.

Carols shares between 1 march 2017 and 01 March 2020 will be subject to income tax

BR tax payer so will oay 20%

01 March 2017 - Income tax on £2.50 the market value at withdrawn. Carol will pay 20% on the 2.5 x 1390 = £695

01 March 2018 - Income tax on 2.40 at allocation price
Carol will pay 20% on the 2.4 x 1500 = 720

01 March 2019 - Less than 3 years, IT on MV at withdrawl
Carol will pay 20% on the 2.4 x 1500 = 720

01 March 2020 - less than 3 years, IT on MV at withdrawl

Carol will pay 20% on the 2.4 x 1500 = 720