# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 1 PERSONAL TAXATION

**November 2020**

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

## PART I

1. Hugo, a non-UK resident, sold a plot of land he owned in the UK, realising a large capital gain.

   This plot of land was acquired in June 2017.

   **Explain the options for Hugo with regards to how much of the gain is subject to Capital Gains Tax.** (4)

2. Shaun works for Red plc.

   On 1 December 2017, Shaun was granted an option to buy some shares under Red plc's company share option plan (CSOP) for their market value at that date. He is considering exercising the option before the end of November 2020 but would be willing to wait until December 2020 if that has a positive impact.

   **Explain the Income Tax and National Insurance implications if he exercises the option in November 2020 and any difference if he exercises it in December 2020.** (3)

3. On 1 May 2019, Salim sold his entire shareholding in his company, realising a gain of £1.5 million. The disposal qualifies for entrepreneurs' relief.

   In 2014/15, Salim had sold his previous company and claimed entrepreneurs' relief of £9 million.

   Salim is a higher rate taxpayer for Income Tax purposes and has made no other disposals in 2019/20.

   **Calculate Salim's Capital Gains Tax liability for 2019/20.** (3)

4. Jack owns three furnished residential properties in the UK, which are usually let out on short term lets.

   The following relates to the three properties for 2019/20:

| | Available for letting (days) | Actually let (days) |
|---|---|---|
| Rose House | 280 | 170 |
| Lily Cottage (see below) | 365 | 215 |
| Brynn's Cottage | 240 | 96 |

   Jack agreed to let out Lily Cottage to one person for a six month period from May 2019.

   **Explain whether each of Jack's properties can be treated as furnished holiday lettings for 2019/20.** (4)

5. On 1 September 2019, Anne transferred her entire shareholding in a large investment company to her civil partner, Sarah.

   The shares had cost £12,000 when purchased, but the market value at the date of transfer was £39,000.

   **Explain the Capital Gains Tax implications of this transfer for both Anne and Sarah. You are NOT required to show any calculations.** (3)

6. Your client, Harriet, sold her former home in 2019/20 realising a gain of £247,500. This had been her Principal Private Residence (PPR).

   During Harriet's period of ownership, the house was used as follows:

| Dates | Years | |
|---|---|---|
| 1 April 2009 – 30 September 2013 | 4.5 | Harriet lived in the house |
| 1 October 2013 – 30 September 2015 | 2 | Harriet travelled around the world leaving the house unoccupied |
| 1 October 2015 – 31 March 2016 | 0.5 | Harriet lived in the house |
| 1 April 2016 – 31 March 2020 | 4 | Harriet lived elsewhere in the UK and let out her house |

   Harriet was able to get PPR relief for 8.5 years of her period of ownership.

   **Calculate Harriet's chargeable gain on disposal of her former home. Show all workings.** (3)

7. Jane and George got married in April 2010. Jane is 87 years old and George is 82 years old.

   In 2019/20, Jane's adjusted net income was £34,200 and all of this was non-savings income. This was higher than George's adjusted net income of £14,000, which was all non-savings income.

   The most beneficial claim has been made.

   **Calculate Jane's Income Tax liability for 2019/20.** (4)

8. Xander is an employee at Jade Ltd.

   In March 2019, Jade Ltd gave Xander an interest free loan of £50,000.

   In August 2019, Xander repaid £20,000 of the loan, but has not made any further repayments since then.

   **Calculate Xander's taxable benefit for 2019/20 using the average method.** (2)

9. In 2019/20, Amelie received income of £5,500 from a discretionary trust and £14,000 from an interest in possession trust.

The R185 form showed the payment from the interest in possession trust was net savings income of £10,000 and net dividends of £4,000.

She has no other sources of income.

**Calculate Amelie's taxable income for 2019/20.** (4)

10. Sharon has always been UK domiciled. She had previously been UK resident until she went to work for her employer in Brazil on a two year secondment in 2017. She returned to the UK on 1 October 2019, having finished work in Brazil the day before.

In 2019/20 Sharon's income was as follows:

| Income | To 30 September 2019<br>£ | From 1 October 2019<br>£ |
|---|---|---|
| Salary in Brazil | 40,000 | |
| Salary in UK | | 35,000 |
| Dividends from investments in UK companies | 600 | 650 |
| Dividends from investments in Brazilian companies | 200 | 100 |

**Explain how Sharon's residence status affects which of these amounts are subject to UK Income Tax in 2019/20. State which amounts are subject to Income Tax. You are NOT required to perform any calculations. Ignore any Double Tax Treaty with Brazil.** (4)

11. Jock owns a freehold property.

On 1 March 2020, Jock granted Arun a 25 year lease on the property. Arun paid a premium of £60,000.

Arun also has to pay annual rent, in advance, of £3,000 for the property. Jock incurred no costs in relation to the property in 2019/20.

**Calculate Jock's property income for 2019/20.** (3)

12. Gianni has been told by one of his clients that they are moving to a new adviser.

Gianni has started to draft the disengagement letter, but he is unsure what he should include.

**Outline three matters that a disengagement letter will normally address.** (3)

**PART II**

13. Jemma Chapman and her sister Grace are clients of your firm. They are both domiciled and resident in the UK.

    Jemma is employed by Tirod Ltd as a sales manager. She has supplied you with the following information relating to her employment in the tax year 2019/20:

    1) Her gross annual salary received was £61,000 from which Income Tax of £17,545 was deducted under PAYE.

    2) Jemma paid 5% of her salary into the company's occupational pension scheme and Tirod Ltd paid a further 6% on her behalf.

    3) Jemma used her own car for business trips and the company paid a mileage allowance of 42 pence per mile for both business and private mileage.

       She claimed for 17,900 miles, of which 85% related to the business miles she travelled.

    4) Since joining the company on 1 September 2016, Tirod Ltd provided Jemma with an unfurnished house close to work in the South of England. The annual value of the property is £10,150.

       The company purchased the house on 31 October 2013 for £409,900. In February 2014, it added a conservatory to the house at a cost of £16,700. On 1 September 2016 the house was valued at £517,000.

       Jemma provided all the furnishings for the house at a cost of £13,400 and she paid the running expenses of £1,680.

       Jemma also received the following income in 2019/20:

       (a) Building society account interest of £1,390.

       (b) Dividends of £250 from UK companies.

       (c) Dividends received of £2,310 from companies in Utopia from which 12% withholding tax has been deducted. There is no Double Taxation Treaty agreement between the UK and Utopia.

    Grace Chapman, Jemma's sister, has also approached you for help in calculating how much of her property income is assessable to Income Tax.

    She has let out a furnished freehold apartment throughout 2019/20 and has given you the following information:

    1) Until 31 December 2019 she charged rent of £1,620 per month, payable on the first day of each month, in advance. On 1 January 2020 she increased the rent to £1,760 per month.

    2) The letting agency charges Grace a 7% fee for managing the property. The fee is based on gross rents received in the tax year.

    3) During 2019/20 she paid loan interest of £7,440 in respect of a loan that was taken out to purchase the property in 2012.

    4) The insurance for the apartment is payable annually in advance and cost £1,120 for the year ended 31 July 2020, and £960 for the year ended 31 July 2019.

*Continued*

*Continuation*

Jemma and Grace's mother is 89 years old and her physical and mental health is deteriorating. A family friend has recommended that they should investigate taking out a lasting power of attorney.

**Requirements:**

1) **Calculate Jemma Chapman's Income Tax liability and Class 1 Primary National Insurance Contributions payable for 2019/20.**

   **In your answer you should list all the benefits of employment received and indicate any that are not taxable.** (13)

2) **Calculate Grace Chapman's property income assessment for 2019/20.**

   (3)

3) **Explain what a lasting power of attorney is, and state what must be included in the legal instrument creating the lasting power of attorney.**

   (4)

Total (20)

14. Owen holds £1 ordinary shares in George Ltd. He bought 25,000 of these shares for £5 each in March 2016 and another 35,000 for £10 each in June 2018. In January 2019, there was a 2 for 3 bonus issue. In September 2019, George Ltd announced a 1 for 10 rights issue at £15 per share when the shares were worth £18 each, and Owen took up his full entitlement. In March 2020 Owen sold half of his shareholding in George Ltd for £1.1 million.

Owen also owned 120,000 £10 ordinary shares in Manu Ltd, a manufacturing company. He subscribed for these shares at par in May 2014 and claimed the maximum available EIS Income Tax relief. Owen's holding represented less than 5% of the company's ordinary shares. In June 2019 he sold the shares for £5 million. The annual maximum investment qualifying for EIS Income Tax relief was the same in 2014/15 as it is in 2019/20.

Owen inherited 42 acres of land from his father in 2002 when the land was valued at £9,000 per acre. In May 2019, he exchanged and completed on the sale of 14 acres of the land for £260,000 at a time when the remaining acres were worth £750,000. Legal costs of £10,000 were incurred in relation to the sale. In December 2019, Owen exchanged contracts to sell another 10 acres to a different buyer for £1 million when the remaining 18 acres were worth £500,000; this contract was conditional on the land being granted planning permission. Planning permission was granted in June 2020.

Owen also held securities in the form of US$500,000 of loan stock issued by a multinational company. The loan stock had been issued at par on two dates: $200,000 in May 2015 and $300,000 in June 2018. The exchange rate on those two dates was US$1.5: £1 and US$1.3: £1 respectively. Owen sold US$400,000 of the loan stock in October 2019 for US$410,000 when the exchange rate was US$1.25: £1.

In September 2016, Owen lent £20,000 to his friend Eddie to help him repair his home after it was damaged in a flood that month. A month later another friend, Tom, also lent Eddie £15,000. In February 2018, Owen bought that latter debt off Tom for £12,000. Eddie repaid both debts in full in May 2019.

In June 2019, a valuable statue in Owen's garden was damaged. Owen had bought the statue 10 years ago for £40,000 and, immediately before being damaged, it was worth £85,000. The damage reduced the value to £50,000. Fortunately, the statue was insured and Owen received insurance of £25,000 in August 2019. Owen spent £16,000 of the insurance money repairing the statue but then sold it for £80,000 in March 2020.

**Requirement:**

**Calculate Owen's taxable gain for the 2019/20 tax year.** (20)

15. Your client Maria has been very late in providing you with the necessary information to enable you to prepare her 2018/19 tax return. Much of this delay centred on the need to obtain a valuation of an investment property that she had gifted to her brother in that year, resulting in a significant Capital Gains Tax liability.

However, you have now completed her 2018/19 tax return. Before submitting it to HMRC, you sent it to Maria last week for approval. Her tax return shows that she has an outstanding £10,000 tax liability due for 2018/19. She was not required to make payments on account for 2018/19 but is required to do so for 2019/20.

Maria has emailed you to approve the tax return and confirm that it can be submitted electronically now. She has however told you that she had not anticipated the tax liability associated with the property disposal and, as she received no proceeds on that disposal, she does not currently have sufficient funds to pay any of her tax liability. She is hoping to receive a cash gift from her parents later this month which will enable her to pay the tax. If that gift is not made, she has agreed a back-up plan to sell a valuable painting to a friend; however, if that sale is required, it probably will not happen until March 2021.

Maria understands that she will pay interest on the late payment of tax. She has however asked you about the other financial penalties that she may have already incurred for her failure to act sooner and what further penalties HMRC could impose if there are further payment delays.

**Requirement:**

**Write a letter to Maria explaining, with supporting calculations:**

1) **The financial penalties that she will, or may, already have suffered and when they would have been incurred, and**

2) **Any additional penalty that may be applied if payment is delayed until the sale of the painting.**

**You can ignore any interest that HMRC may seek to charge.** (10)

16. Oldfield plc offers all its employees the option to participate in a Share Incentive Plan (SIP) from the date that they join the company. Employees receive free shares under the SIP and some have the dividends received on those shares invested into dividend shares. Belinda, your contact at the company, has approached you as two employees have raised some questions in relation to the SIP.

The first employee, Andy, is a new employee who started on 1 April 2020. He has a salary of £17,000 per annum and is provided with a travel season ticket by Oldfield plc, which costs the company £500 per annum. He has asked what the Income Tax implications are for him of receiving free shares and dividend shares.

He is also interested in obtaining as many other shares as possible through the SIP, in addition to the free and dividend shares. Belinda has asked you to calculate the maximum number of additional shares that Andy could obtain in his first year, assuming that the company shares are valued at £2.50 per share throughout the year. She has asked what the Income Tax implications are for Andy of acquiring these additional shares.

The second employee, Carol, joined Oldfield plc in March 2014. She only has free shares in the SIP. Carol has given notice to leave the company to join a competitor and her last day with Oldfield plc will be 31 March 2021. Under the scheme rules, she is not entitled to a free share award on 1 March 2021. On 31 March 2021 she will withdraw her shares from the SIP. Carol has asked for an explanation, together with a calculation, of what amounts will be subject to Income Tax when her shares are withdrawn from the SIP. The estimated market value of the shares in March 2021 is £2.50 per share.

Carol's shares were awarded as follows:

| Date awarded | Number of shares | Market value per share at award | Total market value at award |
|---|---|---|---|
| | | £ | £ |
| 1 March 2015 | 1,800 | 2.00 | 3,600 |
| 1 March 2016 | 1,629 | 2.21 | 3,600 |
| 1 March 2017 | 1,390 | 2.59 | 3,600 |
| 1 March 2018 | 1,500 | 2.40 | 3,600 |
| 1 March 2019 | 1,500 | 2.40 | 3,600 |
| 1 March 2020 | 1,500 | 2.40 | 3,600 |

Belinda has asked to have a meeting with you to discuss these two employees. Both Andy and Carol are basic rate taxpayers.

**Requirement:**

**Prepare notes and computations for your meeting with Belinda covering the questions that Andy, Belinda and Carol have asked.** (10)