THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

November 2022

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. Peter works for Aslan plc.

   On 6 June 2021 he was provided with a newly-registered hybrid car for his personal use. The car had a list price of £26,000 but Aslan plc paid a discounted price of £22,000. The car has CO_2 emissions of 38g/km and an electric mileage range of 50 miles. Peter pays for the petrol for all private use of the car.

   On the first working day of each month Peter makes a site visit to a client. The client is based 15 miles from Peter's home and he cycles there and back on his own bicycle. Aslan plc pays him at a fixed rate of 45p per mile for these trips.

   Calculate Peter's taxable benefits for 2021/22. (4)

2. Susan is being made redundant by Narnia Ltd. Her termination package includes the following:

   1) A performance related bonus for the six-month period up to the date of her departure.
   2) A statutory redundancy payment of £6,500.
   3) A non-statutory redundancy payment of £12,000.
   4) A £10,000 "golden goodbye" as stipulated in her contract of employment.
   5) A gratuitous additional payment of £15,000.

   Explain the extent to which each element of Susan's termination package is subject to Income Tax. (4)

3. Caleb and his two siblings pay into pension schemes as a tax efficient way of saving for their retirement. Caleb is currently not working. His brother and sister both work, and his sister is a 'high income' individual for pension purposes.

   Explain the limits on tax-relievable annual contributions that Caleb and his siblings can each make to pension schemes. Ignore the carry forward of any unused annual allowance from earlier years. (3)

4. **Explain who is required to pay Class 2 and Class 4 National Insurance Contributions and at what age the obligation to pay starts and stops.** (3)

5. Caspian has bought and furnished a flat in central Nottingham. He plans to live in the flat for between five and six months each year and let it out for the rest of the year. He knows that for it to qualify as a furnished holiday let he has to actually let the property for at least 105 days each year and is worried whether this is achievable. He has a friend who says she will rent the flat for any periods when it would otherwise be empty. Caspian already owns a furnished seaside bungalow in Cornwall which is available exclusively for short term lets all year round and achieves 55% occupancy (i.e. is occupied for 200 days each year).

   Explain how the proposed arrangements might impact Caspian's ability to meet the conditions for the flat to be treated as a furnished holiday let. (3)

6. Lucy inherited a property from her grandfather in 2017 when it was valued at £375,000. On 15 June 2021 she granted a 35-year lease to Eustace, who paid a premium of £175,000. Lucy incurred estate agent costs of £3,000 in relation to the grant while Eustace paid legal fees of £1,000. The reversionary interest in the property at the date of grant was £300,000.

   Calculate the chargeable gain arising on the grant of the lease. (4)

7. For many years Cornelius owned 6% of the ordinary share capital and was a director of Pevensie Ltd, an unquoted trading company. The shares were standing at a substantial gain when, in August 2021, the company issued more shares for cash to its main investor in order to fund additional working capital. As a result, Cornelius' shareholding fell to 4%. Cornelius is still a director and plans to sell his shares within the next five years.

Explain what election(s) are available to Cornelius to minimise his Capital Gains Tax liability on the eventual sale of the shares. (3)

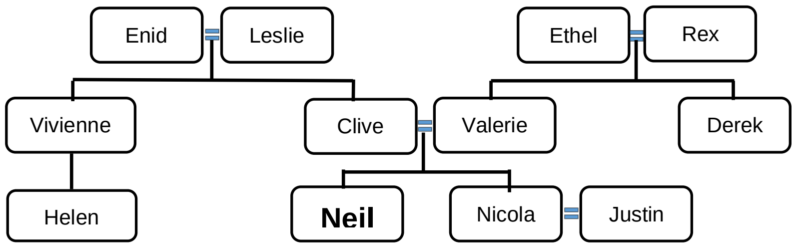
8. Edmund owned a painting that he bought for £30,000 in 2004. In January 2021 the painting was damaged in a fire. In July 2021, Edmund received £80,000 compensation, at which time the painting was valued at £40,000. Edmund immediately spent £50,000 on restoring the painting. In December 2021 he gifted the painting to his wife, Jadis, who sold the painting in March 2022 for £200,000. No claim is to be made under s23(3) TCGA 1992.

Calculate the chargeable gains/allowable losses realised by each of Edmund and Jadis in 2021/22. (4)

9. On 31 January 2021 Rilian filed his 2019/20 tax return and paid the tax due, together with the first £2,500 payment on account for 2020/21. He then did nothing until 1 June 2022 when he filed his 2020/21 tax return and paid the remaining tax due for that year. His tax liability for 2020/21 was £8,000.

Explain, with calculations, the penalties that Rilian will incur. Do not consider interest charges. (4)

10. The Roper family has the family tree as shown below.



Double lines indicate marriage and single lines indicate lineal descendants.

Neil and Helen are partners in a property investment business.

Explain whether or not Neil is connected to Justin and Helen for Capital Gains Tax purposes. (2)

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11. In 2008 Anthony bought 10,000 shares in Hopkins plc for £20,000. In 2019/20 the shares became worthless. In February 2022, Anthony made a negligible value claim in relation to the £20,000 loss.

Anthony's capital gains in recent years have been as follows:

	2019/20	2020/21	2021/22
	£	£	£
Gain on chattels	-	-	80,000
Gain on residential property	25,000	-	-
Gain on shares qualifying for BADR	-	60,000	-

Anthony has made no other capital losses and does not envisage making any significant capital gains in the future.

The annual exempt amounts were £12,000 in 2019/20 and £12,300 in 2020/21. For all relevant years, Anthony is a higher rate taxpayer.

Explain, with calculations, the most tax efficient use of the £20,000 loss. (3)

12. Don, who is UK resident and domiciled, had the following income in 2021/22:

	£
Employment income (gross, before deduction of £5,000 UK PAYE)	65,000
Dividend from Ruritanian company (gross, before deduction of 28% Ruritanian withholding tax)	6,250

Calculate Don's UK Income Tax liability after Double Tax Relief for 2021/22. (3)

PART II

13. Ellie is a client of your firm and is a Scottish taxpayer. She has given you the following information for 2021/22:

1) She owns a house that she rents out to tenants. The rent is payable in advance on the first day of every month. Until 30 September 2021 she charged rent of £2,700 per month. On 1 October 2021 she increased the rent to £2,850 per month. The tenant was late paying the rent for April 2022, making the payment at the same time as the rent for May 2022.

   During the year she paid the council tax of £1,200 and interest of £6,550 on a loan that she had taken out in order to buy the house. The tenants pay all other bills.

   In the summer of 2021, a new garage was built on the side of the house at a total cost of £15,000.

2) She received bank interest totalling £1,100.

3) She won £1,000 on Premium Bonds.

4) She received dividends of £22,000 from her shares in EQS plc and 200 shares in FPT plc, having accepted the company's stock dividend offer. The dividend foregone was £2,400.

5) She received £4,000 from the Grant Interest in Possession Trust. The R185 she received from the trustees showed the payment was made up of non-savings of £3,000 net and dividends of £1,000 net.

6) In February 2022 she subscribed for 5,000 £1 shares at par in Start Ltd, a qualifying Seed Enterprise Investment Scheme (SEIS) company.

Despite the payment terms of fees being clearly outlined in the engagement letter, Ellie has often been slow to pay the firm's fees notes. In the last six months the situation has got worse and there are now two fee notes that are overdue. The partner in charge has not yet contacted Ellie about the issue.

Requirements:

1) Calculate, with brief explanations where necessary, Ellie's Income Tax payable for 2021/22. (17)

2) Explain the steps the partner should take regarding the unpaid fee notes. (3)

Total (20)

14. Jake Johnson is a longstanding client with a large portfolio of capital assets. He is single, 70 years old, has no children and is an additional rate taxpayer.

He has emailed you for advice on the Capital Gains Tax implications of gifts that he plans to make to his nieces, Madeleine and Isabel, in March 2023. He would like to claim any reliefs available to reduce his tax liability.

The details of the planned gifts are as follows:

<u>Gift to Madeleine</u>

Madeleine is single and is about to move to Cardiff.

Jake owns a house in Cardiff. He bought the house as an investment property in 2007 for £145,000, including associated legal and professional fees of £6,000.

The house is currently empty as Jake's long-term tenants have recently moved out.

Jake intends to gift half of the house to Madeleine and they will own the house as equal tenants in common. The estimated value of the half share gifted is £200,000 and the legal and professional transfer costs are £1,120 which Jake will pay for.

<u>Gifts to Isabel</u>

Isabel is married and owns a home in Leicester with her husband as equal joint tenants.

Jake owns an antique diamond necklace worth £125,000 which he inherited on the death of his grandmother in 1993 when it was worth £72,500. His grandmother purchased the necklace for £15,000 in 1959.

Jake owns 2,000 £1 ordinary shares in Fort Ltd, an unquoted trading company, worth £75,000. He bought the shares at par on the incorporation of the company in 2003. He has never worked for the company.

Jake plans to gift the necklace and all of the Fort Ltd shares to Isabel.

Jake does not think that the market values in March 2023 of the Cardiff house, the necklace, and the Fort Ltd shares will be significantly different from their current values.

<u>Additional request for advice:</u>

In his email Jake also asked for advice concerning some shares he owns in Tanner plc.

On 8 January 2022 Tanner plc took over Farrier Ltd, an unquoted trading company.

Jake had owned 10,000 £1 ordinary shares in Farrier Ltd which he bought for £165,000 in August 2006. He had never worked for Farrier Ltd.

The terms of the takeover were for each £1 ordinary share in Farrier Ltd, Jake received:

£4 cash	
£25 of 8% loan stock in Tanner plc	Valued at £35
Five ordinary shares in Tanner plc (nominal value £1)	Valued at £5.50 per share

Requirements:

Write an email to Jake in which you:

1) Explain, with supporting calculations, the Capital Gains Tax implications for Jake in respect of his planned gifts to Madeleine and Isabel. (9)

2) Explain the implications of the legal terms 'tenants in common' and 'joint tenants' for Jake, Madeleine, and Isabel.

For candidates answering under Scottish law:

Explain the implications of the legal terms 'common property' and 'joint property'' for Jake, Madeleine, and Isabel.

(4)

3) Explain the Capital Gains Tax consequences for Jake of the takeover of Farrier Ltd, and calculate any chargeable gain(s) arising in 2021/22. (7)

Assume the 2021/22 tax rules, rates and allowances continue in the future.

Total (20)

15. Salim, a higher rate taxpayer, has provided the following information:

In January 2020, Salim subscribed for 10,000 £1 shares in Alum Ltd, a qualifying Enterprise Investment Scheme (EIS) company, and in August 2020, he subscribed for a further 25,000 £1 shares in the company. Both subscriptions were at par.

In July 2021, Salim sold his 15% shareholding in SE Ltd, an unquoted trading company, realising a gain of £85,000. He had owned the shares for over 10 years, but had never worked for the company.

In March 2022, Salim sold his entire shareholding in Ploot Ltd, a qualifying EIS company, for proceeds of £55,000. He had originally subscribed for the shares in July 2014 for £38,000 and had obtained Income Tax relief on the investment. He had purchased the Ploot Ltd shares using some of the proceeds from the sale of an antique sculpture in May 2013. The gain on the sculpture was £66,000.

Salim is not connected to any of the EIS companies he has invested in.

Requirement:

Calculate Salim's Capital Gains Tax lability for 2021/22, stating the due date for payment. Include a brief explanation of your treatment of each item.

You should assume Salim always makes any beneficial claims for relief. (10)

16. You are a tax technician at ABC Accountants. Pierre is a potential new client and is coming in for a meeting next week to discuss his tax affairs. Your line manager has provided you with the following information:

Pierre is aged 27 and has been resident in France all his life and is French domiciled. In May 2021 he moved to the UK and intends to stay for around 30 years, but will return to France when he retires.

He receives dividends from his French shareholdings of around £120,000 per year. He has a large sum of money in his French bank account which is all from his dividend income. It is likely he will need to remit some of this money to a UK bank account in the next few years. He thinks he pays tax of 10% in France on the dividends.

He mentioned that he is aware he may have to pay an annual charge once he becomes UK resident, but does not understand how this would apply to him if, as planned, he stays in the UK for the foreseeable future.

Requirement:

Write notes for your line manager ahead of the meeting with Pierre, explaining how any money arising in and remitted from the French bank account is taxed on Pierre when he becomes UK resident and in future years.

Ignore Double Tax Relief. (10)