PART I

1.

		£	£
Car			
List price – £26,000 (½)			
Relevant percentage:			
CO_2 emissions between 1-50g/km and range of 50 miles = 8% (½)			
Less 1% (½) for car registered on or after 6 April 2020 = 7%			
Annual cash equivalent	7% x £26,000 (½)	1,820	
Less: not available	2/12 (½) x £1,820	(303)	
Car benefit			1,517
Bicycle			
Miles cycled = 12 x 30 = 360 (½)			
Reimbursed	360 x £0.45 (½)	162	
Tax-exempt limit	360 x £0.20 (½)	(72)	
Taxable profit/ benefit			90

2.

- Bonus – fully subject to tax (½) as a reward for services (½)
- Redundancy payments – both exempt as within the £30,000 s401 exemption (1)
- Golden goodbye – fully subject to tax (½) as contractual (½)
- £15,000 gratuitous payment – £(30,000 – (6,500 + 12,000)) = £11,500 tax free (½), as the balance of the £30k s401 exemption, leaving £3,500 taxable (½)

3. Caleb can contribute up to £3,600 p.a. (½) into his pension scheme. His brother can contribute up to 100% of his earnings for the year (½) up to a maximum of £40,000 (½). Caleb's sister's maximum tax efficient contribution of £40,000 is reduced by £1 for every £2 (½) by which her income exceeds £240,000 (½), however it cannot be reduced to below £4,000 (½).

4. The self-employed (½) aged 16 and over (½) are required to pay Class 2 and Class 4 NICs. For Class 2, the obligation is for those with profits over £6,515 (the "small profits threshold") (½) and, for Class 4, it is for those with profits over £9,568 (the "lower profits limit") (½). The obligation to pay Class 2 NICs ceases on reaching pensionable age (½) while the obligation to pay Class 4 NICS ceases at the start of the tax year following that in which the individual reaches pensionable age (½).

5. Not only does the flat have to be actually let for at least 105 days but it must also be available for commercial letting as holiday accommodation for at least 210 days in the relevant 12-month period (½). Caspian will therefore need to be careful in relation to his plans to live in the flat for five to six months each year (½). Periods of longer-term occupation, i.e. periods when the property is let by the same person for more than 31 continuous days (½), are not included in the 105-day count (½). Therefore, if any of Caspian's friend's periods of occupation exceed 31 days they will not count towards the 105-day threshold (½). Also if such periods of longer-term occupation exceed 155 days in total (½), the property will not qualify as a furnished holiday let. However Caspian can elect to average the periods of occupation (½) of his Nottingham and Cornwall properties to meet the 105-day threshold for each property.

6.

		£	
Capital element of premium	2% x (35 – 1) x £175,000 (½)	119,000	(½)
Less: estate agent fees		(3,000)	(½)
Allowable cost	£119,000 (½) / £(175,000 (½) + 300,000 (½)) x £375,000 (½)	(93,947)	
Chargeable gain		22,053	

Excluding Eustace's legal fees (½)

7. The dilution of Cornelius' shareholding below 5% (½) means that he will no longer potentially qualify for Business Asset Disposal Relief (BADR) when the shares are sold.

   If, immediately before the dilution, he meets the conditions for BADR (½), he can elect for there to be a deemed disposal of his shareholding at that time (½). This requires him to have been a director/employee of the company and to have held his minimum 5% shareholding for at least 2 years prior to the dilution (½).

   Cornelius can either pay Capital Gains Tax on the deemed gain, with the benefit of BADR, or can make a further election to defer the deemed gain until the actual disposal of the shares (½). If the deferral election is made, Cornelius will need to remain a director/employee of the company up until the actual sale of the shares if he wants to qualify for BADR on the deferred gain (½).

8.

Edmund - part disposal on receipt of compensation			£
Insurance proceeds			80,000 (½)
Allowable cost	£80,000 / £(80,000 + 40,000) x £30,000		(20,000) (1½)
Chargeable gain			60,000
Jadis – 3rd party disposal			
Proceeds			200,000 (½)
Allowable cost (taken on from Edmund)		£	
Original cost		30,000 (½)	
Used on above part disposal		(20,000) (½)	
Enhancement expenditure		50,000 (½)	
			(60,000)
Chargeable gain			140,000

9.

	Penalty for late filing £	Penalty for late payment £
Missing the 31 January 2022 filing deadline (½)	100 (½)	
More than 3 months late (½) £10/day (½) for 31 days (½)	310	
More than 30 days late (½) 5% of unpaid tax (½) so 5% x £(8,000 – 2,500) (½)		275

10.

Justin - Yes (½), as he is the spouse of one of Neil's relatives (Sister's spouse) (½).

Helen - Yes (½), as they are in partnership (½).

11. The claim will crystallise a loss which can be treated as a current year loss for 2021/22 (½) or, by election, either of the previous two tax years (½). If claimed as a 2019/20 loss, it will save £2,000 of tax (£20,000 x 10%) (½); if claimed as a 2020/21 loss it will save £3,556 of tax (£(25,000 – 12,300) x 28%) (½); if claimed as a 2021/22 loss it will save £4,000 (£20,000 x 20%) (½). Claiming the loss as a 2021/22 loss is therefore preferable (½).

12.

	Non-savings income £	Dividend income £
Salary	65,000	-
Ruritanian dividend	-	6,250
	65,000	6,250
Personal allowance	(12,570)	-
	52,430	6,250

£		
37,700	@ 20% (½)	7,540
14,730	@ 40%	5,892
52,430		
2,000	@ 0% (½)	-
4,250	@32.5% (½)	1,381
58,680		14,813

Less: DTR, lower of (½):		
1) Ruritanian tax	1,750 (½)	
2) UK tax on dividend	1,381 (½)	(1,381)
UK Income Tax liability		13,432

[Recognising that the answer might be approached from other angles: (½) for recognising that the basic rate band has been fully utilised; (½) for giving the £2,000 dividend allowance; (½) for applying UK tax at 32½%; (½) for stating that the DTR is the lower of the overseas tax and the UK tax suffered on the dividend; (½) for calculating the overseas tax; (½) for deducting the smaller number.]

PART II

13.

Ellie – Income Tax computation 2021/22

	Non-savings income £	Savings income £	Dividend income £	
Property income (W1)	29,400			(1/2)
Interest		1,100		(1/2)
Dividends (N5)			24,400	(1)
Trust income (W3)				
- Non-savings	3,750			(1/2)
- Dividends			1,081	(1/2)
Less: Personal allowance	(12,570)			(1/2)
Taxable income	20,580	1,100	25,481	

Income tax:

	£		£	
Non-savings income (N6)	2,097	x 19%	398	(1/2)
Non-savings income	10,629	x 20%	2,126	(1/2)
	12,726			
Non-savings income	7,854	x 21%	1,649	(1/2)
	20,580			
Savings income	500	x 0%	0	(1/2)
Savings income	600	x 20%	120	(1/2)
	21,680			
Dividend income	2,000	x 0%	0	(1/2)
Dividend income	14,020	x 7.5%	1,051	(1/2)
	37,700			
Dividend income	9,461	x 32.5%	3,075	(1/2)
Income tax liability			8,419	
Less:				
Tax reducer – SEIS (£5,000 x 50%)			(2,500)	(1)
Tax reduction for mortgage interest (W2)			(1,310)	(1/2)
Tax on Trust income (W3)			(831)	(1/2)
Income Tax payable for 2021/22			**3,778**	(1/2)

Workings

(W1) Property income

	£	
Rents received (£2,700 x 5 months) + (£2,850 x 6 months) (N1)	30,600	(1)
Less: council tax (N2)	(1,200)	(1/2)
Property income	**29,400**	

(W2) Mortgage interest

Ellie's total property income and adjusted total income clearly exceed the mortgage interest, **(1/2)** meaning the amount allowed as a basic rate tax reduction is:

£6,550 x 20% = £1,310 **(1/2)**

(W3) Trust income

Non-savings income is taxed in the hands of the trustees at 20%, therefore the amount taxable on Ellie is:

£3,000 x 100/80

= £3,750 **(1/2)**

Dividend income is taxed in the hands of the trustees at 7.5%, therefore the amount taxable on Ellie is:

£1,000 x 100/92.5

= £1,081 **(1/2)**

The total tax on the trust income is therefore £831 (£750 + £81)

Notes

(N1) Property income

The default basis of assessment for property income is the cash basis. **(1/2)**

Ellie received rent in advance on the first day of each month, meaning five months of rent at £2,700 and six months of rent at £2,850.

As the tenant failed to pay the rent for April 2022 until May 2022, this will be taxable in 2022/23. **(1/2)**

(N2) Council tax

As Ellie pays this, it is an allowable expense.

(N3) Garage

This is an improvement to the property, **(1/2)**. therefore the entire £15,000 is treated as capital expenditure. **(1/2)**.

(N4) Premium Bond winnings

These are exempt from income tax. **(1/2)**

(N5) Stock dividend from FPT plc

The stock dividend is taxed on the value of the dividend foregone, ie the cash Ellie would have received if she had not accepted the shares. **(1)**

(N6) Taxation of non-savings income

As a Scottish taxpayer, Ellie pays the Scottish tax rates on her non-savings income. Her non-savings income does not exceed the revised intermediate rate limit.

17 marks

2)

As Ellie has overdue fee notes, the partner should first seek to understand why Ellie has not paid. **(1/2)**

If, after being contacted, **(1/2)** Ellie does not provide a satisfactory explanation **(1/2)** for the non-payment of the fees, the partner may wish to consider taking legal action to recover them. **(1/2)**

Alternatively, or in addition, the partner may want to take the step of notifying Ellie that the firm will cease to act on her behalf **(1/2)** unless payment is received within a reasonable, specified period. **(1/2)**

3 marks
(Total: 20 marks)

14.

To: Jake Johnson
From: Tax assistant
Date: xx.xx.xx
Subject: Capital gains Tax advice **(1)**

I have set out below the capital gains tax details that you requested in your recent email.

1) The Capital Gains Tax implications of planned gifts

Any chargeable gains arising on the gifts will be taxed on you in 2022/23 **(½)**
Disposal consideration will be the market values of the assets gifted in March 2023 **(½)**

Gift to Madeleine

All the legal and professional fees relating to the gift of the half share of the house are deductible in calculating the gain **(½)**
Gift relief is not available to defer the gain as an investment property is not a qualifying asset **(½)**
As the house is residential property, your capital gains tax annual exempt amount (and any capital losses) for 2022/23 will be set against the gain on the property in preference to any other gains arising in the tax year **(½)**
As you are an additional rate taxpayer, any remaining gain will be taxed at 28% **(½)**
Chargeable gain in 2022/23:

	£	
Market value	200,000	½
Less: Estimated legal and professional fees	(1,120)	½
Net sale proceeds	198,880	
Less: Cost (£145,000 x 50%)	(72,500)	½
Chargeable gain	126,380	
	=======	

Gifts to Isabel

The diamond necklace is a non-wasting chattel **(½)**
As both the gross sale proceeds and cost exceed £6,000, a chargeable gain arises as normal **(½)**
Gift relief is not available to defer the gain as a diamond necklace is not a qualifying asset **(½)**
As you are an additional rate taxpayer, the gain will be taxed at 20% **(½)**
As any number of shares in an unquoted trading company are qualifying assets, gift relief is available to defer the gain **(½)**
Gift relief is optional and would require a joint claim **(½)** by you and Isabel within four years of the end of the tax year of the gift, so by 5 April 2027 **(½)**
Assuing gift relief is claimed, you will have no capital gains tax to pay on the gift of the shares **(½)**
Chargeable gain arising in 2022/23:

Necklace	£	
Market value	125,000	½
Less: Cost	(72,500)	½
	————	
Chargeable gain	52,500	

	=======	

Your capital gains tax liability (assuming there are no other disposals in the tax year) would be:

Residential property	£	
Chargeable gain	126,380	
Less: Annual exempt amount	(12,300)	½
	————	
Gain	114,080	
	=======	
Capital gains tax (28%)	31,942	½
Necklace		
Capital gains tax (£52,500 x 20%)	10,500	½

————
42,442
=======

Max 9 marks

2) Tenants in common and joint tenants

Tenants in common

You and Madeleine will co-own a notional share in the property, but the property is not physically divided into equal shares **(½)**
Both you and Madeleine have rights to ownership in relation to the whole property and can use the whole property **(½)**
Any income derived from the property belongs to each of you according to your proportional interest in the property (50% in this case) **(½)**
Either you or Madeleine can gift or sell your ownership in the property without the agreement of the other tenant in common **(½)**
If either you or Madeleine were to die, your share in the property does not automatically pass to the other tenant in common **(½)**
You can each therefore leave your share in the property in your Will to whoever you want to **(½)**

Max 2 marks)

Joint tenants

As for tenants in common:

– Isabel and her husband co-own the property together, but the property is not physically divided into equal shares **(½)**
– Both Isabel and her husband have rights to ownership in relation to the whole property and can use the whole property **(½)**

Unlike tenants in common:

– Neither Isabel nor her husband can gift or sell their ownership in the property without the agreement of the other joint tenant **(½)**
– If either Isabel or her husband were to die, ownership of their share in the property automatically passes to the other surviving joint tenant **(½)**

They cannot therefore leave their share in the property in their Will to whoever they want to **(½)**
They can sever their joint tenancy tie to the other joint tenant in writing without obtaining their prior consent whereupon they become tenants in common **(½)**

Max 2 marks)
Total marks: 4 marks

Scottish Law:

Common property and joint property

Common property

You and Madeleine will co-own a notional share in the property, but the property is not physically divided into equal shares **(½)**
Both you and Madeleine have rights to ownership in relation to the whole property and can use the whole property **(½)**
Any income derived from the property belongs to each each of you according to your proportional interest in the property (50% in this case) **(½)**

- Either you or Madeleine can gift or sell your ownership in the property without the agreement of the other person **(½)**
- If either you or Madeleine were to die, your share in the property does not automatically pass to the other person **(½)**
- You can each therefore leave your share in the property in their Will to whoever you want to **(½)**

Max 2 marks)

Joint property

- As for common property:
  - Isabel and her husband co-own the property together, but the property is not physically divided into equal shares **(½)**
  - Both Isabel and her husband have rights to ownership in relation to the whole property and can use the whole property **(½)**
- Unlike common property:
  - Neither Isabel nor her husband can gift or sell their ownership in the property without the agreement of the other person **(½)**
  - If either Isabel or her husband were to die, ownership of their share in the property automatically passes to the survivor **(½)**
- They cannot therefore leave their share in the property in their Will to whoever they want to **(½)**
- They can sever their joint property tie to the other person in writing without obtaining their prior consent whereupon they have common property **(½)**

Max 2 marks)

Total marks: 4 marks

3) Takeover – 2021/22

Set out in the table below is an explanation of how each element of the consideration on takeover is treated:

	Consideration	Allocation of original cost	Explanation of consequence	
	£	£		
Cash	40,000	9,925	A chargeable gain of £30,075 (£40,000 – £9,925) arises and is taxed in 2021/22	½ ½
Loan stock in Tanner plc	350,000	86,842	A chargeable gain of £263,158 (£350,000 – £86,842) arises in 2021/22 but is frozen and will not be taxed until Jake disposes of the loan stock	½ ½ ½
Shares in Tanner Ltd	275,000	68,233	No chargeable gain arises on a share for share exchange The Tanner plc shares are deemed to have been acquired in August 2006 for £68,233	½ 1
	665,000	165,000		
	=======	=======		
	1½	1½		

(7 marks)

If you require any further clarification please do not hesitate to contact me.

Best wishes

(Total: 20 marks)

15.

Salim – CGT for 2021/22

	£
Total chargeable gains £(60,000 (working) + 38,000 (N3))	98,000 **(1/2)**
Less Annual exempt amount	(12,300) **(1/2)**
Taxable gains	85,700

CGT thereon:

£85,700 x 20% = £17,140 **(1/2)**

Payable by 31 January 2023. **(1/2)**

Working:

	£
SE Ltd gain	85,000
Less EIS reinvestment relief (N2)	(25,000) **(1/2)**
Chargeable gain (N1)	60,000

Notes:

(N1) SE Ltd

Business asset disposal relief is not available **(1)** as he did not work for the company. **(1/2)**

(N2) Alum Ltd

August 2020 subscription – EIS reinvestment relief of £25,000 is available as he subscribed for the shares **(1/2)** and they were purchased less than 12 months before the sale of the shares in SE Ltd. **(1/2)**

January 2020 subscription – EIS reinvestment relief is not available **(1/2)** as he subscribed for the shares more than 12 months before the sale of the shares in SE Ltd **(1/2).**

(N3) Ploot Ltd

The EIS subscribed shares have been sold after the end of the three year qualifying period **(1/2)** and he obtained Income Tax Relief on them **(1/2).** As such, the gain is exempt. **(1/2)**

Salim would have claimed full EIS reinvestment relief of £38,000 **(1/2)** in 2014/15 when he subscribed for the shares. As he purchased the shares less than 36 months **(1/2)** after the disposal of the sculpture, he was within the qualifying period.

The disposal of the Ploot Ltd shares is a chargeable event, **(1/2)** so the deferred gain of £38,000 is chargeable in 2021/22. **(1)**

(Total: 10 marks)

16.

Pierre

Notes for line manager:

Pierre will become UK resident now he has moved to the UK, but will not be domiciled in the UK. **(1/2)**

UK residents are subject to UK income tax on all of their worldwide income. As Pierre is not domiciled in the UK, he can make a claim for his foreign income to be taxed on the remittance basis. **(1/2)** An annual claim must be made under s.809B ITA 2007 via the SA tax return. **(1/2)**

He would not be entitled to a personal allowance in any year that he claims the remittance basis. **(1/2)**

However, he would not be liable the remittance basis charge (RBC) **(1/2)** until he has been resident in the UK for 7 out of the previous 9 tax years, **(1/2)** after which he would have to pay a RBC of £30,000 pa **(1/2).** He will have to nominate the income to be subject to the charge. **(1/2)** Nominated income will not be taxed if it is subsequently remitted to the UK. **(1/2)**

If Pierre remains in the UK long term, a higher RBC of £60,000 pa **(1/2)** will apply once he has been UK resident for at least 12 out of the previous 14 tax years. **(1/2)**

If Pierre transfers money from his foreign bank account to the UK, it will be taxed in the UK in the tax year he remits it. **(1/2)** The dividends remitted must be grossed up to take account of any foreign tax suffered. **(1/2)**

If no RB claim is made (ie income is taxed on arising basis) the overseas dividends are taxed like UK dividends with a dividend allowance **(1/2)** and at rates of 7.5%, 32.5% and 38.1%. However if a RB claim is made **(1/2)** it is irrelevant that the source, it is irrelevant that the source of the income is foreign dividends. **(1/2)** The dividends will be taxed in the UK as non-savings income (NSI) **(1/2)**, ie at a rate of 20%/40%/45%. The dividend allowance would therefore not be available. **(1/2)**

Pierre will be deemed domiciled in the UK **(1/2)** once he has been UK resident for at least 15 out of the previous 20 tax years. **(1/2)** If he becomes deemed domiciled, he will no longer be able to claim the remittance basis. **(1/2)**

(Total: Max 10 marks)