CIOT - ATT-CTA

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Car Benefit	£1517
Fuel Benefit	£ 0
Cycle Benefit	£ 90

Taxable Benefit £1607

Car Benefit
:List price = £26000
CO2 = 38 and range = 50 = 7% charge
Provided from 01/06/21 - 05/04/22 = 10 months
£26000 x 7% x 10/12 = **£1517**

Fuel Benefit
No private fuel is provided as Peter pays for it all

Cycle Benefit
Assumed that Peter has worked for Aslan for the entire year
Received 12 visits @ 30 miles/visit = 360 miles
360 miles @ £45p/mile = £162.00

Allowable 360 miles @ 20p/mile = £72.00

Additional income received = £162.00 - £72.00= **£90.00**

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

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

Answer-to-Question-_2_

A termination payment (other than redundancy) is fully taxable if it is:
a) a reward for services performed
b) contractual
c) expected

For each of Susan's payments

1) Performance related bonus is expected and presumably contractual so will be **fully taxable to income tax**
2) A statutory redundancy will be exempt within S.401 ITEPA 2003**. No income tax will be due**
3) A non-statutory redundancy payment of £12,000. S.401 ITEPA allows for the first £30,00 of any payment to be exempt. In Susan's case this will also be **exempt from income tax** as her relevant income in this category is less than £30,000
4) A contractual 'golden goodbye' is specified in Susan's contract and therefore will be **fully taxable to income tax**
5) An gratuitous additional payment is neither contractual or expected and thus would be and 'ex-gratia payment' , covered by S401 ITEPA and n**ot subject to income tax.** The only exception would be if there was a precedent set on previous terminations and therefore it was expected. It does not suggest this in the question

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

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

Answer-to-Question-_3_

The main ways of paying into pension are via a personal pension scheme or an occupational pension scheme (offered by employers)

As Caleb is not working he must be paying into a personal pension scheme and he will be subject to the following maximum contributions:
Higher of
a) 100% of his relevant earnings, which include employment income, trading income a income from Furnished holiday lets and
b) £3,600

Tax relief is given on amounts contributed to a personal pension scheme at source at the basic rate, so contributions are paid at 80% but credited to the pension at 100%

Caleb's brother and sister both work so they may be paying into a personal pension scheme or occupational pension scheme. With regard to occupational schemes relief is given on amounts contributed under 'net pay arrangements' whereby PAYE (not NICs) is applied to salary aftr the contribution has been deducted

There is an annual allowance for all pension contributions of £40,000 however for high income individuals such as Caleb's sister, the allowance is tapered.

The annual allowance is reduced by £1 for every £2 or adjusted income in excess of £240,000 where threshold income (net income - gross personal pension cont's) exceeds £200,000

Note, Adjusted net income = net income + occupational contributions + employer contributions

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

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

Answer-to-Question-_4_

The Self employed, eg sole traders, partnerships, pay Class 2 and Class 4 NIC

Class 2 NICs are £3.05 per week unless it is expected that profits will be below the 'small profits threshold' of £6,515

Class 4 NICs are paid at a rate of 9% on trading profits between £9,568 (lower profit limit) and £50,270 (upper profit limit) and then 2% above £50,270

NICs are due from age 16 until pensionable age

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

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

Answer-to-Question-_5_

Criteria for Furnished Holiday Lets (FHL)

1) must be furnished
2) in the UK or Euro Economic Area
3) Available to let for at least 210 days
4) Actually let for 105 days
5) It does not have 'longer term occupation' for more than 155 days in total (longer term occupation is a continuous period of 31 days)

To satisfy (3) the flat has to be available for at least 210 days which is approximately 7 months. Therefore the maximum that Caspian could live in the flat is 5 months.

To satisfy (4) Caspian would need to ensure that it is actually let for 105 days and not let to any one person for more than 31 days. So in the 7 months that it needs to be available it needs to be let for at least half of this time.

Caspian also has the option to make an election to average the occupation days across other FHL that he owns. So with regard to the bungalow that is occupied for 200 days per year. If he averaged this with the flat then as long as the average let days on each is at least 105 then the flat could be occupied for less.

So specifically an average of 105/property = 210 for 2 properties.

The bungalow is let for 200 days so in theory the flat could be let for only 10 days using the averaging election

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

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

Answer-to-Question-_6_

Proceeds	£119,000
Estate agent fees	£ (3,000)
Net Proceeds	£116,000
Cost	£(93,947)
Gain	£ 22,053
Allowance	£(12,300)
Chargeable gain	**£ 9,753**

Proceeds

15/06/21 35 year lease

Premiums on leases are split between property income and capital gain

Capital element = (2% x (Term - 1)) x premium

2% x (35-1) x 175,000 = £119,000

Cost

cost x_ (capital element/(Premium + Reversionary interest))

= £375,000 x (£119,000 / (£175,000 + £300,000))
= £93,947

--------------ANSWER-6-ABOVE---------------

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

Answer-to-Question-_7_

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

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

Answer-to-Question-_8_

Edmund

1. receipt of compensation is treated as part disposal

Proceeds (W1)	£80,000
Cost (W1)	£(20,000)
Gain	**£60,000**

2. gift to his wife
Transfers between spouses are assumed to be no gain/no loss so the cost to Edmund at this point will become the cost for Jadis

Balance of original cost £30,000 - £20,000	= £10,000
Restoration Costs	= £50,000
Total cost transferred to Jadis	= **£60,000**

3. Sale by Jadis

Proceeds	£200,000
Cost (2)	£ 60,000
Gain	**£140,000**

W1
Compensation received = proceeds = £80,000

Cost

£30,000 x £80,000 / (£80,000 + £40,000) = £20,000

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

--------------ANSWER-9-BELOW---------------

Answer-to-Question-_9_

2019/20 return filed on time

2020/21 return filed late

Return due 31/01/22, filed 01/06/22. Return is > 3 months late but not > 6 months late

Initial penalty £100

Return > 3months late, £10 daily penalty max 90 days,
90 x £10 £900

Late filing penalty £100 + £900 = £1,000

2020/21 tax paid late

first payment on account paid on time
second payment on account due 31/7/21
Balance payment due 31/01/22

Only interest is due on late payments on account not penalties which question said to ignore

The balancing payment on account for 20/21 was due on 31/01/22 but not paid until 01/06/22
The payment is more than 30 days late but not more than 5 months late so the penalty is 5% of the amount outstanding

Tax liability for 20/21 = £ 8,000
1st payment on account = £(2,500)
Balance outstanding = £ 5,500

Late payment Penalty @5%   = £275

Total Penalties £1,000 + £275 = £1,275

--------------ANSWER-9-ABOVE---------------

--------------ANSWER-10-BELOW--------------

Answer-to-Question-_10_

Connected persons include
Spouse
relatives - descendants, brothers, sisters
relatives of spouse
Spouse of relatives

Neil is connected to Justin:
Nicola is a relative of Neil and Justin is a spouse of Nicola

Neil is not connected to Helen
Helen is Neil's cousin

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

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

Answer-to-Question-_11_

Negligible value claim can be used in year of claim and preceeding two years

Claim made in 22/23, so can utilise in 21/22 and 20/21

2019/20
Gains on residential property are taxed @ 28% for higher rate taxpayer so ideally you would reduce this gain first but the negligbile value claim wasn't made until 22/23 so can't be offset even though it occurred in 2019/20

2020/21
Gains on shares qualifying for BADR will attract CGT @ 10% up to £1 million so we do not want to use the loss to offset this gain

2021/22

Gain on chattels	80,000		
Annual exempt amount	(12,300)		
Negligible claim loss	(20,000)		
Gain	**47,700**		

This will be charged @ 20% because Anthony is a higher rates tax payer, **CGT payable = £9,540**

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

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

Answer-to-Question-_12_

	non- saving£	dividends £	
Employment income	65,000		
Dividends		6,250	
Total	65,000	6,250	
personal allowance	12,300		
Taxable income	**52,700**	**6,250**	
37,700 @ 20%	7,540		
20,000 @ 40%	8,000		
Dividend			
£2,000 @ 0%	0		
£4,250 @ 32.5%	1,381		
total tax liability	16,921		
PAYE paid	(5,000)		
double tax relief	(1,750)		
Tax payable	10,171		

Double tax relief applies where tax is levied on the same income in more than one country

So this applies to the dividend

a) Tax deducted in Ruritania
£6250 x 28% = £1,750

b) UK Tax
£6,250 x 32.5% = £2,031

Double tax relief is lower of (a) and (b) which is £1,750

Don will be a higher rates tax payer as his income from salary alone is above £37,700 (£65000 - PA £12,570 = £52,430)

Therefore he would be taxed on dividends at 32.5 %

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

CIOT - ATT-CTA

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

	Non savings £	Savings	dividends
Property income	29,400		
Bank interest		1,100	
dividends			22,000
dividend foregone			2,400
Interest in Possession	3,750		1,081
Total	**33,150**	**1,100**	**25,481**
Personal allowance	(12,570)		
Taxable	20,580		
1-2097 @19%	398		
2098 - 12726 @ 20%	2126		
12727 - 20580 @21%	1649		
savings			
500 @0	0		
600@ 20%	120		
dividends			
2000@0	0		
23481 @32.5	7631		
total tax liability	**11924**		
tax reducers			

interest	(1310)		
SEIS	(2500)		
Tax payable	**8,114**		

Rent 30,600
Council tax (1,200)
net property 29,400

Rent

Less than £150,000 so cash basis applies

Rent received
5 x £2,700 = £13,500
6 x £2,850 = £17,100 - April paid late

Total £30,600

Premium Bonds - exempt income

Interest in Possession

non-savings £3,000 x 100/80 = £3,750
dividends £1,000 x 100/92.5 = £1,081

Tax Reducer
Interest £6,550 x 20% = £1,310
SEIS £5,000 x 50% = £2,500

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2) The partner needs to write to Ellie and advise of the payment terms and bring her attention to the overdue fee notes. It might be that she has just overlooked these being outstanding

It would be advisable to ask her to bring the account up to date and if she is struggling to arrange a payment plan

Also advise that unless a suitable arrangement is reached you may not be able to continue with your services

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

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

Answer-to-Question-_14_

To: Jake Johnson
From: Jo Wheeler
Date: 31st October 2022
Subject: Tax implications of Gifts

Dear Jake

Thanks for you email and I can advise as follows:

Gift to Madeleine

If an asset is gifted this is assumed to be a disposal at market value by the donor.

As this porperty is not a 'business asset' or inherited no gift relief will be available, therefore the gift will be create a capital gains tax liability, see W1

The gain on this gift will be £126,300. As you are an additional rate taxpayer, CGT would be charged at 20% of all gains in the year after your annual exempt amount which is £12,300

Gift to Isobel

The gift of the necklace is also not a business asset so will be subject to CGT and charged at 20%. The gain is calculated as £110,000 W2

Shares in an unquoted company qualify as a business asset and therefore gift relief will be available, but please note that both you and Isobel need to both claim this relief within 4 years of the end of the tax year of the gift

This effectively means that the gain on this gift can be rolled over against the base cost of the asset for Isobel, and the base cost for Isobel will be £2,000 (W3)

With regard to the gift of the house, tenants in common means that each owner has a distinct share in the house, so you and Isobel would own 50% each. If you or Isobel unfortunately passed away then the share would not automatically pass to the other owner but would be dealt with through probabe and potentially pass to a third party depending on what is specified in each person's will. In this case it may be necessary to sell the property if the new co-owner wants their share liquidated.

Joint Tenants in contrast mean that the property is owned as a whole by both owners and each has equal rights. If one owner passes away the ownership of the property automatically passes to the other owner. This avoids probate and inheritance tax issues

Finally you requested some advise with regard to Tanner PLC taking over Farrier Ltd

This will result in a capital event and I have attached caluclations

The £4/ share cash will give rise to a gain and will be taxed immediately, the gain is calculated as £30,075. After offsetting your annual exemption is not already used the chargeable gain will be £17,775 payable at 20% CGT

The £25 of 8% loan stock will qualify as a qualifying corporate bond and are usually exempt from CGT for individuals, but the initial value will create a gain similar to the cash received which can is not charged now but frozen until the QCB is sold at a later date. As it is a QCB no further increases or decreases in the value ar rcognised for capital gains tax. There will be no gain in 2021/22

The five ordinary shares will be treated as share for share exchanges as if they were bought at the same time and the same price as the old shares so there will be no gain in 2021/22 and the original apportioned cost will be the relevant cost when these are sold in the future.

I hope that this has answered your questions, if you need anything further please do not hesitate to ask

Kind Regards

Jo Wheeler

W1 - Part disposal

Proceeds = market value =	£200,000
Legal fees	£ (1,120)
Net Proceeds	£198,880
Cost	£(72,500)
Chargeable gain	£126,300

Cost = half of acquisition cost £145,000 incl fees

So £72,500

W2 - Disposal of necklace

Proceeds = market value =	£125,000
Cost	£(15,000)
Chargeable gain	£110,000

It is assumed that gift relief was claimed when you inherited the necklace resulting in the base cost being the actual cost to your grandmother

W3 proceeds	£75,000
Cost	£(2,000)
Gain before relief	£73,000
Gift Relief	£(73,000)
Net Gain	£0

Market Value	£75,000
Gift Relief	£(73,000)
Revised Base Cost	£2,000

W4 Cost of shares 10,000 £165,000

Takeover terms per share

£4 cash - 10000 x £4 = **£40,000**
£25 of 8% loan stock = treated as cash 10000 x £35 = **£350,000**
Five ord shares = 5 x 10000 x £5.50 = **£275,000**

Total value received = **£665,000**

Cost allocated to cash receipt = £40,000/£665000 x £165,000 = £9925

Gain on cash of £4 per share - £40000 - £9925 = £30,075

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

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

Answer-to-Question-_15_

July 2021 gain   85000
March 2022

January 2020 shares qualify for EIS for the original purchase only so 10000 £1 shares
The second purchase will not qualify as he already holds existing shares

July 2021 gain £85,000 taxed at 10% utilising investors relief

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

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

Answer-to-Question-_16_
Notes for Meeting with Pierre

- When UK resident but non-domiciled all UK and Foreign income will be taxed in the UK irrespective of if it is remitted to the UK
- This is called the 'arising' basis and is the default for Pierre
- Pierre can make a claim to be taxed on a remittance basis which means that only foreign income remitted to the UK along with all UK income will be taxed in the UK
- The claim must be made year on year
- If the claim is made then money arising from Pierre's bank account which is not remitted will not be taxed in the UK
- If the remittance basis is claimed the income will be treated as non savings income regardless of its source and taxed as such at 20%, 40% and 45%
- If claimed there will also be no personal allowance/CGT annual exempt amount for that tax year
- If the remittance basis is claimed and Pierre remains resident in the UK for at least 7 year of the previous 9 tax years then they must pay a remittance basis charge of £30,000 per tax year
- If Pierre's unremitted foreign income is less than £2,000 the remittance basis applies without the need to claim and his personal allowance is unaffected