

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 1 PERSONAL TAXATION

**May 2023**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Monica is an employee of ABC Ltd and her gross salary for 2022/23 was £150,000.

She is a member of ABC Ltd's occupational pension scheme. During 2022/23 ABC Ltd contributed 20% of Monica's salary into the scheme and Monica contributed a further 15%.

Monica also received employment benefits and other sources of income such that she is an additional rate taxpayer, but is not considered 'a high income individual' for pension purposes.

Previous employee and employer contributions into the scheme for Monica totalled:

	£
2018/19	34,000
2019/20	35,000
2020/21	37,000
2021/22	39,000

**Calculate Monica's annual allowance charge for 2022/23.** (4)

2. Serina has owned and rented out an apartment for many years. Her longstanding tenants moved out on 31 December 2021 and the apartment was empty for the first five months of 2022.

On 1 June 2022, Serina granted a 25-year lease on the apartment to Alexander, charging a premium of £86,500.

The monthly rent was £1,200, payable in advance on the first day of each month, starting on 1 June 2022.

Prior to Alexander moving into the apartment, Serina paid £1,380 to repaint the apartment and £985 to replace some furniture.

**Calculate Serina's property income for 2022/23.** (3)

3. On 31 July 2022 Hamza sold his house in Manchester and made a capital gain (before reliefs) of £650,325.

Hamza bought the house on 1 February 2005 and occupied the house as his main residence from that date until 30 April 2007. On 1 May 2007 he went to work in South Wales, renting the house to tenants while he was away.

On 1 July 2015 Hamza returned to Manchester and reoccupied the house as his main residence until the date of sale.

**Calculate, with supporting explanations, the amount of private residence relief and letting relief available on the disposal of Hamza's house.** (4)

4. Ezra is the finance director and sole shareholder of K Ltd, a qualifying Enterprise Investment Scheme (EIS) company.

Ezra is considering issuing some new shares in K Ltd to his friend Georgia. Georgia has around £1.5 million to invest from the recent sale of other assets on which she realised large capital gains. If she invests in K Ltd she intends to keep the shares for at least five years.

**Explain the Income Tax and Capital Gains Tax implications for Georgia if she invests in EIS shares in K Ltd.** (3)

5. Olivia has been UK resident for the last 10 years but is not UK domiciled.

For 2022/23 she had the following income and gains:

	£
Overseas rental income (gross)	65,000
UK employment income	25,000
Gain on the disposal of an overseas commercial investment property	180,000

She remitted £25,600 of the overseas rental income and £50,000 of the sale proceeds received on the overseas property to the UK.

Olivia did not suffer any overseas tax on the rental income or property gain.

**Calculate Olivia's total Income Tax and Capital Gains Tax liability for 2022/23, assuming she elects for the remittance basis to apply.** (4)

6. Melinda, who is 55 years old, is a director of X plc.

In 2022/23 her gross salary was £59,880 and she received the following benefits:

	£
Company car and private fuel	13,860
Living accommodation	5,815

X plc contributed 14% of Melinda's salary into its occupational pension scheme and Melinda contributed a further 8%.

**Calculate the total employee and employer National Insurance Contributions payable in respect of Melinda for 2022/23. Ignore the employment allowance.** (4)

7. Z Ltd is an unquoted trading company which has an issued share capital of one million £1 ordinary shares which carry the same rights.

Nigella, a part-time director of Z Ltd since July 2004, acquired shares as follows:

July 2004	Inherited 52,800 ordinary shares from her uncle
August 2016	Received a bonus issue of 1 for 6

On 24 May 2022, Nigella gave her daughter, Irina, 49,280 ordinary shares in Z Ltd.

Irina, who has never worked for Z Ltd, plans to sell all of her shares on 16 July 2024.

**Explain whether business asset disposal relief is available on the gift of shares in Z Ltd from Nigella to Irina, and on the planned sale of shares by Irina.** (4)

8. In 2022/23, Joshua received the following income from an interest in possession trust:

	<u>Net amount</u>	<u>Tax deducted</u>	<u>Gross amount</u>
	£	£	£
Bank interest	1,800	450	2,250
Dividends from UK companies	2,500	240	2,740

Joshua's only other source of income in 2022/23 was employment income of £60,000.

**Calculate the additional tax payable by Joshua under self-assessment, and the net after tax cash amounts Joshua will receive in 2022/23, in relation to the interest and dividend income from the trust.** (4)

9. On 4 August 2022, Luka sold 13,650 shares in B Ltd, an unquoted trading company, to his brother for £40,950 when the market value per share was £5.20.

Luka had bought 51,600 shares in B Ltd in June 2003 for £129,000.

**Calculate the amount of the gift relief available and explain how the gain eligible for gift relief in 2022/23 is determined.** (3)

10. In 2019/20 Mia gave her son, Thomas, £300,000 in cash, to reduce her estate for Inheritance Tax purposes.

Thomas used all of the money to purchase a sculpture which he legally owns, but which he put in Mia's garden for her to enjoy.

The gift is not a 'gift with reservation' for Inheritance Tax purposes.

The sculpture is estimated to have increased in value by 15% pa.

**Calculate the Income Tax charge assessed on Mia in 2022/23 in respect of the sculpture. Explain how the charge would have differed if Thomas had only spent £200,000 on the sculpture.** (3)

11. Two clients have asked for your advice in relation to their share option schemes.

Q plc

The directors of Q plc have decided to implement a SAYE scheme and are happy that the company satisfies the required conditions.

The plan is to grant options to employees on 6 June 2023.

On this date the shares in Q plc are expected to be worth £4.80 each but the directors want to set the exercise price at a discount.

Jahmelia

Jahmelia is an employee of R plc.

On 1 May 2020 she was granted options over 1,800 shares in a Company Share Option Scheme (CSOP). The market value of the shares at that time was £2.75 each.

On her retirement on 1 June 2022, Jahmelia exercised her share options at a price of £2.75 each.

The market value of R plc shares on that date was £3.30 each.

- 1) **Explain to the directors of Q plc which employees are eligible to participate in the SAYE scheme, and state the minimum exercise price that can be set to ensure that the scheme is tax advantaged.** (2)
- 2) **Explain the tax implications for Jahmelia on the exercise of her CSOP options.** (2)

Total (4)

## PART II

**Presentation skills** – awarded for quality of presentation. (2 marks)

12. Your client, Ajay, is an employee of Pax Ltd, a UK resident company. Ajay is based in the south-east of England, but the company have offices all over the UK. Pax Ltd is not registered with HMRC to payroll employee benefits.

Ajay has provided you with the following details for you to prepare his 2022/23 tax return:

- 1) A gross salary of £190,000. PAYE of £82,000 has been deducted from this amount.
- 2) Ajay lives in an apartment provided by Pax Ltd. The accommodation is not job related.  
The annual value of the apartment is £28,000 and Pax Ltd pays rent of £2,000 per month.  
Ajay pays Pax Ltd a notional amount of £100 towards the monthly rent.
- 3) On 1 May 2022, Ajay was provided with a newly-registered company car. The car is a plug-in hybrid and the list price was £48,000. The CO<sub>2</sub> emissions are 42g/km and it has an electric range of 28 miles. Ajay made a one-off capital contribution of £3,500 towards the purchase price of the car.  
  
Ajay uses the car for both business and personal use. Pax Ltd reimburses fuel costs for business journeys only.
- 4) Ajay received interest of £3,000 from £50,000 Treasury Stock 6% 2028.
- 5) Ajay received £4,500 of dividend income. This included £575 from shares in a Venture Capital Trust (VCT). He had purchased the shares for £45,000 in 2019 from another investor.
- 6) On 15 March 2023, Ajay sold his entire shareholding in Beguine Ltd, a qualifying company under EIS, for £6,000. He had received full Income Tax relief when he subscribed £20,000 for the shares in 2014.
- 7) In January 2023, Ajay transferred 5,000 shares in Aelpha Ltd to a UK registered charity. Aelpha Ltd is an AIM listed company and the market value of the shares was £12,750. Ajay paid £250 legal fees to complete the transfer.

Ajay was recently looking for his employment contract, as he wanted to look up the detail in the contract regarding his place of work.

### Requirements:

- 1) **Calculate Ajay's Income Tax payable or repayable for 2022/23, clearly showing your treatment of each item.** (17)
- 2) **The place of work must be included in Ajay's employment contract. State two other items that must be in the written employment contract.** (2)

Total (19)

13. Your client, Zeena, has bought and sold shares in Leirge plc as follows:

<u>Date</u>	<u>Event</u>	<u>Number of Shares</u>	<u>Cost</u> £	<u>Proceeds</u> £
15 February 1998	Bought	10,000	12,000	
1 March 2006	Sold	1,000		600
12 May 2022	Bought	15,000	18,000	
1 June 2022	Sold	10,000		33,000
15 June 2022	Bought	5,000	15,000	

Zeena made no other disposals in 2022/23.

**Requirement:**

**Calculate, with explanations, Zeena's chargeable gains for 2022/23.** (10)

14. On 5 June 2022 Poppy bought a commercial property and immediately rented it out to a tenant. The rent was £10,500 per month, payable in advance on the 5th of each month. The tenant always paid the rent on time.

On 5 July 2022 William bought a residential property and immediately started to look for a tenant. The property was let out from 6 August 2022. The rent was £2,150 per month, payable in advance on the 6th of each month. The tenant always paid the rent on time.

From 5 July 2022 to 5 April 2023 William paid the following expenses in relation to the property:

	£
Addition of a shower to the bathroom	1,000
Council Tax – period to 31 March 2023	1,800
Buildings insurance – period to 31 December 2022	1,200
Buildings insurance – year to 31 December 2023	2,500
Interest on mortgage	4,800
Repainting the window frames in September 2022	1,750

William used his own car in relation to his property rental business. From 5 July 2022 to 5 April 2023 he visited the property 12 times, driving a total of 500 miles. On each of the visits, he paid a road toll of £10. William does not maintain accurate records of the costs incurred in running his car.

William has never filed a personal tax return as he has always paid tax on his employment income under PAYE. He knows he has to report his new source of income to HMRC by 5 October 2023 but he knows nothing else about the Income Tax Self-Assessment system.

**Requirements:**

- 1) **Explain Poppy's options for calculating her taxable property income for 2022/23.** (4)
- 2) **Calculate William's taxable property income for 2022/23 assuming he wishes to minimise his Income Tax liability for the year.** (5)
- 3) **Explain William's reporting obligations under the Income Tax Self-Assessment system, including relevant deadlines for 2022/23 and the maximum penalties for failing to meet them. Do not comment on payment deadlines or penalties.** (6)

Total (15)

15. Colin and his girlfriend Jackie are potential new clients who have contacted you for advice. Before leaving the UK on 5 April 2019 for a round-the-world trip, Colin had been UK resident for 10 years and Jackie had been UK resident since first coming to the UK in 2016/17. They are both domiciled in Ruritania.

Neither of them has visited the UK since they left, and they have already received advice from their previous tax adviser that they have been non-UK resident since 6 April 2019. They do not want you to revisit this advice.

Since leaving the UK, Colin and Jackie have sold the following assets:

	<u>Asset</u>	<u>Purchase date</u>	<u>Purchase price</u> £	<u>Disposal date</u>	<u>Disposal proceeds</u> £
Colin	Ruritanian residential property	1 Jan 2005	312,500	23 July 2021	704,545
	UK residential property	5 April 2014	500,000	5 Oct 2022	900,000
	Painting	17 Nov 2019	20,000	3 Feb 2023	35,000
Jackie	Shares in Ruritanian company	25 Aug 2015	150,000	23 Dec 2022	200,000

Colin has never lived in either of the UK or the Ruritanian residential properties. Four years before leaving the UK, Colin re-mortgaged the UK residential property when it was valued at £600,000.

**Requirements:**

- 1) **Explain the actions you should take and the issues you should consider before asking Colin and Jackie to sign an engagement letter.** (2)
- 2) **Calculate Colin's chargeable gain that is taxable in 2022/23. Include all options for the calculation of the gain.** (4)
- 3) **If Colin and Jackie reacquire UK residence in 2023/24, explain their potential exposure to UK Capital Gains Tax in relation to their disposals since their departure from the UK. Include calculations of any chargeable gains or allowable losses.** (8)

Total (14)