THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

November 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- 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. Sheldon owns a residential property in the UK which he rents out to tenants. This is his only rental property. During 2022/23 his tenants paid the rent promptly on the 10th of each month. The rent was initially £2,000 per month but from 10 August 2022 it increased to £2,200 per month.

   During 2022/23, Sheldon paid the following expenses:

	£
An additional sofa	500
Replacement of the bathroom suite	2,250
Replacement of the fridge	375

   Neither of the replacements were of a higher standard than the previous items. Sheldon sold the old fridge for £50.

   Prior to 2022/23, Sheldon had not used his car in this business. However, during 2022/23 Sheldon drove 9,800 miles in his car of which 2,250 miles were business visits to the rental property. Sheldon's running costs for the year in relation to the car were £5,000.

   Sheldon has not made any election in relation to how the property business profit should be calculated.

   Calculate Sheldon's taxable property business profit for 2022/23. Show your treatment of each expense. (4)

2. On 6 May 2001 Leslie was born to unmarried non-UK domiciled parents. In 2014, Leslie's parents both became UK domiciled and, by 6 May 2017, Leslie had settled in the UK with the intention to stay and make the UK her permanent home.

   With reference to the different types of domicile under common law, explain Leslie's domicile status throughout her life to date. (3)

3. Floyd died on 14 May 2022. In his Will he left a specific legacy of his TBBT plc shares to his nephew Leonard and the residue of his estate to his wife, Priya.

   The executors have not yet completed the administration of Floyd's estate and during 2022/23 received the following income and incurred the following expenses:

	£
Dividend from TBBT plc	4,000
Bank interest	12,000
Expenses of administering the estate	1,500

   An income distribution of £8,000 was made to Priya on 1 April 2023.

   Calculate the gross taxable income and associated tax credit for Leonard and Priya in 2022/23 by reason of their respective interests in Floyd's estate. State the form used by the executors to advise the beneficiaries of these amounts. (3)

4. Howard started a new job on 1 December 2022 in an office 100 miles from where he lives. For three months he travelled from home to work every day by train. During March and April 2023 he stayed in a hotel near the office and took a short bus ride to work.

   Howard's wife, Bernadette, has a job in an office in their hometown. Over the same five-month period she had a short drive from home each day directly to a client's site for a temporary purpose.

   Neither Howard nor Bernadette is reimbursed by their employer for their travel expenses.

   Explain whether Howard and Bernadette can claim deductions against their employment income for their travel costs over this five-month period. (3)

5. During 2022/23, Bert subscribed for ordinary shares in Kibbler Ltd, a qualifying SEIS company. Bert was an additional rate taxpayer in 2022/23, and he also made some significant capital gains in that tax year. Bert anticipates that he will sell the Kibbler Ltd shares in about four years' time. Bert has made previous SEIS investments, using up all potential tax relief for years prior to 2022/23.

   Explain the tax reliefs from which Bert should be able to benefit by reason of his 2022/23 SEIS investment. (4)

6. Raj is a single parent with two children aged 15 and 12. During 2022/23 he received child benefit for both children. He also had employment income of £58,000, received a dividend of £900 and made a Gift Aid donation of £1,400.

   Calculate Raj's high income child benefit charge for 2022/23. (3)

7. The directors of Comic Centre plc are keen to introduce a tax-efficient share scheme for their employees. They have drafted their proposed new Company Share Option Plan (CSOP) to include the following terms:

   1) The options can be exercised between three and 12 years after grant.

   2) The options will be granted only to those employees and directors who have been employed by the company for over five years, including one director who works three seven-hour days per week.

   3) The options will be exercisable at a price 5% lower than the anticipated £5 market value of the shares at the date of grant.

   4) Employees will be granted options over 4,000 shares, while directors will be granted options over 8,000 shares.

   Explain whether any amendment is required to each of these terms to ensure the formation of a tax-advantaged CSOP. (4)

8. Penny started work for Wolowitz plc on 1 December 2022. Her annual salary was £24,000, paid monthly at the end of each month. During January 2023, Penny drove 1,000 miles in her own car in the performance of her employment duties and was reimbursed by Wolowitz plc at 55p per mile. In March 2023, Penny received a £5,000 bonus. Penny was not a director of the company.

   Calculate Penny's Class 1 Primary National Insurance Contributions for 2022/23. (3)

9. In 2015, Amy bought 5,000 £1 ordinary shares in Cooper Ltd for £10,000. During 2022/23 Cooper Ltd was taken over by Bloom plc and Amy received cash, together with shares and loan notes in Bloom plc, in exchange for her shares in Cooper Ltd. The loan notes were denominated in Sterling with no right of conversion. The total value of the consideration received exceeded £10,000.

   Explain how Amy's 2022/23 chargeable capital gain, as a result of the takeover, is calculated and the ongoing Capital Gains Tax treatment of her new securities. (4)

10. Stuart disposed of the following assets in 2022/23:

Asset	Acquisition details	Gross disposal proceeds £
Statue	Inherited with a probate value of £12,000	55,000
Painting	Bought for £10,000	3,000
Vase	Bought for £2,200	7,500

   The statue was sold at auction. Stuart paid auctioneer's fees of 5% of the gross disposal proceeds.

   Calculate, with brief explanations where necessary, Stuart's chargeable gain or allowable loss on each of these disposals. (4)

11. Barry is UK tax resident and domiciled. He is a higher rate taxpayer. During 2022/23, his only disposals were two residential properties – one in the UK and one in Ruritania. The chargeable gain on the UK property was £67,000. The chargeable gain on the Ruritanian property was £20,000 on which he paid £7,000 of Ruritanian tax.

    There is no Double Tax Treaty between the UK and Ruritania.

    Calculate Barry's UK Capital Gains Tax liability for 2022/23. (3)

12. Stanley Ltd's shares are held as shown below:

Name	Shareholding (No.)
Brent	20
Elon (Brent's brother)	20
Carrie (Brent's daughter)	40

Explain whether Elon is connected with Stanley Ltd for Capital Gains Tax purposes. (2)

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PART II

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

13. Keith and Zeena are clients of your firm. They have been married since 2019. Keith is 70 and Zeena is 72. Zeena retired in March 2022 and in previous years had been a higher rate taxpayer.

They have given you the following information for 2022/23:

1) Zeena's state pension was £9,600.

2) Zeena's private pension was £15,300, from which PAYE of £2,400 was deducted.

3) Zeena received dividend income of £14,700. This was inclusive of dividends of £3,100 from her stocks and shares ISA.

4) Zeena received bank interest totalling £2,200.

5) Keith and Zeena received rental income of £13,750 on a jointly owned property. Throughout 2022/23 the tenants had paid the rent on time except the amount due on 25 March 2023 of £1,250, which was not paid until 10 April 2023. In December 2022, the old sofa was replaced with a new one of a similar standard which cost £800.

6) Keith's only other income was his state pension of £3,600.

Keith and Zeena walked by the office recently and noticed their photos were included in a window display with a sign saying "Just some of our many happy customers". They were surprised as they did not remember giving their permission for this.

One of the partners had taken some photographs from client files that were held for ID purposes and had decided that the window display would be good advertising.

Requirements:

1) Calculate, with brief explanations where necessary, Zeena's Income Tax payable or repayable for 2022/23. You should assume Zeena always makes any beneficial claims for relief. (17)

2) Explain one fundamental principal that is threatened due to the window display. (2)

Total (19)

14. Alice, a higher rate taxpayer, has provided you with the following information:

In December 2022, she sold a residential property to her sister, Gemma, for £250,000 when its market value was £370,000. Alice believes that there may be a relief available because she sold the property for less than market value.

Alice had purchased the property for £105,000 in 2008 but had never lived in it as it had always been let to tenants.

Alice does not own any other property, other than her home.

Alice's only other disposal was an antique vase, which she sold for £45,000 in March 2023. She originally paid £31,000 for the vase in July 2018, which included £500 auctioneer's fees.

Requirements:

1) Calculate, with brief explanations where necessary, Alice's Capital Gains Tax liability for 2022/23. (7)

2) Calculate Alice's Capital Gains Tax liability for 2022/23 if the property had qualified as a Furnished Holiday Let (FHL). Briefly explain the changes to the calculation. (7)

You should assume Alice makes any beneficial claims for reliefs.

Total (14)

15. Assume today's date is 7 November 2023.

Ayman is UK domiciled but has been non-UK resident for the last 12 years since moving to the United States (US) to live and work. He wants to permanently return to the UK in 2024/25.

Ayman is planning his return to the UK and intends to dispose of his worldwide portfolio of capital assets and use the net sale proceeds to buy a home in the UK.

Ayman's friend, Ashley, has advised him that 'he should dispose of any capital assets he owns, situated anywhere in the world, while he is non-UK resident, as he will have no UK Capital Gains Tax to pay on any of the disposals'.

Another friend, Mark, disagreed. Mark warned Ayman that 'all gains on overseas assets disposals will be exempt, but gains will always be fully chargeable on UK asset disposals regardless of an individual's residence status'.

Ayman wants to know your opinion on the comments of his two friends.

He plans to sell the following capital assets on 6 January 2024:

Asset	Location	Planned method of disposal	Date of acquisition
Apartment	New York, US	Sale to third party	10.01.2012
Penthouse flat	London, UK	Sale to third party	06.09.2002
Antique furniture	London, UK	Sale to third party	15.07.2005
Storage unit	Birmingham, UK	Sale to third party	05.10.2011

Notes

1) All assets are expected to be sold for more than their original cost.

2) Ayman has no capital losses brought forward from previous years.

Requirements:

1) Explain, with reasons, the extent to which you agree with Ashley and Mark's assessment of Ayman's Capital Gains Tax position. (3)

2) Explain whether each of Ayman's planned disposals in 2023/24 will be liable to UK Capital Gains Tax, and if so, how the gain is calculated. (7)

Assume the 2022/23 tax rules, rates and allowances continue in the future.
Ignore any double taxation treaty.

Total (10)

16. Rita Harper is UK resident and UK domiciled.

She recently resigned from her employment as a director of a travel company, without having another job to go to. She left because in the last two years her employer has demanded at short notice that she worked long hours most days and at weekends. Her employment contract stipulated that her working hours should be 37.5 hours a week, Monday to Friday.

After a brief search for jobs with competitors, Rita is now considering two job offers, one with Holidays R Us Ltd and the other with Vacations 4 You Ltd. She will start her new job on 6 April 2024.

Both jobs will pay the same salary and bonus, and both employers have said that they will pay 15% of her salary into her occupational pension scheme.

Both prospective employers also offer, for free, one of their package holidays each year to employees who have worked for them for at least three years. This includes flights, hotel accommodation and transport to and from the airports.

The difference between the prospective job offers are the other benefits provided which are as follows:

<u>Holidays R Us Ltd</u>

1) <u>Company car</u>
   a) New hybrid Hyundai car with CO_2 emissions of 44 g/km and an electric mileage range of 35 miles.
   b) Holidays R Us Ltd will pay £25,950 for the car, which has a list price of £27,500, but Rita will have to pay £5,950 towards the purchase of the car.
   c) A free designated car parking space near the office. The annual cost of the parking space is £3,750. She will also be provided with the use of a free electric charging point which has an annual cost of £950.
   d) The company will pay for all of Rita's petrol.

2) <u>Private medical insurance as part of the group policy</u>
   The cost of Rita's share of the group insurance premium paid by Holidays R Us Ltd will be £1,100.

<u>Vacations 4 You Ltd</u>

1) <u>A mileage allowance for the use of her own diesel car</u>
   Vacations 4 You Ltd will pay 35p for all of her business and private mileage in the tax year. Rita expects to drive a total of 16,600 miles during the year, 30% of which will be for private journeys.

2) <u>Company house</u>
   a) Use of a house which Vacations 4 You Ltd purchased in 2015 for £198,000. An extension was added in 2019 at a cost of £24,000.
   b) The value of the house at 6 April 2024 is estimated to be £315,000 and the rateable value is £9,000.
   c) The furnishings will be provided new when Rita moves in and will cost £3,500.
   d) Rita will pay all the household bills which are estimated to be £4,800 and she will contribute £600 per month for the use of the house.

3) <u>Free meals in the company canteen</u>
   Provided to all employees at an annual cost of £1,300 per head.

Rita is unsure of the taxable value of the benefits.

As the rest of the terms of employment are the same, she has decided that she will choose the job with the lowest value of taxable benefits.

Requirements:

1) Explain why, and to what extent, Rita may be able to claim damages in relation to her previous employment. (2)

2) Explain how the benefit of a free package holiday would be calculated if Rita stays with her new employer for at least three years. (2)

3) Calculate the annual taxable value of the other benefits provided by each of Rita's prospective jobs for 2024/25. Identify any benefits which are not taxable.

Assume the 2022/23 tax rates and allowances apply in 2024/25. (11)

Total (15)