CIOT - ATT

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Property income = (£2,000 x 4) + (£2,200 x 8) = £25,600.

Less:
Domestic items deduction (W1) = £2,625
Motor expenses (W2) = £1,148

Total property business profit = £21,827.

No election made to claim property allowance of £1,000.

W1 - Domestic Items

Additional sofa £500 - not deductible.
Replacement bathroom - relief available through revenue deduction, not an upgrade - £2,250.
Replacement fridge - relief available udner replacement of domestic items relief - £375.

W2 - Motor expenses

2,250 / 9,800 x £5,000 = £1,148 deductible.

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

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

Answer-to-Question-_2_

As Leslie was born to unmarried parents, she will take her domicile status from her mother at birth. This therefore was non-UK dominicle at birth.

In 2014, Leslie's domicile changed to UK domicile as her parents' became UK domicile. Leslie's status changed as a result of her 'domicile of dependence'.

In 2017, her domicile status of choice was the UK as she committed her future to living in the country.

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

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

Answer-to-Question-_3_

Leonard (Nephew) - Dividends received

Gross dividends £4,000
Less: Tax paid (W1) £350
Total received £3,650

Priya (Wife) - Bank interest

Gross interest £12,000
Less: Tax paid (W2) £2,400
Total received £9,600

W1 = £4,000 / (1 / 0.9125) = £3,650.
W2 = £12,000 / (1 / 0.8) = £9,600

Form R185 is used by the executors to advise the beneficiaries of their entitled amounts.

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

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

Answer-to-Question-_4_

Sections 337 and 338 ITEPA deal with the deductibility of travel expenses. Per the leglisation, Howard will not be able to claim a deduction for the three months worth of train journeys as this a trip from home to a normal place of work, which is ordinary commutting. During March and April, Howard will not be able to claim a deduction from the hotel to his workplace, as again this is deemed to be an ordinary commute under s337 and s338 IETPA 2003.

Bernadette is travelling to a client's site, which is not ordinary commutting per the leglisation. Bernadette is not reimbursed for these costs either. This, therefore, means the Bernadette can claim a deduction for the associated costs to travel to the client site over the 5 month period.

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

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

Answer-to-Question-_5_

Bert subscribing to shares in a qualifying SEIS company offers various reliefs. He will receive tax relief in his income tax computation at the lower of the amount subscribed or £100,000, which is given by way of a tax reducer at a flat rate of 50%. The maximum deduction available therefore is £50,000 (£100,000 x 50%).

It must be noted that these shares must be held for at least three years prior to sale, otherwise there will be a clawback of relief. This will be equal to the original tax reducer given upon subscription. Bert should therefore be mindful of this and not sell the shares until three years of holding them.

Given Bert has made other significant capital gains in the year, it is unlikely that the annual exempt amount of £12,300 will be available to him. Additionally, as he has used up all available potential tax reliefs prior to 2022/23, there will be no further relief available such as BADR.

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

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

Answer-to-Question-_6_

Raj's child benefit for 2 children = (£21.80 + £14.45) x 52 = £1,885.

Raj				
Employment income	£58,000			
Dividends		£900		
Total income			£58,900	
Gift aid deduction (W1)			(£1,750)	
Total taxable income			£57,150	

High income child benefit charge is 1% for every £100 above £50,000. Therefore £57,150 - £50,000 x 1% = 71.5 ROUNDED DOWN = 71%.

Raj's charge = £1,885 x 71% = £1,338.

W1 = £1,400 x (1 / 0.8) = £1,750

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

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

Answer-to-Question-_7_

Comic Centre Plc must amend their formation of the CSOP to ensure it is truly tax advantaged.

Firstly, the exercise window must be within 3 and 10 years from the date of grant, opposed to the current 3 to 12 years. Any exercise outwith 10 years from date of grant will result in a charge to employment income.

It is correct to say that CSOP can be available to select employees only. However, these employees must be full time employees. The director who works 21 hours a week cannot be part of the CSOP scheme.

The options cannot be granted at a discount from the market value at the date of grant under para 22, sch 4, ITEPA 2004. The shares must be granted at the anticipated market value at date of grant of £5 per share.

Comic Centre plc must be mindful that if the directors take up the grant offer they may hold more than £30,000 of options, which exceeds the maximum value per para 6, sch 4, ITEPA 2003. This would be due to the grant value being £5, therefore the maximum grant per employee would be £6,000 shares.

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

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

Answer-to-Question-_8_

December - April - 4 full months.

	Salary (£)	Bonus (£)	Car benefit (£)	Total
December	2,000	-		
January	2,000	-		
February	2,000	-		
March	2,000	5,000		
			100 (W1)	
	8,000	5,000	100	£13,100

Class 1 for December, Jan and Feb = ((£2,000 - £1,048) x 3) x 13.25% = £378

Class 1 for March = £4,189 - 1,048 * 13.25% = £416
(7,000 - 4,189) x 3.25% = £91

Class 1A on fuel benefit = £100 x 15.05% = £15.

Total NIC = £522.

W1:

Car benefit = 55p x 1,000 miles = £550.
Car allowance = 45p x 1,000 miles = £450
Benefit received = £100.

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

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

Answer-to-Question-_9_

As the total consideration received on takeover exceeds £10,000, we can say that a gain has arisen. The treatment of each element received is below.

Where old shares are swapped for new shares, there is no disposal for capital gains tax purposes. No gain or loss has arisen at the point of takeover per s.127 TCGA 1992. There will be CGT implications should Amy decide to sell the new shares.

The cash element received by Amy on takeover gives rise to a capital gain. As a mix of cash, shares and loan notes have been received, Amy must pro rate the amount received on takeover to calculate the cost associated with the cash received, this is done through a part disposal calculation.

As the loan notes are denominated in Sterling and cannot be converted to another currency, these are qualifying corporate bonds. On receipt of the QCB, an assumption is made whereby Amy has received an amount of cash equal to the value of the QCB. We calculate the capital gai that would have arisen in receipt of this 'pretend cash'. As Amy does not actually receive any cash, we can freeze the gain, which will become chargeable upon sale of the loan stock at a future date.

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

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

Answer-to-Question-_10_

All assets are qualifying assets for CGT, no wasting assets.

Statue

Statue inherited, we recognise cost at £12,000.

Proceeds	£55,000		
Less: Probate value	£12,000		
Less: Auctioneer fees (5%)(W1)	£2,750		
Gain	£40,250		

Painting

Loss restricted by deeming gross proceeds to be £6,000.

Proceeds	£6,000		
Less: Auctioneer fees (5%) (W1)	£150		
Acquisition cost	£10,000		
Allowable loss	(£4,150)		

Vase

Disposal proceeds exceed £6,000 but cost below £6,000. 5/3 rule may apply, we take the lower of the two gains.

Proceeds	£7,500		
Less: Actioneer fees (5%) (W1)	£375		
Acquistiion cost	£2,200		
Gain on sale	£4,925		

5/3 Rule

5/3 x (£7,500 - 6,000) = £2,500. Lower therefore we take the £2,500 gain.

W1 Auctioneer fees

£55,000 x 5% = £2,750
£3,000 x 5% = £150
£7,500 x 5% = £375

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

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

Answer-to-Question-_11_

Residential rates apply, higher rate taxpayer therefore 28% on gain.

UK gain	£67,000			
Foreign gain	£20,000			
Total gain	£87,000			
AEA	(£12,300)			
Taxable gain	£74,700			

£74,700 x 28% = 20,916
Less lower of overseas tax suffered and UK CGT gain (W1) (£5,600)
CGT liability = £15,316.

Losses and AEA are allocated to UK gains in priority, therefore no scope to offset £20k gain with AEA.

W1 - £20,000 x 28% = £5,600.

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

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

Answer-to-Question-_12_

Elon is Brent are connected due to being brothers. Elon and Carrie are not connected due as this is Elon's niece.

Therefore, the associated shareholding for Elon is 40%. This means he is not connecte with Stanley Ltd for CGT purposes.

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

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Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

	NSI	**SI**	**D**	**Total**
Pension income	£24,900			
Property income (W1)	£6,375.			
Interest received		£2,200		
Dividends			£14,700	
Total	£31,275	£2,200	£14,700	£48,175
Less: PA				(£12,570)
Taxable income				£35,605
NSI tax	£3,741			
SI tax	£240			
D tax	£840			
Total tax	£4,821			
Less: Marriage Allowance (W2)	(£260)			
PAYE deducted at source	(£2,400)			
Total tax liability	£2,161			

Tax calculation

NSI - (£31,275 - 12,750)x 20% = £3,741.

SI - (£2,200 - 1,000*) x 20% = £240.

* £1,000 being the savings allowance for basic rate taxpayers.

D - (14,700 - 3,100*) = £11,600

£2,000 x 0% = £0.
£9,600 x 8.75% = £840.

* £3,100 dividends received on stocks and shares ISA are exempt from Income Tax.

Zeena - workings

Non-savings income

State pension = £9,600
Private pension = £15,300
Property income (W1) = £12,950.

Savings income

Bank interest = £2,200

Dividends

Dividends = £14,700 (S&S ISA exemption)

W1 - Property income, cash basis.

Rent received = £1,250 x 11 = £13,750
Less: Property allowance* (£1,000)
Property income = £12,750. Jointly owned therefore halved, £6,375.

* Election made to claim property allowance as total expenses are below £1,000. Maximises relief.

W2 - Keith personal allowance

Property income £6,375
State pension £3,600
Total income £9,975

Marriage allowance deduction available = (12,570 - 9,975) = £2,595 rounded up to nearest multiple of 10, being £2,600.

£2,600 x 10% = £260 deduction available to Zeena.

2) Client confidentiality is at threat due to window display. There is also therefore risk regarding GDPR should client information be leaked.

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

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

Answer-to-Question-_14_

Property

Proceeds*	£370,000			
Less: acquisition cost	(£105,000)			
Gain	£265,000			

* As Alice and Gemma are sisters they are connected persons for CGT purposes, this means that the deemed proceeds in the CGT calculation are the market value of the asset at the date of sale. Gemma will recognise the base cost of £370,000 for CGT purposes.

No Private Residency Relief available as Alice has never lived in the property.

Vase

Proceeds £45,000
Less:
Acquisition cost £31,000
Auctioneer fees £500
Gain on disposal £13,500.

CGT Calculation

Prioritise AEA against residential gains.

Residential property gain	£265,000		

AEA	(£12,300)		
Taxable amount	£252,700		
Taxable at 28%	£70,756		
Vase gain	£13,500		
Taxable at 20%	£2,700		
Total CGT liablity	£73,456.		

2)

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

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

Answer-to-Question-_15_

1) Ashley's and Mark's comments are somewhat correct, capital gains made by a non-UK resident are not subject to UK CGT. However, as of 6 April 2015 UK capital gains tax has been charged on disposals of residential property, therefore the penthouse flat will be subject to UK CGT irrespective of Ayman's residency.

2) The New York apartment will not be subject to UK CGT as it is an asset which is situated out with the UK, and is disposed of by a non-UK resident.

The Penthouse flat in London is partly chargeable to UK CGT. This is a UK residential property and since 6 April 2015 is subject to UK CGT. Part of this will be chargeable to UK CGT and will be calculated under either the default, straight-line or retrospective method.

The antique furniture will not be subject to UK CGT as it was disposed of by a non-UK resident, and is not residential property.

Again, the storage unit will not be subject to UK CGT as it was disposed of by a non-UK resident, and is not residential property.

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

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

Answer-to-Question-_16_

1) There is scope for a claim in Rita's previous employment due to the unlawful practices taking place, which lie out with the contractual agreement. It was not agreed that Rita would work more than 37.5 hours without agreement, nor was it stated that she should work weekends. A claim for unlawful behaviour by pressuring employees to work uncontracted hours is possible.

2) The taxable benefit is the cash equivalent of the holiday. This is the cost to the employer of providing the benefit per s204 ITEPA 2004.

It should also be noted that this will also be subject to Class 1A National Insurance on the cash equivalent of the benefit at 15.05%.

3)

Holidays R US Ltd

List price - £27,500 x 12%* = £3,300.

* 12% being the electrical mile range percentage as this is a low emissions car.

Fuel benefit = £25,300 x 12% = £3,036

Parking space = no benefit arises. Exempt.

Electric charging point = no benefit arises. Exempt.

Private medical insurance = £1,100.

Total benefit = £7,436.

Vacations 4 You

£10,000 business miles x 45p = £4,500
£1,620 business miles at 25p = £405
Less: 11,620 business miles at 35p = £4,067.
= £838 benefit.

£4,980 x 25p = £1,245 benefit for private mileage.

Company house

(£315,000 + £3,500 -(£600 x 12)- £75,000) x 2% = £4,726.

Free meals - exempt as available to all employees.

Total benefit arising = £6,809.