

The Association of Taxation Technicians

ATT Paper 1 Personal Taxation

Part I - Suggested solutions

November 2023

1. The default basis is the cash basis.

		£
Rent received:	£2,000 x 4 = £8,000 (1/2)	
	£2,200 x 8 = £17,600 (1/2)	
		25,600
<u>Expenses:</u>		£
Additional sofa	(1/2)	-
Replacement of the bathroom suite	(1/2)	2,250
Replacement of the fridge	£(375 – 50) (1)	325
Use of car:		
- Higher of: 2,250/9,800 x £5,000 = £1,148 (1/2)		1,148
- and 2,250 x 45p = 1,013 (1/2)		
		(3,723)
Property business profit		£21,877

2. Leslie's domicile has changed throughout her life as follows:

- Leslie acquired a non-UK domicile of origin (1/2) on birth from her mother (1/2)
- Leslie acquired a UK domicile of dependence (1/2) when, before the age of 16, her mother on whom she was legally dependent (1/2) became UK domiciled.
- Leslie acquired a UK domicile of choice (1/2) when she turned 16, having settled in the UK with the intention to remain here permanently or indefinitely (1/2)

3. Leonard will be taxed on £4,000 of gross dividend income (1/2), with a tax credit of £350 (1/2).

Priya will be deemed to have received a net distribution of £8,000 of bank interest (1/2) and so will be taxed on £10,000 of gross bank interest (1/2), with a tax credit of £2,000 (1/2).

The executors will advise the beneficiaries by providing them with a form R185 (Estate Income) (1/2).

4. Howard cannot claim a deduction for any of his travel costs (1/2) as Section 338 ITEPA 2003 specifically denies a deduction for the expenses of ordinary commuting (1/2). Ordinary commuting is defined as travel between either:

- a) the employee's home and a permanent workplace (1/2); or
- b) a place that is not a workplace (e.g. a hotel) and a permanent workplace (1/2).

Bernadette can claim a deduction for her travel costs (1/2) as the cost of travelling from home to a temporary workplace (1/2) is not ordinary commuting.

5. Bert will be able to claim an Income Tax reducer (1/2) in 2022/23 of 50% of the lower of the investment made (1/2) and £100,000 (1/2).

Capital gains from 2022/23 (1/2), up to a maximum of 50% (1/2) of the SEIS investment that qualified for Income Tax relief (1/2), will be exempt from CGT (1/2).

If Bert disposes of the Kibbler Ltd shares more than three years (1/2) after issue, the capital gain on those shares that received Income Tax relief will be exempt from CGT (1/2).

[Max – 4 marks]

6.

		<u>£</u>
Adjusted net income:		
Employment income		58,000
Dividend income		900
		<u>58,900 (1/2)</u>
Deduct:		
Gross Gift Aid donation	£1,400 x 100/80 (1/2)	(1,750)
Adjusted net income		<u>57,150</u>
Deduct: Child benefit threshold	(1/2)	(50,000)
Excess		<u>7,150</u>
Clawback percentage =	7,150/100 x 1% (1/2)	<u>71%</u>
Child benefit claimed	£(21.80 + 14.45) x 52 (1/2)	<u>1,885</u>
High income child benefit charge	71% x £1,885 (1/2)	<u>£1,338</u>

7. Exercise period – the exercise period is acceptable (1/2) but any options exercised more than 10 years after grant will not benefit from CSOP tax reliefs (1/2).

Selective recipients of options – it is acceptable for the options to be offered only to selected employees/directors (1/2), although options cannot be given to the director who works less than 25 hours per week (1/2). An amendment to this term is therefore required.

Discount – the options cannot be offered at a discount to the market value of the shares at the date of grant (1/2). An amendment to this term is therefore required.

Value – the value of shares granted to each recipient cannot exceed £30,000 (1/2). Therefore, while the number of options granted to employees is acceptable (1/2) (4,000 x £5 < £30,000), options over 2,000 of the shares offered to each director will not benefit from CSOP tax reliefs (1/2). An amendment to this term is therefore required.

8. Penny's earnings for NIC purposes:

- For Dec 2022 & Feb 2023: £2,000
- For January 2023: £2,000 + (1,000 * £(0.55 – 0.45)) = £2,100 (1/2)
- For March 2023: £2,000 + £5,000 = £7,000

<u>Month(s)</u>		<u>NIC liability</u> <u>£</u>
Dec 2022/Feb 2023	£(2,000 (1/2) – 1,048 (1/2)) x 13.25% (1/2) x 2	252
January 2023	£(2,100 – 1,048) x 13.25%	139
March 2023	£(4,189 (1/2) – 1,048) x 13.25%	416
	£(7,000 – 4,189) x 3.25% (1/2)	91
		<u>£898</u>

Tutorial note: The rates shown above are those as shown in the tax tables. Equal credit is awarded for use of the actual rates during this period as shown below:

<u>Month(s)</u>		<u>NIC liability</u> <u>£</u>
Dec 2022/Jan 2023	$£(2,000 \text{ (1/2)} - 1,048 \text{ (1/2)}) \times 12\% \text{ (1/2)} \times 2$	228
January 2023	$£(2,100 - 1,048) \times 12\%$	126
March 2023	$£(4,189 \text{ (1/2)} - 1,048) \times 12\%$	377
	$£(7,000 - 4,189) \times 2\% \text{ (1/2)}$	56
		<u>£787</u>

9. The takeover represents a disposal by Amy of her Cooper Ltd shares. A separate gains calculation will be done in relation to each element of the consideration received from Bloom plc. Amy's £10,000 base cost of Cooper Ltd shares will be apportioned between those calculations pro-rata to the value of the consideration received (1/2).

Amy will realise a chargeable gain for 2022/23 in relation to the cash received (1/2), with the gain being calculated as the cash received less the apportioned base cost (1/2).

The loan notes are QCBs (1/2), as they are issued in Sterling and are not convertible into any other currency (1/2). As such, a gain will arise on the exchange of her Cooper Ltd shares for loan notes, calculated as the value of those loan notes less the apportioned base cost (1/2), but that gain will be frozen until Amy disposes of the loan notes (1/2). Any future increase in the value of the loan notes themselves will be exempt from CGT (1/2).

No gain will arise on the receipt of the shares in Bloom plc (1/2). A gain may arise on a future disposal of those shares, to the extent that the value of the shares at that time exceeds the base cost apportioned to the Bloom plc shares (1/2).

(Max – 4 marks)

10. Statue - the gain is proceeds of £55,000 (1/2), less 5% commission of £2,750 (1/2), less probate value of £12,000 (1/2) = £40,250

Painting - this is the disposal of a non-wasting chattel at a loss. As the disposal proceeds are less than £6,000, the allowable loss on the painting is restricted by deeming the gross disposal proceeds to be £6,000 (1/2). Therefore, the allowable loss is £4,000 (£6,000 - £10,000) (1/2).

Vase - this is the disposal of a non-wasting chattel at a profit. As the acquisition cost was less than £6,000 and the disposal proceeds exceed £6,000 (1/2), the chargeable gain on the vase is restricted to $\frac{5}{3} \times £(7,500 - 6,000) = £2,500$ (1/2) rather than £5,300 (£7,500 - £2,200) (1/2).

11.

		UK gain £	Ruritanian gain £
Chargeable gains		67,000	20,000
Less: Annual exempt amount	(1)	(12,300)	-
Taxable gains		<u>£54,700</u>	<u>£20,000</u>
UK CGT	£74,700 @ 28% (1/2)		20,916
Less: DTR lower of: (1/2)			
- UK tax on Ruritanian property	£20,000 x 28% = £5,600 (1/2)		
- Ruritanian tax paid	£7,000 (1/2)		
			<u>(5,600)</u>
UK CGT liability			<u>£15,316</u>

12. Elon will be connected with Stanley Ltd if he, together with those with whom he is connected, controls the company (1/2).

Elon is connected with Brent (1/2) but he is not connected with Carrie (1/2).

Elon is therefore not connected with Stanley Ltd as he and Brent do not control the company (1/2).

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Part II - Suggested solutions

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13. Zeena – Income Tax computation 2022/23

	Non-savings income £	Savings income £	Dividend income £	
State pension	9,600			(1)
Private pension	15,300			(1/2)
Dividends (W1)			11,600	(1/2)
Interest		2,200		(1/2)
Property income (W2)	5,875			(1/2)
Less: Personal allowance	<u>(12,570)</u>			(1/2)
Taxable income	<u>18,205</u>	<u>2,200</u>	<u>11,600</u>	
Income tax:				
	£		£	
Non-savings income	<u>18,205</u>	x 20%	3,641	(1/2)
Savings income	1,000	x 0%	0	(1/2)
Savings income	<u>1,200</u>	x 20%	240	(1/2)
	2,200			
Dividend income	2,000	x 0%	0	(1/2)
Dividend income	<u>9,600</u>	x 8.75%	<u>840</u>	(1/2)
	11,600			
Income tax liability			4,721	(1/2)
Less:				
Tax reducer - MA (W3) (£1,260 x 20%)			(252)	(1)
PAYE			<u>(2,400)</u>	(1/2)
Income Tax payable for 2022/23			<u>2,069</u>	(1/2)

Workings

(W1) Dividend income

£14,700 - £3,100 (N1) = £11,600 (1/2)

(W2) Property income

	£	
Rents received (N2)	<u>13,750</u>	(1/2)
Zeena's share = 50%	6,875	(1/2)
Less: Property allowance (N3)	<u>(1,000)</u>	(1/2)
	<u>5,875</u>	

(W3) Marriage allowance (MA)

Zeena's net income is less than £50,270, so in 2022/23 she is a basic rate taxpayer (1). Keith is not using the entirety of his personal allowance, (1/2) so Zeena can claim the MA. (1/2)

Whilst this does not increase Zeena's personal allowance, (1/2) it acts as a tax reducer equal to 20% of the amount transferred to her. (1/2)

Amount transferred:

£12,570 x 10% = £1,260 (rounded) (1/2)

Notes

(N1) Dividends from stocks and shares ISAs

These are not taxable. (1/2)

(N2) Property income

The default basis of assessment for property income is the cash basis (1/2) as gross property income receipts do not exceed £150,000. (1/2)

This means the rent due on 25 March 2023 that was not paid until 10 April 2023 will be taxed in 2023/24. (1/2)

(N3) Sofa replacement

As the new sofa is like-for-like replacement, the £800 cost would normally be fully allowable. (1/2)
However, it is more beneficial for Zeena to claim the property allowance. (1/2)

17 marks

2)

If the photographs were given to the firm on the understanding that they were to be held for ID purposes, (1) displaying them in this window sign without Keith and Zeena's permission will constitute a breach of client confidentiality. (1)

Alternative answer

As the partner did not have Keith and Zeena's permission to use the photograph for advertising purposes this may bring the profession into disrepute (ie if they complain) (1). This constitutes a breach of the principle of professional behaviour. (1)

2 marks

14. Alice – CGT for 2022/23

1)	Residential	Non-Resid
	£	£
Chargeable gains:		
Property (W1)	265,000 (1/2)	
Antique vase (W2)		14,000
Less Annual exempt amount (N2)	<u>(12,300) (1/2)</u>	<u> </u>
Taxable gains	<u>252,700</u>	<u>14,000</u>
CGT thereon:	£	
Residential property: £252,700 x 28%	70,756 (1/2)	
Antique vase : £14,000 x 20%	<u>2,800 (1/2)</u>	
Total CGT 2022/23	<u>73,556</u>	

Workings:

(W1) Residential property

	£
Proceeds (N1)	370,000 (1/2)
Less Cost (N1)	<u>(105,000) (1/2)</u>
Chargeable gain	<u>265,000</u>

(W2) Antique vase

	£
Proceeds	45,000 (1/2)
Less Cost (N3)	<u>(31,000) (1/2)</u>
Chargeable gain	<u>14,000</u>

Notes:

(N1) Proceeds from residential property

There is a sale at undervalue. (1/2) It is not a qualifying transaction for gift relief purposes (1/2) which means the actual proceeds are ignored, (1/2) with the sale deemed to take place at market value. (1/2)

(N2) The annual exempt amount should be set against the gain with the higher CGT rate. (1/2)

(N3) The auctioneer's costs are allowable as an associated expense. (1/2)

7 marks

2)

	£	£
Chargeable gains:		
Property (W1)	145,000 (1/2)	
Antique vase		14,000
Less Annual exempt amount (N2)	<u> </u>	<u>(12,300)</u> (1/2)
Taxable gains	<u>145,000</u>	<u>1,700</u>

CGT thereon:	£	
Residential property: £145,000 x 10%	14,500 (1/2)	
Antique vase : £1,700 x 20%	<u>340</u> (1/2)	
Total CGT 2022/23	<u>14,840</u>	

Workings:

(W1) Residential property

	£
Proceeds (N1)	370,000
Less Cost (N1)	<u>(105,000)</u>
Gain	265,000
Less: Gift relief (s.165) (1/2)	<u>(120,000)</u> (1/2)
Chargeable gain £(250,000 – 105,000) (1/2)	<u>145,000</u>

Notes:

(N1) Proceeds from residential property

There is a gift of a business asset (TCGA 1992, s.165 (2)(a)) (1/2) which means the disposal qualifies for both gift relief (1/2) and Business Asset Disposal Relief (BADR). (1/2) Gift relief must be applied first (1/2) and as part of the gain remains chargeable, BADR is claimed on the balance. (1/2)

A specific claim needs to be made to obtain gift relief, with it being a joint election by Alice and Gemma. (1/2) The time limit to make the claim is four years from the end of the tax year ie 5 April 2027. (1/2) BADR claim due date is 31 January 2025. (1/2)

(N2) The annual exemption should be set against the gain with the higher CGT rate, which is now the antique vase. (1/2)

Max 7 marks

15.(a) Review statements made by Ashley and Mark

Ashley

Ashley's view is out of date. (½)

His statement was true before 6 April 2015 but residential UK properties became liable to UK capital gains tax with effect from 6 April 2015, (½) and commercial property and indirect interests in land in the UK (½) became liable with effect from 6 April 2019. (½)

Mark

Mark's view is partially incorrect. (½)

It is true that disposals of overseas assets are not liable to UK capital gains tax. (½)

However, residence status is important (½) and the fact that Ayman is non-UK resident means that not all UK asset disposals are chargeable – only interests in UK land (including buildings). (½)

Max 3 marks

(b) Ayman

Non-UK resident individuals are not normally liable to UK Capital Gains Tax on disposals of capital assets (whether UK or overseas assets) (½) unless:

- (i) the individual is temporarily non-UK resident, (½) or
- (ii) the disposal is of interests in land (including buildings) situated in the UK. (½)

Ayman is not temporarily non-UK resident as he has been non-UK resident for more than five years. (½)

As Ayman will dispose of a UK flat and UK storage unit, chargeable gains will arise on these two disposals as shown below.

Accordingly, the disposals of Ayman's capital assets on 6 January 2024 (when Ayman is not UK resident) will be treated as follows:

<i>Asset</i>	<i>Capital Gains Tax implications</i>
Overseas apartment	The sale of an overseas interest in land is not liable to UK CGT. (½)
UK flat	The sale of UK residential property is liable to UK CGT. The chargeable part of the NRCG arising on the UK flat (residential property) is the lower of: (½) <ul style="list-style-type: none">(i) Default method: (Sale proceeds less Value at 6 April 2015) (½), or(ii) if an election is made, (½) either the<ul style="list-style-type: none">• Straight-line time apportionment method: The proportion of the gain accruing after 6 April 2015 is chargeable (½) (Sale proceeds less original cost) x (months owned post 6 April 2015 / total length of ownership) (½) (8 years and 9 months / 21 years and 4 months)• Retrospective method where the whole gain (i.e. Sale proceeds less original cost) is assessed (unlikely to be beneficial as a gain is realised) (½)
UK antique furniture	Sale of UK assets other than interests in land are not liable to UK CGT. (½)
UK storage unit	The sale of UK non-residential (commercial) property is liable to UK CGT. The chargeable part of the gain arising on the commercial (non-residential) property is the lower of: (½)

- (i) Default method:
(Sale proceeds less Value at **6 April 2019**) (1/2), or
- (ii) if an election is made, (1/2) the retrospective method where the whole gain (i.e. Sale proceeds less original cost) is assessed (unlikely to be beneficial as a gain is realised) (1/2)

Tutorial note:

There is no straight line time apportionment election available for disposals of non-residential property

Max 7 marks

4. 16. (a) Rita – End of contract

Rita's contract of employment ended unlawfully as there was a breach of contract. (½)

The behaviour of her employer caused her to resign due to unreasonable changes to working requirements compared to those in the original contract, (½) which is constructive dismissal. (½)

As a wrongful dismissal she may be entitled to damages (½) (i.e. compensation for losses incurred as a result of the breach of contract). (½)

However, Rita must take reasonable steps to mitigate her loss by trying to find another job at a comparable level within a reasonable timescale. (½)

Max 2 marks

(b) Inhouse benefit

If a travel company gives a free holiday to an employee, this is an inhouse benefit (½) (as the product is something the employer sells in the course of their business).

If given free the benefit is taxable at the marginal additional cost to the employer of providing the product (½) (i.e. the expense the employer would save if the benefit had not been provided to the employee). (½)

Accordingly, any costs paid by the employer directly to the airline, hotel etc they will not recover as they are not selling to a member of the public. (½) This benefit would be assessed on Rita at the cost to the employer (but not the price a member of the public would pay for the holiday). (½)

However, services the employer supply themselves as part of the holiday package (e.g. transport from airport to hotel, administration services etc) do not give rise to additional expense to the employer as the transport buses will run anyway with or without Rita. (½)

Max 2 marks

(c) Taxable benefits – 2024/25

Holidays R Us Ltd

Benefits:		£	
Employer pension contributions	Exempt	0	(½)
Company car benefit (W1)		2,700	(see W)
Fuel benefit (W1)		3,036	(see W)
Car parking space	Exempt	0	(½)
Use of electric charging point	Exempt	0	(½)
Private health insurance		1,100	(½)
		<hr/>	
Total taxable benefits from Holidays R Us Ltd		6,836	
		=====	

Vacations 4 You Ltd

Benefits:		£	
Employer pension contributions	Exempt	0	(PAG)
Mileage allowance benefit (W2)		905	(see W)
Living accommodation benefit (W3)		7,300	(see W)
Free meals (as provided for all employees)	Exempt	0	(½)
		<hr/>	
Total taxable benefits from Vacations 4 You Ltd		8,205	
		=====	

Workings

(W1) Car and fuel benefit

CO₂ emissions = 44 g/km hybrid car with 35 electric mileage range

Appropriate percentage = 12%

	£	
List price of car (Note)	27,500	(½)
Less: Capital contribution towards purchase of car (Max)	(5,000)	(½)
	<hr/>	
	22,500	
	=====	
Car benefit (£22,500 x 12%)	2,700	(½)
	=====	
Fuel benefit (£25,300 x 12%)	3,036	(½)
	=====	

Tutorial note:

The car benefit is based on the manufacturer's list price less any capital contribution made by Rita, subject to a maximum of £5,000.

The price paid by the company for the car is irrelevant.

(W2) Mileage allowance

Business miles = 16,600 x 70% = 11,620 (Note)

	£	£	
Mileage allowance received (16,600 miles x 35p)		5,810	(½)
Less: ITEPA mileage rates			
10,000 x 45p	4,500		(½)
1,620 x 25p	405		(½)
	<hr/>		
11,620	4,905	(4,905)	
=====	=====	<hr/>	
		905	
		=====	

Tutorial note:

The company pays an allowance for all of Rita's mileage, but the HMRC allowance only applies to business mileage.

Accordingly, all the private mileage payments of £1,743 (16,600 x 30% = 4,980 x 35p) are taxable.

However, there is an allowable deduction for the business mileage of £838 as the HMRC allowance is £4,905 and the amount received for business miles is £4,067 (11,620 x 35p).

The net effect is a benefit of £905 (£1,743 – £838).

(W3) Company house

	£	£	
Annual value		9,000	(½)
Additional yearly rent			
MV on 6.4.24 (Note)	315,000		(½)
Less: Limit	(75,000)		(½)
	<hr/>		
	240,000		
	=====		
	x 2%	4,800	(½)
Use of furnishings (£3,500 x 20%)		700	(½)
Household bills – Paid by Rita (Note)		0	(½)
		<hr/>	
		14,500	(½)
Less: Employee contributions (£600 x 12)		(7,200)	(½)
		<hr/>	
Total benefit		7,300	
		=====	

Tutorial note:

As Vacations 4 You Ltd owned the house for more than six years before Rita moved in, for the additional yearly rent benefit, the original cost and cost of extension are ignored. The market value on the date that she moves in is used instead.

If the household bills had been paid by Vacations 4 You Ltd on behalf of Rita, there would be another benefit at the cost to the employer – but as Rita paid the bills, there is no benefit.

11 marks
(Total 15 marks)