

Institution **CIOT - ATT**  
Course **ATT Paper 1 Personal Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>278</b>	<b>1295</b>	<b>1747</b>
Section 2	<b>337</b>	<b>1530</b>	<b>1886</b>
Section 3	<b>267</b>	<b>1242</b>	<b>1562</b>
Section 4	<b>210</b>	<b>987</b>	<b>1381</b>
Section 5	<b>32</b>	<b>204</b>	<b>316</b>
Section 6	<b>122</b>	<b>573</b>	<b>713</b>
Total	<b>1246</b>	<b>5831</b>	<b>7605</b>

Answer-to-Question- \_1\_

	Non-Savings	Savings	Dividends	
	£	£	£	
UK State pension	11,500			
Private pension	48,300			
Interest Possession Trust 5,100 x 100/80		6,375		
Discretionary Trust 1,500 x 100/55	2,727			
Loan Note		400		
Unit Trust (n1)		1,800		
Joint bank account interest 2,600 / 2		1,300		
Lottery winnings (n2)	Exempt			
SEIS losses - income tax relief (w3)	(225)			
Net Income	62,302	9,875		
Personal Allowance (PA)	(12,570)			
Taxable Income	49,732	9,875		

Riya is a higher taxpayer.

Tax Calculation

40,200 @ 20%	8,040	
9,532 @ 40%	3,813	
500 @ 0% (savings allowance for HR)	0	
9,375 @ 40%	3,750	
Tax liability	15,603	

Less:		
Interest possession trust 6,375 @ 20%	(1,275)	
Discretionary Trust 2,727 @ 45%	(1,227)	
SEIS reducer (w2)	(500)	
PAYE	<u>(13,200)</u>	
Tax repayable	(599)	

**n1)** Interest on unit trust are received as gross income and taxed as savings income.

**n2)** Lottery winnings are exempt of income tax.

### **w1) Basic Rate Limit Gift Aid**

Original basic rate                      37,700  
 Add: Gross donation (2,000 x 100/80)   2,500  
 New Basic Rate                              40,200

The amount of 500 can not be used under the gift aid scheme, since Riya did not tick the option when donated.

### **w2) SEIS**

Riya qualifies for SEIS scheme since she is not an employee, she is a unpaid director and does not hold over 30% of the shares.

Income Tax reducer = 1,000 x 50% = 500

### **w3) EIS selling**

Proceeds                      100  
 Cost                          (750)  
 Losses                          (650)

Riya hold the shares for over 3 years, said that, losses are allowable. However, the losses are limited to the amount of income tax relief received, which is 225. This amount can be used against income, if a s.131 claim is made and is deducted from the net income.

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-----ANSWER-1-ABOVE-----  
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 -----ANSWER-2-BELOW-----  
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Answer-to-Question- \_2\_

### 1) Tax consequences for each transaction and CGT liability

#### CGT calculation

	£		
	<b>Residential Property</b>	<b>Other Gains</b>	
House Sold (w4)	110,000		
EIS shares sold (w2)		50,000	
VCT shares (w3)		27,500	
Less: Annual exempt	(3,000)		
<b>Capital Gain Chargeable</b>	<b>107,000</b>	<b>77,500</b>	
107,000 @ 24%	25,680		
77,500 @ 20%	15,500		
<b>CGT liability</b>	<b>41,180</b>		

Since Gareth is a additional rate tax payer, both gains are chargeable at the high rates for CGT.

#### w4) House sold

	£		
Gain on House sold	150,000		
EIS reinvestment relief (w1)	(40,000)		
Gain chargeable	110,000		

The gain deferred of £40k is frozen until the sale of the shares.

#### w1) EIS reinvestment Relief

The EIS shares was bought within 3 years after the asset disposal, so relief is applicable. The claim must be made no later then 5 years from 31/01 after the end of the tax year of

the issue of the shares.

The amount deferred on the houses's gain is the lowest of:

- the gain: 150,000
- the amount invested in EIS shares: 40,000

## w2) Sell of EIS shares

The EIS were sold within 3 years of acquisition, so all IT relief is clawback and the gain of £50k is fully taxable.

## w3) VCT Shares

The shares were not hold for 5 years, so a clawback of income tax reducer is necessary.

The amount to be clawback is the lower of:

- original income tax reducer:  $25,000 \times 30\% = 7,500$
- $30\% \times \text{sale proceeds received (only if sold at loss)} = \text{sold at gain}$

	£	£	
Proceeds		45,000	
Cost	25,000		
IT relief	(7,500)		
		<u>(17,500)</u>	
Gain		27,500	

## 2) Capital Gains Tax consequences

If Gareth decides to:

- Selling to a third party: Assuming the shares will have increased in value, Gareth will be liable to pay CGT on the profit made on the sales.

- Gifting to his wife: Transfers between spouses are generally exempt from CGT. Once the wife decide to sell the shares, then will became chargeable and she should consider the original cost (market value when gifted) to calculate the gain arised.

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 -----ANSWER-2-ABOVE-----  
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 -----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

### 1) Tax calculation

Income tax Liability	68,000		
<u>PAYE</u>	<u>(25,000)</u>		
Tax payable	43,000		
<u>Payment on account</u>	<u>(12,000)</u>		
Tax payable	31,000		
CGT liability	30,000		

Adam has missed a payment on account on 31/07/2024 and on 31/01/2025.

Both are estimated payments and are calculated as 50% of the tax due (tax liability) for the previous year.

The payment which should be done in 31/01/2025, is the balance amount of 23/24 plus the first payment on account for 24/25.

Also, in April he sold a holiday home in Cornwall, UK residents must report taxable gains on disposal of UK residential properties by means of an online property return within 60 days of the completion of the disposal, there are also late penalties for late reporting. Also, a payment on account of the CGT must be made within 60 days of completion.

### 2) Penalties incurred until 29/04/25

Late tax return due in 31/01/2025

	£		
Initial penalty	100		
Daily penalties 10 * 90	900		

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Total	1,000		

### **Late payments**

Interest are 7,75%

Penalties are 5%

### **3) Penalties on late tax return submission**

The penalties for late tax return are as described below:

- Initial penalty of £100
- Add penalties of £10 per day if the return is late over 3 months (maximum of 90 days)
- As the return will be late over 6 months, there is an additional penalty of 5% of any tax due or £300 pounds, whichever is greater.

Also, HMRC can apply penalties depending of the behaviour for not filling the tax returns and is a percentage of the potential lost revenue, which can vary between 20% and 100%.

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 -----ANSWER-3-ABOVE-----  
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 -----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

### 1) Net Capital Gain

	£	£		
	<b>Residential Property</b>	<b>Other Gains</b>		
Diamond Ring (w2)		1,667		
Watch (w3)		Exempt		
Painting 1 (w4)		Losses not allowable		
Painting 2 (w5)		4,754		
Land Abel Pastures (w6)	40,065			
Net Capital Gain	40,065	6,421	=	46,486

### w2) Diamond Ring

Proceeds are > £6k and cost < £6k

Proceeds           7,000  
 Cost               (4,000)  
 Action fees of 12% (840)  
 Gain               2,160

Gain restricted to  $\frac{5}{3} \times (\text{Gross proceeds} - 6,000)$

Gain:  $\frac{5}{3} \times (7,000 - 6,000) = 1,667$

The lower of those two, is the chargeable one, meaning the 1,667

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### **w3) Watch**

Proceeds	32,000
Cost	<u>(18,000)</u>
Gain	14,000

However, HMRC considers watches as wasting chattels, meaning that are exempt assets for CGT purposes.

### **w4) Painting 1**

Proceeds	2,000
Cost	<u>(15,000)</u>
Losses	(13,000)

Losses not allowable on gifts.

### **w5) Painting 2**

Proceeds	$10,500 \times 1.555$	16,328
Cost	$9,000 \times 1.286$	<u>(11,574)</u>
Gain		4,754

### **w6) Land at Abel Pastures**

Since it is a part disposal, only a proportion of the original cost should be used.

The allowable cost is:  $\text{Gross proceeds} / (\text{gross proceeds} + \text{value of part retained}) \times \text{acquisition cost}$

$$\text{Cost: } 75,000 / (75,000 + 1,368,000) \times 600,000 = 31,185$$

Proceeds	75,000
Cost	(31,185)
Cost of sale	(2,500)
Cost of legal fees	
$25k \times 30k / 600k$	<u>(1,250)</u>
Gain	40,065

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

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-----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

**w1) Intone Ltd employment income**

Salary 05/04/24-31/05/24 2 months	11,000
Garden Leave	16,500
Performance bonus	12,000
Contractual restraint	9,000
Voluntary termination payment	80,000

w2) Termination package

**3) subject to class 1 NICs.**

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

### **3) Terms CSOP**

The conditions to qualify as CSOPs company, is:

- No discount can be given, the option can not be less than the market value at the date of the grant - satisfied.
- The maximum value of shares over which options can be held is £60,000 - satisfied as  $13,500 \times 1.90 = 25,650$ .

Both conditions are satisfied, so the company qualifies.

### **5) Seminar**

The seminar can occur in the breach of the following ethics:

- Conflict of interest
- Confidentiality
- Influence and pressure
- Transparency
- Fairness
- Reputation

However, to mitigate this ethical concerns, can establish a clear boundaries and ensure that the content of the seminar is balanced and serves the interest of all attendees.