

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 | 433 | 1989 | 2319 |
| Section 2 | 496 | 2244 | 2691 |
| Section 3 | 610 | 2740 | 3317 |
| Section 4 | 294 | 1347 | 1568 |
| Section 5 | 277 | 1317 | 1521 |
| Section 6 | 468 | 2167 | 2606 |
| Total | 2578 | 11804 | 14022 |

Answer-to-Question- _1_

Income tax computation

| | NSI(£) | SI (£) | DI (£) | Comments | |
|---------------------------|----------|--------|--------|-----------------------------------|--|
| <u>Income</u> | | | | | |
| State pension | 11,500 | | | Taxable as non-savings income | |
| Private pension | 48,300 | | | Taxable as non-savings income | |
| IOP Trust | | | 5,589 | N1 | |
| Discretionary trust | 2,727 | | | N2 | |
| Loan note | | 400 | | N3 | |
| Unit trust | | 1,800 | | N4 | |
| Bank interest | | 1,300 | | Joint income - 50% subject to tax | |
| Lottery winnings | 0 | | | Tax free | |
| Net income | 62,527 | 3,500 | 5,589 | | |
| | | | | | |
| Personal Allowance | (12,570) | | | | |
| | | | | | |
| Net income | 49,957 | 3,500 | 8,316 | | |
| | | | | | |
| <u>Tax</u> | | | | | |
| NSI - Basic rate tax | 8,040 | | | 40,200 * 20% | |
| NSI - Additional rate tax | 3,903 | | | (49,957 - 40,200) * 40% | |
| SI - Savings allowance | 0 | | | 500 (as additional rate TP) * 0% | |
| SI - Additional rate tax | 1,200 | | | 3,000 * 40% | |

| | | | | | |
|------------------------------------|----------|--|--|----------------|--|
| DI - Dividends allowance | 0 | | | 500 * 0% | |
| DI - Dividends Additional rate tax | 2,638 | | | 7,816 * 33.75% | |
| Total | 15,781 | | | | |
| | | | | | |
| <u>Deductions</u> | | | | | |
| PAYE | (13,200) | | | | |
| IOP Trust credit | (489) | | | | |
| Discretionary trust credit | (1,227) | | | | |
| SEIS | (500) | | | N5 | |
| EIS | 0 | | | N6 | |
| Total | 15,416 | | | | |
| | | | | | |
| <u>Total tax due</u> | 365 | | | | |
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Notes

N1:

IOP trust income is treated as dividend income and deemed to be grossed-up by 100/91.25 (difference between net and gross is credited as deduction)

$$5,100 * 100/91.25 = 5,589$$

$$5,589 - 5,100 = 489$$

N2:

Income from a discretionary trust is grossed up by 100/55. A credit is available for the difference between gross and net income. This income is treated as non-savings income.

$$1,500 * 100/55 = 2,727$$

$$2,727 - 1,500 = 1,227$$

N3:

Income from the loan note issued by the UK company, otherwise known as a 'QCB' or 'Qualifying Corporate Bond', is treated as savings income.

N4:

Income from unit trusts retain its nature, i.e., interest in Riya's case, and are treated as having been received gross.

N5:

As Riya does not hold more than 30% of the shares in the company, she is entitled to a tax reducer (her directorship does not disqualify her from the tax advantage).

In her circumstances, this will be 50% of the amount subscribed, totalling £500.

The income tax will be withdrawn if the shares are disposed of within 3 years of the subscription.

The SEIS tax reducer cannot lead to an income tax repayment by itself.

N6:

As EIS shares were sold more than 3 years after she subscribed for them, there is no clawback of the tax relief Riya previous claimed.

N7:

With regard to the 2nd donation, tax relief is not obtainable as a valid Gift Aid declaration was not made.

Tax relief for the 1st donation is given by grossing up the donation and extending the basic rate band as shown below.

$$2,000 * 100/80 = 2,500$$

New basic rate band (37,700 + 2,5000): 40,200

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

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

Answer-to-Question- 2

1

House

As Gareth is an additional rate taxpayer and the property is residential, the full gain associated with the disposal of the property will be subject to CGT at the residential property higher rate of 24%.

As the property was never occupied by Gareth, no PPR is available.

ABC Ltd

Strictly for CGT purposes, Gareth being connected with ABC (due to owning >30% of the shares in the company) does not preclude him from being eligible for EIS reinvestment relief. The effect of this is if Gareth makes a gain on the disposal of any asset, he is able to defer the the gain based on the lowest of:

1. The capital gain
2. The amount subscribed for his EIS shares
3. Any other amount elected (e.g., to utilise the AEA and losses)

The deferred gain would crystallise in the tax year in which the shares are sold (the gain is proportionally reduced if a partial disposal of the EIS shares is made).

XYZ Ltd

The sale of EIS shares would be an exempt gain if they are owned for at least 3 years, however as they were owned for less, a chargeable gain arises based on proceeds less cost.

QualVCT1 PLC

Gareth's gain on the VCT shares is exempt (despite being sold in less than 5 years), as VCT share sales are exempt from CGT up to the first £200,000 of gains earned.

CGT Calculation

| | Share gains (£) (20% CGT) | Property gains (£) (24% CGT) | Comments | | |
|---------------------|--|---|--|--|--|
| House | | 150,000 | | | |
| XYZ | 50,000 | | | | |
| QualVCT1 | 0 | | | | |
| Total gains | 50,000 | 150,000 | | | |
| ABC EIS deferral | | (40,000) | Total gains more than £40,000 subscription, so £40,000 is maximum unless elect to use less (not applicable as no losses made and AEA can still be used) | | |
| AEA | | (3,000) | Allocated to Proeprty gains due to higher CGT rate | | |
| Chargeable gains | 50,000 | 107,000 | | | |
| | | | | | |
| CGT | 10,000 | 25,680 | Total CGT payable is £35,680 | | |
| | | | | | |
| | | | | | |

2

3rd party disposal

If the shares are sold in 2025/26 to a third party, they will have been sold prior to the mandatory 3 year period to qualify for CGT exemption. Consequently, a chargeable gain will arise on the share disposal, based on the increase in the value of the shares since subscription (i.e., proceeds less cost).

The deferred gain will also become chargeable in the tax year if the sales are disposed of.

Spousal disposal

With regard to the deferred gain, while gifting EIS shares to his wife should not result in a chargeable event, as spousal transfers are deemed to take place at no gain no loss, a chargeable event will still arise when Gareth's wife disposes of the shares.

With regard to the disposal of the shares themselves, they will not be exempt as they do not meet the conditions for EIS tax relief (as they are still 'disposed' of within the 3 year window and Gareth's spouse would not have been eligible for the tax relief), however the

gain is treated as taking place at no gain no loss.

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

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

Answer-to-Question- _3_

1.

Payments on Account

Adam was required to make two payments on account ('POA') during the 2023/24 tax year, these would have each been for 50% of his income tax liability for the 2022/23 tax year. The first POA was due on 31 January 2024, which Adam successfully paid. Therefore his obligations were met in regard to this POA. However, he was also required to make a £12,000 POA on 31 July 2024, which has been missed.

Adam is similarly required to make POAs for the 2024/25 tax year, based on 50% of his income tax liability for 2023/24. Therefore, he was also required to make payments of £12,500 in respect of the first POA on 31 January 2025, which he has missed, and a second POA of £21,500 on 31 July 2025, which he will miss if he does not deal with his tax obligations by 31 July 2025.

Income tax and CGT payments

Adam's CGT liability of £30,000 for 2023/24 was due by 31 January, therefore Adam has failed to make this payment.

While no payment is required in respect of the £25,000 of income tax paid at source, the remaining income tax liability (as shown in the POAs calculation table in the appendix) of £33,000 was due by 31 January 2025.

Adam will also need to make a payment on account with regard to the disposal of his residential property, based on a 'best estimate' of CGT due, including any expected deductions (e.g., for the AEA, any capital losses). The remaining CGT is due by 31 January 2026.

Property return

Adam is required to file an online property return within 60 days of completion, therefore he will need to report this by 28 June 2025. The disposal will also need to be reported on his 2025/26 UK tax return.

Tax return

Adam has additionally failed to file his 2023/24 UK tax return by the 31 January 2025

deadline.

Appendix

POAs for 2024/25:

| | £ | | |
|----------------------------------|------------|--|--|
| Tax liability per 2023/24 return | 98,000 | | |
| CGT | (30,000) | | |
| Tax at source | (25,000) | | |
| Remaining income tax due | 33,000 | | |
| Individual POAs due | 2 x 21,500 | | |
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2.

In respect of his late filed UK tax return, Adam is already subject to an automatic late filing penalty of £100 and from 01 May 2025, he would be subject to daily penalties of £10 a day for the next 90 days or until his return is filed.

As his CGT and income tax payments for 2023/24 have not been made within 30 days of 31 January 2025, Adam is subject to a 5% late payment penalty on the tax due of £43,000, meaning late payment penalties of £2,150 has been incurred.

Late payment interest of £278 a month is being charged (i.e., 7.75% of the £43,000 converted in a monthly period). This interest will run until the payment is made. The same equivalent interest is also being charged on any POAs overdue (i.e., £139 a month based on 7.75% of each £21,500 POA).

3.

If Adam waits until September 2025 to address his tax obligations, he will incur further late filing penalties as his tax return would not have been filed. He would be subject to the full £900 of £10 a day penalties discussed above and furthermore, he would incur a further penalty equivalent to 5% of his liability (£2,150) as a result of his tax return being filed more than 6 months late.

He will incur additional late payment penalties with regard to his CGT estimate of his latest property disposal.

He will also be subject to additional 5% penalty charge and further interest on late payments made on his POAs and existing CGT and income tax liabilities.

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

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

Answer-to-Question- _4_

1.

Loan stock

| | | | |
|--|----------|--|--|
| | £ | | |
| Proceeds | 100,000 | | |
| Accrued income (8% * £100,000 * 90/180 * 1/2): | (2,000) | | |
| Cost | (98,750) | | |
| Loss | (750) | | |
| | | | |
| | | | |

Ring

| | | | |
|------------------------------|---------|--|--|
| | £ | | |
| Proceeds | 32,000 | | |
| Cost (rpobate) | (4,000) | | |
| Auction costs (allowable) | (3,840) | | |
| Gain | 24,160 | | |
| | | | |
| | | | |
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Watch

| | | | |
|----------|----------|--|--|
| | £ | | |
| Proceeds | 32,000 | | |
| Cost | (18,000) | | |
| Gain | 14,000 | | |

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Painting 1

| | | | |
|---|----------|--|--|
| | £ | | |
| Deemed proceeds (connected person market value transfer - as <£6,000 deemed proceeds used) | 6,000 | | |
| Cost | (15,000) | | |
| Loss | (9,000) | | |
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Painting 2

| | | | |
|---|---------|--|--|
| | £ | | |
| Proceeds (10,500 / 1.555 - currency depreciation included in calculation) | 6,752 | | |
| Cost (9,000/1.286 - see above re depreciation) | (6,998) | | |
| Loss | (246) | | |
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Land (part disposal)

| | £ | | |
|-------------------------|----------|--|--|
| Proceeds | 75,000 | | |
| Cost (N1) | (3,119) | | |
| Legal costs (allowable) | (25,000) | | |
| Gain | 46,881 | | |
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(N1)

$$£75,000 / (£75,000 + (£12,000 * 114)) * £600,00 = £3,119$$

Net chargeable gains

| | £ | | |
|---|--------|--|--|
| Loan stock | (750) | | |
| Diamond Ring | 24,160 | | |
| Watch | 14,000 | | |
| Painting 1 (loss can only be offset against son) | 0 | | |
| Painting 2 (cousin not connected, loss allowable) | (246) | | |
| Land | 46,881 | | |
| Net Capital Gai | 84,045 | | |
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2.

If Eve gifts the shares to her son, they will be treated as having been transferred at market value as of the date of transfer. This will mean that Eve will be due to pay CGT based on the market value less costs, in a similar way to if she had sold the shares to a 3rd party. Eve's son will then inherit the market value as a base cost when he disposes of the shares.

If the shares are put into a trust, then Eve will still be treated as having disposed of the shares and is required to pay CGT as a settlor to the trust, however, as they are not directly owned by her son, he will not have any CGT to pay unless he takes them out of the trust. This is subject to any inheritance tax legislation in place.

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

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

Answer-to-Question- _5_

1.

| <u>ER 1</u> | NSI(£) | DI (£) | | Comments |
|----------------------|---------------|---------------|--|-------------------------------|
| Salary | 11,000 | | | N1 |
| Bonus | 12,000 | | | Taxed as earnings |
| Restrictive covenant | 9,000 | | | Taxed as earnings |
| Voluntary payment | 50,000 | | | N2 |
| Pension | 0 | | | Tax free |
| <u>ER 2</u> | | | | |
| Golden hello | 3,000 | | | Taxed as earnings |
| Salary | 37,500 | | | N3 |
| Car | 1,260 | | | N4 |
| Fuel | 1,112 | | | N5 |
| PMI | 980 | | | At cost to ER |
| Pension | 0 | | | Tax free/N6 |
| Dividends | | 2,400 | | |
| PA | 0 | | | No PA as net income >£125,140 |
| Taxable income | 125,852 | 2,400 | | |
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N1

$2 * £5,500$

N2

Gardening leave/PENP payment - $£5,500 * 3 = £16,500$ (taxable as earnings)

S.104 ex gratia payment limit = $£30,000$

Remaining $£80,000$ voluntary payment = $£33,500$

N3

$6/12 * £75,000$

N4:

$8\% * (£36,000 - £4,500) * 6/12: 1,260$

N5:

Electric chargepoint tax free

Fuel benefit $(£27,800 * 8\% * 6/12): £1,112$

N6:

Tax free for employer and employee, but rate bands extended by $(7,600 * 100/80)£9,500$.

No effect on taxable income.

2.

Gardening leave/PENP payment - $£5,500 * 3 = £16,500$ (taxable as earnings)

Remaining $£80,000$ voluntary payment above s.104 $£30,000$ limit - $£33,500$

Restrictive covenant - $£9,000$

Pension - $£0$

Bonus - $12,000$

Total = $£71,000$

$£71,000 * 40\% = £28,400$ ($£20,000$ from voluntary payment, remainder earnings)

3.

Class 1 primary NIC (as earnings), due by Mariglen, and Class Secondary NIC, due by Intone, are due on the restrictive covenant, bonus, and any gardening leave payments.

Class 1A NIC is due by Intone on the voluntary ex gratia payment above $£30,000$. No NIC is due on the pension contributions (by any party).

The golden hello is subject to Class 1 Primary (By Mariglen) and Secondary (by Delream) NIC as earnings.

The benefits are subject to Class 1A NIC, only due by Delream.

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

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

Answer-to-Question- _6_

1

As the shares are not tax advantaged, Dominika would be subject to income tax on the difference between the market value and amount paid on exercise. The amount subject to income tax can then be deducted against the base cost of the shares when they are sold.

As the shares are in a PLC, they are considered Readily Convertible assets, therefore Class 1 Primary NIC is due by Dominika.

Income tax:

$$(4.25 - 1.90) * 13,500 = £31,725$$
$$£31,725 * 40\% = £12,690$$

Class 1 NIC:

$$£31,725 * 2\% = £635$$

CGT:

$$\begin{aligned} \text{Proceeds } (5.50 * 13,500) &: £74,250 \\ \text{Less cost } (1.90 * 13,500) &: (£25,650) \\ \text{Less income tax: } &(12,690) \\ \text{Total: } &£35,910 \\ \text{Less AEA: } &(3,000) \\ \text{Total gain: } &£32,910 \\ \text{CGT due: } & (£32,910 * 40\%): £13,164 \end{aligned}$$

2

If the shares were exercised and sold immediately, Dominika would instead be subject to income tax on the later share market value less the amount she paid on exercise, leading to a higher income tax liability. However, this would then be offset against the base cost of the shares, leading to the income tax and reduction in base cost matching.

3

A CSOP scheme can be run for selected employees, who work full-time, up to a maximum value of grant of £60,000. Additionally there must not be a discount at grant.

While the CSOP options at market value would be sufficiently within the £60,000 limit and she is currently and would remain a full-time employee, as the shares were issued at a discount they would not qualify.

4

CSOP options would need to be exercised between 3 and 10 years from grant to qualify for favourable tax treatment, therefore as these conditions are met (along with all other requirements, e.g., not being issued at discount), there would be no income tax or NIC due at grant or at exercise on the of the shares.

As a result, Dominika would be subject to a higher rate of CGT however, as she would not have any income tax to offset against the base cost of the shares (which would only be subject to CGT on proceeds less cost).

5

We would be unable to present the seminar as it would be against the recommended guidelines. Namely, it would be seen as a conflict of interest to represent the client and present on their behalf, as we would not be able to maintain objectivity.

We could also be seen to be representing the client, which must be avoided at all costs. In particular, it is against fundamental ethical principles to risk an advocacy threat.

Our perceived ability to be objective would be threatened.

Additionally, there would be negative implications and unfairness if we were seen to be potentially representing a client to their employees on financial matters, and taking a position which may do harm to the employees.

