

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	311	1354	1515
Section 2	407	1791	2167
Section 3	423	1818	2199
Section 4	385	1737	2023
Section 5	368	1906	2175
Section 6	425	1905	2278
Total	2319	10511	12357

		Total, £	NSI, £	SI, £	DI, £
State pension	Taxable	11,500	11,500		
private pension	Taxable	48,300	48,300		
IIP trust dividends	W1	5,589			5,589
Discretionary trust income	W2				
UK bank interest	split 50/50 with husband	1,300		1,300	
UT interest	Taxable as interest	1,800		1,800	
Loan note	W3	500		500	
National lottery	Exempt				
EIS losses	W7	(450)	(450)		
NET income		68,539	59,350	3,600	5,589
Less: PA		<u>(12,570)</u>	<u>(12,570)</u>		
Taxable		55,969	46,780	3,600	5,589
		H RTP	No SRB	500 SNRB	500 DNRB
IT					£
Basic rate	NSI	40,200 (W4)	@ 20%		8,040
Higher rate	NSI	<u>6,580</u>	@ 40%		2,632
		46,780			
	SNRB	500	@ 0%		0
	SI	3,100	@ 40%		1,240
	DNRB	500	@ 0%		0
	DI	5,089	@ 33.75%		1,718
Less: SEIS reducer	(W6)				(500)
Tax liability					13,130
Less: loan note credit	(W3)				(100)

Less: discrtrtinary trust credit	(W2)				(1,227)
Less: IIP trust credit	(W1)				(489)
Less: PAYE from pension					(13,200)
Tax repayable					(1,886)

W1 - IIP trust income

			£
Dividend Income grossed up	$5,100 * 100/91.25$		5,589
Tax credit	$5,589 * 0.0875$		489

W2 - discretionary trust income

			£
Income grossed up	$1,500 * 100/55$		2,727
Tax credit	$2,727 * 0.45$		1,227

W3 - Loan note

			£
Interest grossed up	$400 * 100/80$		500
Tax credit	$500 * 0.2$		100

W4 - Gift aid

			£
Donations made with gift aid - grossed up	$2000 * 100/80$		2,500
New basic rate band	$37,700 + 2,500$		40,200

W6 - SEIS reducer

Since she is an unpaid director with less than a 30% holding, Riya still qualifies for SEIS income tax relief. Calculated as follows:

$$£1,000 * 0.5 = £500$$

W7 - EIS losses against NET income

Riya can use EIS losses in the year when calculating her NET income. The loss will be calculated as follows:

		£	£
Proceeds			100
Cost		750	
IT relief retained	225 - (100 * 0.3)	<u>(195)</u>	
Deduction			<u>(555)</u>
Loss			(455)

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

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

1)

		residential property, £	other, £
Gains		150,000	50,000
Less: AE	Taken from the residential property due to their higher rates of CGT	(3,000)	
Taxable gain		147,000	50,000
CGT			£
Other gains	50,000 @ 20%		10,000
Residential property	147,000 @ 24%		35,280
CGT liability			45,280

W1 - House

This property has always been let out to tenants, therefore there is no PRR on the gain. He also doesn't qualify for lettings relief as there was not joint occupation. Since this is a residential property and Gareth is a ARTP, he will pay 24% CGT on his taxable gain

W2 - ABC Ltd

Subscribing for EIS shares in the period of 12 months before and 3 years after the disposal of his house may allow Gareth to defer some of his gain. The amount deferred will be the lower of; the gain, the amount subscribed, any other amount. However, since Gareth hold $20,000/50,000 = 40\%$ of the shareholding, he is considered to be connected to the company and therefore **DOES NOT** qualify for EIS reinvestment relief.

W3 - XYZ Ltd

Since the shares were sold within 3 years, the gain is chargeable. Since the shares were sold at a gain, the IT relief will be clawed back in full, so the chargeable gain of £50,000 is the amount subject to CGT. Since Gareth is an ARTP, the rate of CGT on this gain will

be 20%

W4 - Qual VCT1 plc

The gain on the first £200,000 of VCT shares subscribed for in a tax year is exempt from CGT. Since full IT relief was obtained on their purchase, we know that the shes were part of the first £200,000 subscribed for. No chargeable gain arises from this disposal.

2)

Disposals to a persons spouse occur at no gain / no loss, therefore the proceeds of this disposal would be the £40,000 that he bought them for. this would therefore not create a CGT liability for gareth.

Had he disposed of the to a third party, he would have created a capital gain. Since these are shares in an EIS company, disposing of the shares within three years would mean this gain is chargeable. The chargeable gain would be the proceeds, less the cost of the shares, less the amount of income tax relief still avaiable on the shares (which as above is nil as he does not qualify for income tax relief due to his percentage holding)

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

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

1)

The due date for Adam to settle his 2023/24 tax liability is 31st January 2025. The amount he has to pay will be:

			£
tax liability			98,000
Less:			
tax paid at source			(25,000)
POAs made			(12,000)
Tax payable			61,000

Also due on 31st January 2025 will be the first payment on account for 2024/25, followed by a second on the 31st July 2025. His payments on account will be as follows:

			£
23/24 tax liability			98,000
Less: deducted at source			<u>(25,000)</u>
			73,000
Less: tax due capital gains	CGT is not in the scope of payments on account		<u>(30,000)</u>
			43,000
1st POA	43,000 / 2		21,500
2nd POA	43,000 / 2		21,500

Further more, Adam will have to complete an online property return during 2024/25 as a result of his property disposal. This must be done within 60 days of completion of the sale.

Also within 60 days of completion, Adam must make a payment on account with respect to the property sale.

Since Adam sold a property, he will also be required to submit a 24/25 tax return. This

must be done by 31st January 2026. On it he should include all income and capital gains from the year, including details of his property disposal, from which his payments on account for both his income tax and his property disposal shall be offset to come up with his tax payable for the year.

Should his tax due for 24/25 exceed £1,000 (not including his CGT), and his tax deducted at source be less than 80% of his tax liability. Adam would also have to make payments on account for 25/26.

2)

Adam's penalties would have consisted of the initial £100 late filing penalty which would have arisen on 1st February 2025.

He would also be subject to a 5% surcharge on his tax payable as a late payment penalty. This would be equal to £61,000 * 0.05 = 3,050. This would have arisen due to the tax being more than 30 days late, so would have arisen on 3rd March 2025.

3)

His penalties will increase as follows

Late filing:

Once his return is more than 3 months late, Adam will be subject to daily penalties of £10, for a maximum of 90 days. Once his return is more than 6 months late, he will be subject to a 5% surcharge on his tax liability or a £300 penalty if this is greater.

Late payment:

5 months after his initial 5% penalty, Adam will be liable to pay a further 5% penalty.

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

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

		£
Gain on ring		1,667
Gain on watch	exempt - W2	Nil
Loss on painting 1	Not allowed - W3	Nil
Gain on painting 2	W4	6,752
Gain on land	W5	40,016
Gain on loan stock	W6	<u>3,250</u>
Chargeable gain		51,685
Less: AE		<u>(3,000)</u>
Taxable gain		48,685

W1 - diamond ring

Chattel with proceeds > £6,000 and cost (probate value) < £6,000. Therefore potentially a restricted gain as follows:

regular gain		£
Proceeds		7,000
Less: cost		(4,000)
less: cost of sale	$7,000 * 0.12$	<u>(840)</u>
Gain		2,160
Restricted gain	$5/3 * (7,000 - 6,000)$	1,667

Since the restricted gain is lower, we use this figure

W2 - Watchwasting chattel therefore exempt from CGT

W3 - painting 1

Transfers to connected people are done at market value

		£
Proceeds	Market value at disposal	2,000
Less: cost		(15,000)
Loss		(13,000)

Losses to connected persons can only be offset from gains arising from the same connected person

W4 - painting 2

Her aunt is not a connected person, therefore disposal not done at market value but by actual proceeds. So the cost is 0

		£
Proceeds	10,500 / 1.555	6,752
Less: cost		Nil
Gain		6,752

W5 - land

		£
Proceeds		75,000
Less: cost	$600,000 * 75 / (75 + (12 * 114))$	(31,185)
Less: cost of sale		(2,500)
Less: enhancement expenditure	$25,000 * 75 / (75 + (12 * 114))$	(1,299)
Gain		40,016

W6 - loan stock

Convertible to another currency so **not** exempt from CGT

$$£100,000 * 0.08 = 8,000$$

$$£8,000 / 2 = 4,000$$

26th june - 26 september is 3 months

		£	£
Proceeds	sold at par		100,000
cost		98,750	
amount of cost attributable to income	4,000 * 3/6	(2,000)	
		96,750	
Less: allowable cost			(96,750)
Gain			3,250

2)

Since the company derives its income mainly from trading, it is a trading company. Therefore, this disposal would be a gift of unquoted shares in a trading company and will therefore qualify for gift relief.

If she gifts the shares to her son, this would be a disposal to a connected person, so for CGT purposes the proceeds would be the market value of the shares at the time of the disposal. Any gain made could be deferred under a gift relief claim, meaning Eve would have no CGT to pay, and the deemed cost for her son would be the market value at disposal less the deferred gain.

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

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

1)

		Total, £	NSI, £	DI, £	Top Slice , £
Delream salary	75,000 * 6/12	37,500	37,500		
'golden hello'		3,000	3,000		
Car/fuel benefit	W1	5,337	5,337		
Private medical		980	980		
Fully taxable termination payment	W2	37,500	37,500		
Partiall taxable termination payments	W2	50,000			50,000
Employer pension contributions	EXEMPT				
UK dividends		2,400		2,400	
NET income		136,717	84,317	2,400	50,000
Less: PA	Due to Mariglen's income being >>> £125,140, he does not have a PA				
Taxable income		136,717			

W1 - Car/fuel benefit

For a car with CO2 emissions of <50g/km and zero emissions mileage between 65-69, its relevant percentage is 18%.

Since it was available for private use, he will have a car benefit

			£
Purchase price			36,000
Less: capital contribution			(4,500)
Revised list price			31,500

			£
Car benefit	$31,500 * 0.18 * 6/12$		2,835
Fuel benefit	$27,800 * 0.18 * 6/12$		2,502
access to charging point	Exempt benefit		
Total car/fuel benefit			5,337

W2 - Termination paymets

These will fall under 3 categories: exempt, partially taxable, fully taxable

		Exempt, £	Partially taxable, £	Fully taxable, £
Wages from gardening leave	$3 * 5,500$ - contractual payment			16,500
bonus	reward for service			12,000
restictive covenant	contractual payment			9,000
Ex-gratia termination payment	voluntary		80,000	
Pension payment		5,000		
Less: exempt amount	For partially taxable		(30,000)	
Totals		5,000	50,000	37,500

W3 - Mariglen pension contribution

These are contributions to a personal pension scheme and therefore not deducted to create NET income.

2)

As shown above, only £50,000 of the £80,000 termination payment is taxable. This amount is taxable at 'top slice', meaning it will be taxed at Mariglen's highest rate of tax. Since he is an additional rate taxpayer, this will be 45%.

			£
Termination payment	50,000	@ 45%	22,500

3)

The fully taxable payments totalling 37,500 will be taxed as earnings and therefore liable to Class 1 Primary and Secondary contributions from Mariglen and Intone Ltd respectively.

The partially taxable payment of £80,000 is subject to Class 1A NICs from Intone Ltd on the amount in excess of the £30,000 exemption.

The cash payment of £3,000 will be classed as earnings, not a benefit, and will therefore be liable to Class 1 Primary and Secondary contributions from Mariglen and Delream Ltd respectively

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

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

1)

Upon exercise of her share option, Dominika will have an amount of money which will be chargeable to income tax as follows:

		£
Market value at exercise	$13,500 * 4.25$	57,375
Less: cost	$13,500 * 1.9$	(25,650)
Amount chargeable to income tax		31,725
Income tax payable	$31,725 @ 40\% - \text{H RTP}$	12,690

Since these are readily convertible shares, this amount will also be subject to NICs.

		£
Class 1 primary NICs	$31,725 @ 2\%$	635

She will then have a capital gain on sale of the shares, which will be taxed as follows:

		£
Proceeds	$13,500 * 5.5$	74,250
Less: cost		(25,650)
less: amount charged to IT		(31,725)
Gain		16,875
Less: AE		(3,000)

Taxable gain		13,875
CGT		£
H RTP	13,875 @ 20%	2,775

2)

If Dominika delays her exercise of the shares, she will have a greater Income tax charge as the market value at exercise would be £5.50 per share not £4.25. However, she would not have a capital gain as when deducting the cost and amount charged to income tax for the proceeds, the gain would be nil.

3)

To qualify as a CSOP, the shares cannot be granted at a discount, which they are not here.

You also cannot hold more than £60,000 worth of options (valued at the date of grant) at any one time, which she does not.

The shares offered must also be ordinary shares, which they are.

From what we know, the terms of the scheme do satisfy the conditions qualifying for a CSOP

4)

If the share option scheme was a csop, she would not have any tax implications on her exercise of the shares between 3 and 10 years from their grant, so between 1/2/2028 and 1/2/2035. This means that there is scope for her to meet this if she exercises her option between 2/2/2028 - 31/8/2028. There would be no difference in her tax position at exercise if she exercises her option outside this window.

Outside this window there would also be no difference in her CGT position on sale of the shares. However, if she does meet the 2/2/2028-31/8/2028 deadline, her cGT liability would increase as there would have been no amount charged to income tax to deduct from the sales proceeds.

5)

This may result in a conflict of interest since you act for an employee of the company, you should take steps to see how this might be managed.

Weyho are not a know client of yours, you have not undertaken any anti-money laundering or professional clearance with respect to the company.