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Answer-to-Question-_1_

Paula, Keith and Georgia

	Paula	Keith	George
	£	£	£
Mileage allowance received: 12,680 / 11,500 / 3,400 miles x 30p	3,804	3,450	1,020
Less:			
ITEPA mileage rates 10,000 / 11,500 / 3,400 x 45/24/20p	(4,500)	(2,760)	(680)
2,680 / - / - x 25p	(670)		
<u>12,680 / 11,500 / 3,400</u>			
(Allowable deduction) / Taxable benefit	(1,366)	690	340

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

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

Answer-to-Question-_2_

Job related accommodation

The job-related accommodation exemption is deemed to apply where:

- It is necessary for the proper performance of the employee's duties
- Where living in the accommodation is essential to do the job (eg, those required to live on site)
- The accommodation enables the 'better performance' of the employee's duties and it is customary for employers to provide accommodation for that role
- There is a threat to the security of the employee.

If Bluebell Homes Ltd provides accommodation on the caravan park, it could be argued that it is 'job related' on the basis of 'better performance' of her duties.

However, this is only if it can be argued that it is customary for the cleaners and bar staff to be provided with accommodation.

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

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

Answer-to-Question-_3_

Zaheda

		Total benefits
Use of asset benefits	£	£
2019/20 - Benefit (£6,500 x 20% x 8/12)	867	
2020/21 - Benefit (£6,500 x 20%)	1,300	
2021/22 - Benefit (£6,500 x 20% x 8/12)	<u>867</u>	867
	3,034	
Gift of asset in 2021/22		
Benefit = Higher of:		
MV at date of gift =	<u>3,150</u>	
MV at date of first use =	6,500	
Less:		
Amounts assessed for use of asset (above)	<u>(3,034)</u>	
	<u>3,466</u>	<u>3,466</u>
Total benefits - 2021/22		4,333

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

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

Answer-to-Question-_4_

Tax relief for pension contributions

Ahmed's occupational pension scheme contributions:

- Contributions are paid into the scheme gross
- Gross amount paid is treated as an allowable deduction from employment income
- Tax relief automatically given at the employee's marginal rate of tax

Ahmed's personal pension scheme contributions:

- Contributions are paid into the scheme net of tax
- Basic rate relief (20%) is therefore given at source
- Higher rate and additional rate relief is given by extending the basic band and increasing the higher rate limit by the gross amount of pension contributions (ie, amount paid x 100/80)

Accordingly, more income is taxed at the lower rate (20%) rather than the higher rate (40%, 45%) giving additional relief (20%, 25%) through the income tax computation

Wyton Ltd's pension scheme contributions:

- Employer contributions are an exempt benefit for Ahmed

Ahmed's occupational pension scheme contributions:

- Contributions are paid into the scheme gross
- Gross amount paid is treated as an allowable deduction from employment income
- Tax relief automatically given at the employee's marginal rate of tax

Ahmed's personal pension scheme contributions:

- Contributions are paid into the scheme net of tax
- Basic rate relief (20%) is therefore given at source
- Higher rate and additional rate relief is given by extending the basic band and increasing the higher rate limit by the gross amount of pension contributions (ie, amount paid x 100/80)

Accordingly, more income is taxed at the lower rate (20%) rather than the higher rate (40%, 45%) giving additional relief (20%, 25%) through the income tax computation

Wyton Ltd's pension scheme contributions:

- Employer contributions are an exempt benefit for Ahmed

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

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

Answer-to-Question-_5_

National Insurance Contributions

	Employer NICs liability:		
Private medical insurance	Class 1A		
Payment of 50p mileage allowance	Class 1 secondary (on excess over 45p)		
Annual Christmas party in a PSA (costing £200 per head)	Class 1B		
Payment of a mobile phone contract of £40 per month	Exempt		

******* ALTERNATE LAYOUT BELOW PROVIDED FOR DEMONSTRATION PURPOSES IN ORDER TO SHOW SOMETIMES QUESTIONS CAN BE PRESENTED IN AN ALTERNATE WAY, BUT STILL BE CLEAR TO THE EXAMINER**

DIFFERENT CANDIDATES WILL HAVE DIFFERENCES PREFERENCES FOR HOW TO LAYOUT THEIR ANSWERS, BUT TABLES MUST BE USED FOR COMPUTATIONAL QUESTIONS *****

Answer-to-Question-_5_

National Insurance Contributions

Employer NICs liability:

Private medical insurance

Class 1A

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Payment of 50p mileage allowance	Class 1 secondary (on excess over 45p)
Annual Christmas party in a PSA (costing £200 per head)	Class 1B
Payment of a mobile phone contract of £40 per month	Exempt

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

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

Answer-to-Question-_6_

Irina

Painting = a non-wasting chattel

Marginal loss rules apply as sold for gross sale proceeds =
£6,000 and cost > £6,000

	£		
Deemed gross sale proceeds	6,000		
Less:			
Selling costs	<u>(40)</u>		
	5,960		
Less:			
Cost	<u>(7,100)</u>		
Allowable loss	(1,140)		

Antique wardrobe = a non-wasting chattel

Marginal gain rules apply as sold for gross sale proceeds >
£6,000 and cost = £6,000

Chargeable gain = Lower of:

Normal gain:			
	£		
Gross sale proceeds	6,375		

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Less: Probate value (September 2010)	<u>(4,280)</u>	
	2,095	
5/3 rule		
= (£6,375 gross sale proceeds - £6,000) x 5/3	625	

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

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

Answer-to-Question-_7_

Ben

Gift relief

Gift relief is available as:

- The transaction is a sale at undervaluation, and
- The shares are unquoted trading company shares.

Gift relief on the sale at undervalue of shares in Joiner Ltd

The chargeable gain arising at the time of the sale at undervaluation

$$= (\text{Actual sale proceeds received} - \text{Cost of shares})$$
$$= (£24,000 - £18,000) = £6,000$$

	£		
Market value	35,100		
Less:			
Cost	<u>(18,000)</u>		
	17,100		
Less:			
Gift relief (balancing figure)	<u>(11,100)</u>		
Chargeable gain after gift relief (see above)	6,000		

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

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

Answer-to-Question- _8_

Sarah

Share pool		No. of shares	£
3 August 2007	Purchase	3,500	15,750
24 September 2015	Purchase	<u>6,260</u>	<u>32,865</u>
		9,760	48,615
5 June 2019	Rights issue (1 for 8) @ £5.20	<u>1,220</u>	<u>6,344</u>
		10,980	54,959
12 November 2021	Sale	(7,275)	
	Base cost = £54,959 x (7,275 / 10,980)		<u>(36,414)</u>
Pool c/f		3,705	18,545

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

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

Answer-to-Question- _9_

Gerald Kipper

Fundamental principles most threatened:

Integrity

(to be straightforward and honest, and not knowingly or recklessly supply information which is false or misleading)

- agreeing to submit information that you know is false challenges your integrity.

It is important to ensure that all information provided to HMRC is accurate and complete.

Objectivity

(to not allow bias, conflict of interest or undue influence of others override professional judgements)

- the promise of extra work and the request being from a friend challenges your objectivity.

Professional behaviour

(to comply with relevant laws and regulations and avoid any action that discredits the profession)

- assisting a client to plan or commit any offence (such as deliberately misleading HMRC) is against ATT ethical guidelines/against PCRT.

- A member must not be a party to proposed arrangements which are, or may be, tax evasion.

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

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

Answer-to-Question-_10_

Maureen

Gross income to include in Maureen's taxable income computation:

Discretionary income - treat as non-savings income

(£8,690 x 100/55) £15,800

Interest in possession income - treat as dividend income

(£3,330 x 100/92.5) £3,600

Tax credit:

Discretionary income

(£15,800 x 45%) or (£8,690 x 45/55) £7,110

Interest in possession trust

(£3,600 x 7.5%) or (£3,330 x 7.5/92.5) £270

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Answer-to-Question-_10_

Maureen

Gross income to include in Maureen's taxable income computation:

			£
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Discretionary income - treat as non-savings income (N1)			15,800
Interest in possession income - treat as dividend income (N2)			3,600
Tax credit:			
Discretionary income (N3)			7,110
Interest in possession trust			270

N1

$(£8,690 \times 100/55)$

N2

$(£3,330 \times 100/92.5)$

N3

$(£15,800 \times 45\%) \text{ or } (£8,690 \times 45/55)$

N4

$(£3,600 \times 7.5\%) \text{ or } (£3,330 \times 7.5/92.5)$

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

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

Answer-to-Question-_11_

Darren

Capital Gains Tax - Payment on account

	Residential property		
	£		
Vase (Note) (Current year loss before the residential disposal)	(650)		
Residential property	<u>46,700</u>		
	46,050		
Less:			
Annual exempt amount	<u>(12,300)</u>		
	33,750		
Less:			
Capital losses b/f	<u>(5,600)</u>		
	<u>28,150</u>		
Payment on account (£28,150 x 28%) (higher rate taxpayer)	7,882		
Due date:			
(30 days after the residential property disposal completion date)	28/10/2021		

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

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

Answer-to-Question-_12_

Relief for capital losses

A capital loss arising on the disposal of qualifying EIS shares on which EIS income tax relief has been claimed can be treated as follows:

- set against capital gains in the current tax year (2021/22) (no claim required)
- set against net income in the tax years 2021/22 or 2020/21 (ie, the tax year of the loss or the preceding tax year) provided a claim is made by 31 January 2024 (ie, 12 months from 31 Jnauary following the end of the tax year in which the loss arose)

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

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

Answer-to-Question-_13_

Alan Income Tax computation 2021/22

	£	£	£
	NSI	SI	
Employment income	85,000		
Rental income (W1)	18,800		
Interest		700	
Less:			
PA (W3)	<u>(10,945)</u>	<u> </u>	
	92,855	700	
Tax:			
	£		£
Non-savings income (W4)	38,950	@ 20%	7,790
Non-savings income	53,905	@ 40%	21,562
Savings income	500	@ 0%	0
Savings income	200	@ 40%	<u>80</u>
Tax liability			29,432
Less:			
PAYE			(25,000)
Tax reduction for mortgage interest (W2)			<u>(1,400)</u>
Income Tax payable for 2021/22			3,032

This is due for payment by 31 January 2023.

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Workings

(W1) The Oaks

	£	£	
Rental income (N1)	2,200 x 10	22,000	
Less:			
Roof (N2)		-	
Washing machine (N3)		(700)	
Kitchen Worktop (N4)		(1,400)	
Buildings insurance (N5)		(1,100)	
Rental profit		18,800	

(W2) Mortgage interest

Alan's total property income and adjusted total income clearly exceed the mortgage interest, meaning the amount allowed as a basic rate tax reduction is:

$$£7,000 \times 20\% = £1,400$$

(W3) PA for 2021/22

Adjusted net income (ANI) =

		£
Employment income		85,000
Rental income		18,800
Interest		700
Less: (W3)		
Gross gift aid donation		<u>(1,250)</u>
ANI		103,250

As ANI exceeds £100,000, the PA is reduced:

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	£
PA for 2021/22	12,570
Less: $\frac{1}{2} \times (103,250 - 100,000)$	<u>(1,625)</u>
Adjusted PA for 2021/22	10,945

(W4) Gift aid donation

The basic rate band is extended by the gross gift aid donation:

	£		
2021/22 Basic rate band	37,700		
Add: Gross gift aid payment = $1,000 \times 100/80$	<u>1,250</u>		
Revised basic rate band	38,950		

Notes

(N1) Rental income for 2021/22

Alan has not made any elections regarding his property income, meaning the cash basis is the default system as gross property income receipts do not exceed £150,000 and so 10 months of rent will be taxed in 2021/22.

(N2) Roof

There is an improvement to the property, therefore the entire £4,000 is treated as capital expenditure. The £500 for reroofing to sort out the leaks cannot be separated from the total cost; it would have been an allowable expense if incurred on its own.

(N3) Washing machine

The washing machine is freestanding, meaning it is an allowable cost as a replacement of a domestic item and fully allowable because substantially the same asset.

(N4) Kitchen worktop

As the worktop was replaced to a similar standard, the character of the kitchen remains unchanged, meaning the costs is allowable as a repair.

(N5) Buildings insurance

Under the cash basis, the amount deductible in 2021/22 is simply the amount paid in the tax year.

(N6) Rent from friend

Total rent = £120 x 52 = £6,240

As this is less than £7,500, the rent-a-room relief applies automatically and the rental income is therefore exempt from tax.

The expenses clearly do not exceed the rent being paid, meaning they are irrelevant as they cannot be offset against the rent if rent-a-room relief applies and would only be claimed if there was a loss for the year.

2)

Joint tenancy is where two (or more) persons own a single property as a whole; it is not divided into shares.

Three consequences of owning a property as joint tenants are:

1. Alan and Matthew are each entitled to use the whole item of the property.
2. Neither Alan nor Matthew can alienate, for example sell or gift, the property without the agreement of the other.
3. On the death of either Alan or Matthew, the property as a whole continues in the ownership of the surviving partner (known as the right of survivorship).

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

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

Answer-to-Question-_14_

James Smith CGT for 2021/22

Abtech Ltd

		£
Proceeds		5,000
Less:		
Cost		<u>(30,000)</u>
Loss		(25,000)
Add:		
IT relief not withdrawn (Note) £30,000 × 30%		<u>9,000</u>
Total loss		(16,000)

Note:

The subscribed shares have been sold after the end of the three year qualifying period. As such, the Income Tax relief James received when he subscribed for the shares is not withdrawn, but reduces the capital loss.

Babot Ltd

Although James sold the shares for a significant gain, he sold them after the three year qualifying period 1 September 2017 to 1 September 2020, so the shares are exempt from CGT. No Income Tax relief will be withdrawn.

A gain of £80,000 was deferred in 2017/18 and will come back into charge in 2021/22.

Clayside Ltd

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	£		
Proceeds	125,000		
Less:			
Cost	<u>(60,000)</u>		
Taxable gain (Note)	65,000		

Note:

James disposed of the shares within the three year qualifying period, meaning the gain is fully chargeable to CGT.

There will also be a full clawback of the Income Tax relief totalling (£60,000 × 30%) £18,000 and HMRC will raise an assessment for the tax year in which the relief was originally obtained.

CGT for 2021/22:

			£
Total gains (80,000 + 65,000)			145,000
Less:			
Current year loss			(16,000)
AEA			<u>(12,300)</u>
			<u>116,700</u>
CGT thereon:			
37,700	@ 10%		3,770
79,000	@ 20%		<u>15,800</u>
Total CGT payable			19,570

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

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

Answer-to-Question-_15_

Muon Terrace

Albert has owned the property for 25 years and 6 months; so, 39 years and 6 months is left on the lease at sale. The 10 days in December does not count as a month of ownership.

			Residen tial	Non- residential
Muon Terrace		£	£	£
Proceeds		250,000		
Cost	185,000 x (95.149/100)	<u>(176,026)</u>		
			73,974	
% for long lease	100%			
% for 39 years	94.842			
% for 40 years	95.457			
% for 39 y 6 m	94.842 + ((95.457 - 94.842)/2) = 95.149			
Freehold land				
		£	£	£
Proceeds		1,800,000		
Less:				
Legal fees		<u>(50,000)</u>		
		1,750,000		
Cost	Acq cost x A/(A+B) 1,100,000 x 1,800,000/(1, 800,000 + 700,000)	(792,000)		
Planning permission		<u>(55,000)</u>		

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fees				
				903,000
26 Higgs Avenue				
		£	£	£
Sale proceeds		200,000		
Cost	$150,000 \times (s - x) / y$ $150,000 \times (91.981 - 72.77) / 98.059$	<u>(29,387)</u>		
		170,613		
% for years left at grant of sub-lease on 1 May 2021	35 years = 91.981 (s)			
% for years left at expiry of sub-lease on 1 May 2036	20 years = 72.77 (x)			
% for years left at grant of head lease on 1 May 2011	45 years = 98.059 (y)			
Less:				
income element of lease premium	$200,000 \times ((50 - 14) / 50)$	(144,000)		
			<u>26,613</u>	
Total gains			100,587	903,000
Less: AEA			<u>(12,300)</u>	
			88,287	903,000
CGT:				
903,000		@ 20%	180,600	
88,287		@ 28%	<u>24,720</u>	
Total CGT			205,320	

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

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

Answer-to-Question-_16_

My address

Your address

The date

Dear Romeo & Juliet

The impact of a remittance basis claim

I understand that you are uncertain about the impact that a remittance basis claim may have on your exposure to UK tax for 2021/22.

If you are taxed on the arising basis you pay UK tax on your worldwide income and gains, irrespective of whether they are remitted to the UK. In contrast, if you claim the remittance basis you only pay tax on your UK source income and gains and any non-UK source income and gains that are remitted to the UK. The arising basis of taxation is the default basis of taxation and a claim needs to be made to use the remittance basis. Only non-UK domiciliaries are entitled to claim the remittance basis.

Applying this to your circumstances:

Employment income

If you claim the remittance basis and split your working time between the UK and overseas you may benefit from Overseas Workday Relief (OWR). This means that only the proportion of your salary relating to your UK duties is taxed on the arising basis - the rest of your salary is only taxed if remitted to the UK.

OWR applies for the first three tax years of UK tax residence following three consecutive tax years of non-residence.

As 2021/22 is Romeo's fourth tax year of UK residence, OWR no

longer applies to him.

If Romeo had performed all of his duties overseas for a non-UK employer, he would only pay tax on the element of his total salary that is remitted to the UK. However, this is not the case.

So, a claim for the remittance basis will not impact on his exposure to UK tax on his employment income as it is all taxed on an arising basis whether or not a claim is made.

However, for Juliet, 2021/22 is only her third year of UK residence and so OWR applies. This means that, if she makes a claim for the remittance basis, 25% of her salary will not be exposed to UK tax because she does not remit the funds into the UK.

Mercutio GmbH gain

As these shares have a non-UK situs, a claim for the remittance basis will avoid a UK tax charge on the gain if the proceeds are not remitted to the UK. However, the use by Romeo of the funds to buy artwork in the UK during the 2021/22 year is treated as a remittance of half of the gain by Juliet. This is because Romeo is a relevant person by reference to Juliet. A claim for the remittance basis will therefore only avoid a UK tax charge on the half of the gain that is not transferred across to Romeo.

UK portfolio

A claim for the remittance basis will have no impact on the UK tax exposure arising on either the income or gains from this portfolio as both will have a UK source.

Your friend is not quite right about the additional tax bill associated with a claim for the remittance basis. There is a £30,000 p.a. charge for making the claim, but this only applies once you have been UK resident for 7 of the previous 9 tax years. This will not yet apply in your case as neither of you have been UK resident for that long.

A claim for the remittance basis will lead to the loss of both your personal allowance and annual exempt amount.

Please let me know if you have any queries.

Kind regards,

ATT PAPER 1

Institution **CIOT - ATT-CTA**
Course / Session **ATT Paper 1 Personal Taxation**
Extegrity Exam4 > 21.12.19.64

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Exam Mode **OPEN LAPTOP + NETWORK**
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