THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

May 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Andy works for Murray Ltd and is provided with a petrol car for his personal use. When first provided in May 2018, the car had a list price of £22,000, but Murray Ltd was able to negotiate the cost paid down to £20,000. Andy made a £6,500 capital contribution towards the cost of the car. The car has CO_2 emissions of 135g/km.

   From 6 November 2020, Andy was also provided with a petrol van owned by Murray Ltd. Andy has unrestricted private use of the van and Murray Ltd also pays for all of the van's fuel. The van had a list price of £15,000 and has CO_2 emissions of 155g/km.

   Calculate the amount of Andy's taxable benefits in 2020/21 as a result of Murray Ltd providing these vehicles. (4)

2. An individual's status when performing work for a company can be either that of an employee or a self-employed contractor.

   State eight differences in the legal and tax treatment of employees and self-employed individuals. Ignore National Insurance Contributions. (4)

3. During 2020/21 Harry donated to charity through an HMRC approved payroll giving scheme with his employer. He contributed 2% of his £260,000 gross salary to the scheme.

   Explain how Harry received income tax relief for this charitable giving and the after-tax cost to Harry of the payroll giving payments in 2020/21. (2)

4. During 2020/21 Megan, who is UK resident and UK domiciled, earned a salary that was £22,500 more than her personal allowance. In addition, she received £22,000 gross interest from a bank account in Utopia from which £8,000 was withheld at source.

   Calculate how much double tax relief Megan is entitled to claim in the UK for 2020/21. (4)

5. In March 2021, Safa sold her ordinary shares in Famina Ltd, an unquoted trading company, realising a chargeable gain of £25,700. She had subscribed in cash for the 4% shareholding in February 2018. Safa has never worked for Famina Ltd.

   Safa's only other disposal in 2020/21 was of a painting realising a chargeable gain of £18,500. Her taxable income for 2020/21 was £30,000. Safa makes all beneficial elections.

   Calculate the Capital Gains Tax payable by Safa for 2020/21. Explain why the amount payable would be more if Safa had either sold the shares in January 2021, for the same proceeds, or subscribed for the shares in February 2016, at the same cost. (4)

6. Tejas sold a number of assets during 2020/21. The relevant sales proceeds and acquisition costs are shown below. Auctioneer's costs of £500 were incurred on the sale of the vase.

Asset	Gross sale proceeds	Acquisition cost
	£	£
Sculpture	20,000	12,000
Painting	7,000	4,500
Snooker table	5,800	2,000
Vase	4,500	9,000

Calculate the chargeable gain/allowable loss on each disposal by Tejas in 2020/21. (3)

7. Kincen plc is offering a five-year savings related share option scheme to its employees. The current market value of the shares in Kincen plc is £6.50 per share. The option price is £5.30 per share. Mariella and Jake are employees of Kincen plc. Mariella will contribute the maximum amount into the scheme and Jake will contribute the minimum amount. Kincen plc has not imposed a higher minimum amount than that set by legislation. There will be no bonus at the end of the five-year contract.

Kincen plc had intended to set the option price at £5.00 per share, but its advisers said that this is not possible if the scheme is to be tax-advantaged.

Calculate the maximum number of shares that Mariella and Jake can purchase at the end of the five-year contract. Explain why Kincen plc cannot set the option price at £5.00 per share. (4)

8. Elizabeth, aged 56, has an Individual Savings Account (ISA) and makes regular investments into it, up to her annual allowance. Her husband died on 1 November 2020.

Explain the tax benefits associated with Elizabeth's ISA investments and how her annual allowance could change for 2020/21 following her husband's death. (2)

9. William bought a residential property in June 2020. Before he was able to let it out he spent £2,500 repairing a hole in the roof. He let the property from 6 August 2020 at £4,000 per month, payable in advance, and his tenant paid regularly on the 6th of each month. William paid the following expenses during 2020/21, all in relation to the rental property:

	£
Mortgage interest	20,000
Buildings insurance	2,200
Replacement of cracked heat tiles in the kitchen	1,750
A hedge-trimmer	350
A new fridge-freezer	850
(There was no fridge-freezer in the property prior to this purchase.)	

William's brother did the work to replace the cracked heat tiles and William has told you that he paid him £750 more than he needed to for the job as he wanted to give him a gift.

Calculate William's taxable property income for 2020/21, showing your treatment of each expense. You should assume that William made no election in relation to the basis of taxation of his property income. (4)

10. Sanjay has a tax liability of £5,000 for the 2020/21 tax year, split evenly between Income Tax and Capital Gains Tax. He has no obligation to make any payments on account for 2020/21 and has paid no tax at source.

    Calculate the maximum penalties that would be incurred if Sanjay files his 2020/21 tax return electronically on 16 September 2022 and pays the £5,000 tax liability on 31 October 2022. Show the separate elements of the penalties. (3)

11. Joel had been UK resident and UK domiciled from birth. On 6 April 2017 he became non-UK resident and on 27 June 2017 he bought shares in an unlisted UK trading company. During 2018/19 he sold both the shares and a painting that he had inherited from his uncle in 2003. Both assets were sold at a substantial gain. Joel became UK resident again in 2020/21.

    Explain the extent of Joel's liability to Capital Gains Tax on the gains arising on the disposal of the shares and the painting. (3)

12. Jane and John are married and were both born in the 1970s. Jane is employed by Tower Ltd and in 2020/21 received a salary of £50,000. John is self-employed and in 2020/21 had annual profits of £7,000.

    State which classes of National Insurance Contributions are payable in relation to these earnings and by whom. No calculations are required. (3)

PART II

13. You have a new client, Renata, who is retired and has lived in London for many years.

She has provided you with all the details of her income and investments so that you can prepare her 2020/21 tax return:

1) Renata received £62,300 (gross) from her private pension, with PAYE deducted of £16,200. She also received £8,768 from her state pension.

2) In October 2020, Renata received a dividend of £3,000 from the tax-exempt property of a UK Real Estate Investment Trust (REIT) in which she has a holding.

3) In December 2020, she received an interest distribution of £270 from her holding in a unit trust.

4) Her only other sources of income in 2020/21 were UK dividends totalling £27,500 and bank interest totalling £650, of which £50 relates to interest from an ISA.

5) On 1 February 2021, Renata subscribed for 4,500 shares in a qualifying Venture Capital Trust (VCT). The shares cost £25,000.

6) On 15 April 2021, Renata subscribed for 2,750 shares in a qualifying Enterprise Investment Scheme (EIS) company. The shares cost £12,000.

Since receiving the above information from Renata, she has emailed you with a query on her tax affairs and you called her to discuss this. Whilst on the phone call, she stated that she wants to claim any tax relief as soon as possible.

Requirements:

1) Calculate Renata's Income Tax payable/repayable for 2020/21, showing your treatment of each item. Briefly explain your treatment of the VCT and EIS investments on 1 February 2021 and 15 April 2021. (16)

2) Explain why an ATT member should make a proper professional record of all their dealings with a client and also what these records should include. (4)

Total (20)

14. Your manager has asked you to help advise a client, Linda Pollard, a UK resident individual. Your manager has arranged a meeting with Linda tomorrow and has sent you the following extracts from Linda's recent email as your firm usually completes Linda's self-assessment tax return on her behalf:

"I need to raise cash to help pay for care fees for my mother. I own two properties and I am thinking of selling my house in Birmingham, and moving to my country cottage in Welshpool, Wales. Alternatively, I can sell the country cottage and stay in my house in Birmingham. Both properties are expected to sell for £600,000 and I hope to complete the sale on 31 July 2021. The estimated legal and professional fees to sell the properties are 1.5% of the sale price of the Birmingham house, and 1% of the Welshpool country cottage."

"I purchased my house in Birmingham for £98,000 on 1 December 2004 and incurred legal and professional fees of £2,160. I lived in the house until 31 December 2006 when I went to work at my employer's head office in Manchester. My employer provided me with a company flat in Manchester and I rented out my house in Birmingham to a series of tenants from 1 January 2007 to 31 January 2015. The last tenants left the property in a bad state, so I redecorated the entire house in March 2015 at a cost of £3,500. I have had no more tenants since and I returned to live in the house on 1 December 2017. I have lived there ever since."

"I purchased the country cottage in Welshpool in January 2015 for £415,000 (including allowable acquisition costs) and immediately elected for my house in Birmingham to be my principal private residence for tax purposes. I built a two-storey extension to the side of the cottage in September 2016 at a cost of £44,600, and added a conservatory in June 2017 at a cost of £18,500. I go there mainly at the weekends in the summer. The cottage is also used by my family and friends, but I have never rented it out."

Linda is single and she is a higher rate taxpayer. She hopes that she does not need to make any other capital disposals in 2021/22.

Requirements:

1) Calculate the Capital Gains Tax that may arise in July 2021, after taking account of all relevant exemptions and reliefs available, if Linda sells:
(a) Her house in Birmingham; or
(b) Her cottage in Welshpool.

Explain your treatment of Linda's periods of occupation and non-occupation of her house in Birmingham. (14)

2) Advise Linda on which property she should sell to maximise her after tax cash proceeds, and calculate the net cash difference. (3)

3) State when and how the gain arising on the disposal must be reported to HMRC, what must be included in the notification, and the due date of payment(s) of the Capital Gains Tax arising. (3)

Assume the 2020/21 tax rates and allowances apply throughout.

Total (20)

15. Your firm acts for the following clients who have asked for Income Tax advice in relation to the tax year 2020/21:

Gareth and Georgina Rushton

Gareth and Georgina are married and live together with their five-year old daughter. They are both 35 years old.

In 2020/21, Gareth had employment income of £42,900. Georgina works in a shop at the weekends and had employment income of £11,550. Neither has any other source of income.

They have heard that it is possible to transfer unused personal allowance between couples and want to find out more.

Hari Johnson and Heather Samburg

Hari and Heather are not married, but live together with their three-year old twins.

In 2020/21, Heather had employment income of £59,500 and received £1,820 child benefit for the twins. Hari looks after the children and also works from home. Hari had employment income of £25,000. Neither Hari nor Heather has any other source of income.

Heather made a donation to Children in Need (a national registered charity) under the gift aid scheme in November 2020. The gross amount was £500. She also paid £4,255 into her personal pension scheme during 2020/21.

Heather has heard that some of the child benefit she received may be taken away from her and she wants to know how much will be withdrawn from her for 2020/21.

Requirements:

1) Explain why Georgina can elect to transfer some of her 2020/21 personal allowance to Gareth, and how the transfer is dealt with in both Gareth and Georgina's Income Tax computations. (3)

2) Calculate Gareth and Georgina's Income Tax liabilities for 2020/21 assuming any transfer available is claimed. (3)

3) Calculate how much of the child benefit will be withdrawn from Heather for 2020/21. (4)

Total (10)

16. You have been asked to present a short talk on your experience with one of your clients at the next internal tax department update course.

The course is for trainees in your firm's tax department who have already had an introductory course regarding the basics of business asset disposal relief (BADR). However, they have not yet dealt with many client cases in practice.

The details of the situation for your client, Jason Hendy, are as follows:

1) On 14 July 2003 Jason purchased 60,000 ordinary shares in a manufacturing company, VG plc, for £5.80 per share, and sold 20,000 of the shares on 20 February 2021 for £9 per share.
2) Jason has been a part-time director of the company, working 10 hours a week, since 21 September 2012.
3) In 1990 VG plc originally issued 1 million £1 ordinary shares, which carry equal rights.
4) On 19 March 2020, to fund an expansion plan, the company issued a further 500,000 £1 ordinary shares at £8 per share (the market value of the shares on that date).
5) The new shares carry the same rights as the original shares.
6) Jason did not purchase any of the new shares as he is struggling to meet his normal outgoings and has no spare cash available to invest.
7) Jason has never claimed BADR (or entrepreneurs' relief) in the past.

In your brief you have been asked to cover the following points for the trainees:

1) Explain why Jason can benefit from BADR on the disposal of VG plc shares;
2) Explain how the relevant elections operate and how the resulting gains are taxed; and
3) State the timing of the elections and claims to be made.

You have been asked not to produce any calculations of the gains arising and to make your notes specific to the facts surrounding Jason's disposal.

Requirement:

Prepare notes to be handed out to trainees at your talk, which explain the key points in your brief. (10)