THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

May 2022

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. On 30 November 2021 Harry, a UK resident individual, sold £63,000 4% company loan stock 2030 to William for £70,000. Harry had purchased the loan stock on 1 May 2018 at par.

   Interest is payable on the loan stock half-yearly on 30 June and 31 December. The ex-dividend dates are 16 June and 17 December.

   Assume that any gain arising on the loan stock is not exempt for Capital Gains Tax purposes.

   Calculate, with explanations, the amount of interest income on which Harry is assessed in 2021/22, and the sale proceeds of the loan stock to be used for Capital Gains Tax purposes. (4)

2. On 1 September 2021, Jawwad rented a bungalow to Parneet for rent of £860 per month. Parneet paid the rent in advance on the first day of each month.

   During 2021/22 Jawwad:

   1) paid £500 for the garage doors to be repaired;
   2) replaced the dishwasher with a similar model at a cost of £330;
   3) used his own car to visit the bungalow three times (each return journey is 28 miles); and
   4) paid £7 each way in tolls on the M6 motorway when he visited the bungalow.

   Where applicable, Jawwad claims flat rate expenses against his property income but has made no other election in relation to the property.

   Calculate Jawwad's property income for 2021/22. (4)

3. Marcus retired and left his employment on 31 December 2021. In 2021/22, in addition to his salary, he had the following employment income:

	£
Gift of an iPad in May 2021 (market value at date of gift)	700
Gift of quoted shares listed on the London Stock Exchange as a bonus in July 2021 (market value at date of gift)	25,000
Reimbursement of employment expenses	1,200
Termination payment in December 2021	35,000

   State, with a brief explanation, whether each element of Marcus' additional employment income is assessed to Class 1 National Insurance Contributions. (3)

4. On 23 April 2021, Jacqueline disposed of all of her ordinary shares in ABC Ltd (an unlisted trading company). She acquired her shares in the company as follows:

	Number of shares acquired
25 October 2014	300
14 July 2016	400
30 December 2017	100
6 August 2018	200

She subscribed for the shares directly from the company, except for the shares acquired on 30 December 2017, which she bought from a friend. The company always issued shares for genuine commercial reasons.

Jacqueline paid for all of the shares fully in cash at the time of acquisition and she has never worked for ABC Ltd.

State, with reasons, the proportion of the gain arising on the disposal of Jacqueline's shares in ABC Ltd which is eligible for investors' relief. (4)

5. In September 2016, Morgan purchased £80,000 5% loan stock 2021 in EC Ltd from a friend, Gareth, for £65,000. The loan stock was originally issued by EC Ltd on 1 May 2006 to raise funds to expand the business.

The terms of the loan stock provide that the loan stock cannot be converted into shares, and when the stock is redeemed on 30 April 2021, the stockholder can elect to be paid either in pounds sterling or in Euros.

On 30 April 2021, on the redemption of the loan stock, Morgan elected to be paid in pounds sterling.

Explain the Capital Gains Tax consequence for Morgan as a result of the redemption of EC Ltd's loan stock on 30 April 2021. (3)

6. Marion correctly filed her 2020/21 paper self-assessment tax return on 31 October 2021. The return declared outstanding Income Tax payable for 2020/21 of £4,650 and no Capital Gains Tax due. Marion paid the outstanding Income Tax on 30 April 2022.

Calculate, with explanations, the amount of late payment interest and penalties payable by Marion in respect of her 2020/21 tax return. (3)

7. Simon sold the following assets in 2021/22:

	Purchase cost	Incidental acquisition costs	Gross sale proceeds	Incidental selling expenses
	£	£	£	£
Jewellery	2,300	–	4,600	460
Car	9,800	–	3,450	–
Painting	4,000	500	6,900	–
Antique	14,250	1,425	6,400	600

Calculate Simon's net chargeable gain/allowable loss arising in 2021/22, and explain your reasoning behind the treatment of each item. (4)

8. In 2021/22, Charlie received a salary of £60,000 and had taxable benefits of £1,450.

Charlie's only other source of income in 2021/22 was interest income of £1,300.

Calculate Charlie's Income Tax liability for 2021/22, and explain how his liability would be different if he were a Welsh taxpayer. (4)

9. Theresa is the beneficiary of an interest in possession trust. In 2021/22 she received rental income, interest and dividends from the trustees.

Explain how the trust income is assessed in Theresa's Income Tax computation in 2021/22. (3)

10. Sancho purchased a 60-year lease on a commercial investment property on 1 March 2016. He paid £345,000 for the leasehold interest.

On 18 July 2021, Sancho granted a 30-year lease on the property to Nicholas for a premium of £320,000. The reversionary interest of the property was £288,000.

Sancho is an additional rate taxpayer in 2021/22.

Calculate the amounts assessable to Income Tax and Capital Gains Tax on Sancho in 2021/22 in relation to the grant of the lease, and state the appropriate rates of tax that will apply. (4)

11. Sebastien, who has always been non-UK resident, disposed of the following assets in 2021/22:

	Date of sale	Date of acquisition	Gain or loss realised?
Workshop building in London	6.7.2021	6.7.2018	Gain
Antique furniture in Welsh cottage	6.9.2021	6.9.2016	Loss
Cottage in Wales	6.10.2021	6.10.2011	Gain

Explain how Sebastien's 2021/22 net chargeable gain is calculated, assuming he wishes to minimise any tax payable. (4)

PART II

12. You are a tax technician working for ABC Accountants Ltd. Your client, Sally, is an employee of Topsales Ltd working as a salesperson in England. Topsales Ltd has not registered with HMRC to payroll employee benefits.

Sally has provided you with all the details you need so that you can prepare her 2021/22 tax return:

1) Total salary of £155,000, with PAYE deducted of £60,575;
2) Topsales Ltd provided all employees with private medical insurance. The normal cost was £1,100 per employee, but they negotiated a discount with the medical insurance company. This reduced the cost per employee to £935;
3) Sally has a petrol company car, which was first registered in 2019. The list price was £26,000 and accessories worth £1,000 were added to the car. Sally made a one-off capital contribution of £6,500 towards the purchase price of the car. The car has recorded CO_2 emissions of 139g/km. All fuel costs for the car are paid by Topsales Ltd. The only time Sally did not have use of the car was for one week in the year, when it went into the garage be serviced;
4) Topsales Ltd provided Sally with a company mobile phone that originally cost £550. She does not have a personal mobile phone. Topsales Ltd pays for the cost of all calls made on the phone;
5) On 6 June 2021, Sally borrowed a newly-purchased widescreen television, costing £700, from Topsales Ltd. On 6 December 2021, the company agreed to let her purchase the television for £100. At that date, it was worth £550; and
6) Other income was bank interest of £900 and dividends totalling £12,500.

Sally has recently been contacted by Topsales Ltd to warn her that the company may be ceasing to trade and she may be dismissed as a result. A friend mentioned to Sally that she thought she might have a claim for unfair dismissal.

Requirements:

1) Calculate Sally's Income Tax liability for 2021/22, showing your treatment of each item. (16)

2) Explain briefly whether Sally can be validly dismissed and on what grounds she might have a claim for unfair dismissal. (4)

Total (20)

13. Your manager has asked you to help in dealing with a client, Salim Lao, who is UK resident. Your manager will be having a meeting with Salim at the end of the week to discuss whether the proposed sale of his house will be fully covered by private residence relief (PRR).

Your manager has sent you the following notes from a recent phone call with Salim:

"I bought my house in Bristol in 2002. I have just accepted an offer to sell the house and I expect the sale to be completed within the next six months.

When I bought the house, it was in a derelict state and uninhabitable. As a result I did not live in it for the first 12 months. I paid a builder to completely renovate it and add a small extension. During this time, I carried on living with my parents.

From 2015 to 2017 I rented out a spare bedroom to a lodger. The rent was only around £300 per month and they were able to cook their meals in the kitchen, watch television in the lounge and that sort of thing. I am not sure if that is going to have any tax implications when I come to sell the house?

You should be aware that the property has a large garden, over two hectares.

Until recently, I had never owned any other property. At the start of 2022, I purchased a small flat in Bristol and now live there most of the time. My hope was that this would make it easier to keep the house clean for viewings to prospective buyers and therefore speed up the sale. So far the plan seems to be working!

I am willing to wait for my perfect house to come up, so I may end up living in the flat for a few years."

Requirement:

Explain the PRR issues with regard to Salim's sale of the house and any elections he should make. (10)

14. Valerie is 38 years old and has been a full-time employee of Court Ltd for many years. Her salary of £75,000 is her only source of income. In May 2017, she was granted qualifying Enterprise Management Incentive (EMI) options over 100,000 £1 ordinary shares in the company when they were valued at £2.00 each. The exercise price was £1.80.

In June 2021 Valerie exercised all of her options over the Court Ltd £1 ordinary shares when they were valued at £5 each. She then sold 75,000 of the shares for £6.50 each in March 2022.

In 2014, Valerie acquired 50 acres of agricultural land as a gift from her mother, who had inherited the land in 2005 when it had been valued at £125,000. At the date of the gift, the land was valued at £300,000 and a joint claim for Capital Gains Tax gift relief had been made on the transfer to Valerie.

Valerie did not use the land for any commercial purpose. In September 2021, a planning agent came to assess the site for potential planning opportunities and identified 20 acres of the land that could be developed. Valerie subsequently spent £50,000 on applying for planning permission for those 20 acres before selling them for £2 million in January 2022. At the time of sale, the value of the remaining 30 acres of land was £250,000.

While reviewing the site with the planning agent, Valerie lost a valuable ring that she had bought in 1995 for £25,000. The ring was insured and, in November 2021, she received insurance proceeds of £150,000. She has told you that she immediately spent £60,000 on a replacement ring.

Valerie has not previously made any chargeable disposals and has no capital losses brought forward.

Requirements:

1) **Calculate, with brief explanations, the amounts subject to Income Tax on the grant and exercise of the EMI options.** (2)

2) **Calculate Valerie's Capital Gains Tax liability for 2021/22, assuming all beneficial elections are made, showing the amount of any gain deferred.** (10)

3) **State the actions that you should consider taking if, after her 2021/22 tax return has been submitted, Valerie admits that she did not buy a replacement ring but refuses to authorise you to file a suitable amendment to her tax return.** (3)

Total (15)

15. Clive is unmarried and, prior to 2021/22, has been UK resident since birth. He worked full-time for Danes Ltd for several years, without a break, and all his duties were undertaken in the UK. However, on 20 August 2021, he left that employment and on 27 August 2021 he moved to Germany to start full-time work for Cottles GmbH on 30 August 2021. All of his duties for Cottles GmbH are performed in Germany except for the first three working days of each month, starting in September 2021, on each of which he does a full day's work in the UK.

Clive still has his home in the UK and stays there when he comes to the UK for his monthly visits. Each month, he flies into the UK on the morning of the first day of UK work and flies out in the early evening of the third day. Clive rented an apartment in Germany from the date that he arrived in that country; prior to that he had no overseas home.

Clive has correctly calculated that, prior to leaving the UK on 20 August 2021, he had been present in the UK on 130 days during 2021/22. He has heard of the Statutory Residence Test and understands that he has been in the UK for too many days during 2021/22 to be non-UK resident under either of the first two automatic overseas tests – i.e. those that relate purely to the number of days of presence in the UK.

Clive's employments in both the UK and Germany meet the relevant tests for being more than 35 hours a week.

Requirement:

Write a letter to Clive explaining, by reference only to each of the remaining automatic tests in the Statutory Residence Test, his tax residence status for the 2021/22 tax year. Do not consider the sufficient ties test or whether Clive is able to split the tax year.

(15)