May 2017 Examination

PAPER 1

Personal Taxation

TIME ALLOWED – 3 ¼ HOURS
(for Part I and Part II)

- You are required to answer **all** questions in each part (both parts printed together).
- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. Calculators may not be used during this time.
- The Presiding Officer will inform you when you can start writing in the answer booklets.
- You are provided with two answer booklets (one for each part of the paper). Make sure you write your answers in the correct answer booklet.
- Please start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part I

Write your answers in the Part I answer booklet.

1. Adele was provided with a furnished apartment on 9 September 2013 by her employer, DDE Ltd. The company had purchased the apartment for £320,000 on 16 June 2009 and it had a market value of £550,000 on 9 September 2013.

   DDE Ltd pays the utility bills for the apartment which totalled £2,112 for 2016/17, and it provided new furniture and white goods worth £5,800 for Adele to use when she moved in. The annual value of the apartment is £2,500 and Adele contributes £250 a month towards the provision of the apartment.

   Calculate Adele's taxable benefits for 2016/17. (3)

2. Herman rented a furnished bungalow from Briony throughout 2016/17. Briony increased the rent she charged Herman from £1,160 to £1,360 per month from 6 November 2016.

   The following expenses were paid by Briony during 2016/17:

	£
Repairs	720
Buy-to-let mortgage interest	4,680
New conservatory	19,300
Replacement bed	450
Insurance (year to 30 September 2017)	420

   Briony paid £390 insurance on 1 October 2015 for the year to 30 September 2016.

   Calculate Briony's property income assessment for 2016/17. (4)

3. Christopher borrowed £85,000 from his employer, Rake Ltd, on 6 August 2014 to help him buy a holiday cottage.

   The arrangement is that Christopher repays 25% of the capital of £85,000 on 6 August in 2016, 2018, 2020 and 2022 and that he will pay interest each year, but at a rate below the market rate.

   In 2016/17 Christopher paid interest of £1,700 to Rake Ltd.

   Calculate Christopher's taxable benefit for 2016/17. (4)

4. The accrued income scheme ensures that when certain interest-bearing marketable stocks are sold, any interest accrued in the selling price of the stock is assessed to Income Tax, not Capital Gains Tax.

   Explain how the accrued interest is calculated and how it will be assessed to Income Tax, assuming a UK resident taxpayer sells stock cum-div. (2)

5. Eric has received an amendment to his 2015/16 self-assessment tax return, but he thinks that HM Revenue & Customs' amendment has incorrectly overstated his Income Tax liability.

Explain why Eric has the right to appeal, when an appeal should be made, and what the appeal should contain. (2)

6. Felix purchased an investment property for £218,000 in June 2009.

In October 2015 the property was damaged in a storm and Felix made a claim to his insurance company for compensation. In May 2016 the insurance company paid Felix £120,000 in compensation and valued the property prior to restoration at £245,000.

In October 2016 Felix spent £117,500 of the compensation received restoring the property and he sold it in May 2017 for £605,500. Felix made a claim not to treat the receipt of compensation as a part disposal for Capital Gains Tax purposes.

Calculate, with brief explanations, any chargeable gains arising in 2016/17 and 2017/18 for Felix. (4)

7. On 1 March 2012, Grace was granted options to buy shares in her employer's registered tax-advantaged company share option scheme at a price equal to their market value on 1 March 2012.

Grace exercised her options on 1 December 2016 and immediately sold the shares. She made no other capital disposals in 2016/17.

Explain the tax implications of the exercise of Grace's options and the sale of her shares in 2016/17. (4)

8. Martin received dividends from the trustees of a discretionary trust in 2016/17.

Describe how the trust income is assessed in Martin's Income Tax computation for 2016/17. (3)

9. Entrepreneurs' relief is available to taxpayers who make a 'material disposal' of shares or securities in a company, but it must be claimed.

Explain the meaning of a 'material disposal' in this context and state the date by which entrepreneurs' relief must be claimed in respect of a qualifying disposal in 2016/17. (3)

10. Jeremiah understands that the disposal of non-wasting chattels may give rise to chargeable gains subject to Capital Gains Tax. However, he is unclear as to the precise rules that apply to these assets.

Define a non-wasting chattel and explain how a chargeable gain is calculated on the disposal of a non-wasting chattel. (3)

11. Kathleen purchased shares in Lamp plc as follows:

Date	Purchases	Cost £
11 May 2005	4,600 shares	13,202
30 March 2011	5,100 shares	24,275
28 February 2017	1,400 shares	9,800

Kathleen sold 4,100 of her shares in Lamp plc on 15 February 2017 for £25,748.

Calculate the net chargeable gain arising on the disposal of the Lamp plc shares in 2016/17. (4)

12. Luther purchased a 20 acre plot of land in January 2008 for £21,000 and incurred acquisition costs of £3,120. In May 2010 he spent a further £4,000 flattening a five acre portion of the plot of land.

On 13 October 2016 he disposed of that five acre plot for £40,800. This was net of 15% auction fees. The remaining 15 acres were worth £65,000 on 13 October 2016.

Calculate the chargeable gain arising in respect of Luther's disposal in 2016/17. (4)

Part II

Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Your client, Sarah Bray, works full-time as a sales manager for Rello Ltd. She has provided you with the information to complete her 2016/17 tax return.

   Her annual salary was £57,000 (PAYE deducted of £10,200). Rello Ltd provides private medical insurance for all of its employees. The value of the benefit for Sarah for 2016/17 was shown on her form P11D as £570.

   Sarah is not provided with a company car so she uses her own car for company business and drives a significant amount of business miles each year. During 2016/17 she drove 12,500 business miles and Rello Ltd reimbursed her at a fixed rate of 22 pence for every business mile travelled.

   In March 2017, Sarah received a dividend of £380 from her holding in a UK Real Estate Investment Trust (REIT). Her only other sources of taxable income were dividends from her UK share portfolio totalling £2,300 and interest from UK bank accounts of £425.

   Throughout 2016/17, Sarah made a £100 monthly contribution to a UK registered charity under gift aid. In January 2017, she decided to make an additional one-off gift aid donation to the charity of £2,500.

   You note from your files that Sarah's husband, Leo, is a basic rate taxpayer and that they have one child, Tamsin, aged three. They have claimed Child Benefit since Tamsin was born and received a total of £1,076 in 2016/17.

   Sarah has a restraint of trade clause in her employment contract with Rello Ltd and wishes to know whether this is enforceable.

   You are required to:

   1) Calculate the Income Tax payable by Sarah for 2016/17, making clear your treatment of each item, and state the due date for payment of the Income Tax. (16)

   2) Calculate the penalties payable by Sarah if she pays her Income Tax on 31 August 2018. (2)

   3) State the two factors that are required to make a restraint of trade clause enforceable should Sarah's employment cease. (2)

   Total (20)

2. You are a tax technician at ABC Accountants Ltd and your firm advises Sanjay, who is employed as a sales manager at Hutton Ltd. You note from your file that Sanjay does not receive any taxable benefits from Hutton Ltd.

After joining Hutton Ltd in April 2014, Sanjay became a member of Hutton Ltd's group occupational pension scheme and makes regular monthly contributions each year. Hutton Ltd make employer contributions of £5,000 each year to the pension scheme on Sanjay's behalf and the total pension payments made in each tax year to date are shown below:

Tax Year	Sanjay's gross salary	Pension contributions by Hutton Ltd	Gross pension contributions by Sanjay
	£	£	£
2014/15	60,000	5,000	11,000
2015/16	62,500	5,000	12,000
2016/17	65,000	5,000	13,000

Sanjay has recently contacted your manager for advice as he has been told by Hutton Ltd that, at the start of April 2017, he is being promoted to the Head of Sales and that he will be paid a bonus of £30,000 in 2017/18, on top of his gross salary for the year of £70,000. Sanjay would like to know whether he can pay the full £30,000 bonus into his occupational pension scheme and what the tax implications will be if he does.

Sanjay has informed your firm that, outside of any additional payment he makes into the pension scheme when he receives the bonus, his gross pension contributions in 2017/18 will be the same as in 2016/17, i.e. £13,000 by him personally and £5,000 by Hutton Ltd.

Your manager has asked you to make sure copies of all relevant paperwork are added to Sanjay's permanent file.

You are required to:

1) **Prepare a draft letter for your manager replying to Sanjay's query about paying his bonus into his pension, including any relevant supporting calculations. You can assume the annual allowance for pension purposes has always been £40,000 and will remain the same for 2017/18.** (12)

2) **Explain why it is important for an ATT member to make a proper professional record of all dealings they have with clients.** (3)

Total (15)

3. Your firm advises Joaquin, who is a higher rate taxpayer. He has requested a meeting with you regarding various issues.

Joaquin bought his home in Exeter on 1 July 1992 for £200,000. The property comprised a large main house, a garage and one hectare of grounds. He was unable to occupy the property until 1 January 1994 as he decided to have some building works done on the main house. On completion of the works, he lived in the property from 1 January 1994 until his employer required him to relocate to Newcastle on 1 July 2000 when the property was worth £400,000.

Whilst based in Newcastle, he lived in a rented flat in that city and did not occupy the Exeter house at all. On 1 July 2002 he resigned from his job and set up in business on his own. However, due to the business contacts that he had made in Newcastle he stayed in that city before returning to live in his Exeter home on 1 July 2010, at which time he also took out a seven year lease over some commercial premises in Exeter from which to run his business.

During 2009, an extension was added to his Exeter home at a cost of £145,000. The property was sold for £1.6 million on 1 July 2016 and this was the only disposal he made in 2016/17.

Joaquin would like to discuss the tax implications associated with the disposal. He is aware that Principal Private Residence relief can exempt some or all of the capital gain from tax, but also recognises that there may be complications associated with his particular circumstances that could prevent full relief being available.

He is also concerned about the ability of the landlord of the commercial premises to force him out at the end of his seven year lease. You have agreed to meet with him to discuss this.

You are required to:

1) Write notes in preparation for your meeting with Joaquin explaining:

(a) The complications that could prevent full Principal Private Residence relief being applied to Joaquin's gain on the disposal of the property. (6)

(b) To what extent protection is available to Joaquin at the end of his commercial lease to prevent the landlord automatically retaking possession. (3)

2) Calculate the Capital Gains Tax payable by Joaquin as a result of the disposal of his home. For the purposes of your calculation you should assume that all potential reliefs and exemptions are available. (6)

Total (15)

4. Jennifer has a non-UK domicile of origin. She has been resident in the UK for three years and claims the remittance basis of taxation. She has no intention of remaining in the UK in the long term.

Jennifer lives in a rented house in Cardiff and owns a number of residential properties in the UK which she rents out. The income from these properties is sufficient to make her an additional rate taxpayer.

She also holds shares in Emerald Ltd, a non-UK resident company. She is neither a director nor an employee of Emerald Ltd.

Jennifer is considering breaking her UK residence status but has become confused as to how this, together with her domicile status, would affect her exposure to UK tax on her UK and overseas income and capital gains.

You are required to write an email to Jennifer explaining:

1) **The manner by which an individual acquires a domicile of origin and a domicile of choice.** (3)

2) **The basis on which the income and capital gains deriving from her properties and shareholding are currently subject to UK tax and how this would change if she became non-UK resident.** (5)

3) **The rate of UK tax applicable if her capital gains or dividends are subject to tax in the UK.** (2)

You do not need to consider double taxation relief or the availability of personal allowances or annual exempt amounts.

Total (10)