1. In 2017/18, Michael received bank interest of £6,750, dividends of £8,500 and property income of £11,000.

   Calculate Michael's Income Tax liability for 2017/18. (4)

2. Norma owns shares in an approved UK Real Estate Investment Trust (REIT).

   In 2017/18 she received dividends which were paid out of qualifying tax-exempt property income or gains earned by the REIT.

   Describe how Norma will be assessed to Income Tax on the dividends received from the REIT in 2017/18. (3)

3. Junior ISAs are tax-advantaged funds which allow individuals to earn tax-free income from the investments in the fund.

   Explain which individuals qualify to open a Junior ISA, the maximum amount that can be invested in the fund in 2017/18 and when funds can normally be withdrawn without losing any tax advantages. (2)

4. On 1 August 2017 Paul sold a diamond necklace at an auction and received sale proceeds of £7,650 after the auction house deducted commission of 10%.

   Paul originally purchased the necklace on 21 June 2013 for £3,240 from a jewellery shop after paying a £50 fee to an independent professional valuation firm to confirm the value of the necklace before purchase.

   Calculate the chargeable gain arising on Paul's disposal of the necklace in 2017/18. (4)

5. Class 1 NICs are paid on 'earnings' from employment.

   State four types of income received from employment that are included in 'earnings' for Class 1 NIC purposes. (2)

6. The unilateral double taxation relief (DTR) provisions give relief to taxpayers where Income Tax is levied on the same income in more than one country.

   Describe how relief for the double taxation of income is given in an individual's Income Tax computation under the unilateral DTR provisions. (3)

7. Stephanie was issued with a 2015/16 tax return in April 2016 which she eventually completed and submitted to HM Revenue and Customs on 30 November 2017.

   Explain the penalties that will be levied on Stephanie for the late filing of her 2015/16 tax return. (3)

8. In January 2000 Tania purchased a cottage in Devon for £125,000 and let it out to holidaymakers. The property satisfied the criteria necessary for the cottage to qualify as a furnished holiday let.

   In May 2017 Tania sold the cottage to her daughter, Sarah, for £260,000 when it was worth £575,000. Tania and Sarah claimed gift relief on the disposal but not entrepreneurs' relief as Tania has already utilised her lifetime limit.

   Tania has made no other capital disposals in 2017/18 and is a higher rate taxpayer.

   Calculate Tania's Capital Gains Tax liability for 2017/18; quantify the amount of gift relief claimed and explain why gift relief is available on the disposal. (4)

9. In December 1997 Vincent purchased land consisting of three adjoining fields (fields X, Y and Z) for £66,820 plus stamp duty land tax of £668.

   In September 2007, Vincent sold fields X and Y for a total of £390,000 when the value of the remaining field Z was estimated to be £75,000. Vincent incurred professional fees on that sale of £17,550.

   Vincent sold field Z on 13 May 2017 for £120,000 and incurred professional fees of £5,400.

   Calculate the chargeable gain arising on Vincent's disposal of field Z in 2017/18. (4)

10. Khalid was provided with office furniture by his employer, Micro Ltd, for use in his study at home.

    The furniture cost Micro Ltd £4,200 on 6 July 2015 when it was first provided to Khalid.

    On 6 November 2017, Micro Ltd gave the furniture to Khalid when its market value was £2,000.

    Calculate the employment benefit assessed on Khalid in respect of the office furniture in 2017/18. (4)

11. In July 2017 Ulrike cashed in a non-qualifying single premium life insurance bond for £48,650. She had invested £15,000 in the policy in August 2012.

    Ulrike's only other income in 2017/18 was property income of £48,000.

    Calculate the amount of Income Tax due on Ulrike's life insurance gain in 2017/18. (4)

12. HM Revenue and Customs aim to limit the extent to which taxpayers and their advisers can plan to reduce tax liabilities by requiring compliance with the Disclosure of Tax Avoidance Schemes (DOTAS) rules.

    Briefly explain the type of arrangements DOTAS seeks to counteract, and the consequences of non-compliance. (3)

May 2018 Examination

PAPER 1 PART II

Personal Taxation

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

- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- During the 15 minutes reading time, you may read and annotate your Part II question paper**.** You may also read the legislation and use your calculator.
- You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over.
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II 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.
- There is an alternative part in question 1 for Scots Law candidates.

1. Your client, Seresh owns two residential properties in England, which she has been letting out, fully furnished, for several years. She has provided you with details of all her income and expenses, ready to prepare her 2017/18 tax return.

In 2012, Seresh purchased The Gables for £280,000 and let it out immediately. She took out an interest only mortgage of £180,000 to partly fund the purchase. In 2017/18, The Gables was let out for £1,250 per month and Seresh incurred mortgage interest of £6,000. There were no other expenses, as the tenants were required to pay all of the bills.

In 2016, Seresh purchased the freehold of a second property, Harbour View. This has been let out for £500 per month to the same tenants since it was purchased. The tenants moved out on 6 December 2017, but Seresh was only able to find replacement tenants on 15 April 2018.

Whilst the tenants were living at Harbour View, Seresh engaged a builder to add a garage to the side of the property which cost £3,500. The building work took place from April 2017 to June 2017.

Seresh also incurred the following expenditure in respect of Harbour View:

Date	Description	£
May 2017	Replacement free standing washer dryer	750
August 2017	Replacement bathroom suite	3,600
January 2018	Replacement kitchen sink (existing one was leaking)	320

Seresh has confirmed that all of these replacements were on a like for like basis, except the washer dryer, which was an improvement on the previous washing machine. To replace the old washing machine at an equivalent standard would have cost £575. In addition to the cost of the kitchen sink, there was a £30 delivery charge.

Seresh also had employment income of £47,000, with PAYE deducted of £9,800 for 2017/18. Throughout 2017/18, she donated £30 per month to a UK registered charity under gift aid.

It has been agreed that Seresh's 2017/18 tax return will be submitted electronically to HM Revenue & Customs by you as her agent.

The house next door to The Gables has been put up for sale and Seresh has informed you that she is considering purchasing it.

You are required to:

1) Calculate the Income Tax payable by Seresh for 2017/18, explaining your treatment of each property expense, and state the due date for payment of the Income Tax. (Assume that Seresh is not a Scottish taxpayer.) (14)

2) Explain the legal due diligence Seresh should carry out at the pre-contract stage before purchasing the residential property next door. (3)

[Alternative for Scots Law candidates: Explain the legal stages for a transaction for the sale of land in Scotland. (3)***]***

3) Outline three things that you, as a taxation technician, should consider when filing Seresh's 2017/18 tax return electronically. (3)

Total (20)

2. Joe is the majority shareholder of Hambles Ltd, a UK based trading company, and is considering the implementation of a share option scheme to incentivise his key directors and employees. He has been advised that Hambles Ltd and the options issued would meet all of the necessary conditions of an Enterprise Management Incentives (EMI) scheme and does not require these conditions to be repeated to him.

Joe would like to target the scheme at a few specific individuals, namely:

(a) Alistair, one of the directors, who has a 25% shareholding in Hambles Ltd.

(b) Ben, who works three 8 hour days a week for Hambles Ltd. When not working for Hambles Ltd, Ben's only other work is the 6 hours a week he spends driving a taxi. Ben owns no shares in Hambles Ltd.

(c) Alistair's 19 year old son, James, who has a 7% shareholding in Hambles Ltd.

(d) David, who has worked in the sales team since 2001 and is the only person who has options that were previously granted to him under an earlier company share option plan (CSOP). His CSOP options had a value at grant of £20,000. Other than his CSOP options, David has no other interest in the shares of Hambles Ltd.

Aside from Alistair, none of the above proposed recipients are directors. Aside from Ben, all of the above work full-time for Hambles Ltd.

Joe believes that the shares in Hambles Ltd are currently worth £4. If the company were to implement an EMI scheme, the options would be granted with an exercise price of either 10p or £4.

You should assume that the market value of the shares at exercise would be £10 and that the shares would be sold as soon as the relevant option had been exercised within 10 years of grant.

You are required to:

1) Explain whether Hambles Ltd is able to grant EMI options to each of the individuals listed above and, if so, the maximum number of shares over which options can be granted in each case. (6)

2) Calculate the amounts which would be subject to tax at grant, exercise and sale if an individual were granted the maximum number of options in Hambles Ltd with an exercise price of (a) 10p and (b) £4. (6)

3) Describe the circumstances in which the recipient of EMI options would be able to benefit from entrepreneurs' relief on the eventual disposal of the shares acquired. (3)

Total (15)

3. Ada has contacted you explaining that she arrived in the UK on 1 May 2017.

She works for Beta Ltd, a UK employer, with half of her duties being undertaken in the UK and half overseas.

Prior to arriving last year she had never been to the UK before, having been born in Ruritania. She has been advised that she will be UK tax resident from her date of arrival but non-UK domiciled and does not need advice on these issues. Whilst the length of her stay in the UK is uncertain, she has no intention of remaining here permanently and there is no possibility that she will stay longer than 14 years.

Ada is also a shareholder in Green Ltd, a non-UK company. Green Ltd paid a dividend in June 2017 and Ada's dividend was paid into a new bank account in Ruritania. No other funds have been added to that account. Ada expects that Green Ltd will pay more dividends in the future.

In August 2017, Ada sold shares in Green Ltd, realising a capital gain. The proceeds of that disposal are currently held in another offshore bank account. The account was opened specifically to hold these funds. She may sell more Green Ltd shares in the future.

Ada is considering using some of the June 2017 dividend income to buy a painting from an auction house in Ruritania as a gift for her 25 year old son. The painting will hang on the wall of his Ruritanian home although he will bring it with him to decorate his London property when he takes up employment in the UK in 2019.

Ada wishes to be taxed on the remittance basis where possible and does not require advice with respect to overseas tax suffered. She has, however, asked you to identify any claims or nominations she should make.

You are required to write an email to Ada in which you:

1) **Explain the basis on which her employment income, dividend income and capital gains will be subject to UK tax, including how this will change over time whilst she is tax resident in the UK.** (12)

2) **Explain if and how Ada's, and her son's, proposed actions with regard to the painting will affect her UK tax liability.** (3)

Total (15)

4. You are a taxation technician at Brown Accountants Ltd and your firm advises James, who is a higher rate taxpayer. He has provided you with the following details regarding the purchases and sales he has made in 2017/18.

In July 2017, James sold shares in Elastica plc, realising a capital gain of £85,000.

In August 2017, he subscribed for 1,000 shares in Phonic Ltd, which is a qualifying Seed Enterprise Investment Scheme (SEIS) company and the shares cost £42,000.

In December 2017, James sold 500 shares in Opta Ltd, receiving proceeds of £8,000. He originally subscribed for the shares four years ago at a cost of £22,000. As Opta Ltd was a qualifying SEIS company, he received full Income Tax relief of £11,000 in the year of purchase.

James has confirmed to you that he has no other connection with any of the qualifying SEIS companies that he invested in and the total shareholding for each represented less than 5% of the overall total for each company.

James has advised you that he wants to use any losses against the gain made on the Elastica plc shares.

You can assume that James claims full Income Tax relief for the purchase of the Phonic Ltd shares.

You are required to:

1) **Calculate the Capital Gains Tax payable by James for 2017/18, explaining your treatment of the shares in Phonic Ltd and Opta Ltd, and state the due date for payment of the Capital Gains Tax.** (8)

2) **Identify an alternative way in which James could have relieved his capital loss and explain why this would have been more beneficial for him.** (2)

Total (10)