

Personal Taxation

1. Federica and John have two young children. John looks after the children at home and does not have any income.

In 2018/19 Federica was employed and earned £59,000. She had no other source of income. During the tax year Federica made various cash donations to charity totalling £400.

Calculate the high income child benefit charge arising on Federica in 2018/19. (3)

2. Silvia is employed and has been a member of her company's occupational pension scheme for the last 10 years.

In 2018/19 her employment income was £128,000, she contributed £25,000 into the company's pension scheme and her employer contributed a further £20,000.

Her only other source of income was £3,120 dividends received from UK companies.

She has unused annual allowance brought forward from the last three years of £36,200.

Calculate the additional pension contribution Silvia could have made in 2018/19 without incurring an annual allowance charge. (4)

3. Kish has two part-time jobs. In 2018/19 both of his employers deducted Class 1 National Insurance Contributions (NICs). Kish has not made any claims or elections in respect of national insurance.

Briefly explain whether Kish may be entitled to a refund of NICs and, if so, how he will obtain the refund. (2)

4. Henry is domiciled and resident in the UK.

In 2018/19 Henry received UK employment income of £41,800 and rental income from a villa in Spain of £4,292 (after deducting withholding tax of 26%).

Calculate the Double Taxation Relief available to Henry in 2018/19. (4)

5. Lioness plc set up a qualifying Share Incentive Plan (SIP) in November 2015.

Eric joined the scheme when it was set up and was awarded free shares and partnership shares.

Eric left the company in March 2019.

Briefly explain whether, and if so how, each of the two different types of SIP shares will be taxed in 2018/19. (3)

6. In 2018/19 Claire, an additional rate taxpayer, invested in two qualifying Venture Capital Trusts (VCT) and received dividends as follows:

<u>Date</u>	<u>Investment</u>	<u>VCT</u>	<u>Dividends received</u>
	£		£
May 2018	180,000	Rosslyn plc	8,500
September 2018	75,000	Styles plc	4,650

Calculate the amount of Income Tax relief available to Claire in 2018/19, and any Income Tax payable on the dividend income received. (3)

7. Sian sold an antique vase in July 2018 for £2,400 and incurred £240 expenses in selling the vase. She purchased the vase for £6,350 in June 2014.

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She also sold a painting in October 2018 for £7,320. She bought the painting in January 2013 for £4,670.

Sian made no other capital disposals in 2018/19.

Calculate Sian's net chargeable gains for 2018/19. (4)

8. The tax legislation states that a notice of appeal against a decision made by HMRC must specify the grounds of appeal.

State two acceptable grounds of appeal that a taxpayer may use for appealing against a decision made by HMRC, and the time limit for making an appeal. (2)

9. In May 2018 Jonathan granted a 40-year lease on a shop unit to an unconnected individual for a premium of £52,000. The reversionary interest was valued at £202,000 in May 2018.

Jonathan bought the shop unit freehold for £109,000 in November 2009.

Jonathan made no other capital disposals and is a higher rate taxpayer.

Calculate the Capital Gains Tax payable by Jonathan for 2018/19. (4)

10. In December 2008 Victoria bought a 0.1% interest in the shares of Regal plc, a quoted trading company, for £5,750.

In May 2018 she gave the shares to her husband, Albert, as a birthday present when they were worth £8,430.

In March 2019 Albert gave the shares to their daughter, Alice, on her 21st birthday when they were worth £12,000.

Neither Victoria nor Albert has ever worked for Regal plc.

Explain how the May 2018 gift of shares from Victoria to Albert and then the March 2019 gift from Albert to Alice will be treated for Capital Gains Tax purposes. State the base cost of the shares for Albert and Alice. (4)

11. Derek sold his unincorporated trading business in May 2014 and claimed entrepreneurs' relief on a gain of £8.4 million.

In January 2015 he started work as a full-time director of Brandist Ltd, an unquoted trading company, and in September 2016 he acquired 6% of the ordinary shares of the company.

In 2018/19 Derek sold a 4% interest in Brandist Ltd realising a gain of £1.8 million, and a painting, realising a gain of £63,000. His taxable income for 2018/19 was £132,000.

Calculate Derek's Capital Gains Tax payable for 2018/19. (4)

12. As a tax accountant you are authorised to give advice to clients on the tax consequences of making personal pension contributions.

You are not authorised to give advice on particular pension products, however a friend of yours is a pension adviser and he has offered you commission if you refer your clients to him for advice.

Briefly explain the guidance given in the ATT's Professional Rules and Practice Guidelines (PRPG) in respect of arrangements to receive commissions. (3)



May 2019 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. Sam lets out three residential properties in England on a commercial basis, and uses the normal method for the overall calculation of property income.

The first two properties, 7 Plum Lane and 12 Shelly Drive, are within walking distance of his home. The third property, The Acorns, is a three-hour drive away. The following information is available for each property:

7 Plum Lane

The tenants for 7 Plum Lane are due to pay rent of £2,500 per month on the last day of each month. They were late paying their rent for both February and March 2019 and the rents were not paid until 15 April 2019. The tenants lived there for the whole of 2018/19.

When purchasing 7 Plum Lane, Sam took out a mortgage and in 2018/19 the mortgage interest charges totalled £14,000. Sam pays the annual buildings insurance in advance. On 30 May 2017 he paid the buildings insurance of £2,900 and on 30 May 2018 he paid the buildings insurance of £3,100. There were no other expenses, as the tenants were required to pay the other bills.

12 Shelly Drive

Throughout 2018/19, Sam received rent of £3,000 per month from the tenants at 12 Shelly Drive. In December 2018, the freestanding fridge was replaced at a cost of £500 and Sam was charged £25 to take the old fridge away. The only other expense incurred was £250 to repair a leaking tap in the kitchen.

The Acorns

The tenants for The Acorns pay rent of £2,000 per month on the last day of each month and they are required to pay all of the bills. The tenants moved out on 28 February 2019 and Sam was unable to find new tenants until 1 May 2019.

In 2018/19, Sam went to The Acorns twice to do an inspection of the property, travelling 620 miles. These were his only business miles. In total, he travelled 11,000 miles in 2018/19 and overall his motor expenses for the year were £2,100.

There was recently a legal dispute over the ownership of The Acorns that Sam has now settled.

Other income

Sam's other sources of income in 2018/19 were dividends totalling £1,800 and bank interest of £1,539. The bank interest included £400 from his cash ISA with his bank, and the remainder is interest on an investment account.

In addition, on 1 March 2018 Sam sold his entire holding of £20,000 5% corporate bonds. Interest is paid half yearly on 1 May and 1 November, and the ex-div dates are 8 April and 8 October. The correct amount of accrued income showing in his paperwork from the sale was £331.

Requirements:

- 1) **Calculate the Income Tax payable by Sam for 2018/19. Briefly explain your treatment of each property expense and the other income, and state the due date for payment of the Income Tax.** (17)
- 2) **In light of Sam's issues, explain the ways in which a person can legally prove their ownership of a property.** (3)

Continued

Continuation

[Alternative for Scots Law candidates:

- 2) Since April 2013, all deeds must be registered in the Land Register of Scotland.**

Explain the difference between a register of deeds and a register of title. (3)]

Total (20)

2. In February 2019, Donald sold half of his £10 ordinary shares in Mouse plc to a third party for £400,000. At the same time he gifted 80% of his Mouse plc loan stock, valued at par, to his 17-year-old daughter.

Donald had acquired these investments as a result of the takeover by Mouse plc of Duck Ltd.

Donald had bought 10,000 £1 ordinary shares in Duck Ltd in 1999 for £2.50 each. In 2002 he bought a further 2,000 £1 ordinary shares for £20,000.

In May 2018, Mouse plc acquired all of the issued share capital of Duck Ltd with the consideration paid for each £1 ordinary share being:

- 1) Two £10 ordinary shares in Mouse plc – worth £15 each
- 2) £20 cash
- 3) £8 of loan stock in Mouse plc, valued at £7.75
- 4) €10 of loan stock in Fromage S.A., a French subsidiary of Mouse plc, valued at par.

Neither of the loan stocks is convertible into any other currency than that in which it is issued.

In May 2018, the £:€ exchange rate was 1:1.20.

In August 2018 Donald fully participated in a 1 for 5 rights issue at £12 per £10 ordinary share in Mouse plc and, in October 2018, Mouse plc made a 1 for 25 bonus issue of £10 ordinary shares.

Donald has not disposed of any other chargeable assets in 2018/19 and has never been an employee or officer of either Duck Ltd or Mouse plc. He is a higher rate taxpayer for 2018/19.

Requirements:

- 1) Calculate the Capital Gains Tax liability arising in 2018/19 as a result of the transactions that took place in May 2018 and February 2019. (13)**
- 2) State the conditions that must be met for a loan to meet the conditions of a Qualifying Corporate Bond. (2)**

Total (15)

3. You have just met with your new clients, Edward and Sylvia, who have told you that they are happy to be advised jointly. They were both made redundant on 5 May 2018 from their jobs with Plath Ltd.

Sylvia's and Edward's salaries with Plath Ltd had been £120,000 p.a. and £60,000 p.a. respectively. Both were paid monthly.

Sylvia's contract included a six month notice period, which ended on 5 November 2018, but she agreed with her employer that she would leave immediately and that, aside from being paid during her period of garden leave, her termination package was:

	£
Contractual termination payment	100,000
Non-statutory redundancy payment	10,000
Statutory redundancy payment	15,000
Payment into her registered pension scheme	75,000

She is also still included in the firm's private medical cover scheme and will be for the next three years. The cost of this cover to Plath Ltd is £4,000 p.a.

Although sad to have lost her job, Sylvia was very pleased with this termination package as she had not anticipated receiving anything more than the contractual payment of £100,000.

In contrast, Edward had a three month notice period, ending on 5 August 2018, but it was agreed that he would only work one month, following which his contract came to an end. Plath Ltd paid him £22,000 as compensation for terminating his contract two months early.

Edward also mentioned that he recently bought two rental properties and his first paying tenants moved in on 1 February 2019, paying rent in advance. He has never previously filed a tax return and has asked you what his obligations are in terms of reporting this 2018/19 activity to HMRC and the timing of any resulting Income Tax payments due.

Requirements:

Prepare an email to send to Sylvia and Edward in which you:

- 1) **Explain to both Sylvia and Edward how the different elements of their termination packages are subject to Income Tax.** (12)
- 2) **Explain Edward's tax reporting and payment obligations associated with his rental business.** (3)

Total (15)

4. You have just taken a call from your married clients, Vincent and Edna Millay, who are both UK resident but non-UK domiciled. Each has substantial overseas income and gains and they have elected for the remittance basis.

They have heard that their exposure to UK Income Tax and Capital Gains Tax may change after they have been in the UK for a certain amount of time and would like to understand if this is the case.

Vincent first came to the UK in October 2005 and, although UK resident for 2005/06, was able to take advantage of the split year basis of assessment. Edna first became UK resident in 2014/15, albeit that was also her last year of tax residence in Ruritania. Since becoming UK resident, they have both retained that status continuously up to the present date.

Edna also mentioned that she is, as your firm advised, still being very careful to pay all of her non-UK interest and dividends into a segregated "Income Account" in Ruritania and takes care not to transfer these funds into the UK. She confirms that in August 2018 she took out an unsecured loan from an overseas bank to help with refurbishing their home in the UK. She is very careful to ensure that the repayments of principal on this loan are made from funds that have already been taxed in the UK, while the interest is paid by direct transfer from her Ruritanian Income Account to the overseas bank.

In February 2019 she also loaned her friend some money from this Ruritanian Income Account; although her friend is UK resident, Edna was careful to ensure that the loan was made to her friend offshore and the friend has not used the funds in the UK.

Vincent and Edna have suggested meeting with you and your manager next week to discuss matters.

Requirements:

Prepare notes ahead of the meeting which explain:

- 1) **The changes to the basis on which both Vincent and Edna will be exposed to Income Tax and Capital Gains Tax over the next 10 years. Assume they remain UK resident and wish to claim the remittance basis for as long as possible.** (8)
- 2) **The UK tax implications associated with Edna's use of the Ruritanian Income Account funds in 2018/19.** (2)

Total (10)