1. On 14 May 2014, Josh subscribed for shares in a qualifying Enterprise Investment Scheme (EIS) company. He claimed Income Tax relief on his tax return.

   Josh considered selling the shares in January 2017, when their market value at the time was £50,000 more than he paid for them. He decided not to sell at that time, but as the shares had not gone up in value in the following months, he eventually decided to sell them in October 2017.

   Explain the Capital Gains Tax and Income Tax implications were Josh to have sold his shares in January 2017 and also on the actual sale of his shares in October 2017.

   You are NOT required to provide any calculations. (4)

2. On 1 May 2017, Selina received a notice to file a Self-Assessment Tax Return for 2016/17.

   Selina filed her tax return on 12 August 2018 and it showed she had an Income Tax payable (after Income Tax paid at source) of £8,500 for 2016/17.

   Calculate, with brief explanations the maximum total penalties payable by Selina for 2016/17 as a result of the late filing of her return. (3)

3. Reena had employment income of £65,000 in 2017/18. She donated £1,000 to a charity under gift aid. You have noted from your files that she did not have any other sources of income.

   Explain how Reena will obtain Income Tax relief on this charitable donation.

   (3)

4. **Explain what Short Tax Returns are and give one example of an individual who may be sent a Short Tax Return to complete and one example of an individual who is not able to use a Short Tax Return**. (2)

5. Throughout 2017/18, Maria let out a UK furnished residential property for £1,800 per month. She paid the letting agent £150 per month to manage the property.

   In December 2017, the free standing fridge freezer had to be replaced at a cost of £450.

   On 1 October 2017, she paid the house insurance premium of £800 for the next 12 months. On 1 October 2016, she had paid the house insurance premium of £700 for the year.

   She also paid mortgage interest of £8,000 in 2017/18.

   Calculate the amount of property income to be included in Maria's Taxable Income for 2017/18. (4)

6. On 6 April 2017, Jason bought a cottage in Wales. He intends to let it out to holidaymakers.

   State the qualifying conditions for this property to be treated as a furnished holiday letting. (4)

7. Fletcher was made redundant by Yellow Ltd on 1 December 2017. He had worked for Yellow Ltd for 12 years, of which four years were spent working abroad.

   On 1 December 2017, he received an ex-gratia payment of £65,000, on top of a statutory redundancy payment of £8,000.

Calculate the amount of termination payment which is subject to Income Tax. (3)

8. In March 2017, Beth sold her house for £650,000 and moved into rented accommodation. She gifted the sale proceeds to her daughter, Elisha.

   Six months later, Elisha purchased a property for Beth to live in. The property cost £500,000 and Beth moved in on 6 October 2017, paying a reduced rent of £500 per month. A local letting agent told Elisha that if she were to let the property commercially, she would receive £1,500 per month.

   Calculate Beth's Pre-Owned Assets charge for 2017/18. (2)

9. Kumar purchased his first house on 1 March 2006 for £250,000. He lived in the property until 28 February 2009, when he was sent to work overseas by his employer.

   On 1 September 2012, he was sent back to work in the UK and moved back into his property. On 1 September 2013, he resigned from his job, moved out and left the UK to go travelling for a year. When he came back on 31 August 2014, he moved to a different part of the UK and never reoccupied the property.

   Kumar sold his house on 28 February 2018 for £750,000.

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

10. Howard was UK resident until 2015. He is currently working overseas, but is concerned about being classed as temporarily non-UK resident and how that will affect his liability to Capital Gains Tax.

    Explain the circumstances in which Howard will be treated as temporarily non-UK resident, and whether disposals made whilst he is overseas will be subject to Capital Gains Tax. (4)

11. Shana and Jack own a property as tenants in common. Shana owns 70% and Jack owns 30%.

    Explain what the phrase "tenants in common" means and what the legal position would be if one of them were to die. (3)

    [Alternative for Scots Law candidates:

    Shana and Jack own a property as common property. Shana owns 70% and Jack owns 30%.

    Explain what "common property" means and what the legal position would be if one of them were to die. (3)***]***

12. In 2017/18, Gordon, a Scottish taxpayer, had total employment income of £55,000 with PAYE deducted of £11,000.

    Gordon's only other source of income is dividends of £12,000.

    Calculate Gordon's Income Tax payable for 2017/18. (4)

November 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.

1. Your client, Rebecca Wordsworth, is resident in the UK and is married to Dean. She is employed by Radnor plc, a quoted trading company, as a senior manager in the production department.

Rebecca has supplied you with the following information relating to 2017/18:

(a) Radnor plc paid Rebecca a gross annual salary of £86,000 from which £23,700 Income Tax has been deducted under PAYE. Rebecca also received the following bonus payments:

Relating to the accounting year ended:	Payment date	Amount
		£
31 December 2016	30 April 2017	15,000
31 December 2017	30 April 2018	17,500

(b) Since joining the company on 1 August 2014, Radnor plc provided Rebecca with living accommodation in a luxury flat. The annual value of the flat is £9,100.

The company purchased the flat in September 2013 for £276,000, and on 1 August 2014 it was valued at £283,000. In June 2016 a new kitchen was installed which cost Radnor plc £18,200 and a new bathroom added in August 2017 which cost £4,150.

(c) On 6 May 2017 Radnor plc replaced Rebecca's existing company mobile phone (which cost £500 in May 2015) with the latest Samsung model which cost £955.

The company also provided Rebecca with an identical Samsung phone on the same day for her husband, Dean, for private use.

(d) Rebecca was provided with a company car on 1 September 2017.

The diesel powered car has CO_2 emissions of 143 g/km and a list price of £33,285. Rebecca made a capital contribution of £8,285 towards the cost of the car.

Radnor plc paid £3,310 running costs relating to the car during 2017/18 which included business fuel but not private fuel.

(e) On 6 March 2018 Rebecca exercised share options she owned in Radnor plc. The options were granted over 3,000 shares under the terms of a non-tax advantaged share scheme. The market value of the shares on 6 March 2018 was £3.20 per share and the exercise price was £1.90 per share.

(f) Having opted out of Radnor plc's occupational pension scheme, Rebecca made payments of £10,100 into her personal pension scheme during 2017/18. Radnor plc also paid 8% of her salary (but not bonus) into her personal pension scheme.

(g) Rebecca received UK dividends of £4,320 and Rebecca and Dean have a joint bank account from which they received interest of £2,800.

Liam, a member of Rebecca's production team, is working on a project that is due to finish in six weeks' time. However the project is winding down and Liam's services will no longer be required after the project is complete. So he has just been given one month's notice of termination of his employment. Liam is insisting that he wants, as a minimum, to stay until the project is finished. He believes that he has not been given a sufficient period of notice.

Liam has worked for Radnor plc for nine years and his contract of employment states that his employment can be terminated on the giving of one month's notice.

Continued

Continuation

You are required to:

1) **Calculate Rebecca Wordsworth's Income Tax liability for 2017/18, indicating clearly any benefits of employment which are exempt.** (15)

2) **Identify which elements of Rebecca's employment income will be subject to Class 1 and Class 1A National Insurance Contributions, and state who is liable to pay the contributions.** (3)

3) **Explain the legal position regarding statutory notice periods and whether Liam is correct in his belief that he has been given insufficient notice.** (2)

Total (20)

2. Andrew acquired 2,000 £1 ordinary shares in First Ltd in 2009 for £10 per share. First Ltd was then an unquoted trading company with 25,000 £1 ordinary shares in issue.

In 2011, First Ltd announced a 2 for 1 rights issue at £15 per share. Andrew took up all his rights, as did all other shareholders.

In 2012, Andrew's aunt Marian died and he inherited 500 shares in First Ltd from her. Marian had acquired her shares in 2003 for £1 each but they were worth £20 per share when she died.

Andrew has never been employed by First Ltd but, in 2014, he was offered a position as a non-executive director; Andrew declined the offer.

In May 2017 Last plc acquired all of the shares in First Ltd.

The consideration given by Last plc for each £1 ordinary share in First Ltd, and the relevant value of that consideration, was:

£80 cash	
12 £10 "A" ordinary shares in Last plc	Valued at £2.50 per share
£50 of 7% loan stock in Last plc	Valued at par
£30 of 9% loan stock in Last plc	Valued at £35

The 7% loan stock is convertible into US dollars but the 9% loan stock is non-convertible.

In February 2018 Andrew sold all of his "A" ordinary shares in Last plc to Always Inc. for £4.75 each and redeemed half of the 9% loan stock at face value.

Andrew is a higher rate taxpayer and wishes to minimise the amount of tax payable in relation to 2017/18. He made no other chargeable gains during 2017/18.

You are required to:

1) **Calculate the Capital Gains Tax payable by Andrew for 2017/18 as a result of the above transactions.** (9)

2) **Explain, without calculations, how your answer could be different if Andrew had accepted the role as a non-executive director in 2014 and retained that office until the takeover in May 2017.** (6)

Total (15)

3. You have received a letter from your client, Alice, as follows:

Alice address

Adviser address

The date

Dear Adviser

There have been a number of recent events that I should advise you of which may be relevant to your work on the preparation of my 2017/18 tax return. I continue to be an additional rate taxpayer and I wish to maximise whatever tax relief is available for any losses and claim it as early as possible.

1) In 2005, my friend Valentine started his own business as a hairdresser. I agreed to lend him £20,000, interest-free, in order to help with his new venture. The business struggled and Valentine was declared bankrupt in February 2018 and there is no prospect that I will ever get my money back.

2) In 2004, I subscribed £100,000 for shares in Anaconda Ltd. Although the company qualified for Enterprise Investment Scheme relief, I did not claim Income Tax relief at the time. In August 2017, I sold the shares to an unconnected third party for £5,000.

3) On 13 January 2017, I lost my diamond necklace. I didn't mention this loss when you were preparing my 2016/17 tax return. However, I read online that I might be able to get tax relief for the loss. I purchased the necklace in 1992 and in 1993 I spent a significant amount for additional diamonds to be added. In January 2017, it was valued at twice what I had spent on it. In July 2017, the insurance company paid out 20% less than that value. I used the pay-out to fund my tax bill that was due by 31 July, rather than buying a replacement. Hopefully I'm not too late to claim the available tax relief on my loss.

4) In December 2017 I gave an antique table to my son, Richard. This was one of a pair of tables that I inherited from my father in 1985 when together they were valued at £20,000. In May 2016, a local valuer suggested that this value might now be £120,000 and so, for Inheritance Tax reasons, it was agreed that I would give one to my daughter, Judy, in December 2016. Each table on its own is now worth £40,000 and the values have not changed over the last couple of years.

Could you please advise me of the tax consequences of the issues described above?

Yours sincerely

Alice

You are required to write a letter to Alice explaining the tax implications for her of the events she has described in her letter. Marks will be awarded as follows:

1)	**Business loan to Valentine**	(4)
2)	**Shares in Anaconda Ltd**	(3)
3)	**Loss of necklace**	(4)
4)	**Gift of table**	(4)

Total (15)

4. You have received an email from your manager, Lucy Parkes, who wants your help in advising two clients. The key facts are contained in the following extract from the email.

"I have just had a meeting with Arthur May and Briony Clarkson, the directors of Hammond Ltd. In 2017/18 they received significant pay rises and as a consequence they decided to increase the total amount they contributed into their pension schemes in 2017/18. Unfortunately they did not seek our advice in advance of making the payments. Arthur is now concerned that he may have paid too much into his scheme and has heard that HM Revenue & Customs may levy an 'annual allowance charge'.

Briony is a member of Hammond Ltd's occupational pension scheme, but Arthur opted out of the company scheme and has always paid into his own personal pension scheme instead. Hammond Ltd only pays contributions into an employee's occupational pension scheme.

Arthur has supplied us with the following information in relation to 2017/18:

	£
His net income	165,000
Contributions paid into his personal pension scheme	20,000

Briony is sending us her pension details separately tomorrow before she goes on holiday.

Arthur has said that he wants to meet with me next week to talk about various issues relating to Hammond Ltd. While he is here he wants to talk about both his and Briony's pension positions. Arthur has told me that Briony is happy for him to explain the situation to her later when she gets back from holiday.

To help me prepare for the meeting, please can you draft some notes which cover the following:

(a) The amount of Arthur's annual allowance for 2017/18, explaining how you derived the figures.

(b) Whether Arthur will incur an annual allowance charge. If so, quantify the amount of the charge, and if not, calculate the amount of unused annual allowance to carry forward to 2018/19."

You have ascertained from Arthur's tax file that his unused annual allowances brought forward to 2017/18 are as follows:

	£
2014/15	35,000
2015/16	24,000
2016/17	23,000

You are required to:

1) **Draft the notes for your manager's meeting as requested.** (8)

2) **Explain why it is not acceptable for your manager to go ahead with a discussion of Briony's pension position with Arthur at the meeting next week.** (2)

Total (10)