1. Shannon rented out a furnished house throughout 2016/17, charging a monthly rent of £1,400.

   The freestanding fridge freezer in the house had to be replaced in May 2016. The replacement cost £450, and Shannon paid an additional charge of £15 for the old fridge freezer to be taken away and disposed of.

   In January 2017, Shannon purchased a flat to rent out and, whilst it was in a good condition, she decided to repaint the interior before letting it out. The repainting cost a total of £2,000.

   Shannon first let out the flat on 6 March 2017, with the tenant paying £6,000 for the first six months in advance. The flat is let unfurnished.

   Both properties are situated in the UK.

   1) Calculate Shannon's property income assessment for 2016/17.

   2) Briefly explain your treatment of the replacement fridge freezer and repainting costs. (4)

2. Alice provides foster care for children and as a result received qualifying care receipts throughout 2016/17.

   Explain how Alice's taxable qualifying care receipts for 2016/17 will be calculated. (4)

3. Zara, a higher rate taxpayer, left her job at Zed plc on 1 February 2017.

   Zed plc runs a Share Incentive Plan (SIP) for its employees and Zara was awarded the following free shares:

   (a) 1,000 shares in March 2009 when the share price was £3 per share.

   (b) 1,000 shares in February 2013 when the share price was £3.50 per share.

   (c) 750 shares in February 2015 when the share price was £4 per share.

   Zara withdrew all her free shares on 1 February 2017 when the share price was £4.50 per share.

   Calculate, with brief explanations, the amount treated as employment income for Zara in 2016/17. (4)

4. On 5 October 2016, Salim subscribed £25,000 for 1,200 shares in Breen Ltd, an Enterprise Investment Scheme (EIS) qualifying company.

   Explain the Income Tax and Capital Gains Tax reliefs available to Salim in respect of this investment. (4)

5. Sean is studying full time at university and in 2016/17 had no earned income, but received £27,500 from The Smith Family Discretionary Trust.

Sean also received amounts from the Jones Interest in Possession Trust in 2016/17. The R185 from the Jones trust shows he received net savings income of £4,125 and net dividend income of £2,200.

Calculate Sean's taxable income for 2016/17. (2)

6. Jess inherited a diamond ring when her grandmother died in 2010. It was valued for probate purposes at £7,000.

Jess decided to sell off some of her possessions, so she took the diamond ring and an antique chest of drawers to a local auction. She had purchased the chest of drawers for £3,750 in May 2007.

At the auction in September 2016, the diamond ring sold for £5,200 and the chest of drawers sold for £7,500. Jess had to pay a fee of £300 in respect of each item entered into the auction.

Calculate the chargeable gain/loss for each item for 2016/17. (4)

7. Flora is employed by Lender plc, working four days a week, earning a salary of £49,000 a year.

She is also employed one day a week by an unconnected charity, earning a salary of £12,000 a year.

Explain how Flora can avoid the need to claim a repayment of overpaid Class 1 National Insurance. (2)

8. Sonal purchased 3,000 shares in Redder Ltd on 1 February 2010 for £8,000.

On 15 October 2013, Redder Ltd announced a 1 for 3 rights issue at £2 per share. Sonal took up the issue. On 15 October 2014, Redder Ltd announced a 1 for 4 bonus issue.

On 1 March 2017, Bluer plc announced that they had taken over Redder Ltd and for every share held in Redder Ltd, shareholders received five shares in Bluer plc.

Calculate Sonal's total shareholding in Bluer plc as at 5 April 2017 and the base cost of those shares for Capital Gains Tax purposes. (3)

9. In March 2017, Fernando sold 1,000 shares in Quant Ltd, a trading company to his son, Alain, for £55,000. He had originally purchased the shares for £38,000 in June 2012.

The market value of the shares at the date of sale was £78,000.

Calculate Fernando's chargeable gain in 2016/17 and Alain's base cost for the shares, assuming all available reliefs are claimed. (4)

10. David submitted his 2016/17 tax return on 15 February 2018 and HM Revenue & Customs have sent him a penalty notice for the late submission.

David has never submitted a tax return late before and a close family member died on 15 January 2018.

Explain whether the bereavement provides a valid ground for David to appeal against the penalty notice. (2)

11. Joy retired in May 2015, having worked abroad for a significant proportion of her working life.

She is UK resident and UK domiciled, and is in receipt of the following pension income for 2016/17:

	£
UK State pension	750
Foreign pension	27,500

Calculate, with brief explanations, Joy's taxable pension income for 2016/17. (3)

12. On 6 April 2016, Sylvia gifted an antique vase to her niece. The vase was valued at £85,000 on this date.

Sylvia has kept the vase in her house where it has continued to be displayed in a cabinet.

The gift does not fall within the "gift with reservation" rules for Inheritance Tax purposes.

Explain how the Pre-Owned Assets rules work and whether Sylvia will have a Pre-Owned Asset charge in 2016/17. (4)

November 2017 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.
- 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. Calculators may not be used during reading time.
- 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.

Part II

You must use the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Newt, aged 50, has been employed by Rowling Ltd for 24 years. For the first 13 of those years he had worked overseas before returning to the UK for the final 11 years. His salary from 6 April 2016 was £44,000 per annum and he received the following benefits as part of his remuneration package:

<u>Car</u>

Newt was provided with a petrol-engined car which he used for both personal and business mileage. The car had a list price of £15,000 when acquired in 2014, but Newt had requested that the car be delivered with leather seats which cost an extra £1,000 and was not included within the list price. A month after taking delivery, he asked that a leather steering wheel cover be added at a cost of £75 and this was done within two months, without the car being off the road at any point. The car has CO_2 emissions of 153g/km. Newt handed the car back to Rowling Ltd when he ceased employment.

Rowling Ltd does not own the car but leases it at a cost of £450 per month. The company does not provide petrol for private mileage.

<u>Loan</u>

Rowling Ltd had made an interest-free loan of £20,000 to Newt when he first joined the company to help him to buy his home. This amount had remained outstanding for many years until £8,000 was repaid on 1 April 2016 and £5,000 on 5 September 2016. Newt paid off the balance of the loan on 5 October 2016.

On 5 October 2016, Rowling Ltd dismissed Newt from his employment, with the following payments being made:

(a) Statutory redundancy pay of £7,000

(b) £10,000 as detailed in Newt's contract of employment

(c) An ex-gratia payment of £80,000

Although Newt was on two months' notice, he received a payment of £5,000 to leave early and did not work out his notice period. For 2016/17, PAYE of £12,000 has been deducted from his employment income and no payments on account have been made.

During 2016/17, Newt also received £2,500 of UK bank interest and UK dividends of £7,000.

Newt believes that he has been treated badly regarding his dismissal and wants to claim against Rowling Ltd for unfair dismissal. Rowling Ltd disputes this claim.

You are required to:

1) Calculate the Income Tax payable by Newt for 2016/17 and state the date by which this will be due for payment. Your answer should clearly explain whether the termination payment qualifies for full exemption due to Newt's foreign service. (18)

2) Describe the possible principal reasons that could be given by Rowling Ltd if it is to successfully defend itself against a claim for unfair dismissal. (2)

Total (20)

2. Your client, John, has written to you with regard to a potential investment of cash that he inherited from his late father-in-law. He has heard from friends that a Venture Capital Trust (VCT) investment has certain tax advantages.

The following is an extract from his letter:

"I have about £400,000 to invest so can you let me know the tax consequences of investing in a VCT and any circumstances in which any tax relief given would later be withdrawn?"

You are required to write a letter to John in response. (10)

3. You have received an email from one of your clients, Sebastian Harrison. The key facts are contained in the following extract from the email.

"As I am thinking of retiring soon I decided to dispose of my leasehold interest in a holiday lodge in South Wales.

I put the lease up for sale in May 2016 and sold it for £290,800 on 1 June 2016. I paid estate agent's and solicitor's fees relating to the sale which totalled £6,272. You will have a record in your files, but just to remind you, I bought the lease with 41 years remaining on it for £240,600 on 1 October 2003.

I would like your help as I have never made a chargeable gain before, and am unlikely to do so in the future.

Please can you provide me with an estimate of your fees for advising me on this disposal (which I guess will be an allowable deduction in the calculation of the tax liability anyway), and quantify how much of the sale proceeds I will have left for my retirement after paying my Capital Gains Tax liability and your professional fees?

In addition, please could you tell me when I need to pay the tax to HM Revenue & Customs?"

From your files, you know that Sebastian is a higher rate taxpayer.

To ensure a quick response to Sebastian you are considering delegating the calculation of the Capital Gains Tax liability to a new junior in your office.

You estimate that your firm can provide the taxation advice and respond to Sebastian's email for a fee of £2,150.

You are required to:

1) **Explain the requirements of the Association of Taxation Technicians' Professional Rules and Practice Guidelines in respect of members delegating work to an office junior.** (3)

2) **Prepare an email to Sebastian addressing his requests assuming you do not delegate the work to your junior. Include an explanation as to whether your professional fees are an allowable deduction for Capital Gains Tax purposes.** (12)

Total (15)

4. Jasmine was born in the UK. She lived in the UK all her life until she took up a full-time employment contract overseas.

Jasmine left the UK on 14 November 2013 and the overseas employment started on 1 December 2013. The contract was for an initial period of two years, but was extended and Jasmine finally returned to the UK on 1 July 2016. While abroad, Jasmine did not return to the UK as her family and friends visited her instead. On her return to the UK she immediately started a new full-time job with a new UK employer.

Jasmine let out her home in the UK at an annual rent of £9,000 until she returned to the UK. She also let out an investment cottage in the UK throughout 2016/17 at an annual rent of £6,000.

She was paid a salary of £62,000 per annum while working abroad and she received annual property income of £15,000 from renting out an apartment she owned in New York.

Jasmine's salary for her new job in the UK is £84,000 per annum and in 2016/17 she received UK bank interest of £1,800.

Jasmine sold the following capital assets while she was abroad:

	Diamond necklace	Vintage motor car	UK quoted shares (1% shareholding)
Date of purchase	7 January 2008	11 September 2012	1 August 2014
Cost	£7,250	£16,750	£26,400
Date of sale	28 February 2014	14 June 2014	12 December 2015
Sale proceeds	£20,600	£15,000	£40,000

Jasmine made no other capital disposals in 2016/17 and has no capital losses brought forward from previous years.

You are required to:

1) Explain why the split year basis will automatically apply to Jasmine in 2016/17. Identify the overseas part and the UK part of the tax year and state how Jasmine will be subject to Income Tax in each part. (4)

2) Calculate Jasmine's taxable income for 2016/17. (5)

3) Explain why Jasmine will be regarded as temporarily non-UK resident for Capital Gains Tax purposes and calculate Jasmine's taxable gains for 2016/17. (6)

Total (15)