Practical Tax People

Association of
Taxation Technicians

May 2015 Examination

PAPER 1

Personal Taxation

Candidate Script

Part I

QUESTION NO. Part I Q1 CANDIDATE NO. ....

Q1 Salary 45,000

01.02.15 rent 75 X 2 = 150

Annual value = £2500 +

$\left(\begin{matrix}300000\\+20{,}000\end{matrix}\right) - 75000 = 245000 \times$ ~~O~~ OR1

C3.25%.

Housing benefit $= 7963 \times \frac{2}{12}$ (2 months)

$= 1327 + \left(2500 \times \frac{2}{12}\right)$

$= 1327 + 417$

benefit = 1744

less:

Contribution = (150)

benefit - taxable: 1594

Q2. 2012/13 80,000 tax due on 31 January 2014 ~~or 31 october 2013~~, along with payments on account of 40,000 on 31 January 2014 and another 40,000 on 31 July 2014 with balancing payment on 31 January 2015.

Q3. a) State pension taxable

b) Statutory maternity pay: taxable (ITEPA 2003 s.660)

c) Attendance allowance exempt from tax s.667

d) Guardians allowance exempt from tax s.667

FOR EXAMINER USE ONLY

Part I

QUESTION NO. Q4 + (Part I) **CANDIDATE NO.** ....

Q4) NISA is exempt ~~as gift~~ from income tax and two types of ~~ts~~ NISA is ISA and NISA

Q5.) No holdover relief

Shares		cost		
500	x	100	= 50,000	Feb 12
100	x	250	25~~0~~,000	May 2014
600			75000	
~~60~~				18 Sept 2014
(W1) (400)			(50,000)	
200			25000	

sale (400 shares)	£110,000
less cost (W1)	50,000
gain	60,000

at 30 sept 200 shares = 40,000
\+ 200 shares = 25000
remaining
= Shares 400 @ £65000

gain £60,000

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QUESTION NO. Part 1 CANDIDATE NO. ....

Q6) a) 500 listed shares, 0.5% holding is not applicable for holdover relief.

b) 1200 shares can be gifted to her father as he is connected person and gain will be nil, but joint election needed as base cost will be reduced for father at disposal, gift relief.

c) Holdover relief will be allowed as brother is associated at can ~~et~~ holdover gain which will be realised at disposal of brother. Base cost will not be reduced as full market value paid for, ~~a~~ and base cost will remain ~~said~~ same. ~~There will be~~

Q7) If Hari has been UK resident for 20 years in order to satisfy the non resident position in the UK ~~of~~ you have to meet the following ~~no~~ automic non residency tests (overseas)

~~1) If resident in UK for more of 3 tax years, then you must spend less than 16 days in UK~~ ~~preceding~~

~~2) if resident for~~

1) If resident ~~a~~ one or more of the 3 preceding tax years, you must spend less than 16 days in the UK.

2) If resident ~~fo~~ for none the 3 preceding tax years, then you must spend less than

~~3 preceding~~ < 46 days in the Uk.

3) You must be in full time overseas work and spend < than 91 days, and less than 31 work days.

Hari would want to be non resident in the UK ~~thus~~ as he has realise'd a considerable gain ~~in the~~ in his period of absense from UK. They would be exempt from capital gains tax as he has acquired it after he left the UK in 2014/2015 tax year, provided if he was non resident.
He should therefore not accept both invitation as a day in the Uk is when you spend time in the Uk overnight. He should therefore accept only one. to make his 15 days of being in the Uk and qualify for first automatic overseas resident.

Q8) gain 47000

50% tax reducer of SEIS : $\frac{37000}{2} = £18500$

Can reduce gain and maximum relief can be claimed is £100,000, he has to make this claim no later than the fifth anniversary of the ~~da~~ tax year he is going to claim relief for, no later than 31 January ~~Ja~~ 31 Jan 2021
~~31 Jan 2016 ⇒ this i~~

QUESTION NO. Q9 Part 1 CANDIDATE NO. ....

Q9) [illegible] : £100,000 X 0·07 = 7000

30 June , 31 December

= 3500 5 3500 paid on

Sold before ex dividend dates

↳ taxable on accrual of $\overset{01}{\text{Jan}}$ 2014 – 31 March, (she will not received the next dividend on 30 June)

→ $3500 \times \frac{90}{365}$ = 863 is taxable

~~01~~ → 31 days in Jan
28 days in Feb
31 days in Mar
90

or to nearest month

. $3500 \times \frac{3}{12}$ = 875 is payable

10) there is usually first an internal review then by

- Firt ter tribunal
- Upper tribunal
  tier
- Court of appeal

FOR EXAMINER USE ONLY

Part I

QUESTION NO. ....

CANDIDATE NO. ....

11)

under registered charities qualifying

1) Cash and donations under gift aid or shares in a listed company.

2) Basic Rate band and higher rate band is extended by the gross up tax of notional 20% credit ~~and~~ to allower ~~to~~ more relevant earnings to be taxed in the basic rate band and higher rate band Therefore less income is taxed at 40%.

12) Cash distribution of 3500

net interest $240 \times \frac{100}{80} = 300$

net dividend $\underline{5000} \times \frac{100}{90} = 5556$

this was received so taxed on

	interest	dividend
Cash distribution		
$\left(\frac{300}{300+5556} \times 3500\right)$	179	
$\left(\frac{5556}{300+5556} \times 3500\right)$		3321
	179	3321

= 3500

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QUESTION NO. .... CANDIDATE NO. ....

Q13) These would be deemed as disposal of assets which has become of negligible value and can be relieved, loss needs to be claimed within 2 years of when the asset becomes negligible, only 56,000 is eligible for this relief and ~~is fully [illegible]~~ can be fully relieved against net income. Passcom is an investment company and therefore cannot be relieved. Will be relieved fully against capital gains ~~tax~~ brought forward or net income of that year at a maximum relief of 50,000 or 25% lower of ~~net~~ income. Unrelieved losses brought forward.

FOR EXAMINER USE ONLY

QUESTION NO. Part II Q1 CANDIDATE NO. ....

York & Co
[company address]

Three
Suns Ltd
[Firm's address]

[Date]

Dear Edward,

Further to your meeting with York & Co, I understand that you are interested in knowing more about Employee shareholder status shares (ESS]. Please see below for ~~an~~ brief explanation of what they are are the implications that may come with it.

Employee Shareholder status

These shares will allow Richard to become a shareholder in ~~R~~ Three suns Ltd, and have to be issued by the company. These shares must be qualifying shares and ~~the~~ Richard and your company will be entered into an employee shareholder agreement. ~~Th~~

The shares acquired on that day will be at market value, the first £2000 ~~$~~ of shares however are deemed to have been acquired by Richard in consideration of employee share holder agreement

The excess amount issued to Richard will be seen and treated as earnings from the employment and subject to income tax. This will be the Market value of shares aquired on that day less £2000.

Part II

QUESTION NO. Part II Q1 CANDIDATE NO. ....

Qualifying shares will not be treated as paid for the first £2,000 if however Richard is connected to the company or has a material interest. This ~~could~~ means being connected to a person ~~is~~ who is connected to the company or if has at least 25% voting rights in the company.

~~A gain which accrues on the first disposal~~ ~~of share is exempt A disposal~~ 1 g employee shares ~~are~~ exempt from capital gains tax if the total value of qualifying shares do not exceed £50,000. If Richard is connected to the company however, shares are subject to ~~Cap~~ Capital gains tax when disposed of. He will be connected to the company if any ~~t~~ period during the 12 months before disposal he is ~~connected~~ has a material interest in company.

The capital gains tax ~~or~~ would be either at 18% or 28% depending on ~~to~~ his relevant earnings tax band, less annual exemption
The excess above £2,000 in acquired shares would be subject to either 20%, 40% or 45% tax and taxed as earnings, non savings. ~~#~~ There will be a personal allowance of £10,000 if he earns less than £100,000 or partial personal allowance if less than £120,000.

If you have any further queries please do not hesitate to contact me.

~~#~~ Yours Sincerely,

Tax adviser

Part II

QUESTION NO. Q2 CANDIDATE NO.

1) Catherine tax payable 2014/2015

		nonsavings	interest	dividends
	Aragon Enterprises Ltd			
	Employment earnings (W1 + W2)	2300		
	Tudor Tyrant Ltd			
PAYE)	Employment earnings (W3)	85478		
	Shares (W5)	-		
15)	interest - joint (120/2 x 100/80)		75	
	War loan interest exempt		-	
22)	UK dividends (2000 x 100/90)			2222
		87778	75	2222
	less Personal Allowance	(10,000)		
		77778	75	2222

~~less~~ :

31865 @ 20%	6373
45913 @ 40%	18365
75 @ 40%	30
2222 @ 32.5%	722
	25490
less VCT (W4)	(10500)
less interest	(15)

Part II

QUESTION NO. Q2 CANDIDATE NO.

	less dividends deducted at source	(222)
		14793
	less PAYE	(27000)
	~~tax repayable~~	(12247)
	add	
CW6)	High Child Benefit charge	1066
	tax repayable	(11181)

2) National insurance contributions of Class 1A is payable by her employer and ~~[illegible]~~ paid on behalf of her. She is not liable to any national insurance on benefits, only on earnings on class 1 primary.

QUESTION NO. Q2 **CANDIDATE NO.** ....

Ⓐ

Q2 part 3) and 4)

Q2 (3) Catherine's tax return should be filed either, by paper on 31 October 2015 or 3 months ~~tat~~ after date of issue if later ~~and~~ or online on 31 January 2015.

Penalty will be £100 of late filing penalty

Q2 Q4) 1) Hours of work and entitlement to holiday / holiday pay

2) Job title and length of employment

3) where Health and saftety information can be found

4) remuneration package and salary

Part II

QUESTION NO. Q2 CANDIDATE NO. ....

Worksheet

Q2 i) (W1) 31.05.14, resignation = 15years

01.06.1999 - 31.05.2006 = Spain
(7 years)

01.06.2009 _ 31.05.2014 = Spain.
(5years)

1.06.2006 - 31.05.2009 = UK
(3years)

$\Rightarrow \frac{12}{15}$ years abroad = 80%.

As Catherine retired with more than $\frac{3}{4}$ of her time ~~a~~ working abroad, ~~and~~ she qualifies to have an ~~pensi~~ exemption on foreign service on taxable income. (Proportion is 80% deduction).

(W2) Salary £3500
Ex gratia £38000 of which £30,000 is exempt)
= 8000 taxable

employment earnings = 11500 x 0.8
(~~W3~~) reduction (9200)
of foreign service = 2300 taxable

Part II

QUESTION NO. Q2 CANDIDATE NO. ....

(W3) Tudor tyrant (1·07.2014) = 9 months

Annual salary : $95000 \times \frac{9}{12}$

$= 71250$

Note 1 : ★ PAYE deducted 27,000

(~~W4~~) a) PMI $= 580 \times \frac{9}{12}$

$= \underline{\underline{435}}$

b) Petrol $= \frac{190-95}{5} + 12\% = 31\%$

$35000 \times 0{\cdot}31 = 10{,}850 \times \frac{9}{12}$

$= \underline{\underline{8138}}$

$21700 \times 0{\cdot}31 = 6727 \times \frac{9}{12}$

$= \underline{\underline{5045}}$

c) $25000 \times \underset{(ORI)}{0{\cdot}0325} = 813 \times \frac{9}{12}$

$= \underline{\underline{610}}$

total employment income : (a+b+c+salary) $\underline{\underline{85478}}$

VCT : $35000 \times 0{\cdot}3 = 10500$

=> tax reducer

(W4)

Part II

QUESTION NO. Q2 CANDIDATE NO. ....

Shares

W5) 30000 x 1·75 = 52500

MV 30,000 x 3 = 90,000

~~= 90,000~~

not disposed of yet so not taxable

W6) Child ~~pen~~ benefit

20.50 x 52 = 1066

(High Child Benefit Charge)

87778 + 75 + 2222 = 90075 from proforma

=> 90075 − 50,000 = 40075

limit on HCBC

*

~~Fully out~~ to fully claim back HCBC as over 60,000 on (£ 1% per £100)

QUESTION NO. Q3 CANDIDATE NO. ....

3) To: Margaret
From: tax adviser/consultant
Subject: Insurance and disposals

Dear Margaret,

Please see below for the answers to your queries.

Insured and uninsured assets

For uninsured assets that were damaged and have become negligable value, they can be claimed as negligible at disposal and claimed within 2 years of damage to relieve losses against other capital gains incurred during the year. Any losses not used up can be carried forward to gains the next tax year.

For insured ~~pro~~ assets, the ~~isv~~ compensation that he receives will be taken as insurance proceeds and netted against original cost of assets and are chargeable to capital gains tax. Unless proceeds are reinvested and gain can be rolled over to new asset by reducing base cost. Annual exemption of 11000 will be eligible for any gains on ~~de~~ the ~~is~~ insurance proceeds which are treated as a disposal.

Insurance proceeds are treated as ~~gains~~ proceeds less cost and are under chargeable assets you can make a claim to avoid insurance proceeds being treated as a disposal. The ~~pe~~ disposal will therefore not be treated as part disposal, which it would have been and the gain will be charged by upon full disposal of asset/replacement asset.

Part disposal is taken as $\frac{A}{A+B}$, with B as MV of cost of ~~ass~~ remaining part of asset, this fraction is taken as a cost ~~and wt~~ will not be chargeable if relief claimed.

Data protection act 1998.

Confidentiality ~~is the~~ and protection of client data without specific consent are the main purposes of this act. To ensure that there are no ~~o~~ unsolicited use of data without knowledge ~~of~~ or consent.

4) unsolicited approach is not acceptable and is unprofessional. Complaints can be made against the individual / firm and ~~a~~ the ATT committee can review this claim. It breaches the five fundamental principles of in professional workplace.

Please let me know if you have any further questions.

Kind regards,

tax consultant

Beaufort and Co.

Part II

QUESTION NO. Q4 CANDIDATE NO. ....

Part 1) Capital gains tax payable 2014/2015 due 31.01.16.

Flat 1 gain (W2)	114130
Flat 2 gain (W3)	54155
Flat 3 gain (W1)	–
The gate house (W4)	10940
taxable gain	179225
less AE	(11000)
	168225
tax due @ 28%.	4710~~8~~3

QUESTION NO. Q4 CANDIDATE NO. ....

Q4) Part 2)

Jointly owned property is where the property is equally owned by 2 people or more (MAX 4) and where one owner of property has passed away his/her entitlement of property is passed onto the other jointly owned ~~ow~~ home owner. It will not be passed on ~~by~~ to beneficiaries in will.

~~S~~ Tenants in common however a~~re~~ legally own the property with a quantifiable amount and when one ceases ownership by death for example, ~~it~~ his share of property will get passed onto his entitled beneficiaries ~~of~~ will, rather than to the other title holders.

You can elect to change from Joint tenants to Tenants in common by agreement.

Part II

QUESTION NO. Q4 Part II CANDIDATE NO. ....

Worksheet

1)

W1) Flat 3
one of the three flats will be partly exempt from CGT as claiming PPR relief when she disposes of flat

September 2007 - March 2015

W2) Flat 1

Grant of a long lease

Sale proceeds 150,000
less cost.

$110,000 \times \frac{150,000}{150,000 + 310,000} = (35870)$

gain = 114130

W3) Flat 2
Grant of a short lease

Sale proceeds = 75660
(0.02 X (40-1) X 97000

less cost

$110,000 X \frac{75660}{290,000+97000} = (21505)$

gain = 54155

Part II

QUESTION NO. 9 4 CANDIDATE NO. ....

W4) The Gatehouse

31.03.04 : 35 year lease from Warwick

S

Sale proceeds for Warwick = 55000

(34) x 0.02 x 55000 = (37400)

17600

~~31-03~~ 2015 = (~~#~~ 35 - 11 years)

= 24 years left of lease

For Anne

Sale proceeds for sublease = 13300

(19 x 0.02 x 35000)

less cost

$55000 \times \frac{13300}{35000 + 275000} = (2360)$

gain = 109040

less

length of sublease

$55000 \times \frac{5}{x-y \; 35\% - 34\%}$ = ~~3~~20% ← years left after sublease

original lease

$55000 \times \frac{72.770}{91.981 - \cancel{79.622} \; 21.983}$

= (57178)

~~= 409040 - 57178~~