



Practical Tax People
Association of
Taxation Technicians

May 2015 Examination

PAPER 1

Personal Taxation

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

- You are required to answer **all** questions in each part (both parts printed together).
- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. You are not permitted to write in the answer folders. The Presiding Officer will inform you when you can start writing. Calculators may not be used during this time.
- You are provided with two answer folders (one for each part of the paper). You must put your candidate number on the front cover of both folders.
- You must write your answers on the paper provided. Please start each answer on a new sheet of paper and write on one side of the paper only. Put your candidate number at the top of each page and make sure you place your answers in the correct answer folder.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
- There is an alternative part in Part II question 4 for Scots Law candidates.

Part I

You must use the Part I answer folder.

1. Louis is employed by Cowell plc on an annual salary of £45,000 and, from 1 February 2015, he was provided by his employer with a flat to live in. Louis paid rent of £75 per month. The flat, which was worth £300,000 when made available to Louis, had been acquired by Cowell plc at a cost of £200,000 on 31 July 2009. The annual value of the flat is £2,500. During September 2014, Cowell plc incurred costs of £20,000 on improvements to the property.

Calculate Louis's taxable benefit for 2014/15 as a result of the provision of the flat.

(4)

2. Zayn had the following tax liabilities:

	<u>2012/13</u>	<u>2013/14</u>
	£	£
Income Tax liability	100,000	140,000
Tax paid at source	<u>(20,000)</u>	<u>(22,000)</u>
Income Tax due	<u>£80,000</u>	<u>£118,000</u>

Explain what payments Zayn was required to make in relation to his 2013/14 Income Tax liability to avoid incurring interest charges.

(2)

3. An individual may be in receipt of social security benefits such as:

- (a) State pension.
- (b) Statutory maternity pay.
- (c) Attendance allowance.
- (d) Guardian's allowance.

State which of the above benefits are taxable and which are not.

(2)

4. New Individual Savings Accounts (NISAs) offer the opportunity for taxpayers to invest in a tax efficient manner. Jessica, aged 21, chose to invest in a NISA during February 2015.

Describe the two types of NISA that were available to Jessica at that time, the maximum annual investment that she could make and the tax advantages offered by such investments.

(3)

5. Niall acquired 500 shares in Direction Ltd for £100 each in February 2012. On 25 May 2014 he bought 100 Direction Ltd shares for £25,000 and on 18 September 2014 he sold 400 of his shares for a total of £110,000. On 30 September 2014 his friend Simon gave him another 200 shares after they had fallen in value to £200 each.

Calculate the capital gain arising on Niall's sale of shares on the assumption that Simon and Niall did not claim holdover relief. (4)

6. Rachel made the following disposals of assets in 2014/15, all of which resulted in a capital gain:

- (a) 500 listed shares in Bing plc, a trading company, gifted to her friend Chandler. This represents a 0.5% shareholding in the company.
- (b) 1,200 unlisted shares in Geller Ltd, a trading company, gifted to her father.
- (c) 100 unlisted shares in Buffay Ltd, a trading company, sold at full market value to her brother.

Explain whether holdover relief will be available for each of Rachel's disposals. (3)

7. Hari has been UK resident for the past 20 years. However, in 2014/15 he went travelling and by 15 December 2014 had been in the UK at the end of only 14 days and had been planning no further visits in the tax year. Hari's mother, who lives in Worcestershire, then invited him to spend Christmas Day and overnight into Boxing Day with her. She also invited him to stay overnight on 31 December, to see in the New Year with her. During 2014/15, Hari acquired a valuable painting and successfully sold it on at a considerable gain.

Explain the tax consequences of Hari deciding to accept one or other, or both, of his mother's invitations. (4)

8. In June 2014 Herbert sold his shares in Ash Tree Ltd, realising a capital gain of £47,000. In March 2015 he subscribed £37,000 for shares in Beech Tree Ltd and successfully claimed Seed Enterprise Investment Scheme (SEIS) Income Tax relief.

Calculate how much of the June 2014 gain will be exempted with SEIS reinvestment relief, assuming the maximum claim for relief is made, and state the date by which a claim for this relief must be made. (2)

9. Victoria is a UK resident basic rate taxpayer who purchased £100,000 Beckham plc 2016 7% loan notes in 2010. These loan notes pay interest on 30 June and 31 December each year with the ex-div dates being 20 June and 21 December respectively. On 31 March 2014, Victoria sold half of her Beckham plc loan notes for £55,000.

Calculate the income on which Victoria is subject to tax in 2014/15 by reason of her holding these loan notes. (3)

10. Where there is a disagreement between a taxpayer and HM Revenue & Customs (HMRC), this is often resolved by way of review by another HMRC case officer. If this is not successful the taxpayer can ask for the case to be heard by the First-tier Tribunal.

State the four tracks to which an appeal can be allocated by the First-tier Tribunal and, in each case, the usual nature of the associated hearing.

(4)

11. Income Tax relief can be obtained by individuals for gifts to UK registered charities.

1) State the types of asset an individual can gift so as to benefit from this relief.

2) Describe the manner in which an individual, who is not an employee, obtains higher rate Income Tax relief on gifts of these assets.

(3)

12. Fiona died on 13 September 2014. She left the residue of her estate to Lillian. During 2014/15, net interest of £240 and a net dividend of £5,000 were received by the executors on this residue.

Fiona's executors have not yet completed the administration of the estate but made a cash distribution to Lillian of £3,500 on 16 February 2015.

Calculate the gross estate income on which Lillian is subject to tax in 2014/15.

(3)

13. Several years ago Rajesh Therone lent £56,000 to Compass Ltd, a trading company in which he also owned 35% of the share capital, and £100,000 to Passcom Ltd, an investment company in which he had no equity holding. Both companies went into liquidation during December 2014 without being able to repay Rajesh's loans.

Briefly explain whether Rajesh is entitled to tax relief for his losses and, if so, explain how any loss can be relieved.

(3)

Place your answers for Part I in the Part I answer folder.

Part II

You must use the Part II answer folder.

Marks are specifically allocated for appropriate presentation.

1. You are a tax consultant at York & Co and have received the following email from George, one of the partners at York & Co:

“Yesterday I had a meeting with Edward a new client. Edward has a company, Three Suns Ltd, and has recently recruited a new sales director, Richard. Edward is considering giving some shares in Three Suns Ltd to Richard, to incentivise him to develop the business. He mentioned that he had heard about Employee Shareholder Status (ESS) shares and that these sounded like something he may consider. I am aware that ESS shares were introduced back in 2013, but to date I have not provided any advice on the subject. Please could you prepare a short letter for me to send on to Edward?”

You are required to prepare a letter to Edward in which you:

- 1) Explain what Employee Shareholder Status shares are. (6)
- 2) Explain the Income Tax implications of acquiring ESS shares. (3)
- 3) Explain the Capital Gains Tax implications of disposing of ESS shares. (1)

Total (10)

2. On 31 May 2014 Catherine, aged 50, resigned from her employment with Aragon Enterprises Ltd. She had worked for the company for the previous fifteen years. During her employment she spent time working in both Spain and the UK. Catherine worked in Spain from 1 June 1999 to 31 May 2006 and again from 1 June 2009 to 31 May 2014. She spent the remainder of her time working in the UK.

Catherine received a salary payment from Aragon Enterprises Ltd of £3,500 in 2014/15. In addition she received an ex gratia termination payment from the company totalling £38,000.

On 1 July 2014 Catherine commenced employment with Tudor Tyrant Ltd. She received a gross annual salary of £95,000 and the following benefits from 1 July 2014:

- (a) Private medical insurance which costs her employer £580 per annum.
- (b) The use of an 1800 cc petrol engine car, which has CO₂ emissions of 190 g/km. The car's list price is £35,000. The car was made available for private use and private fuel was provided.
- (c) An interest free loan of £25,000, which Catherine used to renovate her house.

PAYE of £27,000 was deducted from Catherine's employment income during the year.

On 8 December 2014, Catherine acquired shares in a venture capital trust at a cost of £35,000.

On 7 February 2015, Catherine exercised a share option she held over shares in Tudor Tyrant Ltd. The option was over 30,000 shares and the exercise price per share was £1.75. The market value of the shares on 7 February was £3 per share.

During 2014/15 Catherine received interest from her joint bank account with her husband, Henry, of £120, interest on her 3.5% War Loan of £1,550 and UK dividends of £2,000. All of the figures stated are the amounts received by Catherine.

Catherine also claimed child benefit in respect of her only daughter, Mary, for 2014/15.

Catherine is both UK tax resident and UK domiciled.

You are required to:

- 1) **Calculate the Income Tax payable by Catherine for 2014/15, making clear your treatment of each item.** (15)
- 2) **Briefly explain whether Catherine will be subject to National Insurance Contributions on the benefits provided to her by Tudor Tyrant Ltd.** (1)
- 3) **Explain when Catherine's tax return for 2014/15 should be filed and the penalty for filing two days late.** (2)
- 4) **State four things that should be included in the written particulars of Catherine's employment contract with Tudor Tyrant Ltd.** (2)

Total (20)

3. You are a tax consultant at Beaufort & Co and have received the following email from Margaret, one of the partners at Beaufort & Co:

"Yesterday I had a meeting with Edmund a longstanding client of the firm. It seems Edmund has had a number of problems in relation to one of his houses, Jasper Cottage.

Following a trip overseas, Edmund returned to find out that there had been a fire at Jasper Cottage. Edmund has not yet visited the property to assess the damage but believes that it is extensive. I understand that there were a number of paintings and expensive antiques at the property and I presume that some of these will have been either partly or completely destroyed. Edmund is a fairly busy person and sometimes fails to update his insurance policy to cover new acquisitions.

Please could you send me an email explaining how the paintings and antiques will be treated for Capital Gains Tax purposes? I presume that, if possible, Edmund will restore or replace items.

I also want to add Edmund to our mailing list for our various marketing mailings and was wondering if there are any compliance issues I should be aware of with regard to holding client data."

You are required to prepare an email to Margaret in which you:

- 1) **Explain how the assets that were destroyed will be treated for Capital Gains Tax purposes. Assume that some items will be insured and others uninsured. Include details as to how Edmund can make a claim to rollover the gain in respect of any insurance proceeds he may receive.** (6)
- 2) **Explain how any insurance proceeds received for damaged assets will be treated for Capital Gains Tax purposes. Include details on how Edmund can make a claim to avoid the receipt of insurance proceeds being treated as a disposal for Capital Gains Tax purposes.** (6)
- 3) **Briefly explain the two main aims of the Data Protection Act 1998.** (2)
- 4) **State whether the practice of making an unsolicited approach to a non-client with a view to obtaining professional work is acceptable professional conduct.** (1)

Total (15)

4. Anne owns a large house in Yorkshire, which was previously her mother's home. Anne's mother had divided the house into three flats. Anne inherited the freehold of all the properties on her mother's death in September 2007, when the market value of each of the three flats was £110,000. Anne decided to rent out two of the flats and granted leases over each of them, as described below.

Anne's mother also owned a small house called The Gatehouse. Anne's mother had gifted this to her former housekeeper, Warwick, prior to her death. On 31 March 2004, Warwick granted Anne a 35-year lease over The Gatehouse for which she paid a premium of £55,000.

The following information is relevant for 2014/15:

Flat 1

On 30 September 2014, Anne granted a lease to Neville for a period of 80 years for a premium of £150,000. The value of the freehold reversionary interest on 30 September 2014 was £310,000.

Flat 2

On 1 December 2014, Anne granted Cecily a lease for 40 years. Anne can terminate the lease after 30 years. Cecily paid a premium of £97,000 for the lease. The value of the freehold reversionary interest on 1 December 2014 was £290,000.

Flat 3

Anne moved into Flat 3 in March 2015 and has never rented the property out.

The Gatehouse

On 31 March 2015, Anne granted a sub-lease to Teddy for 20 years. Teddy paid a premium of £35,000. The freehold reversionary interest was valued at £275,000 on 31 March 2015.

Anne is a higher rate taxpayer and made no other capital disposals during the year.

Anne is considering acquiring a number of properties with her brother Euan and wants to find out how jointly owned property can be held.

You are required to:

- 1) Calculate the Capital Gains Tax payable by Anne for 2014/15. (13)
- 2) Briefly explain the difference between holding a jointly owned property as joint tenants as opposed to holding it as tenants in common. (2)

[Alternative for Scots Law candidates:

- 2) *Briefly explain the difference between holding a jointly owned property as joint property as opposed to common property. (2)]*

Total (15)

Place your answers for Part II in the Part II answer folder.