



Practical Tax People

Association of
Taxation Technicians

May 2015 Examination

PAPER 1

Personal Taxation

Part I Suggested Solutions

1.

The benefit is calculated as:

| | | <u>£</u> |
|---|---|------------------------|
| Annual value for period from 1 Feb to 5 April | £2,500 ^(1/2) x 2/12 ^(1/2) | 417 |
| Additional yearly rent for same period | £(200,000 ^(1/2) – 75,000) ^(1/2) x 3.25% ^(1/2) x 2/12 ^(1/2) | <u>677</u> |
| | | 1,094 |
| Contribution by Louis | 2 x £75 | (150) ^(1/2) |
| ^(1/2) for specifically excluding the cost of the improvements from the calculation | | <u>944</u> |

4 marks

2.

Zayn was required to make two payments on account of tax equal to £40,000 each ^(1/2) by 31 January 2014 and 31 July 2014 ^(1/2). He was then required to make a payment of £38,000 ^(1/2) by 31 January 2015 ^(1/2) as the balancing payment due for 2013/14.

2 marks

3.

| | | |
|-------------------------|---|------------------------------|
| State pension | - | taxable ^(1/2) |
| Statutory maternity pay | - | taxable ^(1/2) |
| Attendance allowance | - | not taxable ^(1/2) |
| Guardian's allowance | - | not taxable ^(1/2) |

2 marks

4.

There were two types of New ISA available:

- Stocks & shares ISA ^(1/2)
- Cash ISA. ^(1/2)

Each tax year, the maximum that can be invested in each, and in total across each, is £15,000 ⁽¹⁾.

The tax advantages are that any income earned on the NISA cash or investments is exempt from Income Tax ^(1/2) and any gains realised are exempt from Capital Gains Tax ^(1/2).

3 marks

5.

| | Matched with following 30-day acquisition | Matched with share pool | Total |
|---|---|-------------------------|---|
| | £ | £ | £ |
| Sale proceeds | 55,000 ^(1/2) | 55,000 ^(1/2) | |
| Base cost 200 sold were those gifted to him within 30 days of sale ^(1/2) | (40,000) ^(1/2) | - | |
| 200 sold were from the share pool ^(1/2) | - | (25,000) | |
| | | | 200/600 x £(50,000 + 25,000) ⁽¹⁾ |
| Capital gain | 15,000 | 30,000 | 45,000 ^(1/2) |

4 marks

6.

With regard to the availability of holdover relief on Rachel's disposals:

- Not available. The listed shares are not business assets as Rachel owns less than 5% of the voting rights. ⁽¹⁾
- Available as any number of unlisted trading company shares are a business asset. ⁽¹⁾
- Not available as, although unlisted trading company shares are business assets, this is not a gift. ⁽¹⁾

3 marks

7.

As Hari had been UK resident in one or more of the three tax years prior to 2014/15 ^(1/2), he will be automatically non-UK resident ^(1/2) if he is in the UK, during 2014/15, at the end of fewer than 16 days ^(1/2).

If he accepts just one of his mother's invitations, he will still be able to restrict his days in the UK to less than 16, and so be automatically non-UK resident ^(1/2). If he accepts both invitations he will breach the 16 days limit and will not automatically be non-UK resident ^(1/2), with his residency status being determined by other factors within the Statutory Residence Test. ^(1/2)

If Hari is non-UK resident he will not pay Capital Gains Tax on the gain he realised in the year; ^(1/2) if he is UK resident he will pay Capital Gains Tax on the gain ^(1/2).

4 marks

8.

The available SEIS expenditure is £37,000 ^(1/2), as this amount reinvested is less than ^(1/2) the gain of £47,000.

The exempt gain is therefore 50% ^(1/2) of £37,000 = £18,500.

The claim must be made by 31 January 2021 ^(1/2).

2 marks

9.

| | | | <u>£</u> |
|------------------|-----------------------------|---------------------|--------------|
| 30 June 2014 | Received on unsold Notes | £50,000 @ 7% x 1/2 | 1,750 (1) |
| | AIS charge | £50,000 @ 7% x 3/12 | 875 (1) |
| 31 December 2014 | Received on unsold Notes | £50,000 @ 7% x 1/2 | 1,750 (1) |
| | | | <u>4,375</u> |

3 marks

10.

The four tracks and the usual nature of hearing are:

| Tracks - (1/2) for each | Usual nature of hearing |
|--------------------------------|--------------------------------|
| Default paper | No hearing (1/2) |
| Basic | Informal hearing (1/2) |
| Standard | Formal hearing (1/2) |
| Complex | Formal hearing (1/2) |

4 marks

11.

The assets that can be gifted are cash (1/2), listed shares (1/2) and land & buildings (1/2).

The relief is achieved as follows:

Cash - the taxpayer's basic rate band is extended (1/2) by the value of the gift, grossed up at the basic rate of tax (1/2).

Listed shares and land & buildings - the value of the asset is an allowable deduction in the taxpayer's income tax computation (1/2).

3 marks

12.

The amount of the estate income on which Lillian is subject to tax is:

| | Interest | Dividend | Total |
|------------------------|------------------------|--------------------------|---------|
| | £ | £ | £ |
| Received by executors | 240 | 5,000 | 5,240 |
| Distributed to Lillian | (240) ^(1/2) | (3,260) ^(1/2) | (3,500) |
| Remaining | - | 1,740 | 1,740 |
| Distribution | 240 | 3,260 | 3,500 |
| Tax gross up | 60 ^(1/2) | 362 ^(1/2) | 422 |
| Gross taxable income | 300 ^(1/2) | 3,622 ^(1/2) | 3,922 |

3 marks

13.

Rajesh is entitled to the following capital losses:

| | £ |
|--|-------------------------|
| Loss on loan to Compass Ltd | 56,000 ^(1/2) |
| - relief available as it was lent to a trader for use in his business ^(1/2) | |
| Loss on loan to Passcom Ltd | - |
| - no relief as not a trading company ^(1/2) | - ^(1/2) |

The loss can be relieved against current year gains, or carried forward and set against capital gains in future years. ^(2 x 1/2)

3 marks