

CIOT - ATT-CTA

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Purchased 01/05/2018 recieved

Sold 30/11/2021

As the loan stock is being sold ex dividend, William is buying the stock without the right to recieve the next interest payment.

Harry will be taxed on the interest paid on 30 June 2021 and also part of the interest paid 31 December 2021.

As he has held the loan stock for 11 of the 12 months in the year he will be taxed on 11/12ths of the interest paid 31 December 2021. This will be assessed in the 2021/22 tax year.

Each interest payment is for £2,520.

Therefore he will be assessed on the June payment, £2,520. The december payment will be included in the sales proceeds so will be assessed on it via Capital gains purposes.

$£2,520 \times 11/12 = £2,310.$

Accrued income charges increase or reduce the price of the stock depending on whether the stock has been purchased cum-div or ex-div. As this has been purchased ex-div, there is a reduction.

The sale proceeds are £67,690

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question-_2_

Rent: 860 x 8 = 6,880

Costs:

Garage Door (500)

Dishwasher (330)

Mileage w1 (38)

tolls w2 (42)

Net 5,970

Property income for 2021/22 is £5,970

w1:

3 x 28 x 45p = 38

w2:

7 x 2 x 3 = 42

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question-_3_

Gift of Ipad: Subject to class 1A it is a taxable benefit

Gift of quote shares: Due class 1 primary and class 1 secondary as readily convertible asset and earnings.

Reimbursement of employment expenses: not liable to class 1 National Insurance (exempt)

Termination payment: £5,000 will be subject to class 1a (up to £30,000 is exempt).

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question-_4_

Total shares: 1,000

The shares which will not qualify for investor's relief are the shares acquired on 25 October 2014 and the shares acquired 30 December 2017.

Therefore 60% of the shares are **not** eligible for investor's relief and 40% of the shares **are** eligible for investors relief.

The reasons for non-eligible shares:

25 October 2014 - these shares were acquired before 17 March 2016 and for shares to be eligible they must be acquired on or after 17 March 2016.

30 December 2017 - there shares where not acquired as new ordinary shares and were instead acquired from her friend. To qualify the shares must be **new** ordinary shares acquired from the company.

6 August 2018 - these shares have not been held for the required 3 years. As the sale date is 23 April 2021, they have not been held for 3 years so do not qualify.

The reasons for the eligible shares:

14 July 2016 - meet the criteria fully. They were acquired as new ordinary shares, they have been held for 3 years, she is not a director and were acquired after 17 March 2016.

Therefore 40% of the shares will qualify for investors

relief.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

Not a QCB as not a fixed currency.

The loan stock will be treated like a normal capital disposal. As the loan stock is not a QCB there are no special rules applied.

She will be taxed on the difference between the value of the loan stock on redemption and the value of the loan stock on acquisition.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question-_6_

Marion will be due interest on her £4,650 income tax due for payment. This will begin to accrue from 31 January 2022 (deadline for payment).

She will also be due penalties of 5% for paying 30 days late. As she paid her tax liability only 3 months late she will not be due the additional 5% penalty which occurs if you are 6 months late in paying.

Therefore her penalty will be:

$$5\% \times 4650 = \text{£}233$$

plus interest accrued on her account.

-----ANSWER-6-ABOVE-----

-----ANSWER-7-BELOW-----

Answer-to-Question-_7_

Jewellery (non wasting asset)

This sale will be exempt from Capital Gains tax as the proceeds and the costs are below £6,000. Under the chattel rulings, gains where the proceeds and the base cost are both under £6,000 are exempt. Therefore not capital gains tax payable.

Car (wasting asset)

This is exempt from capital gains tax, and therefore the loss is not allowable as it is a wasting asset. As the car has an expected life expectancy of less than 50 years it is classed as wasting and therefore exempt from CGT and also the loss cannot be used to offset other gains.

Painting (non wasting asset)

| | Painting £ | | |
|--------------------|--------------|--|--|
| Proceeds | 6,900 | | |
| Base Cost | (4,000) | | |
| Aq cost | (500) | | |
| Net | 2,400 | | |
| Actual gain | 1,500 | | |

The gain on the painting is capped at $(6,900 - 6,000) \times \frac{5}{3} = 1,500$

This is due to chattel rulings whereby the gain on an asset, where the proceeds are over £6,000 and the cost is under £6,000, is capped by using the formula: $(\text{gross proceeds} - 6,000) \times \frac{5}{3}$

Antique (non wasting asset)

| | £ | | |
|---------------|----------|--|--|
| Proceeds | 6,400 | | |
| Selling costs | (600) | | |
| Base cost | (14,250) | | |
| Aq cost | (1,425) | | |
| Net | (9,875) | | |

As the proceeds and the cost are more than £6,000 the loss is fully allowable. It is treated like any normal disposal.

Therefore the following:

Painting: 1,500
Anqie: (9,875)
Net (8,375)

Therefore Simon has an allowable loss of £8,375

-----ANSWER-7-ABOVE-----

 -----ANSWER-8-BELOW-----

Answer-to-Question- 8_

| | NSI £ | Si £ | Di £ | |
|-----------------|----------|-------|------|--|
| Salary | 60,000 | | | |
| Benefits | 1,450 | | | |
| Interest income | | 1,300 | | |
| Total | 61,450 | 1,300 | | |
| PA | (12,570) | 0 | | |
| Taxable | 48,880 | 1,300 | | |
| | | | | |

$$37,700 \times 20\% = 7540$$

$$11,180 \times 40\% = 1,118$$

$$500 \times 0\% = 0$$

$$800 \times 40\% = 320$$

$$\text{Total tax liability} = 8,978$$

If Charlie was a Welsh taxpayer he would pay Welsh rates of income tax on his non-savings income. For 2021/22 the calculation of income tax for Welsh taxpayers is the same as for other non-Scottish taxpayers. Therefore there would be no impact on Charlie's income tax liability if he was Welsh.

 -----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9_

Rental income:

For the rental income Theresa will be taxed on the gross amount as non savings income. As the income has come from an interest in possession trust it will come with a 20% tax credit.

Interest

the gross interest will be taxed as savings income on her tax computation and will come with a 20% tax credit.

Dividends

the gross dividends will be taxed as dividend income on her tax computation and will come with a 7.5% tax credit.

-----ANSWER-9-ABOVE-----

 -----ANSWER-10-BELOW-----

Answer-to-Question-_10_

Granted 30 year lease - therefore short lease

Capital part

____Proceeds:

____2% x (30-1) x 320,000 = 185,600 = proceeds

Cost:

345,000 x 185,600/320,000 + 288,000 = 105,499

| | | | |
|----------|---------|--|--|
| | £ | | |
| Proceeds | 185,600 | | |
| Cost | 105,316 | | |
| net | 80,284 | | |

Therefore the capital gain and amount assessable to capital gains tax is £80,284. Sancho will be due tax on this at 20% as he is a higher rate tax payer.

Income tax

| | | | |
|----------------|-----------|--|--|
| | £ | | |
| Premium | 320,000 | | |
| Capital amount | (185,600) | | |
| Net | 134,400 | | |

Therefore £134,400 is subject to income tax. This will be taxed at 45% as Sancho is an additional rate taxpayer.

-----ANSWER-10-ABOVE-----

-----ANSWER-11-BELOW-----

Answer-to-Question-_11_

Workshop building on London:

On the default method, the gain will be calculated using the market value as of 5 April 2019 as the base cost. This of course requires the building to be valued at 5 April 2019.

Alternatively, the retrospective method can be used which will take into account the base cost on acquisition (06.07.2018). Sebastien will be able to elect for either method and will most likely choose whichever gives him a lower gain.

Cottage in Wales

___As the property was acquired before 5 April 2015, the default method of calculation requires the property to be value at 5 April 2015 and this value is used as the base cost in the event of a sale.

Alternatively, an election for either a straight-line apportionment or retrospective method may be made.

The straight line apportionment - this uses the base cost of acquisition (06/10/2011) and calculates the amount of gain after 5 April 2015 and before. You apportion the gain before and after 5 April 2015. The gain after 5 April 2015 is chargeable to CGT whilst the gain before is not.

The retrospective method uses the proceeds and the original base cost value on acquisition (06/10/2011).

Of course, Sebastien will elect to use whichever method gives him the lowest gain.

Antique furniture

____Sebastien is unable to claim the loss realised on the antique furniture in the Welsh Cottage as he is non Uk resident.

-----ANSWER-11-ABOVE-----

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Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 2**

 -----ANSWER-12-BELOW-----

Answer-to-Question-_12_

| | NSI £ | Si £ | Di £ | Total £ |
|--------------------|---------|------|--------|---------|
| Salary | 155,000 | | | |
| Medical benefit w1 | 935 | | | |
| Car w2 | 7,040 | | | |
| Fuel w3 | 7,872 | | | |
| Phone w4 | 0 | | | |
| TV use w5 | 70 | | | |
| TV transfer w6 | 530 | | | |
| Bank interest | | 900 | | |
| Dividends | | | 12,500 | |
| Total | 171,447 | 900 | 12,500 | 184,847 |
| PA | 0 | | | |
| Taxable | 171,447 | 900 | 12,500 | 184,847 |
| | | | | |
| | | | | |
| | | | | |

Tax computation

$37,700 \times 20\% = 7,540$
 $112,300 \times 40\% = 44,920$
 $21,447 \times 45\% = 9,651$

 $900 \times 45\% = 405$

 $2,000 \times 0\% = 0$
 $10,500 \times 38.1\% = 4,001$

Total tax liability = 66,517

less PAYE (60,575)

Tax payment due = 5,942

Tax payable = 5,942

w1: the value paid by Topsales Ltd is the value to be included in her employment benefits.

w2:

| | | |
|--------------|---------|------------|
| List price | 26,000 | |
| Accessories | 1,000 | |
| Capital cont | (5,000) | £5,000 max |
| net | 22,000 | |

$139 - 75 = 64$ rounded to $60/5 = 12$.

$20\% + 12\% = 32\%$

$32\% \times 22,000 = 7,040$.

The 1 week where the care was not available is not included as less than 30 days.

w3:

$24,600 \times 32\% = 7,872$

w4:

Phone is exempt.

w5:

6 June 2021

$$700 \times 20\% \times 6/12 = 70$$

w6:

Transfer of asset:

The higher of:

The value when transferred (£550)

or

MV when originally provided less amounts charged for the used of asset.

$$700 - 70 = 630$$

Therefore take 630
Less amount paid (100)

530 taxable benefit for the transfer.

2

____In order for her to make a claim for unfair dismissal, either the procedure of Sally's dismissal would need to be unfair or the reason for her dismissal was not fair.

As the company is ceasing to trade this is someone that is not directed at her but instead due to the company no longer operating.

Therefore Sally could not validly claim for an unfair dismissal.

-----ANSWER-12-ABOVE-----

-----ANSWER-13-BELOW-----

Answer-to-Question-_13_

Firstly, the period when Salim did not occupy the house for the first 12 months due to be in bad shape and therefore having building works carried out will be covered as it is classed as delayed occupation. Therefore this period will be exempt from capital gains tax.

I assume that Salim then moved into the house in 2003 and live in the property by himself until 2015. This period will be covered by PPR and therefore exempt.

As Salim rented out a bedroom whilst Salim lived in the property between 2015 and 2017, this will be classed as rent a room. This has no impact on Salim's PPR relief on the sale of the property.

PPR relief covers a garden of up to half a hectare, or larger if required for reasonable enjoyment of the property.

As the property has over 2 hectares of land this might not be fully subject to PPR relief. Salim would have to make an argument that this land is required for full enjoyment of the property. Therefore he may not be able to claim PPR on the full garden and be subject to Capital Gains tax on a proportion of it.

When Salim purchased his new property in Bristol, at the start of 2022 he has 2 years to elect which property is to be covered by PPR relief. Of course, Salim will want to elect the property that he is selling to be his PPR relief property so that he can benefit from the relief. To nominate which property he wants to claim PPR on he will need to write to HMRC.

-----ANSWER-13-ABOVE-----

 -----ANSWER-14-BELOW-----

Answer-to-Question-_14_

1

No Income tax is due on the grant of her EMI options.
 Income tax is due on exercise as they were granted at a discount.

Therefore IT due on the lower of:
 - The market value of shares at grant
 200,000
 - The market value of the shares at exercise
 500,000

Less the option price
 (180,000)

Therefore Income tax due on
 20,000
 As the market value at grant is used (as lower)

No NIC due as not a readily convertible asset.

2

| | | | | |
|-----------------------------|--|-----------------|--|--|
| | | Non-BADR (£) | | |
| Court Ltd Shares w1 | | 112,500 | | |
| Agricultu ral land w2 | | 1,838,889 | | |
| Ring w3 | | 90,000 | | |
| Total | | 2,041,389 | | |
| AEA | | (12,300) | | |
| taxable | | 2,029,089 | | |
| | | | | |
| | | | | |
| | | | | |

| | | | | |
|--|--|--|--|--|
| | | | | |
| | | | | |

Income is £75,00 per year therefore taxed at the higher rate.

$$2,029,089 \times 20\% = 405,818 \text{ Capital gains liability}$$

w1:

| | | |
|----------|---------|---------------|
| Proceeds | 487,500 | 6.50 x 75,000 |
| Cost | 375,000 | 5.00 x 75,000 |
| Net | 112,500 | |

The option was granted at least 2 years prior to disposal (May 2017 and June 2021 respectfully). However, as the question does not state that the company was a trading company, no claim for BADR is made.

w2: 50 acres of land total

| | |
|---------------|-----------|
| Proceeds: | 2,000,000 |
| Planning perm | (50,000) |
| Cost: | (111,111) |
| Net | 1,838,889 |

Part disposal base cost:

$$(2,000,000/2,000,000 + 250,000) \times 125,000 = 111,111$$

w3:

| | |
|----------|----------|
| Proceeds | 150,000 |
| Cost | (25,000) |
| Net | 125,000 |
| Relief | (35,000) |
| net | 90,000 |

As she bought a replacement ring within 12 months, the gain can be rolled over - provided a claim is made within 4 years. The cash retained is immediately chargeable.

3

_____ Advise her in writing to disclose this to HMRC.

_____ Cease to act

_____ Write to HMRC to say you cease to act - but do not disclose why.

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question-_15_

Clive's Address

My firm's address

Date

Dear Clive

Your residency position

____I understand that you have already looked into the first two automatic overseas tests and therefore I will focus on the remaining automatic tests instead.

When considering the statutory residency test we consider each item in order. Therefore we start by considering the automatic overseas test and each of the three tests and if you do not meet any of the criteria we then move onto the automatic UK test and finally the sufficeint ties test.

Firstly, I will cover the third and final automatic overseas test. This being that if you work abroad for an average of 35 hours per week over the tax year and are present in t he Uk for fewer than 91 days, of which fewer than 31 are spent working in the UK you will be considered a UK non resident.

As you were present in the UK for 130 days in the tax year, you do not meet this criteria and therefore will not be treated as UK non resident under the third automatic overseas test.

A day in the UK is classed as being in the UK at midnight. As you fly into the UK on your first day and leave on the evening of your third. This technically only counts as spending two days in the UK.

Next we will consider the automatic UK tests. If you meet any of these tests you will be classed a UK resident in the tax year.

The first test is if you were present in the UK for more than 183 days in the tax year. You say that you spent 130 days in the tax year before leaving for Germany on 20 August 2021. Therefore you would've come back to UK 8 times following your departure, returning once every month, in the tax year. Spending 2 days each time this totals 16 days and therefore you have spent 146 days in the UK in the tax year. As this is less than 183 you will not be considered a UK resident under the first automatic UK test.

The second automatic UK test considers if you have a UK home. A UK home test is met where the following applies:

There is a period of at least 91 consecutive days of which at least 30 fall within the tax year when, you have a UK home which you spent at least 30 days in the tax year and either:

- have no home overseas
- or
- have a home overseas but you use that home on fewer than 30 days in the tax year.

As you have begun renting an apartment in Germany and will be there more than 30 days you do not fulfil the second automatic UK test and therefore are not treated as UK resident under it.

The final automatic UK test is if you work full time in the UK.

An individual is classed as working full time in the UK if:

- you work on average 35 hours or more per week in the UK over a continuous period of 365 days,
- during that 365 day period there are no significant breaks from work
- more than 75% of the working days are carried out in

the UK and;

- at least one working day in the UK falls in both the 365 day period and the tax year.

According to the details you have provided you do not meet the criteria for the third automatic UK test as less than 75% of the working days carried out in the UK.

As you do not meet any of the above criteria for the Automatic tests you will then be required to consider the Sufficient Ties Test.

If this is something that you would like me to go into more detail about please let me know .

Kind regards

Tax advisor.