

CIOT - ATT-CTA

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

Paula - Car - 12680 business miles

Best for Paula to elect for fuel benefit for her first 10K and then the remaining miles to use the business fuel allowance.

first 10K @ 45p = 4500

2680 x 30p = 803

allowable deduction = 5303

Georgia = 3400 x 30p = 1020

allowable deduction = 1020

Keith = 11500 business miles

best to use restaurants 30p

11500 x 30p = 3450

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

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

Answer-to-Question-_2_

Living accomodation is deemed to be 'job-related accomodation' when; it is necessary for the job, it is provided for the better performance of the job and better performrance by the employee and it is provided due to a threat for the employee's safety. The provision of accomodation by Bluebell Homes LTD to Jessica is likely to be treated as 'job-related accomodation' as it has been stated Jessica is often late due to public transport. If she lived here, she would no longer be late and this would improve her performance at work and potentially her standard of work as this issue would be mitigated, therefore satisfying the second condition outlined above.

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

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

Answer-to-Question-3
Use of furniture in the flat
moved in on 6th August 2018 when furniture was worth 6500.
benefit therefore is $20\% \times 6500 = 1300$.

transfer of asset - Benefit = higher of
- MV when given or
- MV when originally provided less amounts already charged
for the use of the asset

MV when given = 3150
MV originally = $6500 - 1300$
= 5200

Benefit is therefore 5200.
only moves out in Dec so need to time apportion
= $4/12 \times 5200 = 1733$

Employment benefit assessed = $1733 + 1300$
= 3033.

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

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

Answer-to-Question- 4

Under occupational pension scheme - relief is given to contributions under into the occupational pension scheme by subjecting employees net pay to PAYE. Under 'net-pay arrangements', PAYE, but not NICs, are applied to the employees salary after the contribution to the scheme has been deducted.

Under personal pension scheme - relief is given under a personal pension scheme at source. This means that basic rate relief is given at source which means that the taxpayer only pays 80% of the pension contribution. The basic rate tax band is then extended by the gross contribution, which allows for higher and additional rate relief.

OPS - Gross pension contribution deducted from relevant earnings.

PPS- Deducted at source and then basic rate expanded.

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

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

Answer-to-Question- _5_

- 1) Class 1A
- 2) Class 1 secondary
- 3) Class 1B
- 4) Class 1 secondary

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

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

Answer-to-Question- 6_
Painting - proceeds = 660- 40 = 620
proceeds < 6K cost >6K
gross proceeds deemed to be 6000
Gain = proceeds - cost
Gain= 6000 - 7100
Gain/loss = (1100)

Wardrobe - uncle is not a connected person so actual
proceeds are used.
proceeds > 6K cost <6K
Gain restricted to 5/3 x (6375 - 6000)
Gain = 375.

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

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

Answer-to-Question- 7

Gift relief is available as there has been no cash received, only the shares and because the shares are in an unquoted trading company.

proceeds (MV) - 35100
less cost - 18000
Gain before relief = 53100
gift relief = (47100)
Gain = 6000.

The actual gain should be actual proceeds received - original cost
Gain = 24,000 - 18000
Gain = 6000

This means gift relief is 53100 - 6000 = 47100.

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

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

Answer-to-Question- 8

	No shares	cost
August 2007	3500	15750
Sep 2015	6260	32865
June 2019	1220	6344
total	10980	54959

rights issues
=3500 + 6260 = 9760
= 9760 x 1/8 = 1220
cost = 1220 x 5.20 = 6344

Same day = no
next 30 days = no
S.104 pool = yes

base cost = 7275 / 10980 x 54959
= 36414.

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

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

Answer-to-Question- 9

Professional behaviour- This means adhering to the relevant laws and avoiding any actions which could discredit the profession. Supplying Gerald's figures would threaten this.

Integrity- By submitting these false figures you would not be being honest and straightforward in all professional and business relationships.

Objectivity - As Gerald is a friend this could cause bias and conflict between the two of you. This cannot override professional decisions. This would be threatened.

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

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

Answer-to-Question-_10_

1) Discretionary trust - grossed up
- $8690 \times 100/55 = 15800$ - enter into tax comp
tax credit of 45% deducted = 7110
= $15800 - 7110$
= 8690

2) $3330 \times 100/ 92.5 = 3568$ - enter into tax comp
 $3568 \times 7.5\% = 268.$

Beneficiaries always treated as non-savings income.
interest in possession treated as dividend income.

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

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

Answer-to-Question- 11

The payment is due on 31st Jan of the following tax year which in this case would be 31st Jan 2022.

	Gains	
Residential shareholding	6000	
Vase painting	(650)	
	(900)	
residential prop		46700
capital losses BF		(5600)
total	4450	41100
AEA	(12300)	(12300)
total	NIL	28800

CGT = 28800 x 28%

CGT = 8064

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

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

Answer-to-Question- 12

As the loss has been made in the current tax year and Bharat also has capital gains in the same year, current year losses can be offset against current year capital gains before the annual exempt amount. If electing for this, all of the current year loss must be used.

Losses on shares such as the ones in Petronis LTD, which are qualifying trading company shares, can either be set against net income of the current or preceding year or be used as capital losses.

Relief for capital losses can be claimed up to 4 years after the tax year that the disposal of the asset took place.

Therefore this must happen by tax year 2024/25.

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

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Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 2**

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

Answer-to-Question- 13

rent a room relief - $120 \times 4 \times 12 = 5760$

expenses = $40 \times 4 \times 12 = 1920$

income = $5760 - 1920 = 3840$

As this is < 7500 , rent-a-room relief applies and the rental income on this property is exempt from tax.

income = $2200 \times 10 = 22000$ (actually paid)

mortgage interest treated as income reducer at 20%

$7000 \times 20\% = 1400$

expenses - only 500 allowable for the repairs. The other amount not allowable as seen as enhancement.

allowable = $700 + 1400 + 1100$

= 3200

Rental income = $22000 - 3200$

= 18800

gift aid = $1000 \times 100/80 = 1250$

expand rate bands

	total	NS	INT
DIVI			
employemnt	85000	85000	
int	700		700
rental	18800	18800	
total	104500	103800	700
PA	(10250)	(10250)	
total	94250	93500	700

PA - Taxable income $> 100K$

PA - $104500 - 100000 = 4500$

PA- $4500 / 2 = 2250$

PA - $12500 - 2250$

PA - 10250

NS

$$\text{basic rate band} = 37500 + 1250 = 38750$$

$$38750 \times 20\% = 7750$$

$$54750 \times 40\% = 21900$$

Int

$$500 \times 0\% = \text{NIL}$$

$$200 \times 40\% = 80$$

$$\text{Liability} = 7750 + 21900 + 80 = 29730$$

$$= 29730 - 1400 \text{ (IT reducer)} = 28330$$

$$= 28330 - 25000 \text{ (PAYE)}$$

$$= 3330$$

2) Joint tenancy means that each tenant has equal rights and an equal share to the property. Consequences for Alan and Matthew are that; if one of the owners die, the property automatically goes / is tranfered to the other owner / owners. Another coonsequence is that an owner cannot pass on ownership of the property in their will. Lastly, if one owner wants to sell the property, but the other disagrees, a partition action can be served meaning other owners must sell the property, even if it is not what they want.

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

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

Answer-to-Question-_14_

1) subscribed Dec 2017 so shares have been owned for over 3 years.

Gain = proceeds - cost

Gain = 5000 - 30,000

Gain / loss = (25000)

As the shares have been sold > 3 years since acquiring them there is no withdrawal of the income tax reducer.

Capital loss restricted by any IT reducer retained

(25000) x 30%

(7500)

2) Subscribed 2016 so held for > 3 years.

Gain = proceeds - cost

Gain = 250,000 - 80,000

Gain = 170,000

As James has already claimed the max EIS reinvestment relief in 2017, this means that the gain on the sell of the shares cannot be deferred. This also means that James will not be entitled to any income tax reducer.

The gain will be subject to normal CGT.

3) subscribed 15th Jan 2021 which means sold after < 3 years after acquiring.

There will be an income tax relief clawback. The IT reducer of 30% will be clawed back.

As sold within 3 years gain is no longer exempt so will be subject to regular CGT.

Gain = proceeds - cost

Gain = 125000 - 60000

Gain = 65000

Gains

May 2020	170,000
June 2019	65,000
Dec 2017	(7500)
total	227500
AEA	(12300)
total	215200

As James has no income CGT so it is taxed at the lower rate of 10% until basic rate band is used then taxed at 20% for the remainder.

$$\text{CGT} = 37500 \times 10\% = 3750$$

$$\text{CGT} = 177700 \times 20\% = 35540$$

$$\text{CGT} = 39290.$$

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

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

Answer-to-Question- 15

When sub lease is granted there are 35 years left
 when sub lease expires there are 20 years left
 original lease is 45 years

Sub lease =
 proceeds = 200,000
 less cost = $150,000 \times (s-x) / y$
 $= 150,000 \times (91.981 - 72.770) / 98.059$
 $= 29387$
 less property income = $P - (P \times 2\% \times (N-1))$
 $= 200,000 - (200,000 \times 2\% \times (45-1))$
 $= 200,000 - 176000$
 $= 24000$

Gain = $200,000 - 29387 - 24000$
 Gain = 146,613.

65 year lease = Gain = proceeds - cost
 $= 250,000 - 185000$
 $= 65000.$

June 2020
 proceeds = $1,800,000 - 50,000 = 1750000$

part disposal = $A / (A+B) \times \text{acquisition cost}$
 $= 1,750,000 / (1,750,000 + 700,000) \times$
 $1,100,000$
 $= 785714.$

Gain = $785714 - 55000$ (planning permission) = 730714

As no properties have ever qualified as residential he cannot apply for PPR relief and as he has never rented any rooms does not qualify for rent-a-room relief either.

Gains will be taxed at the lower rates as it is not residential properties.

	Gains
65 year lease	65000
June 2020	730714
sublease	146613
total	810327
AEA	(12300)
Total	798027

No income means will be taxed at both 10% and 20%

$$37500 \times 10\% = 3750$$

$$760,527 \times 20\% = 152105$$

$$\begin{aligned} \text{CGT liability} &= 3750 + 152105 \\ &= 155,855. \end{aligned}$$

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question-_16_

Tax Advisor
Company

Address

Date

Mr Romeo & Ms Juliet
Address
Date

Dear Mr Romeo & Ms Juliet,

Thank you for writing to us. We have recieved your letter and have outlined some points below which should answer the queries and questions that you had.

Arising and remittance Basis

The arising and remittance basis are two ways that your income could potentially be taxed. Your residence status determines which of these basis' will be used to tax your income.

Firstly, the arising basis means that you will pay UK tax on both your UK income and also your foreign / worldwide income. This means that any income that you recieve in the UK and any income from abroad is automatically subject to UK tax. The arising basis is usually used when an individual is UK resident and domiciled and possibly when they are UK resident and non-domiciled. When you are UK resident but non UK domiciled, you have the option to make a remittance claim. Secondly, under the remittance basis, an individual will still pay UK tax on any UK income, however they will only be taxed on foreign income if it is brought or 'remitted' to the UK. Income on a remittance basis is always treated as non-savings income and therefore taxed at the rates of 20%, 40% or 45% depending on which band the taxpayer pays tax in. When the remittance basis is claimed,

an individual is not entitled to any personal allowances or annual exemption amount for that tax year.

2) As Ms Juliet works for a UK company, she will be taxed on her income on the arising basis, regardless of how much time she spends in a foreign country. However for Mr Romeo, even though he works for a non-UK company, as neither of you have elected to make a remittance claim and are resident in the UK, your foreign incomes will be taxed on an arising basis, despite being in non-UK bank accounts.

Gain on disposal of investment

In terms of your gain Juliet, if the gain was made when you were non-UK resident (which it was) and the disposal occurred when you were too still non-UK resident, you would not be subject to any capital gains tax on the gain that you have received. However, as you are UK resident on the date of disposal, you will be subject to capital gains tax on the gain that you have received. For the chargeable gain that has arisen, this means that you cannot claim the remittance basis. The remittance basis could only be claimed if a gain was made when purchase and disposal of the asset occurred while you were non resident and you wished to bring the money from the disposal to the UK to be used here. However, if you remitted any capital gains, they would be taxed as non-savings income which means that you may end up paying a higher rate of tax.

As you are legally married, this means that you are deemed as connected persons. This means that any gains or transfers between the both of you happen at a no loss, no gain basis. As the gain is used to purchase something in the UK or for UK 'enjoyment' it would be subject to UK tax regardless of whether it was remitted or not. If Romeo, you remitted the funds, they would be treated as non-savings income, which means that you may be paying a higher rate of tax. Capital gains are taxed 10% and 20%, if not on a residential property, whereas if you remit the funds will be treated as non-savings income which can be taxed at 20%, 40% or 45%, depending which rate of tax you pay.

The Remittance Charge

In terms of your friend's comment regarding the remittance charge, this is not something that you need to be immediately concerned about. The remittance charge occurs if a remittance basis claim is made by an individual over the age of 18 and who has been resident in the UK for the last 7 out of 9 tax years. Your friend is correct that the charge is £30,000. A remittance basis charge would not be incurred for you, Juliet, until tax year 2024/25, and for you Romeo, until tax year 2023/2024.

If either of you have any other issues or queries or require any more advice on the above matters, please do not hesitate to get in touch with us!

Yours sincerely,
Tax Advisor.