THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

November 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Paula, Peter, Keith and Georgia work for a restaurant with home delivery service. To deliver food to customers Paula uses her own car. To speed up the delivery she takes Peter with her to jump out of the car and take the food to the customer's front door.

   Keith uses his own motorcycle to make deliveries and Georgia uses her own bicycle. In 2020/21 Paula drove 12,680 business miles, Keith rode 11,500 business miles and Georgia pedalled 3,400 business miles. The restaurant pays employees 30p per mile for business miles regardless of the mode of transport. It does not pay anything for carrying a passenger.

   Calculate the taxable benefit or allowable deduction for employment income purposes for Paula, Keith and Georgia for 2020/21. (4)

2. Jessica works for a holiday caravan park, Bluebell Homes Ltd, as a cleaner and bartender. Her job involves starting early in the morning and working late into the night. She is a good worker but is often late due to her long commute to work on public transport.

   Bluebell Homes Ltd is considering providing Jessica with accommodation on the caravan park. She will then be closer to work and more available to do shift work at late notice if necessary.

   State the three situations where living accommodation provided by an employer is deemed to be 'job-related accommodation', and briefly explain whether the provision of accommodation by Bluebell Homes Ltd to Jessica is likely to be treated as 'job-related accommodation'. (3)

3. On 6 August 2018 Zaheda was provided with a company apartment by her employer, Kaur Ltd. The apartment is not job-related accommodation. The apartment includes furniture which Kaur Ltd purchased on 23 May 2017 for £7,560 and was worth £6,500 on 6 August 2018. Zaheda was the first employee to use this furniture. Zaheda moved out of the company apartment on 6 December 2020 into her own home. The same day, Kaur Ltd gave the furniture to Zaheda when its market value was £3,150.

   Calculate the employment benefit assessed on Zaheda in respect of the furniture in 2020/21. (4)

4. Ahmed recently started his first job with Wyton Ltd. The human resources department has asked him to decide whether he would like to join the company's occupational pension scheme or set up a personal pension scheme. Whatever Ahmed decides, he will make contributions and Wyton Ltd will also contribute into the scheme on his behalf.

   Explain how Ahmed will obtain Income Tax relief for his pension contributions under each of the alternative schemes, and state how contributions made by Wyton Ltd are treated in Ahmed's Income Tax computation. (4)

5. Gorgon Ltd has provided the following employment benefits to some of its employees in 2020/21:

   1) Private medical insurance;
   2) Payment of a mileage allowance of 50p per mile for all business miles;
   3) An annual Christmas party costing £200 per head which is included in a Pay-As-You-Earn Settlement Agreement (PSA); and
   4) Payment of a mobile phone contract of £40 per month.

   State which class of employer National Insurance Contributions Gorgon Ltd is liable to pay on each of the benefits provided in 2020/21. (2)

6. On 20 February 2018, Irina purchased a painting for £7,100 as she believed it was a rare work of art by a well-known artist. Unfortunately, the painting turned out to be a fake and Irina sold it for £660 on 19 May 2020. She incurred disposal costs of £40.

   On 18 July 2020 Irina sold an antique wardrobe for gross sale proceeds of £6,375. Irina inherited the wardrobe on 21 September 2010 from her uncle, David, when it was worth £4,280. David purchased the wardrobe on 3 November 1999 for £2,350.

   Calculate the chargeable gain/(allowable loss) arising on each of the disposals by Irina in 2020/21. (4)

7. On 14 October 2020, Ben sold all of his 18,000 £1 ordinary shares in Joiner Ltd to his son for £24,000 when they were worth £35,100. Joiner Ltd is an unquoted trading company that is not listed on a stock exchange.

   Ben purchased the shares, which represents a 4% shareholding in the company, in December 2017. He purchased the shares at par directly from the company when it had a new issue of shares. Ben has never worked for Joiner Ltd.

   Explain why gift relief is available on the sale of Joiner Ltd shares and calculate the amount of gift relief available. (3)

8. Sarah sold 7,275 shares in Wyndham Ltd for £46,560 on 12 November 2020. She acquired the shares as follows:

		No. of shares	£
3 August 2007	Purchase	3,500	15,750
24 September 2015	Purchase	6,260	32,865
5 June 2019	1 for 8 Rights issue for £5.20 per share		

   Calculate the base cost of the shares disposed of on 12 November 2020. (3)

9. You have drafted a tax return for Gerald Kipper, a longstanding friend and client of your firm, based on information he supplied. You notice an unusually high claim for expenses in his property income compared to last year.

Gerald informs you that he wants to pay as little Income Tax as possible. He states that he knows that he should not claim some of the expenditure but he is confident that HMRC will not query it as they are too busy.

Gerald has asked you to submit the figures he has supplied and he has promised to send you some additional work if you do so.

Explain the three fundamental principles of professional ethics which are most threatened by Gerald's behaviour. (4)

10. Maureen is an additional rate taxpayer. She is the sole beneficiary of two trusts set up by her uncle.

In 2020/21 she received the following income payments from the trusts:

1) £8,690 from a discretionary trust; and
2) £3,330 from an interest in possession trust.

The only source of income received by both trusts is dividend income.

Calculate the amount of each source of income to be included in Maureen's taxable income computation for 2020/21, stating whether each source is treated as non-savings, savings or dividend income in Maureen's Income Tax computation. Calculate the tax credit arising on each source of trust income. (3)

11. Darren, a higher rate taxpayer, made the following capital disposals in 2020/21:

Date of disposal	Asset disposed of	Capital gain/(loss)
		£
23 May 2020	1% shareholding in a quoted company	6,000
15 July 2020	Antique vase	(650)
–	Residential property (not main residence) Date of exchange was 14 September 2020 Date of completion was 28 September 2020	46,700
9 March 2021	Painting	(900)

Darren has capital losses brought forward from 2019/20 of £5,600.

Calculate the amount of any Capital Gains Tax payment on account Darren may have to pay in 2020/21 and state the due date of payment. (3)

12. Bharat made a capital loss on the disposal of shares in Petronis Ltd in December 2020. He had claimed EIS Income Tax relief when he subscribed for the shares in 2011/12.

In 2020/21 Bharat made large capital gains in excess of the loss and the annual exempt amount. He has been a higher rate taxpayer for many years.

Explain how Bharat can utilise the capital loss to reduce his liability to tax, and state when any relief must be claimed. (3)

PART II

13. Alan lives in his flat in London which he purchased in 2015. Since 2018, he has rented out his spare room to a friend who pays rent of £120 per week. Alan has estimated the additional expenses he incurs from renting out the room to be around £40 per week.

Alan also owns a property, The Oak, which he has let out for several years. In 2020/21, the rent was £2,200 per month paid in advance on the 1st of each month. In February 2021, his tenants advised him that they were unable to pay the March and April rent on time. Alan agreed to let them pay the arrears by September 2021 and they have now paid.

Alan has provided details of his expenditure incurred for The Oak in 2020/21. He paid total mortgage interest of £7,000.

In December 2020, the roof had several leaks. Alan decided to get the builders to convert the entire attic to a usable room. The total cost of the works was £4,000, with the invoice showing that this included £500 for re-roofing, which rectified the leaking roof.

In January 2021, the washing machine broke and a similar replacement was purchased for £700. At the same time, the kitchen worktop was replaced. It had become damaged over the years and it cost £1,400 to replace it with a worktop of a similar standard.

In March 2021, Alan paid the buildings insurance for the year ended 31 March 2022. The amount of £1,100 was a £300 increase compared to the amount paid 12 months earlier. He has not made any elections regarding his property income.

Alan's only other income in 2020/21 was employment income of £85,000 and bank interest of £700. He had Income Tax of £25,000 deducted under PAYE.

In March 2021, he made a one-off donation to a local charity of £1,000 under gift aid. Alan is thinking of selling his flat next year and moving in with his partner, Matthew, into a house they will buy together. They are planning on owning it as joint tenants.

Requirements:

1) **Calculate the Income Tax payable by Alan for 2020/21. Briefly explain your treatment of the rent received and each property expense and state the due date for payment of the Income Tax.** (16)

2) **Define what joint tenancy means and outline three consequences for Alan and Matthew of owning a property this way.** (4)

Total (20)

14. You are a taxation technician. Your client, James Smith, has provided you with details of the following share sales in Enterprise Investment Scheme (EIS) qualifying companies in the 2020/21 tax year:

1) Sold 500 shares in Abtech Ltd on 1 February 2021 for £5,000. James subscribed for the shares on 15 December 2017, at a cost of £30,000.

2) Sold 1,200 shares in Babot Ltd on 1 May 2020 for £250,000, having subscribed for these shares on 1 September 2016. The shares cost £80,000. James claimed the maximum EIS reinvestment relief upon making the investment in 2016/17, in respect of a gain on a painting of £135,000.

3) Sold 2,000 shares in Clayside Ltd on 15 January 2021 for £125,000, having subscribed for the shares on 30 June 2019 at a cost of £60,000.

James had obtained full Income Tax relief on the subscriptions of these shares, in the tax year of subscription.

James has no income in 2020/21, nor does he have any capital losses brought forward.

Requirement:

Calculate, with explanations where relevant, James' Capital Gains Tax liability for 2020/21 and explain what happens to the Income Tax relief he received.

Assume that the EIS rules applying in 2020/21 also applied in all earlier years. (10)

15. Albert bought a 65-year lease on a residential property in Muon Terrace on 1 June 1995 for £185,000. He sold it on 1 December 2020 for £250,000.

On 17 June 2020, Albert sold the freehold of five acres of land to Max for £1.8 million, from which £50,000 of legal costs were deducted. These five acres were part of a nine-acre plot of land that Albert had purchased as an investment on 1 May 2015 for £1.1 million. In May 2020, Albert had spent £55,000 successfully obtaining planning permission for the five acres to be sold to Max. At 17 June 2020 the remaining four acres were valued at £700,000.

Albert acquired a 45-year lease on 26 Higgs Avenue, a residential property, for £150,000 on 1 May 2010. On 1 May 2020 he granted a 15-year sub-lease on the property to Niels for £200,000.

Neither of the residential properties has ever qualified as Albert's main residence. Albert had no other income, gains or allowable losses for 2020/21.

Requirement:

Calculate Albert's Capital Gains Tax liability for the 2020/21 tax year. (15)

16. Juliet arrived in the UK on 6 April 2018, becoming UK resident from that date. Her husband, Romeo, had arrived six months earlier, becoming UK resident from 2017/18. Both Romeo and Juliet are non-UK domiciled. They were not born in the UK and neither of them has previously been present in the UK.

During 2020/21, Romeo worked for a non-UK company, Montague SpA. Under his employment contract he split his working time equally between the UK and the overseas country of Fantasia. For the same year, Juliet had a contract of employment with a UK company, Capulet Ltd. She split her working time between the UK and the overseas country of Ruritania in the ratio 75:25.

Both Romeo and Juliet have their salaries paid into separate non-UK bank accounts. They do not make any remittances to the UK from those accounts.

Juliet opened another non-UK bank account on 6 June 2020 to receive only the proceeds of disposal of her investment in Mercutio GmbH, a non-UK company. Juliet had bought the shares before she became UK resident. She realised a significant gain on the sale. On 25 February 2021, Juliet transferred funds equal to half of the gain to Romeo. She did this by transferring the funds into another non-UK bank account, newly opened by Romeo. On 2 April 2021, Romeo used the transferred funds to buy artwork in the UK.

None of the offshore bank accounts are interest-bearing.

Romeo and Juliet also had a joint portfolio of UK shares, the dividends and gains from which financed their UK lifestyle.

Juliet and Romeo have written to you to explain that they have both been taxed on the arising basis since arriving in the UK. They are unsure of the impact of making a remittance basis claim for 2020/21. A friend has told them that a remittance basis claim is not worthwhile as it results in an additional £30,000 tax charge.

Requirements:

Write a letter to Romeo and Juliet explaining:

1) **The difference between the arising and remittance bases of taxation.** (3)

2) **How the UK tax exposure on their various sources of income and capital gains for 2020/21 will be impacted by a claim for the remittance basis, and whether they should be concerned by their friend's comment.** (12)

Total (15)