November 2021 Examination

PAPER 1

Personal Taxation

Part I Suggested Answers

1. Paula, Keith and Georgia

	Paula £	Keith £	Georgia £	
Mileage allowance received 12,680 / 11,500 / 3,400 miles x 30p	3,804	3,450	1,020	1½
Less: ITEPA mileage rates 10,000 / 11,500 / 3,400 x 45p / 24p / 20p	(4,500)	(2,760)	(680)	1½
2,680 / – / – x 25p	(670)			½
12,680 / 11,500 / 3,400				
(Allowable deduction) / Taxable benefit	(1,366)	690	340	

For making no further deduction (or any adjustment) for Paula in respect of the passenger payment. ½

Tutorial note:

The passenger allowance is only available if payments are made by the employer to the employee specifically for carrying passengers.

There is no relief if less than 5p or nothing is received.

2. Job related accommodation

The job related accommodation exemption is deemed to apply where:

- It is necessary **(½)** for the proper performance **(½)** of the employee's duties

  Where living in the accommodation is essential to do the job (e.g. those required to live on site) **(½)**
- The accommodation enables the 'better performance' of the employee's duties **(½)** and it is customary for employers to provide accommodation for that role **(½)**
- There is a threat to the security of the employee. **(½)**

If Bluebell Homes Ltd provides accommodation on the caravan park, it could be argued that it is 'job related' on the basis of 'better performance' of her duties. **(½)**

However, this is only if it can be argued that it is customary for the cleaners and bar staff to be provided with accommodation. **(½)**

(Max 3 marks)

3. Zaheda

			£	Total benefits £	
Use of asset benefits					
2018/19	Benefit	(£6,500 x 20% x 8/12)	867		½
2019/20	Benefit	(£6,500 x 20%)	1,300		½
2020/21	Benefit	(£6,500 x 20% x 8/12)	**867**	867	½
			3,034		
Gift of asset in 2020/21					
Benefit = Higher of					½
(i)	MV at date of gift		3,150		½
(ii)	MV at date of first use		6,500		½
	Less: Amounts assessed for use of asset (above)		(3,034)		½
			3,466	3,466	
Total benefits – 2020/21				4,333	½

4. Tax relief for pension contributions

Ahmed's occupational pension scheme contributions:

- Contributions are paid into the scheme gross **(½)**
- Gross amount paid is treated as an allowable deduction from employment income **(½)**
- Tax relief automatically given at the employee's marginal rate of tax **(½)**

Ahmed's personal pension scheme contributions:

- Contributions are paid into the scheme net of tax **(½)**
- Basic rate relief (20%) is therefore given at source **(½)**
- Higher rate and additional rate relief is given by extending the basic band and increasing the higher rate limit **(½)** by the gross amount of pension contributions (i.e. amount paid x 100/80) **(½)**

  Accordingly more income is taxed at the lower rate (20%) rather than the higher rate (40%, 45%) giving additional relief (20%, 25%) through the income tax computation **(½)**

Wyton Ltd's pension scheme contributions:

- Employer contributions are an exempt benefit for Ahmed **(½)**

(Max 4 marks)

5. National Insurance Contributions

	Employer NICs liability:	
Private medical insurance	Class 1A	½
Payment of 50p mileage allowance	Class 1 secondary (on excess over 45p)	½
Annual Christmas party in a PSA (costing £200 per head)	Class 1B	½
Payment of a mobile phone contract of £40 per month	Exempt	½

6. Irina

Painting

Painting = a non-wasting chattel

Marginal loss rules apply as sold for gross sale proceeds ≤ £6,000 and cost > £6,000

	£	
Deemed gross sale proceeds	6,000	½
Less: Selling costs	(40)	½
	5,960	
Less: Cost	(7,100)	½
Allowable loss	(1,140)	

Antique wardrobe

Antique wardrobe = a non-wasting chattel

Marginal gain rules apply as sold for gross sale proceeds > £6,000 and cost ≤ £6,000

Chargeable gain = Lower of: ½

(i) Normal gain

	£	
Gross sale proceeds	6,375	½
Less: Probate value (September 2010) (Note)	(4,280)	½
Gain	2,095	

(ii) 5/3 rule

= (£6,375 gross sale proceeds – £6,000) x 5/3	625	1

Tutorial note:

The uncle's purchase price is not relevant. Irina's deemed acquisition cost is the probate value of the wardrobe when she inherited it from her uncle.

7. Ben

Gift relief

Gift relief is available as:

- The transaction is a sale at undervaluation, **(½)** and
- The shares are unquoted **(½)** trading company shares. **(½)**

Tutorial note:

For gift relief there is also no minimum length of ownership of the shares, and no requirement for the donor to work for the company. In addition, if they are unquoted trading company shares, there is no minimum shareholding requirement. Therefore gift relief is available regardless of the number of shares owned by Ben.

For gift relief to be available for quoted trading company shares, the company must be a personal trading company, meaning that the donor must own at least a 5% interest in the company. However Joiner Ltd is not a quoted company and so there is no 5% shareholding requirement.

Gift relief on the sale at undervalue of shares in Joiner Ltd

The chargeable gain arising at the time of the sale at undervaluation

= (Actual sale proceeds received – Cost of shares)

= (£24,000 – £18,000) = £6,000 ½

	£	
Market value	35,100	½
Less: Cost	(18,000)	½
Chargeable gain before gift relief	17,100	
Less: **Gift relief** (balancing figure)	(**11,100**)	½
Chargeable gain after gift relief (see above)	6,000	
	=======	

(Max 3 marks)

8. Sarah

Share pool

		No. of shares	£	
3 August 2007	Purchase	3,500	15,750	½
24 September 2015	Purchase	6,260	32,865	½
		9,760	48,615	
5 June 2019	Rights issue (1 for 8) @ £5.20	1,220	6,344	1
		10,980	54,959	
12 November 2020	Sale	(7,275)		
	Base cost			
	£54,959 x (7,275 / 10,980)		**(36,414)**	1
Pool c/f		3,705	18,545	
		=======	=======	

9. Gerald Kipper

Fundamental principles most threatened:

- Integrity **(½)**

  (to be straightforward and honest, **(½)** and not knowingly or recklessly supply information which is false or misleading) **(½)**

  – agreeing to submit information that you know is false challenges your integrity.

    It is important to ensure that all information provided to HMRC is accurate and complete. **(½)**

- Objectivity **(½)**

  (to not allow bias, conflict of interest or undue influence of others override professional judgements) **(½)**

  – the promise of extra work **(½)** and the request being from a friend **(½)** challenges your objectivity.

- Professional behaviour **(½)**

  (to comply with relevant laws and regulations and avoid any action that discredits the profession) **(½)**

  – assisting a client to plan or commit any offence (such as deliberately misleading HMRC) is against ATT ethical guidelines/against PCRT. **(½)**

  – A member must not be a party to proposed arrangements which are, or may be, tax evasion. **(½)**

(Max 1½ marks per principle and max total of 4 marks)

10. Maureen

Gross income to include in Maureen's taxable income computation:		
Discretionary income – treat as non-savings income		½
(£8,690 x 100/55)	£15,800	½
Interest in possession income – treat as dividend income		½
(£3,330 x 100/92.5)	£3,600	½
Tax credit:		
Discretionary trust income		
(£15,800 x 45%) or (£8,690 x 45/55)	£7,110	½
Interest in possession trust		
(£3,600 x 7.5%) or (£3,330 x 7.5/92.5)	£270	½

11. Darren

Capital Gains Tax – Payment on account

	Residential property £	
Vase (Note) (Current year loss before the residential disposal)	(650)	½
Residential property	46,700	½
	46,050	
Less: Annual exempt amount	(12,300)	½
	33,750	
Less: Capital losses b/f	(5,600)	½
Taxable gain	28,150	
Payment on account (£28,150 x 28%) (higher rate taxpayer)	7,882	½
Due date (30 days after the residential property disposal completion date)	28.10.20	½

Tutorial notes:

When calculating the payment on account of residential property due within 30 days of the completion date:

- *ignore any gains in the tax year before the residential property disposal, and ignore any disposals after (whether disposed of at a gain or a loss).*
- *take account of any capital losses brought forward, any capital losses incurred in the tax year before the residential property disposal, and the annual exempt amount.*

Losses and the annual exempt amount will be set against the residential property gains first as they are taxed at a higher rate than other asset disposals.

12. Relief for capital losses

A capital loss arising on the disposal of qualifying EIS shares on which EIS income tax relief has been claimed can be treated as follows:

- set against capital gains **(½)** in the current tax year (2020/21) **(½)**
  (no claim required)
- set against net income **(½)** in the tax years 2020/21 **(½)** or 2019/20 **(½)**
  (i.e. the tax year of the loss or the preceding tax year)
  provided a claim is made by 31 January 2023 **(½)**
  (i.e. 12 months from 31 January following the end of the tax year in which the loss arose)

(3 marks)

November 2021 Examination

PAPER I

Personal Taxation

Part II Suggested Answers

13.

1)

Alan Income Tax computation 2020/21

	Non-savings income £	Savings income £	
Employment income	85,000		**(1/2)**
Rental income (W1)	18,800		
Interest		700	**(1/2)**
Less Personal allowance (W3)	(10,875)	______	**(1/2)**
Taxable income	92,925	700	

Tax	£		£	
Non-savings income (W4)	38,750	× 20%	7,750	**(1/2)**
Non-savings income	54,175	× 40%	21,670	**(1/2)**
Savings income	500	× 0%	-	**(1/2)**
Savings income	200	× 40%	80	**(1/2)**
Tax liability			29,500	
Less				
PAYE			(25,000)	**(1/2)**
Tax reduction for mortgage interest (W2)			(1,400)	**(1/2)**
Income Tax payable for 2020/21			**3,100**	**(1/2)**

This is due for payment by 31 January 2022. **(1/2)**

Workings

(W1) The Oaks

		£	
Rental income (N1)	£2,200 × 10	22,000	**(1/2)**
Less:			
Roof (N2)		-	
Washing machine (N3)		(700)	
Kitchen Worktop (N4)		(1,400)	
Buildings insurance (N5)		(1,100)	
Rental profit		**18,800**	**(1/2)**

(W2) – *Mortgage interest*

Alan's total property income and adjusted total income clearly exceed the mortgage interest, **(1/2)** meaning the amount allowed as a basic rate tax reduction is:-

£7,000 x 20% = £1,400 **(1/2)**

(W3) Personal allowance for 2020/21

Adjusted net income =

	£	
Employment income	85,000	
Rental income	18,800	
Interest	700	
Less: (W3)		
Gross gift aid donation	(1,250)	**(1/2)**
Adjusted net income	**103,250**	**(1/2)**

As adjusted net income exceeds £100,000, the Personal allowance is reduced:

	£	
Personal allowance for 2020/21	12,500	
Less: ½ x (103,250 – 100,000) **(1/2)** =	(1,625)	**(1/2)**
Adjusted Personal allowance for 2020/21	**10,875**	

(W4) Gift aid donation

The basic rate band is extended by the gross gift aid donation:

	£	
2020/21 Basic rate band	37,500	
Add: Gross gift aid payment		
= 1,000 x 100/80	1,250	**(1/2)**
Revised basic rate band	**38,750**	**(1/2)**

Notes

(N1) Rental income for 2020/21

Alan has not made any elections regarding his property income, meaning the cash basis is the default system as gross property income receipts do not exceed £150,000 **(1/2)** and so 10 months of rent will be taxed in 2020/21.

(N2) Roof

There is an improvement to the property, therefore the entire £4,000 is treated as capital expenditure. **(1/2)**. The £500 for reroofing to sort out the leaks cannot be separated from the total cost; it would have been an allowable expense if incurred on its own. **(1/2)**

(N3) Washing machine

The washing machine is freestanding, meaning it is an allowable cost as a replacement of a domestic item **(1/2)** and fully allowable because substantially the same asset. **(1/2)**

(N4) Kitchen worktop

As the worktop was replaced to a similar standard, the character of the kitchen remains unchanged, **(1/2)** meaning the costs is allowable as a repair.

(N5) Buildings insurance

Under the cash basis, the amount deductible in 2020/21 is simply the amount paid in the tax year. **(1/2)**

(N6) Rent from friend

Total rent = £120 x 52 = £6,240 **(1/2)**

As this is less than £7,500, the rent-a-room relief applies automatically **(1/2)** and the rental income is therefore exempt from tax. **(1/2)**

The expenses clearly do not exceed the rent being paid, meaning they are irrelevant as they cannot be offset against the rent if rent-a-room relief applies **(1/2)** and would only be claimed if there was a loss for the year.

16 marks

2)

Joint tenancy is where two (or more) persons own a single property as a whole; it is not divided into shares. (1)

Three consequences of owning a property as joint tenants are:

1. Alan and Matthew are each entitled to use the whole item of the property. (1)
2. Neither Alan nor Matthew can alienate, for example sell or gift, the property without the agreement of the other. (1)
3. On the death of either Alan or Matthew, the property as a whole continues in the ownership of the surviving partner (known as the right of survivorship). (1)

4 marks

14.

James Smith CGT for 2020/21

Abtech Ltd

	£	
Proceeds	5,000	
Less:		
Cost	(30,000)	
Loss	(25,000)	**(1/2)**
Add:		
IT relief not withdrawn (Note) £30,000 × 30% **(1/2)**	9,000	
Total loss	(16,000)	

Note:

The subscribed shares have been sold after the end of the three year qualifying period. **(1/2)** As such, the Income Tax relief James received when he subscribed for the shares is not withdrawn, **(1/2)** but reduces the capital loss. **(1/2)**

Babot Ltd

Although James sold the shares for a significant gain, he sold them after the three year qualifying period **(1/2)** 1 September 2016 to 1 September 2019, so the shares are exempt from CGT. **(1/2)** No Income Tax relief will be withdrawn. **(1/2)**

A gain of £80,000 **(1/2)** was deferred in 2016/17 and will come back into charge in 2020/21. **(1/2)**

Clayside Ltd

	£	
Proceeds	125,000	
Less:		
Cost	(60,000)	
Taxable gain (Note)	65,000	**(1/2)**

Note:

James disposed of the shares within the three year qualifying period, meaning the gain is fully chargeable to CGT. **(1/2)**

There will also be a full clawback of the Income Tax relief **(1/2)** totalling (£60,000 × 30%) £18,000 **(1/2)** and HMRC will raise an assessment for the tax year in which the relief was originally obtained. **(1/2)**

CGT for 2020/21:

	£	
Total gains (80,000 + 65,000)	145,000	**(1/2)**
Less:		
Current year loss	(16,000)	**(1/2)**
Annual exempt amount	<u>(12,300)</u>	**(1/2)**
	116,700	
CGT thereon:		
37,500 x 10%	3,750	**(1/2)**
79,200 x 20%	<u>15,840</u>	**(1/2)**
Total CGT payable	**19,590**	**(1/2)**

10 marks

15.

Muon Terrace			Residential	Non-residential
Albert has owned the property for 25 years and 6 months; so, 39 years and 6 months is left on the lease at sale. Sale 10 days into December does not count as a month of ownership.				
Sale proceeds		250,000 (½)		
Cost	185,000 (½) x (95.149/100) (½ for using the calculated numbers below correctly in calculating the cost)	(176,026)		
Lease percentage for long lease	100% (½)		73,974	
Lease percentage for 39 years	94.842 (½ for getting the lease %)			
Lease percentage for 40 years	95.457 (½ for getting the lease %)			
Lease percentage for 39 years 6 months (½ for calculating 39½ years left on lease)	94.842 + ((95.457 – 94.842)/2) = 95.149 (½ for knowing need a value between the above numbers; ½ for knowing the value is the halfway value)			
Freehold land				
Sale proceeds		1,800,000 (½)		
Less legal fees		(50,000) (½)		
		1,750,000		
Cost	Acqn. cost x A/(A+B) (½)	(792,000)		
	1,100,000 (1) x 1,800,000/(1,800,000 + 700,000) (1)			
Planning permission fees (½)		(55,000)		
				903,000
26 Higgs Avenue				
Sale proceeds		200,000 (½)		
Cost	150,000 x (s – x)/y (½)	(29,387)		
	150,000 x (91.981 – 72.77)/98.059 (½)			
		170,613		
Lease percentage for years remaining at grant of sub-lease on 1 May 2020	35 years (½) = 91.981 (½) (s)			
Lease percentage for years remaining at expiry of sub-lease on 1 May 2035	20 years (½) = 72.77 (½) (x)			
Lease percentage for years remaining at grant of head lease on 1 May 2010	45 years (½) = 98.059 (½) (y)			
Less: income element of lease premium	200,000 × ((50 – 14)/50) (1)	(144,000)		
			26,613	

Total gains			100,587	903,000
Annual exempt amount **(1 – [½ for recognising and ½ for applying to residential])**			(12,300)	-
			88,287	903,000
CGT at 28%**(½)** / 20%**(½)**			24,720	180,600
Total CGT			**205,320**	

(Max 15)

16. My address

Your address

The date

Dear Romeo & Juliet **(1 – for letter format)**

The impact of a remittance basis claim

I understand that you are uncertain about the impact that a remittance basis claim may have on your exposure to UK tax for 2020/21.

If you are taxed on the arising basis you pay UK tax on your worldwide income and gains **(½)**, irrespective of whether they are remitted to the UK **(½)**. In contrast, if you claim the remittance basis you only pay tax on your UK source income and gains **(½)** and any non-UK source income and gains that are remitted to the UK **(½)**. The arising basis of taxation is the default basis of taxation and a claim **(½)** needs to be made to use the remittance basis. Only non-domiciliaries are entitled to claim the remittance basis **(½)**.

Applying this to your circumstances:

Employment income

If you claim the remittance basis and split your working time between the UK and overseas you may benefit from Overseas Workday Relief (OWR) **(½)**. This means that only the proportion of your salary relating to your UK duties is taxed on the arising basis **(½)** – the rest of your salary is only taxed if remitted to the UK **(½)**.

OWR applies for the first three tax years of UK tax residence **(½)** following three consecutive tax years of non-residence **(½)**.

As 2020/21 is Romeo's fourth tax year of UK residence, OWR no longer applies to him **(½)**.

If Romeo had performed all of his duties overseas **(½)** for a non-UK employer **(½)**, he would only pay tax on the element of his total salary that is remitted to the UK **(½)**. However, this is not the case.

So, a claim for the remittance basis will not impact on his exposure to UK tax on his employment income as it is all taxed on an arising basis whether or not a claim is made **(½)**.

However, for Juliet, 2020/21 is only her third year of UK residence and so OWR applies **(½)**. This means that, if she makes a claim for the remittance basis, 25% of her salary will not be exposed to UK tax **(½)** because she does not remit the funds into the UK **(½)**.

Mercutio GmbH gain

As these shares have a non-UK situs, a claim for the remittance basis will avoid a UK tax charge on the gain if the proceeds are not remitted to the UK **(½)**. However, the use by Romeo of the funds to buy artwork in the UK during the 2020/21 year is treated as a remittance of half of the gain **(½)** by Juliet **(½)**. This is because Romeo is a relevant person **(½)** by reference to Juliet. A claim for the remittance basis will therefore only avoid a UK tax charge on the half of the gain that is not transferred across to Romeo **(½)**.

UK portfolio

A claim for the remittance basis will have no impact on the UK tax exposure arising on either the income or gains from this portfolio **(½)** as both will have a UK source **(½)**.

Your friend is not quite right about the additional tax bill associated with a claim for the remittance basis. There is a £30,000 p.a. charge for making the claim, but this only applies once you have been UK resident for 7 of the previous 9 tax years **(½)**. This will not yet apply in your case as neither of you have been UK resident for that long **(½)**.

A claim for the remittance basis will lead to the loss of both your personal allowance **(½)** and annual exempt amount **(½)**.

Please let me know if you have any queries.

Kind regards,

ATT student

(Max 15)