THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

Sample (2025)

TIME ALLOWED

3 HOURS 30 MINUTES

- This exam contains **SIX** compulsory questions.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

For this sample paper use the ATT Tax Tables for exams in 2024.

Presentation skills – awarded for quality of presentation. (2 marks)

1. Keith and Zeena are clients of your firm. They have been married since 2020. Keith is 70 and Zeena is 72. Zeena retired in March 2023 and in previous years had been a higher rate taxpayer.

They have given you the following information for 2023/24:

1) Zeena's state pension was £9,600.

2) Zeena's private pension was £15,300, from which PAYE of £2,400 was deducted.

3) Zeena received dividend income of £14,700. This was inclusive of dividends of £3,100 from her stocks and shares ISA.

4) Zeena received bank interest totalling £2,200.

5) Keith and Zeena received rental income of £13,750 on a jointly owned property. Throughout 2023/24 the tenants had paid the rent on time except the amount due on 25 March 2024 of £1,250, which was not paid until 10 April 2024. In December 2023, the old sofa was replaced with a new one of a similar standard which cost £800.

6) Keith's only other income was his state pension of £3,600.

Requirement:

Calculate, with brief explanations, Zeena's Income Tax payable or repayable for 2023/24. You should assume Zeena always makes any beneficial claims for relief. (17)

Total (17)

2. You are a recently qualified member of ATT, working for Chlonnie LLP. The following information is for two unrelated clients of Chlonnie LLP:

Carol

Carol is a new client seeking advice about the shares that she received from the Share Incentive Plan (SIP) of her employer Oldfield plc. She is a basic rate taxpayer.

Carol, became an employee of Oldfield plc in March 2020. She has only free shares in the SIP. Carol is leaving Oldfield plc to join a competitor and her last day with Oldfield plc will be 31 March 2025. Under the scheme rules, she is not entitled to a free share award on 1 March 2025. On 31 March 2025 she will withdraw her shares from the SIP. Carol has asked for a meeting where you provide an explanation, with relevant calculations, of the amounts subject to Income Tax when her shares are withdrawn from the SIP. The estimated market value of the shares in March 2025 is £2.50 per share.

Carol's shares were awarded as follows:

<u>Date of award</u>	<u>Number of shares</u>	<u>Market value per share at award</u>	<u>Total market value at award</u>
		£	£
1 March 2021	1,390	2.59	3,600
1 March 2022	1,500	2.40	3,600
1 March 2023	1,500	2.40	3,600
1 March 2024	1,500	2.40	3,600

Valerie

Valerie is 38 years old and has been a full-time employee of Court Ltd for many years. Her salary of £75,000 is her only source of income. In May 2019, she was granted qualifying Enterprise Management Incentive (EMI) options over 100,000 £1 ordinary shares in the company when they were valued at £2.00 each. The exercise price was £1.80.

In June 2023 Valerie exercised all of her options over the Court Ltd £1 ordinary shares when they were valued at £5 each. She then sold 75,000 of the shares for £6.50 each in March 2024.

In 2016, Valerie acquired 50 acres of agricultural land as a gift from her mother, who had inherited the land in 2006 when it had been valued at £125,000. At the date of the gift, the land was valued at £300,000 and a joint claim for Capital Gains Tax gift relief had been made on the transfer to Valerie.

Valerie did not use the land for any commercial purpose. In September 2023, a planning agent came to assess the site for potential planning opportunities and identified 20 acres of the land that could be developed. Valerie subsequently spent £50,000 on applying for planning permission for those 20 acres before selling them for £2 million in January 2024. At the time of sale, the value of the remaining 30 acres of land was £250,000.

While reviewing the site with the planning agent, Valerie lost a valuable ring that she had bought in 1995 for £25,000. The ring was insured and she received insurance proceeds of £150,000 in November 2023. She has told you that she immediately spent £60,000 on a replacement ring.

Valerie has not previously made any chargeable disposals and has no capital losses brought forward.

Requirements:

1) **Prepare notes, with supporting calculations, for your meeting with Carol.** (4)

2) **Calculate, with brief explanations, the amounts subject to Income Tax on the grant and exercise of the EMI options.** (2)

3) **Calculate Valerie's Capital Gains Tax liability for 2023/24, assuming all beneficial elections are made, showing the amount of any gain deferred.** (10)

4) **State the actions that you should consider taking if, after her 2023/24 tax return has been submitted, Valerie admits that she did not buy a replacement ring but refuses to authorise you to file a suitable amendment to her tax return.** (3)

Total (19)

3. You work for a firm of tax advisers and you are studying for the ATT exams. Imani and Mateo are friends and each is a client of your firm.

On 5 June 2023 Imani bought a commercial property and immediately rented it out to a tenant. The rent was £10,500 per month, payable in advance on the 5th of each month. The tenant always paid the rent on time.

Mateo

On 5 July 2023 Mateo bought a residential property and immediately started to look for a tenant. The property was let out from 6 August 2023. The rent was £2,150 per month, payable in advance on the 6th of each month. The tenant always paid the rent on time.

From 5 July 2023 to 5 April 2024 Mateo paid the following expenses in relation to the property:

	£
Addition of a shower to the bathroom	1,000
Council Tax – period to 31 March 2024	1,800
Buildings insurance – period to 31 December 2023	1,200
Buildings insurance – year to 31 December 2024	2,500
Interest on mortgage	4,800
Repainting the window frames in September 2023	1,750

Mateo used his own car in relation to his property rental business. From 5 July 2023 to 5 April 2024 he visited the property 12 times, driving a total of 500 miles. On each of the visits, he paid a road toll of £10. Mateo does not maintain accurate records of the costs incurred in running his car.

Mateo recently became a personal tax client of your firm. He has never filed a personal tax return. He provided you with a list of his other sources of income and charitable payments. However there is no supporting documentation. Mateo insists that you submit his personal tax return on the basis of these figures. You know that Mateo is not good at record keeping and that some of the figures may be wrong.

Requirements:

1) Explain Imani's options for calculating her taxable property income for 2023/24. (4)

2) Calculate Mateo's taxable property income for 2023/24 assuming he wishes to minimise his Income Tax liability for the year. (5)

3) Explain Mateo's reporting obligations under the Income Tax Self-Assessment system, including relevant deadlines for 2023/24 and the maximum penalties for failing to meet them. Do not comment on payment deadlines or penalties. (6)

Total (15)

4. Jake Johnson is a longstanding client with a large portfolio of capital assets. He is single, 70 years old, has no children and is an additional rate taxpayer.

He has emailed you for advice on the Capital Gains Tax implications of gifts that he plans to make to his nieces, Madeleine and Isabel, in March 2025. He would like to claim any reliefs available to reduce his tax liability.

The details of the planned gifts are as follows:

Gift to Madeleine

Madeleine is single and is about to move to Cardiff.

Jake owns a house in Cardiff. He bought the house as an investment property in 2008 for £145,000, including associated legal and professional fees of £6,000.

The house is currently empty as Jake's long-term tenants have recently moved out.

Jake intends to gift half of the house to Madeleine. The estimated value of the half share gifted is £200,000 and the legal and professional transfer costs are £1,120 which Jake will pay for.

Gifts to Isabel

Isabel is married and owns a home in Leicester with her husband as equal joint tenants.

Jake owns an antique diamond necklace worth £125,000 which he inherited on the death of his grandmother in 1993 when it was worth £72,500. His grandmother purchased the necklace for £15,000 in 1959.

Jake owns 2,000 £1 ordinary shares in Fort Ltd, an unquoted trading company, worth £75,000. He bought the shares at par on the incorporation of the company in 2003. He has never worked for the company.

Jake plans to gift the necklace and all of the Fort Ltd shares to Isabel.

Jake does not think that the market values in March 2025 of the Cardiff house, the necklace, and the Fort Ltd shares will be significantly different from their current values.

Additional request for advice:

In his email Jake also asked for advice concerning some shares he owns in Tanner plc.

On 8 January 2024 Tanner plc took over Farrier Ltd, an unquoted trading company.

Jake had owned 10,000 £1 ordinary shares in Farrier Ltd which he bought for £165,000 in August 2006. He had never worked for Farrier Ltd.

The terms of the takeover were for each £1 ordinary share in Farrier Ltd, Jake received:

£4 cash	
£25 of 8% loan stock in Tanner plc	Valued at £35
Five ordinary shares in Tanner plc (nominal value £1)	Valued at £5.50 per share

Requirements:

Write an email to Jake in which you:

1) **Explain, with supporting calculations, the Capital Gains Tax implications for Jake in respect of his planned gifts to Madeleine and Isabel. Assume rates and allowances for 2023/24 continue in future tax years.** (9)

2) **Explain the Capital Gains Tax consequences for Jake of the takeover of Farrier Ltd, and calculate any chargeable gain(s) arising in 2023/24.** (7)

Total (16)

5. Rita Harper is UK resident and UK domiciled.

She recently resigned from her employment as a director of a travel company, without having another job to go to. She left because in the last two years her employer has demanded at short notice that she worked long hours most days and at weekends. Her employment contract stipulated that her working hours should be 37.5 hours a week, Monday to Friday.

After a brief search for jobs with competitors, Rita is now considering two job offers, one with Holidays R Us Ltd and the other with Vacations 4 You Ltd. She will start her new job on 6 April 2025.

Both jobs will pay the same salary of £52,000, and both employers have said that they will pay 15% of her salary into her occupational pension scheme.

Both prospective employers also offer, for free, one of their package holidays each year to employees who have worked for them for at least three years. This includes flights, hotel accommodation and transport to and from the airports.

The difference between the prospective job offers are the other benefits provided which are as follows:

Holidays R Us Ltd

1) Company car
   a) New hybrid Hyundai car with CO_2 emissions of 44 g/km and an electric mileage range of 35 miles.
   b) Holidays R Us Ltd will pay £25,950 for the car, which has a list price of £27,500, but Rita will have to pay £5,950 towards the purchase of the car.
   c) A free designated car parking space near the office. The annual cost of the parking space is £3,750. She will also be provided with the use of a free electric charging point which has an annual cost of £950.
   d) The company will pay for all of Rita's petrol.

2) Private medical insurance as part of the group policy
   The cost of Rita's share of the group insurance premium paid by Holidays R Us Ltd will be £1,100.

Vacations 4 You Ltd

1) A mileage allowance for the use of her own diesel car
   Vacations 4 You Ltd will pay 35p for all of her business and private mileage in the tax year.
   Rita expects to drive a total of 16,600 miles during the year, 30% of which will be for private journeys.

2) Company house
   a) Use of a house which Vacations 4 You Ltd purchased in 2016 for £198,000. An extension was added in 2020 at a cost of £24,000.
   b) The value of the house at 6 April 2025 is estimated to be £315,000 and the rateable value is £9,000.
   c) The furnishings will be provided new when Rita moves in and will cost £3,500.
   d) Rita will pay all the household bills which are estimated to be £4,800 and she will contribute £600 per month for the use of the house.

3) Free meals in the company canteen
   Provided to all employees at an annual cost of £1,300 per head.

Rita is unsure of the taxable value of the benefits.

As the rest of the terms of employment are the same, she has decided that she will choose the job with the lowest value of taxable benefits.

Requirements:

1) Explain how the benefit of a free package holiday would be calculated if Rita stays with her new employer for at least three years. (2)

2) Calculate the annual taxable value of the other benefits provided by each of Rita's prospective jobs for 2025/26. Identify any benefits which are not taxable. (11)

3) Calculate the 2025/26 National Insurance Contributions payable by Rita in relation to each job offer. (3)

Assume the 2023/24 tax rates and allowances in the ATT Tax Tables apply in 2025/26.

Total (16)

6. Colin and his girlfriend Jackie are potential new clients who have contacted you for advice. Before leaving the UK on 5 April 2020 for a round-the-world trip, Colin had been UK resident for 10 years and Jackie had been UK resident since first coming to the UK in 2017/18. They are both domiciled in Ruritania.

Neither of them has visited the UK since they left, and they have already received advice from their previous tax adviser that they have been non-UK resident since 6 April 2020. They do not want you to revisit this advice.

Since leaving the UK, Colin and Jackie have sold the following assets:

	Asset	Purchase date	Purchase price £	Disposal date	Disposal proceeds £
Colin	Ruritanian residential property	1 Jan 2005	312,500	23 July 2022	704,545
	UK residential property	5 April 2014	500,000	5 Oct 2023	900,000
	Painting	17 Nov 2020	20,000	3 Feb 2023	35,000
Jackie	Shares in Ruritanian company	25 Aug 2015	150,000	23 Dec 2023	200,000

Colin has never lived in either of the UK or the Ruritanian residential properties. Five years before leaving the UK, Colin re-mortgaged the UK residential property when it was valued at £600,000.

Requirements:

1) **Explain the actions you should take and the issues you should consider before taking on Colin and Jackie as clients.** (3)

2) **Calculate Colin's chargeable gain that is taxable in 2023/24. Include all options for the calculation of the gain.** (4)

3) **If Colin and Jackie reacquire UK residence in 2024/25, explain their potential exposure to UK Capital Gains Tax in relation to their disposals since their departure from the UK. Include calculations of any chargeable gains or allowable losses.** (8)

Total (15)

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Sample (2025)

PAPER 1

PERSONAL TAXATION

Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1.

Zeena – Income Tax computation 2023/24

	Non-savings income £	**Savings income £**	**Dividend income £**	
State pension	9,600			(1)
Private pension	15,300			(½)
Dividends (W1)			11,600	(½)
Interest		2,200		(½)
Property income (W2)	5,875			(½)
Less: Personal allowance	(12,570)			(½)
Taxable income	18,205	2,200	11,600	

Income tax:	£		£	
Non-savings income	18,205	x 20%	3,641	(½)
Savings income	1,000	x 0%	0	(½)
Savings income	1,200	x 20%	240	(½)
	2,200			
Dividend income	1,000	x 0%	0	(½)
Dividend income	10,600	x 8.75%	928	(½)
	11,600			
Income tax liability			4,809	(½)
Less:				
Tax reducer - MA (W3) (£1,260 x 20%)			(252)	(1)
PAYE			(2,400)	(½)
Income Tax payable for 2022/23			**2,157**	(½)

Workings

(W1) Dividend income

£14,700 - £3,100 (N1) = £11,600 **(½)**

(W2) Property income

	£
Rents received (N2)	13,750 **(½)**
Zeena's share = 50%	6,875 **(½)**
Less: Property allowance (N3)	(1,000) **(½)**
	5,875

(W3) Marriage allowance (MA)

Zeena's net income is less than £50,270, so in 2023/24 she is a basic rate taxpayer **(1).** Keith is not using the entirety of his personal allowance, **(½)** so Zeena can claim the MA. **(½)**

Whilst this does not increase Zeena's personal allowance, **(½)** it acts as a tax reducer equal to 20% of the amount transferred to her. **(½)**

Amount transferred:

£12,570 x 10% = £1,260 (rounded) **(½)**

Notes

(N1) Dividends from stocks and shares ISAs

These are not taxable. **(½)**

(N2) Property income

The default basis of assessment for property income is the cash basis **(½)** as gross property income receipts do not exceed £150,000. **(½)**

This means the rent due on 25 March 2024 that was not paid until 10 April 2024 will be taxed in 2024/25. **(½)**

(N3) Sofa replacement

As the new sofa is like-for-like replacement, the £800 cost would normally be fully allowable. **(½)** However, it is more beneficial for Zeena to claim the property allowance. **(½)**

(Total: 17 marks)

2.

1)

Carol

The tax charge associated with withdrawing the free shares from the SIP depends on the time that has elapsed between acquisition and withdrawal **(½)**.

Income Tax consequences of withdrawing free shares from the SIP

1) **Withdrawn within three years (½) (i.e. those awarded on 1 March 2023 and 2024)**

   Income Tax is charged on the value at the date of withdrawal **(½)**. So, Carol will be taxed on £7,500 **(1)** (1,500 × £2.50 × 2) in relation to these two awards.

2) **Withdrawn within three to five years (½) (i.e. those awarded on 1 March 2021 and 2022)**

   Income Tax is charged on the lower of the value at the date of award and the date of withdrawal **(½)**.

   So, relating to the award on 1 March 2018 Carol is taxed on £3,600 **(½)** and the award on 1 March 2017 she is taxed on £3,475 (1,390 × £2.50) **(1)**.

Max: 4 marks

2)

Valerie - EMI

There is no tax charge on the grant of the EMI options. **(½)**

There is an income tax charge on the exercise of the options as they were granted at a discount **(½)** to the market value at the date of the grant.

The amount subject to income tax at exercise is 100,000 **(½)** x (£2.00 - £1.80) **(½)** = £20,000.

2 marks

3)

Valerie - CGT computation:

			BADR (1)	Non-BADR
Disposal of Court Ltd shares			£	£
Disposal proceeds	75,000 (½) x £6.50 (½)	487,500		
Base cost	75,000 x £2.00 (½)	(150,000)		
			337,500	
Disposal of land				
Disposal proceeds		2,000,000 (½)		
Base cost	(A / (A+B)) (½) x £125,000			
	A = 2,000,000 (½)			
	B = 250,000 (½)			
	2,000,000/2,250,000 x £125,000 (1)	(111,111)		
	Planning fees	(50,000) (1)		
				1,838,889
Ring				
Proceeds	Insurance	150,000 (½)		
Cost		(25,000) (½)		
		125,000		
Gain deferred		(35,000) (½)		
Chargeable now	Insurance proceeds retained (½)			90,000
	(150,000 – 60,000)		337,500	1,928,889
Annual exempt amount	(1)			(6,000)
			337,500	1,922,889

Chargeable gain

BADR gain at 10%	£337,500 x 10% **(½)**	33,750
Non-BADR gain at 20%	£1,922,889 x 20% **(½)**	384,578
		418,328

Max 10 marks

4) If Valerie refuses to make a suitable amendment to her tax return, you should:

- Check the engagement letter to see if you have authority to disclose anyway **(½)**
- Cease to act **(½)** and advise Valerie of this in writing **(½)**
- Inform HMRC that you have ceased to act for Valerie **(½)**
- Consider withdrawing any reports you have signed **(½)**
- Consider whether a money laundering report should be made **(½)**
- Carefully consider your response to any ensuing professional clearance letter **(½)**

Max 3 marks

(Total: 19 marks)

3.

(1) Imani can calculate her taxable property income on the cash basis as her gross property income **(½)** does not exceed £150,000 **(½)** for the year. This limit is assessed on a cash basis **(½)** and is reduced proportionately if the property business is not carried on for the whole tax year **(½)**. Therefore, her threshold for 2023/24 is £125,000 (10/12 x £150,000) **(½)**.

Her cash property income receipts for the year are £115,500 (11 x £10,500) **(½)** and she is therefore entitled to use the cash basis **(½)**. She can however make an election to use the accrual basis **(½)**. If she did so her income for 2023/24 would be £105,000 (10 x £10,500) **(½)**. The election would need to be made by 31 January 2026 **(½)**.

Max 4 marks

(2) Mateo's taxable property income:

Clearly preferable to use the cash basis **(½)**.

		£		£
Rental income	8 x £2,150 **(½)**			17,200
Shower addition (capital)		-	**(½)**	
Council Tax		1,800	**(½)**	
Buildings insurance	£(1,200 + 2,500)	3,700	**(1)**	
Interest on mortgage		-	**(½)**	
Repainting the windows		1,750	**(½)**	
Car - mileage	500 x £0.45	225	**(½)**	
Toll	12 x £10	120	**(½)**	
				(7,595)
Taxable property income				9,605

5 marks

(3) Mateo now has the obligation to file an annual tax return **(½)**. If completing a paper **(½)** return, the deadline for filing is 31 October 2024 **(½)**; if filing online **(½)**, the deadline is 31 January 2025 **(½)**. In each case the deadline is, if later, 3 months after the tax return is issued **(½)**.

Penalties for late filing:

- Initial penalty of £100 **(½)**
- More than 3 months late **(½)** - £10/day for 90 days **(½)**
- More than 6 months late **(½)** – the greater of 5% of tax due and £300 **(½)**
- More than 12 months late **(½)** – the greater of 5% of tax due and £300 **(½)**

Max 6 marks
(Total: 15 marks)

4.

To: Jake Johnson
From: Tax assistant
Date: xx.xx.xx
Subject: Capital gains Tax advice

I have set out below the capital gains tax details that you requested in your recent email.

1) The Capital Gains Tax implications of planned gifts

Any chargeable gains arising on the gifts will be taxed on you in 2024/25 **(½)**
Disposal consideration will be the market values of the assets gifted in March 2025 **(½)**

Gift to Madeleine

All the legal and professional fees relating to the gift of the half share of the house are deductible in calculating the gain **(½)**
Gift relief is not available to defer the gain as an investment property is not a qualifying asset **(½)**
As the house is residential property, your capital gains tax annual exempt amount (and any capital losses) for 20204/25 will be set against the gain on the property in preference to any other gains arising in the tax year **(½)**
As you are an additional rate taxpayer, any remaining gain will be taxed at 28% **(½)**
Chargeable gain in 2024/25:

			£
Market value	200,000		
Less: Estimated legal and professional fees	(1,120)		
Net sale proceeds	198,880	**(½)**	
Less: Cost (£145,000 x 50%)	(72,500)	**(½)**	
Chargeable gain	126,380		

Gifts to Isabel

The diamond necklace is a non-wasting chattel **(½)**
As both the gross sale proceeds and cost exceed £6,000, a chargeable gain arises as normal **(½)**
Gift relief is not available to defer the gain as a diamond necklace is not a qualifying asset **(½)**
As you are an additional rate taxpayer, the gain will be taxed at 20% **(½)**
As any number of shares in an unquoted trading company are qualifying assets, gift relief is available to defer the gain **(½)**
Gift relief is optional and would require a joint claim **(½)** by you and Isabel within four years of the end of the tax year of the gift, so by 5 April 2029 **(½)**
Assuming gift relief is claimed, you will have no capital gains tax to pay on the gift of the shares **(½)**
Chargeable gain arising in 2024/25:

Necklace	£	
Market value	125,000	
Less: Cost	(72,500)	
Chargeable gain	52,500	**(½)**

Your capital gains tax liability (assuming there are no other disposals in the tax year) would be:

Residential property	£	
Chargeable gain	126,380	
Less: Annual exempt amount	(6,000)	**(½)**
Gain	120,380	
Capital gains tax (28%)	33,706	**(½)**
Necklace		
Capital gains tax (£52,500 x 20%)	10,500	**(½)**
	44,206	

Max 9 marks

2) Takeover – 2023/24

Set out in the table below is an explanation of how each element of the consideration on takeover is treated:

	Consideration	Allocation of original cost	Explanation of consequence	
	£	£		
Cash	40,000	9,925	A chargeable gain of £30,075 (£40,000 – £9,925) arises and is taxed in 2023/24	**(½)** **(½)**
Loan stock in Tanner plc	350,000	86,842	A chargeable gain of £263,158 (£350,000 – £86,842) arises in 2023/24 but is frozen and will not be taxed until Jake disposes of the loan stock	**(½)** **(½)** **(½)**
Shares in Tanner Ltd	275,000	68,233	No chargeable gain arises on a share for share exchange The Tanner plc shares are deemed to have been acquired in August 2006 for £68,233	**(½)** **(1)**
	665,000	165,000		
	=======	=======		
	(1½)	**(1½)**		

7 marks

If you require any further clarification please do not hesitate to contact me.

Best wishes

(Total: 16 marks)

5.

1) Inhouse benefit

If a travel company gives a free holiday to an employee, this is an inhouse benefit **(½)** (as the product is something the employer sells in the course of their business).

If given free the benefit is taxable at the marginal additional cost to the employer of providing the product **(½)** (i.e. the expense the employer would save if the benefit had not been provided to the employee). **(½)**

Accordingly, any costs paid by the employer directly to the airline, hotel etc they will not recover as they are not selling to a member of the public. **(½)** This benefit would be assessed on Rita at the cost to the employer (but not the price a member of the public would pay for the holiday). **(½)**

However, services the employer supply themselves as part of the holiday package (e.g. transport from airport to hotel, administration services etc) do not give rise to additional expense to the employer as the transport buses will run anyway with or without Rita. **(½)**

Max 2 marks

2) Taxable benefits – 2025/26

Holidays R Us Ltd

Benefits:		£	
Employer pension contributions	Exempt	0	**(½)**
Company car benefit (W1)		2,700	**(see W)**
Fuel benefit (W1)		3,036	**(see W)**
Car parking space	Exempt	0	**(½)**
Use of electric charging point	Exempt	0	**(½)**
Private health insurance		1,100	**(½)**
		————	
Total taxable benefits from Holidays R Us Ltd		6,836	
		======	

Vacations 4 You Ltd

Benefits:		£	
Employer pension contributions	Exempt	0	**(PAG)**
Mileage allowance benefit (W2)		905	**(see W)**
Living accommodation benefit (W3)		7,300	**(see W)**
Free meals (as provided for all employees)	Exempt	0	**(½)**
		————	
Total taxable benefits from Vacations 4 You Ltd		8,205	
		======	

Workings

(W1) Car and fuel benefit

CO_2 emissions = 44 g/km hybrid car with 35 electric mileage range

Appropriate percentage = 12% (½)

	£	
List price of car (Note)	27,500	(½)
Less: Capital contribution towards purchase of car (Max)	(5,000)	(½)
	22,500	
	======	
Car benefit (£22,500 x 12%)	2,700	(½)
	======	
Fuel benefit (£25,300 x 12%)	3,036	(½)
	======	

Tutorial note:

The car benefit is based on the manufacturer's list price less any capital contribution made by Rita, subject to a maximum of £5,000.

The price paid by the company for the car is irrelevant.

(W2) Mileage allowance

Business miles = 16,600 x 70% = 11,620 (Note) (½)

		£	£	
Mileage allowance received (16,600 miles x 35p)			5,810	(½)
Less: ITEPA mileage rates				
10,000	x 45p	4,500		(½)
1,620	x 25p	405		(½)
11,620		4,905	(4,905)	
======		======		
			905	
			======	

Tutorial note:

The company pays an allowance for all of Rita's mileage, but the HMRC allowance only applies to business mileage.

Accordingly, all the private mileage payments of £1,743 (16,600 x 30% = 4,980 x 35p) are taxable.

However, there is an allowable deduction for the business mileage of £838 as the HMRC allowance is £4,905 and the amount received for business miles is £4,067 (11,620 x 35p).

The net effect is a benefit of £905 (£1,743 – £838).

(W3) Company house

	£	£	
Annual value		9,000	(½)
Additional yearly rent			
MV on 6.4.24 (Note)	315,000		(½)
Less: Limit	(75,000)		(½)
	240,000		
	=======		
	x 2%	4,800	(½)
Use of furnishings (£3,500 x 20%)		700	(½)
Household bills – Paid by Rita (Note)		0	(½)
		14,500	(½)
Less: Employee contributions (£600 x 12)		(7,200)	(½)
Total benefit		7,300	
		======	

Tutorial note:

As Vacations 4 You Ltd owned the house for more than six years before Rita moved in, for the additional yearly rent benefit, the original cost and cost of extension are ignored. The market value on the date that she moves in is used instead.

If the household bills had been paid by Vacations 4 You Ltd on behalf of Rita, there would be another benefit at the cost to the employer – but as Rita paid the bills, there is no benefit.

11 marks

3)

National Insurance Contributions payable by Rita:

Class 1 primary	**Holidays R US Ltd**	**Vacations 4 You Ltd**	
	£	**£**	
£(50,270 – 12,570) × 12%	4,524	4,524	(½)
£(52,000 – 50,270) × 2%	35		(½)
£(52,581(W) – 50,270) × 2%		46	(½)
	4,559	4,570	

(W) Vacations 4 You Ltd - Earnings

Earnings	£	£	
Salary		52,000	
Mileage allowance			(½)
Amount received (16,600 miles x 35p)	5,810		(½)
Less: ITEPA mileage rates for NIC			
11,620 (part 2) x 45p	-5,229		(½)
		581	
		52,581	
		======	

3 marks

(Total: 16 marks)

6.

1) The actions to take/issues to consider before taking on Colin and Jackie as clients:

- Undertake client identification as per anti-money laundering procedures **(½)**.
- Assess whether Colin/Jackie represent an acceptable risk for your firm **(½)**.
- Assess whether you have the necessary skills to service Colin and Jackie's needs **(½)**.
- Assess whether there are any potential conflicts of interest **(½)**.
- Obtain professional clearance from previous advisers **(½)**.
- Prepare a letter of engagement **(½)** that sets out the scope of the engagement and the basis of fees **(½)**.

Max 3 marks

2) A gain arises on the UK residential property (½) – the post 5 April 2015 gain **(½)** would be subject to CGT when disposed of in 2023/24 under the non-resident Capital Gains Tax rules on UK residential property**.**

	£
Proceeds	900,000 **(½)**
Market value on 5 April 2015	(600,000) **(½)**
Chargeable gain	300,000

If beneficial, Colin could make an election for the gain arising over his entire period of ownership to be time-apportioned between pre- and post-5 April 2015. Only the post 5 April 2015 gain would be chargeable. The chargeable gain would be = 8.5/9.5 **(½)** x £(900,000 – 500,000) **(½)** = £357,895. This is clearly not beneficial **(½).** Another alternative is for a normal calculation of sale proceeds less cost but this is only beneficial in a loss making situation **(½).**

4 marks

3) If Colin regains UK residence in 2024/25, he would be caught by the temporary non-UK resident (TNR) rules **(½)**.

These rules cause certain capital gains realised during a period of temporary non-UK residence to be deemed to arise in the tax year of the individual's return to the UK **(½)**.

A period of temporary non-UK residence is a period of fewer than 5 years **(½).**

The rules only apply to gains realised on the disposal of assets that were owned when the individual became non-UK resident **(½)**.

The rules only apply to individuals who had been UK resident for at least four of the seven tax years **(½)** prior to the year of departure.

Jackie will not be caught by the TNR rules **(½)** as she was not UK tax resident for at least four of the seven years prior to the year of departure from the UK.

In relation to the post-departure transactions:

Ruritanian residential property – the gain on disposal of this property would be caught by the TNR rules if Colin regains UK residence in 2024/25 **(½)**. However, as Colin is not UK domiciled, he could claim the remittance basis **(½)** and so avoid a UK tax charge if he did not remit the sale proceeds to the UK **(½)**.

The chargeable gain is:

		£
Proceeds	**(½)**	704,545
Cost	**(½)**	(312,500)
Chargeable gain		392,045

UK residential property - The pre-5 April 2015 element of the gain that was not charged to CGT in 2023/24 will be subject to CGT under the TNR if Colin regains UK residence in 2024/25 **(½)**. This chargeable gain will be £100,000 (£900,000 - £500,000 - £300,000) **(½)**.

Painting – the gain on disposal of this asset would not be caught by the TNR rules **(½)** as it was acquired after his departure from the UK **(½)**.

Shares in Ruritanian company – the gain on disposal is not subject to CGT, irrespective of when Jackie regains UK residence **(½)**.

8 marks

(Total: 15 marks)