

# THE ASSOCIATION OF TAXATION TECHNICIANS

## ATT PAPER 1 PERSONAL TAXATION

**May 2024**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- 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 in Part II.
- 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. In 2023/24 Newton plc made loans to the following individuals:

<u>Loan made to</u>	<u>Date loan taken out</u>	<u>Amount loaned</u> £	<u>Interest rate paid</u> %	<u>Purpose of loan</u>
John – a director	6.5.2023	50,000	Nil	House purchase
Jane – an employee	6.9.2023	8,000	1.5	Furniture purchase
Julie – John’s wife	6.12.2023	15,500	2	Car purchase
Joseph – an employee	6.2.2024	20,000	2.5	Caravan purchase

These loans are the only loans made to the above individuals, and were all still outstanding at 5 April 2024. The loans are not made under any alternative special remuneration arrangements.

**Calculate, with supporting explanations, the amount of any loan interest benefit arising on each individual in 2023/24.** (4)

2. Mahmoud is aged 52, and his son Tariq is aged 20. In 2023/24 they received the following remuneration from their employer, Hena plc:

	<u>Mahmoud</u> £	<u>Tariq</u> £
Salary	70,000	25,000
<u>Benefits:</u>		
BUPA medical insurance – cost	2,650	–
Work related training course – cost	–	1,750

**Explain how Mahmoud, Tariq and Hena plc will be assessed to National Insurance Contributions on the salaries and each of the benefits in 2023/24.**

**Note: Calculations are NOT required.** (4)

3. Federica is resident and domiciled in the UK and is a higher rate taxpayer.

In 2023/24 Federica received dividends of £1,950 from an Italian company.

The dividends were received net of 22% Italian withholding tax.

Federica has not received any other dividends in the tax year.

**Calculate the Double Taxation Relief available to Federica in 2023/24 on the Italian dividend received. Ignore any double tax treaty.** (3)

4. On 22 August 2023 Lawrence sold a six-acre plot of land for £250,300, incurring estate agent fees of £5,000 and legal costs of £2,300 on the sale.

The six acres were part of a 20-acre plot of land Lawrence had purchased in March 2004.

He had paid £637,000 for the 20-acre plot and incurred legal fees of £5,500 and stamp duty land tax of £13,980 on the acquisition.

On 22 August 2023 the estate agent valued the remaining 14-acre plot, which Lawrence still owns, at £1,100,000.

**Calculate the chargeable gain arising in 2023/24 on Lawrence’s sale of the six-acre plot of land.** (4)

5. Greta is a UK resident individual aged 25. She hopes to purchase her first home by the time she is aged 35.

She plans to save £300 per month to provide her with the deposit she needs, and she envisages purchasing a house for £400,000.

Greta is risk averse and does not want to invest her money in stocks and shares.

If she does not raise enough for the house deposit in 10 years, she thinks that she may spend her savings on going travelling.

**Explain why Greta’s savings plan and future house purchase can be facilitated by investing in a Lifetime ISA and the benefits of doing so. Explain the potential disadvantages if she uses the money to go travelling.** (4)

6. In 2023/24 Naomi sold an antique desk at an auction. She received net sale proceeds of £5,960. This amount is after the auction house deducted commission of 20% of the selling price. Naomi had purchased the desk 10 years ago for £5,250.
- Calculate the chargeable gain arising in 2023/24 on Naomi's sale of the desk.** (4)
7. On 6 September 2022 Mason plc provided its employee Niall with a laptop for private use at home. The laptop had cost Mason plc £920. On 6 February 2024 the company gifted the laptop to Niall when its value was £675. Any business use of the laptop has been insignificant.
- Calculate the benefits arising in 2023/24 in respect of the use and gift of the laptop.** (3)
8. Shaun retired on 5 April 2024. On that date his pension fund was valued at £1,200,000 from which he took a 25% lump sum of £300,000. Shaun was an additional rate taxpayer in 2023/24. His retirement plan is to use half of the remainder of the pension fund to buy an annuity, and leave the rest in the fund to draw on when he wants to. With effect from 2024/25, his expected guaranteed gross annuity will be £28,500 per annum. Shaun has no other source of income.
- 1) **Calculate the net after tax cash amount that Shaun will receive in 2023/24 in respect of the lump sum.**
  - 2) **Calculate Shaun's Income Tax liability for 2024/25, on the annuity. Calculate the maximum amount he can withdraw in 2024/25 from the remainder in his pension fund whilst avoiding paying higher rate tax.**
- Assume that the 2023/24 tax rules, rates and allowances continue in the future.** (4)
9. In May 2012 Dominika bought a diamond necklace for £10,000. On 31 March 2023 the necklace was stolen. Dominika made an insurance claim and on 1 September 2023 she received compensation of £45,000 which she paid into her building society account. In the autumn of 2024 she will use £30,000 of the money to invest in cryptocurrency.
- Explain:**
- 1) **How Dominika is assessed to tax on the insurance proceeds received; and**
  - 2) **The potential consequences of her investment in cryptocurrency, and state the dates by which she must invest and by which she must make a claim for the relief.** (4)
10. In 2023/24 Arjun received £10,000 of dividends from a UK Real Estate Investment Trust (REIT), three quarters of which were paid out of the REIT's tax-exempt property income and gains.
- Explain how Arjun will be assessed to Income Tax on the dividends received in 2023/24 assuming that:**
- 1) **He has £200,000 of employment income; or**
  - 2) **The REIT income is his only source of income.**
- You are not required to calculate the Income Tax liability under each scenario.** (3)

11. Amanda is aged 15. In 2023/24 she received income of £7,480 from a discretionary trust.

The discretionary trust had been set up by her mother, Helen, five years ago.

Amanda and Helen have always been resident in the UK. Amanda has no other source of income and Helen is a higher rate taxpayer.

**Explain, with supporting calculations, how the trust income received by Amanda will be assessed to Income Tax in 2023/24.**

**Note: Detail of how the income is taxed in the trust is NOT required.** (3)

## PART II

**Presentation skills** – awarded for quality of presentation.

(2 marks)

12. Your client, Lena, has provided you with the following details to enable you to prepare her 2023/24 tax return:

- 1) Employment income of £107,300. PAYE of £35,200 has been deducted from this amount.
- 2) In February 2024, Lena sponsored a friend to run a marathon for a UK charity. Lena ticked the box to confirm that the donation of £1,000 was made under gift aid.
- 3) Lena owns a flat which is let out to tenants. The rent was payable in advance on the 6th day of the month. During 2023/24 it was let out until 5 October 2023 for £1,250 per month. When the tenants moved out of the flat, Lena immediately moved in from 6 October 2023 until 5 February 2024, as she was having renovation works done on her home. New tenants moved in on 6 February 2024 at an increased rent of £1,500 per month.

Lena paid the council tax on the flat for 2023/24 which was £2,250. She also paid interest of £3,000 in respect of the mortgage on the flat.

- 4) In May 2023 she received an interest distribution of £1,350 from her holding in a unit trust.
- 5) During 2023/24 she received UK dividends of £5,700.
- 6) In June 2023 Lena subscribed for 500 shares in a qualifying Enterprise Investment Scheme (EIS) company. The shares cost £2,000. She subscribed for a further 1,000 shares in the same company in March 2024, costing £4,500.

The company Lena works for has written to her to warn that she is at risk of redundancy as they may close the office where she works. She has spoken to a couple of her colleagues who also received the same letter, but she is not sure on what grounds an employee can be legitimately made redundant.

### Requirements:

- 1) **Calculate Lena's Income Tax payable for 2023/24, clearly showing your treatment of each item.** (16)
- 2) **Explain whether Lena could be legitimately dismissed by reason of redundancy.** (2)

Total (18)

13. Sajid is an additional rate taxpayer.

In August 2020, Sajid subscribed for 30,000 shares in Beginn Ltd, a qualifying Seed Enterprise Investment scheme (SEIS) company. He paid £20,000 for the shares. His total gains in 2020/21 were £85,000.

In September 2021, Sajid subscribed for 12,000 shares in a qualifying Venture Capital Trust (VCT). He paid £28,000 for the shares.

In January 2022, Sajid sold an antique sculpture, realising a gain of £35,000. In March 2022 he subscribed for 15,000 shares in Startupp Ltd, a qualifying SEIS company. He paid £11,000 for the shares.

In March 2024, Sajid sold the shares in Beginn Ltd for £48,000, the VCT shares for £6,000 and the shares in Startupp Ltd for £24,000.

On both the investments in Beginn Ltd and Startupp Ltd, Sajid claimed SEIS Income Tax relief and made the maximum possible claim for SEIS reinvestment relief.

Sajid has never worked for either Beginn Ltd or Startupp Ltd.

### Requirement:

**Explain the Capital Gains Tax implication of the purchases and sales, and calculate Sajid's Capital Gains Tax liability for 2023/24. State the due date for payment.** (12)

14. Greta and her husband are your clients. Greta is an additional rate taxpayer, and her husband is a higher rate taxpayer.

You have received a letter from Greta, which includes the following information:

“Over the years both my husband and I have each received a number of shares, and share option awards from our respective employers. We’re now a little confused about how these will be taxed when we cash them in. In summary:

Me:

As you know, I work in the product development team of Climate plc, a large, listed company. Eight years ago, the company gave me some £1 A Ordinary shares. All necessary tax and NIC payments were dealt with at that time. As the shares have risen significantly in value, I’m thinking about selling them. Shall I have to pay any tax on the proceeds?

Five years ago, I was granted an option to buy 10,000 £1 B Ordinary shares in Climate plc at any time in the following six years. At that time the shares were worth £50 each. The six-year period is now coming to an end. What are the tax implications of exercising this option? I’m not interested in selling the shares themselves at this stage.

My husband:

He works for Thun Ltd, a small unlisted trading company. He was granted qualifying options under an Enterprise Management Incentive scheme last year. Under this scheme he can exercise his options within 10 years at a 20% discount to the market value of the shares when the options were granted. There’s every expectation that the shares will increase in value over the term of the option. What, if any, tax/NIC was paid on the grant of these options and what will be payable when he exercises them?

Future plans:

My employer has also recently been considering the introduction of a Share Incentive Plan (SIP). I am thinking of becoming part-time in a couple of years, reducing my salary to £100,000. Climate plc wants to introduce a scheme that specifically rewards just the staff in the product development team, including part-time employees, and they believe that a SIP would be suitable for that purpose. Are they right?

I’m slightly uncertain about the value of SIP shares I could get from Climate plc via the various elements of a valid SIP. Please could you clarify this for me?”

Greta’s husband has given you permission to include details relating to him and his tax position in the letter to Greta.

**Requirement:**

**Write a letter to Greta to answer the questions she has raised. No computations are required.** (14)

15. It is 7 May 2024 and Jeremy, a new client, has approached you for advice. He sold a UK commercial property in May 2020 for £5,000,000, having bought it for £3,750,000 some years earlier. He knowingly understated the sale proceeds as £4,000,000 on his 2020/21 tax return, which was filed on 15 January 2022, as he was experiencing cashflow difficulties at the time. Except for understating the sale proceeds on his tax return, he has made no other attempts to conceal the true amount he received.

HMRC has not picked up this error and, as Jeremy has overcome his cashflow difficulties, he wonders whether he should correct the understatement. He says that HMRC’s opportunity to enquire into the relevant tax return has passed and so it may not be prudent to notify HMRC.

Also, although Jeremy has prepared his 2022/23 tax return online, he has not yet filed it. The return shows an Income Tax liability of £45,000 and a Capital Gains Tax liability of £10,000 for 2022/23, together with payments on account for 2023/24 of £22,500 each. Jeremy has never previously had to pay payments on account.

**Requirements:**

- 1) **Write an email to Jeremy including:**
  - a) **Advice as to whether or not he should disclose the 2020/21 understatement to HMRC, and the tax penalty consequences of the choice he makes.** (6)
  - b) **A calculation of the interest and penalties he has already incurred by today’s date in relation to the failure to file his 2022/23 tax return and pay the associated tax on time.** (4)
- 2) **State what action you should take if Jeremy refuses to act on your advice in relation to the understatement of the sale proceeds of the UK commercial property.** (4)

Total (14)