

CIOT - ATT

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 1**

Answer-to-Question-1_

John

$$\text{Average method} = (50,000 + 50,000) / 2 = 50,000$$

$$\text{Strict Method} = ((1 \times 0) + (50,000 \times 11)) / 12 = 45,833$$

We take the lower of these two, note HMRC can elect for us to change this and use the other.

$$\text{Benefit} = 45,833 \times 2.25\% = \text{£}1,031$$

Then we need to time apportion this as loan only taken out in May

$$\text{£}1,031 \times 11/12 = \text{£}945$$

Note the interest was nil so nothing to deduct from this

Jane

Loan is below £10,000 so no benefit arising on this

Julie

Her benefit will be added onto John's

$$\text{Average method} = \text{£}15,000$$

$$\text{Strict method} = ((0 \times 8) + (15,500 \times 4)) / 12 = 5,167$$

HMRC Interest rate	$5,167 \times 2.25\%$	116	
Less: interest paid	$5,167 \times 2\%$	(103)	
Taxable benefit		£13	

Joseph

Average method gives us £20,000

Strict method = $((10 \times 0) + (20,000 \times 2)) / 12 = 3,333$

HMRC Interest rate	$3,333 \times 2.25\%$	75	
Less: Interest paid	$3,333 \times 2.5\%$	(83)	
Net benefit		(8)	

Benefit = $-8 \times 2/12 = -1$

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

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

Answer-to-Question-_2_

Mahmoud and Tarip will both be subject to Class 1 Primary NICs on their salaries.

Hena plc will be subject to Class 1 Secondary NICs on both of their salaries.

Hena plc will be subject to Class 1A NICS on Mahmoud's private medical insurance, Mahmoud has nothing to pay on this

For Tariq's work related training course, as long as these are with an approved body these are deductible and so no NICs will be due on this

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

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

Answer-to-Question-_3_

First we need to gross up these dividends as follows:

$$1,950 \times 100/78 = 2,216$$

$$\text{UK tax to be paid on the dividends} = 2,216 \times 39.35\% = \text{£}872$$

$$\text{Foreign tax already paid} = 2,216 - 1950 = \text{£}266$$

She gets DTR on the lesser of these two which is the foreign tax already paid of £266. This will be deducted from her income tax liability.

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

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

Answer-to-Question- 4

	£		
Proceeds (W1)	243,000		
Less: cost (W2)	(114,467)		
Gain	128,533		
Less: AEA	(6,000)		
Chargeable gain	122,533		

W1
Proceeds = 250,300 - 5,000 - 2,300 = 243,000
Note these are both allowable deductions to be taken off
the sales proceeds

W2
Allowable cost = original cost x A/A+B
= (637,000-5,500-13,980) x
250,300 / (250,300+1,100,000)
= 617,520 x 250,300 / (250,300+1,100,000)
= 114,467

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

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

Answer-to-Question-_5_

A lifetime ISA can facilitate her plan to buy a future house as with a Lifetime ISA you can deposit up to £4,000 per tax year. She will be depositing £3,600 so falls within this. Then each year you get a 25% bonus on this money. She also falls within the age range for this as she is between 18 and 40 and a UK resident.

She can continue to make these contributions up to the age of 50.

Now the rules on this are that the money has to be used to buy her first home. If it is not then we can face some issue.

If Greate decdides to go travelling then she will not be using it to buy her first home and so this means all of the bonus that has topped up her lifetime ISA will be taken away. She will also face an adittional 5% tax charge on anything she wthdraws from the ISA. The only way to withdraw from this ISA with no tax implications are to buy your first home or once you are over the age of 60.

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

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

Answer-to-Question- _6_

Since we have gross sales proceeds above £6,000 and cost below £6,000 here we have a restricted gain. This gain is restricted to the lower of:

- 1) Actual gain (W1) - £2,200
- 2) Gain using 5/3 rule (W2) - £2,417

Lower of these two is the actual gain of £2,200 so this will be the gain that arises for Naomi on the sale of the desk

W1

	£		
Gorss proceeds	7,450		
5,960 x 100/80			
Less: cost	(5,250)		
Gain	2,200		

W2 - 5/3 rule - take cost to be 6,000

	£		
Gorss proceeds	7,450		
5,960 x 100/80			
Less: cost	(6,000)		

Gain	1,450		
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Apply the 5/3 rule = $1,450 \times \frac{5}{3} = 2,417$

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

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

Answer-to-Question- 7_

Benefit on the use of the asset in 2023/24

$$\begin{aligned} \text{Benefit} &= \text{cost of asset} \times 20\% \\ &= 920 \times 20\% = 184 \end{aligned}$$

As he was only loaning this until February 2024 we must time apportion this:

$$\text{Taxable benefit} = 184 \times 10/12 = 153$$

Benefit upon gift of asset

This is the higher of:

- 1) MV of asset at date of transfer - £675
- 2) MV when originally given less amounts already charged for use of asset (W1) - £660

So the benefit arising upon gift of the asset is £675

Total benefit

$$\text{Total benefit} = 675 + 153 = 828$$

W1

	Calculation	£	
MV at date of gift	-	920	
Less:	184 x 7/12	(107)	

charged in 2022/23			
Less: use of asset in 2023/24	184 x 10/12	(153)	
Benefit		660	

Note could apportion if there was significant business use for the business use element of this.

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

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

Answer-to-Question- 8

1) You can access 25% of your pensoin pot tax free, weather you take this all as a lump sump or just every time you draw down from it 25% is tax free. Shaun has taken this entire 25% as a lump sum, such this will be tax free and so net cash after tax will be £300,000.

2) Shauns income tax liability for 2024/25 on his annuity will be £3,186 (W1).

To avoid paying high rate tax Shaun will need to male sure his taxable income does not exceed the basic rate band of £37,700. So the maxiumum amount he could draw down from his pension fund whilst remaining a basic rate tax payer is £21,700 (W2) (N1).

W1

	£		
Annuity	28,500		
Less: PA	(12,570)		
Taxable income	15,930		

Tax liability
 $15,930 \times 20\% = £3,186$

W2

Full BR band	37,700		
Less: used on annuity	(15,930)		
BR band left	21,770		

N1

Note as he has used all of his tax free 25%, all income drawn down from his pension will now be taxable.

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

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

Answer-to-Question- 9_

1) This is treated as a disposal of the necklance, with the compensation received being treated as the proceeds and the cost being the original cost she paid for it. As a result of this she will relise a gain of $(45,000-10,000)$ £35,000. The deemed date of disposal is the date the compensationis received, this will be 1 September 2023. She can deduct her annual allowance off this and will pay CGT at 10% or 20% depending what level tax payer she is.

2) If you reinvest all the insurance proceeds within 1 year of receipt of compensation then you can make a claim for no gain to arise and rollover relief can be used to offset the gain against the base cost of the new asset. So the reinvestment must be by 1 September 2024 and the claim can be made within 4 years of the end of the tax year of disposal - 5 April 2028.

Since she did not use all the insurance proceeds on the new asset - she will face a chargeable gain on amount of compensation she didn't reinvest - £15,000. The rest of the gain can be rolled over against the new asset. Note the new asset must be a qualifying asset.

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

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

Answer-to-Question-_10_

1) When receiving income from an REIT, this is always taxed as property income, non-savings income. The money received will be grossed up by multiplying it by 100/80. The gross figure will then be used in his tax calculation, and since he is an additional rate tax payer he will actually pay 45% on this. The tax already paid will then be given as an income tax reducer when arriving at his tax liability.

2) Again this will be treated as property income. If this is his only source of income, even when grossed up this will fall below his personal allowance and he will face no tax on this. He will actually receive a tax refund on the amount of tax already paid on the income.

Note in both of these cases, if three quarter of this was paid out of tax-exempt property income then the tax credit will only be available on a quarter of this income and only a quarter will need to be grossed up.

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

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

Answer-to-Question- _11_

When income is received from a discretionary trust this will be deemed to have 45% tax deducted at source. So for her income tax calculation this figure will need to be grossed up, and then we can deduct a tax credit of 45% at the end of our calculation to arrive at her tax liability.

Trust income to go into her income tax calculation will be:

$$£7,480 \times 100/55 = 13,600$$

So £13,600 will be added to her NSI for her income tax calculation. Then she will receive a tax credit of:

$$£13,600 \times 45\% = £6,120$$

And this £6,120 is the tax already paid by the trust on the income and so this can be deducted to arrive at her tax due for the year, and this can cause a repayment.

As Amanda has no other income - her income from the trust is above her PA so she will face taxable income of 1,030. However this will create a repayment, once the tax credit is deducted, of £5,090 (W1).

W1

	£		
Trust income	13,600		
Less: PA	(12,570)		

Taxable income	1,030		
Less: trust tax credit	(6,120)		
Tax repayable	(5,090)		

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

CIOT - ATT

Paper: **ATT Paper 1 Personal Taxation**

Part/Module: **Part 2**

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

Answer-to-Question- 12_

1)

	NSI £	SI £	DI	Total
Salary	107,000			
Propert income (W1)	9,000			
Unit trust		1,350		
UK Dividends			5,700	
Net income	116,000	1,350	5,700	123,050
Less: PA (W4)	(1,670)			
Taxable income	114,330	1,350	5,700	121,380

Tax calculation

		%	£
NSI	38,950 (W2)	20	7,790
	75,380	40	30,152
SI (N4)	500	0	0
	850	40	340
DI (N5)	1,000	0	0
	4,700	33.75	1,586
Tax liability			39,868
Less: Mortgage interest			(600)

relief (3,000x20%)			
Less: EIS IT relief (W3)			(1,950)
Less: PAYE			(35,200)
Tax payable			2,118

2)

To justify a dismissal, work must be able to relate it to one of the following:

- the ability or qualification of employee for performing work of the kind which they were employed to do so

- conduct of the employee
- redundancy

As she is being made redundant this is a legitimate reason for dismissal and therefore she can argue her case but the reason for dismissal is legitimate.

W1

	Calc	£	
Rent	(1,250 x 6) + (1,500 x 2)	10,500	
Less: council tax (N1)	2,250 x 8/12	(1,500)	
Mortgage interest (N2)		0	
Net property income (N3)		9,000	

N1

The council tax is only an allowable expense for the period of which the property was available for letting - so this was only a relevant expense for 8 months of the tax

year.

N2

Mortgage interest is not an allowable expense - but it can be used as an income tax reducer at 20% which we will see in the IT computation.

N3

No mention of the cost of the renovation works, would need to understand the nature of these but say these were general repairs and decorating these would be allowable expenses to reduce her property income. If structural renovation would be a capital expense and therefore not allowable.

N4

Higher not additional rate tax payer so entitled to personal savings allowance of £500

N5

Entitled to Dividend allowance of £1,000 despite level of income

W2

Gross donation = $1,000 \times 100/80 = 1,250$

New BR band = $37,700 + 1,250 = 38,950$

New AR band = $125,140 + 1,250 = 126,390$

W3

As both investments were subscriptions both qualify for EIS IT relief.

	No. of shares	Cost £	
June 2023	500	2,000	
March 2024	1,000	4,500	
Total	1,500	6,500	

As he is below the limit of £1,000,000 he can claim IT relief on all of this at 30%.

$$£6,500 \times 30\% = £1,950.$$

This will act as a tax reducer in our IT computation.

W4

Since level of income is over £100,000 we see a reduction in the personal allowance.

We lose £1 of PA for every £2 our adjusted income is over £100,000. Our adjusted income is our total income less any personal pension contributions or gift aid donations.

$$\text{Adjusted income} = 123,050 - 1,250 (W2) = 121,800$$

$$\text{PA reduction} = (121,800 - 100,000) / 2 = 10,900$$

$$\text{PA remaining} = 12,570 - 10,900 = 1,670$$

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

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

Answer-to-Question-_13_

Shares in Beginn Ltd

Since this is a qualifying SEIS, he will be able to use SEIS reinvestment relief on the total gais for the year. With SEIS reinvestment relief he will be able to exempt £10,000 of this gain (20,000 x 50%). This will reduce his gain down to £75,000. And as long of he does not sell these shares within 3 years this will remain an exempt gain. If he does sell them within 3 years then this will become a charegable gain. If makes a loss this loss will be allowable even if sold after 3 year - this loss is trestriced by any IT reducer retained.

Note can carry back the reinvestment relief to previous tax year but due to level of gain in this year would be no need to.

VCT subscription

We do not get any reinvestment relief with VCT share subscriptions. The gain on the sale of these shares will be exempt no matter how long they are owned for, likewise capital loss is not allowable. If the shares are sold within 5 years will see a clawback of IT reducer.

Antique Sculpture and Startupp Ltd

He can again utilise SEIS reinvestment relief at 50% of the value of shares subscribed for (as this is lower than the gain). So SEIS reinvesment relief of (11,000 x 50%) £5,500 is avaviable, and this means he can exempt £5,500 of this gain reucing his gain the year down to £29,500.

Note it hasn't apllied here but he can elect for a lower amount of SEIS reinvesmet relif if gain is small so he can still fully utilise his AEA.

Also note since he never worked for them IT relief is fully available - had he had worked for them it would not have been.

March 2024 sales

Beginn Ltd sale

He has held these shares for more than 3 years so no gain arises from the sale of the shares and the exempt gain remains exempt.

Sale of VCT shares

___ No gain on sale of VCT shares no matter how long have been held for. Will see clawback of IT relief as held less than 5 years

Sale of Startupp Ltd shares

___ As he held these shares for less than 3 years the exempt gain from the sculpture now becomes chargeable. Also the gain on the SEIS shares is chargeable since he held them for less than 3 years.

CGT due

Proceeds	24,000		
Less: Cost	(11,000)		
Gain	13,000		
Less: AEA	(6,000)		
Net chargeable gain	7,000		

___ CGT due = 7,000 x 20% = 1,400

20% since he is additional rate tax payer.

Note the gain on the sculpture becomes chargeable in the year the shares were subscribed for so not a gain on 2023/24

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

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

Answer-to-Question-_14_

Gretas address

Advisors

company address

Date

Dear Greta,

Thanks for getting in contact with me and I'd love to help on these issues.

Sale of Climate plc A shares

Since you have dealt with all of the tax and NIC payments at the time, the only consideration now is capital gains tax on the sale since they have risen in value. The sale of the shares will trigger a capital gain equal to the sales proceeds of the shares less the amount you paid for them less any amount already charged to income tax. You can utilise your annual exempt amount of £6,000 to reduce this gain and since you are an additional rate tax payer you will pay capital gains tax at 20% on this gain

Exercise of option on Climate plc B shares

____Since it sounds like this is part of a share option scheme there will be no income tax or NIC implications on exercise of the option. There will be a tax implication on sale but we can discuss this further when you come to sell them.

Your husband's implications

There will be no tax implications on the grant of the

option. Since the option is at a discounted rate he will face a tax charge on exercise if within 10 years of the grant. He will face income tax on the lower of :

i) MV of shares at grant	X	or
ii) MV of shares at exercise	X	
Less: option price	<u>(X)</u>	
'Employment income'	X	

As they are not readily convertible assets will be no NIC implications

Future Plans

Becoming part-time will create no issues as all employees must be invited to these, whether full or part time, as long as worked for 18 months.

In terms of the value of SIP shares you could acquire:

- Can be awarded up to £3,600 worth of free shares per annum
- Can buy partnership shares up to the lower of £1,800 or 10% of salary + bonus. (so £10,000 for you).
- Employer can give up to two further matching shares to employee for each partnership share acquired
- Any dividends from share shares can be reinvested to acquire dividend shares

Please contact me if you have any questions about anything within this letter.

Kind Regards

Your Tax advisor

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

Answer-to-Question-_15_

1)

Hi Jeremy,

Hope you are well.

In response to your recent questions. I strongly advice that you do disclose this information to HMRC. This will be seen as an incorrect return for HMRC and the penalty would be much more favourable if you disclose this yourself rather than HMRC finding out.

If you disclose it youself then

Penalties for failure to file your 2022/23 Tax return.

This was due to be filed on the 31 January 2024 and such you are 3 months and 7 days late as it currently stands.

- You will receive an initial penalty of £100 for failure to file.

- Since you are over 3 months late you will receive a further £10 a day penalty for each day you don't file this. So far you are 7 days past the 3 month period so this is another £70.

So far your pentlies for late filing are £170

Late payment penalty

Payment was also due 31 January and we have a penalty for this of 5% of your liability.

Liability = 55,000 x 5% = £2,750

Interest penalty

You will also face interest on this at 6.5% from the date it was due

$$\text{Interest} = 55,000 \times 6.5\% \times 3.4/12 = 1,013.$$

So total penalties of 170 + 2,750 + 1,0130 = 3,933

King regards

Your Tax advisor

2)

You should review your engagemnt letter and disengage with the client.

You should notify HMRC of this issue and that you have disengaged with the client.

You should also notify any future adivosor that contacts you for pro clearence of this issue.