



May 2024 Examination

PAPER 1

Personal Taxation

Part I Suggested Answers

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

1. Newton plc – Loan interest benefits – 2023/24

Loan made to	Calculation	Benefit £	Explanation	
John	$£50,000 \times 2.25\% \times 11/12$	1,031	Standard calculation	1½
Jane	n/a	Nil	Exempt as total amount outstanding throughout 2023/24 does not exceed £10,000	½
Julie	$£15,500 \times (2.25\% - 2\%) \times 4/12$	13	Beneficial loans to close relatives (including spouse) are assessed on the employee (John) using the standard calculation	1½
Joseph	n/a	Nil	Interest rate paid is not at a beneficial rate as it exceeds 2.25%	½

2. National insurance contributions – 2023/24

Mahmoud

- Salary is 'earnings' for Class 1 primary contributions (½) and taxed at 12% on earnings between £12,570 and £50,270, and 2% on the excess over £50,270. (½)
No NICs are payable by Mahmoud on taxable benefits, including the BUPA medical insurance. (½) (see Tutorial Note)

(Max 1 mark)

Tariq

- Salary is 'earnings' for Class 1 primary contributions (½) and taxed at 12% on earnings over £12,570. (½)
- No NICs are payable by Tariq on the benefit of the work related training course. (½) (see Tutorial Note)

(Max 1 mark)

Hena plc

- Mahmoud's salary is assessed to Class 1 secondary contributions (½) at 13.8% on earnings over £9,100. (½)
- Class 1A is payable on the BUPA medical insurance benefit at 13.8%. (½)
- No Class 1 secondary contributions on Tariq's salary as he is aged under 21 (½) and his salary is below the upper secondary threshold of £50,270. (½)
- No NICs payable by employers on the work-related training course as it is an exempt benefit. (½) (see Tutorial Note)

(Max 2 marks)

(Total Max 4 marks)

Tutorial note:

- Employees are not liable to NICs on taxable benefits of employment, only employers are liable to Class 1A NICs.
- Work related training courses are an exempt benefit for income tax purposes and therefore are also exempt for NIC purposes

3. Federica – Double taxation relief

Double taxation relief = Lower of		1/2
	£	
Overseas tax paid (£1,950 x 22/78)	550	1
	=====	
UK income tax		
Gross dividend income = (£1,950 x 100/78) = £2,500		1/2
Tax on this income		
£		
1,000 x 0% (Dividend Allowance)	0	1/2
1,500 x 33.75%	506	1/2
	=====	
2,500	506	
=====	=====	

Tutorial Note:

The Dividend Allowance is available to all taxpayers (regardless of the level of taxable income). For 2023/24 the Dividend Allowance is £1,000.

4. Lawrence – Chargeable gain on sale of the six-acre plot of land

	£	
Gross sale proceeds	250,300	1/2
Less: Selling expenses – estate agent fees	(5,000)	1/2
– legal costs	(2,300)	1/2
	=====	
Net sale proceeds	243,000	
Less: Deemed cost		
Total allowable costs for 20 acre plot:		
(£637,000 + £5,500 + £13,980) = £656,480		1
£656,480 x $\frac{250,300}{250,300 + 1,100,000}$	(121,689)	1 1/2
	=====	
Chargeable gain	121,311	
	=====	

Tutorial Note:

- (i) *The estate agent and legal fees paid on 22 April 2023 relate 100% to the sale of the six-acre plot and therefore the full amount is allowable.*
- (ii) *Legal fees and stamp duty land tax are incidental costs of acquisition and both are allowable deductions. As these costs relate to the whole twenty acre plot the 'A/A + B' formula must be applied to the total allowable costs incurred on acquisition.*
- (iii) *In calculating the cost of the part disposed of, the 'A' in the formula is the gross sale proceeds; i.e. before selling expenses are deducted.*

5. Greta – Lifetime Individual Savings Account

The savings plan and house purchase can be facilitated because the following LISA conditions are satisfied:

Condition	Satisfied?	Comment
Individual aged 18 or over but under 40	√	Aged 25
Maximum savings of up to £4,000 per tax year up to 50 th birthday	√	Greta saving £3,600 per tax year up to the age of 35
Can be a cash LISA, stocks and shares LISA or combination of both	√	Given Greta is risk averse she will choose a cash LISA
Must be used to purchase a first home worth up to £450,000 provided the LISA held for at least 12 months	√	House to be purchased is likely to cost £400,000 and LISA will be held for at least 10 years

(Max 2 marks)

Benefits

- No tax on interest earned in the cash LISA. (½)
- Government will add a tax-free 25% bonus to the amounts saved in the LISA. (½)

(1 mark)

Potential disadvantages if Greta does not buy a house

- If withdrawn in ten year's time, as suggested, this will be before her 60th birthday (½), accordingly:
 - the Government bonus (and associated interest) will be lost (½)
 - Greta will be subject to a 5% charge on the withdrawal. (½)

(Max 1 mark)

Tutorial Note: Greta can only withdraw from the LISA tax-free after her 60th birthday.

(Total Max 4 marks)

6. Naomi – Sale of antique desk

Antique desk = non-wasting chattel (see Tutorial Note)

Chargeable gain = Lower of:

(i) Normal gain

	£	
Gross sale proceeds (£5,960 x 100/80)	7,450	1
Less: Commission (20% x £7,450 or 20/80 x £5,960)	(1,490)	½
	5,960	
Net sale proceeds	5,960	
Less: Cost of desk	(5,250)	½
	710	

(ii) 5/3rds rule

= (£7,450 gross sale proceeds – £6,000) x 5/3	2,417	1½
	2,417	

Tutorial note:

*To determine the appropriate rules to apply to non-wasting chattels, you must compare the cost and the **gross** sale proceeds to £6,000, not the net sale proceeds. The gross sale proceeds are £7,450. As the gross sale proceeds exceed £6,000, and the cost is less than £6,000, the marginal gain rules apply.*

7. Niall – Use and gift of laptop

	£	Assessed in 2023/24 £	
Use of laptop benefit			
2022/23 (£920 x 20% x 7/12)	107		1/2
2023/24 (£920 x 20% x 10/12)	153	153	1/2

	260		
	=====		
Gift of laptop benefit			
Greater of			
(i) Market value of laptop (6 February 2024)	675	675	1/2

(ii) Original value of laptop (6 September 2022)	920		
Less: Use of asset benefits to date of gift	(260)		

	660		1/2
	=====		
Total benefits assessed in 2023/24		----- 828 =====	1/2

8. Shaun – Retirement income

1) Lump sum withdrawal in 2023/24

	£	£	
Lump sum amount		300,000	
Less: Income tax on lump sum: (<i>Tutorial Note</i>)			
Lump sum amount	300,000		
Tax free amount	(268,275)		1/2

Taxable amount	31,725		
	=====		
As an additional rate taxpayer			
Income tax at 45%	14,276	(14,276)	1/2
	=====		
Net after tax cash amount		----- 285,724 =====	1/2

2) Income tax liability – 2024/25

		£	
Gross annuity		28,500	1/2
Less: Personal allowance		(12,570)	1/2

Taxable annuity (non-savings income)		15,930	
		=====	
Income tax liability (£15,390 x 20%)		3,186	1/2
		=====	

**Maximum withdrawal from pension fund in 2024/25
(to avoid higher rate tax)**

	£	
Total pension income Shaun can have to maximise use of his personal allowance and basic rate band (£12,570 + £37,700)	50,270	1/2
Less: Guaranteed annuity each year	(28,500)	1/2
	21,770	
Maximum additional withdrawal	21,770	
	=====	

Tutorial notes:

The lump sum amount received exceeds £268,275 (25% x lifetime allowance of £1,073,100).

For 2023/24 onwards, the maximum tax free lump sum remains frozen at the 2022/23 amount of £268,275.

The maximum lifetime allowance of £1,073,100 still remains in the statute books but the lifetime allowance charge has been removed in 2023/24 and will be abolished in 2024/25.

For 2023/24 onwards, amounts in excess of the maximum tax free lump sum (£268,275) are taxed at the taxpayer's marginal rate of tax. In this case Shaun is an additional rate taxpayer therefore the charge is calculated at 45%.

9. Dominika

1) Receipt of insurance proceeds in 2023/24

- The receipt of insurance proceeds when a chargeable asset (such as a diamond necklace) is lost is a deemed disposal which triggers a chargeable gain. (1/2).
- The gain is calculated as the difference between the insurance proceeds received and the cost of the necklace. (1/2)
- The gain of £35,000 (£45,000 – £10,000) is assessed in 2023/24 (1/2) as the date of disposal is when the insurance is received in September 2023 (not when the necklace was lost in March 2023). (1/2)

2) Investment in crypto currency in 2024/25

- As Dominika is investing in chargeable assets, she can make a rollover relief claim and defer some of the gain arising in 2023/24. (1/2) (see *Tutorial Note*)
- The claim will result in a repayment of Capital Gains Tax already paid in respect of the gain. (1/2)
- The chargeable gain in 2023/24 will be £15,000 (£45,000 – £30,000) being the amount of proceeds retained (i.e. not reinvested). (1/2)
- The amount of rollover relief claim will be the rest of the gain of £20,000 (£35,000 – £15,000) (1/2) and the base cost of the crypto currency will be £10,000 (£30,000 – £20,000). (1/2)
- Dominika must invest in the crypto currency before 1 September 2024 (1/2) and she must claim the relief by 5 April 2028 (i.e. within four years of the end of the tax year of the disposal). (1/2)

(Max 4 marks)

Tutorial note:

The replacement asset does not have to be another necklace; as long as it is a chargeable asset and is purchased within 12 months of the disposal, a rollover relief claim can be made.

10. Arjun – REIT income

1) If Arjun has employment income of £200,000

- £7,500 of the dividends received are ‘qualifying REIT dividends’ as they are paid out of tax-exempt property income and gains of the REIT. The qualifying dividends are treated as UK property income in Arjun’s income tax computation. (½)
- The amount received is deemed to have suffered basic rate income tax at source (½), therefore the gross amount of £9,375 (£7,500 x 100/80) will be taxed as non-savings income at 45% (½) as Arjun is an additional rate taxpayer, (½) (see *Tutorial note*)
- The remaining £2,500 of the dividends received is paid out of ‘other profits’ of the REIT and is treated as normal dividend income. (½)
- These dividends are taxed at 39.35% on any excess over the dividend allowance for 2023/24 of £1,000. (½)

(Max 2 marks)

2) If Arjun no other income

- The gross income of £11,875 (£9,375 + £2,500) is below Arjun’s personal allowance. Therefore he is a non-taxpayer and no income tax is due. (½)
- However, as the £7,500 of the dividends paid out of tax-exempt property income and gains is treated as UK property income on which basic rate tax is deemed to have been suffered at source, the £1,875 (£7,500 x 20/80) tax credit is repayable. (½)

(Max 1 mark)

(Total Max 3 marks)

Tutorial note:

With employment income of £200,000 Arjun will have no personal allowance and he will be an additional rate taxpayer. The qualifying REIT dividends will be treated as the top slice of his non-savings income.

11. Amanda – Child trust income

- The discretionary trust (DT) income is assessed on Helen, not Amanda, (½)
- This is because the income is derived from a parental settlement as the following conditions are satisfied:
 - Helen (i.e. a parent) set up a source of income for the benefit of Amanda (i.e. her child), (½)
 - Amanda is under the age of 18 and is unmarried, (½) and
 - The gross DT income received is £13,600 (£7,480 x 100/55) (½) which exceeds the de minimis limit of £100 per annum. (½)(see *Tutorial Notes*)

(Max 1½ marks)

- The gross DT income of £13,600 is:
 - taxed as non-savings income (½) in Helen’s income tax computation and,
 - as she is a higher rate taxpayer, is taxed at the rate of 40% ie an Income tax liability of £5,440 (£13,600 x 40%). (½)
- As the DT income is received from the trustees net of a 45% tax credit, Helen will have a tax credit of £6,120 (£13,600 x 45%) and so a refund of £680. (½)

(Max 1½ marks)

Tutorial notes:

- (i) If the gross income received in a tax year from a parental settlement is £100 or less, the income would be assessed on the child.*
- (ii) If the trust had been set up by anyone other than the parent (or step-parent), the income would be assessed on the child.*

Accordingly, if Amanda were to be taxed on the income:

- as she has no other income, she would be assessed on £1,030 of non-savings income (£13,600 – £12,570 personal allowance) at 20%, and*
- would receive a tax credit of £6,120*
- which would generate a tax refund of £5,914 (£6,120 – (£1,030 x 20%))*

(Max 3 marks)



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12
1)

	Non-savings £	Interest £	Dividends £	
Employment income	107,300			(1/2)
Property income (W1)	9,000			(1/2)
Unit trust distribution (N2)		1,350		(1/2)
UK dividends			5,700	(1/2)
Total income	116,300	1,350	5,700	
Less:				
Personal allowance (W2)	(1,520)			(1/2)
Taxable income	114,780	1,350	5,700	
Income tax:				
	£		£	
Non-savings income (W3)	38,950	x 20%	7,790	(1/2)
Non-savings income	75,830	x 40%	30,332	(1/2)
Savings income (N3)	500	x 0%	0	(1/2)
Savings income	850	x 40%	340	(1/2)
Dividend income (N3)	1,000	x 0%	0	(1/2)
Dividend income	4,700	x 33.75%	1,586	(1/2)
			<u>40,048</u>	
Less: Tax reducers				
EIS relief (N4)	6,500	x 30%	(1,950)	(1/2)
Tax reduction for mortgage interest (N1)			(400)	(1/2)
Less: Tax deducted at source:				
PAYE deducted			<u>(35,200)</u>	(1/2)
Income tax payable			2,498	(1/2)

Workings

(W1) Property income

	£
Rents received	
(£1,250 x 6 months = £7,500) (1/2)	
+ (£1,500 x 2 months = £3,000) (1/2)	10,500
Less: council tax (N1)	<u>(1,500)</u> (1/2)
Property income	9,000

(W2) Personal allowance

Lena's adjusted net income is greater than the £100,000 threshold and so her Personal allowance is abated.

	£	
Total/net income		
£(116,300 + 1,350 + 5,700)	123,350	(1/2)
Less:		
Gross gift aid donation (W3)	(1,250)	(1/2)
Threshold	<u>(100,000)</u>	(1/2)
Excess	22,100	

Therefore the Personal allowance is reduced by £1 for every £2 of income above the £100,000 limit.

$$\text{Reduction} = \text{£}22,100 / 2 = \text{£}11,050 \text{ (1/2)}$$

$$\text{Personal allowance} = \text{£}12,570 - \text{£}11,050 = \text{£}1,520 \text{ (1/2)}$$

(W3) Gift aid donation

The gross gift aid donation ($\text{£}1,000 \times 100/80 = \text{£}1,250$) (1/2) reduces adjusted net income for the purpose of abating the Personal allowance and also extends the basic rate band to $\text{£}(37,700 + \text{£}1,250) = \text{£}38,950$

Notes

(N1) Property income and expenses

The default basis of assessment for property income is the cash basis. (1/2)

As Lena lived in the flat for 4 months, for this period the council tax was not incurred wholly and exclusively for the rental business. (1/2)

$$\text{Allowable council tax} = \text{£}2,250 \times 8/12 \text{ (1/2)} = \text{£}1,500$$

The allowable mortgage interest for the period of the letting is $\text{£}3,000 \times 8/12 = \text{£}2,000$. (1/2) The mortgage interest is only eligible for basic rate tax relief and clearly the eligible interest is lower than both the property income for the year and the adjusted total income. (1/2)

$$\text{The tax reducer is therefore } \text{£}2,000 \times 20\% = \text{£}400. \text{ (1/2)}$$

(N2) Unit trust

Lena's interest distribution from her holding in a unit trust are received gross and taxed as interest income (1/2).

(N3) EIS relief

As Lena has subscribed for the EIS shares, she is entitled to a 30% income tax reducer on each investment she has made in 2023/24.

Income tax reducer = $\pounds(2,000 + 4,500) \times 30\% = \pounds1,950$ (1/2)

16 marks

2)

Lena could be legitimately dismissed by reason of redundancy where the only or main reason for her being dismissed (1/2) is:

- Her employer intends to cease the business, (1/2) or
- The requirement for her to perform work of a specific type (1/2), or to conduct it at the location in which she is employed (1/2), has either ceased or diminished ie if her specific office closes.

2 marks

13

Sajid – Taxable gains for 2023/24

	£
Chargeable gain (W1)	13,000 (1/2)
Less: Annual exempt amount	<u>(6,000)</u> (1/2)
Taxable gain	7,000 (1/2)

CGT thereon:

£7,000 x 20% = £1,400 (1/2)

Payable by 31 January 2025. (1/2)

Workings

(W1) Startupp Ltd

	£
Sale proceeds	24,000 (1/2)
Less: Cost	<u>(11,000)</u> (1/2)
Chargeable gain	13,000

Notes

(N1) Startupp Ltd

Although Startupp Ltd qualified as a SEIS company and Sajid claimed income tax relief, as he sold the shares within the 3 year qualifying period (1/2) the shares are not exempt from CGT. (1/2)

In addition, the gain that was exempted under reinvestment relief comes back into charge. (1/2)

Business asset disposal relief is not available (1/2) as he did not work for the company. (1/2)

The maximum SEIS reinvestment relief claimed in 2021/22 would have been the amount on which income tax relief was claimed (£11,000) (1/2) as this is lower than the gain (£35,000). (1/2)

Gain exempt in 2021/22 = £11,000 x 50% = £5,500. (1/2)

This will be charged to CGT in 2021/22. (1/2)

(N2) Beginn Ltd

Sajid claimed income tax relief and sold the shares more than 3 years after they were issued. (1/2)
This means the gain on the Beginn Ltd shares is exempt from CGT. (1/2)

The maximum SEIS reinvestment relief claimed in 2020/21 would have been the amount on which income tax relief was claimed (£20,000) (1/2) as this is lower than the gains (£85,000). (1/2)

As the shares were sold after more than 3 years, the gain exempt under SEIS reinvestment relief of (£20,000 x 50% =) £10,000 (1/2) in 2020/21 would remain exempt. (1/2)

(N3) VCT

Sajid subscribed for the shares and they are under the annual £200,000 limit, (1/2) however, as the shares are sold at a loss, the loss is not allowable for CGT purposes irrespective of the timeframe of the disposal. (1/2)

12 marks

14.

Our address

Your address

7 May 2024

Dear Greta

Tax on share awards

Thank you for your letter.

You have raised a number of questions in relation to share awards that you and your husband have received. I will deal with these in the order in which they were raised in your letter.

You

When you sell the £1 A Ordinary shares you will have to pay Capital Gains Tax (1/2) at 20% (1/2) on the gain realised in excess of your available annual exempt amount (1/2). The gain will be the sale proceeds (1/2) less the market value of the shares (1/2) when they were gifted to you eight years ago.

The value of the £1 B Ordinary shares over which you were granted the option (£500,000) (1/2) indicates that this not a tax-advantaged share option scheme (1/2). When you exercise the option, you will need to pay Income Tax (1/2) at 45% (1/2) on the difference between the value of the shares at exercise (1/2) and the price that you pay for them under the option (1/2). As these shares are likely to be Readily Convertible Assets (RCAs) (1/2), Class 1 National Insurance Contributions (NIC) will also be payable (1/2) at 2% (1/2) on the same amount.

Your husband

There would have been no Income Tax (1/2) or NIC (1/2) liability when the options were granted.

When he exercises the options he will pay Income Tax (1/2) as the options were granted at a discount (1/2). The amount on which Income Tax will be paid is the difference between the market value at grant (1/2) (or exercise, if lower (1/2)) and the amount paid to exercise the option (1/2). The rate of tax will be either 40% or 45% depending on his remaining higher rate tax band and the value subject to tax (1/2). There should be no NIC liability (1/2) as the shares are not RCAs (1/2).

Your employer's potential SIP

A SIP would not meet your employer's requirement as, although part-time employees can be members of the plan (1/2), the plan cannot be used to favour certain employees over others (1/2).

The value that can be passed to an employee each year through the various elements of a SIP is:

Free shares – up to £3,600 (1/2)

Matching shares – up to £3,600 (1/2), if the employee buys the maximum number of partnership shares (with a value of £1,800) (1/2).

Dividend shares – dependent on the dividends paid (1/2).

I trust that this is clear but please do let me know if you have any queries.

Yours sincerely,

ATT Adviser

[Max 14]

15.

1)

To: Jeremy
From: ATT Adviser
Date: 7 May 2024

(a) Understatement of sale proceeds

The understatement of the proceeds of sale of the UK commercial property in 2020/21 should be disclosed to HMRC as soon as possible (1/2).

You are right that HMRC usually only have 12 months from the date on which your tax return was filed to raise an enquiry into that return (1/2). However, HMRC are able to make a “discovery assessment” (1/2) if they become aware that tax has been underpaid (1/2) because of the careless or deliberate (1/2) actions of the taxpayer. The deadline for HMRC to make such an assessment is 20 years from the end of the tax year (1/2).

Because you deliberately understated the proceeds (but didn't conceal it), HMRC will charge a penalty (1/2). This penalty can be up to 70% of the underpaid tax (1/2). This maximum penalty can however be reduced if you demonstrate a willingness to help HMRC correct the understatement (1/2), albeit the minimum penalty will be 20% for an unprompted disclosure (1/2) and 35% for a prompted disclosure (1/2). These penalties are in addition (1/2) to the requirement to pay the tax on the additional proceeds, together with interest since 31 January 2022 (1/2).

Therefore, if you make an unprompted disclosure to HMRC you may be able to limit the penalty to 20%, but if you make no disclosure, you could suffer a 70% penalty and you will have 20 years of uncertainty (1/2).

[Max 6]

(b) Interest/penalties re your 2022/23 tax return and tax liability

The penalties and interest you have incurred to date are:

For late filing:

- £100 penalty (1/2) for not filing your tax return by 31 January 2024.
- £70 (1/2 [£60 accepted]) for being more than three months late (£10 per day over 3 months).

For late payment

- 5% penalty for not having paid your 2022/23 tax liability by 28 February 2024 (1/2). This is £2,750 (1/2) (5% x £(45,000 + 10,000)). This is no penalty for the late payment on account.
- Interest since 1 February 2024 (1/2) = £1,259, being 6.5% (1/2) on £77,500 (1/2) for 3 months (1/2). (workings to the nearest month and £)

Please do let me know if you have any queries,

Kind Regards,
ATT Adviser

2)

If Jeremy refuses to make a disclosure to HMRC, I would follow up with both oral (½) and written (½) advice of the consequences.

If he still refuses, I would cease to act (½) and:

- Advise him in writing that I am no longer acting for him in respect of any tax matters and, if relevant, any other client matters (½).
- Notify HMRC that I have ceased to act (½).
- Consider if I need to advise HMRC that any accounts/statements carrying a report signed by me can no longer be relied upon (½).
- Consider whether a report should be made to my firm's MLRO or the NCA (½).
- Carefully consider my response to any professional enquiry letter received from any replacement tax adviser (½).