

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 Ranvir, a UK resident individual, disposed of the following shares, all of which gave rise to a chargeable gain:

	<u>Type of company</u>	<u>Type of shares</u>	<u>Number of shares</u>	<u>Issued share capital (carrying equal voting rights)</u>	<u>Type of disposal</u>
A Ltd	UK trading company	Unquoted	50,000	1,200,000	Sale for less than market value to Ranvir's brother, Rhett
B plc	UK trading company	Quoted	8,000	1,500,000	Gift to Ranvir's sister, Ramona
C plc	UK investment company	Quoted	15,500	300,000	Transferred into a discretionary trust for Ranvir's children
D Ltd	UK trading company	Unquoted	20,000	200,000	Sale for market value to a friend, Romy

Explain, with reasons, whether or not gift relief is available for each of Ranvir's disposals. (4)

2. Armstrong has investments which he is thinking of gifting.

The current prices quoted on the UK stock exchange are as follows:

	<u>Number of shares/units</u>	<u>Quoted bid price (pence)</u>	<u>Quoted offer price (pence)</u>
Quoted shares in X plc	7,500	241.90	243.30
Units held in an HL Fund (an authorised unit trust)	6,800	168.00	172.60

Calculate the market value of Armstrong's investments for Capital Gains Tax purposes. (2)

3. Francesca is resident and domiciled in the UK.

Based purely on her UK employment income, she is an additional rate taxpayer.

In 2023/24 Francesca's other income included:

- 1) Property income from a villa in Spain, received net of 25% withholding tax.
- 2) Interest income from France, received net of 42% withholding tax.

Explain how the unilateral Double Taxation Relief available to Francesca in 2023/24 is calculated. (4)

4. Michael is employed by Stayble Ltd.

Stayble Ltd is an unquoted, employee-owned, trading company.

In April 2024 Michael took out a five-year bank loan of £3,500 to purchase a printer and other office equipment for his home study as he works from home three days a week. He uses the equipment for both employment and private purposes.

Stayble Ltd have recently offered Michael the opportunity to buy some shares in the company. If he were to take up the offer, Michael would need to take out a bank loan of £6,000.

Explain, with reasons, whether Michael can obtain any tax relief for the interest paid on the two loans, and how the relief would be given. (3)

5. In 2023/24 Ammar received interest of £2,608 from an interest in possession trust and dividends of £1,232 from a discretionary trust. He is unsure whether each form of income is taxed on him as non-savings, savings or dividend income.

Calculate the gross trust income Ammar will be assessed on in 2023/24, state how each source of trust income is taxed on him, and calculate the tax credit he can deduct from his Income Tax liability in respect of the trust income. (3)

6. On 31 January 2024 Harry resigned from his employment with Potter plc.

On leaving the company, Potter plc gave Harry the following in addition to his salary:

- 1) A contractual restraint of trade payment of £25,000 prohibiting him from working for a competitor in the area for three months.
- 2) An additional £10,000 contribution made into Harry's registered occupational pension scheme.
- 3) A voluntary termination payment of £75,000, and
- 4) His company car, worth £18,000, to keep.

Harry was surprised at the company's generosity as he had no expectation of receiving anything other than the restraint of trade payment.

Harry is an additional rate taxpayer due to the high level of his salary.

Calculate the Income Tax and National Insurance Contributions payable by Harry in 2023/24 in respect of the termination package received from Potter plc. (4)

7. Diana, an employed individual with investment income, submitted her 2021/22 tax return to HMRC electronically on 10 May 2023.

On 16 November 2023 she realised that she had made a mistake on the return and notified HMRC.

HMRC noticed Diana had made an arithmetic error and notified her of the correction of the error on 20 December 2023.

HMRC decided to issue a formal enquiry notice on 16 June 2024. This related to content of the original return. After their investigation HMRC issued a closure notice on 17 October 2024 requiring an amendment to Diana's return.

State the due date by which the following events should be actioned in respect of Diana's 2021/22 tax return:

- 1) Original filing of the tax return.
- 2) Diana to voluntarily amend her tax return.
- 3) HMRC to amend for arithmetic error.
- 4) HMRC to issue a formal enquiry notice.
- 5) Diana to appeal against the amendments required in the closure notice.
- 6) Retention of records supporting the return.

(3)

8. On 31 July 2015 Amrita purchased a 55-year lease for £130,000.

On 31 July 2023 she granted a 20-year sub-lease at a premium of £75,000.

Calculate the chargeable gain arising on the grant of the sub-lease in 2023/24. (4)

9. Carlos has four furnished cottages in the UK seaside town of Penzance.

In 2023/24 he rented out the properties to tourists for holidays (maximum of three weeks per visit) as follows:

	<u>Available for letting (days)</u>	<u>Actually let (days)</u>
The Croft	210	110
Bramble Cottage	260	90
Orchard House	200	115
The Nook	230	118

Continued

Continuation

Carlos also rented a room in his own home in Penzance to a lodger, Dimitris, for nine months in 2023/24. He charged Dimitris rent of £800 per month.

Explain which properties can be classified as Furnished Holiday Lettings in 2023/24 for tax purposes, and calculate the amount of rent received from Dimitris which is taxable in 2023/24. (3)

10. On 14 August 2008 Fiona purchased some land for its investment potential for £40,000.

On 26 October 2019 she gave the land to David, when it was worth £75,000.

David sold the land on 15 February 2024 for £120,000.

Calculate the gains arising both at the time of Fiona's gift and on David's sale of the land, assuming David is:

1) **Fiona's son.**

2) **Fiona's husband.**

(3)

11. On 7 July 2019 Sally invested £250,000 in a qualifying Venture Capital Trust (VCT) and claimed Income Tax relief on the investment.

Sally received dividends from the VCT of £12,300 on 15 May 2023. She sold her shares in the VCT on 26 March 2024 for £210,000.

Sally is an additional rate taxpayer and has not received any other dividends in 2023/24.

Calculate the amount of:

1) **Income Tax relief given on the VCT investment in 2019/20.**

2) **Income Tax due on the VCT dividends received in 2023/24, and**

3) **Clawback of Income Tax relief on the sale of the shares in the VCT.**

(3)

12. Raoul has been resident in the UK for the five years up to and including 2022/23.

He retired on 31 December 2022 and spent the winter planning a year of holidays.

As a result, in 2023/24 he spent a total of 61 days living in his UK home, three weeks staying at his holiday home in Florida, and the rest of the tax year travelling the world on cruise ships.

On the cruises, Raoul did not spend any longer than 10 days in any one place.

He returned to his UK home in May 2024.

Explain, with reference to the Statutory Residence Tests, whether Raoul will be treated as UK resident in 2023/24. (4)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

13. Holden has been employed by Catcher Ltd for five years on an annual salary of £80,000. During 2023/24, £19,000 of PAYE was deducted from Holden's salary.

Holden received the following benefits in relation to his employment during 2023/24:

- 1) On 6 April 2023 Catcher Ltd loaned £30,000 to Holden at an annual interest rate of 1%. Holden repaid £5,000 of the loan on 5 February 2024. Holden has made all necessary interest payments. No notice will be given by HMRC under s183(1) ITEPA 2003 in respect of the loan.
- 2) Catcher Ltd paid a £1,350 debt that Holden owed to a previous employer.
- 3) Holden was provided with a car by Catcher Ltd. The car has CO₂ emissions of 114g/km and the list price when it was first made available to Holden in August 2022 was £36,000. Two months later, he had contributed £500 towards the £1,750 cost of installing a sunroof.

Holden uses the car for both business and private journeys. Catcher Ltd reimburses petrol costs for business journeys only.

- 4) Catcher Ltd paid for medical insurance for all senior employees, including Holden. The cost of this to Catcher Ltd was £1,450 per employee.

During 2023/24, Holden made pension contributions to his employer's occupational pension scheme under a relief at source arrangement (i.e. not a net pay arrangement). The net contribution made was 5% of his salary. In addition, Catcher Ltd made a 10% contribution.

Holden received gross interest of £2,000 on 30 April 2023 and £2,265 on 30 April 2024.

On 26 June 2023, Holden gifted quoted shares worth £7,800 to a registered charity.

In May 2024, Holden was called for jury service and was selected as a juror on a case that was expected to last many months. Catcher Ltd terminated his employment as they feared he would be out of the office for too long and so unable to perform his duties. Holden has taken his case to arbitration as he thinks he has been treated unfairly.

Requirements:

- 1) **Calculate the Income Tax payable by Holden for 2023/24.** (12)
- 2) **Calculate the Class 1A NICs due for 2023/24 and state the due date for payment.** (2)
- 3) **Explain why Holden's contract termination is likely to be treated as unfair and state the potential awards if he is successful in challenging the termination of his employment.** (3)

Total (17)

14. You have just had meetings with two unconnected potential new clients, Tomas and Jerome.

Tomas

Tomas has provided some background information as follows:

- 1) He was born in the UK. He was brought up solely by his father and has no memory of his mother. Tomas is unsure whether his parents were married when he was born.
- 2) At the time of Tomas's birth, his father was UK domiciled but his mother was domiciled in Utopia.
- 3) When he was three years old, Tomas and his father emigrated to Ruritania. His father, on whom he was then legally dependant, acquired a domicile of choice in that country.
- 4) At the age of 16, Tomas started work for Spike Ltd, a Ruritanian company, with every intention that he would remain settled in that country.
- 5) Now 45 years old, Tomas has been asked by his boss at Spike Ltd to help set up their UK operations. As a result, Tomas is now in the UK on a two-year contract. He is currently UK tax resident but will return to Ruritania at the end of his contract.
- 6) Tomas owns several properties in Ruritania from which he receives significant rental income each year. Most years he also realises capital gains on a disposal of one or more of the properties.

Continued

Jerome

Jerome is UK resident, but not UK domiciled. He explained that his only non-UK source of income and gains over his period of UK residence has been rental income for all years on his property in Freedonia, and capital gains on the occasional disposals of his shareholdings in Freedonian companies and items from his Freedonian art collection. Jerome maintains just one bank account in Freedonia, into which the net rental income and proceeds of the disposals are paid. He has received a couple of inheritances over recent years which have also been paid into the Freedonian bank account. He has claimed the remittance basis for all years since arriving in the UK.

Freedonia does not charge tax on rental income or on capital gains realised on shareholdings. It does however charge tax on capital gains realised on artwork.

During 2023/24, Jerome used funds in the Freedonian bank account to:

- 1) Buy UK Gilts on the secondary market.
- 2) Make a gift offshore to his 20-year-old son, who brought the money to the UK to fund his own lifestyle, with no benefit accruing to Jerome.

Requirements:

- 1) **Explain how Tomas's domicile and deemed domicile status may have changed over his lifetime and the basis on which he may be subject to UK tax on his non-UK income and gains while UK resident.** (8)
- 2) **Explain whether Jerome's use of his Freedonian bank account represents the remittance of funds to the UK.** (2)
- 3) **To the extent that funds have been remitted to the UK from the Freedonian bank account, explain the order in which Jerome's funds are deemed to have been remitted.** (2)

Total (12)

15. In April 2021, Hamza bought 5,000 shares in Small Ltd for £25,000.

In June 2023, Small Ltd was taken over by Big plc.

In exchange for his shares in Small Ltd, Hamza received £50,000 cash and 300 shares in Big plc, which were worth £30,000.

A disposal by Hamza of shares in Small Ltd or the Big plc shares would not qualify for Business Asset Disposal Relief (BADR) or for Investors' Relief.

Hamza is a self-employed, higher rate taxpayer. He made no other capital disposals in 2023/24.

Requirements:

- 1) **Explain, with supporting calculations, the Capital Gains Tax consequences for Hamza of the takeover of Small Ltd, and calculate Hamza's Capital Gains Tax liability for 2023/24. Include an explanation of how the gain will be reported to HMRC and state the due date for payment of the tax.** (10)
- 2) **Explain how the Capital Gains Tax consequences for Hamza of the takeover of Small Ltd would differ if Hamza had either;**
 - a) **Received 800 shares in Big plc worth £80,000 but no cash, or**
 - b) **Been eligible for BADR on the Small Ltd shares but not the Big plc shares.** (4)

Total (14)

16. On 1 September 2010, Jamie bought a house in the north of England. They sold it on 1 September 2023, having owned it for 13 years in total. The gain on disposal was £700,000.

Jamie has provided you with the following information:

- 1) Jamie did not live in the house for the first 12 months. This was because it was being renovated, as it was uninhabitable when they bought it.
- 2) On 1 September 2011, Jamie moved into the house and lived there until 1 September 2015.
- 3) On 1 September 2015, Jamie moved out of the house and went to live with their partner. During this time, Jamie's house was let out to tenants.
- 4) On 1 September 2016, the tenants left, and Jamie moved back into the house.
- 5) On 1 September 2021, Jamie purchased a flat and moved out of the house. The house was let out to tenants until the sale on 1 September 2023.

Requirements:

- 1) **Calculate, with explanations, Jamie's chargeable gain on the sale of the house. You should include an explanation of the availability of Lettings Relief.** (13)
- 2) **Explain how and by when the gain must be reported and the tax paid to HMRC.** (2)

Total (15)