Institution **CIOT - ATT**
Course **ATT Paper 1 Personal Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**79**	**325**	**400**
Section 2	**39**	**169**	**205**
Section 3	**124**	**534**	**656**
Section 4	**132**	**610**	**741**
Section 5	**164**	**714**	**868**
Section 6	**191**	**894**	**1087**
Section 7	**151**	**646**	**790**
Section 8	**81**	**339**	**409**
Section 9	**188**	**786**	**957**
Section 10	**128**	**564**	**670**
Section 11	**118**	**511**	**620**
Section 12	**139**	**531**	**661**

Answer-to-Question-_1_

For A Ltd although it was sold for less than market value as it is an unqouted trading company gift relief will be available.

For B plc as it is a quoted trading company there will be no gift relief.

For C plc as this gift is over the IHT exempt amount and will be immediately chargeable to IHT gift relief will be available.

For D plc as it is an unqouted trading company gift relief will be available.

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

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

Answer-to-Question-_2_

Quoted shares will use the average of the bid and offer price-

(241.90 + 243.30)/2 = 242.6

Market value would be 242.6 pence for the quoted shares

Unit trusts market value would be the bid price of 168 pence

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

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

Answer-to-Question-_3_

For the property income the unilateral relief will be the lower of the overseas tax suffered or the UK tax liability on that income, as she is an additional rate tax payer her UK tax liability on the property income would be taxed at 45% whereas the witholding tax would be 25%, so the 25% witholding tax will be the tax credit.

For the interest income the unilateral relief will be the lower of the overseas tax suffered or the UK tax liability on that income, as she is an additional rate tax payer her UK tax liability on the interest income would be taxed at 45% whereas the witholding tax would be 42%, so the 42% witholding tax will be the tax credit.

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

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

Answer-to-Question-_4_

As Michael used the loan to purchase plant and machinery for employment this will be a qualifying interest, however as he uses this for employment and private purposes only part of this would be allowed (business use).
The relief would then be given by after working out the interest paid in the year gross and apportioning it for the business use, it would then be deducted from his non savings income first then any remaining on interest and dividend income.

As he is buing shares in an employee owned company it will be a qualifying interest,The relief would then be given by working out the interest paid in the year gross , it would then be deducted from his non savings income first then any remaining on interest and dividend income.

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

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

Answer-to-Question-_5_

The interest of £2,608 from the interest in possession trust will be taxed as non savings income with a tax credit of 20% of the grossed up amount - which is a tax credit of £652 (W1) .

The dividends from the discretionary trust are treated as non-savings income with a 45% tax credit of the grossed up amount - which is a tax credit of £1,008 (W2).

Anmar has gross trust income of £5,500(W3) and total tax credit of £1,660 (W4)

W1 - interest in possession trust tax credit

			£
Net income			2,608
Gross up by 100/80			3,260
Tax credit @ 20%			652

W2 - discretionary trust tax credit

			£
Net income			1,232
Gross up by 100/55			2,240
Tax credit @45%			1,008

W3 - gross trust income

			£
Interest in possession income			3,260
Discretionary trust income			2,240
Total trust income			5,500

W4 - total tax credit

			£
Interest in possession credit			652
Discretionary trust credit			1,008
Total tax credit			1,660

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

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

Answer-to-Question-_6_

The £10,000 into Harry's registered occupational pension scheme is fully exempt from tax and not subject to NICs

The £75,000 will be taxable as top slice as it is voluntary with the first £30,000 being exempt and also subject to Class 1A NICs which are payable by the employer

The £25,000 is contractual so will be taxed as normal earnings and subject to class 1 NICs which is payable by Harry

The company car worth £18,000 will be subject to class 1A NICs which are payable by the employer

As he is an additional rate taxpayer all income will be taxed at 45% with no personal allowance available.

Termination payment:

			£
Voluntary payment			75,000
Exemption			(30,000)
Taxable			45,000

Tax computation:

		NSI £	Top slice £
Termination payment			45,000
trade payment		25,000	
Net income		25,000	45,000
Tax:			
25,000 @ 45%		11,250	
45,000 @ 45%			20,250
Income tax liability			31,500

Class 1 primary NIC calculation (all income above weeekly limit of £967 so at 2%):

			£
Contractual payment			25,000
Class 1 primary NIC @ 2%			500
Total NIC due			500

Harry has £31,500 of income tax payable and NIC payable of £500

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

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

Answer-to-Question-_7_

5 april 2022 year end , so filing deadline is 31 January 2023.

1) She should have filed her tax return by 31 January 2023.
2)She can amend her tax return within 12 months of 31 January 2023 so until 31 January 2024.
3) HMRC have within nine months of receiving Diana's return which was on 10 May 2023 so they have until 10 February 2024 to amend it.
4)As Diana's tax return was filed after the normal filing date HMRC have until the quarter day following the first anniversary of the actual filing date which was 10 May 2023 so HMRC have until 31 July 2024 to issue a formal enquiry notice.
5) Diana has to appeal within 30 days of 17 october 2024, this being until 16 November 2024.
6)Diana has to retain records one year from 31 January following the tax year, this being until 31 January 2024.

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

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

Answer-to-Question-_8_

31 July 2015 to 31 July 2023 is 8 years so 47 years left which is 98.902%
When it expires it will be 47 years minus 20 years so 27 years which is 83.816%
When the head lease was granted there were 55 years which is more than 50 so the percentage is 100%

			£
Sales proceeds			75,000
Less - 130,000 * (98.902-83.816)/100			(19,612)
Gain			55,388

The chargeable gain is £55,388 as there was no property income to decrease the gain
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--------------ANSWER-8-ABOVE---------------

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

Answer-to-Question-_9_

Classification of properties that meet FHL or not:

The croft -it was available to let for 210 days and actually let for 110 which satisfies these two conditions,there was no long term occuppation, it is in the UK and it is furnished. **Therefore is an FHL**

Bramble cottage - it was available to let for 260 days but was not actually let for at least 105 days (90 days) .**Therefore is not an FHL**

Orchard House- It was not available to let for at least 210 days. **Therefore is not an FHL**

The Nook - it was available to let for 230 days and actually let for 118 which satisfies these two conditions,there was no long term occuppation, it is in the UK and it is furnished. **Therefore is an FHL**

The Nook and The croft classify as FHL in 2023/24

9 months at £800 = 7,200

9/12 months for rent a room relief = 7,500 * 9/12 = 5,625

Taxable rental income:

			£
Rental income received			7,200
Rent a room relief			(5,625)
Taxable rental incom			1,575

Dimitris has taxable rental income of £1,575

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

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

Answer-to-Question-_10_

1)

As Fiona's son would be a connected person then the market value will be used.

Gifting to David:

			£
Market value (Proceeds)			75,000
Cost			(40,000)
Gain			35,000

Fiona would have a gain of £35,000 and then David's base cost for the land would be £75,000

David's sale:

			£
Proceeds			120,000
Cost			(75,000)
Gain			45,000

David would have a gain of £45,000

2)

As David would be Fiona's spouse then the gifting would take at a no gain no loss, therefore making Fiona's gift to David have no gain, then david takes Fiona's base cost of 40,000.

			£
Deemed proceeds			40,000
Less - cost			(40,000)
No gain , no loss			Nil

David's gain

			£
Proceeds			120,000
Cost			(40,000)
Gain			80,000

David would have a gain of £80,000

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

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

Answer-to-Question-_11_

1) As the investment was more than £200,000 only the £200,000 will be eligbile for relief. **this being 200,000 * 0.3 = £60,000 of income tax relief**

2) Amount of investment that is not tax free:

(250,000 - 200,000)/ 250,000 = 20%

20% of dividends are taxable

12,300 * 20% = 2,460

			£
Dividend income			2,460
Dividend allowance			(1,000)
Taxable dividends			1,460
1,460 @ 39.35			575

So Income tax of £575 is due

3) As there is a loss arising the clawback is the lower of original income tax reduced or 30% * sales proceeds:

30% * 210,000 = 63,000

as the orignal income tax reducer was 60,000 and this is lower this is the amount clawed back

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

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

Answer-to-Question-_12_

Automatic overseas tests:

Raoul was not present in the UK for less than 16 days, he was not not resident in any of the previous 3 tax years and was not present for less than 46 days in the UK. Raoul is retired so does not work abroad either.

So none of the automatic overseas tests are met.

Automatic UK test:

Raoul was not present in the uk for 183 days or more.
Raoul does have an UK home.
Raoul does not work full time in the UK.

Therefore we need to see the UK home conditions:

As Raoul has a UK home , spent more than 30 days in it , has an overseas house but he used it less than 30 days in the tax year, he will be considered UK resident for the 2023/24 tax year

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

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Section 13	**234**	**982**	**1177**
Section 14	**451**	**1889**	**2325**
Section 15	**398**	**1786**	**2141**
Section 16	**349**	**1561**	**1875**

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

Answer-to-Question-_13_

1)

Average method for loan:

(30,000+25,000)/2 * 2.25% = £619

Interest paid:

30,000 * 1% = 300

Total benefit on average method:

619 - 300 = £319

Strict method:

10/12 months at 30,000 * 2.25% = 563
2/12 months at 25,000 * 2.25% = 94

Interest paid:

30,000 * 1% = 300

Total benefit on strict method:

(563+94) - 300 = £357

HMRC could insist to use the strict basis but it is unlikely on the low amount.

The debt owed will be a benefit.

Car benefit:

W1- (114-75)/5 = 7 so 20 % + 7%

List price			36,000
Add - contribution		500	
Total			36,500
Revised list price			36,500
Car benefit			
Revised list price * 27%			9,855
Car benefit			9,855

As the fuel is only paid for business theres no benefit

Medical benefit of £1,450 is taxable

2)

Car benefit class 1A:

9,855 * 13.8 = 1,360

3)

Holden's contract termination is likely to be treated as unfair due to him needing to take time off for jury service

The maximum award that Holden could receive if he is successful would be £643 per week, then a compensatory award for the money lost as a result of him losing his job.

He will also be able to receive compensation for loss of statutory rights as he has worked for more than 2 years at Catcher LTD with the amount being between £350 and £500

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

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

Answer-to-Question-_14_

1)

During when he was brought up by his father only and was under 16 his domicile of dependence will be the UK, as his father emigrated with him when he was three years old Tomas will have domicile of dependence will be Ruritania as he was legally dependent on his father.

As he was born in the UK he will take his father's domicile at birth which is UK, making him be deemed UK domiciled.

Tomas had domicile of dependence of Ruritania from 3 years old to 16 years old, then as he had a the intention to work for a Ruritanian company and intention to settle there he had a domicile of choice of Ruritania from 16 years old until 45 years old.

Due to Tomas being a Formerly domiciled resident due to him being born in the UK, having a UK domicle of origin and being a UK resident in the UK for the tax year he will be deemed domiciled in the UK until the end of his contract.

As he is returning to Ruritania after his contract and has vast ownership in property and business interest due to disposing of property in ruritania he will establish a domicile of choice in Ruritania

Tomas would have been subject to UK tax on his worldwide income and gains when he was in the UK for a 2 year contract due to being uk tax resident and deemed domiciled due to being a FDR.

Then when he moved back to Ruritania after the contract and had a domicile of choice in ruritania if he used the remittance basis claim his foreign income and gains would not be subject to UK tax.

2)

Jerome's of his Freedonian bank account does represent a remmitance of funds to the UK, for the gilts he is using funds to buy UK gilts on the secondary market, for the gift it is counted as not being used in the UK due to him giving it to a non - relevant person that being his son that is over 20 that then uses it in the UK with no benefit to Jerome

3)

The order for the funds being deemed to be remitted are:

Assets being brought to the UK which derive from foreign income or gains.

Money or other property representing Jerome's foreign income or gains being brought to the UK by any relevant person.

Money or other property representing Jerome's foreign income or gains being brought to the UK by a non-relevant person where they can benefit from it.

Thus making it the UK gilts being deemed to be remitted first as the gift to his son would not count as a remmittance.

--------------ANSWER-14-ABOVE--------------

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

Answer-to-Question-_15_

1)

As there was a share for share exchange this will not be a disposal so no gain arising for the Big plc shares until they are actally sold.
The base cost for these shares will be £9,375 (W2) as the £15,625 (W1) was used for the cash received

W2 - Total amount received:

50,000+30,000 = 80,000

Base cost percentage left for shares:

(30,000/80,000)* 100 = 37.5%

Base cost for shares received:

37.5% * 25,000 = £9,375

W1 - Allowable cost calculation:

(25,000* 50,000/(50,000+30,000) = 15,625

Chargeable gain calculation on cash received:

			£
Proceeds			50,000
Less - Cost (W1)			(15,625)
Chargeable gain			34,375

W3 - As advised in the question Hamza is a higher rate taxpayer so all of the gain is taxed at 20%
W4 - The question states that theres is no BADR or IR available

Capital gains tax calculation on cash received

	Gains eligible for BADR/IR	Other gains not eligible for BADR/IR (W4)	Residential property gain
Cash gains		34,375	
less - AEA		(6,000)	
Taxable gain		28,375	
CGT:		£	
28,375 @ 20% (W3)		5,675	
Total CGT for 2023/24		5,675	

Hamza's CGT liability for 2023/24 is £5,675.

As Hamza is self-employed he would be filing self-assessment returns, therefore the gain from the cash would need to be inputed into his self-assessment tax return for 2023/24. He would then have to pay the CGT on 31 January 2025 after the payments on account are deducted from the CGT due in 2023/24 .

2a)

If Hamza received only shares in Big plc then he would have no immediate CGT liability as the share for share exchange will not deem this as a disposal and he would have the full base cost of £25,000 to offset against the proceeds when the shares are actually sold.

The relief would then be given by after working out the interest paid in the year gross and apportioning it for the business use, it would then be deducted from his non savings income first then any remaining on interest and dividend income.

2b)

Hamza would be able to make an election disapply the share for share rules on the takeover and the £5,000 gain would be taxed at 10% with the AEA being used on the gain from the cash to reduce his CGT liability, the new shares will then have a cgt base cost equal to their value at takeover.

--------------ANSWER-15-ABOVE--------------

--------------ANSWER-16-BELOW--------------

Answer-to-Question-_16_

1)

As the first 12 months count as delayed occupation to it being unhabitable due to renovation and it does not exceed 24 months it is counted as occupation.

1 year of delayed occupation

1 september 2011 to 1 september 2015 - actual occupation (4 years)

AS although tenants did move in to Jamie's house part of the property was not occupied as the main residence as Jamie moved out of the house to live with their partner. This would then make lettings relief not be available.

1 year not occupied (tenants living in it)- 1 september 2015 to 1 september 2016

1 September 2016 to 1 september 2021 - 5 years actual occupation

1 Septmeber 2021 to 1 September 2023 - 2 years not occupied and was not reoccupied.

This would also not be available for lettings relief as Jaime was not living in the property while it was being rented out to the tenants

The last 9 months are counted as deemed occupation as the house was occupied by Jaime.

The 1 year that the tenants lived in it is deemed occupation as Jaime did reoccupy the house but the last two years are not counted in this is at it was not reoccupied.

Calculation:

Total period of ownership:

1 September 2010 to 1 September 2023 - 13 years - 156 months.

Delayed occupation:

1 year - 12 months

Deemed occupation:

1 year and 9 months - 21 months

Actual occupation:

9 years (5 years + 4 years) - 108 months

Total of Delayed, deemed and actual occupation:

12+21+108 = 141 months

PRR relief amount calculation:

700,000 * 141/156 = 632,692

Chargeable gain calculation:

			£
Gain			**700,000**
Less - PRR relief			**(632,692)**
Chargeable gain			**67,308**

Jamie's chargeable gain would be £67,308

2)

The gain must be reported onlin through a property return within 60 days of the completing of the disposal which was 1 september 2023, meaning this must be reported within 1 september 2023 to 1 november 2023.

The tax paid must then be made within 1 september 2023 to 1 november 2023.