



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# The Chartered Tax Adviser Examination

May 2018

---

## Taxation of Individuals

---

### Advisory Paper

---

TIME ALLOWED – 3 ¼ HOURS

---

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to write in the answer booklet. The Presiding Officer will inform you when you can start writing.
- You should answer all **SIX** questions.
- Start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Marks are specifically allocated for presentation.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should tick the appropriate box on the front of each answer booklet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

1. Marina Lish and her husband Kenny are resident and domiciled in the UK. Matters relevant to their 2017/18 tax position are as follows:

Marina

- 1) Marina is employed by Worthy plc and received a salary of £36,500 from which Income Tax of £5,600 was deducted.

In addition to her salary for the year, on 10 April 2017 she received £225 which related to an underpayment in her March 2017 payment. This was due to an error in the payroll following a pay rise. The correct tax and National Insurance was paid in March and so no tax was deducted from the payment.

On 6 July 2017, Worthy plc provided Marina with a company car which had a list price of £18,000 and CO<sub>2</sub> emissions of 193g/km. She was required to make a capital contribution of £7,500 towards the purchase price.

Marina reimbursed Worthy plc for all private petrol.

- 2) On 1 August 2017, Marina paid interest of £1,500 on a commercial loan taken out on 1 August 2014 to subscribe for five shares in Marina's parents' UK trading company, M & D Ltd. There are 50 shares in issue and the remaining shares are owned by Marina's parents.

On 5 September 2017, M & D Ltd declared a dividend of £2,600 per share which was paid on 30 September 2017.

- 3) Marina owns three rental properties:
- (a) Apple House, which is in the UK, and on which a taxable profit of £2,000 was made.
  - (b) Unicorn House, which is in Blueland, and on which a taxable profit of £1,500 was made. Tax of £150 was paid in Blueland in respect of the profit.
  - (c) George House, which is in Purpleland, and on which a loss for tax purposes of £3,000 was made.
- 4) Marina received interest of £1,000 from a bank account in Purpleland. No Purpleland tax was deducted from the interest.
- 5) The UK does not have a double taxation agreement with Blueland or Purpleland.
- 6) Marina's 2017/18 payments on account are £750 each.

Kenny

- 1) On 1 July 2017, Kenny acquired £200,000 5% loan notes in JustSo Ltd. Interest is paid on the loan notes on 1 June and 1 December each year.
- 2) On 15 December 2017, Kenny sold units in a non-reporting offshore fund for £15,000. The units had been acquired in 2013 for £12,000 and the proceeds included £2,200 of accumulated income.
- 3) On 1 April 2017 Kenny made a loan to his brother of £50,000 to help him to buy a house. It was agreed that interest should be paid annually on 1 April at a rate of 3% per annum.

Continued

1. Continuation

- 4) On 5 April 2018, Kenny surrendered an overseas insurance bond. The chargeable gain shown on the certificate he received was £2,500 and there were four qualifying years.
- 5) Kenny received UK dividends of £12,000.
- 6) Kenny made net gift aid donations of £1,000.

**You are required to calculate, with appropriate explanations, Marina's and Kenny's 2017/18 Income Tax payable/repayable and 2018/19 payments on account, taking advantage of any beneficial reliefs and allowances.** (20)

2. You are a tax manager in a firm of Chartered Accountants. Your client, Harriot Walton, has recently been in to see you. She has received a letter from her employer's pension scheme saying that there has been a large increase in the value of her pension rights and that this might have an effect on her Income Tax liability. She provided you with the following information at the meeting:

- 1) Until 1 September 2017 when she was promoted, her salary was £48,000 per annum.  
  
From 1 September 2017 her salary was £63,000 per annum.
- 2) Her 2017/18 P11D showed total benefits in kind of £14,240.
- 3) The pension scheme is a final salary scheme with an accrual rate of 1/60. Harriot joined the scheme when she joined the company on 1 January 2006.
- 4) During the year ended 5 April 2018 her employer made contributions of £7,000 for Harriot. Harriot did not make any personal contributions.
- 5) She had net rental profits of £78,000 in 2017/18. No interest was paid by her on property related loans.

Your files show that Harriot has unused annual allowance as follows:

	£
2016/17	16,533
2015/16	9,067
2014/15	17,600

You agreed with Harriot that you would review the information and advise her on any Income Tax implications.

**You are required to prepare an email to Harriot advising on any Income Tax implications arising from the letter from the pension scheme and the information that she provided to you.** (15)

3. You are a tax adviser at a firm of Chartered Accountants and you have received the following email from your client Brian Williams who is a successful entrepreneur with annual taxable income of over £250,000.

To: taxadviser@accountants.co.uk  
From: bwilliams@email.com  
Date: 1 May 2018  
Subject: Disposals of Assets

Dear Adviser

In the last tax year, I made two disposals of assets that I imagine will affect my tax position.

In June 2017, I sold a vintage car from my personal collection for £75,000, which I bought for £55,000 in August 1997.

In November 2017, I sold a warehouse for £976,500. I paid estate agent's fees of £19,530 and legal fees of £3,500. You may recall that I originally purchased the warehouse and the land surrounding it for £475,000 in June 2000 and that a few years later I extended it at a cost of £173,600.

I have kept a small piece of land behind the warehouse and may eventually build a new garage there to house some of my cars. This land is currently worth around £50,000.

Could you give me an indication of how much tax I will have to pay on these transactions?

Until I sold the warehouse, I let it to my good friend Jane Sharp's company, JS Packaging Solutions Ltd, which has been trading since November 2015 producing packaging for the furniture trade. JS Packaging Solutions Ltd continued to rent the warehouse from the new owner but he has just given them notice to leave and Jane has decided to use this as an opportunity to take on larger premises so that the business can expand. Jane has suggested that I might wish to invest in her company, which would let me share in the growth and also help her to fund the new premises. Jane has advised me that my subscription would be under the Enterprise Investment Scheme. I am not aware of this scheme and would welcome some advice on the tax advantages for me of such an investment.

If I were to invest, I would subscribe for 50 shares in JS Packaging Solutions Ltd for £2,500 each.

The company would then have three shareholders as follows:

Jane Sharp (sole director)	800
Andrew Sharp (Jane's husband)	150
Me	<u>50</u>
	<u>1,000</u>

I look forward to hearing from you.

Brian

Your files confirm that Jane Sharp and Brian Williams are not connected, and that Brian has no capital losses carried forward.

**You are required to write a letter to Brian explaining:**

- 1) The Capital Gains Tax implications, with calculations, of the two sales in the year ended 5 April 2018.** (5)
- 2) The tax reliefs available to Brian if he subscribes for shares in JS Packaging Solutions Ltd.** (15)

Total (20)

4. You are a tax manager in a firm of Chartered Accountants and your tax partner recently met a new client, Paul Tealsmith, who is resident and domiciled in the UK.

Paul is one of the beneficiaries of a discretionary trust created by his grandmother on 6 April 2000 when she was both resident and domiciled in the UK. The assets settled on trust were investments in Spain. The trustees are Paul's uncle and aunt, who have always been resident in Spain. The other beneficiary of the trust is Paul's brother, who is also resident in Spain. Paul's grandmother was excluded from benefit.

On 6 April 2016 the trustees acquired a UK residential property and Paul moved into this house on the same day. Paul has occupied it as his only residence since then. The trustees have let Paul occupy the property rent free.

The market rent for the house from 6 April 2016 was £10,000 per annum.

Since its creation the trust has received annual income of £50,000 from the Spanish investments. The investment income has been accumulated within the trust.

The trustees transferred the house to Paul on 6 June 2017 when its market value was £750,000. On 7 June 2017, an equivalent amount of cash was given to Paul's brother.

Paul began letting a room in the house to one of his friends on 1 May 2018 and they have agreed he will receive £700 per month, for the first 12 months.

Paul's only other income for the 2018/19 tax year is expected to be £50,305 employment income and an income distribution from the trust of £10,000. The trust is not subject to UK tax on its overseas income and consequently no credit attaches to the distribution.

On 30 April 2018, Paul's father made a net pension contribution of £2,000 into Paul's personal pension. Neither Paul nor his employer are expected to make any contributions in 2018/19.

**You are required to write a briefing note for your tax partner:**

- 1) **Discussing whether the transfer of assets abroad legislation will apply to the trust.** (4)
- 2) **Explaining the Income Tax consequences for Paul, his grandmother and the beneficiaries for all relevant years if the transfer of assets abroad legislation applies to the trust.** (6)
- 3) **Estimating Paul's 2018/19 Income Tax liability.** (5)

Total (15)

5. You are a tax senior with a firm of Chartered Tax Advisers. Your senior manager will shortly be having a meeting with a new client, Steve Ford. He has given you the following email from the client.

To: taxmanager@taxadvisers.com  
From: steveford@xyz.com  
Date: 1 May 2018  
Subject: Accelerated Payment Notice

Dear Tax Manager

In advance of our meeting, I thought it would be helpful to set out the details of the issue I wish to discuss.

Three years ago, I faced a substantial tax bill as a result of a large bonus payment from my employer. Along with several colleagues, I was persuaded to invest in a scheme which promised to greatly reduce my tax bill for that year. I was assured that the scheme was legitimate and would stand up to scrutiny from HM Revenue & Customs.

I was advised that the scheme had a DOTAS number which I should quote in my tax return, which I duly did. When my return was submitted, HM Revenue & Customs opened an enquiry into it, specifically in relation to this scheme. They have since been corresponding with the scheme promoter to try to reach a conclusion, but little progress appears to have been made and nothing has been resolved.

I have now received an Accelerated Payment Notice from HM Revenue & Customs for an amount roughly equal to the tax I saved plus interest. Although I feel I have done nothing wrong, I am tempted to just pay this bill and hope that this is the end of the matter.

I should be grateful if we could discuss what my options are regarding this latest bill.

Kind regards

Steve Ford

**You are required to prepare briefing notes for your senior manager ahead of the meeting setting out Steve Ford's position.** (10)

6. You are a tax senior with a firm of Chartered Tax Advisers. Your clients, two brothers, Peter and David Wood, jointly own four rental properties in a popular seaside town in the UK. The properties are let out to holiday makers for up to three weeks at a time. They are available for let all year round. All four properties have qualified as furnished holiday lets in recent years.

In April 2017 a fire caused significant damage to Cottage 4, which meant several weeks of holidays had to be cancelled or postponed while the property was repaired.

	<u>Cottage 1</u>	<u>Cottage 2</u>	<u>Cottage 3</u>	<u>Cottage 4</u>
<u>2017/18 data</u>	£	£	£	£
Rental income	19,800	8,400	14,000	4,500
Allowable running costs	4,000	2,000	3,000	2,000
Loan interest	4,000	2,000	2,000	4,000
Allowable repair costs following fire				20,000
Insurance payment received				18,000
New furniture costs				3,000
<u>Days let</u>				
2017/18	140	84	135	35
2016/17	140	100	140	140
2015/16	140	90	140	140

During the year, a new computer was purchased for use in the lettings business costing £1,000.

In addition to the rental income, Peter also received employment income of £75,000 with PAYE deducted of £20,000 and David received employment income of £110,000 with PAYE deducted of £38,000.

The brothers are now nearing retirement and want to reduce their activities. They have agreed that David will swap his share in Cottages 1 and 2 for Peter's share in Cottages 3 and 4. The cottages are all of similar value and have increased in value since purchase by about £50,000 each.

David is keen to move into Cottage 4 and use it as his own home. Cottages 1, 2 and 3 would be let out to long term tenants. Neither brother expects to have any other capital gains in the near future.

**You are required to:**

- 1) **Calculate Peter and David's tax payable for 2017/18, explaining what elections they should make to minimise any liabilities.** (12)
- 2) **Prepare notes for your manager ahead of a meeting with Peter and David explaining the Capital Gains Tax implications and options available to them if they were to swap properties. Calculations are not required.** (8)

Total (20)