



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

November 2020

Suggested solutions

Module D Taxation of Individuals

37)

Part 1)

The Premium Bond prize is exempt from the charge to Income Tax. 1

As a higher rate taxpayer, Sophie has a personal savings allowance of £500 for 2019/20. Therefore, £500 of the bank interest is taxed at 0%: £500 at 0% = £nil. 1

The remaining amount of £100 is taxed as the top slice of Sophie's income, at 40%: £100 at 40% = £40. 1

The 0% starting rate does not apply as Sophie has non-savings income (her employment income) in excess of £5,000.

Part 2)

High Income Child Benefit Charge:		
£58,000 + £600 = £58,600		1
£58,600 - £50,000 = £8,600		
(£8,600/£100) x 1% = 86%		
86% x £1,097	<u>£943</u>	1

38)

		£	
Employment income/net income		104,500	
Personal allowance (W2)		(11,500)	
Taxable income		<u>£93,000</u>	
	Income	Tax	
	£	£	
Income tax at basic rate (W3)	£40,000	20%	8,000
Income tax at higher rate	£53,000	40%	21,200
			1
Taxable income (as above)	<u>£93,000</u>		
Total income tax liability		<u>£29,200</u>	

<u>W1</u> Gross donation (£2,000 x (10/8))	£2,500	1
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<u>W2</u> Adjusted net income (£104,500 - £2,500)	£102,000	1
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Amount by which adjusted net income exceeds £100,000	£2,000	
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Reduced personal allowance (£12,500 - (£2,000/2))	£11,500	1
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<u>W3</u> Basic rate band (£37,500) + gross donation (£2,500)	£40,000	1
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39)

Earnings for March 2020:

	£	
Salary	6,000	
Excess mileage allowance ((700 x (60p – 45p))	<u>105</u>	1+1*
Total earnings	<u>£6,105</u>	

Class 1 NICs payable by Arnab:

	£	
Up to primary threshold (£719 x 0%)	0	
Up to upper earnings limit (£3,448 x 12%)	414	1
Above upper earnings limit (£1,938 x 2%)	<u>39</u>	1
Total Class 1 NICs payable by Arnab	<u>£453</u>	

Class 1 NICs payable by Tath Ltd:

(£6,105 - £719) x 13.8%	<u>£743</u>	1
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***1 mark for including as earnings plus 1 for correct amount**

40)

	£	
List price	38,000	
Less, capital contribution (capped at £5,000)	<u>(5,000)</u>	1
Revised list price	<u>£33,000</u>	

Emissions 129; round down to 125

((125-95)/5) + 23 = 29% **1**

Add 4% as diesel car: 29% + 4% = 33% **1**

33% x £33,000 £10,890

Reduction for when car unavailable:

06/04/19 to 05/10/19: ((6/12) x £10,890) (£5,445) **1**

06/02/20 to 20/02/20: no reduction as less than 30 days (nil) **1**

Benefit for 2019/20 £5,445

41)

Anna:

Anna shared her home with her tenant and so rent-a-room relief is available. **1**

As the rent received (12 x £700 = £8,400) exceeds the rent-a-room limit of £7,500 rent-a-room relief does not apply automatically to remove the rent from the charge to Income Tax.

Anna may deduct her allowable expenses of £3,840 (12 x £320) from the rent to give taxable property business income of £4,560. **1**

Alternatively, Anna may make a claim to deduct an amount equivalent to the rent-a-room limit. This would give her taxable property business income of £900 (£8,400 - £7,500). **1**

Elsie:

Elsie has a property allowance of £1,000 for 2019/20. **1**

As the rent received by Elsie of £900 (6 x £150) is within the allowance, it is not charged to income tax. **1**

42)

A deduction is allowed for travel expenses which are:

- 1) necessarily incurred on travelling in the performance of the duties of the employment; or
- 2) attributable to the employee's necessary attendance at any place in the performance of the duties of the employment.

Remi's journeys from the Leeds office to clients' premises meet this test; he is allowed a deduction for the costs incurred in relation to these journeys. 1

A deduction is denied for the costs of travelling between home and a permanent workplace ('ordinary commuting'). A temporary workplace is not a permanent workplace.

Remi's journeys from home to the office in Leeds are ordinary commuting; consequently, a deduction is denied for travel costs relating to these journeys. 1

Remi is allowed a deduction in respect of this journeys between home and the York office. This is because the York office is a temporary workplace for Remi. 1

Although Remi attended the York office for a period of continuous work, he did so for less than 24 months. 1

A deduction is allowed for Remi's accommodation costs as these are attributable to business journeys. 1

43)

	£	
Annual allowance	40,000	1
Restriction ((£195,000 - £150,000)/2) (Note 1)	<u>(22,500)</u>	1+1
Tapered annual allowance	17,500	
Unused annual allowance of last three tax years (ie 2018/19, 2017/18 and 2016/17 – not 2015/16)	5,000	1
 Total annual allowance available	 <u>£22,500</u>	
 Pension contributions	 35,000	
Total annual allowance	(22,500)	
 Pension contributions in excess of annual allowance	 <u>£12,500</u>	
 Annual allowance charge (Note 2)	 <u>£5,625</u>	1

Note 1: restriction applies as threshold income (£160,000) exceeds £110,000 and adjusted income (£160,000 + £35,000 = £195,000) exceeds £150,000. The restriction is applied by reference to adjusted income.

Note 2: Total income is £160,000 less PA of zero leaves taxable income of £160,000 so the annual allowance charge will be £12,500 at 45% = £5,625.

1 mark for calculation plus 1 mark for using adjusted income

44)

Ali has granted a short lease (ie 50 years or less to run) and therefore only the capital element of the premium is chargeable to CGT. 1

The capital element of the premium is £96,800, calculated as follows:
 $2\% \times (45-1) \times £110,000$ 1

The part disposal rules are used to calculate the allowable cost for CGT purposes, as follows:

$$\frac{£96,800}{(£110,000 + £160,000)} \times £200,000 = £71,704 \quad \text{1+1*}$$

Ali's capital gain chargeable to CGT in 2019/20 is £25,096 (£96,800 - £71,704).

The remaining amount of the premium of £13,200 (£110,000 - £96,800) is chargeable to Income Tax as property income in the year of receipt i.e. 2019/20. 1

***1 mark for applying part disposal rules plus 1 mark for correct result**

45)

The following additional information is required:

- The date on which the shares were acquired. The shares must have been acquired on or after 17 March 2016 and they must have been held continuously for at least three years (the holding period). 1+1
- How the shares were acquired. It must be the case that Peter subscribed for the shares in cash. 1
- Confirmation that Peter was not a director or employee of the company (ie a 'relevant employee') at any point during the holding period. 1
- Confirmation that Grence Ltd was a trading company throughout the holding period. 1

46)

The gain on the shares in Knoopy plc is not chargeable to CGT as the shares were held in an ISA 1

	Residential property £	Shares in Spownie Ltd £	Shares in Flizzle plc £	Total £	
Gain	65,000	35,000			
Less, annual exemption	(12,000)	Nil			1*
Gain chargeable to CGT	<u>£53,000</u>	<u>£35,000</u>			
CGT liability (28%/10%)	<u>£14,840</u>	<u>£3,500</u>		<u>£18,340</u>	1
Loss cfwd for offset against gains on disposal to same person			<u>£1,400</u>		1
Due date: 31 January 2021					1

***Mark awarded for setting against residential property gain**

47)

	£	£	
Watch (wasting chattel)			
Exempt		n/a	1
Jewellery box (gift to a charity; treated as NGNL)			
Deemed proceeds	7,400		1
Cost	<u>(7,400)</u>		
Gain/(loss)		Nil	
Painting (non-wasting chattel; proceeds < £6,000)			
Deemed proceeds	6,000		
Cost	<u>(7,000)</u>		
Loss		(1,000)	1
Necklace (non-wasting chattel; cost < £6,000; proceeds > £6,000)			
Lower of:			1
£7,500 - £3,000 = £4,500			
(5/3) x (£7,500 - £6,000) = £2,500			1
Therefore, £2,500		2,500	
Total chargeable gains		<u>1,500</u>	

48)

Marcus will be required to make payments on account unless either of the following applies:

- 1) The outstanding tax is less than £1,000 – NO, the tax liability is £3,200. 1
- 2) More than 80% of his total tax liability was collected at source – NO, 70% was collected at source. 1

Therefore, Marcus is required to make payments on account for 2020/21.

Kezia can have her tax liability collected via PAYE if all of the following apply:

- 1) She has tax deducted at source through the PAYE system – YES. 1
- 2) The tax payable is less than £3,000 – YES, the tax payable is £300. 1
- 3) Kezia submitted her tax return on or before 30 December 2020 – YES, she submitted her tax return in May 2020. 1

Therefore, Kezia may have her tax liability collected via PAYE.