
Institution CIOT - ATT-CTA - 2020 November Exams

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Course CTA Adv Tech Taxation of Individual**Event NA****Exam Mode OPEN LAPTOP + NETWORK****Exam ID 11220**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	463	2054	2637
Section 2	470	2276	3400
Section 3	861	3987	5324
Section 4	790	3650	4410
Section 5	332	1438	1762
Section 6	366	1764	2744
Total	3282	15169	20277

Answer-to-Question-_1_

NOTES FOR MEETING WITH MIKE AND ANNA

Shares in Black Ltd

Mike became UK resident on 6/4/17, but remains non-domiciled. He has claimed the remittance basis since becoming resident.

He made a loss of £195,000 on foreign shares in 17/18 and a gain of foreign shares of £45,000 in 18/19. No proceeds have yet been remitted.

As he has made a claim for the remittance basis he has forfeited his entitlement to the loss of £195,000, unless he makes a claim under s.16ZA TCGA 1992.

If this claim is made there are statutory ordering rules for the offset of capital losses, and the election is irrevocable. The statutory ordering rules dictate that foreign losses are first offset against foreign gains, and then against UK gains.

He made disposals of shares in UK and foreign companies in 19/20. Unless a claim is made under s.16ZA the loss of £195,000 will not be able to be offset against these gains.

The gains in 19/20 were on shares owned before Mike was UK resident, therefore he will be charged to UK CGT on the foreign shares in Yellow Ltd. He will be subject to CGT on the sale of the UK shares.

As he is not deemed domicile rebasing is not applicable.

Gains made on shares on UK shares

	<u>Red Ltd</u>	<u>Blue Ltd</u>
Proceeds	300,000	600,000
Less cost	<u>(5,000)</u>	<u>(650,000)</u>
Gain / (Loss)	295,000	(50,000)

Net gains (295,000 - 50,000) = £245,000

If he does not make an election under s.16ZA he will taxed on this gain of £245,000 @ 20%, giving a tax liability of £49,000.

He will not be entitled to the annual exempt amount as he is claiming the remittance basis.

If an election under s.16ZA was made the loss of £195,000 would be offset as follows:-

Foreign gain in 18/19	45,000
UK net gains in 19/20	<u>150,000</u>
	195,000

He would only be taxed on the remaining gain of £95,000. Therefore it would be beneficial to make the election.

Shares in Purple Ltd

Anna is not UK resident or UK domiled so is not subject to UK CGT. However as the asset of the company at the time of sale is a UK office building, this would bring it into the scope of UK CGT.

From 6/4/19 disposals by non-UK residents of shares in 'property rich' companies are subject to UK CGT. Property rich means at least 75% of the gross assets are made up from UK land. The value

of the office building exceeds 75% therefore will be subject to CGT.

This is only applicable where the individual owns at least 25% of the company. Anna owns 30% so this would apply.

The gain on the shares would be £15,000 ($50,000 - 35,000$), as only gains arising after 5/4/19 are chargeable.

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

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

Answer-to-Question-_2_

Rose's income tax computation for 2019/20

	NSI	SI	DI
Employment income	20,600		
Employment income	42,000		
Termination payment (W1)	12,600		
Horse jumping income (W2)	5,020		
FHL income (W3)	5,250		
Dividends (9,250 + 750)		10,000	
Foreign bank interest		1,000	
Reporting fund dividends (W4)			4,000
Non-reporting fund (W5)	500		
Net income	85,970	1,000	14,000
Less PA (W7)	<u>(12,065)</u>		
Taxable income	73,905	1,000	14,000

Tax

(W6) 37,600 @ 20%	7,520
<u>36,305</u> @ 40%	14,522
73,905	
500 @ 0%	0
500 @ 40%	200
2,000 @ 0%	0
12,000 @ 32.5%	<u>3,900</u>
 Tax liability	 26,142
 Less DTR (W4)	 <u>(1,000)</u>

Revised tax liability	25,142
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Less tax suffered:-

PAYE	(2,500)
PAYE	(20,000)
Tax on dividend	<u>(750)</u>

Tax due	1,892
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(W1) Termination payment

Redundancy payment received of £25,000

3 months notice period will be treated as post employment notice period (PENP) and taxable as earnings, based on monthly salary of £4,200

$$\text{£4,200} \times 3 = \text{£12,600}$$

The remaining £12,400 will be exempt under s.401 ITEPA 2003 as it is within the £30,000 exempt limit, it was not contractual, and as the charity have not previously made anyone redundant there can have been no expectation of such a payment being made.

(W2) Horse jumping income

This appears to be a one-off event and would not be treated as a trade. Therefore the trading allowance of £1,000 would not be available.

The income would be taxed as miscellaneous income of £5,020.

Had this been a regular event Rosie could be said to be trading, and the trading allowance could have been deducted, giving her trading income of £5,000.

(W3) FHL income

Rental income	9,250
Less expenses:-	
Cleaning & maintenance	1,500
Insurance	200
Window upgrade	<u>2,300</u>
	<u>(4,000)</u>
FHL profit	5,250

The upgrade of windows is allowable as an expense as Rosie is replacing part of the property with the nearest modern equivalent. The upgrade from single to double glazing is specifically given as an example of an allowable deduction.

(W4) Reporting fund income

The income for the reporting fund is the annual reported income of £3,000. This was taxed at source at 25%.

$$\text{£3,000} \times 100/75 = \text{£4,000}$$

£1,000 tax was deducted at source

Rosie is a HRTP so the UK tax on this income would have been at 32.5% which is higher than 25%.

DTR is available on the lower of the two amount being 25% and tax of £1,000.

(W5) Non-reporting fund income

As this is a non-reporting fund the income is taxed as miscellaneous income and subject to Income Tax.

The gain on the units is £500 (4,500 - 4,000)

(W6) Gift aid

Basic rate band	37,500
Plus gross gift aid payment	
£80 x 100/80	<u>100</u>

Revised basic rate band 37,600

(W7) Personal allowance

Net income	100,970
Less gross gift aid	<u>(100)</u>
Adjusted net income	100,870

Personal allowance	12,500
Less (100,870 - 100,000)/2	<u>(435)</u>
Adjusted personal allowance	12,065

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

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

Answer-to-Question-_3_

Firm's letterhead

Grace Taylor
Grace's address

Date:

Dear Ms Taylor

Re: Capital Gain's Tax (CGT)

Thank you for the information you have provided in relation to your capital transactions. I have explained below the CGT liability for each transaction, and included detailed calculations in the appendix.

Moor View House

The transfer of half of your share of Moor View House is a chargeable disposal for CGT purposes. The gain is calculated as the market value at the date of transfer, less the cost of purchasing the property.

As the asset is owned jointly the value of half the house is not actually worth half the house as half is owned by another party and cannot be sold. As a consequence of this you are allowed a deduction for non-marketability, also called a tenanted deducted. A deduction of 10% is usually allowed for these purposes, which

you can has been deducted from the market value in the calcuation in the appendix.

When you sell a property that has been your main residence you are entitled to Principal Private Residence (PPR) relief. If you had live in the property throughout PPR relief would exempt the entire gain on the property.

When a married couple separate they are treated as separated for tax purposes at the end of the year in which they separate, which would have been 5/4/17. Moor View will have been treated as your main residence from the date you moved in until 5/4/17.

When a property has been your main residence, the last 18 months is always treated as deemed occupation, and is covered by PPR. This means the period of 13 months between 5/4/17 and the last 18 months would not be covered by PPR, and a taxable gain would arise.

As you can see from the appendix the gain is £16,718. As residential property is taxed at a higher rate than other capital gains I would suggest that the annual exempt amount be offset against this gain, giving you a taxable gain of £4,718 and a CGT liability of £1,321.

Spanish bank shares

When the same type of shares are purchased in one company they are pooled for tax purposes. The appendix includes a summary of the shares bought and sold, giving you a taxable gain on the sale of your shares in February 20 of £44,502.

There are no relief's available to claim against this gain, therefore you would be taxed on the full gain. The gain will be charged at either 10% or 20%, depending on if you have any of

your basic rate band remaining.

Shop

The sale of the shop is a chargeable disposal for CGT. The gain is calculated by deducting the cost from the proceeds to get a gain of £99,650.

You have since reinvested part of these proceeds in machinery therefore there is a relief called Rollover Relief (ROR) that you can claim to reduce the taxable gain on the shop.

ROR is available as you are selling one business asset and replacing with another business asset. The replacement asset must be purchased within the period 12 months before to 36 months after the sale of the old asset. As you purchased the machinery 1 month after the sale, you meet this condition.

The ROR available is restricted to the amount you have reinvested. This means you can only claim ROR on the amount paid for the machinery of £78,000. This gives you a taxable gain of £21,650 which will be charged at either 10% or 20%, depending on if you have any of your basic rate band remaining.

The claim for ROR must be made within 4 years of the end of the tax year following the sale of the old asset, which in this case would be 05/04/2024.

I hope the above information is of assistance to you. If you have any further queries please let me know.

Yours sincerely

Tax Adviser

APPENDIX

Moor View House

Market value at transfer	1,050,000
Less tenanted deduction (10%)	<u>(105,000)</u>
Revised value	945,000
Less cost	<u>(266,000)</u>
Gain	679,000

1/2 share of gain	339,500
Less PPR (W1)	<u>(322,782)</u>
Chargeable gain	16,718
Less annual exempt amount	<u>(12,000)</u>
Taxable gain	4,718

CGT @ 28% = £1,321

(W1) PPR

Period owned before transfer - 1/11/97 to 31/10/19 (264 months)

Period whilst Grace lived in property - 1/11/97 to 6/4/17 (233 months)

Period from Grace moving out to transfer - 6/4/17 to 31/10/19 (31 months)

Last 18 months treated as deemed occupation

PPR therefore not available for 13 months (31 - 18)

PPR available for 251 months (233 + 18)

$$339,500 \times 251/264 = £322,782$$

Spanish bank shares

Sale of shares

Proceeds (11,575 x £4.26)	49,310
Less cost (W2)	<u>(4,808)</u>
Gain	44,502

(W2) s.104 pool

	No. of shares	cost
Feb 17 1,000 x £3.26	1,000	3,260
1/3/17 12,000 x £3.57	<u>12,000</u>	<u>42,840</u>
	13,000	46,100
15/4/18 Sale of rights (W3)	<u> </u>	<u>(2,235)</u>
	13,000	43,865
26/2/20 Sale	<u>(11,575)</u>	<u>(39,057)</u>
c/f	1,425	4,808

(W3) Sale of rights

The proceeds fromt the sale of rights are small as are below £3,000, therefore the proceeds are deducted from the base cost.

Shop

Proceeds	155,000
Less cost	<u>(55,350)</u>
Gain	99,650
ROR	<u>(78,000)</u>
Taxable gain	21,650

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

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

Answer-to-Question-_4_

Mr B Thomson
Chartered Tax Advisers
1 High Street
Anytown

Ms B Anderson
1 Church Street
Anytown

Date: 12 November 2020

Dear Ms Anderson

Re: Employment benefits

Thank you for your letter dated 5 November 2020, and congratulations on your job offer. I have reviewed the information you provided and explained below the tax implications of the various benefits offered.

Company car

If you were to accept the offer of either the car allowance or the company car, you would incur a taxable benefit of the higher of the value of the two options. It doesn't matter which of these options you chose, the taxable benefit would be the same.

The value of the car allowance is the £8,000 per annum that you

would receive.

The company car benefit is calculated based on the list price of the car multiplied by a percentage which is based on the CO₂ emissions of the vehicle. The CO₂ emissions give a percentage of 28%. As the vehicle is diesel another 4% would be added giving a total percentage of 32%. This percentage multiplied by the list price of the vehicle gives a taxable benefit of £7,680.

As the car allowance of £8,000 is higher this would be the value of the benefit should you choose this option. You would be taxed on this benefit at your marginal rate of tax, which based on your salary would be either 40% or 45%. The highest tax charge you could receive for this would be £3,600.

You would also be subject to Class 1 National Insurance (NI) on this benefit. Due to your salary this would be charged at 2%. The total Income Tax and National Insurance charge you would receive for the benefit is £3,760.

You mentioned that one option was to lease the car yourself for £5,400 per annum excluding fuel. As this would cost you more than the tax charge on the benefit, it would be more beneficial for you to receive either the car allowance or the company car.

Fuel benefit

If your employer provides you with a fuel card that you can use to purchase fuel used for personal purposes, this is a taxable benefit. The benefit is calculated using a fixed amount of £24,100 multiplied by the same percentage use for the company car calculation. This would give you a fuel benefit of £7,712. You would not be subject to NI on this benefit.

If you decide to use the £8,000 car allowance to lease or

purchase your own vehicle you can claim a deduction against your employment income for business miles travelled using HMRC's approved mileage rates. These rates are 45p for the first 10,000 miles and 25p for miles above 10,000. As you expect to travel 6,000 business miles, this would give you an allowable deduction of £2,700. This would reduce your taxable income.

If you decide to use your own car as above, a more beneficial option would be to ask your employer to reimburse you for the business mileage using the mileage rates, instead of giving you the fuel car, as then you would not receive the benefit of the fuel car. The reimbursement of mileage allowance would not be subject to any tax charges.

If you chose the company car option the mileage allowance deduction is not available, as it is only available if you are using your own car.

Gym membership

The benefit of the free gym membership would usually be a taxable benefit. However as the membership is for the company's own gyms, then the benefit would be the cost of the membership to your employer, rather than the cost that someone not connected to the gym would have to pay for membership.

There would be no additional cost to the gym in providing you with the membership unless there are incidental costs such as provision of towels, lockers and so on. The taxable benefit therefore would be £0 unless incidentals are included in the membership. The benefit would then be the cost of these incidentals.

You would not be subject to a NI charge for this benefit.

Training course

The payment of £1,000 towards the cost you have already incurred would not be a taxable benefit as the company are remibursing you for expenses you incurred in relation to your job, as you mentioned the training course was critical for you in securing the position.

Any future payments that your employer makes on your behalf for qualifications, including an examinations required would not be a taxable benefit, and would not be subject to a NI charge.

I hope the above clarifies your position. If you require any further assistance please do not hesitate to contact me.

Yours sincerely

Mr B Thomson

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

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

Answer-to-Question-_5_

BRIEFING NOTE FOR TAX PARTNER

Below are the IT and NI implication of the acquisition of the shares in Generous Boss Ltd for Jason Jones.

The shares are restrcited securities which are subject to forfeiture if Jason leaves the company within 2 years. He will also not be able to sell the shares for three years following the acquisition.

Jason will receive a charge to IT at the time of issue based on the restricted market value of the shares at the date of the award.

He will receive a further charge to IT when the first restriction is lifted in 2 years time. This is based on a % of the market value at the time the restriction expires. The % is the portion of unrestricted market value which is neither taxed or paid on acquisition. The market values used will be £7 per share, and as he will have already been taxed on 80% of the restrcited value, the unrestricted % is 20%.

He will receive a further charge to tax when the final restriction is lifted in 3 years.

An election can be made under s.431 ITEPA 2003 which has the effect of ignoring the impact of all restrctions. Jason would then be taxed on the full unrestricted value of the shares at the

date of acquisition of £5 per share.

This election is irrevocable and must be made jointly between Jason and Generous Boss Ltd within 14 days following the award of the shares. We do not have the details of the date of award, so we may already be out of time to make this election.

If the election can be made it can save tax depending on the change in value of the shares. Jason believes the shares may fall in value, however, if they don't fall below the value of £5 then the election may still be beneficial.

As the shares are not readily convertible assets Jason will not pay National Insurance on the charges.

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

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

Answer-to-Question-_6_

Ted's income tax liability

	<u>NSI</u>
Property income (W1)	2,275
Pension income	<u>50,000</u>
Net income	52,275
Less PA	<u>(12,500)</u>
Taxable income	39,775

Tax

37,500 @ 20%	7,500
2,275 @ 40%	<u>910</u>
	8,410

Less tax reducer:-

Mortgage interest (W2)	(455)
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Less tax deducted:-

Tax on pension	<u>(7,300)</u>
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Tax due 655

(W1) Property income

Rental income - shop	4,000
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Rental income - house	8,000
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Less expenses:-

Carpets	2,000
500 miles @ 45p	225
Allowable expenses	3,000
Mortage interest (W2)	
- Shop	3,000
- House	<u>1,500</u>
	(9,725)
	2,275

(W2) Mortgage interest

Interest needs to be split between commercial and residential,
this can be based on the current market values

Interest for shop (9,000 x 150,000/450,000)	3,000
Interest for house (9,000 x 300,000/450,000)	6,000

Interest relief is restricted for the house

$6,000 \times 25\% = 1,500$

The remaining 75% is available as a tax reducer

The tax reducer is restricted to the lower of:-

Interest not allowance for deduction - £4,500

Property income - £2,275

Adjusted total income - £39,775

Tax reducer will be restricted to £2,275, with the balance to be carried forward. £2,275 @ 20% = £455

Notes

1) The purchase of a washing machine is not allowable as it is not a replacement, and is the first washing machine he has bought for the property.

2)

House

As Ted and Jessie are connected parties the proceeds of the house will be the market value.

The original cost of the entire property will be apportioned between the shop and house based on the current market values.

Proceeds (market value)	300,000
Less cost ($210,000 \times 300,000/450,000$)	<u>(140,000)</u>
Gain	160,000
Less AEA	<u>(12,000)</u>
Taxable gain	148,000

CGT @ 28% = £41,440 (provided no BRB remaining)

The gain on the house is taxable at a higher rate therefore it is more beneficial to offset the AEA against this gain.

Lease

This is the grant of a short lease

Part of the proceeds will be charged to income tax and part to CGT

Property income

Premium	60,000
Less 2% x (20-1) x 60,000	<u>(22,800)</u>
Property income for 21/22	37,200

Capital gain

Capital proceeds	22,800
Less cost (70,000 x 22,800/60,000 + 90,000)	<u>(10,640)</u>
Gain	12,160

CGT @ 20% = £2,432 (provided no BRB remaining)