



# **The Chartered Tax Adviser Examination**

May 2018

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## **Awareness Module D Taxation of Individuals**

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Suggested solutions

1)

	Non-savings income £	Dividend income £	Total £	
Employment income	30,000		30,000	
Dividend income		40,000	40,000	
Total income	30,000	40,000	70,000	
Personal allowance	(11,500)		(11,500)	1
Taxable income	18,500	40,000	58,500	
Income Tax:				
Employment income £18,500 at 20%			3,700	1
Dividend income £5,000 at 0%			Nil	1
Dividend income £10,000 at 7.5%			750	1
Dividend income £25,000 at 32.5%			8,125	1
Income Tax liability			<u>£12,575</u>	

2)

Paul's taxpayer status will depend on which part of the UK he has a **close connection** to. 1

Close connection is determined by where the individual's **main place of residence** is. 1

This is not necessarily where Paul spends most of his time. 1

A key factor is where the individual's family resides and in Paul's case, this is in Newcastle, England. 1

Paul is not a Scottish taxpayer for 2017/18. 1

3)

The donation is deemed to have been made net of Income Tax relief at basic rate. Gross donation is £2,000 x (100/80) = £2,500. 1

The basic rate band is extended by the gross donation. £33,500 + £2,500 = £36,000 1

Income Tax relief is £2,500 x (40% - 20%) = £500. 1

Total income is reduced by the gross donation. £110,000 - £2,500 = £107,500. 1

This increases Sarah's personal allowance. £2,500 x 50% = £1,250. 1

This provides additional Income Tax relief. £1,250 x 40% = £500. 1

**Max 5 marks**

4)

Tax value of BIK = higher of amount foregone and modified cash equivalent	1
Amount foregone: £6,000	1
Modified cash equivalent: £18,000 x 27%* = £4,860	1
*18% + [(140 – 95)/5] = 27%	
Therefore, £6,000.	
Income Tax: £6,000 x 40% = £2,400	1
Class 1A NICs: £6,000 x 13.8% = £828	1

5)

	£	
Employment income	155,000	
Property income	7,000	
Threshold income/adjusted income	<u>162,000</u>	1
Adjusted income (as above)	162,000	
Limit	<u>(150,000)</u>	1
Excess	<u>12,000</u>	
Annual allowance	40,000	1
Restriction (£12,000/2)	<u>(6,000)</u>	1
Tapered annual allowance for 2017/2018	34,000	
Unused annual allowance brought forward	<u>21,000</u>	1
Total available annual allowance for 2017/2018	<u><u>£55,000</u></u>	

6)

Bed: Cost £700 <b>plus removal costs</b> of old item £20 – therefore, £720	1
Fridge freezer: <b>Cost restricted to equivalent</b> (£450) <b>less proceeds</b> of £30 – therefore £420	1+1
Television: <b>new item</b> , therefore qualifying amount for RIDR is <b>£nil</b>	1
Bath: <b>fixture</b> , therefore qualifying amount for RIDR is <b>£nil</b>	1

7)

Income Tax on exercise:

Options granted 31 March 2012 – no Income Tax as not granted at a discount 1

Options granted 31 March 2014:

	£	
Lower of MV at grant (£10) and MV at exercise (£12) x 5,000	50,000	1
Less, option price (5,000 x £9)	<u>(45,000)</u>	1
Employment income	<u>£5,000</u>	

CGT on sale:

Proceeds (7,000 x £13)	91,000	
Cost of 2012 and 2014 options ((2,000 x £3) + (5,000 x £9))	(51,000)	1
Employment income (above)	<u>(5,000)</u>	1
Capital gain	<u>£35,000</u>	

8)

	£	
Proceeds	310,000	
Cost	<u>(160,000)</u>	
Gain	150,000	1
PPR: Actual occupation ((60/180) x £150,000)	(50,000)	1
PPR: Deemed occupation ((18/180) x £150,000)	<u>(15,000)</u>	1
Gain after PPR	85,000	

Lettings relief lower of:

PPR: £65,000

Gain for let period ((96-18)/180) x £150,000 = £65,000

Max allowance: £40,000

	<u>(40,000)</u>	2*
Gain	<u>£45,000</u>	

**\*1 mark for claiming lettings relief + 1 mark for correct amount**

9)

	ER £	Other £	Total £	
Material disposal of business assets (shares)	400,000			1
Associated disposal (commercial property)	180,000			1
Residential property		90,000		
Annual exemption		<u>(11,300)</u>		1+1*
	<u>580,000</u>	<u>78,700</u>		
CGT at 10% on ER gains			58,000	
CGT at 28% on other gains			<u>22,036</u>	1
			<u>£80,036</u>	

**\*1 mark for deducting correct amount of annual exemption + 1 mark for deducting it from non-ER gain**

**10)**

## Part 1)

£100 for being late.	1
Plus £900 for more than 3 months late. (£10 daily penalty x 90)	1
Plus £1,050 as more than 6 months late.	
This is <b>5%</b> of tax due <b>after amounts deducted at source</b>	<b>1+1</b>
Total £2,050.	

## Part 2)

31 January 2019. (calendar quarter day)	1
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**11)**

	£	£	
Sale of QCB - exempt		nil	1
Crystallisation of frozen gain on QCB:			1
Proceeds (MV at 31/5/14)	50,000		1
Cost ((£50,000/£250,000) x £100,000)	<u>(20,000)</u>		1
Gain		30,000	
Sale of shares:			
Proceeds	300,000		
Cost ((£200,000/£250,000) x £100,000)	<u>(80,000)</u>		1
Gain		220,000	
Total gains		<u>£250,000</u>	

**12)**

	£	£	
Proceeds	400,000		
Less legal fees	(1,500)		
Less estate agent's fees	<u>(2,000)</u>		
		396,500	1
Cost	120,000		
Add legal fees	<u>1,200</u>		
	121,200		1
Enhancement: Garage (not reflected in asset at date of sale)	nil		1
Enhancement: Extension	<u>22,000</u>		1
		(143,200)	
Gain		<u>253,300</u>	
CGT at 10% (as FHLs qualify for ER)		<u>£25,330</u>	1