



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

May 2017

Suggested solutions

Awareness Module D Taxation of Individuals

1.

	Total £	Non Savings £	Savings £	
Salary	14,500	14,500		
Bank interest	10,000		10,000	
Net income	<u>24,500</u>	<u>14,500</u>	<u>10,000</u>	
Personal allowance	(11,000)	(11,000)		1
Taxable income	<u>13,500</u>	<u>3,500</u>	<u>10,000</u>	
Income tax				
Non Savings:			£	
Tax at basic rate (20%) on	3,500	700	700	1
Savings:				
Tax at starting rate (0%) on	1,500		0	0 1
Personal savings allowance (0%) on	1,000		0	0 1
Tax at basic rate (20%) on	7,500		1,500	1,500 1
Income Tax liability	<u>13,500</u>		<u>2,200</u>	

2.

The further conditions that must be met are that the cottage must be:

1. Furnished 1
2. Situated in the UK or EEA 1
3. Not normally let for long term occupation (> 31 consecutive days to the same occupant). Any such periods of longer term occupation must in any event not exceed 155 days in the tax year 1

Proceeds	£	
	375,000	
Less cost (£182,000 + £2,500)	(184,500)	1
Gain	<u>190,500</u>	
Capital Gains Tax at 10% (Entrepreneurs' relief)	<u>19,050</u>	1

3.

The tax point for directors' bonuses is the earliest of:

1. The date that the payment is actually made 1
2. The date the director becomes legally entitled to the payment 1
3. The date the bonus is credited in the company's accounts 1
4. The date the bonus is determined if after the end of the company's accounting period 1

Arthur's employment income for 2016/17 is therefore:	£	£
Salary		
5 April 2016 – 31 December 2016		
9/12 x £80,000	60,000	
1 January 2017 – 5 April 2017		
3/12 x £90,000	<u>22,500</u>	
		82,500
Bonus (28 February 2017)		<u>18,000</u>
		<u>100,500</u>

4.

	CO ₂	%	
CO ₂ emissions	187		
Rounded down to	185		
Base level	(95)	16	
	90		
Divide by 5		18	
		34	1
Car benefit: 34% x £33,000 x 4/12			3,740 1
No deduction for contributions toward running costs			1
Fuel benefit: 34% x £22,200 x 4/12			2,516 1
No deduction for partial contributions towards fuel for private journeys			1

5.

National Insurance Contributions

Class 1 Primary (payable by Shairah) – cash earnings only

£(0 - 8,060) x 0%

£(8,061 - 18,000) x 12%

1,192 1

Class 1 Secondary (payable by Chakha Ltd) – cash earnings only

None payable as Shairah is age 20 and cash earnings are less

than £43,000 per annum

1

Class 1A (payable by Chakha Ltd) – on benefits

£14,400 (W) x 13.8%

1,987 1

(W)

Accommodation benefit

Rented by employer, therefore basic charge is the higher of:

- Annual value

8,000

- Rent paid by the employer

14,400

Therefore

14,400 1

No further/additional charge as the property is not owned by the employer

1

6.

The taxable amount of Sophie's termination payment is as follows:

	£	£	
Statutory redundancy pay is exempt		-	1
Payment in lieu of notice is taxable as normal employment income		21,000	1
Payment for agreeing not to work for a competitor for the next six months is taxable as normal employment income		42,000	1
Ex gratia compensation for loss of office qualifies for the £30,000 exemption. The £30,000 exemption is reduced by the statutory redundancy pay	50,000		
£30,000 - £16,400	(13,600)		1
The amount remaining after the exemption is then reduced by the foreign service exemption	36,400		
8/22 x £36,400	(13,236)		1
		23,164	
		86,164	

7.

2014/15	£	£	
Gain on sale of painting		50,000	
Less EIS reinvestment relief (balance)		<u>(38,900)</u>	1
		11,100	
Annual Exempt Amount		<u>(11,100)</u>	1
Taxable gain (2015/16)		<u>Nil</u>	
Sale of shares (at a loss) in January 2017			
Income Tax relief withdrawn: £(36,000/150,000) x £45,000		10,800	1
Loss on EIS shares:			
Proceeds		45,000	
Less cost	150,000		
Reduced by Income Tax relief given and not withdrawn £(36,000 – 10,800)		<u>(25,200)</u>	
Loss		<u>(124,800)</u>	1
		<u>(79,800)</u>	
Deferred gain on painting becomes chargeable		<u>38,900</u>	1

8.

Income Tax relief is initially given on the greater of £3,600 and 100% of relevant earnings.	1
Esther's relevant earnings is her trading income and her income from furnished holiday lettings.	1
Therefore the maximum personal pension contribution on which Esther will obtain Income Tax relief in 2016/17 is £(25,000 + 10,000) = £35,000 (gross).	1
The contribution will be made net of basic rate tax (20%) and so Esther's net contribution will be £35,000 x 80% = £28,000,	1
As Esther is a higher rate taxpayer, she will obtain further tax relief on the maximum tax allowable contribution by extending her basic rate band by the gross amount of £35,000.	1

9.

1981	Ameer took his 'domicile of origin' from his father, being Pakistan, his father's place of birth.	1
1983	Ameer's father changed his domicile before Ameer was age 16, therefore Ameer took his 'domicile of dependency' from his father, being Canada.	1
1998	Ameer went to live with his aunt in the UK, but as there was no intention to remain in the UK permanently, his domicile remained Canada.	1
2007	Ameer went to work in Australia, but initially had no intention to remain in Australia permanently, so again his domicile remained Canada.	1
2016	Ameer acquired a 'domicile of choice' by actively taking up Australian domicile.	1

10.

	2014/15	2016/17	
	Capital gain on cash element £	Capital gain on loan stock element* £	
Proceeds = cash received/MV of loan stock at takeover	12,500	17,500	1
Cost (W)	(6,875)	(9,625)	2
Gain	<u>5,625</u>	<u>7,875</u>	

*The gain on the loan stock at the takeover is calculated as if the value of the loan stock is cash, but only becomes chargeable on the sale of the loan stock in 2016/17.

The gain on the sale of the loan stock itself is exempt **1**

(W)

	MV of consideration received £	%	Cost of original shares £	
Shares	70,000	70	38,500	1
Loan stock	17,500	17.5	9,625	
Cash	12,500	12.5	6,875	
	<u>100,000</u>	<u>100</u>	<u>55,000</u>	

11.

	£	£	£	
Gain on sculpture		2,500		
Proceeds on sale of apartment	150,000			
Less costs of sale	(4,000)			
	<u>146,000</u>			
Less cost	(120,000)			
Gain	<u>26,000</u>		26,000	1
Annual Exempt Amount (£11,100)			(11,100)	1
		<u>2,500</u>	<u>14,900</u>	
Capital Gains Tax @ 20%/28%		500	4,172	1
Less Double Tax Relief (DTR)				
Lower of UK tax (£4,172) and overseas tax (£2,200)			(2,200)	2
UK Capital Gains Tax payable (£2,472)		<u>500</u>	<u>1,972</u>	

12.

1) Stuart must notify HMRC of a new source of taxable income arising in 2016/17 by no later than 5 October 2017. **1**

2) Additional Income Tax due in 2016/17 as a result of the property income:

Additional income tax due: 40% x £55,000	£ 22,000	1
Plus additional income tax due as a result of the loss of the personal allowance: 40% x £11,000	<u>4,400</u>	2
	<u>26,400</u>	

Due date for payment is 31 January 2018 **1**