THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

November 2020

TIME ALLOWED
3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots Law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information, you may assume that 2019/20 legislation (including rates and allowances) continues to apply for 2020/21 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. You are a tax manager in a firm of Chartered Tax Advisers, and are due to meet your clients, Mike Russo, and his wife, Anna.

Mike is from Italy and has always been a non-UK domiciled individual. Due to his job, he has been UK resident since 6 April 2017. He is a higher rate taxpayer and has been claiming the remittance basis of taxation since that date.

Anna remains resident and domiciled in Italy and Mike and Anna spend every other weekend together in Italy.

In 2017/18, Mike sold shares in Black Ltd, a non-UK company, which resulted in a loss of £195,000 and in 2018/19, he sold shares in Green Ltd, a non-UK company, which resulted in a gain of £45,000. He has not remitted any of the proceeds from these disposals to the UK, although he may do so in the future.

In 2019/20, Mike made the following disposals of shares, all of which he had acquired on 6 April 2016 before he became UK resident:

1) On 1 May 2019, he sold shares in Red Ltd, a UK company for £300,000. He had acquired these shares for £5,000.

2) On 1 June 2019, he sold shares in Blue Ltd, a UK company for £600,000. He had acquired these shares for £650,000.

3) On 30 June 2019, Mike sold shares in Yellow Ltd, a non-UK company for £700,000. He had acquired these shares for £650,000. He did not remit any of these funds to the UK.

Mike will make a claim under s.809B ITA 2007, to use the remittance basis for the 2019/20 tax year.

In March 2020, Anna sold her 30% shareholding in Purple Ltd, a non-UK company. She received £50,000 for her shares. Anna had acquired these shares for £30,000 on 6 April 2016 and they were worth £35,000 on 5 April 2019. At the time of sale, Purple Ltd's only assets were an investment portfolio worth £100,000 and an office building in the UK worth £600,000 as well as a bank account which has cash of £10,000. There is a mortgage on the property of £200,000. The office was acquired as an investment and is rented out to a business unconnected with Anna. Anna has no other income or gains in the year.

Requirement:

Prepare notes for your meeting with Mike and Anna Russo at which you will discuss their Capital Gains Tax position. (15)

2. Rosie had two part-time employments during 2019/20.

Her first employment was as a tractor mechanic at a local agricultural machinery company. This employment continued throughout the tax year and she received a salary of £20,600 from which PAYE of £2,500 was deducted.

Her second employment was with a charity where she was employed to conduct scientific research. She worked from 6 April 2019 until she was made redundant without notice on 1 February 2020. Her P45 shows income of £42,000 with PAYE deducted of £20,000. After receipt of her P45 she received a redundancy payment of £25,000. Rosie was paid a gross monthly salary of £4,200 and her contract specified a three month notice period with no provision for a payment in lieu of notice. The charity had not previously made anyone redundant.

In March 2020, Rosie held a horse jumping event in a field she owns. She received £6,000 from ticket sales and had allowable expenses of £980.

Rosie owns a furnished holiday let. She received rental income of £9,250 during 2019/20 and incurred the following expenses: £1,500 on cleaning and general maintenance; £200 on insurance; and £2,300 on upgrading the windows from single glazing to double glazing.

Rosie's grandmother died in March 2019. The administration period ended in July 2019 and Rosie inherited a specific legacy of an investment portfolio. The portfolio contains UK shares, cash deposits and units in two non-UK funds.

1) In June 2019, the estate received a dividend payment. The relevant extract from the R185 form is below:

<u>R185 (estate income)</u>	<u>Tax</u>	<u>Net</u>
	£	£
UK dividends	750	9,250

2) After the administration period ended, Rosie received the following net income from the portfolio during 2019/20:

(a) £1,000 bank interest from cash deposits in Sunnyland, a country outside the EU. Sunnyland does not have a double tax agreement with the UK. No tax was withheld at source.

(b) £3,000 Sunnyland dividends from a reporting fund. The excess reported income attributable to Rosie's shares was £100. 25% foreign tax was deducted at source.

(c) The share portfolio contained units in an offshore non-reporting fund. Rosie sold the units in October 2019 for £4,500. The units were valued at £4,000 when her grandmother died.

During 2019/20, Rosie made a donation of £80 to a UK registered charity.

Requirement:

1) Calculate Rosie's 2019/20 Income Tax payable. (16)

2) Calculate the annual maximum of Class 1 National Insurance Contributions which would apply to Rosie's two employments in 2019/20. (4)

Total (20)

3. You work in the personal tax team at a firm of Chartered Tax Advisers and you have a new client called Grace Taylor, who is a higher rate taxpayer.

Grace and her husband Alex separated permanently on 31 January 2017 when Grace moved out of their marital home, Moor View House, Somerset.

Grace and Alex had purchased Moor View House for £266,000 on 1 November 1997. They moved into the property straight away and lived there together throughout their marriage.

Alex has continued to live in the property since the marriage broke down and Grace transferred her half share in the property to him on 31 October 2019 as part of their divorce settlement. The agreed market value of the property on 31 October 2019 was £1,050,000.

After moving out of Moor View House Grace purchased 1 High Street in London, where she currently resides.

Grace worked as an investment manager in the UK head-office of a Spanish bank from January 2010 until February 2020. In 2012 she was granted an option to purchase 1,000 unrestricted shares in the bank for £1.50 per share. When the option was granted, shares in the bank were worth £1.85 per share. She exercised the option in February 2017, when shares in the bank were worth £3.26 per share.

Grace purchased a further 12,000 shares on the open market at a cost of £3.57 per share on 1 March 2017.

On 15 April 2018 the Spanish Bank announced a rights issue for their existing shareholders, but Grace did not take this up and instead sold her rights for £2,235.

On 26 February 2020, Grace sold 11,575 of her shares for £4.26 per share.

Many years ago Grace set up a business selling party accessories and fancy dress from several shops. Since she left the bank, she has worked in the business full-time. Due to an increase in online sales she found she had surplus shops and on 15 March 2020 she sold one of these to an unconnected third party who intends to convert it for residential use. The sale price was £155,000. This shop had been purchased for £55,350 on 27 August 1998 and was used in the business throughout Grace's period of ownership. There was no goodwill attached to the shop on purchase or on sale.

Grace has decided to start producing goods to sell in her business and therefore purchased some production line machinery on 30 April 2020 at a cost of £78,000.

Requirement:

Write a letter to Grace providing details of her Capital Gains Tax liability for the year ended 5 April 2020. (20)

4. You are a tax senior with a firm of Chartered Tax Advisers. You have received the following letter from your client, Bonnie Anderson.

Mr B Thomson
Chartered Tax Advisers
1 High Street
Anytown

Ms B Anderson
1 Church Street
Anytown

5 November 2020

Dear Ben

I have been offered a job as a marketing manager by Quality Gym Ltd, a company which runs a network of gyms throughout the country. My package is worth around £140,000 and includes a number of benefits: I should be grateful for your advice in relation to these.

1) I have been offered either a car allowance of £8,000 per annum or a company car. The car I would like is diesel with a list price of £24,000 and a CO_2 emissions figure of 123g/km. I could lease the same car myself for a total cost excluding fuel of £5,400 per annum.

   Whichever option I take, I will be provided with a fuel card, which I will use to pay for all of my fuel. I will not be paid anything extra for business mileage. I expect to do 15,000 private miles a year and 6,000 business miles. Fuel costs for this car are 12p per mile.

   Please could you advise which option I should take?

2) I will have free gym membership which will give me unrestricted use of any of Quality Gym Ltd's gyms around the country. The normal cost of this membership is £750 per annum.

   Are there any tax implications for me?

3) I am currently studying for a marketing qualification, which was critical in helping me to secure this new job. I have already paid for the intermediate level qualification. Quality Gym Ltd has offered to pay me £1,000 towards this cost and will pay for the professional level of the qualification if I decide to progress on to this in the future.

   Are there any tax implications for me?

I look forward to hearing from you.

Yours sincerely

Bonnie Anderson

Requirement:

Write a letter to Bonnie Anderson advising her in relation to the benefits offered by Quality Gym Ltd. (15)

5. You are a tax manager with a firm of Chartered Tax Advisers and your client is Jason Jones, who is employed by Generous Boss Ltd.

Generous Boss Ltd has offered Jason an option to subscribe for 1,000 ordinary shares for £1 per share which he is likely to exercise shortly. The shares will be subject to restrictions:

1) They will be forfeited for no consideration if Jason ceases to be employed by the company within two years of his acquisition of the shares.

2) He will not be able to sell the shares during the three years following his acquisition.

HMRC have agreed the current restricted market value of the shares as £4 per share and the unrestricted market value as £5 per share.

Based on forecasts provided by Generous Boss Ltd, when the forfeiture restriction is lifted, the restricted market value of the shares will be £6 per share and the unrestricted market value will be £7 per share. It is also forecast that when the sale restriction is lifted the market value of the shares will be £8 per share.

Jason believes that due to instability in market conditions, there is a possibility that the shares may actually fall in value. Jason will not sell the shares for at least five years.

The shares are not readily convertible assets and will not be acquired through an approved share scheme.

Requirement:

Prepare a briefing note for your tax partner explaining the Income Tax and National Insurance implications for Jason of his acquisition and retention of the shares.

You are not required to calculate any tax liabilities. (15)

6. You are a tax senior with a firm of Chartered Tax Advisers. Your client, Ted Fraser, owns a property which has a shop on one side and a house on the other side. He purchased the entire property in January 2010 for £210,000 and has always let it. The property is currently rented out to two different tenants.

During 2019/20, Ted received rental income of £4,000 for the shop and £8,000 for the house. He has a £200,000 mortgage on the property on which he paid interest of £9,000 during the year.

On 1 July 2019 the tenant moved out of the house. As the carpets were badly worn, he replaced all of the carpets at a cost of £2,000.

On 15 July 2019, a new tenant moved into the house. It was agreed that Ted would provide a washing machine as part of the rental agreement, which he purchased for £300. The previous tenant had provided his own washing machine.

Ted travelled 500 miles during the year in connection with the rental properties and had other allowable property expenses of £3,000.

In 2019/20, Ted received pension income of £50,000, from which tax of £7,300 was deducted at source.

Ted's daughter Jessie is keen to buy the house and Ted plans to sell it to her in December 2020 for £200,000 when the current tenancy ends. The current market value of the house is £300,000 and the shop is £150,000.

In January 2021, Ted will grant a 20 year lease on the shop for a premium of £60,000 and a peppercorn annual rent to the current tenant. The reversionary interest is valued at £90,000.

Ted will be a higher rate taxpayer in 2020/21.

Requirement:

1) Calculate Ted's Income Tax liability for 2019/20. (9)

2) Calculate the tax liabilities which will arise from the sale of the house and granting of the lease in 2020/21. (6)

Total (15)