Institution **CIOT - CTA**
Course **Adv Tech Taxation of Individual**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Answer-to-Question-_1_

On the purchase of any cryptocurrency this will be the base cost associated with the asset.

Then they are seen as being pooled by the individual currencys like share pooling.

They will also follow the pooling rules which is the same as shares so when sold they are take from any purchases made in the same day,

Then any in the following 30 days,

and then the rest of the pool.

Bitcoin

	Amount	Base cost	Acquisition costs	
1/5/21	1	8,000	100	
1/8/21	2	20,000	250	
Total	3	28,000	350	
31/3/22	(1.5)	28,000 / 2, = (14,000)	350 / 2 = (175)	
c/fwd	1.5	14,000	175	

Therefore on the sale of 1.5 bitcoin there will a chargeable disposal.

Proceeds 50,000 x 1.5 = 75,000
Less
Cost 14,000
Acquisition costs 175

Gain 60,825

This will be charged in the tax year 21/22 and taxed solely on Jason so less AEA of £12,300. Tax the rest at 20% as higher rate (60,825 - 12,300) x 20% = 9,705 CGT due by 31 January 2023.

Then he sells 3 Ethereum to purchase 5 Tether this is another chargeable disposal in 22/23.

Proceeds 5,000 x 3 = 15,000
Less
Cost 75,000/10 x 3 = 22,500
Loss 7,500

This loss will be carried forward and used against any of Jason's future capital gains in future tax years. This will need to be reported on his tax return for 22/23 by 31 January 2024

On 1 August 2022 Jason decides to split his assets between himself and his wife which is a marriage transfer which is done at a no gain, no loss transaction where Anna will receive the shares and for CGT purposes will have a base cost at whatever Jason would have just in half.

So they sell one Bitcoin in 15/4/23, this will be on their 23/24 tax year and as the account is now joint they will receive half of the gain or loss each.

So from the table above

	Amount	Base cost	Acquisition cost	
c/fwd	1.5	14,000	175	
15/4/23	(1)	14,000/1.5 x 1 = (9,333)	175/1.5 x 1 = (117)	

c/fwd	0.5	4,667	58	

For Jason and Anna personally

Proceeds 20,000 / 2 = 10,000
Less
Cost 9,333 / 2 = 4,667
Acquisition cost 117 / 2 = 59

Gain 5,274 each

This will be covered by both of their annual exempt amounts in 23/24 so CGT payable as long as no other CGT disposal are made.

This will need to be reported on their 23/24 tax return due by 31 January 2025.

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

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

Answer-to-Question-_2_

Cornwall property

Patrick has bought a house in Cornwall for £425,000. This is the base cost when it comes to selling the property and the land.

For properties they will either have capital or revenue expenses. For the demoliation of the dilapidated house this will be a capital expense this will be the same for the cost of rebuilding a house in its place.

Therefore capital expense of 20,000 + 385,000 = 405,000.

As the house has been destroyed this means that the house is now of negligible value and therefore if made under a s.24 TCGA 1992.

It can be claimed if the following 2 conditions apply:

Firstly condition A has the asset become of negligible value while owned by Patrick. Yes

Secondly condition B, the disposal by which Patrick acquired the asset was a no gain/ no loss disposal.

Therefore under s.24 (3), a building seperate from the land on which it is situated has been deemed to be disposed of and treated as if it was sold equal to its market value.

Proceeds Market value 210,000
Less
Cost 245,000

Loss 35,000

This loss is a negligible value claim and therefore is a capital loss for when the property is demolished as well as the preceding 2 tax years.

Planning permission land

If there was no planning permission and it was just a sale of land then this would be regarded as a capital disposal and charge above annual exempt amount of 20%.

However there are anti-avoidance rules on transactions in UK land.

This means that if any of the 4 conditions are met then this transaction is treated as income for income tax rather than capital gains tax.

This means that rather than being taxed mostly at 20% of the gain it will be taxed at non-savings tax at 40%.

These rules apply to-

a person who realises a profit or gain from a disposal of any land in the UK and

any of the conditions A to D apply -

A - the main purpose or one of the main purposes of acquiring the land was to realise a profit or gain from disposaing of land.

B - is that the main purpose or one of the main purposes of acquiring any property derives its value from the land was to realise a profit or gain from disposing of the land.

C - land is held as trdaing stock

D - the main purpose or one of the main purposes of developing land was to realise a profit or gain from disposing the land when developed.

As one of the reason to get planning permission was to sell it on at a premium this will be accepted as a profit motive.

Therefore condition A is met.

Proceeds 400,000
Less
Cost 360,000
Planning permision 1,380

Profit 38,620

This will be taxed @ 40% = 15,448

There is no clearance for this before appling for the income to be treated as capital however you can ask HMRC informally for how they would treat the profit.

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

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

Answer-to-Question-_3_

Daisy is UK domiciled but non-UK resident for 22/23.

She sold a house in 22/23 and non-UK residents are liable to pay UK capital gains tax on any sale of UK residential property in the year it was sold.

However there are rules for non-UK residents.

They can claim the defult method, retrospective method or time-apportioned method to calculate their capital gain during the tax year.
This is section FA 2008 Sch 7 para 172.

She will also have private residency relief for the periods that she was living in the property and for any deemed occupation.

Deemed occupation doesn't really apply to Daisy as she never returned and also I have assumed that she wa not working in the Cayman Isalnds. Therefore she will only receive the last 9 months deemed to be occupied.

	Deemed occupation	No occupation	Cumulation	
30/4/1999				
July 2004	5 x 12 + 3 = 63		63	
April 2015		16 x 12 - 63 = 129	192	
May 2022	9	7 x 12 + 1 -9 = 76	277	
	72	205	277	

Private residence relief is an automatic claim for residential profit so no need to apply for the relief.

Default method

This method rebases the base cost of the property to the market value of the property in April 2015.

Proceeds 495,000
Less
Cost MV April 2015 375,000
Selling cost 6,671
Enhancement expenditure 2,980

Gain 110,349

PRR 110,349 x 9/85 = (11,684)

Chargeable gain 98,665

Retrosepctive method

This method is used to determine the chargeable gain had there been no rebaing in April 2015.

Proceeds 495,000
Less
Cost 117,763
Selling costs 6,671
Extension 54,334
Off-street parking 2,980

Gain 313,252

PRR 313,252 x 72/277 = 81,423

Chargeable gain 231,829

Time-apportioned method

This takes into account the gain from the rebase in April taking into account therefore the gain from April 15 to May 22 is charged to CGT.

Proceeds 495,000
Less
Cost 117,763
Extenstion 54,334

Gain 322,903

Time apportioned 322,903 x (9+76) / 277 = 99,086

Less
Seling cost 6,671
Car park 2,980 x 67/277 = 721 (7+5x12=67)

Gain 91,694

PRR 91,694 x 9/85 = 9,709

Chargeable gain 81,985

Therefore we go with the lowest amount which is on the time-apportioned gain of £81,985.

Chargeable gain 81,985

Less annual exempt amount 12,300

Taxable gain 69,685

Basic rate band remaining 37,700 - 24,503 = 13,197

13,197 @ 18% = 2,375

69,685 - 13,197 @ 28% = 15,817

CGT tax due 2,375 + 15,817 = 18,192

As this is a residential property it will need to be disclosed on a 60 day report and for the chargeable gain and tax to be paid within 60 days of completion and therefore should of already been done if not interest and penalties may be applied.

Income

	NS	I	D	Total
Rental income	5,637			
Bank interest		21,951		
Dividends			9,485	
Total income				
	5,637	21,951	9,485	37,073
Personal allowance	(5,637)	(6,933)		
	0	15,018	9,485	24,503
5,000 @ 0%	0			W1
1,000 @ 0%	0			
9,018 @ 20%	1,804			
2,000 @ 0%	0			
7,485 @ 8.75	655			
Tax due	2,459			
NRLS	(1,440)			
IT due	1,019			
CGT due	18,192			
Total tax due	19,211			

Savings allowance W1

As there is no non-savings income to tax first Daisy can use a starting allowance of £5,000 which means her first bit of interest will be taxed @0% for £5,000 and then we can also claim her normal £1,000 savings allowance as she is basic rate.

Non-resident landlord scheme (NRLS)

As Daisy is non-UK resident and rents out a property, the income she receives of rental income should be received net of 20%

witheld tax on non-UK resdient landlord scheme and should either be witheld by an agent or the tenant.

This means that 5,637 + 1,563 = 7,200 was received gross.

Witheld tax of 20% - 7,200 x 20% = 1,440

This will then be deducted from tax due.

This can be removed if the tax payer is good at self-assessment and pays their taxes on time and basic good behaviour. But for this I have assumed she hasn't opted out.

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

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

Answer-to-Question-_4_

As all of the shares are for an nquoted trading company, these shares will not be considered readily convertible assets for national insurance purpses and therefore no national insurance will be charged on any income tax arisen by any of the excercised shares.

June 2019

The company granted the option for Robert to buy shares in the comapny.

There is no employment tax on the date of the grant of the option to purchase these shares.

There will be employment tax on the date excersied which would be 1 December 2023 in the 23/24 tax year.

This will be market value less amount paid.

Market value 4 x 10,000 = 40,000

Less
Amount paid 1 x 10,000 = 10,000

Employment income 30,000

As the period of which this was granted he was a non-UK resident and was working abroad this will not be taxable in the UK.

Base cost is amount paid plus employment tax due.

30,000 + 10,000 = 40,000

June 2020

Same as before were the grant the option is granted there is no tax due.

There is employment tax due on the date of the excercise on 1/1/21.

Market value 2.5 x 20,000 = 50,000

Less
Amount paid 2 x 20,000 = 40,000

Employment income 10,000

Base cost is amount paid plus employment tax due.

40,000 + 10,000 = 50,000

June 2021

With a CSOP there is no tax due at the date of the grant.

With a CSOP the shares must be excerised between 3 and 10 years from the date of grant for there to be a tax advantage. However as Robert plans to exercise all remaining shares in the 1/12/23 this will fall short of that and it will be taxed as if it was a non-tax advantage scheme.

Market value 4 x 50,000 = 200,000

Less
Amount paid 1.5 x 50,000 = 75,000

Employment income 125,000

Base cost is amount paid plus employment tax due.

75,000 + 125,000 = 200,000

June 22

With EMIs there is no tax at the date of grant and there will only be an employment income tax on the discount given to the employee as long as they excersie their grant by 3 years which they do.

There was no discount so no income tax will be charegable for the exercise.

Base cost will be the amount paid 2 x 50,000 = 100,000

	Pool	Base cost	Eligible for BADR	
June 19	10,000	40,000		
June 2020	20,000	50,000		
June 2021	50,000	200,000		
June 22	50,000	100,000	Possibly	
Total	130,000	390,000		

Business asset disposal releif (BADR)

Is only on disposals on full or part of a business asset.

There are conditions that need to be met for BADR on shares -

The company needs to be unquoted and trading. Yes applies

Need to work for the company for at least 2 years before selling. Yep applies

Need 5% of the share capital or distributable profits.

No as he will have 130,000 / 5,000,000 x 100 = 2.6%, however this is not needed for qualifying EMI shares and for that only the first 2 conditions are needed therefore they will qualify for BADR.

CGT

As the shares will be sold by Robert there will be CGT consequences.

80,000 shares that are not eligible for BADR and we have 50,000 shares that are eligible for BADR.

Proceeds 4 x 130,000 = 520,000

Less
Cost 390,000

Chargeable gain 130,000

Less AEA 12,300

117,700

Eligible for BADR

117,700 x 50,000 / 130,000 = 45,269

45,269 x 10% = 4,527

Not eligible

117,700 x 80,000 / 130,000 = 72,431

72,431 x 20% = 14,486

Total CGT due 19,013

I have assumed that he has not exceeded his lfetime limit of £1 million.

Payable in 23/24 on 31 January 2025 were it will need to be reported on his 2023/24 tax return.

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

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

Answer-to-Question-_5_

Rakesh

Income tax

	NS			
Flat income	22,045			
Shop lease 10 years	4,776			
55 year lease	7,500			
Trade profit	16,800			
	51,121			
Personal allowance	(12,570)			
	38,551			
2,162 @ 19%	411			
10,956 @ 20%	2,191			
17,974 @ 21%	3,775			
7,459 @ 41%	3,058			
Income tax due	9,435			

CGT

	Gains			
10 year lease	318			
55 year lease	3,209			

Total	3,527			
Less annual exempt amount	(12,300)			
	No CGT tax due			

Flat rent/ property income

Rent 24,700

Less expenses
Management fees 2,000
Inventory fee 195
Washing machine 460

Profit 22,045

The income received in the year will be treated as rental income and it will be reduced by any allowable revenue expenses such as management fees. Capital expenses are not normally allowed however there is a replacement of domestic items relief which will give relief to replacing white goods such as a washing machine if the previous one was broken and therefore is a like for like replacement.

Shop lease (10 year)

Premium 30,000
Capital element 2% x 30,000 x (10-1) = 5,400

Property income 24,600

Property income

Premium 24,600 / 10 x 11/12 = 2,255

Rent paid 2,750 x 11/12 = 2,521

Total income for 22/23 = 4,776

CGT

Capital premium 5,400

Cost 80,000 x (5,400/(30,000+55,000)) = 5,082

Chargeable gain 318

Delicatessen business shop 55 year lease

As the lease is a long lease there will be no property income and therefore the whole premium is capital.

Property income 7,500 (done on cash basis and therefore the date paid is 1/9/22 so whole amount used)

CGT

Premium 46,000

Cost 80,000 x 46,000/(46,000 + 40,000) = 42,791

Chargeable gain 3,209

Pamela

Income tax

	NS			
Grant of sub-lease	592			
Trade profit	12,400			
Total	12,992			
Personal allowance	(12,570)			
Taxable	422			

422 @ 19%	80			
IT due	80			
No CGT due				

Grant of sub-lease

Premium 9,000
Less capital element 9,000 x 2% x (3-1) = 360

Property income 8,640

Less amounts taxed on Rakesh 24,600 / 10 x 3 = 7,380

Property income 1,260

Proeprty income

Premium 1,260 / 3 x 5/12 = 175
Annual rent 1,000 x 5/12 = 417

Total property income 592

CGT

Capital premium 360

Less
Cost 30,000 / 10 x 3 x (9.5yrs - 6.5yrs)/10yrs

9,000 x ((46.695+43.154)/2 - (35.414+31.195)/2)/46.695 = 2,240

Capital loss 1,880

This will be taxed on their 22/23 tax return due by 31 January 2024 and also the tax liabilities will also be due on that date.

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

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

Answer-to-Question-_6_

Income tax

	NS	I	D	
Salary Pinefoot W1	85,167			
Termination W2	36,500			
Termination W2	35,500			
Oaknail W3	39,500			
Total	196,667			
Personal allowance	Nil	Passed threshold of £125,140		
37,700 @ 20%	7,540			
112,300 @ 40%	44,920			
46,667 @ 45%	21,000			
Total IT due	73,460			

Salary Pinefoot W1

146,000 x 7/12 = 85,167

Termination package W2

With a termination package there are 3 sections which the income can fall into.

Firstly if the redundancy pay is contractual then this will be taxed like a normal salary with income tax payable and class 1 national insuarnce.

Secondly there are exempt payments which can be for retraining that wil not be charged to income tax or national insurance.

Finally there are qualifying amounts which be partially exempt up to the first £30,000 and then be taxed to income tax and class 1A national insurance.

Normal payments seen as contractual is the payment in lieu of notice of £36,500

The exempt beenfits are costs of retraining and employer contributions made to registered pension scheme £10,000.

The partially exempt are -

Non-contractual 45,000
Statutory 13,000
Restrictive covenant 7,500
Total 65,500
Less exempt amount (30,000)
Taxable income 35,500

Oaknail Ltd salary W3

158,000 x 3/12 = 39,500

As she only worked there for 3 months.

National insurance

	NI			
Pinefoot	4,818			
Termination	1,466			
Oaknail	2,124			

Total NI	8,408			

Pinefoot 7 months

Monthly salary was 146,000 / 12 = 12,167

As she was not a director, she will have NICs done by a month by month basis rather than on an annual basis.

Class 1 primary NICs are chargeable to Samantha on this.

For April to June

4,189 - 823 x 13.25% x 3 = 1,338
12,167 - 4,189 x 3.25% x 3 = 778

After 5 July

4,189 - 1,048 x 13.25% x 4 = 1,665
12,167 - 4,189 x 3.25% x 4 = 1,037

NICs due 4,818

Termination payments

Payment in lieu of notice 36,500

is chargeable to class 1 primary by Samantha.

4,189 - 1,048 x 13.25% = 416

36,500 - 4,189 x 3.25% = 1,050

Total class 1 is 1,466

There is no national insurance payable by Samantha on the termination benefits above the exempt amount as these will be taxed by class 1A which is taxed on the employer.

Oaknail

Monthly salary 158,000/12 = 13,167

Again as she is not a director she will be charged national insurance on a monthly basis.

4,189 - 1,048 x 13.25% x 3 = 1,249
13,167 - 4,189 x 3.25% x 3 = 875

Total NIC 2,124

CGT

The only chargeable disposal in the year is the sale of shares in Pinefoot Inc

Proceeds 28,000
Less
Cost 15,000
Gain 13,000

Less annual exempt amount 12,300

Chargeable gain 700

Tax @ 20% = 140

There is no BADR as the shares are for a non-UK company.

It would be beneficial for Samantha to claim the remittance basis and for this chargeable gain not to be chargeable to UK CGT.

This would mean however that the proceeds will not be allowed to be remitted to the UK without incurring a CGT tax charge.

As she has already lost her personal allowance there will be no change in income tax and she will lose her annual exempt amount but she has no other chargeable gains in the year so would save her tax of £14.

When doing the remittance claim for the first time it would be worth mentioning the s.16ZA rules as this is an irrevocable claim to include foreign losses on chargeable disposals in the future and whether it might be beneficial in the future.