

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

Event **NA**

Exam Mode **OPEN LAPTOP**

Simone Britton

2022/23 Tax Calc		£	£	£
	Notes	NS	SI	D
Employment income	N1	194,420		
Offshore income	N9	54,000		
Bank interest			150	
Dividends	N10			<u>4,750</u>
Total income		248,240	150	4,750
less s.131 relief	N6	<u>(33,600)</u>		
		214,640	150	4,750
less PA	N11	NIL		
Taxable income		214,640	150	4,750
Tax Due				
NS 53,013 @ 20%	N4			10,603
112,300 @40%				44,920
49,327 @ 45%				22,197
S 150@45%				68
D 2,000@0%				Nil
D 2,750@39.35%				<u>1,082</u>
				77,788
add HCB	N5			2,636
Total tax				80,424
less PAYE	N1			<u>(77,768)</u>
Tax liability due				2,656

CGT Calculation

	Notes	£	£
Deferred gain	N7		50,000
Sale of Banana Ltd	N8		<u>84,000</u>
Total gains			134,000
less AEA			<u>(12,300)</u>
			121,700
Tax at 20%			24,340

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Note no BRB remaining so all taxed at 20%

Total liability due

IT	£2,656
CGT	<u>£24,340</u>
Total tax due by 31 January 2024	£26,996

Note

Total income tax clawback via assessment (600+10,000) £10,600

(N1) P60 salary £194,420
PAYE £77,768

(N2) The car allowance of £2,000 is included in the car so no further addition required.

(N3) Net gift aid donations of £12,250
Gross gift aid *100/80 £15,313

(N4) Basic rate band increases

Initial BRB	£37,700
Gross gift aid (N3)	<u>£15,313</u>
Revised BRB	£53,013

HRB £165,313

Note as the pension contributions were by the employer, no grossing up of contribution and increase will apply to BRB.

(N5) Child benefit

As Simone is the higher earner and her adjusted income is greater than £60,000 and they have been in receipt of child benefit, the full amount will be charged back.

First child	£21.80*52	£1,134
Second child	£14.45*52	£751
Third child	£14.45*52	<u>£751</u>
Total amount received		£2,636

(N6) Liquidation of Apple Ltd

When first subscribed IT relief claimed = £50,000 * 30% = £15,000

Upon liquidation Simone has received £2,000. As the shares were disposed of within three years of subscribing for them, there will be a clawback of the income tax relief received at the time of subscription.

This will be restricted to proceeds * 30% (2,000*30%) = £600

An assessment will be raised to recover this.

For the capital loss

Proceeds		£2,000
Less base cost	£50,000	
Amount of IT relief not withdrawn (15,000-600)	<u>(£14,400)</u>	
Net base cost		<u>(£35,600)</u>
Capital loss		(£33,600)

A claim should be made under s.131 ITA 2007 to allow this loss against her income during the year.

Note: Though under £50,000 for the loss restriction anyway, the full loss on EIS is exemption from this restriction.

(N7) Deferred capital gain

When the liquidation of Apple Ltd took place, as there was a deferred gain, this will now come into charge (£50,000) in this tax year.

(N8) Sale of shares in Banana Ltd (SEIS)

As a portion of these were sold within three years there will be a clawback of some of the income tax relief gained in 2019/20.

Initial tax relief (20,000*50%)	£10,000
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Simone has sold half of her holding so £5,000 of this tax will be clawbacked back via an assessment.

For the capital gain

Proceeds	£89,000
less base cost (50%*£20,000)	(£10,000)
add reinvestment gain (Note)	<u>£5,000</u>
Gain	£84,000

Note: As only 50% of shareholding has been sold, only half the reinvestment relief gain will come into charge.

Base cost of remaining share holding of 20 shares is £10,000

(N9) Offshore fund

As this was an offshore fund, only income is recorded when actually received. There is also no tax deducted at source so no credit available.

As offshore fund this gain will be taxed as non-savings income of (126,000-72,000) £54,000.

(N10) VCT dividends

Dividends on the first £200,000 of VCT invested are exempt from income tax. Simone hold 200,000 shares as there is nothing to suggest she paid more than £200,000 for this investment, so on this basis all the VCT dividends will be tax free.

(N11) The PA is fully retracted as income greater than £125,140

(N12) Tapering of Pension annual allowance

As her total income after personal pension payments (Nil) is above £200,000, her adjusted income will need checked for tapering.

Totat income	£219,540
add employers pension contributions	<u>£11,665</u>
Adjusted income	£231,205

As the adjusted income is below £240,000, no tapering is required so the full £40,000 annual allowance will not apply and no tax charge will be incurred.

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

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

Sarah

When Sarah moves to the UK from 1 September 2023 she will be come UK resident from that point under the Split Year treatment.

Sarah will meet the automatic UK residency test as will be in the UK for greater than 183 days during the tax year and will have a UK home.

Sarah will have a UK home as Nicole has rented one from 1 May 2023 so will spend at least 91 days during the tax year and spend at least 30 days there.

She will also meet the UK working test.

As she will UK resident for the 2023/24 tax year split year treatment will apply under case 5 : starting to work full time in the UK.

Sarah will meet this as was not resident in the UK in the previous tax year.

This means that from 6 April 2023 to 31 August 2023, this will be an overseas part and from 1 September 2023 to 5 April 2024, a UK part.

For the overseas part Sarah will not be liable to UK tax on her earnings.

When she becomes UK resident, and will be non domiciled (still in France) she would be taxed on her worldwide income and gains so this means that her rental income in France would be taxable.

However under s.809 ITA 2007 she could claim the remittance basis to only be taxed on income remitted to the UK. If Sarah kept your french rental income in an overseas bank account and didn't remit it to the UK, this would not be taxable.

If taxed on an arising basis Sarah would be entitled to her personal allowance and capital gains annual exemption but if claiming remittance basis would not.

If her unremitted foreign gains however were less than £2,000 this would automatically apply and she would still be entitled to the personal allowance and Capital gain annual exemption.

If she remains UK resident for 7 out of 9 years a £30,000 charge would apply and this would rise to £60,000 if 12 out of 14 years resident

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

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

John

As John will have lived in this property as his main residence PPR relief will be given on his 50% share depending. Assuming that an election has been made for this to be John's main residence.

John will have lived in the property from 1 June 2012 to 31 May 2023, at total of 11 years (132 months)during which time he did not live in the residence.

Periods of ownership	Notes	Deemed occupied	Not deemed
		months	months
01/06/12-28/02/13	N1	8	
01/03/13 - 28/02/14	N2	12	
01/03/13 - 31/03/14		12	
01/04/14 - 31/12/17	N3	45	
01/01/18 - 31/08/20	N4	32	
01/09/21 - 31/08/22	N5		14
01/09/22 - 31/05/23	N6	<u>9</u>	_____
Total	132	118	14

N1 - As there were some renovations before moving in, this will be deemed occupied from the inherited date.

N2 - This will be allowed for overseas employment, any amount of time is allowed for deemed occupancy.

N3 - This would be deemed occupancy as though John didn't move back in until immediately, the following period of non occupancy would qualify under the three years for any reason.

N4 - This would be deemed occupancy for any reason. You are allowed 3 years under this rules and though John lived with his partner, it was in her sole name and assumed would not be his main residence.

N5 - As he will not have full use of the property and there will be an office element, this will not be deemed as occupation.

N6 - As John has had this as his main residence at some point, he would get the last 9 months as deemed occupation.

As they are brothers and not connected persons, this will be an arms length sale so the market value does not apply.

CGT calculation

	£
Proceeds	385,000
Base cost (50% of £470,000)	<u>(235,000)</u>
	150,000
Less:	
PPR relief (118/132*150,000)	<u>(134,090)</u>
Chargeable gain	£15,910
Less AEA	<u>(£12,300)</u>
Taxable gain	£3,610
Tax at 18%	£650

As this is a disposal of UK residential property John will need to submit a return to HMRC under the 60 day CGT UK property disposal reporting.

This means that John will be required to submit this within 60 days of the completion of the sale to Roger. If this is 31 May 2023, the reporting date will need to be done by 30 June 2023.

The tax calculated above will also need to be paid by this date.

In addition if John completes a SA return, this sale will also need reported there. If his CGT liability is different from above, a credit will be given in his return for the CGT already paid.

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

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

Megan

1)

General conditions

When an individual rents out property, this will be a property business. General renting out of property will be deemed as rental income however should a property be let fully furnished, for example a holiday home, this may qualify as a furnished holiday let (FHL)

To be eligible to be qualify as a FHL there are several conditions that will need to apply which are as follows:

- The property must be situated in the UK or EEA.
- It must be let furninshed
- The property must be available to be let out for at least 210 days during the tax year
- The actual number of letting days must be at least 105 days during the tax year.
- The lets must be on a short term basis, that being no longer than 31 days. In addition if there are longer-term lets, the total must not be longer than 155.

Any UK rental business, or FHL business, is regarded as seperate to each other so should any losses occur in an FHL business, this loss can be offset against any profits in rental business.

Additionally, if an individual has overseas property, the will be a seperate business from the UK one and from an overseas FHL too.

There are some advantages to being an FHL as this is a relevant business for BADR purposes and is relevant income for pension contribution purposes.

For tax purposes, if the property was not an FHL, they would be taxed on rental income less wholly and exclusive allowable expenses with any replacements being give as tax relief.

With an FHL, any replacement that would normally qualify for capital gains is given a tax relief via replacment of domestic

items relief.

For mortgage interest, if a property is an FHL the full amount, 100% is given as an allowable expense when calculating rental profits however should a property not be an FHL the mortgage interest is given as a 20% tax reducer in the tax computation.

This is at the lower of

The rental profits less any carried forward losses,
Adjusted total income, or
The amount of mortgage interest available.

Do the UK properties qualify:

For 2022/23,

Based on the information given Willow cottage, Elm cottage and Riverside House would all qualify as FHL's. All three meet the furnished condition, they satisfy the 105 days let conditions and there have no long term lets over 31 days.

Based on the number of days let, it is assumed for Willow and Elm, they have met the 210 days available letting condition.

For Yew cottage, this would generally not qualify as an FHL as the letting days requirement has not been met.

However, there are two elections available to Megan which are either the averaging election which allows her to combine the FHL's (UK) together to see if that meets the criteria, or made a grace election which allows an FHL to qualify in a tax year were it would otherwise not.

The averaging election would be better to preserve the grace election for a future year.

Based on the average, this would make all four FHL's be 168 days so the averaging election would apply.

It should be noted that for 2023/24 as there is a three-year lease signed, this would be come a long term let and such be no longer an FHL for 2023/24.

Cannes apartment

The Cannes apartment would also qualify as an FHL as it is

situated in the EEA. As the apartment is let for 48 weeks (50 weeks less the two occupied by Megan) and there is an 85% occupancy rate, this would equate to 285 days thereby meeting the letting requirements.

The loss generated each year however could only be used against any future overseas FHL profits and not against UK rental income.

Whistler Lodge

As this is out of the EEA, it cannot be a FHL.

2)

Capital gains in 2023/24

(N1) Riverside house

This property will remain an FHL in 2023/24 up to the point of sale as it is noted that the letting conditions remain the same. The FHL letting required would be apportioned until that point.

It is noted that the FHL status would have applied in 2021/22 too. This means that the conditions for an FHL would be met in the previous two tax year.

As noted above, a FHL is a qualifying business for BADR so when Megan comes to sell the property, as it is her personal company and she has held the property for at least two years BADR will apply and she will be taxed at 10%.

(N2) Whistler Lodge

As Whistler lodge is not considered an FHL by not being situated within the EEA, it will not qualify as an FHL so there will be no BADR to consider. This will be taxed at the residential property rate of 28% as any BRB will be allocated first to BADR eligible gains

Calculation of gain.

Proceeds (390,000/1.6763)	£232,655
less base cost (400,000/1.7555)	<u>£227,855</u>
Gain	£4,800

CGT tax calculation	Note	£	£
	s		

		BADR	Non-BADR
Gain on Riverside House	N1	150,000	
Gain on Whistler Cottage	N2	<u> </u>	<u>4,800</u>
Total gains		150,000	4,800
less AE		(7,500)	(4,800)
Taxable gain		142,500	Nil
Tax at 10%		14,250	

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

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

Bella Chadwick

Bella is receiving a company car and a share award.

Company car

Bella is to be receiving a company car upon her promotion in July 2023.

Normally a company car would be an employee benefit issued be a P11D with Class 1A national insurance being incurred by her employer.

For a plug-in hybrid car, the benefit would be a percentage of the list price of the car, with the percentage being based on the electric mileage range of the car.

For exmaple a plug in hybrid with list price of £20,000 and range of greater than 130 mile will incur a benefit at 2% or £400.

As this benefit will be applied to payroll, this benefit will be applied to Bella's salary on a monthly basis based on the yearly cost of the benefit and the additional tax due on the benefit will be deduction through PAYE on a monthly basis. There will be no Class 1 NIC on this benefit.

The cost to insure the car will is not an allowable expense or included within the benefit, so Bella will need to make that cost on a personal basis.

Charging the car at her place of work will be a tax exempt benefit for Bella, with no income tax or NIC due. There will also be no NIC incurred by Bronze Panda Ltd.

There will be no tax issue with charging the car at home, Bella will need to pick up that cost as she does not travel as part of her job and commuting to a place of work is not allowable for mileage purposes.

There will be no fuel benefit either, as Bella will be paying for all this.

Share option

For the share option, this will be a restricted security as Bella will not be able to sell the shares for three years (July 2026).

For the award of the shares in 2023, as this is a restricted security, there will be charge to income tax upon the award.

This will be based on the restricted market value of £885 per share less any amount paid by Bella (in this case Nil).

Bella will therefore have an income tax charge of £13,275 (£885*15) which will be deemed as employment income.

If the shares were to be ready convertible assets, NIC would also be due and the tax liability collected via PAYE in the month of the award. This could reduce her monthly net pay to NIL (ordinary PAYE can only reduce net pay to 50%).

If this were to occur, her employer would pay the remainder of the tax due and Bella would need to repay her employer within 90 days otherwise a P11d benefit would arise.

Bronze Panda Ltd will also be liable to secondary Class 1 NIC at 15.05% however it may be written into the agreement that Bella will need to pay this to be awarded the shares (£1,998).

When the restriction is lifted in three years time (or at a sale) a further charge to income tax would happen based on a percentage of the market value of the shares at the time of the restriction.

This percentage is based on the percentage not paid or subject to tax of the unrestricted to restricted market value at the award.

% taxed at award (885/1250) 70.8%

This means that 29.2% of the value was not taxed at the award and would be applied to the market value and subject to income tax as employment income.

When the shares are sold the gain will be the proceeds less the base cost will be the aggregate of the amount paid for the shares, amount charge to income tax and amount of employers NIC paid.

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

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

Archie Shaw

Capital gain calculation

BRB amount

Contributions of £60 per month into personal pension = £720 during the year.

This will give a gross pension contribution $(720 \times 100 / 80) = £900$

(N1) Revised BRB

Initial BRB	£37,700
add Gross pension	<u>£900</u>
Revised BRB	£38,600

(N2) Taxable income

Total income	£47,689
less PA	<u>(£12,570)</u>
Taxable income	£35,119

(N3) Remaining BRB

Revised BRB	(N2)	£38,600
Taxable income		<u>(£35,119)</u>
BRB remaining		£3,481

(N4) Kiln

As more than 10 years have passed since the roll over gain, this gain of £1,800 will now be chargeable in 2022/23

(N5) 26 Kendal Drive

When purchased, from the period 1 June 1996 to 31 May 2001, 1/3rd was let out to a third party so was not used in any part of his business. Any deferred gain upon buying new business assets will need to be apportioned with the non qualifying element to be charged to CGT in the year of disposal.

This will also apply to the 25% residential flat.

Total ownership period 1 June 1996 to 31 May 2022 = 312 months
 Element
 Period where 1/3rd not used himself 1 June 1996 to 31 May 2001 = 72 months.

For whole property

Proceeds	£875,000
less base cost	<u>(£281,000)</u>
Gain	£594,000

This gain will need to be apportioned

		£	£	£
		Third party/Flat	Travel agency	Total
Flat	25%	148,500		148,500
01/06/96 to 31/05/01	72/312	34,269	68,539	102,808
01/06/01 to 31/05/22	240 months		342,692	342,692
Total		182,769	411,231	594,000

The gain of £182,769 will be chargeable

For the gain of £411,231 as this was an asset used in his business this can be rolled over under s.152 TCGA 1992 if the asset was purchased 12 months before or within 36 after disposal. Any claim for holdover relief will need to be made within 4 years following the end of the tax year of disposal.

Archie has bought Chestnut View a month later so this will qualify for relief however only 50% of the property will be a qualifying business assets there for only £163,500 of the gain on the sale of Kendle Drive will qualify for this relief.

From the gain of £411,231, £163,500 will be deferred and the remaining £247,731 will be chargeable.

There is no BADR available as this is not an associated disposal as he has not disposed of any part of his business.

Pottery shop

Archie has bought a shop for £214,000 and as this will be used in his pottery business, will be a qualifying asset and will be able to defer this amount of the gain from Kendle Drive.

This will leave £33,731 remaining.

Machinery

The machinery should it be purchased will qualify by deferral relied if purchased shortly so long as it is within 36 months of the disposal of Kendle Drive.

Purchase of shares

The purchase of shares took place in January 2023, so will be eligible. The shares will cost him £75,000 (300*£250).

As there is £33,731 remaining after the shop purchase, the remainder of this gain can only be deferred however this will not cover the full cost of the shares the full gain will be deferred.

Liquidation

As the loans were made to Lucy's company nad will be a debt, there will be a captial loss on the £15,000 for the first loan.

For the second loan this will not be an allowable loss as Lucy had informed in that the business was failing and HMRC would likely argue that the loan was made to give rise to a capital loss so would be atax advantage.

CGT calculation

			£	£
			Other gains	Residential gains
Deferred gain after 10 years			1,800	
Office space not used	Kendle Drive		34,269	
Sale of flat	Kendle Drive		_____	<u>140,000</u>
Total gains			36,069	140,000

less loss on loan				(15,000)
losses b/f			<u> </u>	<u>(2,153)</u>
			36,069	122,847
less AEA				(12,300)
Taxable gains			36,069	110,547
Tax at 10%	£3,481		348	
Tax at 20%	32,588		<u>6,517</u>	
Tax at 28%				<u>30,953</u>
Total tax due				37,818