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- Tick box if you have answered in accordance with Scots Law
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Please tick which Advanced Technical Paper you have attempted (if not already ticked below)

- | | |
|---|---|
| <input type="checkbox"/> Taxation of Owner-Managed Businesses | <input checked="" type="checkbox"/> Taxation of Individuals |
| <input type="checkbox"/> Domestic Indirect Taxation | <input type="checkbox"/> Cross-Border Indirect Taxation |
| <input type="checkbox"/> Inheritance Tax, Trusts & Estates | <input type="checkbox"/> Taxation of Major Corporates |
| <input type="checkbox"/> Human Capital Taxes | |

Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

- Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
- Write on both sides of the page.
- Not write in the margin areas indicated.
- Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
- Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

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DO NOT WRITE ON THIS PAGE

To: Samantha

From: Tax Advisor

Date: May 2019

Subject: Remittances for 2019/20

Dear Samantha

On the basis that you are UK resident and deemed domicile, due to being resident in the UK for more than 18 out of the last 20 years, you are no longer eligible to claim the remittance basis. Therefore, you will be chargeable to UK tax on your worldwide income and gains.

However, you have confirmed that you previously claimed or were automatically eligible for the remittance basis in prior tax years. Therefore, the income and gains accumulated during a tax year under the remittance basis, will still be chargeable to the remittance basis even if remitted in another tax year.

Due to being a ^{UK} resident who became ~~a~~ deemed domicile as a result of the new legislation in April 2017, it ~~was~~ ^{is} possible to rebase your capital assets ~~to~~ to the market value at April 2017. Essentially, only chargeable gains arising after April 2017 are chargeable to UK tax once

remitted or on an arising basis. However, this is only ideal where the market value at April 2017 is greater than the ~~are~~ original cost.

Order Remittances order - Clean Capital

In order to reduce your 2019/20 tax liability, it is more beneficial to remit clean capital in priority to other income or gains.

The £75,000 clean capital held in your cleansed Jersey account should be remitted first as this will not be chargeable UK tax.

Gains

After clean capital, it is better to remit capital gains than income. As an additional rate taxpayer, your remitted income would be chargeable to income tax at 45%. Remitted capital gains are chargeable at 20%.

Therefore, the £10,390 chargeable gain arising on the sale of your house in Ruritania in Account B should be remitted next. It is possible to remit the full £75,000, but ^{only} the £10,390 chargeable gain will be chargeable to capital gains tax at 20%.

The Sale of the

If you were to sell the 100 Shares in Ruritania Banking, the ~~at~~ remittance of £110,000 would consist of a £10,000 capital gain and £80,000 foreign employment income. This is because the shares were purchased with the employment income. The £80,000 would be chargeable at 45% income tax, and the £10,000 gain would be chargeable at 20% capital gains tax. This is not ideal, therefore, I would not recommend selling these shares or remitting them.

Death benefits

Assets purchased with inherited funds are clean capital, therefore the sale and remittance of the 70 shares in Ruritania Trucking Company would consist of £10,000 chargeable gain at 20%, and £55,000 clean capital.

The £10,000 gain is derived from the ~~current~~ current value because it is in your favour to make an election within 2 years of disposal, to disapply the revaluation at April 2008 2017.

I would recommend this remittance.

Jersey account - Employment income

The remittance of employment income of £110,000 ~~to~~ from your Jersey account can be remitted to the UK tax free. This is because it consists income wholly earned during a period of non-residency.

This would be a recommended remittance.

Nominated Income

I would never recommend remitting nominated income on accounts because this will be fully chargeable and will cause all future remittances to be assessed using the mixed funds rules.

Savings account - Jersey

This account holds interest income only. This will be chargeable to income tax at 45%. Therefore I would not recommend remitting from this account either.

* All remitted income is chargeable as NSI at 45%.

Savings account A

This account holds a mix of funds, therefore, remittances will be assessed using the mixed funds rules.

Under these rules the untaxed UK income is deemed to be remitted first, and in later years in priority to earlier years.

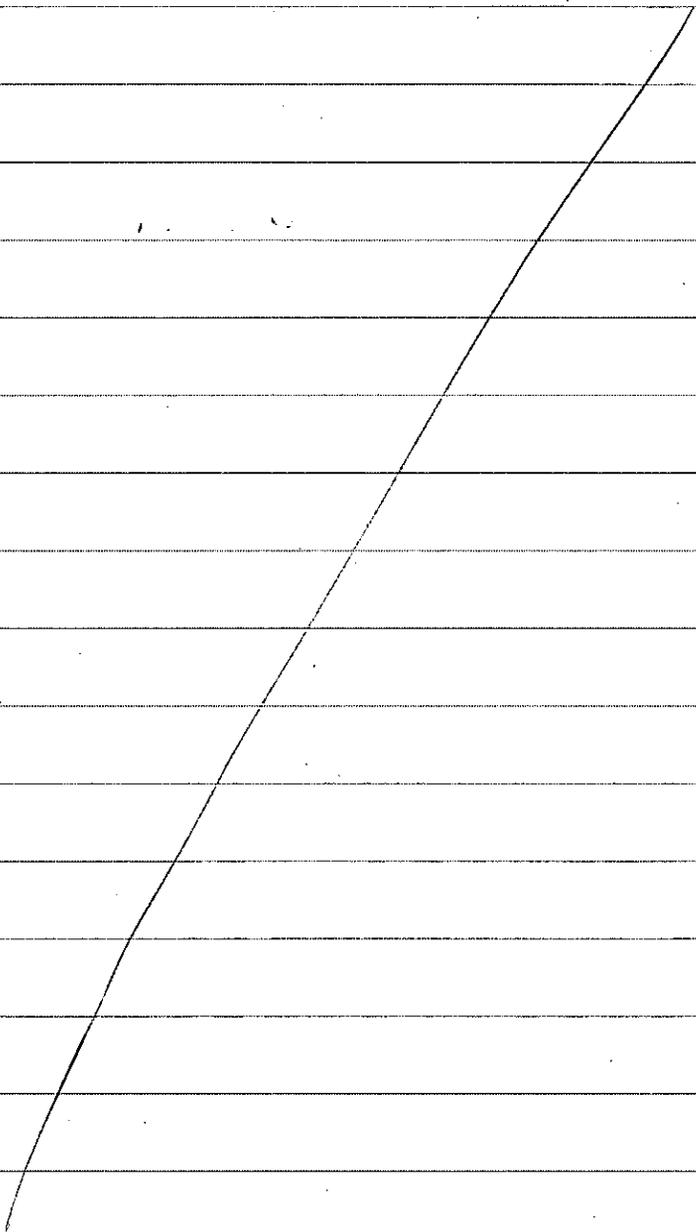
So the £35,000 rental income and £3,540 interest from 2018/19 will be deemed to be remitted first.

Then the £25,000 rental income and £3,075 interest from 2017/18. Then the interest of £22,000. And

Finally the salary of £30,000 ~~in priority to~~ earned prior to May 2002.

I would not recommend this because the chargeable remittances will all be subject to income tax at 45%.

50 Shares UK Company



Summary

£

Clear Capital

775,000

①

Savings - Emp Income (Jersey)

110,000

②

70 Roitania Trucking Shares

65,000

4

~~50 of shares~~

~~100,000~~

Property Gain

750,000

③

500,000

Yours sincerely

Tax Advisor.

Training notes

With effect from 5 July 2016, HMRC have introduced Targeted Anti-Avoidance Rules (TAAR) to prevent tax advantages being gained on transactions in UK land. All transactions or disposals after 5 July 2016 only.

The land must be held in UK and must be either of the following:

Shares held in a company which trades in property development.

~~The~~ Land purchased with the intention to develop and make a profit.

A property purchased with the intention to develop it and realise a profit and more than 50% is from the value of the land held as trading stock.

The TAAR only applies to land and transactions which, in their original form, are not subject to trading income rules.

If the land or property is deemed to be held for the intention of making a profit, then the profit will not be chargeable to capital gains tax as a chargeable

gain. It will be chargeable as trading income.

Trading income is taxed ^{under} as income tax at 20% , 40% or 45% depending on the income of the taxpayer. The Annual Exemption will not be available, but the personal allowance will be if it has not been utilised elsewhere.

The trading income will also be subject to NIC class 2 at a flat rate of £2.95 per week if the profits exceed the lower threshold of £6,208.

In addition, NIC class 4 will be due at 9% on profits between £4,350 and £8,424. And at 2% over £8,424.

These provisions only apply where there is an intention to make a profit. If the land or property was purchased to ~~make~~ rent out or live in for example, the provisions would apply to the gain arising in the period where the intention to make a profit was changed.

The provisions also don't apply for periods ~~of~~ when the

land or property would qualify for Principle Private Residence.

A 'slice of the action' transaction is where you received a fixed sum now, and an amount at a later date depending on the profits at that time.

In this scenario, the fixed sum received now would be chargeable to capital gains tax, and the contingent consideration later would be chargeable to income tax.

The ~~£~~ chargeable trading profits are calculated in line with how you would calculate Trading Income following ITTOIA 2005 rules.

To : Mike Carter

From: Tax manager

Date : 8 May 2019

Subject : Capital Gains

Dear Mike

Thank you for your email regarding your investments, please see my comments below.

Holding period

You mention that you have held all the investments for more than 3 years. I would like to note that the holding period to retain income tax relief on UCT shares is 3 years rather than 3 years. It does not impact here, but is worth noting for future reference.

~~B~~

~~Regardless of~~ On this basis, all 4 of your investments have been held for the required holding periods, therefore, the income tax relief will not be withdrawn.

Orange Ltd

Orange Ltd ^{would be} ~~has been~~ sold for a profit of £50,000, being the current value of £100,000 less the original subscription of £50,000.

Because it has been held for more than 3 years, the £50,000 gain is exempt for capital gains tax (CGT) purposes.

Lemon, Grape and Lime

These ~~have all~~ will all generate capital losses, on the basis that the current value is less than the original subscription amount.

These losses are allowable, however, they will be restricted by the income tax relief retained. This can be broken down as below:

<u>Lemon VCT</u>	£
Current value	80,000
Cost	(100,000)
Loss	(20,000)
IT retained	<u>£20,000</u>
	<u>nil</u>

The income tax relief retained is actually £30,000, being the investment of £100,000 at 30%. However, the loss cannot be turned into a gain. So it is reduced to nil.

<u>Grape Ltd (£15)</u>	£	
Current value	15,000	
Cost	<u>(30,000)</u>	
Loss	<u>(35,000)</u>	
IT retained	£15,000	(30,000 at 30%)
Allowable loss	<u>(20,000)</u>	

<u>Lime Ltd (£15)</u>	£	
Current value	50,000	
Cost	<u>(60,000)</u>	
Loss	<u>(10,000)</u>	
IT retained	<u>10,000</u>	
	<u>nil</u>	

Again, the income tax retained is actually £30,000, being the investment of £60,000 at 50%. However, the loss is reduced to nil only, rather than creating profit.

It is worth noting that the loss restriction for income tax relief does not impact the income tax relief received in any way.

loss relief

Depending on your tax position at the end of the year, it is possible to make a claim to offset the £20,000 allowable loss on Grape Ltd against your net income in 2019/20 or 2018/19, or against net chargeable gains in 2019/20 or 2018/19.

As a higher rate taxpayer in 2019/20, your pension income is chargeable at 40%. Whereas any gains would be chargeable at 20%. Therefore, it would be more beneficial to offset the loss against your income rather than gains.

Recommendation

Due to the losses of Lemon VCT and Lime Ltd being reduced to nil, there is no benefit to selling these holdings. It may be worth holding these until the loss ~~becomes negligible in value~~ or greater than the income tax retained, or creates

profits, which would be exempt.

Revised gains - Lime Ltd

The disposal Lime Ltd would ~~not~~ not make the disposal of the painting come back into share.

This is because S&S CGT relief exempts the gain rather than deferring it.

Therefore, there will be no further implications of ~~deferring~~ selling the Lime Ltd holdings.

Revised gains - Orange and Grape Ltd

Orange and Grape Ltd are both S&S investments, and CGT deferral will have deferred the chargeable gain arising on the disposal of your trading company.

Upon sale of Orange and Grape Ltd, this £100,000 gain will be revised and chargeable to CGT in 2019/20. With no other disposals in the year, the £11,700 annual exemption will be available to offset against £100,000 gain.

The balance of £88,300 will be chargeable to CGT at 2020, amounting to £17,660. This will

be payable to HMRC by 31 January 2021.

Allowances

Transfers between spouses of chargeable assets is at nil gain nil loss. Therefore, you could transfer some holdings to Cathy prior to disposal. Then you will be able to utilise both your £11,700 annual exemption.

The loss relief of £70,000 for Grape Holdings only allowable to offset against net income because you are the original subscriber. I would not recommend transferring this holding because the loss will be restricted to offset against gains only.

Cathy's chargeable gains would initially be chargeable at 10% up to the basic rate band of £34,500 and at 20% thereafter.

Marriage allowance

~~In addition, because~~ Unfortunately, because you are a higher rate taxpayer, it is not possible to make a claim to transfer 10% of Cathy's personal

allowance to yourself.

Business notes - Robert BoothWithdrawal of Funds - Pension

Contributions into a personal pension fund are always to withdraw funds from a company tax free. However, the £40,000 annual allowance, plus any unused allowance from the last 3 years brought forward on ~~last~~ first in first out basis should always be considered.

Due to Roberts income being in excess of £210,000, this £40,000 is also likely to be tapered down to £10,000 only, and may be in earlier years too.

Any contributions made in excess of the available annual allowance will be subject to an income tax charge at your highest rate, being 45%.

Withdrawal Funds - Salary

Salary is taxed as employment income, which is chargeable to income tax at 20%, 40% and 45%, in addition to NIC class 1 primary.

NIC class 1 is payable at 12% between £8,424 and

£46,350, and £28 over £46,350.

This is a high income tax and NIC liability and it is not recommended.

Dividend withdrawals

Dividends are subject to a £2,000 at 0%, then 7.5%, 32.5% and 38.1%. In addition, there is no NIC liability.

There is ~~is~~ a lower liability than a salary but is not ideal.

Other withdrawals

If the desire is to wind the business up, then there is no need to consider other options such as loans or renting to the company because there is no company to loan ~~to~~ or rent to.

Winding up

Due to the distributable profits being in excess of £25,000, any distributions on winding up would be deemed a dividend payment. This would be chargeable, as above, to £2,000 at 0%, then 7.5%

32-57 and 38-17.

If a liquidator is appointed in a ~~formal~~ formal winding up of the company, then the distribution would be capital in nature instead. It is also worth noting that liquidator fees would be incurred, so the tax saving must outweigh the cost of those fees.

If the distribution is capital, the gain will be the £500,000 proceeds less the £1,000 cost, amounting to £499,000.

This £499,000 would be eligible for entrepreneurs relief at 10% because it is a material disposal of trading company where the shares have been held for more than 12 months.

TAAR

HMRC have introduced targeted anti-avoidance where if the shareholder held more than 5% of the shares prior to winding up, it is a close company with fewer than 5 shareholders, and within 2 years they start to trade in a similar activity, and the tax advantage is the main purpose of the

the transaction, then the distribution will be deemed to be a dividend and chargeable to income tax.

Sale of house

A sale of a house you have lived in since purchase is eligible for Principle Private Residence relief ^(PPR). This relief is automatic and reduces the gain to zero.

Therefore, the gain of £200,000, being the £375,000 proceeds less the £175,000 cost of the house alone will be ~~exempt~~ relieved to nil using PPR.

Sale of land

Due to the additional land being used for business purposes only, this is not eligible for PPR. However, it may be eligible for entrepreneurs relief on the same grounds as the ~~&~~ distribution above as an associated disposal.

The land was used by the business for more than 12 months, will be disposed of ~~in~~ less than 3 years after the disposal/winding up of the business and it is associated with the disposal of the business.

Due to 50% off of market value rent being charged to the business, only 50% of the gain is eligible for entrepreneurs relief. (ER)

The chargeable gain would be as follows:

Proceeds	£ 1,625,000
Cost	(75,000)
Enhancement costs	<u>(25,000)</u>
	1,525,000

Gain prior to April 2008 is not impacted by rent, and fully eligible for ER.

Gain after April 2008 is only 50% eligible for ER due to rent being charged.

Gain pre April 2008 = 8 1/2 yrs

Gain post April 2008 = 11 1/2 yrs

$$1,525,000 \times \frac{8\frac{1}{2}}{20} = 648,125$$

$$1,525,000 \times \frac{11\frac{1}{2}}{20} = 876,875 @ 50\% = \underline{438,437}$$

~~However, ER is capped at a~~

Therefore, of the £1,525,000 gain, £1,086,563 is

eligible for ER at 10%. The balance of

£438,437 is chargeable at 20% higher rate

CGT.

Entrepreneurs will need to be claimed by 31
January 2022 for all disposals in 2019/20.

All CGT will be payable to HMRC by 31 January
2021 for all disposals in 2019/20

Tax Computation 2018/19 - Alexa

	£51	£1	£01
Employment Income (w1)	99,851		
Overseas interest		10,000	
Overseas dividends			4,000
UK dividends			5,000
Net income	99,851	10,000	9,000
Personal allowance (w7)	(7,424)	-	-
Chargeable income	<u>92,427</u>	<u>10,000</u>	<u>9,000</u>

	£
Tax due at 2,000 - @19%	380
Tax due at 20% - 13,150 (w8)	2,636
Tax due at 21% - 32,580 (w9)	6,842
Tax due at 41% - <u>44,697</u> β	18,326
	92,427

Tax liability = 3,178

Tax at 0%	500 (w10)	0
Tax at 40%	<u>9,500</u>	3,800
	10,000	
Tax at 37.5% 0%	2,000	0
Tax at 32.5%	7,000	<u>2,275</u>
		<u>34,253</u>
PAYE deducted at Source		(30,475)
Dividend tax credit (4,000 x 18%)		(600)

(w1) Employment Income

	£
Salary	92,188
Car (w2)	1,600
Fuel (w3)	1,463
General Expense allowance	2,900
Allowable expenses (w4)	1,100
Childcare vouchers (w5)	Exempt
Sink (w6)	<u>1,000</u>
	<u>99,851</u>

(w2) Car

January 2019 → 3 April 2019 = 3 months

Salary Sacrifice = 3 months × £600 = £1,800 = imponderant
 ↳ not optional remuneration scheme is not for personal use

Taxable benefit =

$$= (28,000 - 2,400) \times CO_2\% \times \frac{3}{12}$$

$$CO_2\% = \frac{120 - 95}{5} + 20\% = 29\%$$

$$\text{Benefit} = 25,600 \times 29\% = £6,400 \times \frac{3}{12} = \underline{\underline{£1,600}}$$

£6,400 taxable benefit is higher than Salary Sacrifice,
 so this is the chargeable benefit to employment.

(W3) fuel

$$23,400 \times 25\% \times \frac{3}{12} = \pounds 1,463$$

(W4) Allowable expenses

$$\pounds 900 + \pounds 200 = \pounds 1,100.$$

Handwearing coat has a duality of purpose and is not a safety clothing so not allowable
non-business client entertaining an allowable expense

(W5) Childcare

Alexa is going to be a higher rate taxpayer for 2018/19. This allows for $\pounds 28$ per week.

$$= \pounds 28 \times 52 = \pounds 1,456$$

$$\text{Received } \pounds 110 \times 12 = \pounds 1,320.$$

Alexa received less than the threshold, so it is an exempt benefit.

(W6) Asset transferred to employee
 = MV at transfer = £1,000

(W7) Personal allowance

Restricted by £1 for every £2 over ~~£100,000~~ ^{£100,000}

$$\begin{array}{r}
 \text{ANI} = \text{Total income} \quad - \quad 109,851 \\
 \text{Gross charity} \quad \quad \quad (1,000) \\
 (300 + 500) \times 1.25 \quad \quad \quad \underline{\hspace{2cm}} \\
 \quad \quad \quad \quad \quad \quad \quad \quad 108,851
 \end{array}$$

$$\begin{array}{r}
 \text{Personal allowance} = \quad 11,850 \\
 \text{Restriction} \quad \quad \quad \quad (4,426) \\
 (108,851 - 100,000) \div 2 \quad \quad \quad \underline{\hspace{2cm}} \\
 \quad \quad \quad \quad \quad \quad \quad \quad \underline{\underline{7424}}
 \end{array}$$

(W8) Gross charity = ~~80~~
 $(300 + 500) \times 1.25 = 1,000$

Assumed carry back of gift aid from April 2019 to
 2018/19

$$12,150 + 1,000 = 13,150$$

(w9) $31,580 + 1,000$ gross charity = $32,580$

(w10) Higher rate taxpayer entitled to £5000
Savings allowance.

Note

Basic rate band extended under Sott's rules.

Basic rate band breached ~~for~~ for NSI income
already so no rules required for SI or DI
income.

Business notes - Julie SmithMr and Mrs BlakeOak Lane

Mr Blake is an additional rate taxpayer with gross rental profits exceeding £150,000. Cash basis does not apply, and receipts and expenses will be reported on an accruals basis.

Rental expenses for all the properties is greater than £1,000, therefore it is not worth claiming the property allowance of £1,000. Actual expenses incurred on an accruals basis will be claimed instead.

39 Oak Lane

Retail unit of £1,000 ^{per month} reported on an accruals basis will ~~amount to~~ ^{be} ~~£11,500~~ for the period 15 April 2018 to 5 April 2019, being 355 days of the total annual rental of £12,000.

The flat expenses incurred prior to letting are allowable against the first available income as pre-commencement expenditure.

Due to the first let being 1 March 2019, only 1 month

at £800 will be allowed as receivable income under the accruals basis for 2018/19.

The initial mortgage fee is not an allowable expense because it is capital in nature.

Mortgage interest on the residential is restricted to 50% as a deduction, and the remaining 50% as tax reducer.

The 50% tax reducer is the lower of the 50% unrelieved as an allowable deduct, the gross rental profits after losses brought forward and the adjusted net income.

~~The mortgage interest applicable to the retail unit~~

The potential loss of the flat in 2018/19 will be ~~be~~ offset by the property profits of the other properties together.

Any unrelieved tax reducer is carried forward against the same property income.

Blosson House

Due to tenants in common, the taxable profits are chargeable based on actual purchase split. It is only possible to split the property differently if a joint election is made within 2 years of purchasing.

Due to Mr Blake's requirement to be taxed on an accruals basis, any jointly owned assets must also be taxed on an accruals basis.

Only the ~~entire~~ period 1 July 2019 to 5 April 2020 will be reportable on the 2019/20 returns, being 9 months of the 12 month tenancy.

Ash Crescent

Mr Blake's brother is a connected person for tax purposes. Therefore, the chargeable rental income will be due on the market value rent.

It is assumed that this will be the £550 per month previously let. Therefore, the full tax year of 12 months will be chargeable at £550 per month.

The expenses of £3,500 on repairs are ~~to~~ for general maintenance rather than enhancement to the property. They will be fully allowable against the rental profits of this property.

Ceramics Factory

Mortgage interest paid on a commercial property is an allowable expense ~~up to the point with no restriction~~ restricted to the 50% available for 2018/19.

The restriction that applied to 2017/18 was 25%.

There was no restriction in 2016/17 or 2015/16.

It is possible to make an amendment to 2017/18 return to allow for a 75% expense deduction, and up to 75% tax reducer as mentioned for 39 Oak Lane above.

A claim for the full allowable deduction for 2016/17 and 2015/16 can be sent to HMRC in writing.

Mrs Blake is able to claim the £1,000 property allowance if this is more beneficial than claiming the expenses.

It is independent to any claims made by Mr Blake.

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