



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

May 2017

Taxation of Individuals

Advisory Paper

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation and annotate your question paper. You are not permitted to write in the answer booklet. The Presiding Officer will inform you when you can start writing. Calculators may not be used during this time.
- You should answer all **SIX** questions.
- Start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Marks are specifically allocated for presentation.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should tick the appropriate box on the front of each answer booklet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2016/17 rates and allowances continue to apply for 2017/18 and future years. Candidates referring to actual or pending rates and allowances for 2017/18 and future years will not be penalised.

1. Mr Zandy is resident and domiciled in the UK. He is married and has two children aged 8 and 10.

You have been given the following information in respect of the 2016/17 tax year:

- 1) Mr Zandy received a salary of £90,000 from his employment with Wools plc. Income Tax of £21,200 was deducted at source.
- 2) He spent part of 2016/17 working overseas in Zebraland and paid tax there of £10,000 in respect of his Wools plc salary for that period. There is no double taxation agreement between Zebraland and the UK. He had 58 Zebraland workdays out of a total of 232 workdays during the year. He did not work in any other countries.
- 3) Mr Zandy owns two flats in Zebraland; one which he uses when working there and a second which he rents out. During 2016/17 he received rent of £4,000 and incurred allowable expenses of £3,800. Zebraland tax of £400 (10% of the gross income) was paid. Mr Zandy uses his UK bank account to receive the rent and pay any expenses.
- 4) On 1 December 2016 Mr Zandy withdrew £25,000 from an offshore life insurance bond that he had acquired for £100,000 on 1 January 2009. There had been no previous withdrawals.
- 5) On 15 March 2017 Mr Zandy sold some shares he held in an offshore fund for £21,550. The shares had been acquired for £10,000 in January 2013. The fund does not have reporting status in the UK.
- 6) Mr Zandy received UK bank interest of £200 and UK dividends of £2,500. £500 of these dividends related to shares held in an interest in possession trust in which Mr Zandy is the sole beneficiary. The trust paid Income Tax of £38 on the income.
- 7) Mr Zandy made a net UK pension contribution of £70,000 having confirmed with his pension adviser that he had sufficient unused annual allowance from previous years so that there would be no annual allowance charge.
- 8) Mr Zandy received gross dividends of £10,000 from a German company. Under the double taxation agreement between Germany and the UK, Germany withheld 15% German tax.
- 9) On 1 May 2016 Mr Zandy transferred £1,500 each into junior ISAs for his two children. Interest of £30 was credited to each account during the tax year.
- 10) On 1 April 2017 Mr Zandy transferred shares in LMN plc, a company registered on the London Stock Exchange, to Help For All, a charity registered in the United States of America. The market value of the shares was £1,000.
- 11) Mr Zandy's wife's only income for the 2016/17 tax year was UK bank interest of £5,000; UK dividends of £10,000 and £1,789 child benefit.

You are required to calculate, with relevant explanations, Mr Zandy's 2016/17 Income Tax payable/repayable taking advantage of any beneficial reliefs and allowances. (20)

2. You are a Tax Manager in a firm of Chartered Tax Advisers and have received the following letter from Jane Weeks, a long-standing client.

Mrs B Pais
10 Central Avenue
London
SW1 3CD

1 London Way
London
SW1 2AB

1 May 2017

Dear Bo

As you are aware, last week I started my new job with RST plc, a company listed on the London Stock Exchange, and am considering joining the company's share purchase scheme. My understanding of the scheme is that I can use a fixed percentage of my monthly salary after tax to acquire shares each month at their market value. I can sell these shares at any time; however, if I retain all the shares until the end of the plan year, which is 31 March, I am then awarded one additional share free of charge for every two shares I hold. These awarded shares can then be sold two years later. Therefore, if I join the scheme this year, the shares awarded on 31 March 2018 could be sold on 31 March 2020.

In addition, when I joined the company I was given an option over 1,000 shares which can be exercised at £1 per share after I have worked for the company for three years. The market value of the shares on the date of grant was £2 per share. I am free to sell these shares immediately following the exercise of the option.

The share purchase scheme and the share options relate to the same class of shares.

What are the tax implications for me of these share options and awards?

Finally, you may recall that when I joined my previous employer, I received 2,000 Employee Shareholder shares worth £2,000, which are now worth £5,000. I recall that there was no tax liability on the award, but are there any tax implications as a result of leaving the company or on selling the shares?

I look forward to hearing your thoughts.

Yours sincerely

Jane Weeks

You are required to write a letter to Jane Weeks explaining the Income Tax, National Insurance and Capital Gains Tax implications for her of the share schemes.

(15)

3. You are a tax adviser in a firm of accountants and you act in relation to the personal tax affairs of a number of the shareholders of Alphabet Ltd, which is a successful trading company with a share capital of 30,000 £1 ordinary shares. It currently has eight shareholders.

The company was incorporated in 1990 by Arthur Jones and Brian Davies who each subscribed for 5,000 shares at par at that time. They also became directors. In 1995 a further 2,000 shares were issued to each of Arthur and Brian at a price of £5 per share.

Brian died suddenly in November 2016 and his wife Debbie Davies inherited his shares. The agreed probate value was £19 per share. Brian had always worked full-time for the company.

Charles Roberts became an employee of the company in 2010 and became a shareholder in August 2014. At that time he purchased 2,000 shares at their market value of £14 per share from a departing employee of the company who was required to sell his shares on leaving under the Shareholders' Agreement. These shares had originally been issued to the former employee at a price of £8 per share in 2007.

For various reasons, Arthur, Debbie and Charles will be selling their shares back to the company for £20 per share. The company has sufficient reserves to enable it to make the repurchase.

Arthur feels that it is time to retire, having always worked full-time for the company.

Debbie has never been involved in the business and would like to realise her investment.

Charles has fallen out with some of the other shareholders and directors and therefore wants to leave the company and pursue a new interest which will not be in competition with Alphabet Ltd. Under the terms of the Shareholders' Agreement he is required to sell his shares on leaving. Charles has always worked full-time for the company.

All shareholders are UK resident and do not expect to have any other chargeable disposals or dividend income in the year. Debbie is a basic rate taxpayer. Arthur and Charles are both additional rate taxpayers.

You are required to prepare a briefing note for your tax partner ahead of a meeting with Arthur, Debbie and Charles to discuss the personal tax implications of the repurchase of their shares. (15)

4. You are a Tax Manager with a firm of Chartered Accountants and have just had a meeting with your client, Paul Adams, who has given you the following information.

Paul has been married to Frances for many years but in March 2017 they decided to permanently separate and plan to divorce soon.

In May 2002, while they were living and working in London, Paul bought a second home in Brighton for £300,000 in his sole name. Paul and Frances both used the Brighton property at weekends and for holidays. In July 2002 Paul spent £20,000 on a new conservatory.

A valid election was made under s.222(5) TCGA 1992 nominating the Brighton property as their main residence from May 2002. This election was varied in favour of the London property to be effective from May 2004. There were no further variations to the election.

In May 2012, Paul and Frances retired, selling their London home and moving permanently to the Brighton home. Paul transferred the Brighton property into joint names just before they sold the London house. Neither property was ever let out.

In 2013, they demolished the conservatory at a cost of £1,000 and spent £50,000 on building an extension.

The property has recently been valued at £750,000.

Frances is currently staying with friends in London and wants her half of the capital from the house so she can buy a new home for herself.

Paul is still living in the Brighton property and wishes to stay in Brighton. He is not sure whether it would be best for Frances to transfer her share of the house to him now as part of the divorce settlement and for him to remain in the house for a few more years, or to sell the house now and to buy something smaller straight away. In three years' time, he expects the property to be worth £775,000 and he has asked you to consider his position if he keeps the property until then. There are sufficient funds for both options.

Both Paul and Frances are higher rate taxpayers and do not expect to have any other chargeable gains this year.

The separation is amicable and Paul is keen to minimise both his and Frances' tax liabilities.

You are required to write a letter to Paul advising him of the best course of action in respect of the property from a tax perspective. (15)

5. You are a Tax Manager with a firm of accountants. Your client, Judy, has asked you for advice as her employment contract is being terminated and she is being offered compensation by her employer.

Her employer has offered the following:

- 1) £20,000 payment in lieu of notice as her employment is being terminated with immediate effect. The employment contract does not include a provision to make such a payment and the employer has not made such a payment before.
- 2) £20,000 ex-gratia payment.

The employer has suggested that the ex-gratia payment could be made as a pension contribution. They will also pay any reasonable legal fees for independent advice in relation to the termination package.

Judy has worked for the employer for 10 years and spent three years of that time working in Paris for the employer.

Judy has decided that she is going to rent out a room in her house to generate income whilst she is looking for a new job and wants to know what the tax and compliance aspects of this are. She does not currently complete a tax return.

You are required to write notes for a meeting with Judy to discuss:

- 1) **The Income Tax and National Insurance treatment of the termination payments.** (10)
- 2) **The tax and compliance implications of Judy renting out a room in her house.** (5)

Total (15)

6. You are a Tax Manager with a firm of accountants. Your new client, Michael, is a non-UK resident British citizen who owns a commercial property in the UK, which has a number of tenants. He left the UK on 5 April 2016.

He employs his son Jason to manage the property, including collecting the rent and administering and paying expenses. Jason is resident in the UK. Michael has two other employees who clean and maintain the communal areas and who are paid by Jason from the rent. Jason pays the rent net of expenses to his father each month. Michael has previously submitted his own tax returns and has always paid his tax on time but would like you to take over for 2016/17. He has had no correspondence with HM Revenue & Customs regarding these properties. Michael has provided you with the following information in relation to 2016/17:

- 1) Rent received was £66,000.
- 2) Jason was paid a salary of £15,000.
- 3) The two employees were each paid £4,500.
- 4) The payroll was operated by Jason and there are no issues arising from this.
- 5) There were insurance costs of £2,362.
- 6) Repairs incurred in the year amounted to £8,211.
- 7) Michael's only other UK income was bank interest of £1,726 and dividends of £9,100.

You are required to write a letter to Michael:

- 1) **Explaining his own and Jason's current UK tax obligations in relation to the rental income.** (7)
- 2) **Providing a calculation of his UK Income Tax liability for 2016/17.** (13)

Total (20)