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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Answer-to-Question-_1_

Your domicile status is decided under general law, which means it must be interpreted according to previous rulings of the courts. Some of the main things that affect your domicile are:

- you cannot be without a domicile

- you can only have one domicile

- you are normally regarded as domiciled in the country where you are permanent and have a permanent home there.

- your exsisting domicile will continue until you aquire a new one.

- Your domicile is distinct from your nationality and resident status.

For income tax and capital gains tax purposes your domicle can affect how you are taxed in the UK.

There are three different types of domnicile:

- Domicile of origin

- Domicile of choice

- Domicile of dependance.

Your domicile of origin is aquired at birth from your father if your parents are married.

A domicile of choice can be obtained after the age of 16 and this may be because you leave the country of domicile and settle in another country. You will need to be able to show that you intend to live in that country permantly or indefinitly.

A domicile of dependance is is when you follow the domicile of the person who your legally a dependant to. If their domicile changes, your will also change. This will aply to people up to the age of 16.

If an individual is Uk resident but not UK domiciled a claim for the remittance basis can be made. This means that you will only be taxable in the UK on UK sourced income and gains, and any overseas gains which are remitted into the UK.

When claiming the remittance basis, the personal allowance or annual exempt amount is not avaliable.

If un-remited income is below £2,000 during the tax year, the remittance basis will automatically apply and no claim needs to be made. When the remittance basis automatically applied no peronsal allowance or annual exempt amount it lost.

When an individual has been UK resident for at least 15 out of the previous 20 tax years, they will be deemed to have aquired a UK domicile and will be taxed on their worldwide income on a arising basis.

If UK residents have a UK domicile of origin and leave the UK and change their domicile, then come back to the UK and settle in the UK, they will be deemed to have re-aquired their UK domicile.

Overseas workday relief can also be avalibale if the remittance basis is claimed.

Michael:

As Michaels parents are not married he will have aquired his mother's domicile at birth of Australian. This is because his mother would have has a Australian domicile due to being born and raised there to Australian parents.

Michael would have kept his Australian domicile when they moved there in 1991.

As Michael was under the age of 16 in 2001 when he was sent to boarding school, he would have kept his australian domicile status as he is still a dependant of his mother who remained in Australia.

In 2007 Michael may have aquired a domicile of choice in the UK, this is because he stayed in the UK from school, when to university in the UK, and was employed in the UK. He also got married and had children in the UK. All these factors, as well as having a will written under english law, suggest that Michaels was going to settle in the UK permantly. At this point he would be seem to have a domicile of choice in the UK.

This domicile of choice is also supported by the fact he has a social life, family and interest in the UK. This is supported by his voting status and memeberships to local clubs.

When his domicile of choice in the UK was quired in 2001 he would have been taxed in the UK on his worldwide income and gains as a UK resident, and the remittance basis claim was not avaliable.

Assuming Michael was UK resident since 2001, in 2016 he would have gained a UK domcile of choise as he has been UK resident for 15 out of the previous 20 tax years. He will therefore be taxed in the UK on his worldwide income and gains as they arise.

Now Michael is 35 he is considering moving to Australia indefinalty, they will set up a home, leave their UK employment, and move the children to their permanent home in Australia.

As their intension is to return to Australia permanently Michael will re-aquire his domicile of origin, this would be supported by his intension to settles there permantly and he has cut all ties with the UK. Assuming he will also become a non-UK resident, he will not be taxable in the UK on any overseas income or gains. Any income arising in the UK may be taxabale in both the UK and Australia, but foreign tax creiedt will be avaliable to aviod double taxation, this be determined within the UK/Australia tax treaty to deteirmin who has the taxing rights over certain income.

If he is to sell his UK home whilst he is still in the UK he will not likley have a taxable gain due to private residence relief

aring on the gain. Assuming the home has been his main residence throughtout the whole period of ownership the gain will be exempt from capital gains tax.

As he has occupied the property at some point during the ownership the last 9 months will be deemed occupation and exempted from capital gains tax. This means if there is a slight delay of less than 9 months between selling the home and moving to Australia the period will be deemed occupation.

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

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

Answer-to-Question-_2_

Employment income:

	£
Salary after salary sacrafice	118,800
Car (W1)	12,000
Parking Permit (W2)	-
Golf Club Memebership (W3)	1,600
Childcare Vouchers (W4)	7,700
Less: EE Pension Contributions (W6)	(7,500)
Share Options (W7)	500
Total Assessable Salary	133,100
Less: Personal Allwoance (W8)	-
Taxable income	133,100
37,700 @ 20%	7,540
87,440 @ 40%	34,976
7,960 @ 45%	3,582
Total Tax	46,098
Salary received	118,800
Less: tax	(46,098)
Post-tax cash	72,702

No extension of rate bands as pension contributions deducted from gross pay.

Pension contributions in total are (£7,500 + £9,000 + £4,500) = £21,000, covered by her annual allowance of £60,000 therefore no excess pension charge.

(W1)

Car: Taxable Benefit.

Salary Sacrafice Option 12,000

Compared to the car benefit

(120,000 x 2%) = 2,400

As Hilda is offered a higher cash alternative she will be assessed on the £12,000 and not the car benefit value of £2,400.

(W2)

A parking space near the office is a exempt benefit for Hilda and will therfore not be subject to income tax.

(W3)

Golf club memebership provided to Hilda will be a taxable benefit, the amount taxed is the cost to the employer.

(W4)

Cost to the employer is £9,000 for the year, this is £173 per week.

As a scheme joined after 6 April 2011 the exempt childcare amount for additional rate tax payers are £25 per week.

Therefore the exempt amount for the year would be (£25 x 52 weeks) = £1,300. She is provided with vouchers of £9,000 and therefore the difference of £7,700 is a taxable benefit. Hilda is an additional rate tax payer based on her employment income.

(W5)

Employer pension contributions are an exempt benefit.

(W6)

Employee pension contributions:
Net pay registered pension schemes means that employee pension contributions are deducted from their gross salary.

Hilda's contribution

(5% x 150,000) = 7,500

(W7)

Non-tax advantage share options.

Income tax charge at excerise, lower of the MV @ exercise and MV @ grant. MV @ grant is lower so this will be used below:

		£	
MV @ Exercise (1,000 x £2.50)		2,500	
Less: option price (1,000 x £2)		(2,000)	
Income tax charge		500	

Disposal of shares immediatly after:

		£	
Proceeds (1,000 x 3.25)		3,250	
Less: price paid (1,000 x £2)		(2,000)	
Less: amount charge to income tax		(500)	
Capital Gain		750	
Less: AEA		(750)	

Gain covered by AEA assuming no other disposals in tax year.

(W8)

Personal Allowance

Net income =

133,100 - 100,000 = 33,100/2 = 16,550 over the personal allowance. Therefore personal allowance restricted to nil.

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

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

Answer-to-Question-_3_

Carol will only have avaliable carry forward unused allowances from 2020/21 onwards as this was when she became part of a registered pension scheme. Unused annaul allowances can be carried forwards for a maximum of 3 years. Therefore unused allowances can be carried forwards up to 2023/24.

	2020/21	2021/22	2022/23	2023/24	
Employer Contributions	7,500	10,000	12,500	6,750	
Employer Additional Contributions	–	30,000	–	–	
Salary Sacrafice Pension Contributions	7,500	10,000	12,500	6,750	
Personal Pension Contributions (Gross) (60,000 x 100/80)				75,000	
Total	15,000	50,000	25,000	88,500	
2020/21					
Less: Annual Allowance	(40,00)				
Remaining to C/Fwd	25,000				
2021/22					
Less: Annual Allowance		(40,000)			

Remaining excess		10,000			
Offset C/Fwd allowance from 2020/21		(10,000)			
Remaining AA to C/Fwd (25,000 - 10,000)		15,000			
2022/23					
Less: annual allowance			(35,000)		
Remaining to C/Fwd			10,000		
2023/24					
Less: annual allowance				(60,000)	
Excess				28,500	
Less: B/Fwd from 2020/21				(15,000)	
Less: B/Fwd from 2021/22				(10,000)	
Excess pension contribution				3,500	

Excess pension contribution of £3,500 for 2023/24. Taxed at marginal rate of tax.

£3,500 x 45% = £1,575.

Therefore, excess pension charge of £1,575.

The excess pension charge will be paid through her self-assessment tax return which is due to be submitted to HMRC by the 31 January 2025. The tax will also be payable by the same date.

No scheme pays avaliable as is a defined contribution scheme, and not a define benefit scheme.

The capital gain of £20,000 is not relevant earnings for pension contribution purposes.

2020/21:

In the 2020/21 tax year the annual allowance was £40,000. Her income was well below the threshold of £200,000 and therefore a full annual allowance would have been avaliable.

2021/22:

Adjusted net income = net income + employer contributions + occupational contributions.

£200,000 - 6,250 (Gift aid donaition gross) - 10,000 + 30,000 + 10,000 = 223,750.

Threshold income would be £200,000, as this does not exceed £200,000, there would be no tapering to the allowance. Annual allowance for 2021/22 was £40,000.

Gift aid donation made of £5,000, gross donation (£5,000 x 100/80) = £6,250

2022/23:

Adjusted net income = 250,000 - 12,500 + 12,500 = 250,000

Threshold income = 250,000.

Tapered annual allowance would apply as threshold income exceeds £240,000 for 2022/23:

250,000 - 240,000 = 10,000 / 2 = 5,000. Annual allowance would be tapered down by £5,000.

40,000 - 5,000 = 35,000 avaliable

2023/24:

Adjusted net income = 135,000 - 6,750 + 6,750 = 135,000

Threshold income = 135,000.

Threshold income does not exceed £200,000 therefore no tapering of the annual allowance. Annual allowance avaliable of £60,000.

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

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

Answer-to-Question-_4_

A Shares:

40 A shares are in issue, £10,000 is paid per share in the first instance. Therefore, (40 x £10,000) £400,000 will be paid to the A share holders.

Therefore the remaining sale proceeds are (750,000 - 400,000) £350,000.

Then the remaining proceeds of £350,000 are split equally between the other shares as well as the A shares. (40 + 110 + 1,000 + 1,000) = 2,150 shares in issue.

£350,000/ 2,150 = £163 per share.

Rupert:

	£
Proceeds (350,000 x 110/2,150)	17,907
Less: cost (110 x £1)	(110)
Gain	17,807
Less: AEA	(6,000)
Taxable Gain	11,807
11,807 @ 10% (CGT Payable)	1,181

Business asset disposal relief is avaliable on the disposal of his shareholding as he has been a director, and hold more than a 5% (110/2150 = 5.12%) shareholding for a period of 2 years prior to disposal. The company is a trading company, and does not own any investments.

Paige:

Sale of Shares :

		£	
Proceeds (350,000 x 1,250/2,150)		203,488	
Less: cost (1,250 x £1)		(1,250)	
Gain		202,238	

Business asset disposal relief is avaliable on the disposal of her shareholding as she has been a director, and hold more than a 5% (1,250/2150 = 58%) shareholding for a period of 2 years prior to disposal. The company is a trading company, and does not own any investments.

Sale of Laboratory:

		£	
Proceeds		985,000	
Less: cost		(600,000)	
Gain		385,000	

Part of this gain will qualify for BADR as she is disposing of an asset used in the trade which she is also disposaing.

She has owned the labutory for at least 3 years priot to disposal, she has used the labutory partially in the business for at least 2 years prior to disposal. And she is disposing of the asset at the same time is disposing of a shareholding in the company which is greater than 5%.

The period which the labutory has been used for the trade in RP Science will be avaliable for BADR. The other proportion of the gain will not. The 50% market rate paid will also not be an allowable proportion for BADR

(385,000 x 75% x 50%) = 114,375 of the gain is eligable for BADR.

The other (385,00 - 114,375) £270,625 is not.

Summary of Gains:

		BADR Gains	Non-BADR Gains
Shares		202,238	
Factory		114,375	270,625
Total		316,613	270,625
Less: AEA			(6,000)
Taxable Gains		316,613	264,625
316,613 @ 10%		31,661	
264,625 @ 20%		52,925	
Total CGT Payable		84,586	

Instalments:

Proceeds received in 2023/24:

(203,488   + 985,000) = 1,188,488 x 42% = 499,165.

The ordinary date for her CGT liability to be paid will be the 31 January 2025, and the disposals will be reported on her self-assessment tax return.

Proceeds received over a period of 18 months can eligable for payment on CGT in instalments, 50 % of each instalments will be due on the the earlier of:

- 31 Januray 2025

- The date in which the instalment is due.

Amount reeceived on 31 March 2024 = 499,165, 50% of this is £249,583 and this exceeds the CGT liability.

As more than 50% of the proceeds received on 31 March 2024 will cover the CGT liabaility for the 2023/24 tax year, she will not be able to pay in instalments as the tax will be due on the 31 Januaruy 2025.

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

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

Answer-to-Question-_5_

Tax payers are required to notify HMRC by the 5 October following the end of the tax year, of their intension of submitting a self-assessment tax return.

The tax return should then be submitted by the 31 January following the end of the tax year, if electorinally submitting it. If the return is being submitted by paper, then this would need to be submitted by the 31 October following the end of the tax year.

The penalty for submitting a self-assessment tax return late is initally £100. If the return is not submitting within 3 months of the filing deadline then dailt peanlties of £10 per day for a maxamum of 90 days will apply. If the return is not submitted within 6 months of the filing dealine then a penalty of 5% of the taxliability is charged, or £300 if higher. If the return is not submitted within 12 months of the filing deadline then an additional 5% penalty will be charged, or £300 if higher.

As a non-UK domiciled, but UK redident Irian could have made a claim for the remittance basis to apply.

There is no UK tax implication on the initial inheritance of the £450,000 cash and the valuable antique as this income was inheritted and this would be classed as 'clean capital'. The interest which accured would be an issue as this is overseas income.

As a UK resident individuals are tax on their worldwide income and gain on an arising basis. The interest arining on her Utopian bank account would be taxable in the UK unless a claim for the remittance basis is made.

The effecrt of the remittance basis is that uk residents and non-uk domiciled individuals are taxed on their UK incoem and gains on a arising basis, and only overseas income and gains when remmited into the UK.

The remittance basis claim would need to be made by the 31 January following the end of the tax year, therefore for the 2020/21 tax year this would be by the 31 January 2023. She is out of time to make this claim and therefore the interest will be taxable in the UK. She will have her savings allowance to offset against the income before it is taxed at her marginal rate of 40%

The automatic remittance basis would not apply as her unremmited income has exceeded £2,000 during the 2020/21 tax year.

She has also made a remmitance to her UK bank account of £16,000 during the tax year. Assuming that her Utopian bank account already has funds in there, the account would be classed as mixed fund account. Therefore, statutory ordering rules will apply to the order of the income remitted. The order is that income remitted will be on a first in first out basis. Therefore, the remittance of £16,000 will be deemed to be taken from her inheritted income, which is clean capital. There is no income tax charge on clean capital into the UK.

The bank accout opened in Jersey in the 2021/22 tax year will also be a remittance into the UK as the asset was aquired after she came to the UK.

The transfer of the £45,000 will be a remittance into the UK as she is bringing the money into the UK to enjoy and use into the UK. However she has until 31 January 2025 to make a claim for the remittance basis to apply, therefore the income will be remitted out of the inheritted cleam capital and will not give rise to any UK tax liability.

When claiming the remittance basis no personal allowance of annual exempt amount is allowed.

In the 2022/23 tax year Irina will have been a UK resident for 7 out of the previous 9 tax years, and therefore the remittance basis charge of £30,000 will apply. Therefore is may not be beneficial for the remittance basis to be claimed.

If HMRC have not prompted her of her undisclosed income, this will be a unprompted disclosure. The penalties for failure to notify and unsubmitted returns depend on the circumstances of the individual. If it was careless, not deliberate, and not concealed and the tax was due within the last 12 months, then the penalities can range from 0% to 30%, if the tax was due longer

ago than the last 12 months, then the penalties range from 10% to 30%

If the disclosure was deliberate and not concealed then penalties can range from 35% to 70% of the underpaid income tax liability.

If the disclosure was delibertae and concealed then the penalties can range from 50% to 100%.

The penalty will be assessed by HMRC and based on the quality of the disclosure, and the time promptness, and the willingness to give information to HMRC.

Interest will also be charged on underpayment from the date they were originall due up until the liability is paid. Late payment penalties may also apply.

A disclosure is usually due within 90 days of informing HMRC of your intent to disclose.

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

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

Answer-to-Question-_6_

Tax Computation	£
Salary	86,415
Medical Insuarance benefit (cost to employer)	980
Car Benefit (W2)	6,502
Rental Income (W3)	1,636
Life Insurance Policy (W5)	1,469
Total Income	97,002
Less: personal allowance (full)	(12,570)
Taxable income	84,432
Rate Bands (W6)	
37,869 @ 20%	7,574
76,858 @ 40%	30,743
Total	38,317
Less: notional tax credit	(294)
Less: mortgage interest relief (W4)	(327)
Less: PAYE (W1)	(22,344)
Tax Liability	15,352
Less: POA paid (W7)	(1,027)
Balancing payment	14,325
2024/25 first POA (14,325/2)	7,163
Total Payment due 31 Jan 2025	**21,486**

(W1)

Tax deducted at source from tax code:

		£	
Salary		86,415	
Less: tax free allowance		(11,705)	
Taxable income		74,710	
37,700 @ 20%		7,540	
37,010 @ 40%		14,804	
Total		22,344	

(W2)

Assumed aquired 1 November 2023.

As the car has been modified to include a second row of seats, the main purpose of the vechical will be seen as a transporation of people vechicle which he uses for personal use, therefore it will be deemed as a car and not a 2 cab pick up style of car, where the main purposes is for business and not classed as a 'car'.

Car Benefit:

List Price 40,000
Add: Modification 2,175
Revised List Price 42,175

Co2 Emmision = 202 - 75 = 127 rounded down to 125/5 = 25% + 20% = 45%. Maximum percentage is 37%.

42,175 x 37% = 15,605.

Avaliable for 5 months from 1 November to March.

15,605 x 5/12 = 6,502 car benefit.

(W3)

Rental Income: cash basis

		£	
Rental Income (150 + (5 x 775)		4,025	
Less: expenses			
Solicitors bill		(736)	
insurance		(298)	
Replacement of domestic items (sofa) (1,200 - 85)		(1,115)	
Tenancy Agreement		(240)	
Total Profit		1,636	

Rental expenses are allowed as his intension was to re-let the flat.

The sofa expense has been allowance on the basis that this is a like for like sofa of the original one. This is a revenue expense and allowable against rental income. The money received for the old sofa is deducted from the cost of the new one. Therefore the cost to Oliver has been included as an expense.

Cost of tenancy agreement allowable as cost to obtain new tenant.

The mortgage interest is not deductable from the rental income, instead a basic rate tax reducer is give as calculated below.

The fee for arranging the mortgage are a finace cost and allowable in the same way as the mortgage interest.

(W4)

Mortgage Interest Relief

Total avaliable mortgage interest and finace costs =

(£217 x 12 months) for the 2022/23 tax year which could not be claimed 2,604

(£217 x 2 months) for the original mortgage in 2023/24
434

(£197 x 10 months) for the new mortgage in 2023/24
1,970

Finance costs for arranging new mortgage
999

Total
6,007

income tax relief given at lower of:

- Rental income less any B/Fwd renatal losses 1,636

- Mortgage interest 6,007

- Net income 97,002

Therefore, mortgage interest releif avaliable at 20% x 1,636 = 327.

(W5)

Withdrew £21,469.

Can withdraw 5% per tax year tax free. This amount accumulates.

invested in 2019/20

2019/20 (80,000 x 5%) = 4,000
2020/21 (80,000 x 5%) = 4,000
2021/22 (80,000 x 5%) = 4,000
2022/23 (80,000 x 5%) = 4,000
2023/24 (80,000 x 5%) = 4,000

Total amount he can withdraw in 2023/24 tax free is £20,000.

Excess amount (21,469 - 20,000) = £1,469

Treated as top slice income and carrys a notional 20% tax credit.

Tax credit (1,469 x 20%) = £294

(W6)

		£	
Basic Rate Band		37,700	
Add: gross donations (135 x 100/80)		169	
Revised BRB		37,869	

(W7)

2022/23 tax liability £1,052. Capital gains tax is not included in the payments on account.

£1,052 - £25 = £1,027

Therefore, payments on account would have been £1,027/2 = £513.50 each.

Payments on account are based on 50% of the income tax liability for the previous tax year.