THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

November 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Jason Black purchased the following cryptocurrency:

Date	Purchase	Price	Acquisition Fees
		£	£
1 May 2021	1 Bitcoin	8,000	100
1 August 2021	2 Bitcoins	20,000	250
31 March 2022	10 Ethereum	1.5 Bitcoins	285
1 June 2022	5 Tether	3 Ethereum	300

The market value of 1 Bitcoin on 31 March 2022 was £50,000.
The market value of 1 Ethereum on 1 June 2022 was £5,000.

On 1 July 2022 Jason married Anna and put his cryptocurrency accounts into joint names with her on 1 August 2022.

On 15 April 2023 they sold one Bitcoin for £20,000.

Jason has annual self-employment income of £60,000 and no other income sources.

Anna has a part-time employment and receives a salary of £10,000 per annum.

Requirement:

Explain the tax implications of the cryptocurrency transactions. (10)

2. Patrick Davis is UK resident and domiciled.

In April 2023, Patrick bought a dilapidated house in Cornwall at a cost of £425,000. The cost can be split between the house and the land it occupies as follows:

	£
House	245,000
Land	180,000

At the same time, he also purchased a field next to the house for £360,000.

Patrick has never used the house. He has been granted planning permission to demolish it and build a new one in its place. He will use the new house as a holiday home. The value of the site immediately after the demolition of the original house will be £210,000. Patrick estimates that it will cost £385,000 to build the new house, including demolition costs of £20,000.

Patrick has been granted planning permission, at a cost of £1,380, to build three houses on the field. He originally planned to carry out the project himself and sell the properties. However, he has instead approached a local property developer and offered to sell the field to them. They have agreed a price of £400,000.

Patrick's annual taxable income is £65,000, after deducting his personal allowance.

Requirement:

Explain the Income Tax and Capital Gains Tax implications of Patrick's plans to demolish the house and also of his plan to sell the field. (20)

3. Daisy Gray is UK domiciled but she moved to the Cayman Islands in July 2004 and is a non-UK resident.

On 31 May 2022, she sold a UK house for £495,000 incurring selling costs of £6,671. She had originally purchased the property on 30 April 1999 for £117,763, including costs. Shortly after purchasing the property, she extended it at a cost of £54,334.

Daisy lived in the property from the date of purchase until 30 June 2004. The property was then rented out until it was sold.

The market value of the property in April 2015 was £375,000.

In October 2016, she paid £2,980 for part of the front garden to be converted into an off-street parking area.

Daisy received the following UK income during 2022/23:

	£
Net rental income (after claiming expenses of £1,563)	5,637
Bank interest	21,951
Dividends	9,485

The Double Tax Treaty between the UK and the Cayman Islands gives the UK the right to tax capital gains on the sale of UK property and all of Daisy's income sources.

Requirement:

Calculate, with explanations, Daisy's UK tax liability for the year ended 5 April 2023, assuming that all beneficial elections are made. (20)

4. Robert Lang is employed by an unquoted trading company on a salary of £150,000 per annum. The company has 5,000,000 ordinary shares of £1 each in issue. The shares are unrestricted.

Robert was seconded to the company's US office from 1 January 2018 until 1 January 2020, when he returned to his role in London. He was non-UK resident whilst in the US with the split year treatment applying in 2017/18 and 2019/20. He did not have any UK workdays during his secondment.

On 1 June 2019 Robert was granted a non-tax advantaged option over 10,000 ordinary shares at an exercise price of £1 per share when the market value was £1 per share. The option vested on 1 June 2020 but he has not yet exercised it.

On 1 June 2020 Robert was granted a non-tax advantaged option over 20,000 ordinary shares at an exercise price of £2 per share when the market value was £2 per share. Robert exercised this option on 1 January 2021 when the market value was £2.50 per share.

On 1 June 2021 Robert was granted an option over 15,000 ordinary shares under a Company Share Option Plan. The exercise price and market value at grant was £1.50 per share. He has not exercised this option.

On 1 June 2022 Robert was granted an option over 50,000 ordinary shares under an Enterprise Management Incentive scheme. The exercise price and market value at grant was £2 per share. He has not exercised this option.

Robert plans to exercise all his remaining options on 1 December 2023 and then sell his entire holding. There are no arrangements in place for Robert to sell his shares but he believes his colleague will purchase them for market value. The current market value is £4 per ordinary share. Robert has not made any previous capital disposals and except for the sale of shares, he expects to make no other capital disposals. He does not hold any other shares in the company.

Requirement:

Discuss the tax implications for Robert of exercising his options and selling his shares. (15)

5. On 6 March 2018, Rakesh bought the freehold of a building for £290,000. The building included two adjoining shops on the ground floor, each representing £80,000 of the purchase price, and a residential flat above, representing £130,000.

Rakesh immediately moved into the flat and occupied it as his main home. He also used one of the shops for his sole trade business, a lunch delicatessen.

Rakesh moved out of the flat on 6 April 2022. The flat was then let fully furnished to a group of students on a two-year assured shorthold tenancy. In 2022/23, Rakesh received gross rent of £24,700. His expenses were: £2,000 of management fees, an inventory fee of £195 and the cost of a new washing machine (to replace a broken machine) of £460.

He advertised the other shop for commercial use, but it remained vacant until 1 June 2022, when Rakesh granted a 10-year lease to Pamela for use as a beauty salon. Pamela paid a lease premium of £30,000 and was also required to pay an annual rent in advance of £2,750 on 1 June each year. The value of the freehold reversion on 1 June 2022 was £55,000.

Pamela didn't like the location, so she granted a three-year sub-lease to Mary on 1 December 2022 and continued to trade elsewhere. Mary paid Pamela a premium of £9,000 for the sub-lease and was also required to pay an annual rent in advance of £1,000 on 1 December each year.

On 1 September 2022, Rakesh's delicatessen business moved out of the shop and he granted a 55-year lease to Daniel, who converted the shop to a bakery. Daniel paid a lease premium of £46,000 and annual rent in advance of £7,500 on 1 September each year. The value of the freehold reversion on 1 September 2022 was £40,000.

Both Rakesh and Pamela are tax resident in Scotland. Rakesh's only other taxable income (on the accruals basis) was a taxable trading profit of £16,800 from his sole trade business in 2022/23, and he had no other chargeable gains. Pamela had trading profits of £12,400 after her rent payments in 2022/23. She did not have any other taxable income or chargeable gains.

Requirement:

Calculate, with explanations, Rakesh and Pamela's tax liabilities for 2022/23. (15)

6. Samantha Riley is non-UK domiciled. She moved to England on 15 March 2021 to work for the UK branch of Pinefoot Inc, a US company. All of Samantha's work duties were carried out in the UK and her annual salary was £146,000.

Samantha was not UK resident in 2020/21 under the Statutory Residence Test. She became UK resident on 6 April 2021 and remained UK resident in 2021/22 and 2022/23.

On 1 October 2022, Pinefoot Inc decided to close the UK branch.

Samantha was made redundant on 31 October 2022 and was offered the following termination package, payable by the UK branch:

1) Non-contractual cash payment of £45,000
2) Statutory redundancy pay of £13,000
3) Contractual payment in lieu of notice of £36,500
4) Costs of a retraining course to enable her to find other employment, up to a maximum of £5,000
5) Restrictive covenant payment of £7,500
6) Employer contribution to registered pension scheme of £10,000

Samantha also held shares in Pinefoot Inc, which she bought in April 2015 at their unrestricted market value of £15,000. Samantha sold all of her shares on 15 October 2022 to a third party for £28,000, which was paid into her overseas bank account.

In December 2022, Samantha was offered a job working for Oaknail Ltd, a UK company. She started the new job on 1 January 2023 with an annual salary of £158,000.

Samantha did not receive any other income during 2022/23. She did not make any charitable donations qualifying for gift aid or any personal contributions to her registered pension scheme.

Requirement:

Calculate, with explanations, Samantha's Income Tax, National Insurance and Capital Gains Tax liabilities for 2022/23 assuming all beneficial claims are made. (20)