The Chartered Tax Adviser Examination

November 2019

Taxation of Individuals

Advanced Technical 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, annotate your question paper and use your calculator. You are not permitted to write in the answer booklet. The Presiding Officer will inform you when you can start writing.
- 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 information, you may assume that 2018/19 legislation (including rates and allowances) continues to apply for 2019/20 and future years. Candidates answering by reference to more recently enacted legislation and tax cases will not be penalised.

1. You are a tax manager at a firm of Chartered Tax Advisers. You recently met with a new client, Janine Applegate, who would like advice about her tax position for 2018/19. Janine has always been UK domiciled.

For a number of years, Janine worked full-time for Westgate Ltd in Iceland and was tax resident there and not in the UK. Prior to this, she had always been resident in the UK. She left the UK for Iceland on 5 December 2016 and whilst there she lived in a rented house. Late in 2018, she decided that she wanted to return to the UK and in anticipation of this she purchased a flat in Birmingham on 1 December 2018.

On 10 December 2018, Janine's employment with Westgate Ltd ended and she left Iceland and returned to the UK on 15 December 2018, immediately moving into her flat in Birmingham. This is her only home and she has lived in it since then together with James, her adult son.

On 3 January 2019, Janine started working full-time in Birmingham for Pegwell Ltd.

Janine took tax advice when she moved to Iceland and does not require any advice on her UK residency position for previous tax years.

Janine is a keen investor and carried out the following transactions in 2018/19:

1) She sold a flat she owned in London for £465,000 on 7 January 2019. This was purchased as an investment in 2011 for £450,000. Janine had never lived in the flat.

2) She sold her shares in Greatstone Inc to her son James, who is also a keen investor, for £100,000 on 5 November 2018. Janine had purchased the shares in three transactions:

   (a) 5,000 shares purchased on 1 January 2013 for £2.45 per share
   (b) 1,250 shares purchased on 4 March 2014 for £3.50 per share
   (c) 6,000 shares purchased on 16 March 2014 for £3.70 per share

   Greatstone Inc is a US listed company and on 5 November 2018 the shares were trading on the New York stock exchange for £4.50 per share.

3) Janine invested £15,000 in unquoted shares in Arc Investments Ltd on 20 February 2019. The shares qualify under the Enterprise Investment Scheme.

Requirement:

Write a letter to Janine advising on her UK residence position for the 2018/19 tax year and calculating her 2018/19 Capital Gains Tax liability.

(15)

2. You are a tax manager at a firm of Chartered Tax Advisers. One of your colleagues has meetings arranged with two of his clients and has asked you to prepare some notes for his use at these meetings.

Becky Clark

Becky works for Green Ltd, which is a wholly owned subsidiary of Yellow Ltd. Her annual salary is £65,000.

Becky has been told that she will shortly be awarded 10 shares in Green Ltd, in recognition of the fact that she exceeded her annual sales target for the year. The shares are worth £2,000 each, but Becky will not be required to pay anything for them.

When Becky receives the shares there will not be any arrangements in place under which she can sell them. The shares will carry no restrictions and will not be convertible.

Neither Green Ltd nor Yellow Ltd are listed on any stock exchange. 100% of the shares in Yellow Ltd are owned by Becky's boss, Rachel Hobbs.

Patrick Smythe

Patrick is the Sales Manager at Magenta Ltd. In June 2016 he was given 100 shares in the company. The shares carried no voting rights or rights to assets in the event of the company being wound up and were valued at £50 each.

Patrick declared £5,000 in respect of the receipt of the shares on his 2016/17 tax return and paid Income Tax on that amount.

In June 2019, Patrick made a payment to the company of £1,000 in order to convert the shares to full ordinary voting shares with a right to assets on a winding-up. Immediately prior to the conversion the shares were valued at £75 each and immediately after the conversion they were valued at £120 each.

The shares are now worth £135 each and Patrick plans to sell them this month in order to help pay for his wedding next year.

None of Patrick's shares were subject to restrictions.

Requirement:

Prepare notes for your colleague to use at his meetings with Becky and Patrick.

(15)

3. Adam Clark was granted a 30 year lease on a commercial property on 6 January 2010 for a premium of £100,000 by Robin Ltd. He has used the property in his sole trader business since then.

The rent payable under the lease is £6,000 per annum.

Adam needs to move to bigger premises and is planning to grant a 10 year sub-lease on this property to an unconnected company, Starling Ltd on 6 January 2020.

Starling Ltd was offered the lease for either a premium of £20,000 and an annual rent of £10,000, or a premium of £50,000 and an annual rent of £6,000. They have chosen the first option.

Adam has identified a replacement commercial property and he has three options in respect of it:

1) Purchase the property outright for £300,000. He would need to take out a loan on which the annual interest would be £20,000.

2) Pay a premium of £80,000 for a 10 year lease followed by annual rents of £10,000. Interest on the loan to pay the premium would be £2,000 per annum.

3) Pay no premium for a 10 year lease but pay an annual rent of £20,000.

He will move into the new property before the grant of the sub-lease on the original property on 6 January 2020.

Adam does not expect to have any other capital gains in the year.

Requirement:

1) Calculate Adam's taxable income and gains for 2019/20 arising from the grant of the sub-lease. (8)

2) Explain the Income Tax and Capital Gains Tax implications of each of the options on the new property for Adam. (7)

Total (15)

4. You are a tax senior at a firm of Chartered Tax Advisers and you have recently received the following letter from your client, Daniel Stevenson.

City Tax Advisers	Mr D Stevenson
High Street	1 Town Avenue
PA1 ABC	PA1 EFG

1 November 2019

Dear Adviser

Since our last meeting in January, my wife Holly and I have both had a change in our circumstances.

I no longer work for Harry's Kitchens Ltd; my last day was 31 March 2019. Due to an administrative error the wages that I should have received on 25 March 2019 were not actually paid to me until 1 May 2019. This caused me a few cash flow problems so it's lucky that my new employers, Blissful Bathrooms Ltd, paid the £6,235 conveyancing fees for both the sale of our old property in London and the purchase of 1 Town Avenue, our new property in Liverpool.

When I initially started at Blissful Bathrooms Ltd I was required to spend three months at their head office, which is a 16 mile round trip from our new house on Town Avenue.

I work Monday to Friday and am now responsible for all of the Blissful Bathrooms Ltd outlets in Wales. I do not have an office in Wales and I visit whichever outlets require my advice on a day-to-day basis with no particular pattern to my work at these outlets.

Along with my wages each month I receive an additional payment, which is to cover my fuel costs. The only downside is that this amount has tax and National Insurance deducted at source, which seems unfair considering the number of miles I travel each week.

I'm told by one of my new colleagues that they usually receive a bottle of champagne or a turkey at Christmas.

I am not a director of Blissful Bathrooms Ltd and you will recall that I wasn't a director of Harry's Kitchens Ltd either.

I'd appreciate your advice on any tax issues I should be aware of.

Holly is older than me and celebrated her 63rd birthday in February 2019. She has decided that she will retire at the end of this year. You will recall that in February 2014 she reduced her working hours to two days per week and started to draw one of her pensions. I have located some of the paperwork from February 2014, which states the value of this pension scheme at that time was £1,050,000. The paperwork also states that the Lifetime Allowance for 2013/14 was £1,500,000. Holly has never made a claim for individual or fixed protection in respect of her pensions.

Her second pension scheme is similar in value to the one she has already started to receive. Could you give me a brief explanation of any potential tax liabilities that will arise when Holly starts to draw a regular pension from this additional scheme?

Yours sincerely

Daniel Stevenson

Requirement:

Write a letter to Daniel advising on tax issues arising from his letter. (20)

5. In October 2018, Rajesh, who lives in London, decided to take early retirement at the age of 60 from his employment with HIJ Properties Ltd. In 2018/19 he received a gross salary of £123,600 for duties performed up until leaving his employment and had PAYE of £35,620 deducted at source. He also received a lump sum thank you payment of £30,000 as recognition for services provided. No PAYE was deducted from this payment. The payment was received in November 2018 after his P45 was issued on 26 October 2018.

Rajesh owns shares in HIJ Properties Ltd which paid dividends of £10,000 on 30 September 2018.

During 2018/19, Rajesh made the following withdrawals from his pension schemes:

1) On 1 November 2018, £250,000 from an Australian superannuation pension scheme being the full value of the pension scheme. This was not subject to Australian tax.

   Between April 1999 and July 2004 Rajesh worked in Australia and his employer made contributions to this scheme. In July 2004 Rajesh returned to the UK and started working for HIJ Properties Ltd. No further contributions were made to this scheme.

   The pension scheme was worth £205,000 on 5 April 2017.

2) Rajesh withdrew a 25% lump sum from his UK pension scheme on 1 November 2018, which amounted to £50,000. This was the first withdrawal made from the scheme.

   On 1 March 2019, Rajesh then flexibly drew down £1,500 from his pension scheme to pay for an unexpected car repair. Tax of £600 was withheld on the drawn down amount.

During 2018/19, Rajesh:

1) Received bank interest of £1,200.

2) Sold £50,000 Treasury Stock 3% 2019 on 4 February 2019. Annual interest of £1,500 was paid half yearly on this stock on 30 March and 30 September. The ex-dividend dates were 5 March and 5 September. Rajesh originally bought the stock for £50,000 on 6 March 2017.

   Rajesh then bought replacement Treasury Stock 4% 2022 for £75,000 on 5 February 2019. Interest from this investment was paid on 1 April and 1 October. The ex-dividend dates for these payments were 6 March and 6 September.

3) Redeemed a Japanese Government bond on 1 July 2018 for £10,000. He had subscribed for the bond on 1 July 2008 for £9,000 (par value at date of issue was £10,000).

4) Cashed in £50,000 of premium bonds on 3 March 2019.

5) Disposed of his units in an offshore non-reporting fund on 10 December 2018 for £12,500. The units were acquired for £15,000 in February 2006. His units had accumulated income during the year of £1,500.

Continued

5. Continuation

6) Received interest of £500 on each of 31 July and 31 December from units in an offshore reporting fund. The units were also allocated £700 of excess reported income as at 31 March 2019 in addition to the interest paid.

7) Disposed of shares held in JZL Ltd to a third party in February 2019 for £100,000. Rajesh had subscribed for these shares in 2005 for £160,000. The shares are held in a trading company and qualify for share loss relief.

8) Made gift aid donations of £8,000.

Rajesh is single and has no children.

Requirement:

Calculate, with explanations, Rajesh's Income Tax liability for 2018/19. (20)

6. Agnes Wool is a longstanding client of your firm. She is the sole director and shareholder of Woolly Ltd, a textile company which manufactures items from wool. She incorporated Woolly Ltd on 4 September 2005 and immediately subscribed at par for 100,000 ordinary shares of £1 each. She is a higher rate taxpayer.

Garments plc have recently made an offer for the entire share capital of Woolly Ltd, which, if accepted, will complete by 30 November 2019. They have offered an immediate payment of £100,000 plus some additional consideration. They have given Agnes two options as to how this additional consideration may be paid:

<u>Option 1</u>

£300,000, to be paid in equal instalments over three years with the first instalment to be paid one year after completion; plus

£200,000 to be paid five years after completion provided that Woolly Ltd meets a specified profit target.

<u>Option 2</u>

10,000 Garment plc shares, valued at £30 per share. This will give Agnes less than 1% of the overall shareholding in Garment plc. Agnes will receive the shares on completion; plus

5% of the Woolly Ltd profits for the next five years. This is currently estimated to be worth £200,000 and would be paid five years after completion.

Your tax partner, Ted, has asked you to email him a note explaining the Capital Gains Tax implications of the sale for Agnes. Agnes has already used up her annual exemption.

Requirement:

Write an email to Ted explaining the Capital Gains Tax implications of the sale for Agnes. (15)