



# The Chartered Tax Adviser Examination

Sample Paper

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## Application and Professional Skills

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### Taxation of Individuals

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TIME ALLOWED – 3 ¼ HOURS

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- 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 start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

You are a tax senior with a firm of Chartered Tax Advisers. Your clients are Robert Williams and his wife Claire.

Robert is a Chartered Engineer who has always worked on multi million pound construction projects. His employment was terminated on 31 December 2017 following the completion of a large construction project and he received a termination payment (**EXHIBIT A**).

Following the death of his father on 27 August 2017, Robert inherited a cash legacy of £180,000 which he and his wife, Claire, are considering investing together with the termination payment. They are also considering purchasing a property in Leamington Spa.

Robert and Claire attended a meeting in your office on 17 October 2018 with Alexander Frost, your tax partner. Alexander has provided you with a copy of the notes of the meeting (**EXHIBIT A**) and of a letter subsequently received from Robert (**EXHIBIT B**).

The following Exhibits are provided to assist you:

**EXHIBIT A:** Notes of the meeting between Alexander Frost and Robert and Claire Williams

**EXHIBIT B:** Letter from Robert Williams to Alexander Frost

**EXHIBIT C:** Pre-seen information

**Requirement:**

**Prepare a draft report, for review by Alexander Frost, addressed to Robert and Claire Williams advising on the overseas employment opportunities and on the taxation implications of the proposed investments.**

## EXHIBIT A

### Notes of the meeting between Alexander Frost and Robert and Claire Williams

Meeting Date: 17 October 2018  
Present: Alexander Frost (Tax Partner), Robert Williams and Claire Williams  
Subject: Proposed investment and overseas employment opportunities

Robert and Claire requested the meeting in order to update us on some changes that had taken place in their lives over the past few months and to request tax advice on overseas employment opportunities offered to Robert and the investments which they are considering.

#### Robert Williams – overseas employment opportunities

Robert's employment was terminated on 31 December 2017 and his salary and benefits ceased at that date. On 14 February 2018, having received his P45 he received a non-contractual termination payment of almost £100,000 (after tax had been deducted). Robert has not worked since the employment was terminated having been unable to find alternative employment in the UK.

Via an employment agency he has however been offered contracts with two overseas companies. Both contracts are for six years. The first would require Robert to work on a project in Dubai for three years and then spend the final three years on a project in Scotland. For the second contract Robert would work exclusively in Dubai. The proposed employment packages are as follows:

	<u>Contract 1</u>	<u>Contract 2</u>
Location	Dubai/Scotland	Dubai
Duration	6 years	6 years
Start date	1 January 2019	1 February 2019
End date	31 December 2024	31 January 2025
Average working week	60 hours	48 hours
Monthly salary	Dubai - £10,000 Scotland - £8,000	£8,000
Terminal bonus on contract completion	£30,000	£80,000
Annual holidays	35 days	38 days
Other benefits	Accommodation – in both Dubai and Scotland Car and fuel – in both Dubai and Scotland 3 free flights home every year (from Dubai))	Accommodation Car and fuel 5 free flights home every year

Robert has been informed by both prospective employers that no local taxes will be payable on any of his remuneration in Dubai. For contract 1, the prospective employer has confirmed that he will continue to receive "tax-free" income when he returns to the UK to work in Scotland and consequently his net of tax salary will be £8,000 per month with his employer paying whatever UK tax is required to ensure his net salary.

Robert will retire following the completion of whichever employment contract he accepts.

Peter and Jane, children of Robert and Claire, are twins and both have recently started their university studies at the University of Middle England. Peter is studying English and Jane is studying Physics. They are both living in University Halls of Residence for their first year.

Claire will continue to work at the hospital and live in the family home in Chester until July 2019 when she and the twins will then spend the summer with Robert. The twins will return to start their second year at University in October 2019 but Claire will remain with Robert, in Dubai and Scotland, until the end of his contract. Claire will not work once she has joined Robert in Dubai in July 2019. Robert and Claire will return to the United Kingdom during the contract period to visit family and friends during Robert's annual holidays

#### Robert and Claire Williams – Investment Opportunity

Robert's father died on 27 August 2017 and he inherited a cash legacy of £180,000 which was received on 13 March 2018. Both the termination payment and cash legacy are held in Robert and Claire's joint bank account and they are considering investing the total amount of £280,000.

Robert's brother, Charles, is the sole shareholder of Charles Williams Ltd (7,500 issued shares). The company has expanded rapidly since it was incorporated in 2005. Charles wants to continue this expansion and needs some capital to expand. He has therefore suggested that Robert and Claire might like to invest £250,000 for a 25% shareholding (2,500 shares) in the company. The shares will be issued by the company and will rank pari passu with the existing shares held by Charles and it is anticipated that the investment would be made under the Enterprise Investment Scheme. The accountants and tax advisers of Charles Williams Ltd have confirmed that the company meets all the qualifying criteria for the Enterprise Investment Scheme. Neither Robert nor Claire has been involved with the company since its incorporation.

Robert has made no investments in his ISA in 2018/19 so may invest the balance of the funds in his ISA.

## EXHIBIT B

### Letter from Robert Williams to Alexander Frost

Alexander Frost, Esq  
Frost & Co  
Chartered Tax Advisers  
28 Eastminster Avenue  
Chester  
CH3 5TN

14 Orme Road  
Chester  
CH1 8PG

28 October 2018

Dear Alexander

Thank you for taking the time to see Claire and myself on 17 October.

The following additional thoughts may be relevant to the preparation of your report.

I have spoken to Charles and he is of the opinion that the value of Charles Williams Ltd will increase by around 15% per annum, on a compound interest basis, following the introduction of the external investment he is seeking. He also believes that the company will be ripe for a takeover in around five years' time. He is four years older than me and would probably retire if the company were to be sold.

Claire and I have also discussed purchasing a property in Leamington Spa so that Peter and Jane could live there in their second and third years at University. This would be in addition to the investment opportunity we discussed at our recent meeting. We were thinking of spending up to £400,000 as properties are quite expensive in the area. We believe that we will require £425,000 to cover the cost of the house and the incidental costs of its acquisition. We want to purchase the property outright, but would need to release funds from Claire's shareholding in Tesbury plc and possibly my ISAs, We want to minimise any tax payable in releasing these funds: what do you suggest? Also we are unsure as to whether to own the property in our joint names or in the names of Peter and Jane. Any initial advice you can give us would be helpful.

I look forward to receiving your report in advance of our next meeting on 15 November.

Yours sincerely

Robert Williams

## **EXHIBIT C**

### Pre-seen information

#### Extracts from Permanent File

##### Client

Name	Robert Williams
Date of birth	14 January 1964
Place of birth	Liverpool, United Kingdom
Address	14 Orme Road, Chester, CH1 8PG
UK resident	Yes
UK domiciled	Yes
Date of marriage	26 May 1993
Occupation	Chartered Engineer

##### Spouse

Name	Claire Williams
Date of birth	16 July 1968
Place of birth	Cardiff, United Kingdom
Address	14 Orme Road, Chester, CH1 8PG
UK resident	Yes
UK domiciled	Yes
Date of marriage	26 May 1993
Occupation	Hospital administrator

##### Children

Name	Peter Williams
Date of birth	8 June 2000
Place of birth	Chester, United Kingdom
Address	14 Orme Road, Chester, CH1 8PG
UK resident	Yes
UK domiciled	Yes
Occupation	University student

Name	Jane Williams
Date of birth	8 June 2000
Place of birth	Chester, United Kingdom
Address	14 Orme Road, Chester, CH1 8PG
UK resident	Yes
UK domiciled	Yes
Occupation	University student

#### Further information from the client files of Robert and Claire Williams

##### Robert Williams – employment income

Following qualification as a Chartered Engineer Robert has always worked in the UK on large construction projects.

He receives a salary of £120,000 plus various benefits in kind with a taxable value of £15,000 accruing evenly throughout the tax year.

Robert Williams – other income and assets

Cash ISA - £38,000, interest received in 2017/18 - £812

Stocks and shares ISA - £210,000, dividends received in 2017/18 - £10,150

Robert has always invested any spare cash in his ISA accounts.

Claire Williams – employment and other income

Employment income – Hospital administrator – annual salary £40,000 with no added benefits

Shareholding in Tesbury plc - £850,000, dividends received in 2017/18 £29,850.

The probate value of Claire's shareholding inherited on the death of her mother, who passed away on 24 September 2002, was £250,000.

Apart from their non-interest bearing joint bank account the only other asset owned by Robert and Claire is the family home which is valued at around £835,000. There is no mortgage on the property.