The Chartered Institute of Taxation

Awareness

Module D: Taxation of Individuals

November 2022

Suggested solutions

Answer 37

	Total	NS	S	D	
	£	£	£	£	
State pension	9,339	9,339			)
Pension from previous employer	18,000	18,000			)1
Winter fuel allowance (exempt)	0	0			1
Child benefit (exempt)	0	0			1
Interest income	1,200		1,200		)
Dividends (exempt)	0			0	)1
Total income	28,539	27,339	1,200	0	
Personal Allowance	(12,570)	(12,570)			1
Taxable income	£15,969	£14,769	£1,200	0	

Answer 38

	£	£	
Income from properties		160,000	
Buildings insurance: £7,000 x 9/12 (Note)	5,250		1
Window replacement (repair)	1,200		1
Installation of central heating (capital)	0		1
Mileage: 5,400 x 45p	2,430		1
Parking and tolls: £(95 + 77)	172		1
		(9,052)	
Property income		£150,948	

Note: Income and expenses are accounted for on the accruals basis as Dexter's income during the 9-month period 1 July 2021 – 5 April 2022 is greater than £150,000 x 9/12 = £112,500.

Answer 39

	£	£	
Statutory redundancy pay	8,000		1
Ex-gratia payment	20,000		1
Use of car: £12,210 x 4/12	4,070		1
	32,070		
Less exemption	(30,000)		1
		2,070	
Outplacement counselling (exempt)		0	1
Taxable		£2,070	

Answer 40

Both Holly House and Primrose Place were available for letting for at least 210 days (30 weeks) in the tax year. 1

Of those 210 days, the property must be actually let for at least 105 days (15 weeks), 1
excluding periods of longer term (> 31 consecutive days) occupation by the same person. 1

Primrose Place fails this condition as it was only let for 14 weeks. 1

However, Holly House was let for 17 weeks, and an election can be made to average the periods of occupation. If this election is made, both cottages will meet the letting conditions in order to qualify as Furnished Holiday Lettings in 2021/22. 1

Answer 41

	£	
List price	48,000	1
Less capital contribution by Batista (max £5,000)	(5,000)	1
Plus accessories added at time of purchase: £(800 + 95)	895	1
Accessories added after purchase ignored if cost < £100	-	1
	43,895	
Benefit: £43,895 x 1%	£439	1

Answer 42

Grant
No tax charge arises on the grant of the options. 1

Exercise
As the shares were granted at a discount to the market value at the date of the grant, an income tax charge under employment income arises on Vince of 50,000 x £(3.80 – 3.50) = £15,000. 1+1

Sale of shares
A capital gain arises as follows:

		£	1
Proceeds		1,200,000	
Less cost			
- Amount paid on exercise: 50,000 x £3.50	175,000		
- Amount charged to income tax on exercise	15,000		
= Market value at grant (50,000 x £3.80)		(190,000)	
Gain		£1,010,000	1

Answer 43

Anushri – Class 1 Primary

£(36,000 + 1,000) = £37,000 1

£(37,000 – 9,568) x 12% £3,292 1

Babooshika Ltd - Class 1 Secondary

£(37,000 – 8,840) x 13.8% £3,886 1

Class 1B
£180 x 100/80 = £225 x 13.8% £31 1+1

Answer 44

Until 3 January 2021, the Dhoakes Ltd shares qualified for Business Asset Disposal Relief (BADR) as James worked for the company and owned at least 5% of the shares. 1

On 3 January 2021, James's shareholding was diluted to 5,000/120,000 = 4.17% and so no longer qualifies for BADR. 1

James can make an election to treat the shares as immediately sold and reacquired on 3 January 2021 in order to crystallise the gain eligible for BADR at that point. 1

The gain would be 5,000 x £17 = £85,000 - £50,000 = £35,000. 1

A further election can be made to defer this gain until the actual disposal of the shares on 14 March 2022. 1

The gains arising on 14 March 2022 would therefore be:

	Non-BADR gain	*BADR gain*	
	£	£	
Proceeds	95,000		
Cost (MV at 3 January 2021)	(85,000)		
Gain on disposal on 14 March 2022	£10,000		1
Deferred gain		£35,000	

Max 5 marks

Answer 45

2020/21

	£	
Proceeds	15,000	
Less cost: £120,000 x 15,000/(15,000 + 135,000)	(12,000)	1+1
Chargeable gain	£3,000	

2021/22

	£	
Proceeds	200,000	
Less costs of sale: 7% x £200,000	(14,000)	1
Less cost: £(120,000 – 12,000)	(108,000)	1
Less enhancement cost	(10,000)	1
Chargeable gain	£68,000	

Answer 46

Non UK resident persons are not usually liable to UK Capital Gains Tax, with the exception of UK residential property (from 6 April 2015).

The default method to calculate the gain is proceeds less market value at 6 April 2015, so £(875,000 – 600,000) = £275,000. 1

Alternatively, a straight line apportionment election can be made if beneficial. 1
The gain over the total period of ownership is calculated then time apportioned to find the gain arising since 6 April 2015, so £(875,000 – 350,000) = £525,000 x 7/14 = £262,500. 1

There is another election, the retrospective method, where the whole gain (or loss) over the total period of ownership is chargeable (or allowable), but this is clearly not beneficial in this case. 1

In order to minimise the Capital Gains Tax payable, Quinn should elect for straight line apportionment. 1

Answer 47

	UK gains £	*Overseas gains* £	
Shares in Raaye Ltd	32,000		
Shares in Moostafa & Co		18,000	
Loss on painting	(8,000)		1
Chargeable gains	24,000	18,000	
Annual exempt amount	(12,300)		1
Taxable gains	11,700	18,000	
Capital Gains Tax @ 20%	2,340	3,600	1
Less double tax relief			
Lower of:			
- UK tax £3,600			1
- Overseas tax £3,450		(3,450)	1
UK Capital Gains Tax = £2,490	£2,340	£150	

Answer 48

1) Income Tax relief is withdrawn as the shares were sold within three years. As the shares were sold at a loss the amount withdrawn is £16,000 x 50% = £8,000. 1

This will be charged to tax in 2018/19. 1

2) The capital loss on the disposal of the shares is:

	£	£	
Proceeds		16,000	
Less selling costs		(200)	1
		15,800	
Less ‘cost’			
Original cost	40,000		1
Less income tax relief given and not withdrawn £(20,000 – 8,000)	(12,000)		1
		(28,000)	
		£(12,200)	