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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**465**	**1904**	**2660**
Section 2	**491**	**2231**	**2707**
Section 3	**339**	**1486**	**1814**
Section 4	**873**	**3712**	**5092**
Section 5	**493**	**2110**	**2857**
Section 6	**585**	**2589**	**3302**
Total	**3246**	**14032**	**18432**

Answer-to-Question-_1_

1) Ruby IT Payable

	NSI	SI	DIV	
Salary	45500			
BIK	6000			
BIK Int	388			
Interest		-291		
Restr share	1968			
Treasury		2000		
Gift Aid	-225			
Interest		236		
Total	53631	1945	0	55576
PA	-12500			
Taxable	41131	1945		
0-37725	-37725		20%	7545
37725 +	-3406		40%	1363
0-500				
HR TP		-500	0%	0
500+		1445	40%	578
Total				9486
Child benefit repayment below				603
PAYE paid				-6600
Total Due				3489

This is payable on or before 31 January 2022

For a Salary Sacrifice, you take the higher of the benefit receieved or the salary sacrifice at gross

Salary sacrifice - £6000

Car - Use MV
22650   102g/km pre Apr 202 - 20 + (102-75)/5 = 5, 25%
25% of 22650 = 5662.5, less than salary sacrifice so salary sacrifice is used.

The alloy wheels are not a benefit for Ruby as she is already being taxed on the benefit as a company car.

Benefit from the loan from Flamingo - use the average up method as she has paid no interest

16000 + 18500 = 34500/2 = 17250 @ 2.25% as she has made no payments and its the full year = £388. This is a benefit in kind from Flamingo

Ruby lent the money of 75% being above £10k, therefore entitled to interest at same rate

12000 + 13875 = 25875/2 = 12938 @ 2.25% = £291 this is interest

Shares - Employee related securities

As she made no election, it will be subject to IT on the restricted MV at purchase, this was £15, therefore she will have been subject to IT on £750 in 14/15, this £15 was a discount of 48%, therefore, when the restriction is lifted, she will pay IT on proportion of current MV at the discounted percentage = 48%

50 shares x £82 x 48% = 1968

Pension drawdown, the first 25% is availble as a tax free lump sum, as he pension pot was £456000 her first 25% = 114000 this is comfortably in the tax free bracket.

Treasurey interest accounted for when interest is paid = 31 October 20 and 31 January 2021 = £2000

Gift Aid = 1.25 x tax deductable = 180 x 1.25 = 225

BR Band increase by 225 to 37725

Savings from gifts from relatives are exempt so the Aunt's is exempt. However, the money from Ruby is not because this could be anti-avoidance to avoid Ruby paying interest on the money and then transferring it back at a later date. Therefore 157 is exempt but 236 is not

As she is over the threshold for child tax benefits is over 50k, she has exceeded this by 5576, therefore she will need to pay 56% of the child benefit she receieved back = this being 20.70 x 52 x 56% = 603

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

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

Answer-to-Question-_2_

As Sarah is UK resident and domicile, she is required to disclose all UK and overseas income when preparing her self assessment tax return.

In this instance, she is required to declare the interests in 2015/16 of £750 and also, the gain of the offshore non-reporting fund.

Offshore non-reporting funds have a unusual method of accounting. Any gains are subject to IT and any Losses are used against CGT. As such the gain of £700 would need to have been taxed as income at her 40% rate

In 2016/17, although the income was not receieved, she still would have been subject to income tax when preparing her tax return, this once again, as a nonreporting fund would be subject as NSI and be treated at 40%

In 2017/18 she will have receievd £2500 again which will have been subject to 40% income tax in the UK

In the future years this will have continues, and as there was no foreign tax on these incomes, she will be taxed at the full rate in the UK with no double tax relief.

Also, as there was no tax deducted from the country of the funds, all of these amounts will be taxable without any DTR.

Failure to disclose these can bring about multiple

consequences

Firstly, interest will be charged on the amounts as essentially they were underpaid when they were due.

Secondly, HMRC can investigate and come to a conclusion as to whether the failure to report were any of the following

Careless - If considered careless, this is a genuine mistake with no intent behind Sarah not disclosing it rather than not understanding the ruless. This could bring a fine of 0-30% of the tax due as a result.

Deliberate - This is where Sarah purposely didn't disclose the information for any reason, could be that she couldn't be bothered disclosing the information as it would take too long to sort out with the overseas bank. As a result, HMRC could issue a fine of 35%-70% on this amount if deemed appropriate.

Deliberate and attempting to conceal - This is the most severe where Sarah would purposely be ommitting the information in order to avoid paying the tax she knew she had to. This could bring a fine of 50-100% of the tax due.

In Sarah's instance, it would certainly not be deliberate and attempt to conceal as she genuinely thought there were no tax consequences. It could be argued that it was just careless as she honestly believe there was no need to disclose the information.

If she were to notify HMRC of the error, rather than HMRC picking up on it themselves, she is more likely to receieve closer to the lower end of the fine rather than the higher end.

If genuine reasons are given, then HMRC may even consider waiving the fine completely, but this will be very unlikely for Sarah due to the amount of periods incorrect.

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-------------ANSWER-2-ABOVE-------------
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--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

When selling shares, there is three possible options for a disposal.

1 - Selling shares to an unconnected party
2 - Selling share back to a company
3 - Gifting shares to a relative or friend

In this instance, there are three connected companies as they are all owned by Ayesha

Firstly Ayesha is selling shares to an unconnected party for £685000, this will be a normal disposal for CGT purposes, as this is a normal disposal, she will be subject to normal CGT rules and as she has no BADR left, she will be subject to 20% CGT, after deucting the AEA in the year.

This will then mean that Avocado will no longer be a connected company as there will only be a 10% ownership for Ayesha.

The sale of the shares in Mango is a sale to a connected person as Ayesha owns all the shares in Coconut and an individual is connected with a company if she exercises more than 50% of the voting rights, she is essentially selling shares to herself.

Where the sale of shares is done at an arms length, this can be treated as a normal transaction as any different consideration would be considered as being sold at open market value.

As such she will hav proceeds of £34600 less the amount she acquired the shares for, and then pay 20% Capital Gains on this sale..

It would be appropriate for Ayesha, to sell the shares in this company, the following tax year. This will allow her to use her AEA in the following year, and given she doesn't make any other further disposals, she will be able to save 20% of the AEA at 12300, saving 2460 on capital gains.

Once she sells the shares to Cocunut, they will essentially become a group comapny, as such corporation tax rules will apply as a group and have the limit between them and any shares issues by Mango will now be considered Readily convertable assets as Mango is owned by another company.

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

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

Answer-to-Question-_4_

When making a claim for the remittance basis, this will bring a charge of 30k, or 60k based on how many years they have lived in the UK. Once claiming the remittance charge, they will then lose their AEA and PA as a result. If resident for the last 9 years

Remittance Basis

Salary	75000				
Interest		2450			
Dividend			2320		
No PA as claiming remittance					
0-41250	-41250			20%	8430
-41250 +	-33750			40%	13500
0-500		-500		0%	0
500+		-1950		40%	780
0-2000			-2000	0%	0
2000+			320	32.5%	104
Total Tax due					22814
Remittance basis charge					30000
Tax paid					-14500
Total Tax					38314

Pension BR band increase to 3000 x 1.25 = 3750 = 41250

Resident in 20/21, 19/20, 18/19, 17/18 split,

Not resident in 15/16, 16/17

Remittance basis charge is 30k

Firstly, if he didn't claim the remittance basis, he would save the 30k charge, and he would save 12500 at 40% as he would get his personal allowance back.

Savings =
Charge 30000
12500 @ 40% 5000
Total =35000

However, he would incur the following additional chargees

Rental Income -

7 x 45000/12 = 26250
5 x 60000/12 = 25000
Total = 51250
Less Exepenses
7000+1200+7400
= 15600
Gain = 35650
This will be chargeable at 40% due to his HR band earnings
= 14260

He will also have made a gain on the property which would have otherwise not be chargeable if claiming the remittance basis.

Gain
Proceeds 250000
Cost 200000
Gain 50000
Less AEA -12300
Taxable =37700

@28% = 10556

Total cost = 10556 + 14260 = 24816

He is eligible to use the gain at 5 April 2017 as this is when he became resident again.

As you can see from the above, he will have saved £35000 from not claiming the remittance basis, and have to pay over an additional 24816 relating to the unremitted income/gains. As such, he would be better off not claiming the remittance basis. Saving himself £10184 in tax.

2)

When funds are remitted from a mixed fund, they are remitted in the following:

1 - Untaxed Foreign Income
2 - Untaxed Foreign gains
3 - Foreign income and gains on which Foreign tax paid
4 - Capital and other income

Account B: This account was a mixed funds account when the proceeds from the sale of the property were put into the account. Before this, as it was just income from a period of non-residency, there we clean funds.

When this money is used, the money relating to the proceeds of the residential property will be used first, and subject to CGT tax of 18/28% when his daughter uses this or the purchase of the UK property.

Once this amount has been exceeded, the remaining amount, relating to the Swiss income, will be subject to no IT when the property is purchases.

Account C:

As the account is made up of 60000, the amount relating to the 12000 transfer will be split proportionately based on the amounts relating to each one. the 12000 relates to 1/5 of the total account, therefore, 1/5 of the trust will be transfered = 8000, and 1/5 of the interest will be transferred = 4000 to Account B

3)

Interest

The interest will be subject to BTR if there is a treated in place, this will then be a credit of the lower of the tax paid in Ruritana or the UK tax when in the UK.

Discretionary Trust -

This amount will be subject to UK tax as a result, this will be prioritised in the mixed funds rules as it is yet to be taxed.

Account C		Total	Trsfr	Total
40000		40000	-8000	32000
25000	5000	20000	-4000	16000

Using acocunt C, he will be subject to 40% tax on the amount relating to the trust, this is because the transfer will be apportioned with the total amount and the 30000 will be fully from the trust because this has not been taxed so will take priority

He will be subject to 40% tax on the 30000 totalling 12000

There is no DTR as no tax has been paid on this

Account D

Trust	8000		8000
Interest	4000		4000
Div	36000	6000	30000
Gift	60000	0	60000

Firstly, the amount taken will be the 8000.00 relating to the trust.
This will be subject to 40% tax. This will bring about a taxable charge of
3200 on remittance

Next is the interest, the amount of tax due on the interest will be 40% of the grossed up amount, being 5000, totalling 200 in tax. However, 1000 will have alreay been paid so this will then total 1000 tax due to the DTR rules

Next is dividends, over which 18000 will be remitted. This will have been grossed up to 21600 receieving tax in Ruritana of 3160.

This 21600 will be subject to HR tax of 32.5% in the UK 7020
Bringing a total tax charge of 7020, less the DTR of 3160, totalling 3860.

Therefore the total tax on this will be
Trust - 3200
Int - 1000
Divs - 3860
Total - 8060

By bringing in money from Account D, he will save 3940 in tax then if he brought in funds from Account C

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

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

Answer-to-Question-_5_

When selling a house that you have lived in, you are entitled to PPR which allows exemption on periods which were living there.

Period	PPR	Non-PPR	
03 to 04	12	0	
5/4/04-07	36	0	
07-09	24	0	
Cornwall	24	0	
Dubai	24	0	
Stay	12	0	
Post break up			
8 years	9	87	
Total	141	87	228

As they went away, they are eligible for PPR if they come back within three years, regardless of the reason, and they must return back. As they went away for three years and then came back, they are eligible for PPR relief for this period.

When being forced to work away, there is the possibility of claiming PPR. As it would be impractical for Henry to continue to live in London whilst working in Cornwall this will be eligible. This will also allow for the period in Dubai, as the limit is four years, this whole period is eligible for PPR

The following 12 months is allowable as they lived there

Following the split in 2014, they both moved out and as such, they will no longer be eligible to claim PPR until the final 9 months of the house ownership.

As they lived in it during any time, they are eligible for this relief.

As they both left in 2014, this the period both of their occupations ended

Henry - For Henry, his will be a simple calucation gaining relief in the above of 141 months PPR from a total 228

Proceeds	200000
Cost	50000
Gain	150000
PPR 150x141/228	-92763
Taxable	57237
Less AEA	-12300
Taxable	44937
@ 28%	=12582

This will be payable 30 days from completion, being 5 May 2022

As Dorothy lives abroad, and non uk resident she could have other options for realising the gain.

This is because non-uk residents realise gains from 5 April 2015

Option 1 is to take the same method of the above, realising a chargeable gain after PPR of 44937 after AEA. This is called the retrospective method.

She also has the choice to treat the house as if she bought it on 5 April 2015 if she is no longer a UK resident, if she does this however, she will lose all of the period prior to 5 April 2015 for PPR and only be able to claim the 9 months at the end because although this period of living applied pre April 2015, it is still considered deemed occupation This is called the rebasing method

Proceeds	200000
Cost 350/2	175000
Gain	25000
PPR 20000x9/84	-2679
Gain	22321
Less AEA	-12300
Taxable	10021
@18%	1804

Payable on or before 5 May 2022

As we can see above, the defaul method, using the 5 April 2015, will be much more tax friendly for Dorothy, this will only be possible however, if she maintains her non-residency for 21/22, if she doesn't it will default to the same treatment as Henry and result in a much higher gain.

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

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

Answer-to-Question-_6_

In order for a residential property to qualify as a Furnished Holiday Let, it must be located in the UK or EEA and let on a commercial basis. In addition, there are three conditions which must ALL be met

1) The availability test: A property must be available for commercial letting to the public for at least 210 days in the year

2) The occupancy test - A property must actually be let for 105 days in the year

3) The pattern of occupation: If the property is let out for more than 31 days to one person, those days do not count when looking at the 105 occupancy days test. Any such periods of more than 31 days must also not exceed 155 days.

However, there are a number of elections that can be made and exceptions that can apply.

	Non FHL	FHL	Os FHL
London	18000		
Edinburgh		5000	
Cottage		-28400	
Two Villas			6830
Total	18000	0	6830
Losses c/f		23400	

London Flat

The lond flat will be treated as a normal residencial property for tax purposes with no capital allowances etc.

This will realise a normal profit of 18000 at 45% Tax due to being an additional rate tax payer

Edinburgh

This apartment was let out for 215 days, and with no inclination for this being just one person, this meets all the above criteria for FHL, therefore this will be taxed as a furnished holiday let

Cottage Peak District

As there was severe flooding in the area, this brings about possible risk to the cottage successfully meeting the criteria for FHL. And as we can see, it did not meet the criteria due to only being occupied for 98 days. However, Sean can lodge a 'period of grace. This is because this is the first year this issue arose, and it is an unforseen circumstance that has essentially made Sean unable to meet the FHL criteria. The period of the damage may have been around his busiest period and he has shown genuine intent to meet the criteria. Resulting in significant days lost. As such, providing he makes the election by 31 January 2023, he will be able to maintain his FHL status for the cottage.

if the problem arises next year, he will also be able to extend this period of grace to 21/22 if he applies for it in 20/21

The replacement of the furniture will therefore be eligible for capital allowances, and the extension to the patio will be elgible for SBA. The mortgage interest will also remain allowable

in full as a result of maintaining the FHL status.

This loss can be used to reduce the gain from the FHL in Edinburgh. However, it is unable to be used to reduce the gain on the London flat as you cannot mix losses so will therefore be carried forward until next year.

It could be considered practical to not apply for the period of grace in order to use the losses against the rental in London, however, that woul in turn lose any capital allowances and the full mortgage interest benefit. This would also lose the eligibility for FHL in 21/22 using the period of grace method

Portugal Villas

The two Villas in Portugal, will be eligible for FHL as they have been occupied for 300days in 20/21, also, as losses are allowable within the same crteria, it is allowable for the Oversea loss to reduce the overseas gain. However, they will remaing seperate from the UK FHL