

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Individuals

May 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, 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.

- 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 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax manager in a firm of Chartered Tax Advisers.

Your firm's clients, Justin and Jenny Liu, have recently attended a meeting with your tax partner, Amira Aslam. At the meeting, they explained that they are planning to leave the UK permanently and return to live in Ruritania. Jenny will be returning to Ruritania shortly; Justin will remain in the UK for now but intends to join Jenny in Ruritania when he retires in 2024.

Amira has asked you to prepare a report to advise Justin and Jenny on the UK tax implications of their plans and recommending actions they should take to arrange their affairs tax efficiently.

The following exhibits are provided to assist you:

EXHIBIT A: File note of a meeting between Amira Aslam, Jenny Liu and Justin Liu

EXHIBIT B: Email from Justin Liu

EXHIBIT C: Pre-seen information

Requirement:

Prepare a report to Jenny and Justin advising on the UK tax implications of their plans and recommending actions they should take to arrange their affairs tax efficiently.

Continued

EXHIBIT A

File note of a meeting between Amira Aslam, Jenny Liu and Justin Liu

Present: Amira Aslam
Jenny Liu
Justin Liu

Date: 25 April 2022

Jenny's employment

Jenny has given notice to her current employer, for whom she has worked full-time in the UK for several years. Her last day at work will be 30 June 2022. She is considering two job offers, either of which would start on 1 July 2022:

- 1) A UK development agency has offered her a nine-month contract working full-time as a nurse in Ruritania for a salary of £55,000 per annum.
- 2) A hospital in Ruritania has offered her a full-time permanent contract in Ruritania, earning a salary which equates to £50,000 per annum.

If the temporary contract is taken, Jenny intends to remain in Ruritania and find further work there after the nine-month contract ends, rather than returning to the UK.

Justin's employment

Justin will remain in the UK for the time being, and will continue to work full-time at Industrious Ltd, where he receives an annual salary of £100,000. He will retire in just under two years on 31 March 2024, at which time he will join Jenny in Ruritania.

Throughout the period until Justin joins Jenny in Ruritania, Justin will spend approximately 50 days per year in Ruritania visiting Jenny, and Jenny will spend approximately 50 days per year in the UK visiting Justin. Neither of them expects to carry out any work while visiting the other.

Gift to Mary

Justin would like to give either his Industrious Ltd shares or Unit 4, Grey Building to his daughter, Mary, to provide her with additional income. It is anticipated that either the Industrious Ltd shares or Unit 4, Grey Building will provide an annual income of £20,000 for the foreseeable future. Mary is single, lives in the UK and works full-time earning a salary of £30,000 per annum.

Investment income

Justin and Jenny would like to ensure that their assets are owned as tax-efficiently as possible. With this in mind, Justin is considering transferring assets to Jenny so that the income from them is taxed on her. The assets he is considering transferring are:

- 1) Either his Industrious Ltd shares or Unit 4, Grey Building (whichever of these is not transferred to Mary); and
- 2) 53 Red Street. Justin and Jenny intend to sell this property in two years' time when Justin retires, to help fund their life in Ruritania.

Continued

Continuation

17 Yellow Road, London

Jenny will retain ownership of the property. After they have left the UK, Justin and Jenny intend to keep the property and stay in it whenever they return to visit family and friends in the UK. It will remain empty at other times.

Ruritanian tax

Ruritania charges a 10% flat rate of tax on employment income, a 30% flat rate of tax on all investment income (including property income and dividends), no Capital Gains Tax and no Inheritance Tax.

The double tax agreement between the UK and Ruritania follows the OECD model treaty.

Neither Justin nor Jenny owns any assets in Ruritania. They will separately seek advice relating to Ruritanian tax from a qualified Ruritanian tax adviser.

Justin will provide us with details of the current value of their assets, plus the value of Unit 4, Grey Building on 5 April 2019 and the two residential properties on 5 April 2015.

Continued

EXHIBIT B

Email from Justin Liu

To: Amira Aslam
From: Justin Liu
Date: 2 May 2022
Subject: Meeting follow-up (asset values)

Dear Amira

Thank you for your time in our meeting on 25 April. As discussed, I am writing to provide the values of our assets, which are as follows:

<u>Asset</u>	<u>Current market value</u>	<u>Market value on 5 April 2019</u>
	£	£
Unit 4, Grey Building	280,000	280,000

<u>Asset</u>	<u>Current market value</u>	<u>Market value on 5 April 2015</u>
	£	£
53 Red Street, London	550,000	450,000
17 Yellow Road, London	780,000	650,000

<u>Asset</u>	<u>Current market value</u>
	£
Shares in Industrious Ltd	280,000
Justin's stocks and shares ISA	970,000
Justin's SIPP	780,000
Jenny's cash ISA	70,000

Jenny and I look forward to hearing from you shortly.

Kind regards

Justin Liu

Continued

EXHIBIT C

Pre-seen information

Client names	Justin Liu and Jenny Liu
Date and place of birth	Justin was born on 5 February 1961 in Ruritania Jenny was born on 16 December 1969 in Ruritania
Marital status	Justin and Jenny were married on 1 April 2010
Children	Justin has an adult daughter, Mary, from a previous relationship. Mary lives in the UK. Jenny has no children
Residence	Justin – UK resident since 1992/93 Jenny – UK resident since 2000/01
Domicile	Justin – Ruritania Jenny – Ruritania
Wills	Both Justin's and Jenny's UK Wills are written such that their respective estates pass to the surviving spouse on either of their deaths.

Justin Liu – Asset Schedule at 25 April 2022

53 Red Street, London

Residential property purchased 6 April 2000 for £120,000.
This was Justin's main residence until 5 April 2010, and has since been let to long-term tenants.

Shares in Industrious Ltd

Justin owns 3,500 ordinary shares in Industrious Ltd, an unquoted trading company. All of the company's assets are used for the purpose of its trade. The company has 50,000 shares in issue which rank pari passu in all respects.

Justin bought the shares on 1 May 1996 for £63,500, which was their market value at that time.

Unit 4, Grey Building

Justin purchased this warehouse on 5 April 2009 for £80,000. Since then it has been let to Industrious Ltd at a market rate, and currently generates a rental profit of £20,000 per annum.

Other Assets

Stocks and Shares ISA
Self-Invested Personal Pension (SIPP)

Jenny Liu – Asset Schedule at 25 April 2022

17 Yellow Road, London

Residential property purchased 1 September 2004 for £350,000.
Jenny has lived in this property as her main residence since purchase. It has also been Justin's main residence since 6 April 2010.

Other Assets

Cash ISA

Continuation

Justin Liu – 2021/22 Tax Return

Tax Calculation

	£
Pay from employment	100,000
Profit from UK land and property	43,000
Dividends	<u>20,000</u>
Total income on which tax is due	<u>163,000</u>

Income tax charged	
Basic rate £37,700 x 20%	7,540
Higher rate £105,300 x 40%	42,120
Dividends at nil rate £2,000 x 0%	0
Dividends at higher rate £5,000 x 32.5%	1,625
Dividends at additional rate £13,000 x 38.1%	<u>4,953</u>
Total tax due	<u>56,238</u>

Jenny Liu – 2021/22 Tax Return

Tax Calculation

	£
Pay from all employments	55,000
minus Personal Allowance	<u>(12,570)</u>
Total income on which tax is due	<u>42,430</u>

Income tax charged	
Basic rate £37,700 x 20%	7,540
Higher rate £4,730 x 40%	<u>1,892</u>
Total tax due	<u>9,432</u>