The Chartered Institute of Taxation

Advanced Technical

Taxation of Individuals

May 2024

Suggested answers

Answer 1

Domicile is not defined in the legislation/ statute but instead it is a common law concept and decided with reference to relevant case law and guidance.

The concept of domicile is important in UK taxation as the taxation of non- UK income is largely dependent on the residence and domicile status of the recipient.

Domicile is not the same as residence status and it is important to distinguish between residency and domicile. Residency is where you '*are'* but domicile is where you '*belong'*. Residency can change each tax year however domicile is more permanent and difficult to displace. Every individual has one domicile and one alone. Unlike residence, it is not possible to be domiciled in two countries or to be domiciled nowhere.

An individual acquires a domicile of origin from their father at birth or from their mother if the parents were not married. Michael's domicile of origin is therefore inherited from his mother at birth and is likely Australia.

An individual has a legal capacity to change their domicile from the age of 16. Until then, their domicile will follow that of the person on whom they are legally dependent. Michael's domicile of dependence therefore follows his mother's even whilst he is at boarding school in the UK. Domicile of origin is retained permanently unless it is superseded by a domicile of dependence or a domicile of choice. Therefore, until the age of 16, Michael will have an Australian domicile of origin.

An individual has a legal capacity to acquire a new domicile at the age of 16 and acquire a domicile of choice.

In establishing whether a new domicile of choice has been created, HMRC will look at: the intentions of the individual; their permanent residence; their business interests; their social and family interests; ownership of property; and the form of any Will they have made. This list is by no means exhaustive and there is no single criteria which determines whether an individual is or is not domiciled in the UK. Instead, a 'balance of probabilities' approach is taken.

It could therefore be argued that when Michael got married, began full time work in the UK, purchased a property and started a family, he has a settled intention to permanently reside in the UK that he had acquired a UK domicile of choice. Michael's fact pattern of drafting a UK Will, voting in UK elections, being an active member of the local community through his social and family interests supports his domicile of choice in the UK.

Michael has a non – UK domicile of origin, and therefore prior to acquiring a UK domicile of choice, Michael could still be treated as being domiciled in the UK for taxation purposes if certain conditions have been met. This does not change the individual's domicile under common law. However, it does mean that anyone with 'deemed domicile' status will be taxed in the same way as an individual who is UK domiciled under common law.

An individual is deemed to be domiciled in the UK for a particular tax year if they are non-UK domiciled under general law and satisfy either Condition A or Condition B in s.835BA ITA 2007.

Condition A: Formerly domiciled residents. This applies to individuals who are born in the UK; had a UK domicile of origin and is UK resident for the tax year. This is not relevant to Michael as although he was born in the UK, and is UK resident, he has an Australian domicile of origin.

Condition B: Long-Term Residents. Non-domiciled individuals who have been UK resident for at least 15 of the previous 20 tax years are deemed to be domiciled in the UK for all tax purposes.

This is known as the '15/20 rule' and means that non-domicile status cannot be permanent for tax purposes. For an individual who has been continuously UK resident, deemed domicile is triggered under the 15/20 rule with effect from the start of their 16th consecutive tax year of residence.

Residence for the purposes of the 15/20 test is determined in accordance with the law which applied for the tax year in question. This is the SRT from 2013/14 onwards and HMRC's non-statutory residence rules prior to 5 April 2013. A split year counts as a year of residence, as do any years of residence while the individual was a minor.

Whilst Michael has a UK domicile of choice, he cannot be considered UK domicile under 'the 15/20 rule' as this only applies to individuals who are non-UK domicile under common law. If Michael were to displace his UK domicile of choice by leaving the UK and returning to his domicile of origin, the '15/20 rule' would then apply to Michael and he would remain UK deemed domicile until there has been a non-resident period of six tax years in the previous twenty tax years to break this deemed domicile status.

As Michael is UK resident and UK deemed domicile, he is subject to tax on his worldwide income and gains. Once he moves to the Australia, he is likely to become non UK resident and would only be subject to tax in the UK on any UK source income even though he will retain his UK domicile for a period. Michael will likely also be subject to UK tax on the sale of his family home based on the non-UK resident capital gains tax rules on any the portion of capital gain not covered by Private Residence Relief.

MARKING GUIDE

TOPIC	**MARKS**
Domicile is not defined in the legislation/ statute but instead it is a common law concept and decided with reference to relevant case law and guidance.	0.5
Domicile is not the same as residence status, it is important to distinguish between residency and domicile. Residency can change each tax year however domicile is more permanent and difficult to displace.	0.5 1.0
Considers domicile of origin	1.0
Michael's domicile of origin is Australia	1.0
Considers domicile of dependency	1.0
Michael does not acquire a domicile of dependence and retains his domicile of origin.	1.0
An individual has a legal capacity to acquire a new domicile at the age of **16** and acquire a domicile of choice.	1.0
In establishing whether a new domicile of choice has been created, HMRC will look at: • the intentions of the individual; • their permanent residence; • their business interests; • their social and family interests; • ownership of property; and • the form of any Will they have made. 'balance of probabilities' approach is taken.	0.5 for each, max 3.0 1.0
Discussion with reference to specific facts of Michael's domicile of choice Conclude Michael's domicile of choice in the UK.	1.0 1.0
Consider 'deemed domicile' status and will be taxed in the same way as an individual who is UK domiciled under common law.	1.0
Consider Condition A and conclude not applicable to Michael Consider Condition B: 15/20 year rule and apply to Michael's circumstances. Explanation of how residence is determined for the purposes of the 15/20 test - SRT from 2013/14 onwards and HMRC's non-statutory residence rules prior to 5 April 2013. A split year counts as a year of residence, as do any years of residence while the individual was a minor.	1.0 1.0
As Michael is UK resident and has a UK domicile of choice, he is subject to tax on his worldwide income and gains. Once moves to Australia likely become non UK resident and subject to tax on UK source income. Consider non- residence capital gains tax rules and Private Residence Relief. After moving to Australia, and losing UK domicile of choice, Michael would remain UK deemed domicile status until non UK resident for six tax years out of the previous twenty to break deemed domicile status.	1.0 1.0 1.0 1.0
TOTAL	**20**

Answer 2

Employment Income

		£
Salary less sacrifice		118,800
Benefits (W1)		12,600
Share option (W2)		1,250
Less contribution to occupational pension scheme (W3)	£150,000 x 5%	(7,500)
Employment income		**125,150**

W1

Benefits

Notes

1. Legislation applies (ITEPA 2003 s69A) where an employee has the option to surrender salary in exchange for a benefit. In most cases the taxable amount is the higher of the salary sacrificed and the cash equivalent of the benefit. The higher amount will also be subject to Class 1A NICs (or Class 1 NIC if a readily convertible asset).

2. The legislation does not apply to certain excluded benefits.
Specifically for Hilda, it does not apply to the provision of cars with low CO_2 emissions (less than 75g/km) and for contributions to a registered pension scheme. For these, Hilda is taxed according to the relevant benefit rule.

3. The childcare vouchers are not qualifying, and therefore not excluded benefits. This is because Hilda would be joining the scheme after October 2018. Therefore, Hilda will be taxed on the higher of the salary sacrificed or the cash equivalent of the benefit as per note 1.

The taxable position is therefore as follows:

	Working	**Annual salary sacrifice** £	**Cash equivalent of benefit** £	**Note**	**Taxable benefit** £
Car allowance	Benefit: List price x 2% £120,000 x 2% = £2,400	12,000	2,400	2	2,400
Parking space	Benefit: The provision of a parking space at or near to work is an exempt benefit.	2,400	0	1	2,400
Golf Club	Benefit: Cost to employer £1,600	1,800	1,600	1	1,800
Childcare vouchers	Benefit: Cost to employer £450 x 12 = £5,400	6,000	5,400	3	6,000

Employer 3% pension contribution to the Weston plc occupational pension scheme	Benefit: £0 £150,000 x 3% = £4,500 cost to employer. Employer contributions to registered pension schemes are a tax free benefit.	0	0	2	0
Employer additional 6% pension contribution to the Weston plc occupational pension scheme	Benefit: Cost to employer = £9,000 Employer contributions to registered pension schemes are a tax free benefit.	9,000	0	2	0
Total taxable benefits					**12,600**

Note

Class 1 NI is due in respect of the Childcare vouchers.

W2

Share option

The share option is not a tax advantaged option because it will be exercised less than three years from the grant. Weston plc's assets exceed £30 million and so the share options do not qualify as EMI share options.

The option is issued at a discount however there will be no tax implications at the time of grant. On exercise a benefit will arise on the difference between the market value when exercised and the exercise price, this is calculated as 1,000 shares x (£3.25 - £2.00) = £1,250.

Note

Weston plc is a quoted company and so the shares are readily convertible assets. This income is therefore subject to class 1 National Insurance.

W3

The total contribution to a registered pension scheme during 2024/25 is £150,000 x (3% + 5% + 6%) = £21,000 this is below the annual maximum of £60,000.

Income Tax and National Insurance

The tax and national insurance will be collected via PAYE, the amount due in respect of 2024/25 is calculated as follows:

	£
Employment/Total income	125,150
Personal allowance (W4)	(0)
Taxable income	**125,150**

W4
The personal allowance is reduced to zero as the taxable income exceeds £125,140.

Income tax	**£**
£37,700 x 20%	7,540
£87,440 x 40%	34,976
£10 x 45%	5
£125,150	**42,521**

National insurance	**£**
(£50,270 – £12,570) = £37,700 x 12%	4,524
(£118,800 + £1,250 + £6,000 – £50,270) = £75,780 x 2%	1,516
	6,040

Net cash received in 2024/25

	£
Salary	118,800
Less employee pension contributions	(7,500)
Net proceeds from share options	1,250
Income tax	(42,521)
National insurance	(6,040)
Net cash income	**63,989**

MARKING GUIDE

TOPIC	MARKS
Calculation of employment income comprised actual salary and:	
Own figure for benefits	½
Share option income	½
5% Occupational pension deduction	½
Legislation – higher of benefit/salary sacrificed	1
Excluded benefits for OPRA	1
Childcare vouchers not qualifying	½
Car allowance – calculation of taxable benefit	1
Parking space – calculation of taxable benefit	1
Golf club – calculation of taxable benefit	1
Childcare vouchers – calculation of taxable benefit	1
3% Pension contribution – tax position	½
6% Pension contribution – tax position	½
Non-tax advantaged share option scheme	1
Calculation of taxable share option income	1
No CGT on sale of shares	½
Pension contribution – note that below annual allowance £60,000	½
Taxable income	½
Personal allowance not available	½
Income tax calculation	½
National Insurance calculation	½
Include childcare vouchers and shares in NI calculation	½
Net cash received calculation	½
TOTAL	**15**

Answer 3

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	Note
Calculation of Threshold Income					
Net income for tax purposes	142,500	190,000	237,500	128,250	1
Add The amount that would have been employment income but for the operation of a 'relevant salary sacrifice arrangement' made after 8 July 2015.	7,500	10,000	12,500	6,750	
Less The gross amount of member contributions paid in the tax year using relief at source.	-	-	-	(75,000)	
	150,000	**200,000**	**250,000**	**60,000**	
Calculation of Adjusted Income					
Net income for tax purposes			237,500		
Add employer pension contributions			12,500		
			262,500		
Tapering Limits					
Threshold Income	200,000	200,000	200,000	200,000	
Adjusted Income	240,000	240,000	240,000	260,000	
Standard Annual Allowance	40,000	40,000	40,000	60,000	
Calculation of Tapered Annual Allowance					
Adjusted income exceeding threshold	-	-	262,500	-	
Less adjusted income threshold			(240,000)		
			22,500		
Adjusted by £1 for every £2 over the limit			11,250		
Deducted from standard annual allowance to give tapered annual allowance			**28,750**		*2*
Pension contributions					
Employer	7,500	40,000	12,500	6,750	
Salary sacrifice	7,500	10,000	12,500	6,750	
Personal top – up	-	-	-	75,000	*3*

Total gross pension contributions	**15,000**	**50,000**	**25,000**	**88,500**	
Balance over /(under)	25,000	(10,000)	(3,750)	(28,500)	
Carry forward					
2020/21	(10,000)	10,000			
2021/22	(15,000)			15,000	*4*
2022/23			(3,750)	3,750	
2023/24					
	-	-	-	**(£9,750)**	

Contribution above available annual allowance (including carry forward)		**9,750**
Taxable at marginal rate of income tax	@40%	**3,900**

As the amount of pension tax charge exceeds £2,000, Caroline cant elect for the charge to be paid from her pension scheme. Otherwise, the payment must be made by Caroline personally and the charge declared on her self -assessment tax return due by 31 January 2025.

Calculation of marginal rate of income tax

Gross salary		135,000
Less salary sacrifice pension contributions		(6,750)
Net salary		**128,250**
Less personal allowance (full, tapering not required)		(12,570)
Total income on which tax is due		**115,680**
Basic rate extended	112,700 @ 20%	
Higher rate	2,980 @ 40 %	

Higher rate taxpayer

Calculation of adjusted net income for consideration of personal allowance tapering

Salary	135,000
less salary sacrifice	(6,750)
less gross personal pension contributions	(75,000)
	53,250

Calculation of extension of basic rate band due to personal pension contributions

Standard basic rate band	37,700
Add grossed up personal pension contributions	75,000
	112,700

Explanations

1. The gift aid donation made in 2021/22 is not deductible in calculating net income. The disposal of residential property is ignored as this is a capital disposal and does not impact Caroline's income levels.

2. Once the threshold income and adjusted income are calculated, the annual allowance is considered and is reduced or 'tapered' for 'high income individuals'. The annual allowance is reduced by £1 for every £2 of 'adjusted income' in excess of the relevant amount for adjusted income for each tax year in question.

3. Caroline's personal top-up pension contributions will receive tax relief by 'relief at source'. Under the relief at source rules, payments to a pension scheme are made net of 20% tax. This means, when Caroline makes an additional personal top-up payment of £60,000, this is grossed up by 100/80 to £75,000.

4. Unused annual allowance can be carried forward from a tax year provided the individual was a member of a registered pension scheme in that year. As Caroline was not a member of a registered pension scheme prior to 2020/21, carry forward from years prior to this is not relevant. Caroline's annual allowance for a 2023/24 is increased by any unused annual allowance of the previous three tax years. When calculating the amount of unused annual allowance, the current year annual allowance is deemed to be used in priority. After that, any unused annual allowance from previous years is used, using relief from earlier years first on a 'first in, first out' (FIFO) basis.

Marking guide

	Marks
Calculation of threshold income for relevant years - Start with net income - Add back salary sacrifice contributions - less gross amount of member contributions paid, or payments under net pay arrangement - 2021/22 gift aid contribution ignored - 2022/23 residential property disposal ignored	 0.5 0.5 0.5 0.5 0.5
Calculation of adjusted income for 2022/23 - Start with net income Add employer pension contributions	 0.5 0.5
Calculation of tapered annual allowance for 2022/23 with correct application of tapering limits relevant to corresponding tax year	1.0
Allocation of carry forward allowances	2.0
Explanation of carried forward allowances from previous three tax years. Caroline was not a member of a registered pension scheme prior to 2020/21, carry forward from prior years to this is not relevant. Current year allowance deemed used in priority, followed by FIFO from earlier years.	1.0 1.0
Grossing up of personal pension contribution made Calculation of contribution above available annual allowance (including carry forward)	0.5 0.5
Calculation of marginal rate of income tax - Consideration of personal allowance taper - Calculation of extension of basic rate bands	0.5 0.5 0.5
Explanation of tax relief by 'relief at source'. Under 'relief at source' payments to a pension scheme are made net of 20% tax.	1.0
Calculation of pension tax charge	1.0
Consideration of scheme pays, - £2,000 minimum threshold met - Otherwise must pay personally via self- assessment including deadline date.	1.0 0.5 0.5
	15

Answer 4

Rupert's Capital Gains Tax Liability

	£
Proceeds (W1)	17,920
Less Cost 110 x £1	(110)
Net Gain	17,810
Annual Exempt Amount	(6,000)
Taxable Gain	11,810

£11,810 x 20% = £2,362

This will be due for payment on 31 January 2025.

Rupert owns all 110 B shares, which equates to 5.12% of the ordinary shares and 9.57% of the voting rights.

His share of the sale proceeds is only 2.39%. As this is less than 5%, Rupert will not qualify for BADR on his gain. (Note One)

Paige's Capital Gains Tax Liability

	BADR Qualifying £	BADR Non-Qualifying £
Shares (W2)	202,232	
25% of Building (W3)		96,250
Building – BADR (W3)	152,868	
Building – no BADR (W3)		135,883
Annual Exempt Amount		(6,000)
Taxable	355,100	226,133

Tax Due:

	£
355,100 x 10%	35,510
226,133 x 20%	45,226
	80,736

Paige owns 250 C shares, giving her 21.74% of the voting rights in the company.

Her share of the sale proceeds is 27.13% of the total. Paige will qualify for BADR. (Note one)

Paige is interested in paying her liability in instalments. This is possible where the instalments:

A) Begin no earlier than the date the asset is disposed of; and

B) extend over a period of more than 18 months; and

C) continue beyond the normal due date for the Capital Gains Tax

HMRC would usually expect the taxpayer to make payments equal to 50% of each instalment of consideration received. The first payment would be due on the normal due date, which is 31 January 2025. By this date she will have received (£203,488+£985,000) x 42% = £500,000. Her overall liability is less than 50% of this amount. Paige will not be able to pay her tax in instalments.

Working One
Split of Sale Proceeds

The A share holders initially receive 40 x £10,000 = £400,000.

The balance of £350,000 is split as follows:

Number and Class of Shares	Percentage	Proceeds	£
40 A	1.86%	350,000 x 1.86%	6,510
110 B	5.12%	350,000 x 5.12%	17,920
1,000 C	46.51%	350,000 x 46.51%	162,785
1,000 D	46.51%	350,000 x 46.51%	162,785
			350,000

Rupert's share of the total proceeds = £17,920/£750,000 = 2.39%.

Paige's share of the total proceeds =

C shares 250/1,000 x £162,785 = £40,697
D shares £162,785
Total £40,697 + £162,785 = £203,482

£203,482/£750,000 = 27.13%

Working Two
Paige's Gain on the Shares

	£
Proceeds (W1)	203,482
Less Cost (1,000 + 250) x £1	(1,250)
	202,232

Working Three
Paige's Gain on the Laboratory Building

	£
Proceeds	985,000
Less Cost	(600,000)
Net Gain	385,000

Paige will qualify for some BADR on the sale of the laboratory building as it has been used in the trade of her personal company. However, as she has received some rent from RP Science Ltd after 6 April 2008, the amount of the gain that qualifies for BADR will be restricted.

None of the gain relating to the sale of the 25% of the building that has been let to a third party will qualify for BADR: £385,000 x 25% = £96,250

The remaining 75% of the gain (£288,750) will be apportioned as follows:

	BADR Qualifying £	BADR Non-Qualifying £
1 year pre-April 2008 1/17 x £288,750	16,985	
16 years post-April 2008 50% qualifies for BADR 16/17 x £288,750 x 50%	135,883	135,883

152,868	135,883

Note One – Conditions for Business Asset Disposal Relief (BADR)

Where shares are sold, the vendor will qualify for BADR if they are making a “material disposal”. The disposal is “material” if the following conditions are met throughout the period of 24 months ending with either the date of sale or the date the company ceased trading:

A) The company is a trading company or the holding company of a trading group

B) The company is the individual’s “personal company”

C) The individual is an officer or employee of the company

A personal company for this purpose is one where the individual owns at least 5% of the ordinary shares, is entitled to 5% of the voting rights in the company and either or both of the following conditions are met:

A) The holding entitles the individual to at least 5% of the profits available for distribution and at least 5% of the company’s assets on a winding up.

B) The individual would be entitled to at least 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company.

Both Rupert and Paige have been Directors of the company for more than two years.

The company is a trading company.

Marking Guide

TOPIC	MARKS
Explain qualifying conditions for BADR on shares	2½
Explain why Rupert does not qualify for BADR	½
State due date for Rupert’s Liability	½
Explain why Paige qualifies for BADR	½
Explain qualifying conditions for BADR on associated disposal	1½
Explain treatment of building sale for BADR purposes	1
Explain conditions for paying Capital Gains Tax in instalments	1
Explain how instalments would be calculated	1
Paige will not be able to pay Capital Gains Tax in instalments	½
Calculate Rupert and Paige’s share of the sale proceeds	1½
Calculate Rupert’s Capital Gains Tax liability	1
Calculate Paige’s gain on the shares	½
Calculate Paige’s gain on the building & the amounts qualifying & non-qualifying for BADR	2
Claim Paige’s Annual Exempt Amount against non-BADR qualifying gains	½
Calculate Paige’s Capital Gains Tax liability	½
TOTAL	**15**

Answer 5

Between September 2015 and July 2017, Irina had no taxable income. She had no liability to UK tax and no requirement to file tax returns. This continued to be the case when she started working in August 2017 as her only income was salary subject to PAYE.

Assuming the first interest payment was received on 1 May 2021 she did not receive any foreign interest in 2020/21.

She made a remittance to the UK of £16,000 however the Utopian account only held capital at the time the remittance was made. Therefore, no remittance basis claim is necessary and she does not need to notify HMRC or file a self assessment tax return for 2020/21.

In 2021/22 she received foreign interest of £17,467 (£450,000 x 4% x 2/12 plus £434,000 x 4% x 10/12). She also realised a capital gain of £94,190. She did not make any remittances in this year. As a UK resident, Irina is subject to tax on her worldwide income and capital gains. Therefore, she should have notified HMRC of her liability to tax by 5 October 2022 and completed a tax return by 31 January 2023.

As Irina is non-UK domiciled, she could have made a remittance basis claim in 2021/22. This is allowed within 4 years of the end of the tax year. If she had, neither the foreign interest nor the capital gain would be subject to UK tax unless remitted to the UK. A remittance means bringing the funds to the UK or enjoying the use of funds in the UK. If a remittance basis claim is not made on a tax return, the arising basis of taxation applies by default.

As Irina did not remit any of the foreign interest or capital gains to the UK in 2021/22, she should make a remittance basis claim for 2021/22. A remittance basis charge is not payable as Irina had not yet been UK resident for 7 of the previous 9 tax years.

In 2022/23, Irina received £18,059 (£451,467 x 4%) of foreign interest. She also remitted £45,000 to the UK from her Utopian account. The account is considered a mixed fund because it holds a mixture of different types of funds (income and "clean capital"), as well as income arising in more than one tax year. The nature of funds remitted is determined based on statutory ordering rules set out in the legislation. It also considers income or gains arising in the year of remittance first, then the previous tax year, and so on. In Irina's case, this would be applied as income of 2022/23 first, then income of 2021/22 and then finally clean capital.

It is best not to claim the remittance basis in 2022/23 because all of the 2022/23 foreign interest was remitted plus a £30,000 remittance basis charge would apply since she had been UK resident for at least 7 tax years out of previous 9 years.

The £45,000 remitted is considered to be the £18,059 earned in 2022/23 (already taxed), £17,467 earned in 2021/22 (untaxed and the balance of £9,475 is clean capital. Irina should have reported a £17,467 taxable remittance to HMRC in 2022/23.

Because Irina did not notify HMRC of her chargeability by 5 October following the relevant tax years, HMRC will charge failure to notify penalties. The penalty amount is a percentage of 'potential lost revenue' (PLR) and depends on her behaviour.

HMRC would probably consider her behaviour careless so the maximum penalty would be 30% of PLR.

As a higher rate taxpayer, the potential lost revenue would be:

Year	Undeclared income less savings allowance	PLR (40% of undeclared income)	Due date	Maximum penalty (30%)
2020/21	nil	-	-	-
2021/22	nil	-	-	-
2022/23	18,059 interest + 17,467 remittance less 500 allowance = 35,525	14,210	31 January 2024	4,263
Total				**4,263**

The maximum penalty could be reduced to 10% if Irina makes an unprompted disclosure to HMRC.

Late filing

Because Irina is registering for self assessment after the filing deadline for all 3 tax years, the filing deadlines are extended to 3 months from the date of issue of the return. Therefore, as long as Irina files the returns within 3 months of the date of issue, HMRC will not charge late filing penalties.

Late payment

Late payment penalties are issued where the tax due in respect of a tax return remains unpaid more than 30 days after the due date. Irina had a tax payment due by 31 January 2024 in respect of the remittance of untaxed foreign interest in 2022/23. A penalty equal to 5% of the tax liability will be charged.

A second 5% penalty is charged if the tax remains unpaid at 6 months late, and a third 5% penalty if the tax remains unpaid at 12 months late.

Late payment interest will also accrue on all penalties from the due date until they are paid.

MARKING GUIDE

TOPIC	MARKS
Sep 2014 – June 2017, no liability to tax & no reporting obligations Only income salary, subject to PAYE	1
UK resident so subject to tax on worldwide basis Foreign interest = requirement to file Should have notified HMRC by 5 October 2022 Should have filed first tax return by 31 January 2023	2
Remittance basis claim possible within 4 years 2020/21 no tax return or remittance basis claim required 2021/22 remittance basis claim, no remittance basis charge, no disclosure needed 2022/23 not beneficial to make claim Remittance – apply mixed fund rules, taxable remittance of £17,467	0.5 1 1 0.5 2
Explanation of failure to notify penalties Percentage of potential lost revenue & based on behaviour Careless maximum 30%	1.5
Calculation of failure to notify penalties 2021/22 & 2022/23 Explanation of no late filing penalties	1 1
Offshore non-compliance Penalty reduced to 10% if unprompted disclosure & non-deliberate failure	1
Payment due dates 2022/23 Explanation of late payment penalties	0.5 1
Late payment interest	1
TOTAL	**15**

Answer 6

2023/24 tax liability:

	Non-Savings Income	Savings Income
	£	£
Salary	86,415	
Medical Benefit	980	
Car Benefit (W1)	6,502	
Property Income (W2)	1,636	
Chargeable Event Gain (W3)		5,469
	95,533	5,469
Less:		
Personal Allowance (W4)	(12,153)	
	83,380	5,469

	£
Non Savings Income:	
37,868 (W5) x 20%	7,573
45,512 x 40%	18,204
Savings Income:	
500 x 0%	0
4,969 x 40%	1,987
	27,764
Less:	
Top Slicing Relief (W6)	(601)
Relief for Finance Costs (W7)	(328)
Notional Tax on Chargeable Event (W3)	(1,094)
Tax at Source on Salary (W10)	(22,344)
	3,397

Amount due on 31 January 2025:

	£
2023/24 liability	3,401
Payments made on account (W11)	(1,027)
Balancing payment	**2,374**

No payments on account for 2024/25 are required because more than 80% of the 2023/24 liability has been deducted at source.

Working One
Company Vehicle

The vehicle that Oliver has been provided with was originally marketed as a commercial vehicle. However, now that it has additional seats and windows, HMRC are unlikely to accept that is "primarily suited to the conveyance of goods or burden". Therefore, it will be treated as a car for benefit in kind purposes.

The cash equivalent for 2023/24 will be as follows:

42,175 x 37% = 15,605

Available for 5 months

15,605 x 5/12 = 6,502

Working Two
Net Rent

Rent received		£
Previous tenant		150
5 x 775		3,875
Less:		
Insurance	298	
Eviction costs	736	
New tenancy agreement	240	
Replacement of domestic items		
1,200-85	1,115	
		(2,389)
Net		1,636

The fees for the tenancy agreement are allowable as the agreement is for less than twelve months.

Working Three
Chargeable Event Gain

Up to 5% of the amount invested can be withdrawn each year free of tax. A withdrawal over this amount triggers a chargeable event.

The policy has been held for four complete years.

Original investment £80,000

No previous withdrawals

Four years 5% allowance available: (80,000 x 5%) x 4 = £16,000

Withdrawal £21,469

Gain: 21,469-16,000 = £5,469

Notional Tax: 5,469 x 20% = £1,094

Working Four
Personal Allowance

Total Income: £101,002, less grossed up gift aid (135*100/20) £168 = £100,834

(100,834-100,000)/2 = 417

Personal allowance: 12,570-417 = £12,153

Working Five
Basic Rate Band

	£
Basic Rate Band	37,700
Grossed up gift aid (W4)	168
	37,868

Working Six
Top Slicing Relief

One slice: 5,469/4 = £1,367

Tax on one slice:

	Non-Savings	Savings
	£	£
Salary	86,415	
Medical Benefit	980	
Car Benefit	6,502	
Net Rent	1,636	
Chargeable Event Gain		1,367
	95,533	1,367
Less: Personal Allowance	(12,570)	
	82,963	1,367

Savings Income:	
500 x 0%	0
867 x 40%	346

Tax on one slice: 346 - (1,367 x 20%) = £73
Tax on four slices: 73 x 4 = £292
Tax on full gain: 1,987-1,094 = £893
Top slicing relief: 893-292 = £601

Working Seven
Relief for Residential Finance Costs

The available tax reducer is 20% of the lower of:

The finance costs not eligible for a reduction in the calculation of the net rents, plus any amounts brought forward; or
The property income for the year (after deducting any losses brought forward); or
The adjusted total income for the year.

In Oliver's case, these figures are as follows:

	£
Finance costs not deducted plus brought forward (W8)	6,007
Property income for the year	1,636
Adjusted total income (W9)	83,300

Therefore the tax reducer will be 1,636 x 20%= £328

Working Eight
Finance Costs Not Deducted Plus Brought Forward Amount

	£
£217 per month for 2022/23	
217 x 12	2,604
2 Months at £217 prior to re-mortgage	
217 x 2	434
Fees for re-mortgage	999
10 months at £197	
197 x 10	1,970
	6,007

Working Nine
Adjusted Total Income

	£
Total income	101,002
Savings income	(5,469)
Personal allowance	(12,153)
	83,380

Working Ten
Tax at Source on Salary

			£
Tax free allowance given by code	11,705	x 0%	0
Basic rate band	37,700	x 20%	7,540
Higher rate band	37,010	x 40%	14,804
			22,344

Working Eleven
Payments on Account

Capital Gains Tax is not included in payments on account.

	£
2022/23 liability	1,052
Capital Gains Tax	(25)
	1,027

MARKING GUIDE

TOPIC	MARKS
Calculate total taxable income	1
Deduct personal allowance from non-savings income	½
Calculate tax due on savings and non savings income	1
Deduct notional tax on chargeable event	½
Deduct payments made on account	½
State why no payments on account are due for 2024/25	1
Explain why the company vehicle will be treated as a car not a van	1
Calculate car benefit	1
Calculate net rent	2
Calculate chargeable event and notional tax	2
Calculate available personal allowance	1
Calculate basic rate band	½
Calculate top slicing relief	2½
Explain the available tax reducer for residential finance costs	1
Calculate the available tax reducer	1
Calculate the total finance costs not deducted plus brought forward	1
Calculate the adjusted net income	½
Calculate the tax at source on Oliver’s salary	1
Calculate the payments on account paid	1
TOTAL	**20**