

# **The Chartered Institute of Taxation**

**Awareness**

**Module D: Taxation of Individuals**

**May 2022**

**Suggested solutions**

37)

	Total income £	Non savings £	Dividends £	
Property income	20,000	20,000		
Dividends	8,000		8,000	
Total income	28,000	20,000	8,000	
Personal allowance	(12,570)	(12,570)		1
Taxable income	£15,430	£7,430	£8,000	
			£	1
Income tax on non-savings income (£7,430 at 20%)			1,486	
Income tax on dividend income ((£8,000 - £2,000) at 7.5%)			450	1+1
			1,936	
Less marriage allowance (£1,260 at 20%)			(252)	1
Income Tax liability			£1,684	

38)

Additional relief is given in two ways:

First, by extending the basic rate band for 2021/22 by the gross amount of the donation. 1

The gross amount is £1,280 x 100/80 = £1,600. 1

Therefore income of £1,600 is taxed at 20%, rather than at 40%. The additional tax relief is £1,600 x (40% - 20%) = £320. 1

Second, Hamza's adjusted net income is reduced by the gross amount of the donation. 1

As Hamza's income exceeds £100,000, this **reduces the abatement of his personal allowance** by £800 (£1,600 x 50%), saving tax of £320 (at 40%). 1

39)

Recipient	Exempt	Explanation	
Rashid	No	Over £50	1
Jennifer	No	Work-related	1
Amy	No	Cash	1
Melissa	No	Full amount is taxable.	1
		Exemption is not available as including the gift has breached the cap of £300 applying to a director of a close company.	1

40)

Earnings for the year ((£5,000 x 12) + £10,000)		£70,000	1
	£	£	
Up to Primary Threshold	9,568	0%	0
Above Primary Threshold (£50,270 - £9,568)	40,702	12%	4,884
Above Upper Earnings Limit (£70,000 - £50,270)	19,730	2%	395
	£70,000		
Class 1 NICs payable by Michelle		£5,279	
Class 1 NICs payable by Dockk Ltd ((£70,000 - £8,840) x 13.8%)		£8,440	1
Class 1A NICs payable by Dockk Ltd (£1,400 x 13.8%)		£193	1

41)

	£	
Opening balance: £15,000 + <b>£2,000*</b>	17,000	1
Closing balance: £17,000 - <b>£3,000</b>	14,000	1
$((£17,000 + £14,000) / 2) \times 2\%$	310	1
Time apportion for complete months in tax year: £310 x 4/12	103	1
Deduct interest paid (£53 + £7)	(60)	1
Taxable benefit	£43	

**\* £10,000 exemption applies to aggregate of all loans in the tax year. Mark awarded for recognising that second loan is taxable despite being less than £10,000.**

**Marks awarded where the two loans are treated separately.**

42)

Note: maximum gross contributions on which tax relief is given is the higher of £3,600 and relevant earnings. As the contributions are made net of tax at the basic rate, the amount payable is 80% of the gross contribution.

<u>Christopher</u>		
Employment income	18,000	1
FHL income	2,000	1
Dividend income	Nil	1
Relevant earnings / maximum gross contribution	£20,000	
Net contribution (£20,000 x <b>80%</b> )	£16,000	1
<u>Kimberly</u>		
Employment income / Relevant earnings	£2,500	
Below £3,600 so maximum contribution is <b>£3,600</b> and net amount (at 80%) is £2,880.		1

43)

	£	
Income:		
Rent received (£9,600 + £4,000)	13,600	
Deposit received	-	1
Taxable element of premium (£3,000 x ((50-19)/5))	1,860	1+1*
Expenses:		
Repairs (boiler replacement)	(2,100)	1
Mortgage interest paid (commercial property only)	(3,000)	1
Property income	£10,360	

**\*1 mark for recognising that part of premium is chargeable to income tax plus 1 mark for correct amount.**

44)

Ayshton Ltd: No clawback as held for more than 3 years	Nil	1
Bayrlow Ltd: No clawback as gift to spouse	Nil	1
Choyrlton Ltd: Gift, therefore all relief clawed back= £20,000 at 30%	£6,000	1
Derker Ltd: Sold at a loss, therefore amount clawed back is 30% of sale proceeds of £12,000	£3,600	1
Eccyles Ltd: Sold at a profit, therefore amount clawed back is relief originally given (30% of £70,000)	£21,000	1

45)

	£	
Proceeds	40,000	
Less cost (see Working)	(11,364)	
Chargeable gain	<u>£28,636</u>	1

Working: s.104 holding

	Shares	Cost	
	£	£	
December 2009: Acquisition	8,000	8,000	
June 2013: Acquisition	12,000	18,000	
	<u>20,000</u>	<u>26,000</u>	1
August 2014: Rights issue (20,000 /10) =2,000 shares	2,000	4,000	1
	<u>22,000</u>	<u>30,000</u>	
September 2020: Bonus issue (22,000 / 5) = 4,400 shares	4,400	Nil	1
	<u>26,400</u>	<u>30,000</u>	
March 2022: Sale ((10,000 / 26,400) x £30,000)	(10,000)	(11,364)	1
Carried forward	<u>16,400</u>	<u>£18,636</u>	

46)

	£	
Net proceeds (£190,000 - £1,500)	188,500	
Less cost	80,000	
Gain before PRR	<u>108,500</u>	1
Less PRR (see Working): (105/192) x £108,500	(59,336)	1
Chargeable gain	<u>£49,164</u>	

Working in months:

	Qualifying	Total	
From 1 March 2006 to 28 February 2014: occupied as main residence	96	96	
From 1 March 2014 to 28 February 2016: period of absence (not deemed occupation as not followed by actual occupation)	-	24	1
From 1 March 2016 to 31 May 2021: let (letting relief not due as not shared occupation with the tenant)	-	63	1
From 1 June 2021 to 28 February 2022: deemed occupation for last nine months	9	9	1
	<u>105</u>	<u>192</u>	

47)

	£	
Gain	60,000	
Less annual exemption	<u>(12,300)</u>	1
	47,700	
Less loss b/fwd	<u>(4,500)</u>	1
Chargeable gain	<u>£43,200</u>	
£5,270 (see Working) at 10%	527	
(£43,200 - £5,270) at 20%	7,586	
CGT payable	<u>£8,113</u>	1
Due date for payment is 31 January 2023.		1
Working:	£	
Basic rate band	37,700	
Less taxable income (£45,000 - £12,570)	<u>(32,430)</u>	
Remaining basic rate band	<u>£5,270</u>	1

48)

Brian may amend his return on or before 31 January 2023.	1
Should Brian do this before HMRC enquire into the return, it is unlikely that a penalty will be charged in respect of the error.	1
Should HMRC discover the error or enquire into the return before Brian corrects the error, a penalty will be charged and it will be calculated on the basis that the error is prompted.	1
The penalty for a prompted, careless error is between 15% and 30% of PLR.	1
PLR is the underpaid tax of £1,200 (£3,000 x 40%).	1