Institution **CIOT - CTA**
Course **Adv Tech Taxation of Individuals**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**220**	**1021**	**1227**
Section 2	**317**	**1494**	**1799**
Section 3	**328**	**1723**	**2025**
Section 4	**470**	**2203**	**2654**
Section 5	**200**	**980**	**1169**
Section 6	**403**	**1905**	**2293**
Total	**1938**	**9326**	**11167**

Answer-to-Question-_1_

Austin Ltd

As the shares have been held for more than 3 years EIS income tax relief will not be clawed back however it will limit the loss relief given.

35% of the shares have been sold for a loss of 7,692 however this amount will be reduced by the income tax relief already given which is 4,218.

base cost
522/1491 (35%) * 40,175 = 14,065

A loss of 6,373-14,065 = 7,692

income tax reducer
(40,175*30%) *35% = 4,218

loss relief 7,692-4,218 = 3,474

35% of the gain EIS deferred will also become chargable.

the loss can be offset against income in the tax year or previous tax year under s131 ITA 2007.

Rushworth Ltd

One of the requirements to qualify for EIS relief is the investor must not be connected with the company in which the investment is being made.

An associate for this purpose includes lineal discentants.

Marks daughter held more than 30% of the shares in the company since incorporation therefore Mark would be classed as being connected with the company. EIS income tax relief will be denied however the connection test does not apply to EIS reinvestment relief.

Mark would have been able to defer 11,715 of gains by subscribing for the shares in Rushworth. On disposal of the shares, the gain will become chargable.

Dashwood

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

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

Answer-to-Question-_2_

Fred is non-UK domiciled therefore can elect to be taxed on the remittance basis.

Prior to moving to the UK in April 2024, he was non-resident therefore will qualify for overseas workday relief for four tax years commencing from the 2024/25 tax year. Any earning recieved in relation to his overseas workdays will not be subject to UK tax provided he elects to be taxed on the remittance basis and such amounts are not remitted to the UK. Apportionment should be made on a just and reasonable basis. 53 days were overseas therfore 53/240 * 110,000 = 24,292 of his pay would benefit from overseas workday relief.

The 46,000 bonus payment relates to period where Fred was not UK tax resident therefore this amount will not be taxable in the UK.

As Fred is a director, he will be treated as receiving payments at the earlier of actual payment or when the amounts are determined. The 12,000 payment will be subject to UK tax.

As Fred is a director he will have an annual earnings period for NIC purposes.

Employment income will be deemed to be withhdrawn first where funds are from a nominated bank account. As the transferred amount is less than his UK earninng (110,000-24,292 = 85,708) this shuld not be classed as a remittance.

if the remittance basis is not claimed Fred will be subject to UK income tax on the foreign investment income. This will likely be 58,000 * 33.75% = 19,575.

if the remittance basis is clamined Fred will lose his entitlment to a UK personal allowance howvever given his level of income this will be lost anyway therfore there will be no downside to claiming. A claim for remittance basis should be made by Fred.

Income tax comp				
UK salary		85,708		
Bonus		12,000		
PA		n/a		
		97,708		
37,700@20%		7,540		
60,008@40%		24,003		
Total		31,543		

NIC comp				
97,708-50,270 @2%		949		
50,270-12570 @8%		3016		
Total		3,965		

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

IT comp 2024/25			NSI	SI	DI
Employment income	w1		76,038		
Residential property income	w2		5,085		
Commercial property income	w3		76,556		
Foreign property income	w4		6,667		
Dividend income					15,000
VCT dividend	w5				6,000
Trust income	w6				4,600
Total			164,346		
less PA			n/a		
37,700@20%					
87,440@40%					
39,206@45%					
25,600@39.35%					

additional rate payer therfore no divided or savings allowance.

12,000 x 100/80 = 15,000
BRB 37700+15,000 = 52,700
HRB

Employment (w1)

Salary 75,000
Car BIK 51,900 * 2% = 1,038

Property

Income

Total property income is in excess of £150k therefore cash basis will not apply. Property income must be calculated based on GAAP and include amounts due rather than what is actually received. Automatic bad debt relief will not be given.

Repairs

Repairs with no element of improvement will be a deductible expenses as wholly and exclusively incurred for the property business.

Casa Blanca

The property has been let for 168 days and has been avaiable for 351 days (i.e. more than 210 days). It is not clear if the lets have been for longer periods of more than 31 days or if furniture is provided. On that basis it would not qualify as a FHL and therefore would be treated as overseas property income.

Residential property income (w2)
(19,000+16,000)= 35,000
less repairs and management charges
(7,355+17,304+2650+2606) = 29,915
Mortgage interest is not deductible, a tax reducer will be provided instead.

Commercial property income (w3)
Rent less repairs and interest

97,250-10,694-10,000 = 76,556

Foreign property income w4
25,879-13,982-5,230 = 6667

Treasurey gilts

Parkes training Ltd

<u>VCT dividends (w5)</u>
Dividends on first 200,000 investment is exempt from dividend tax.

The shares must be newly issued to qualify for VCT exemption. The investment in Greenways will not qualify.

The remaining investment fall within the limit therefore will qualify.

<u>Discretionary trust (w6)</u>

Jason is the settlor and sole beneficiary of the trust therefore any income of the trust will be treated as being recieved by him irrespective of when it is actually paid to him.

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

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

Answer-to-Question-_4_

Accommodation benefit in kind charge (BIK)

Where accommodation is provided to a employee by reason of their employement a BIK charge will arise.

The BIK charge is calculated based on whether the accommodation provided has a value of more or less than £75,000.

Where the cost of the accommmodation is less than 75k, the BIK is based on the rental amounts paid where this is greater than the annual value (which it will be in most cases).

Where the cost of the accommodation is more than 75k, the BIK will based on the annual value plus the amount exceeding 75,000 multiplied by the HMRC offical rate of interest (currently 2.25%). The sum of both these amounts will be the accommodation BIK charge.

The accommodation BIK charge will be reporatable on the employees form P11d and they will need to pay income tax on the BIK charge.

The employer will need to pay class 1A National Insurance contributions (NIC) on the BIK charge. No amounts are payable by the employee.

Where amounts are paid by the employee for the accommodation they can reduce the BIK charge.

Where the property has been owned by the employer for more than 6 years the BIK is based on the Market value of the property when the employee moves in and not the value which the employer paid to acquire the property.

Accommodation benefit exemption

Where accommodation is provided to an employee where it is neccessary for the proper performance of the employees duties to reside in it no accommodation benefit in kind charge will apply.

For the exemption apply the employee must be a director and be employed in an employment where it is customary to provide accommodation eg. a vicar or school caretaker etc.

Accommodation can also be provided where there is a security threat to the employee.

The exemption does not apply where the employee has material interest in the company (30% of shares) or the company is non-profit or charitable organisation.

<u>Gina</u>

She will not qualify for exemption as not a director.

BIK will be as follows:

205,000-75,000 * 2.25% + 167 = 3,092

No BIK will arise in relation to the utilities or furniture as Gina pays for this herself.

<u>Eddie</u>

Eddie is a director, and is acting as caretaker and needs to be available outside of normal hours. He does not have a material shareholding and therefore will qualify under the exemption.

The exemption also covers the cost of the utilities however as they are in his personal name and not in the name of the company, they will be his pecuniary liability. Eddie will be subject to a utilities BIK of (335*9) 3,015.

A BIK will also arise in relation to the use of furniture. This will be 20% of the value per annum i.e. 1,235*20%*9/12 = 185.

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

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

Answer-to-Question-_5_

Where property is brought into the UK for the benefit of a relevant person (this includes Adrian and Luisa), it will be treated as a remittance.

The painting transferred to the UK on 1 Jan 2025 will be a remittance. This will be deemed to be made up of the different elements of income included in the joint account immediatly before transfer based on the following order:

1) employment income
2) foreign earnings
3) foreign employment earnings
4) relevant foreign earnings
5) foreign chargable gains
6) employment income subject to foreign tax
7) freign income subject to c
8) foreign chargable gains subject to foreign tax
9) other income and capital

Immediatly before the aquisition of the painting there was 4,200 of bank interest, 6000 dividend income and 97,000 of taxed foreign captal gains. The 74,000 remittance will be deemed as being made up of 4,200 bank interest, 6000 dividend and 63,800 of foreign capital proceeds.

These amounts will be regarded as remitted to the UK in 2024/25 and taxed accordingly.

the transfer on 31 October 2024 will be deemed to be made up of 7600 bank interest and 6000 dividend with the remainder coming from the foreign capital proceeds.

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

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

Answer-to-Question-_6_

Treatment of consideration received

Where a company is acquring a 25% stake in another company and consideration is provided in the form of shares or loan stock in the acquring company it is regarded as tax neutral with no disposal being triggered for CGT purposes. Instead the new securities inherit the base cost of the old securities and a taxable disposal is only triggered when the new securities are sold.

The shares and loan stock in PRCSN (PRC) will not be subject to CGT.

The loan stock have been structured to be qualifying corporate bonds (QCBs) as they are not reedeemable in foreign currency. QCBs are outside of the scope of CGT. Here the gain attributable to the QCBs is frozen and only becomes chargable when they are disposed of in the future.

The cash consideraton will be immediatly charged to CGT as follows:

Reliefs and elections

Grant and Sarah will qualify for business asset disposal relief as they are selling shares in a trading company in throughout the 2 year period prior to disposal their shares entitled them to at least 5% of proceeds, votes and assets of the company.

Grant will continue to meet the qaulifying conditions in the new structure however Sarah will not. If she rolls over tax neutrally she will have to pay CGT on the rolled over gain at 20% on a future disposal.

An election can be made to disapply the share for share exchange such that a taxable disposal is triggered. Sarah should do this as otherwise she will pay much more tax in the future.

The maximum amoutn BADR is given on is gains up to £1,000,000.

CGT payable by Sarah

Proceeds	w1	1,312,500		
less cost	w2	(300,000)		
			BADR qualifying	Non-BADR
Gain			1,000,000	12,500
deferred EIS gain				30,000
less AE				(3,000)
Taxable			1,000,000	39,500
CGT @10%		100,000		
CGT @20%		1,900		
CGT @24%		7,200		
total due 31 Jan 2026		109,100		

Consideration (w1)

		G		S
PRC shares	75,000/20 = 3750 *150	562,500	35,000/20 = 1750 *150	262,500
Cash	75,000*20	1,500,000	35,000*20	700,000
PRC loan stock	75,000 *10	750,000	35,000*10	350,000
Total		2,812,500		1,312,500

Base cost(w2)
newly issued shares 10,000 * 5 = 50,000

Julie redirecting her shars to Sarah will be treated as taking place at nil gain nil loss. Julie's base cost of the shares will be the value at probate which Sarah will inherit.

10 * 25,000 = 250,000

Total base cost = 300,000