

# **The Chartered Institute of Taxation**

**Awareness**

**Module D: Taxation of Individuals**

**May 2024**

**Suggested answers**

37)

	Total £	Earnings £	Dividend £	
Salary	48,000	48,000		
Dividend	6,000		6,000	
Total income	54,000			
Personal allowance	(12,570)	(12,570)		1
Taxable income	£41,430	£35,430	£6,000	

	Income £	Rate	Income Tax £	
Earnings	35,430	20%	7,086	1
Dividend within allowance	1,000	0%	0	1
Dividend up to HR band (working)	1,895	8.75%	166	
	38,325			
Dividend above HR band	3,105	33.75%	1,048	1*
	£41,430			
Total Income Tax liability			£8,300	

Working: £37,700 + (£500 x (100/80)) = £38,325 1

**\*One mark for correct rates of tax on dividend income**

38)

Personal allowance	£		
	12,570		
Work from home allowance	312		1
Car BIK: 29% x £43,000 x (11/12)	(11,431)		1+1
Underpaid tax: £1,500 x (100/40)	(3,750)		1
	<u>(2,299)</u>		
Tax code		K228	1

39)

As the property is a residential property, relief is given at the basic rate of tax in calculating her income tax liability. 1

For 2023/24, relief is given on the lower of: 1

- the amount of interest paid wholly and exclusively for the purposes of the property business: £4,500 (£5,000 x ((£90,000/£100,000)), and 1
- the property income: £3,600 (£9,600 - £1,200 - £4,800) 1

Therefore, the tax relief for 2023/24 is £720 (£3,600 x 20%).

The excess amount of eligible interest of £900 (£4,500 - £3,600) is carried forward and added to the amount of interest for 2024/25. 1

40)

	£		£	
Salary up to PT	12,570	0%	0	
Salary above PT and up to UEL	37,700	12%	4,524	1
Salary above UEL	4,730	2%	95	1
	<u>£55,000</u>		<u>£4,619</u>	
Class 1 NICs payable by Suresh				
			<u>£4,619</u>	
	£		£	
Salary up to ST	9,100	0%	0	
Salary above ST	45,900	13.8%	6,334	1
	<u>£55,000</u>		<u>£6,334</u>	
Class 1 NICs payable by employer				
			<u>£6,334</u>	
Class 1A NICs payable by employer (£800 x 13.8%)				
			<u>£110</u>	1
No NICs payable in respect of the gift of flowers as this is a trivial benefit (<£50)				
				1

41)

	£	
Annual value	2,000	1
Additional yearly rent: (£205,000 - £75,000) x 2.25%	2,925	1+1
	<u>4,925</u>	
Restrict by reference to period of use (2 months/12 months)	(821)	1
	<u>4,104</u>	
Less, rent paid by employee (10 x £150)	(1,500)	1
	<u>£2,604</u>	

42)

	£	£	
Pension contributions		55,000	
Less, annual allowance (below)		<u>(23,500)</u>	
Chargeable amount		<u>£31,500</u>	
Annual allowance charge at 45%			
		<u>£14,175</u>	1
Working:			
	£	£	
Annual allowance for 2023/24		60,000	1
Adjusted income (£280,000 + £55,000)	335,000		1
Excess over £260,000	75,000		
Restriction (£75,000 x 50%)		<u>(37,500)</u>	1
		22,500	
Annual allowance b/fwd		1,000	1
Annual allowance available			
		<u>£23,500</u>	

43)

SEIS investments:

Walt may claim Income Tax relief for 2023/24 equal to the lower of: 50% of the amount subscribed (£90,000), and his Income Tax liability (£82,000). Therefore £82,000. 1

Walt may make a claim to treat the excess subscriptions as made in 2022/23 provided the limit for the amount subscribed for 2022/23 is not breached. 1

EIS investment:

As the shares were sold within three years, Income Tax relief of £12,600 (proceeds of £42,000 at 30%) will be clawed-back with an assessment made for the tax year in which the relief was claimed - 2021/22. 1

Walt will have **an allowable loss for CGT purposes**. In calculating the loss, the **cost is reduced by the amount of Income Tax relief claimed** (£30,000 - £12,600 = £17,400). Therefore, the amount of the loss is £40,600: £42,000 – (£100,000 - £17,400) = £40,600. 1+1

44)

The HICBC is payable by Meg as her adjusted income of £54,500 (below) exceeds Tom's of £52,000. 1

	£	
Net income (£56,000 + £1,500)	57,500	1
Less, gross pension contributions (£2,400 x (100/80))	(3,000)	1

Adjusted net income	£54,500	
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HICBC ((£54,500 - £50,000)/100) x 1% x £2,074	£933	1+1
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45)

	Residential property £	Commercial property £	
Proceeds	250,000	25,000	
Estate agent's fees	(3,000)		1
Net proceeds	247,000	25,000	
Cost			
- Residential	(140,000)		
- Commercial: £50,000 x (£25,000 / (£25,000 + £40,000))		(19,231)	1
Gain	107,000	5,769	
Annual exemption	(6,000)		1*
Gain after AE	£101,000	£5,769	

	Gain £	Rate	CGT £	
Residential gain within BR band (below)	5,270	18%	949	
Residential gain above BR band	95,730	28%	26,804	
Commercial gain above BR band	5,769	20%	1,154	1**
CGT liability			£28,907	

(£37,700 + £12,570) - £45,000 = £5,270 1

**\*Must allocate against gain on residential property for the mark**

**\*\*For using correct rates**

46)

	£	£	
Proceeds (MV as sale to connected person)		2,000,000	1
Allowable costs		(300,000)	
		<u>1,700,000</u>	
100% x (75/228) x £1,700,000 (working)	559,211		
80% x (147/228) x £1,700,000 (working)	<u>876,842</u>		1
		<u>(1,436,053)</u>	
		<u>£263,947</u>	

Working:

		100% Q	80% Q	NQ	
01/05/04 – 31/10/04	Delay < 24 months due to repairs	6			1
01/11/04 – 31/10/06	Occupied 100% personal use	24			
01/11/06 – 30/04/10	Non-work absence, >36 months	36		6	1
01/05/10 – 31/07/22	Occupied 80% personal use		147		
01/08/22 – 30/04/23	Last 9 months	9			1
		<u>75</u>	<u>147</u>	<u>6</u>	

75+147+6 = 228 months

47)

An individual who is not UK resident is generally not liable to UK CGT. 1

However, Ben is temporarily non-UK resident because his period of non-residence is less than five years. 1

This means that any gains taxed while Ben was non-resident are taxed in the year of return (2023/24) in the normal way. 1

This is subject to an exception for a gain on an asset acquired during the period of non-residence. Such a gain remains exempt from UK CGT. 1

Therefore, Ben is taxed in 2023/24 on the gain of £65,000 but not on the gain of £22,000.

The gain of £14,000 is exempt from CGT as the asset (watch) is a wasting chattel. 1

48)

A person must notify HMRC when they first become chargeable to Income Tax.

This applies to Peter but not to Claire as she already completes a tax return. 1

Peter was required to notify HMRC by 5 October 2023, ie within six months of the end of the tax year. 1

He failed to do this and so he will be charged a penalty equal to the relevant percentage of the potential lost revenue (ie the income tax due on the rental income). 1

As the error was careless, the maximum percentage is 30%. 1

As an unprompted disclosure was made within 12 months of the tax being due (ie before 31 January 2025), the minimum percentage is 0%. 1