The Chartered Tax Adviser Examination

May 2019

Taxation of Individuals

Advanced Technical Paper

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to write in the answer booklet. The Presiding Officer will inform you when you can start writing.
- You should answer all **SIX** questions.
- Start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Marks are specifically allocated for presentation.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should tick the appropriate box on the front of each answer booklet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2018/19 rates and allowances continue to apply for 2019/20 and future years. Candidates referring to actual or pending rates and allowances for 2019/20 and future years will not be penalised.

1. You are a personal tax manager in a firm of Chartered Tax Advisers. You attended a meeting with your client, Samantha Boodle on 15 April 2019.

Samantha was born in Ruritania and is domiciled in Ruritania. She moved to the UK on 1 May 2002 for a three year assignment. She accepted a permanent job in the UK on 1 January 2006. Her UK tax returns from arrival to 2009/10 were prepared on the basis that she was UK tax resident but not domiciled with a claim for the remittance basis.

Samantha has not been regarded as resident in Ruritania since she left on 1 May 2002.

From 2010/11 until 2015/16, Samantha's foreign income and gains were less than £2,000 and the remittance basis applied automatically.

Samantha's father died during 2016/17 and Samantha inherited death benefits of £100,000 from his pension in this year and a property in Ruritania (which she wishes to keep). This property was used by the family as a holiday home until 5 April 2017, at which point it was let out.

The death benefits would have been liable to Income Tax in 2016/17 when received and Samantha claimed the remittance basis for this year.

Samantha now wants to bring funds of £500,000 to the UK as soon as possible in order to buy a property. She has given you the following details:

1) Savings Account A was set up in 1998 in Ruritania and has a current balance of £118,525 made up of:

   (a) Ruritanian rental profit of £25,000 from 2017/18 and £35,000 from 2018/19 (rental income and expense are received and paid from this account).

   (b) Salary of £30,000 from her Ruritanian employment earned prior to May 2002.

   (c) Bank interest of:

   £22,000 earned between May 2002 and 5 April 2017
   £3,075 earned in 2017/18
   £3,450 earned in 2018/19

2) Savings Account B is also a Ruritanian account and holds £250,000 which is the proceeds from the sale of her Ruritanian house in March 2010. The chargeable gain on this property (after principal private residence relief but before deducting the annual exemption) was £10,390. No Ruritanian tax was due on the sale. This account is non-interest bearing.

3) Samantha cleansed a Jersey bank account in December 2017 by making a nomination under Part 4 of s.13 of Finance Bill (no. 2) 2017. This is now held as three separate Jersey accounts as follows:

   (a) A current account holding clean capital of £75,000.

   (b) A savings account holding employment income earned prior to May 2002 of £110,000.

   (c) A savings account which receives any interest earned on the other two accounts.

Continued

1. Continuation

4) Samantha also holds the following stocks and shares:

(a) 100 shares in Ruritania Banking plc purchased in April 1998 for £50,000 using Ruritanian employment income only. These were worth £100,000 in April 2017 and are currently worth £110,000.

(b) 70 shares in Ruritania Trucking Company that cost £55,000 in October 2016 and were purchased using some of the death benefits that she inherited. The shares were worth £45,000 in April 2017 and have a current value of £65,000.

(c) 50 shares in a UK company acquired in May 2001 for £35,000 using UK employment income. The principal register for these shares is located in the UK. The shares are now worth £100,000. The market value of these shares on 5 April 2017 was £87,500.

5) She has two bank accounts that were used as her nominated bank accounts in 2009/10 and 2016/17 each of which contain £100.

Samantha is an additional rate taxpayer. She does not currently require advice relating to foreign loss elections.

Requirement:

Prepare an email to Samantha advising her as to how she can remit funds to the UK tax efficiently in 2019/20. You are NOT required to comment on how she has been taxed in previous years. (20)

2. You are a tax manager in the personal tax team of a firm of Chartered Tax Advisers. The Tax Partner has asked you to run a training session to help junior staff in the personal tax team understand the 'Transactions in UK Land' anti-avoidance provisions. He has also asked you to prepare notes to accompany the session.

Requirement:

Prepare training notes explaining the Transactions in UK Land provisions. (10)

3. You are a tax manager with a firm of Chartered Accountants. Your clients are Mike Carter and his wife Cathy. Mike Carter has recently sent you the following email:

To: Tax Manager
From: Mike Carter
Date: 1 May 2019
Subject: Capital Gains

Dear Tax Manager

As you know, over the years I have invested in various VCT, EIS and SEIS companies. All shares have been held for at least three years and I have complied with all of the conditions to retain the VCT/EIS/SEIS status but am now thinking of selling all of the shares in the next couple of months and would like some advice regarding my tax position.

My holdings are as follows:

Date of investment	Company	Type	Original investment	Income Tax relief received on investment	Current value
			£		£
31/3/2010	Lemon VCT	VCT	100,000	30%	80,000
31/3/2012	Orange Ltd	EIS	50,000	30%	100,000
31/3/2012	Grape Ltd	EIS	50,000	30%	15,000
31/3/2014	Lime Ltd	SEIS	60,000	50%	50,000

You will recall that when I invested in Orange Ltd and Grape Ltd, I had just sold all of the shares in my trading company. The gain qualified for entrepreneurs' relief, but I decided to defer £100,000 of the gain arising on this disposal.

Just before I purchased the shares in Lime Ltd, I had sold a valuable painting, realising a chargeable gain of £30,000 after all available allowances and I claimed the maximum permitted SEIS reinvestment relief against this investment.

I anticipate that we will have the following income this year.

2019/20	Mike	Cathy
	£	£
Pension income	70,000	10,000

Neither of us expect to have any other capital gains this year. Is it possible to use any of Cathy's allowances?

Regards

Mike

Requirement:

Prepare a reply to Mike's email advising him on the tax issues relating to his proposed sale of shares. You are NOT required to calculate Income Tax liabilities for Mike or Cathy. (15)

4. You are a tax adviser in a firm of Chartered Tax Advisers. Your client, Robert Booth, owns all of the 1,000 shares in Best Burger Ltd, for which he paid £1,000 on incorporation.

The company has been trading since incorporation in October 1999 and owns a fleet of vans which operate in the local area selling fast food. Robert has always been a director of the company.

Robert has decided to sell the business and retire. The company will sell its assets, including goodwill, to a competitor in October 2019. The assets have always been used for the purposes of the trade. Once all assets have been sold and all liabilities paid, Robert expects the company to have cash of approximately £500,000, which he would like to withdraw from the company in the most tax efficient way and he would like to wind the company up.

Robert is concerned that he may get bored once he has sold everything and is thinking of running a small fast food outlet on a part-time self-employed basis.

Robert purchased his home in October 1999 for £250,000 and has always occupied it as his only residence. In addition to the garden, there is also a large yard at the back of the property, which he has used exclusively for the business since purchase. He parks and maintains the vans in the yard. In addition, in October 2000, he built an office in the yard at a cost of £25,000 from which he runs the business. At the time of purchase, £175,000 of the purchase price was apportioned to the house and garden and £75,000 to the yard.

Since October 2000, the company has paid rent to Robert for the use of the yard and office. The rent paid has been half of the rent which Robert could have received if he had let it to third party tenants.

Robert has recently received an offer of £2 million for the whole property from a property developer who hopes to obtain planning permission to demolish the house and office and construct 30 houses on the site. The proceeds would be split £375,000 for the house and garden, and £1,625,000 for the yard, in line with current market values. The sale of the property is also expected to complete in October 2019, but following the sale of the business.

Robert is an additional rate taxpayer. He has not previously used any of his entrepreneurs' relief lifetime allowance.

Requirement:

Prepare notes ahead of a meeting with Robert explaining his potential tax liabilities and advising of any actions he needs to take to minimise the tax payable. (20)

5. You are a tax manager at a firm of Chartered Tax Advisers. One of the partners, Julie Smith, has an appointment with new clients, Mr and Mrs Blake. She has asked you to prepare some notes for her to use at the meeting.

Mr Blake has gross employment income of £155,000 per annum and owns a mixture of commercial and residential property with expected gross rents of £165,000 per annum.

Mr Blake's wife is self-employed, with anticipated taxable profits of £20,000 per year.

Mr Blake has made Julie Smith aware of the following details in respect of four properties in his portfolio:

<u>39 Oak Lane</u>

Mr Blake purchased 39 Oak Lane on 15 April 2018. This property consists of a retail unit on the ground floor and a self-contained residential property on the first floor.

The retail unit was occupied by a sandwich shop when Mr Blake acquired the property and there has been no change of tenant. The income from the shop is £1,000 per month.

The flat had been empty for several months prior to Mr Blake's acquisition and before advertising for a new tenant Mr Blake incurred expenditure of £2,500 on electrical work, decorating and replacing the shower.

The first tenant moved into the flat on 1 March 2019. Rent was agreed at £800 per month and the tenant paid the first three month's rent on 1 April 2019.

Mr Blake financed the purchase of this property with an interest-only mortgage. The monthly mortgage payment is £835 and the initial mortgage arrangement fee was £1,500.

<u>Blossom House</u>

Mr Blake and his wife recently purchased Blossom House, a residential property, as tenants in common (Scots Law: without a survivorship clause) with Mrs Blake owning 70% and Mr Blake 30%. The majority of the funds for this purchase came from money that Mrs Blake inherited. The property will be rented for the first time from 1 July 2019 on a 12 month tenancy.

Due to the level of Mr Blake's income, they would like to report all of the income from this property on Mrs Blake's tax return.

Mrs Blake does not own any other rental properties.

<u>5 Ash Crescent</u>

Mr Blake had previously let this residential property for a rent of £550 per month to a long-term tenant. When this tenant left in June 2018, Mr Blake's brother moved into the property, paying rent of £100 per month. In September 2018 Mr Blake spent £3,500 decorating the property and replacing some damaged roof tiles. Mr Blake's brother is expected to continue to occupy the property for the foreseeable future.

Continued

5. Continuation

Ceramics Factory

Mr Blake acquired this factory in August 2015 and lets it for £3,500 per month. He borrowed £100,000 to finance the purchase and pays interest of £175 per month. The loan is secured on the house where he and Mrs Blake live. He has never included a deduction for any of the interest paid when preparing his tax returns.

Requirement:

Prepare notes discussing relevant tax issues relating to the four properties for Julie Smith to use at her meeting with Mr Blake. Calculations are NOT required.

(15)

6. You have just received an email from your client, Alexa, who is a travelling salesperson for Sink World Ltd. Alexa lives in Edinburgh, Scotland with her civil partner, who is a higher rate taxpayer. They do not receive child benefit and have lived in Edinburgh throughout the year.

The email contains the following information required to complete her 2018/19 self-assessment return:

1) Her P60 which shows that she received a gross salary of £92,188 with PAYE of £30,475 deducted at source.

2) She joined the company car scheme on 1 January 2019 and received a car with a petrol engine. The list price of the car was £28,000 and CO_2 emissions were 120g/km. Alexa sacrificed £600 of her salary per month in exchange for the car. As a condition of having the car, Alexa also paid an initial capital contribution of £2,400.

3) On 1 January 2019, she was given a choice between a cash allowance of £200 per month or an unlimited fuel card. Alexa chose the fuel card which was also available to her from 1 January 2019.

4) She received a £2,500 general expense allowance, which she spent as follows:

   (a) £900 on business train and taxi travel.
   (b) £200 to be a member of an approved professional body for people working in sales.
   (c) £300 on a hardwearing coat for travelling.
   (d) £1,100 on non-business client entertainment.

5) She received £110 of childcare vouchers in exchange for sacrificing £110 of gross salary each month. She was a member of this scheme for the whole tax year.

6) Sink World Ltd gifted a luxury sink to her on 31 December 2018 as a bonus for her hard work. The sink was purchased by Sink World Ltd for £950. The estimated second-hand value of the sink on 31 December 2018 was £1,000.

Alexa supplied you with details of two qualifying charitable donations which were for £300 on 7 May 2018 and £500 on 7 April 2019.

Alexa provided you with the following information regarding her investment portfolio with Eagle Bank for the tax year ended 5 April 2019:

1) £10,000 of gross French bank interest. No tax was withheld at source on the interest payment.
2) £4,000 of gross dividends from Chaise plc, a company listed on the French stock exchange. 15% French tax was withheld under the double taxation agreement between France and the UK.
3) £5,000 of gross dividends from her UK share portfolio.

Requirement:

Calculate, with brief explanations, Alexa's 2018/19 Income Tax payable/repayable assuming all beneficial elections are made. (20)