



The Chartered Tax Adviser Examination

November 2019

Application and Professional Skills

Taxation of Individuals

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 start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- Write on one side of the paper only. Do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- 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 cover sheet.
- Scots Law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information, you may assume that 2018/19 legislation (including rates and allowances) continues to apply for 2019/20 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.

You are a tax manager in a firm of Chartered Tax Advisers and your clients are George and Rachel Hosking. Leanne Jones, your tax partner, has recently had a meeting with George and Rachel. At the meeting they explained that they wish to make a substantial gift to their daughter Amy and they also provided details of a new property which they had acquired. Leanne has provided you with a file note (**EXHIBIT A**) of that meeting. Following the meeting, George provided further information by email (**EXHIBIT B**).

Leanne has asked you to prepare a report to George and Rachel advising on the gift to Amy and on Income Tax planning.

The following exhibits are provided to assist you:

EXHIBIT A: File note of a meeting between Leanne Jones, George Hosking and Rachel Hosking

EXHIBIT B: Email from George Hosking

EXHIBIT C: Pre-seen information

Requirement:

Prepare a draft report to George and Rachel Hosking, for review by Leanne, advising on the proposed gift to Amy and on Income Tax Planning.

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EXHIBIT A

File note of a meeting between Leanne Jones, George Hosking and Rachel Hosking

Date of Meeting: 23 October 2019

Present: George and Rachel Hosking, Leanne Jones

George and Rachel requested the meeting to discuss two matters:

1) Proposed gift

As George and Rachel's daughter, Amy, is a full-time carer for her son and unable to work, they wish to support her by gifting her an asset which generates income without the need for close involvement. They want to make the gift fairly soon and certainly before 5 April 2020.

They have identified two assets which are suitable, both of which are currently owned by Rachel:

- (a) Commercial property previously used by the GRH Engineering partnership; or
- (b) Shares in John Ford (Engineering) Ltd.

George and Rachel are satisfied they can live comfortably in retirement having gifted either asset. I requested that they forward estimates of the current values of their estates.

Further details of these assets are as follows:

Commercial property used by the GRH Engineering partnership

The GRH Engineering partnership business was operated from a commercial property owned solely by Rachel. The property was acquired by her as a lifetime gift from her father (who is still alive) on 6 April 2009 when its market value was £680,000. It had cost her father £220,000 when purchased by him on 15 June 1998. No hold-over claim was made at the time of the gift to Rachel.

Immediately after the property was gifted to Rachel, it was used in its entirety by the partnership business, rent free, until 30 September 2017 when it became vacant following the sale of the business. It has remained vacant since then, as Rachel has not had time to find a tenant.

It is anticipated that the property could yield rental income of around £33,000 per annum on a full repairing and insuring lease. If this asset is not gifted to Amy it would be rented out by Rachel.

Shares in John Ford (Engineering) Ltd

The gift would be of Rachel's 3,000 shares in John Ford (Engineering) Ltd, which represent 3% of the company's issued share capital and which generates annual dividend income of £31,000.

John Ford (Engineering) Ltd is a wholly trading company.

2) Income Tax Planning

George and Rachel advised that in August 2019 they purchased a residential property as joint tenants (Scots Law: joint owners) in southwest England. This was financed by cash from the sale of the GRH Engineering partnership business. Since the purchase their nephew has been paying a nominal rent to live in the property whilst on a training course. When his course finishes on 31 March 2020, he will move back to his parents' house and the property will be let as furnished holiday accommodation.

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George will be responsible for running the furnished holiday letting business. He is taking bookings to commence commercial letting from 6 April 2020.

The property will be available for letting 48 weeks per year (the remaining four weeks representing private use) and due to its desirable location, it is expected to actually be let for between 36 and 40 of those weeks. A taxable profit of £26,000 to £30,000 is anticipated.

Rachel is also planning to retire and she confirmed that she would have a think about when she would like to retire and will also try to obtain an estimate of her pension at that time.

It was agreed that we would advise on the Income Tax implications of this and more generally on Income Tax planning.

George will email us in a few days with the further information requested.

EXHIBIT B

Email from George Hosking

To: Leanne Jones
From: George Hosking
Date: 31 October 2019
Subject: Meeting follow-up (tax advice)

Dear Leanne

Thank you for your time in our recent meeting. I write to follow up on the information you requested.

We estimate the current market values of our estates to be as follows:

	<u>George</u> £	<u>Rachel</u> £
Cash in deposit accounts	205,000	115,000
Share portfolio (minority holdings, quoted companies)	195,000	-
John Ford (Engineering) Ltd shares	-	780,000
Main residence	600,000	600,000
Holiday letting property	490,000	490,000
Commercial property	-	920,000
Chattels	15,000	5,000
	<u>£1,505,000</u>	<u>£2,910,000</u>

Rachel has now thought further about her retirement from John Ford (Engineering) Ltd and decided that she will retire at the end of March 2020 and will then start drawing her occupational pension. She has been advised that this will be £13,000 per annum.

Discussing plans with Rachel has also made me think about my own position as I have no pension savings. I understand that I can contribute up to £40,000 per year, tax relieved, into a pension scheme. As I have surplus cash I wonder whether making pension contributions of this scale would be tax efficient for me?

We look forward to hearing from you.

Kind regards

George Hosking

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EXHIBIT C

Pre-seen information

- Clients' Name - George and Rachel Hosking
- Clients' Background
- George was born on 17 May 1963
 - Rachel was born on 3 April 1965
 - George and Rachel are English taxpayers
 - George and Rachel married on 28 August 1985
 - George and Rachel's only child is Amy
 - Amy was born on 28 January 1988 and is unmarried
- Business
- George and Rachel ran a successful engineering trading business (GRH Engineering) as equal partners between 1 June 1993 and 30 September 2017.
 - On 30 September 2017 the partnership business was sold to an unconnected trading company, John Ford (Engineering) Ltd (see below).
 - Following the sale of the partnership business, George retired. Rachel took up part-time employment with John Ford (Engineering) Ltd.
- Annual Income (George)
- Interest on savings accounts: £2,300
 - Dividends on share portfolio: £9,800
- Annual Income (Rachel)
- Part-time employment with John Ford (Engineering) Ltd: £24,000
 - Interest on savings accounts: £1,200
 - Dividends on John Ford (Engineering) Ltd shares: £31,000
- Lifetime Gifts
- Neither George nor Rachel have previously made any lifetime gifts.
- Wills
- Both George and Rachel's wills are written such that their respective estates pass to Amy on each of their deaths.

Extract from business sale agreement (sale of GRH Engineering partnership to John Ford (Engineering) Ltd)

4 Consideration

4.1 The consideration for the sale of all business assets of the GRH Engineering partnership business (but excluding the business premises) is as follows:

<u>Payable to</u>	<u>Form of Consideration</u>	<u>Value</u>
		£
George Hosking	Cash	758,000
Rachel Hosking	Cash	158,000
Rachel Hosking	3,000 shares in John Ford (Engineering) Ltd	600,000
		<u>£1,516,000</u>

4.2 The consideration detailed in 4.1 is payable in full on completion on 30 September 2017.