Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

November 2019

Suggested solutions

Module D Taxation of Individuals

Answer 1

Income tax			
Savings income	£	£	
Tax at starting rate (0%) on	5,000	0	1
Tax at basic rate (20%) on	28,500	5,700	1
	33,500		
Dividend income			
Dividend Allowance (0%) on	2,000	0	1
Tax at higher rate (32.5%) on	114,500	37,212	1
	150,000		
Tax at additional rate (38.1%) on	53,500	20,383	1
Income Tax liability	£203,500	£63,295	

Answer 2

As Maggie was born before 6 April 1935, the couple are entitled to the married couples allowance (MCA). 1

As the couple were married before 5 December 2005, the MCA is given to the husband, Glen. 1

For 2018/19, the allowance is £8,695, but is tapered as Glen's adjusted net income is greater than £28,900. 1

The MCA is therefore tapered to £8,695 – ½(£42,000 – £28,900) = £2,145. 1

However, the MCA cannot be less than £3,360. 1

Answer 3

	£	
Daryl's assessable property income for 2018/19 is:		
Premium on grant of sublease		
£35,000 x (50 – 9)/50	28,700	1
Less allowance for original premium paid		
£80,000 x (50 – 39)/50 = £17,600		1
£17,600 x 10/40	(4,400)	1
	24,300	
Rental income (6 October 2018 – 5 April 2019) = 6/12 x £24,000	12,000	1
	£36,300	

Merle's driveway:
£5 per day for x 175 days = £875
Covered by the property allowance as < £1,000, therefore assessable property income is nil. 1

Answer 4

1) Rosita's assessable benefits for 2018/19

	£		
Company car			
113g/km rounded down to 110			
110 – 95 =15			
15/5 = 3 + 20 = 23%			1
List price	32,000		
Less capital contribution (max £5,000)	(5,000)		1
	£27,000		
Annual benefit is therefore 23% x £27,000		£6,210	1
The benefit is not pro-rated as the unavailability was not in excess of 30 days			
Relocation expenses	11,500		
Less exemption	(8,000)		1
		£3,500	

2) Class 1A National Insurance Contributions

£9,710 x 13.8%	£1,340	1

Answer 5

The payment on 25 January 2019 must be split into Post Employment Notice Pay (PENP) and amounts which are not PENP. 1

PENP is calculated as follows: (£4,000 x 2)/1 = £8,000 and is fully taxable. 1+1

The balance of the amount received (£33,000 – £8,000 = £25,000) will be treated as an ex-gratia payment and will not be taxable as it will be covered by the £30,000 exemption (s.403(1) ITEPA 2003). 1+1

Answer 6

	£	£	
Employment income			
Salary	54,000		
Childcare vouchers (52 x £(85 – 55))	1,560		1
		55,560	
Personal allowance		(11,850)	1
Taxable income		£43,710	
Income tax			
£34,500 x 20%		6,900	
£9,210 x 40%		3,684	
		10,584	1
Plus High Income Child Benefit Charge			1
£55,560 - £50,000 = £5,560/100 x 1% = 55% x £2,501		1,375	1
Income Tax liability		£11,959	

Answer 7

As Ezekiel is resident but not domiciled in the UK, he will be assessed to UK income tax on all his overseas income of £24,500 on an arising basis 1

The remittance basis will apply automatically if Ezekiel's unremitted overseas income (and gains) is less than £2,000. 1

The gold watch counts as a remittance as Ezekiel has used overseas income to purchase an asset which is subsequently brought into the UK. 1

His unremitted overseas income is therefore £24,500 – £23,000 = £1,500 which is less than £2,000, therefore the remittance basis will apply automatically and Ezekiel will be taxed in the UK on £23,000 of overseas income. 1 1

Answer 8

1) Income tax relief withdrawn of £25,000 x 30% = £7,500 as the shares are sold within three years. 1

2) The capital loss on the disposal of the shares is:

		£	
Proceeds		25,000	
Less selling costs		(500)	
		24,500	1
Less 'cost'			
Original cost	100,000		
Less income tax relief given and not withdrawn			1
£(30,000 – 7,500)	(22,500)		1
		(77,500)	
Loss		(53,000)	

Income tax relief obtained by Carl in 2017/18 is £53,000 x 45% = £23,850. 1

Answer 9

Part of premium assessed as property income is:
(50 – 29)/50 x £50,000 = £21,000

The chargeable gain is therefore:	£	
Capital proceeds (£50,000 - £21,000)	29,000	1
Less legal and professional fees	(1,000)	1
	28,000	
Less cost		
£29,000/(£50,000 + £950,000) x £800,000	(23,200)	1+1+1
Chargeable gain	£4,800	

Answer 10

	Next 30 days	s.104 Pool	
Number of shares	1,000	9,000	1
	£	£	
Proceeds (£45,000/10,000 = £4.50 per share)	4,500	40,500	1
Cost (W)	(1,200)		1
		(7,275)	1
Chargeable gain (£3,300 + £33,225) = £36,525	£3,300	£33,225	

(W) s.104 Pool	Number	Cost £	
11 April 2014	2,000	2,200	
14 September 2017	6,000	7,500	
	8,000	9,700	
19 November 2018 Bonus issue	4,000	Nil	
	12,000	9,700	1
10 February 2019 Disposal	(9,000)	(7,275)	
Pool carried forward	3,000	2,425	

Answer 11

	£	
2017/18		
Proceeds		
Cash received 2 December 2017	720,000	
Right to receive future consideration	25,000	1
	745,000	
Less cost	(350,000)	
Chargeable gain	395,000	
Annual exemption	(11,300)	1*
Taxable gain	383,700	
Capital Gains Tax @ 10% (Entrepreneurs' relief)	£38,370	1
2018/19		
Proceeds	38,500	
Less cost of 'right'	(25,000)	
Chargeable gain	13,500	1
Annual exemption	(11,700)	*
Taxable gain	1,800	
Capital Gains Tax @ 20% (no Entrepreneurs' relief)	£360	1

* One mark for deducting annual exemptions in both years.

Answer 12

The disposals took place when he was not UK resident, and normally there is no liability to UK Capital Gains Tax for non-UK resident persons. 1

However, the temporary non-residence rules apply to Dwight as: 1

- He was UK resident for at least 4 out of the 7 years prior to the tax year of departure and 1

- His period of non-UK residence is less than 5 years 1

The gain of £25,000 on the disposal of the quoted shares on 5 March 2017 will be taxed in the tax year that Dwight resumes UK residency, ie 2018/19 as they were held before he left the UK. 1

The gain of £10,000 on the disposal of the painting is not taxable in the UK as it arose on an asset that was both bought and sold during Dwight's period of non-UK residence. 1

Max 5 marks