

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Individuals

November 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, 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.

- 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 indicate this where relevant.
- 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 in the question, you may assume that 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax manager in a firm of Chartered Tax Advisers. You have recently met with a long-standing client of the firm, Jeff Stones (**EXHIBIT A**).

Jeff is currently a senior manager of Parsons Construction Ltd. Recently, Jeff has not been able to agree with his colleagues in the senior management team over the future direction of the company, so it has been mutually agreed that he will be made redundant on 1 January 2023.

After leaving Parsons Construction Ltd, Jeff plans to take six months off work and then start his own business as a consultant.

The following exhibits are provided to assist you:

EXHIBIT A: Notes of a meeting with Jeff

EXHIBIT B: Extract from Jeff's termination agreement

EXHIBIT C: Letter to Jeff concerning the Parsons Construction Ltd Share Award

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report for Jeff advising on how he might optimise his tax position in 2022/23 and 2023/24.

Continued

EXHIBIT A

Notes of a meeting with Jeff

Date: 30 October 2022

Jeff said that Parsons Construction Ltd has struggled to recover from the coronavirus pandemic and Jeff feels that in order for the business to survive it needs more investment and to expand into commercial construction. However, the board feel that this is too risky because of the uncertain future of office working.

After several meetings, Jeff decided that he no longer felt able to continue with Parsons Construction Ltd and the decision was reached with the board that Jeff should part ways with the company. This suited Jeff as he had always wanted to start his own management consultancy business. He plans to take a short break from work, then start trading as a management consultant in July 2023.

Jeff has come to us for tax advice on his termination package (**EXHIBIT B**), including guidance on when and how he should exercise his share award.

Jeff confirmed that the company is profitable and has gross assets of around £5 million. However, he is a little pessimistic about the future value of the company share price. Jeff estimates that this is likely to fall by between 5% and 10% over the next six months. The share price at 30 October 2022 was £12.48 per share.

The amount payable under the bonus arrangement depends on the company's performance in the three years to 30 June 2023. Jeff expects the pro-rated amount due to him to be in the region of £100,000.

He is uncertain what his profits will be from his management consultancy business in 2023/24, but he expects they will be about £20,000. He plans to operate as a sole trader.

Jeff would like to make some investments out of the money he is due to receive from Parsons Construction Ltd. The investments he would like to make are:

- 1) £20,000 gross contribution into his pension (basic rate tax relief is not reclaimed by his pension provider and no annual allowance charge would arise as a result of this contribution); and
- 2) £30,000 subscription for shares in either a qualifying Enterprise Investment Scheme company or Venture Capital Trust; he is not sure which.

He would also like to make a £10,000 charitable donation to Greenpeace.

Jeff would like to know how he can maximise the tax relief he might get as a consequence of the above payments.

Continued

EXHIBIT B

Extract from Jeff's termination agreement

Termination Payment

- 1) Provided that the Employee has complied with the Employee's obligations under this Agreement, the Company shall pay to the Employee the following sums (the "Termination Payment"):
 - (a) £25,000 in lieu of notice (the "Payment in Lieu of Notice"), which represents the pay the Employee would have been contractually entitled to receive during the Employee's notice period; and
 - (b) £62,500 as ex-gratia compensation for loss of employment, which is made without admission of liability (the "Compensation Payment").
- 2) The Employee acknowledges that no other payments or benefits of any kind are due from the Company or any Associated Company except as provided for in this Agreement.

Share Award

- 1) The share award (the "Award") is governed by the rules of the Parsons Construction Ltd Share Plan, which provide that in certain circumstances participants may be treated as "good leavers". The Company confirms that, upon completion of this Agreement, the Employee will be treated as a "good leaver" on the Termination Date for the purposes of the Award.
- 2) In accordance with these rules and the terms of the Award, the Award will be pro-rated based on the Termination Date, which for the purposes of the rules will constitute the Accelerated Vesting Date.

Bonus Arrangement

- 1) The Employee is also party to a bonus arrangement (the "Arrangement") based on the performance of the company from 1 July 2020 to 30 June 2023. The bonus is due to be paid on 30 December 2023. The Company confirms that, upon completion of this Agreement, the Employee will class the employee as a "good leaver" as defined in the terms and conditions of the Arrangement, such that a pro-rated amount will continue to be payable on 30 December 2023.

Continued

EXHIBIT C

Letter to Jeff concerning the Parsons Construction Ltd Share Award

Private and Confidential

Jeff Stones
5 Selby Place
Bristol
BS1 5AB

29 October 2022

Dear Jeff

Parsons Construction Ltd Share Award (the 'Award')

This letter relates to the Parsons Construction Ltd Share Award scheme which was granted to you on 1 December 2020. It explains what you now need to do in relation to the Award.

We have been advised that your employment will cease on 1 January 2023 for one of the "good leaver" reasons listed in the Shares Award scheme rules. This means that the Award becomes exercisable following the date of cessation of employment and is recalculated on a pro-rata basis to reflect the shorter holding period ending on the cessation date. There are no restrictions on the shares which are awarded.

The pro-rated Share Award in your case is as follows:

<u>Grant date</u>	<u>Number of shares in original award</u>	<u>Number of days elapsed since start of holding period</u>	<u>Pro rata number of shares capable of exercise</u>
1 December 2020	29,558	761 (69.5%)	20,543

You are advised that the exercise of this award may trigger Income Tax liabilities and National Insurance Contributions. The Company must account for these, so you are required to agree to arrangements for payment of your liabilities before you can receive the Award shares or the cash proceeds of sale of the Award shares. The Company will fund any employer National Insurance due.

You must choose whether you want to:

- 1) Pay the Company the Income Tax and employee National Insurance out of your own funds (in which case you will need to do this before the shares are transferred to you).
- 2) Ask the Company to arrange to sell an amount of shares sufficient to pay the Income Tax and employee National Insurance and transfer the remaining balance of the Award to you in the form of shares.
- 3) Ask the Company to sell your Award shares immediately following exercise and remit the cash proceeds, net of Income Tax and employee National Insurance, to you.

You must advise us of your choice and exercise your award within six months of the date of cessation of your employment, otherwise the Award will lapse.

We suggest you obtain professional advice to understand your tax position in relation to this award. Please note that Parsons Construction Ltd cannot advise you on what action you should take.

Yours sincerely

Nigel Watts
Reward Analyst
Parsons Construction Ltd

Continued

Continuation

EXHIBIT D

Pre-seen information

Client

Jeff Stones

Date of birth

4 May 1973

Place of birth

Bristol, UK

Address

5 Selby Place, Bristol (a rented property)

UK resident

Yes

UK domiciled

Yes

Marital status

Single

Children

None

Will

None

Assets

Savings of £50,000 (held in an ISA)

Continued

Employment information

Jeff has been employed by Parsons Construction Ltd since 2016 and has been a Senior Manager since 2019. Parsons Construction Ltd is an unquoted, family-owned company which constructs residential properties in the UK. The company purchases the land on which the properties are then built. Properties are then sold.

Jeff is a member of a cash bonus arrangement, based on the performance of the company from 1 July 2020 to 30 June 2023.

He owns no shares in the company. However, he is a member of the Parsons Construction Ltd Share Award scheme, under which he can acquire up to 29,558 shares at nil cost after his award vests. The grant date and vest dates of the award are as follows:

Date of grant:	1 December 2020
Date of vest:	1 December 2023

In certain cases, the scheme rules provide for an accelerated vesting date.

Arrangements are in place for the sale of the shares to a third party at any point.

He receives a gross salary of £100,000 per annum. He does not receive any benefits-in-kind.

He has a defined contribution pension scheme into which his employer makes contributions of 10% of his gross salary. To date, no employee contributions have been made into the scheme.