Institution **CIOT - CTA**
Course **Adv Tech Taxation of Individual**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**732**	**3482**	**4295**
Section 2	**323**	**1459**	**2190**
Section 3	**980**	**4293**	**5219**
Section 4	**596**	**2936**	**3504**
Section 5	**453**	**2158**	**2628**
Section 6	**484**	**2179**	**2676**
Total	**3568**	**16507**	**20512**

Answer-to-Question-_1_

Jess, Kym and Matt will each be required to report and pay income tax on the annual May dividend via a self assessment tax return. This is due to be submitted, and tax paid by 31 January following the conclusion of the relevant tax year. They will each receive a dividend allowance of £1,000 to be taxed at 0% for their dividends. If any payments on account arise because of the dividend, these will need to be paid by 31 January following the conclusion of the tax year and the subsequent 31 July.

Option 1:

If the shares are purchased by the company, it is possible that the proceeds of £80,000 will be treated as income (rather than as a capital gain).

If this is the case, the £80,000 will be treated as a dividend. Matt would therefore be liable to tax on this as a dividend as follows: *(I will assume in this scenario the transfer is completed before the annual May dividend is paid and declared)*

	Non-savings		Dividend
Employment	32,000		
			80,000

Total income: 112,000

Personal allowance restriction: 12,000/2 = 6,000

12,570 - 6,000 = 6,570

Tax computation:

EMployment income   32,000

Less: PA (6,570)

Taxable 25,430 @ 20% 5,086

Dividend:

1,000 @ 0% 0

37,700-25,430 @ 8.75% 1,074
79,000-(37,700-25,430) @ 33.75% 18,080

His income tax liability would therefore be 24,240.

He would likely also have to make payments on account although he can submit an application to reduce these to nil.

Alternatively, the disposal of his shares may qualify for capital treatement.

If the company were able to demonstrate the disposal was for the good of the company (which is likely as his sisters "resent" the arrangement) and he is substantially reducing his share (which he is, to nil) then this will qualify for capital treatment.

In this scenario his employment income tax would be £5,086 (as above) but his liability in relation to the share disposal would be as follows:

Proceeds 80,000
Less: Acq cost (6)
Less: AEA (3,000)

Chargeable 76,994

CGT due:

(37,700 - 25,430) @ 10% 1,227
76,994-(37,700-25,430) @ 20% 12,945

Total CGT: £14,172

(Matt is not eligble for BADR as he was not an employee of the company.)

The tax due on the distribution of £80,000 would therefore be lower if treated as capital rather than income.

In addition to this, as the distribution is capital and his other income is below £100,000, his personal allowance would not be tapered meaning his income tax liability would also be reduced by £1,200 (6,000 @ 20%)

It is preferable to ensure this capital treatment is allowed.

If this option is taken, the company repurchases the shares and then they cease to exist, meaning Jess and Kym would each own 50% of the compeny (remaining at 47 shares each).

Option 2:

If this option is taken, Matt's disposal will be chargeable to CGT. As this is a connected person (sibling), the disposal will be deemed to take place at market value.

Assuming £80,000 is market value, his capital gains tax will be payable as above.

However, as this is capital (rather than income), his personal allowance

Kym and Jess would also be deemed to receive the shares at market value for future sales purposes.

If they choose to fund the share purchase with an additional dividend, the additional money will be taxable (including the dividend for the 3 shares they each receive from Matt).

They would need to ensure the company is making sufficient profit to be able to declare any additional dividend.

HMRC may choose to enforce anti-avoidance rules in this scenario as Matt would seemingly be transferring the shares before reciept of money (as they cannot afford to pay Matt until the dividends have been declared, by which point he no longer has the shares). they would need to demonstrate that the main purpose of this arrangement was not to avoid potential taxation for Matt.

If HMRC disagree, it may be possible that Mike is taxed as if he owned the shares at the date of the dividend.

If they choose to purchase the shares after taking out a loan, it is possible that the interest on the loan will qualify for tax relief. Any interest paid over the ORI would be deductible against their taxable income to reduce the tax liability.

If an additional dividend is decalred, Kyn and Jess will likely be higher rate tax payers.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

2023/24 is Natalia's 9th year of residence. She is not deemd domicile. Assumed taxed on arising basis.

Income

Employment income 41,260
Rental profits (N1) 39,250
Foreign interest 15,500
Foreign dividend 22,000
Offshore income gain (N4) 60,000
UK Bank interest 75

Taxable income 178,085

Income tax (N8)

37,700 @ 20% 7,540

(41,260 - 37,700 =3,560) @ 40% 1,424
39,250 @ 40% 15,700
15,500 @ 40% 6,200
1,000 @ 0% 0
21,000 @ 33.75% 7,088
75 @ 40% 3
(87439 - 80385) 7,054 @ 40% 2,821

60,000 - 7,054 @ 45% 23,825

Income tax 64,601

Add:
HICBC (N5) 1,885

Less:
PAYE (10,279)

Mortgage interest (N3) (1,520)

Tax payable £54,687

N1 - 18,450 + 20,800 = 39,250. As she is UK resident, she is taxable on all income

N2 - Settling money into a Junior ISA, as well as any future income, is not taxable. The foreign dividend remains taxable as this was received by Natalia

N3 - tax reducer on loan taken out in relation to property. Relief available on tax computation of £7,600 @ 20% (basic rate) = £1,520.
Note - this does not reduce rental profits.

N4 - The offshore income gain is chargeable to income tax. This will be cahrged as the top slice of income. Relief is available:

N5 - Natalia will be liable to pay the High income child benefit charge. As her income exceeds £60,000, this is repayable in full: 21.80 x 52 + 14.45 x 52 = £1,885.
Note - this does not increase income but is added to the tax liability seperatly.

N6 - Personal allowance is entirely tapered away as income exceeds £125,140 and no donations/pension contributions have been made.

N7 - Natalia is an additional rate tax payer and therefore has no savings allowance to set against interest.

N8 - Tax bands:

First 37,700 = basic rate
Next (125,140 - 37,701 =) 87,439 = Higher rate
Any more income is taxed at additional rate

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

1) 2024/25

I assume Tom will move to the US on 6 Jan and will not spend a substantial amount of time in US (or out of UK) from 6 April 2024 - 6 Jan 2025.

Tom will be UK resident for 2024/25 under the first test (>183 days in the UK).

He may also be US resident under split-year legislation (RDRM12000)

This claim is compulsory (i.e. if he qualifies for split-year treatment he must apply it).

He may be split year under several different cases

Case 1:

Must be:

Uk resident for year in question (yes)
UK resident in previous year (yes)
Non-resident in following tax year i.e. 2025/26. (yes - see 2025/26 sub-section below)

- Work full time overseas in overseas part of year (yes)
- No significant break in overseas work (yes)
- No UK workdays > 3hours during period (yes, as he does not return until 25/26)
- Do not exceed UK days in period (yes, as above).

He therefore qualifies under Case 1 and the US period of residence begins on 6 Jan (commencement of work).

Case 2:

Partner of someone starting dull time overseas work - not relevant here.

Case 3:

Ceasing to have UK home - no indication that home would be sold.

As a leaver, only Cases 1-3 are relevant in year of departure.

He will therefore be Split resident unedr case 1 beginning 6 Jan 2025.

2025/26

It is estimates he will only be in the UK for 3 weeks over Christmas in December of 2025 = approx 21 days.

He will not meet the first test (>183 days in UK).

Will not meet first overseas test (resident in at least one of previous 3 years and <16 days in UK) as he has too many days.

Second overseas test not relevant as he has been UK resident within last 3 years.

He will be non-uk resident owing to the third overseas test as he works full time overseas with no significannt break and does not perform any UK work duties.

2026/27

Presuming that Tom remains in the UK and in full time employment following 2 May 2026, he will be UK resident under the first automatic UK test (>183 UK days).

He may also be able to split the year of return under one of cases 4-8:

Case 4:

Starting to have a home in the UK only. This will not happen as he already has a UK home.

Case 5:

Starting full time work in UK. He will meet this criteria. Began period on 4 May 2026 (had only been in UK for 2 days so we do not need to consider the sufficient ties test criteria here).

This would give a UK period beginning 4 May 2026.

Case 6:

Ceasing full time work overseas. As previously explained, he will count as working full time overseas, and this is therefore a relevant Case.

He qualifies, with the overseas period ending the date the overseas work concludes. I will assume this is 2 May 2026.

This takes priority over case 5 as it gives a shorter period of non-uk residence.

Case 7:

Partner of someone ceasing full time overseas work - not relevant.

Case 8:

Starting to have UK home - not relevant as always had UK home.

For the years in which Tom is able to cliam split year, he will only be taxable in the UK on income within the Uk period of the year (i.e. rental income received if appropriate). As a UK citizen, he receieves a personal allowance.

His foreign employment income would not be taxable.

2) Tom would be liable to capital gains tax, even in his period of non-residence. Residential property is chargeble to capital gains tax for non-residents.

He will be required to report the disposal via a capital gains tax return within 60 days of completion, and pay any resulting tax liability.

As he is a British citizen, he will retain a annual exempt amount (£3,000 for 2025/26).

If he were to transfer part or all of the property to his wife, this would not incur a tax charge. This may be beneficial to allow use of her
annual exempt amount as well as potentially her basic rate band if applicable.

The gains would be taxable at the rate of tax for residential property (18% for any gains within the remaining basic rate band (£37,700) and 28% for any gains thereafter*. As he was non-resident in this period, his US employment income would not be taxable and therefore would not use any of his basic rate band.

**rates applied in line with tax tables.*

Non-residents may be able to rebase the base cost of assets to the value at April 2015 if the land is held on 5 April 2019. As the property was purcashed in 2002, this would likely mean the market value was higher in 2015 than in 2002, therefore reducing the chargeable gain.

If the 2002 base cost is higher than the value in 2015, the 2002 cost can be used.

He may also choose to calculate the gain on a straight line basis (calculating total gain since 2002, with only the proportion arising after April 2015 being chargeable).

He should consider that if the cost is rebased to April 2015, any capital enhancement incurred before this date is not allowable. However, the costs incurred obtaining a formal valuation would be allowable.

As Tom returns to the UK, this would mean any gains made in the 2025/26 tax year (only full year of non-residence) would be caught by temporary non-residence rules and would be chargeable. The annual exempt amount should be set against residential property gains in priority as these attract the highest rates of capital gains tax (as of May 2024).

No PPR would be avaialble as there is no indication Tom has ever lived there.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

As a UK resident and domiciled, Ellen is taxable on worldwide income and gains. This includes UK property income.

I have prepared on the basis that Ellen reports her rental income on the traditional (accruals) basis rather than the cash basis.

<u>Office block</u>

THe £100,000 annual rent will be chargeable to income tax. The expense of £3,800 for buildings insurance will be an allowable deduction and reduce profits to £96,200.

<u>Retail property</u>

The tenancy commenced on 1 October 2023, meaning it is occupied for 6 months of the tax year.

The annual rent received relevant for 2023/24 is therfore £6,000.

Where rent is withheld, this will not be taxable as it has not yet been received. Only the rent actually received in relation to the 23/24 tax year is taxable. As Ray pays quarterly in advance, I will assume the rent is paid on 1 October and 1 January. Therefore, the witholding of rent does not have any impact on 2023/24 as all of this rent has been received.

There will also be an income tax charge for the preium paid.

This is calculated as follows:

Premium x ((50 - Y)/50).

where y is length of lease (5 years here)

Income is therefore 20,000 x 45/50 = £18,000.

Under the terms of the lease, Ellen is required to provide the repairs following the fire.

The amount paid is therefore an allowable deduction against taxable income for the relevant period. As she recieved a payout from an insurance company in realtion to these repairs, the deduction from taxable profits is limited to the excess (£1,500).

Additional exepnses:

The buildings insurance paid 6 April 2023 will be allowable in full as it relates to the 2023/24 tax year. This will be a decution against rental profits.

The buildings insurance paid 31 March 2024 will not be allowable. Despite the fact this is paid in the 23/24 tax year, this will be taxable in 24/25 as this is the period to which it relates.

Utilities will be allowable as pre-letting expenditure as Ellen was attempting to rent out the property, was not using it herself and the utilities were wholly and exclusively for the rental property.

Letting agents fees will be allowable to the extent they relate to the 23/24 tax year. If the £800 fee is annual, only the proportion relevant to 23/24 will be deductible against rental profits.

Repairs:

The replacement kitchen unit will be an allowable pre-rental expenditure as it is neccesary for the building.

The redecoration will be an allowable pre-rental expenditure as this is incurred to ensure the property is acceptable to rent.

The allowable deductions from the additional expenses is therefore £7,050.

<u>Land used as car park</u>

The rent recieved is taxable. The rent is 24,000 x 11/12 + 26,400 x 1/12 = 24,200.

Costs incurred for neccessary repairs will be deductible against this income. This includes the potholes and resurfacing as these were neccesasry maintenance (given the complaints).

However, any costs considered to be capital in nature will not be deductible against property income.

Adding marked parking bays and landscaping to improve the look and feel of the car park would likely be considered capital costs as these will materially increase the value of the land.

They are therefore not allowable deductions. The amount will be an allowable deduction agianst any gain on a future disposal (for capital gains tax purposes).

Ellen should keep careful receipts and apply a just and reasonable apportionment of the £20,000 costs incurred, splitting the cost between those capital in nature, and those considered revenue in nature.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW--------------

Answer-to-Question-_5_

As Sam works two employments but has not applied for a deferment, his Class 1 NICs paid via PAYE from his employments will be calculated independtly of each other. Therefore, the rates applied will be incorrect as additional amounts are considered to be earned between the primary threshold and upper earnings limit.

Class 1 NICs paid:

Employment 1:

Description	Amount	Class 1 NICs due?	Resoning
Salary	50,000	Yes	Cash income liable to NICs
Cash bonus	2,500	Yes	As above
Business expense reimbursement	1,000	No	Reimbursement not taxable/ Nic
Shopping voucher	500	Yes	Readily convertible asset
PMI	5,000	Yes	
Liable to NICs	58,000		

NIC paid at source:

First £12,570 exempt.

(50,270 - 12,570) @ 12% 4,524
(58,000 - 50,271) @ 2% 156

NICs paid 4,678

Assumed all payments made evenly through year.

Employment 2:

Description	Amount	Class 1 NICs due?	Reasoning

Salary	25,000	Yes	Cash income liable to NICs
Bonus (listed shares)	5,000	Yes	Readily convertible asset
Prize	450	No	Small value prize is not liable to tax, NICS (not readily convertible or cash)
Mileage payment	1,000	Yes	Cash payment
Payment of credit card bill	1,500	Yes	Treated as cash income
Childcare vouchers	1,300	No	Exempt at £25 per week
Interest free loan	(12,500 x 2.25%) = 281	Yes	The benefit received, calculated at HMRC's ORI, is taxable and liable to NICs
Liable to C1 NICs	32,781		

Class 1 NICs:

(32,781 - 12,570) @ 12%   2,425

Total Class 1 NICs paid via PAYE = 7,103

Amount that should have been payable:

As Employment 1 utilised the entirety of the band between the primary threshold and the upper earnings limit, the Class 1 NICs due on employment 2 can be caluclated as follows:

32,781 @ 2%   656

As this amount should have been entirely charge at the rate above the UEL.

The amount repayable is therefore £2,425 - £656 = £1,769, this being the additional amount paid on employment 2 in this calculation.

<u>Deferment</u>

As Sam has two employments, it is possible to apply for a deferment to prevent these

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overpayments. The claim must be made to HMRC outlining the reasons for the deferment request.

If successful, Class 1 NICs will not be charged via PAYE. Instead, they will become payable at the conclusion of the tax year.

He will remain liable for the full amount of National Insurance Contributions due. Therefore, this deferment would only act to delay the payment until the actual liability can be calculated.

His PAYE code will be updated by HMRC and sent to each of his employers. This will reflect the changes. He will pay Class 1 NICs at the lower rate of 2% above £12,570 on his earning, with a reconciliation due at the end of the year.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

In accordance with the terms of the SIP, the matching shares received on 1 December 2021 are forfeited as these have been held less than 3 years.

3,600 shares forefeited. 10,700 shares remaining.

2 March 2024

Under the SIP arrangement, all shares are withdrawn on date of leaving (1 March 2024). I assume that the market value did not materially change by 2 March 2024.

Upon redemption of the shares, there will be an immidiate charge to income tax.

This is calculated as follows:

Market value at exercise (3.5 x 10,700) 37,450
Less: Value at grant (1.0 x 10,700) (10,700)

Chargeable to income tax 26,750

As these are sold the next day, there will be no capital gains tax charge arising on the disposal. This is because the deemed base cost is the market value of the shares on exercise.

The proceeds of £8,750 (£3.50 x 2,500) would produce a chargeable gain of £0 as the allowable base cost would also be £8,750.

The remaining base cost would be 37,450 - 8,750 = £28,700. She holds 8,200 shares.

The exercise of the shares would also trigger a National Insurance charge. The income assessable here is £26,750.

The weekly LEL is £123 and the PT is £242 and the UEL is £967.

Earnings between PT and UEL: £725

Chargeable at 12%: £87.

The remaining income is taxed at UEL:

(26,750 - 967) @ 2% = £516.

Total Class 1 NICs due: £603

1 October 2024

The gift of the 1,000 shares to her husband will not be chargeable to CGT. Her husband will inherit Sarah's base cost.

The disposal to her son of 1,000 shares will be deemed to take place at market value of £4.20 per share.

This means there is deemed procceds of £4,200

The base cost is (1,000/8,200) x 28,700 = £3,500

The chargeable gain is therefore £700. It may be possible to claim holdover relief, which would mean Sarah is not taxable but her son inherits the lower base cost of £3.50 per share for future sales.

The remaining shares sold at market value are chargeable to capital gains tax:

Proceeds

6,200 x 4.20 26,040

Less:
Base cost
(6,200/8,200) x 28,700 (21,700)

Chargeable gain 4,340.

Sarah will be able to use her annual exempt amount of £6,000 for 2023/24 to reduce the chargeable gain to nil.

There is no further national insurance implication arising from the 1 October disposals.

31 October 2024

As Sarah no longer holds any shares at this date, she will not receive the dividend and therefore will not be liable to tax on this.

Her husband and son will each receive a dividend of £120, which is taxable. They will have a dividend allowance of £1,000 to be taxed at a rate of 0%. If they have not receieved any other dividends in tehtax year, they will not have any tax to pay on the dividend received.