(pm) | 0 | 3 | 0 | 5 | 2 | 0 | 1 | 7 | Date of Examination

Chartered Institute of Taxation
Excellence in Taxation

☐ Tick box if you have answered in accordance with Scots Law
☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advisory Paper you have attempted (if not already ticked below)

☐	Taxation of Owner-Managed Businesses	✓	Taxation of Individuals
☐	VAT on UK Domestic Transactions, IPT & SDLT	☐	VAT on Cross-Border Transactions & Customs Duties
☐	Inheritance Tax, Trusts & Estates	☐	Advanced Corporation Tax
☐	Human Capital Taxes		

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advisory

You must ensure that the Advisory Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

- For those candidates on the Indirect Tax Route you must sit the VAT on UK Domestic Transactions, IPT & SDLT Advisory Paper.
- For those candidates on the Indirect Tax Route you must sit the VAT on Cross-Border Transactions & Customs Duties Advisory Paper.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

(a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
(b) Write on both sides of the page.
(c) Not write in the margin areas indicated.
(d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
(e) Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

For use by examiner only

1		6	
2		7	
3		8	
4		9	
5		10	

DO NOT WRITE ON THIS PAGE

QUESTION NUMBER	ONE

	NS	S	D
Salary (w1)	90 000		
Rent (4000 - 3800)	200		
Bond (w2)			
Offshore fund (w3)	11 500		
Bank interest		200	
Dividends (incl. tax)			2538
German Dividend (w4)			10 000
Junior ISAs (w5)		–	
Charitable Donation (w6)	(1000)		
Net income	100 700	200	12 538
PA (w7)	(11 000)		
Tranfered PA (w8)	(1 100)		
Taxable income	88 600	200	12 538

NS:	88 600 @ 20%	17 720
S:	200 @ 0% (w9)	–
D:	5 000 @ 0%	–
	7 538 @ 7.5%	565
	101 338	18 285

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QUESTION NUMBER	ONE

Tax liability (prev page)	18 285
HICBC (w7)	-
PAYE	(21 200)
Trust tax	(38)
Foreign tax relief (w10)	(5 105)
Tax repayable	(8 058)

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QUESTION NUMBER ONE

(w1) As a UK resident, taxed on worldwide income, arising basis

(w2) There have been 6 complete years
∴ 6 x 5% = 30% can be withdrawn tax free.
Mr Zandy has withdrawn 25%, so no tax implications this year

(w3) Non-reporting status, so gains taxed as non-savings income:

Proceeds	21 550
Cost	(10 000)
	11 550

(w4)

Gross	10 000
Foreign tax @ 15%	1 500

tax gross amount and apply f. tax credit

(w5) Specifically allowed, not caught by parental settlement rules (would be < £100 any way)

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QUESTION NUMBER | ONE

(W6) Gifts to overseas charities now allowable following repeal of s422

(W7) Net income 113 438

Gross pension $(70 \times {}^{10}/_{8})$ (87 500)

25 938

below £100k so full PA

below £50k so no HICBC

(W8)

	BRB	HRB
band	32 000	150 000
pension (above)	87 500	87 500
adjusted	119 500	237 500

taxable income < 119 500 ∴ basic rate taxpayer.

Mr Zandy's wife is also a basic rate taxpayer. She pays no tax as ~~[illegible]~~ a result of PA and dividend allowance, so can transfer 10% of her PA to Mr Zandy

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QUESTION NUMBER | ONE

(w9) Basic rate taxpayer, so £1000 Personal Savings Allowance
£5k dividend allowance

(w10) foreign tax relief is given as lower of:
- foreign tax paid
- UK tax liability on the income

	Salary	Rent	German Div
Relevant income	22 500 (w11)	200 (w12)	10 000
Foreign tax	10 000	400	1 500
UK tax	4 500 (w13)	40 (w14)	565 (w15)
Credit	4 500	40	565

4500 + 40 + 565 = 5105

(w11) 90 000 × $^{58}/_{232}$ = 22 500

(w12) 4000 - 3800 = 200

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QUESTION NUMBER	ONE

(W13) taxed at basic rate; 22500 @ 20%.

(W14) basic rate ; 200 @ 20%.

(W15) ~~tax~~ calculate difference if foreign income was not received.
without f. div , all div income would be at 0% so tax on divs all relates to foreign dividen.

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QUESTION NUMBER | Two

10 Central Avenue
London
SW1 3CD

Ms J Weeks
1 London Way
London
SW1 2AB

3 May 2017

Dear Jane

Thank you for your letter. I have considered your position and note my thoughts below.

National Insurance Contributions (NICs)

Please bear in mind that as RST plc is a listed company, its shares are readily convertible assets.

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This means that where you are charged to income tax, you will also be liable to Class 1 NICs on the value ~~of the~~ that is charged to income tax.

<u>Share Incentive Plan</u> (SIP)

I am not certain whether RST's scheme is a formal SIP. If it is, the tax treatment will depend on how long the shares are held before you sell them.

If you hold the shares for less than 3 years, you will be liable to income tax

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QUESTION NUMBER Two

on the higher of the value of the shares on issue, or on receipt (i.e., on date of sale.)

If you hold the shares between 3 and 5 years, it will be the lower of these two figures.

After 5 years, the shares are tax free.

In each case, any income tax liability is reduced by any amount you pay for the shares.

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QUESTION NUMBER | Two

Capital Gains Tax (CGT)

The CGT will be charged based on the sale price, less any amount paid for the shares, less any amount you were charged income tax on.

Each year you have an annual exemption (11 100 in 2016/17) which exempts a portion of total gains in the year. Any excess is charged at 10 ~~%~~ %, up to your basic rate band, and 20 % thereafter.

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QUESTION NUMBER TWO

<u>Non-tax advantage Scheme</u>

~~III~~ If not a SIP, you will be charged income tax based on the value of any shares as you receive them less any contribution you have made for those shares.

This will be earnings and subject to NICs.

Capital Gains Tax will be as described above.

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QUESTION NUMBER | Two

<u>Options</u>

~~If these options are within the criteria of a Company Share Option Plan (CSOP), the tax treatment will be as follows:~~

~~On grant; no tax implications.~~

~~On excersise; income tax~~

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QUESTION NUMBER | TWO

OPTIONS

As the option price of the shares is less than the market value at the time of issue, the shares cannot be with a CSOP (company share option plan). This is therefore a non-tax advantaged scheme.

There are no tax implications on the issue of share options

When you excercise these options, you will be charged to income tax on the difference between the excercise price of £1 and the value of the shares

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2353

QUESTION NUMBER | TWO

when the are ~~exce re~~ excersised.

If the shares are sold imediately, the will be no capital gains tax, as the base cost (amount paid plus charged to income tax) will be the amount they sell for.

Employee Shareholder Shares

Under the terms of these shares you are deemed to have paid £2000 for these shares. Your base cost would be £2000, however, the gain of £3000 will be exempt from Capital Gains Tax

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QUESTION NUMBER Two

as the shares were within the first

£50,000 of shares you received.

I trust this answers your questions

regarding your shares.

Yours sincerely

Bo Paris

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QUESTION NUMBER | THREE

BRIEFING NOTE

To: Tax Partner

From: Tax Advisor

Date: 3 MAY 2017

Subject: Shareholders of Alphabet Ltd

Purchase of own shares

Treated as a distribution (charged to income tax as a dividend) unless the following criteria are met: (condition A)

- Company must be trading company (or holding co. of trading group).
- The repurchase is wholly or mainly for the benefit of the trade
- The repurchase does not form a scheme or arrangement which allows the owner to participate in profits without receiving a dividend or otherwise avoid tax

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QUESTION NUMBER | THREE

Alternatively, the following condition B criteria can be met:

- Trading company (or holding co. of trading group).
- The repurchase is to fund an inheritance tax liability
- The amount received is used for such purpose within two years of death
- There would be undue hardship if the repurchase could not take place.

For Condition A, there are further criteria:

- The seller must be UK resident
- Seller must have owned shares for 5 years prior to repurchase (3 years if transferred from spouse / civil partner or received from will)
- Sellers interest must be reduced to not more than 75% of prior interest, in terms of shareholding and entitlement to profits.

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QUESTION NUMBER | THREE

In addition, must be ~~[illegible]~~ unconnected after the repurchase.

HMRC will accept a <5% holding for sentimental reasons.

ARTHUR

Falls within Condition A criteria.

Will be for benefit (of trade), as Arthur wants to retire.

There is no scheme or arrangement.

Arthur is UK resident and has held for at least 5 years

His interest will be reduced by 100%.

Therefore, Capital treatment applies

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QUESTION NUMBER THREE

Proceeds (7000 x 20)	140 000
Cost; (5000 x 1)	(5 000)
(2000 x 5)	(10 000)
Gain	125 000
gain	125 000
AE	(11 100)
	113 900
Tax @ 10%	11 390

Entrepreneurs' relief applies as, for 1 yr prior to sale, Arthur held at least 5% of shares and was a director of the company.

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QUESTION NUMBER THREE

DEBBIE

Cannot fall within Condition A as has not held for at least 3 years (Brian died 2016).

However, condition B may apply if the repurchase is to pay an IHT liability on Brian's death, and undue hardship applies.

Debbie wants to realise her investment so this is unlikely. Therefore the repurchase will be a distribution.

Proceeds (20 x 7000)	140 000
less return of capital (par value)	(7 000)
Dividend	133 000

This will be taxed at Debbies marginal rates, subject to a £5000 0% dividend allowance.

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~~CHARLES~~

~~Ran out of time: Capital as for benefit of trade~~

A clearance procedure is available for purchase of own shares.

Recommend client does this for certainty, in all cases.

Debbie also has an allowable loss, as she has disposed of her shareholding:

Amount not taxed as income	7 000
Probate value (19 x 7000)	(133 000)
Allowable capital loss	(126 000)

QUESTION NUMBER THREE

CHARLES

Wanting to withdraw due to falling out is accepted as for the benefit of the trade.

Condition A will apply. Again, UK resident, full reduction of shareholding.

However, has not held for at least 5 years. Therefore treated as distribution

Proceeds (2000 × 20)	40 000
Return of capital (2000 × 1)	(2 000)
Already charged to IT (8-1) × 2000	(14 000)
distribution	24 000

Charles then has a gain on his disposal of shares;

Not taxed as dist (40-24)		£ 16 000
Base Cost (14 × 2000)	28 000	
less capital (2000 × 1)	(2000)	
		(26 000)
Capital Loss		(10 000)

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QUESTION NUMBER Four

firm's address

client's address

date

Dear Paul

Further to our recent meeting, I outline below the matters we discussed.

Principal Private Residence (PPR)

As the Brighton property has been your main home for two separate periods, you are entitled to PPR relief on the following:

May 2002 - May 2004, per your election
May 2012 - present, as your only residence

In addition, ~~you can claim~~ you will always be entitled to the last 18 months of ownership.

The rules exempting a period of absence will not apply, as you had another residence in

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QUESTION NUMBER Four

London which was your PPR for that period.

Therefore, currently 6 out of 15 years of ownership are exempt.

Note that as the property was transferred to ~~[illegible]~~ Frances will you were married she inherited your ownership record, so PPR relief applies equally to both of you.

(a married couple can only have one PPR).

Enhancement Expenditure

To qualify for a deduction, enhancement expenditure must be present in the sold asset. So the demolished conservatory will not be deductible.

The extension will ~~[illegible]~~ be allowable

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QUESTION NUMBER Four

Transfer

If Frances transfers her shares as part of the divorce settlement this will take place at no gain / no loss. In three years time, the sale will result in:

Proceeds	775 000
Cost	(300 000)
Extension	(50 000)
Gain	425 000
PPR: 9/18 years	(212 500)
AE (estimate	(12 000)
Taxable	200 500
Tax @ 28%	56 140

Tax is at 28% as this is a residential property

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QUESTION NUMBER Four

Sell now

If you sell the property now, you will jointly have a gain on the property as follows:

Proceeds	750 000
Cost	(300 000)
Extension	(50 000)
Gain	400 000
50% share	200 000
PPR 6/15	(80 000)
	120 000
AE	(11 500)
	108 500
tax @ 28%	30 380

The total tax will therefore be £60,984.

I therefore recommend ~~waiting~~ transferring the property as part of the divorce proceedings, as the overall tax saving ~~tax~~ is £4844.

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QUESTION NUMBER Four

I trust this answers your query.

~~Yo~~ Yours Sincerely.

T. Advisor

NB: Year of separation is 2016/17. Transfers at no gain / no loss for that tax year. in 2017/18 Paul and Frances are connected, but no gain / no loss treatment does not apply. Therefore Frances would have CGT to pay on transfer to Paul should he decide to keep the house. Transfer is at market value. Should result in less tax overall still, ~~as~~ ~~a~~ ~~f~~ but difference is less pronounced.

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QUESTION NUMBER FIVE

Meeting notes
Re: Judy
Termination Payment
3 May 2017

£20,000 PILON. Not contractual so will not be earnings. ~~Eligible for~~ Taxed as termination payment.

£20,000 ex-gratia also not contractual. If made as a pension contribution, this is an exempt benefit.

£30,000 exemption applies. No tax on first £30k: Although this is reduced by any statutory redundancy pay.

Legal fees are exempt, so no tax.

No NICs as not taxable as earnings.

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QUESTION NUMBER FIVE

~~Th~~ Any ~~taxable~~ amount will be reduced by foreign service.

3/10 of amount after £30k exemption will be relieved.

After relief, any taxable amount is taxed ~~at~~ as top-slice income as non-savings rates.

	Pension	Cash
PILON	20 000	20 000
Pension / Cash	exempt	20 000
legal fees	exempt	exempt
Exemption	(30 000)	(30 000)
	nil	10 000
foreign service	–	(3 000)
taxable	–	7 000

recommend pension contribution if this does not cause annual allowance issues.

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QUESTION NUMBER FIVE

Will not meet full foreign service exemption as has not worked overseas:

- 75% of working years
- last 10 years of working
- 10 of last 20 years of working and 50% overall

Rent - a - room

If rent below £7500, exempt and no tax retur required

If above, can either deduct allowable expenses or £7500. The excess is taxable.

£7500 exemption is automatic if gross rent below this amount. It must be claimed otherwise.

Where taxable, reported on tax return.
Tax as non-savings income

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QUESTION NUMBER FIVE

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Return is for period 6 APRIL - 5 APRIL.

Tax due 31 January following end of tax year.

Rent-a-room will not affect claims to principal private residence relief.

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QUESTION NUMBER

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QUESTION NUMBER SIX

firm's address

client's address

date

Dear Michael,

Thank you for the recent information you have provided. I outline my thoughts below.

Non-resident Landlord (NRL)

As a NRL you and Jason have certain obligations under ~~the~~ HMRCs NRL scheme.

Jason is acting as your agent. He must therefore register with HMRC and deduct basic rate tax (20%) from any rent he collects.

This deducted rent ~~is~~ & is passed to HMRC, and is available as a tax credit on your tax return.

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QUESTION NUMBER	SIX

Alternatively, you can register with HMRC and apply to receive rent gross.

To be eligible, you must complete tax returns and be up to date with your tax affairs.

HMRC will issue a non-resident landlord number to pass to Jason (or any other agent) allowing them to collect rent without deduction.

Tax liability

As a non-resident, your tax liability is limited to UK income and gains. I have performed two calculations, one under standard rules (Appendix One) and one under disregarded income rules (Appendix Two).

~~Dis~~ Disregarded income limits your tax liability to tax at source on certain income, but you lose the ability

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QUESTION NUMBER SIX

to claim a personal allowance that you are otherwise entitled to as a British Citizen.

Based on these calculations, you should claim your personal allowance and use normal calculation

If you have further queries please let me know.

Yours Sincerely

T. Manager

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QUESTION NUMBER	SIX

Appendix One, normal calculation

	NS	S	D
Rent (w1)	31 427		
Interest		1726	
Dividend			9100
PA	(11 000)		
	20 427	1726	9100

NS:	20 427	@ 20%	4085
S:	1000	@ 0%	-
	726	@ 20%	145
D:	5000	@ 0%	-
	4100	@ 7.5%	308
	31 253 (within BRB)		4538

(w1)	Gross	66 000
	Jason Sal.	(15 000)
	CC sal. (4500 × 2)	(9 000)
	Insurance	(2362)
	Repairs	(8211)
		31 427

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QUESTION NUMBER SIX

Appendix Two .. disregarded income

Rent (wi)	31 427
Tax @ 20% (within BRB)	6 285
add tax at source on dividends:	
(9 100 @ 7.5%)	683
less credit on dividen income	(683)
Interest; no tax at source so	
limited to nil	-
Tax due	6 285

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QUESTION NUMBER SIX

NB: In appendix one, i have not included the tax credit available to non-residents on dividend ~~in~~ income. This would cancel out the £308 tax~~ed~~ due on the dividends.

The credit is non-repayable and is limited to the amount of dividends charged to tax, so no further deduction applies.

This does not change the advice ~~as~~ to ~~to~~ claim personal allowance.

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QUESTION NUMBER

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EXEI