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(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

pm

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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

☐ VAT on UK Domestic Transactions, IPT & SDLT

☐ Inheritance Tax, Trusts & Estates

☐ Human Capital Taxes

☑ Taxation of Individuals

☐ VAT on Cross-Border Transactions & Customs Duties

☐ Taxation of Major Corporates

☐ 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.

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5		**10**	

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QUESTION NUMBER	1

Marinas Personal Income tax liability 2017/18

	Non-savings	Savings	Dividends
(W1) Employment income	46,379		
Dividend (2600 x 5)			13000
~~UK pro~~ UK property Income	2000		
Bank interest		1000	
- deductible payment			
Interest on loan	(1500)		
	46879	1000	13000
- Personal Allowance	(11,500)		
Taxable Income	35,379	1000	13000

33500	x	20%	6700
379	x	40%	152
500	x	0%	0
500	x	40%	200
5000	x	0%	0
8000	x	32.5%	2600
			9652
- deducted at source			5600
Tax liability			4052
- POA			1400
Balancing Payment			2652

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Workings

Employment Income (W1)

Salary		36,500
Underpayment - not included as already paid tax		0
Company Car		
list Price	18000	
- capital Contribution	(5000)	
	13,000	
13,000 x 37%	4810	
- non availability 3/12	(1203)	3607
Fuel benefit		
22,600 x 37% x 9/12		6272

The capital contribution is restricted to £5000

Total	46,379

Deductible payment

Deductible payment as loan taken out to purchase shares in a close company are deductible. A close company is

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a company controlled by 5 or fewer participate. In this case the only Shareholders are Marina and Marinas parents.

Rental Income

The properties in blueland and purpleland are ~~po~~ offset against each other. As there is no double taxation agreement in these countries double taxation relief is available. However as there is a loss a deductible relief is available as follows.

Loss in Purpleland		3000
Offset against Profit in Blueland	1500	
- deductible relief	(150)	1350
Loss to carry forward		1650

This loss can only be offset against Profits in the future. This allows Marina to utilise her tax paid in Blueland

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Otherwise it wald of been wasted.

As Marina is domiciled and resident in the UK she will be liable to UK tax on her worldwide income on an arising basis. The interest on the bank account in purpleland is taxable. Doble taxation relief is not available as no tax was paid in Purpleland.

Doble taxation relief is available to be ~~are~~ deducted from tax liability on the lower of foreign tax paid or UK tax.

Payments on account
POA are not required where the tax liability is less than £1000 or greater than 80% of tax has taxed at source. This is not the case here.

PoA are based on 50% of last years tax liability payable on 31 January

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in the tax year and 31 July following the tax year. A balancing payment is due 31 January following the tax year.

Marinas balancing payment is £2652 payable on 31 January 2019 along with her first payment on account for the tax year of ~~[illegible]~~ £2025 (50% of £4052)

The second POA is due 31 July 2019 of £2025.

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Kenny Personal Income Statement 2017/18

	Non-savings	Savings	Dividend
Interest on loan		9375	
Offshore fund	3000		
UK dividends			12000
	3000	9375	12000
-Personal Allowance	(3000)	(8500)	
Taxable Income	0	875	12000

875 x 0%	0	
5000 x 0%	0	
7000 x 7.5%	525	
2500 x 20% (insurance bond)	500	
Tax liability	~~535~~	1025
- Tax deducted at source	~~(1875)~~	1875
Tax repayable	~~1350~~	850

No POA required as <80% of tax deducted at source and tax due is less < £1000

£9375 - £7500 = £1875

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Loan note

200,000 x 5% = 10,000 per annum

loan notes carry a 20% notional tax credit therefore need to grossed up.

As he only acquired on 1 July 2017 only 9 months are accured and reed reported on this tax return.

10,000 x 9/12 x 100/80 = 9375.

Non-reporting offshore fund.

Included within IT comp as it is non-reporting. A Reporting fund would be charged to CGT.

Proceeds	15,000
-cost	12,000
Gain	3 000

Taxed as non-savings.

Loan to brother is not taxable.

Insurance bond taxed as top slice of Income. however, no tax credit as ~~off~~ overseas.

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	BRB
BRB	33,500
Add gross donation	
1000 x 100/80	1250
Revised BRB	34,750

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QUESTION NUMBER 2.

To : Harriot Walton
From : Tax Advisor
DATE : 1 May 2018
RE : Income tax implications - pension contributions

Hi Harriot

I Hope you are well.

Thank you for our recent ~~metting~~ meeting. Your tax ~~actairs~~ affairs will be discussed below:

Pension Contributions

~~An employee~~ An individual can contribute up to £3600 or 100% of relevant earnings into a pension scheme. ~~Pension Scheme~~ Relevant earnings include employment income (including benefits in kind £14,240) and income from furnished holiday lettings. Therefore based on the information provided you could contribute your annual salary £56,750 plus your bik of £14,240

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If your rental profits were from furnished holiday lets this could be include. Total relevant earnings is £70,990.

However, there is an annual allowance of £40,000 which will receive relief. ~~This annual~~ from tax. Anything above this will be taxed to income tax as your top slice of income taxed at the higher rates if applicable. The annual allowance is increased by unused relief from the previous three years. From the information provided your carry forward amount is £43,200. The annual allowance is tapered by £1 for every £2 of adjusted income above £150,000 for individuals with threshold income above £110,000. However it cannot be reduced below £10,000.

As you are part of final salary scheme the amount of pension which ~~can~~ is contributed is the increase in value

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of rights from the start of the year until the end of the year. The opening figure would be adjusted for inflation however, for this purpose inflation has been ignored. From Appendix 1 it can be seen that the contribution made by your self is £60,800 plus employer contributions of £7,000. The annual allowance has been tapped ~~by~~ to £~~15,125~~ 10,000 based on the calculations. Add this to your brought forward allowance of £43,200 and you have overfunded the pension, therefore tax relief is limited. You will pay tax at your top slice of income on the overfunding of £23,600 x 40% = 9440. This payment can be made out of the pension scheme as it is greater than £2000, however an election must be made for this to apply.

If you require anything further, ~~do not~~ contact me.
King regards

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tax advisor

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Appendix 1

Value of rights at end of year	
63000 x 16 x 12/60	201,600
Value of rights at start of year	
48000 x 16 x 11/60	140 800
Contribution	£60,800

~~Threshold income and adjusted income is below £110,000~~

~~Salary~~ Threshold income is in excess of £110,000 as follows:

Employment Income	
48,000 x 5/12 + 63000 x 7/12	56,750
Benefits	14,240
Rental income	78000
~~Add: occupation pension scheme~~	~~60800~~
	148,990 ~~148,750~~

Therefore need to check if Adjusted income is in excess of £150,000.

Employment Income	56,750
Benefits	14,240
Rental income	78,000
Add: occupation pension scheme	60800
Employers contribution	7000

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	216,790 ~~206,550~~
Threshold	(150,000)
	66,790 ~~52,550~~
52,550 / 2 = ~~26,275~~ 33,395	
Annual Allowance	40,000
- Taper (restricted	~~26,275~~ 30,000
Annual allowance 2017/18.	~~13,725~~ 10,000

Therefore overfunded by ~~40,875~~ 23,600

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QUESTION NUMBER 3.

Tax Advisor ~~Address~~ Name
Tax Advisor Address

Mr Brian Williams
Clients Address

DATE

Dear Mr Brian Willaims

Thank you for getting in touch in relation to your tax ~~act~~ affairs, these will be explained below:

Disposal of Car
A car is a wasting chattel for capital gains tax purposes and therefore will be completely exempt from tax.

Disposal of Warehouse
As you have only disposed of a part of part of the land. this will be a part disposal of land. A small part disposal

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of land is available if proceeds do not exceed £20,000 or the proceeds do not exceed 20% of market value of land. This is clearly not the case here and a part disposal will arise. Calculated as Proceeds minus incidential costs of sale which include agent fees and ~~fe~~ legal fees. From this we then deduct the cost of the property and the enhancement expenditure. Enhancement expenditure is only available if it is reflected in the state of the property on sale in which case from the information provided it seems to be. However, part disposals are calculated using the formula A/A+B. Please refer to Appendix A for the calculation.

Enterprise investment scheme

In order to qualify to be a EIS Scheme the company must meet the following conditions:

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- UK permanent establishment
- Good financial health
- Must be a trading company and must note trade in the following "excluded activities - dealing in land, banking, insurance, farming or market gardening.
- The gross assets must not exceed £15 million before the share issue and not exceed £16 million after the share issue.
- No more than 250 employees.

The shares issued must be ordinary shares which do not carry any preferential rights to dividends or assets on the winding up.

You must also meet the following conditions if you are to receive a tax benefit:
- No connection with the company two years before the issue of shares and three years after the issue of shares. You must not be an employee of the

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company and you must not acquire more than 30% of ordinary share capital of the company.

The purpose of the issue of shares must be ~~for~~ the purpose "of business growth and development" and the money raised must be spent within two years.

If these conditions are met by JS Packaging which they seem to be and you are a qualifying investor in which you seem to be as your are only acquiring 5% of the shares and are not connected to the company.

You will receive an income tax reducer up to the maximum investment limit of £1,000,000. You will receive a tax reducer of 30% which can be offset against income tax liability, however cannot create a repayment. The amount invested is £125,000,

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Therefore a ~~no~~ tax reducer of £37,500 is available. This can be offset in the current year ~~of the~~ or in the preceeding year if a claim is made.

If the shares are held for 3 years the shares will be exempt from capital gains tax. If they are sold within 3 years there will be a clawback of the original income tax reducer. Any gift of shares to your spouse will not clawback the relief.

EIS Reinvestment relief is available whereby you can defer the gain of an asset by investing ~~with~~ in an EIS company. Therefore the gain on the warehouse can be deferred. The time frame for the investment is 12 months before the disposal and 36 months after the disposal. The amount which can be defered is the lower of:

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i The gain
ii The amount reinvested
ii desired amount.

You may not want to defer the whole gain as you want to use up your annual exemption of £11,300. The maximum amount you can defer is the amount reinvested as this is the lowest £125,000. ~~This will not be fully~~ This gain will be deferred and will cryatise when the EIS shares are sold.

If you desire you could subscribe for more shares up to a holding of 30% and gain more income tax reducer or defer more of the gain. Any loss on the shares can be offset against income tax under s.131 in the year of loss or the prior year

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Capital gains tax is payable 31 January following the tax year i.e 31 January 2019.

If you require anything further please do not hesitate to contact me.

Yours Sincerely,

Tax Advisor

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Appendix

Sale of warehouse

Proceeds	976,500
- incident cost of sale (19,530 + 3500)	(23 030)
	953,470
- cost	
475,000 x 976,500/976,500 + 50,000	(451,863)
- Enhancement expenditure	
~~??~~ 173,600 x 976,500 / 976500 + 50,000	(165,144)
Gain	665,751
- Annual exemption	11,300
~~th~~	654,451
Tax @ 20%	£130,890

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Briefing Note

To: Tax partner
RE: Anti-avoidance legislation - Transfer of assets abroad.

~~In~~ Transfer of assets abroad legislation come into play when a UK resident individual transfers assets into an ~~off~~ offshore trust for the benefit of the tax payer or family member. As the grandmother was resident and domiciled in the UK and she transferred assets offshore the legislation will come into play as the grandmother must prove that she transferred the assets on a bona fide commercial reasons which are not clear from the information provided. This "safe harbar" defence is difficult to prove and therefore the rules will apply as it is likely avoidance of tax was the motive
S.720 of ITA 2007 states that when the

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individual has power to enjoy income as a result of the relevant transaction then income is taxed to income tax. However the grandmother is excluded from the benefit.

Therefore S. 731 comes into play which states that income tax is charged on the individual receiving a benefit as a result of the relevant transaction. As the grandmother does not have the power to enjoy the income it will be taxed on the beneficiaries. As the uncle, aunt and brother are all non-resident, there will be a charge to tax under this section on any matched deemed income. The relevant income is compared with the benefits received and the benefits received is matched with the relevant income. Any amounts unmatched are carry forward.

The grandmother will have no consequences.

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~~Paul will have to pay income tax on the market value of the house for the two months in which he lived in the house rent free. He will also be taxed on 25% of the annual income of 50,000.~~

As the house has been transferred to Paul, and he begins ~~ren~~ letting out a room he has an obligation to notify HMRC of this chargeability 6 months after the year end ie 5 October 2019. Failure could result in penalties.

Paul must report report 11 months of rental income on his tax return. Rent a room relief is available where income is < £7500 the income is exempt. the income is £7700 therefore it is reportable. Rent a room relief allows Paul to assume his expenses are £7500 and therefore report a profit of £200. If expenses are higher, rent a room should not be claimed

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in order to cryalise a loss.

	Non savings	Savings	Dividends
Employment income	50305		
Distribution trust			
10,000 x 100/55	18,182		
- personal Allowance	(11,500)		
	56,987		
36000 x	20%	=	7200
20987 x	40%		8395
Tax liability			15,595
- deducted at source			(8182)
Tax liability.			7413

	BRB
BRB	33,500
Add gross pension	2500
	36000

I Hope this is helpful.

Yours Sincerely
Tax Advisor

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QUESTION NUMBER 5

Briefing Notes

To: Senior Manager
From: Tax Advisor
RE: Accelerated Payment Notice.

In recent years there has been higher importance on GAAR in order to deter taxpayers from entering into abusive arrangement, and to deter would be promoters from promoting such arrangements.

Accelerated payment

HMRC may give a notice to a person if conditions A to C are met.

Condition A: a tax enquiry is in progress into a return or claim in relation to a relevant tax or the taxpayer has made a tax appeal in relation to a relevant tax but that appeal has not yet been

i determined by the tribunal or court

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ii abandoned or otherwise disposed.
Condition B is that the return or claim or, as the case may be appeal is made on the basis that a particular tax advantage results from particular arrangements.
Condition C. HMRC has given the tax payer a notice in relation to the same return or claim or as the case may be, appeal and by reason of the same tax advantage and the chosen arrangements, the chosen arrangements are DOTAS arrangement.

If representations about a notice the taxpayer has 90 days beginning with the day that notice is given to send a written representation to HMRC.

If there is no representation then payment is required 90 days beginning with the day on which the accelerated payment notice is given.

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~~If no payment~~ i. If representations were mach the payment is due the later of:

- 90 day
- 30 days beginning with the day is notified of HMRC determination.

If payment is not mach penalties arise of 5% of that amount unpaid. If the accelerated payment is unpaid after the end of the period of 5 months a penalty of 5% is due. If unpaid more than 11 months then there will be a furthe liability of 5% of the ament.

I Hope this is helpfull

Yours Sincerely

Tax Advisor.

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QUESTION NUMBER 6.

Rental income (19,800+8400+14000 +4500)	46700
~~Less~~ expenses	
Allowable running costs	(11,000)
loan interest (Allowable in full)	(12000)
~~Repair~~ Repair	(20,000)
- computer (A)	(1000)
Rental income	~~2~~2,700

The new furniture costs are not allowable as capital in nature. ~~as well as the~~ FHL do not get replacement domestic items relief. Capital Allowances are availble on the new computer.

Election can ~~be~~ made to average the ~~the~~ two cottages 1 and 3 to ensure the let condition is met which is the property must be let for 105 days. An election can also be made for the period of grace where if the failure to meet the letting condition but there

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was a genuine intention to meet the letting condition, the accomodation is treated as FHL. An election must be made on or before the first anniversary of the normal self-assessm ie 31 January 2020.

Cottage 2 + 4 do not meet the letting condition therefore the election are wide. If no election is made only 75% of the ~~mor~~ loan interest would qualify.

~~David~~ Peter	Non savings	
Employment income	75000	
Reental income	1350	
- Personal Allowance	(11500)	
Taxable income	64850	
33500 x 20%		6700
31350 x 40%		12540
Tax liability		19240
- deducted at source		20,000
Repayable.		760

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David	Non savings
Employment	110,000
Rental Income	1350
	111,350
- Personal allowance	(5824)
	105,526
33,500 x 20%	6700
72 026 x 40%	28810
Tax liability	35,510
- deducted at source	(38,000)
Repayable	2490

PA	~~100~~ 11,500
111,350-100,000 x1/2	(5675)
	5824

Capital vs Revenue

Revenue expenses are deductible when calculating rental profits. Revenue expenses include any expenses

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which are wholly & exclusively for the nature of the trade. Genuine repairs are allowable, ~~which~~ whereas if ~~a~~ there is an element of improvement this will be disallowed as it will be capital in nature.

If you were to swap properties as they are similar value there will be no ~~£~~ capital gains tax liabilities. If however the cottages change in value there will be a ~~part~~ disposal for both David and Peter. Disposal of FHL will be eligible for Entrepreneurs relief ~~and~~ which enables the gains to be taxed at 10% rather than 20%. ER is available up to the lifetime limit of £10 million. As David wishes to move into ~~the~~ one of the house's on the subsequent sale of Cottage 4 it will no longer be eligible for ER. However, PPR relief is available as this is once his principle private

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residence. Periods of absence will have been created as David did not live in the property for the whole ownership. Letting relief is available for the period of absence at the lower of:

- 40,000
- PPR
- Gain attributable to the letting period.

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