

The Chartered Institute of Taxation

Awareness

Module D: Taxation of Individuals

May 2023

Suggested solutions

Answer 37

	Total £	NS £	S £	D £	
Employment income	25,000	25,000			
Interest on Treasury Stock	8,000		8,000		1
Interest on National Savings Certificates*	0		0		1
Dividends	15,000			15,000	
Total income	48,000	25,000	8,000	15,000	1
Less deductible payment	(500)	(500)			1
Net income	47,500	24,500	8,000	15,000	
Personal Allowance	(12,570)	(12,570)			
Taxable income	<u>£34,930</u>	<u>£11,930</u>	<u>£8,000</u>	<u>£15,000</u>	1

* Interest on National Savings Certificates is exempt.

Answer 38

	£	
Salary	30,000	
Car benefit: £45,000 x 5%	2,250	1
Loan write off	8,000	1
Christmas party (> £150 per head)	160	1
Bouquet of flowers (exempt as a trivial benefit for a non-work reason)	0	1
Payroll giving scheme (£10 x 12)	(120)	1
Employment income	<u>£40,290</u>	

Answer 39

The annual allowance for 2022/23 is £40,000. However, this must be tapered if Francisco is a 'high income individual'. 1

A high income individual is one whose threshold income exceeds £200,000 and whose adjusted income exceeds £240,000. 1

Francisco's 'threshold income' is his net income of £280,000 less gross personal pension contributions paid by him, so $£(280,000 - 12,000) = \underline{£268,000}$ which exceeds £200,000. 1

Francisco's 'adjusted income' is his net income of £280,000 plus employer contributions into any scheme, so $£(280,000 + 50,000) = \underline{£330,000}$ which exceeds £240,000. 1

As Francisco's adjusted income exceeds £312,000, his annual allowance for 2022/23 is tapered to the minimum amount of £4,000. 1

Answer 40

Omar – Class 1 Primary

	£	
£(50,270 – 11,908) x 13.25%	5,083	1
£(66,000 – 50,270) x 3.25%	511	1
	<u>£5,594</u>	

Welba Ltd - Class 1 Secondary

£(66,000 – 9,100) x 15.05%	£8,563	1
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Class 1B

£1,800 x $\frac{100}{60}$ = £3,000 x 15.05%	£451	1+1
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Answer 41

	£	£	
Taxable interest income: £2,400 ÷ 2		<u>1,200</u>	1
Property income:			
From renting out a room in their main residence: £18,000 ÷ 2*	9,000		
Less rent-a-room relief: £7,500 ÷ 2	<u>(3,750)</u>		1
		5,250	
From renting out the driveway: £2,200 ÷ 2*	1,100		1*
Less property allowance	<u>(1,000)</u>		1
		100	
Taxable property income		<u>£5,350</u>	1**

* For splitting the property income equally.

** For no deduction of expenses.

Answer 42

- 1) As Property 1 qualifies as a Furnished Holiday Letting (FHL), the replacement of domestic items rules do not apply and the full cost of the replacement microwave oven is allowable capital expenditure for capital allowances purposes. 1

The cost of the replacement fitted kitchen units in Property 3 is an allowable expense as a repair to the property. 1

The mortgage interest paid on Properties 1 and 2 is an allowable deduction against UK property income as both properties qualify as FHLs. 1
- 2) Relief for the loss on Property 1 is given by offsetting against the profit on Property 2 as they are both in the UK. 1

However, the loss on Property 3 can only be relieved by carrying forward for offset against future overseas property business profits. 1

Answer 43

Effect on tax bands re gift aid donation:	£	£	
Basic rate/Intermediate rate	13,118	31,092	
Plus gross gift aid donation	2,400	2,400	
	<u>£15,518</u>	<u>£33,492</u>	1
Income Tax:			
£			
2,162 x 19%		411	1
<u>13,356</u> x 20%		2,671	1
15,518			
<u>17,974</u> x 21%		3,775	1
33,492			
<u>106,508</u> x 41%		43,668	1
<u>140,000</u>			
Income Tax liability		<u>£50,525</u>	

Answer 44

The gain on the sale of the house is wholly exempt under PRR if the owner has actually occupied or is deemed to have occupied the house throughout the period of ownership. 1

1 July 2011 – 22 December 2011: this period of absence is treated as deemed occupation as renovation prior to occupation is a qualifying event, and the period of absence is no longer than 24 months. 1

23 December 2011 – 30 June 2014: actual occupation.

1 July 2014 – 30 November 2017: any period spent overseas by reason of employment is deemed occupation as long as it is both preceded and followed by actual occupation. 1

1 December 2017 – 31 October 2021: actual occupation.

1 November 2021 – 1 July 2022: the last nine months of ownership are deemed occupation. 1

Answer 45

<u>Exercise of options</u>	£	
Market value at the date of exercise = 10,000 x £6.25	62,500	
Less cost:		
Of grant: 10,000 x 5p	(500)	1
Of shares: 10,000 x £4	<u>(40,000)</u>	
Employment income at exercise	<u>£22,000</u>	1
Income tax at 40% x £22,000	£8,800	1
Class 1 Primary NIC (as readily convertible assets) at 3.25% x £22,000	£715	1
<u>Sale of shares</u>		
Proceeds = 10,000 x £6.75	67,500	
Less Market value at exercise	<u>(62,500)</u>	
Chargeable gain	<u>£5,000</u>	1

Answer 46

Under the sufficient ties test, as Ameera was not resident in any one of the previous three tax years and spent 156 days in the UK during 2022/23 (1 November 2022 to 5 April 2023), she would need two or more ties to be UK resident. 1
1

Family tie: Ameera has a spouse who is UK resident.)1
Accommodation tie: Ameera has accommodation available to her in the UK in which she spends at least one night during the tax year.)1
90 day tie: Ameera spent at least 90 days in the UK in either of the two previous tax years.)*

As Ameera has at least two ties to the UK, she will be UK resident in 2022/23. 1

* Any two of the three.

Answer 47

	<i>Investors'</i> <i>Relief gains</i>	<i>Other gains</i>	
	£	£	
Shares in Gernayne Ltd (W)	21,150	21,150	1*
Annual exempt amount		(12,300)	1
Taxable gains	£21,150	£8,850	
Capital Gains Tax @ 10%/20%	£2,115 +	£1,770 =	£3,885 1+1
(W) Gernayne Ltd shares	£		
Proceeds	62,000		
Less cost £(8,500 + 11,200)	(19,700)		
Chargeable gain	£42,300		1

* Note that the gain on the sale of the shares in Gernayne Ltd must be apportioned since the shares subscribed for on 1 August 2018 qualify for Investors' Relief but the shares subscribed for on 20 February 2014 do not as they were subscribed for pre 17 March 2016.

Answer 48

Because Liev:
- is an employee and has tax deducted as source via PAYE, and 1
- the amount owed is less than £3,000 and, 1
- he filed his return online before 30 December 2022, 1
the additional Income Tax owed will be paid via PAYE during 2023/24 by adjusting his tax code. 1

Alternatively, Liev could pay the additional amount owed by 31 January 2023. 1