

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Individuals

May 2021

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.
- Except as set out below or indicated by additional information in the question, you may assume that 2020/21 legislation (including rates and allowances) continues to apply for 2021/22 and future years.

1) You MUST assume that the UK remains within the European Union.

2) You MUST ignore all temporary Covid related legislation including furlough, grants, loans and the reductions in VAT and SDLT rates.

Except in relation to points 1) and 2) above, 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 senior in a firm of Chartered Tax Advisers. Julia Anderson has been a client of your firm for many years.

Julia has emailed your manager, Malcolm Clark, requesting tax advice in relation to her future plans (**EXHIBIT A**).

Julia has included further information in an attachment to her email (**EXHIBIT B**).

The following exhibits are provided to assist you:

EXHIBIT A: Email from Julia Anderson

EXHIBIT B: Attachment to email from Julia Anderson

EXHIBIT C: Pre-seen information

Requirement:

Prepare a draft report advising Julia Anderson on the issues raised in her email and recommending the best way to structure her tax affairs going forward.

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Continuation

EXHIBIT A

Email from Julia Anderson

To: Malcolm Clark
From: Julia Anderson
Date: 30 April 2021
Subject: Tax Advice

Dear Malcolm

I would like to let you know of some changes which I believe may impact my tax position. I will be having major work carried out at 2 Orchard Road, Bournemouth, and also buying a new property at 7 High Street, Coventry. Details are as follows:

2 Orchard Road, Bournemouth

The long-term tenants moved out of this property on 31 March 2021 and it has been empty since, as I was unable to find suitable new tenants.

Therefore, I have decided to let the house short-term to holidaymakers instead. Before the letting starts, I am going to have some building work carried out. The work will involve a complete re-design of the interior structure and an extension to add an additional bedroom. This will cost £200,000 and should make the house both more attractive to the holiday rental market and easier to sell in due course as the house will be significantly improved by the work done.

I have recently had both 2 Orchard Road and my residence at 15 Round Road valued. It is anticipated that once complete, the work at 2 Orchard Road will add £200,000 to the value of the property, so it should pay for itself. I have attached a copy of the property valuation report covering 2 Orchard Road and 15 Round Road along with a breakdown of the projected income and expenses from the letting of 2 Orchard Road (**EXHIBIT B**).

Letting the house to holidaymakers will bring in around £7,000 profit each year. Furniture in the property will be hired rather than bought, in order to ensure it is always in good condition for tenants, and to reduce my financial exposure to the risk of damage.

7 High Street, Coventry

As part of my employment, I spend one week every month working in Coventry. Currently, my employer covers all costs of accommodation and travel relating to this, because my workplace in Coventry is 100 miles away from my normal workplace in Bristol.

From 1 September 2021, my son Steven will be attending University in Coventry.

As a result of both of the above, I have decided to buy a house in Coventry: 7 High Street. I made an offer of £250,000 for this property, which has been accepted by the seller. I expect house prices in Coventry to rise substantially over the next few years, due to planned infrastructure improvements in the area, so I believe buying the house will turn out to be a good financial decision.

7 High Street has four bedrooms. Steven will use one room and, depending on your advice, I will also use one bedroom myself if I stay at the house while working in Coventry. I will let the spare bedrooms to students at a rent of £500 per month for each room. Steven is not very good with money and therefore I am considering charging him the same rent as the other students. If I do so, I will put aside all the money he pays me to give back to him after he graduates.

Continued

Continuation

Therefore, if I stay at the house there will be two rooms to let, if I don't stay there will be three rooms to let.

If I stay at 7 High Street while working in Coventry, my employer will pay me a round sum allowance of £500 per month instead of paying for my hotel accommodation as they have done previously. Otherwise, they will continue to pay for my hotel accommodation. My travel costs to drive to Coventry and back will still be covered by my employer at 45 pence per mile regardless of where I stay while there.

I anticipate that my allowable expenses relating to the rental will be £3,000 per year (not including mortgage interest). This amount will not change significantly regardless of whether I stay at 7 High Street, because the tenants will each be responsible for paying their own portion of council tax and utility bills.

I would like your advice on whether I would be better off with the £6,000 round sum allowance from my employer, or the £6,000 I would get from renting the extra room at 7 High Street, once tax and National Insurance are taken into account.

Funding

The purchase of 7 High Street and the refurbishment of 2 Orchard Road will cost £450,000 in total. I will use the funds in my ISA account to pay £250,000 towards this, and will raise a further £200,000 through a mortgage. I will pay any additional acquisition costs from my savings.

The interest rate on my mortgage will be fixed at 5% for the next five years. I anticipate that I will repay the mortgage within the five-year fixed rate period by selling 2 Orchard Road.

My mortgage adviser has advised me that the mortgage can be secured against either 7 High Street or 2 Orchard Road.

Kind regards

Julia

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EXHIBIT B

Attachment to email from Julia Anderson

Extract from Valuation Reports

	<u>15 Round Road, Bristol</u>	<u>2 Orchard Road, Bournemouth</u>
Type of property:	Detached house	Detached house
Current use:	Residential	Vacant
Current market value:	£350,000	£350,000
Projected market value after completion of proposed work:		£550,000
Date of report:	1 May 2020	1 May 2020

2 Orchard Road, Bournemouth

Forecast annual income and expenses if let to holidaymakers.

	£
Rent receivable	20,000
Less expenses:	
Management and marketing costs	3,000
Rental of furniture and furnishings	4,000
Repairs and maintenance (including cleaning and laundry)	3,000
Insurance	2,000
Accountancy fees	1,000
Profit	<u>7,000</u>

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EXHIBIT C

Pre-seen information

Julia Anderson – Background Information

Client name: Julia Anderson
Date of birth: 5 April 1963
Marital status: Single, not living with a partner
Country of birth: England
Domicile: England & Wales
Tax Residence: England
Employer: WeLoveWork.com
Salary: £40,000 per annum
Benefits: Medical insurance (£1,300 per annum)
Other income: Child Benefit (£21.05 per week for first child and £13.95 per week for subsequent children)

Children: Steven, age 18
Anna, age 13
Jessica, age 13

Will: No Will

Julia Anderson – Asset Schedule at 31 March 2021

<u>Asset</u>	<u>Base cost</u> £	<u>Notes</u>
15 Round Road, Bristol	250,000	Purchased May 2004. Main residence for entire period of ownership. Owned outright with no mortgage.
2 Orchard Road, Bournemouth	100,000	Inherited in May 2004 at probate value of £100,000. Let to long term tenants since May 2004. Owned outright with no mortgage.
Stocks and shares ISA	N/A	Current market value £250,000.

Julia Anderson – 2020/21 Tax Return

Tax Calculation

	£
Pay from all employments	40,000
Plus benefits and expenses received	<u>1,300</u>
Total from all employments	41,300
Profit from UK land and property	<u>7,200</u>
Total income received	48,500
Minus Personal Allowance	<u>(12,500)</u>
Total income on which tax is due	<u>36,000</u>
Income tax charged	
Basic rate £36,000 x 20%	<u>7,200</u>