

The Chartered Institute of Taxation

Advanced Technical

Taxation of Individuals

November 2022

Suggested solutions

ANSWER 1

Wesley's Capital Gains Tax Liability will be as follows:

	£	
Insurance Proceeds	1,520	(W1)
Shares	19,434	(W3)
Lease	0	(W6)
	<u>20,954</u>	
Annual Exempt Amount	(12,300)	
Losses Brought Forward	<u>(2,740)</u>	
Taxable	<u>5,914</u>	x 20% = £1,183

W1 – Insurance Proceeds

The receipt of compensation for a damaged asset is classed as a part disposal of that asset. However, Wesley can make an election under s.23 TCGA 1992 to defer the gain on the insurance receipt until the property is sold. The claim must be made within four years of the end of the tax year in which the compensation was received.

As he has not spent the full amount, a gain will still arise if the amount retained is not "small". Small for this purpose is defined as being either:

- (a) Less than £3,000; or
- (b) Less than 5% of the amount received

Wesley has retained £11,500 out of £80,000. This amount is not classed as small and a gain will arise as follows:

	£	
Proceeds Retained	11,500	
Less:		
Cost	(W2) (7,131)	
Enhancement	(W2) <u>(2,849)</u>	
Net Gain	<u>1,520</u>	

W2

Allowable cost/enhancement = amount spent x A/(A+B)

A = Proceeds retained

B = Value of property after restoration

Therefore:

A = £11,500

B = £265,000

Allowable Cost = £171,450 x ((11,500 / (11,500+265000))) = £7,131

Allowable Enhancement = £68,500 x ((11,500 / (11,500+265000))) = £2,849

W3 – Shares

The gifts are deemed to be disposals at market value. Wesley may be able to make a claim for gift relief.

Any number of shares in an unquoted trading company will qualify for gift relief. To see if a company can be classed as a trading company for this purpose, HMRC will apply a 20% test as follows:

- (a) is more than 20% of the company's income generated from non-trading activities?
- (b) are more than 20% of the company's assets being used to generate non-trading income?
- (c) do more than 20% of the company's expenses incurred or staff resources relate to non-trading activities?

HMRC will look at all the facts and circumstances "in the round" when making a decision as to whether the company is trading and if the answer to all these questions is no, then the company will clearly be classed as a trading company.

The value of the storage units is less than 20% of the overall value of the assets held by the company and it is unlikely that the income, expenses or staff resources for the units is more than 20%.

This means that Wesley and Khloe can make a claim under s.165 TCGA 1992 for gift relief in respect of the gift to Khloe. This claim must be made within four years of the end of the tax year in which the gift was made.

The gain on the gift to Khloe will be as follows:

	£
Deemed Proceeds (Market Value)	18,250
Less Cost	<u>(1,000)</u>
	17,250
Gift Relief	(W4) <u>(15,066)</u>
Net Gain	<u>2,184</u>

Wesley cannot make a gift relief claim for the gift to Grace, as she is not a UK resident.

The gain on the gift to Grace will be as follows:

	£
Deemed Proceeds (Market Value)	18,250
Less Cost	<u>(1,000)</u>
Net Gain	<u>17,250</u>

W4

Where gift relief is being claimed on shares in a company that owns non-business chargeable assets, the amount of gift relief is restricted if either:

- i) The donor was able to exercise at least 25% of the voting rights in the company at any time in the 12 month period prior to the gift; or
- ii) The donor is an individual and the shares were in their "personal company". A "personal company" for this purpose is a company in which the donor can exercise at least 5% of the voting rights.

Therefore, Wesley's gift relief needs to be restricted.

Amount chargeable = $17,250 \times 90,000/710,985 = \text{£}2,184$

Gift Relief = $17,250 - 2,184 = \text{£}15,066$

W5 – Lease Premium

This is the grant of a short lease out of a short lease. If the rent payable under the sub-lease was higher than the rent payable under the original lease, it might be necessary to reduce the allowable expenditure when calculating the capital gain. This will not apply in this case as the rent payable is the same as under the terms of the head lease.

The amount subject to Capital Gains Tax is as follows:

	£	
Premium Received	35,000	
Less Cost	(W4) <u>(34,254)</u>	
	746	
Income Element	(W5) <u>(25,200)</u>	
	<u>(24,454)</u>	

Cannot create a loss, therefore net gain is nil.

W6

Allowable cost = lease premium originally paid x (%S-%X)/%Y

S = Years remaining when the sub-lease was granted

X = Years remaining when the sub-lease expires

Y = Length of head lease

Therefore:

S 17 years 9 Months

% for 17 years				66.470
% for 9 months:	18 years	68.697		
	17 years	(66.470)		
		2.227	X 9/12	<u>1.670</u>
				<u>68.140</u>

X 2 years 9 Months

% for 2 years				11.629
% for 9 months:	3 years	16.959		
	2 years	(11.629)		
		5.330	X 9/12	<u>3.998</u>
				<u>15.627</u>

Y 35 years

% for 35 years				91.981
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Allowable Cost = $\text{£}60,000 \times (68.140 - 15.627)/91.981 = \text{£}34,254$

W7

The amount of the premium that will be subject to Income Tax can be deducted from the capital gain.

The amount that will be subject to Income Tax is calculated as premium paid x ((50-(N-1))/50)

N = the number of years in the lease

Income element = £35,000 x ((50-14)/50) = £25,200

MARKING GUIDE

TOPIC	MARKS
Claim losses brought forward	½
Claim annual exempt amount	½
Calculate Capital Gains Tax due	½
Explain default treatment of receipt of insurance proceeds for damaged asset	½
Wesley can make S23 election	1
Time limit for S23 election	½
Gain still arises on proceeds retained if not small	½
Definition of small & impact on Wesley	1
Calculate gain on proceeds retained	½
Calculate allowable costs	2
Gifts are deemed to be disposals at market value	½
Explain conditions for shares to qualify for gift relief & apply to KG Ltd shares	2
Time limit for gift relief claim	½
Calculate gain on shares gifted to Khloe	½
Calculate gift relief	2
Cannot claim on gift to Grace	1
Calculate gain on shares gifted to Grace	½
Identify type of lease being granted	½
Discuss Anti Avoidance Rule	1
Calculate gain on premium	1
Calculate allowable costs	2
Calculate income element of premium	1
TOTAL	20

ANSWER 2

Sofia

There is anti-avoidance legislation, within section 3 TCGA 1992, which needs to be considered when a UK resident owns shares in a non-UK company. This provision applies to any foreign company that would be a 'close' company if it were UK resident, i.e. one which is controlled by five or fewer participators. As Sofia owns 100% of the shares in SolProp Ltd, it would be a 'close' company if it were UK resident and therefore falls within this provision.

Where these rules apply, chargeable gains made by the company can be automatically attributed to the UK resident shareholders of the company and subject to Capital Gains Tax (CGT) in their hands. Such capital gains are calculated as though the company were UK resident, with indexation relief available to reduce the capital gain. However, the gain is only attributed to shareholders if it is connected to tax avoidance, is not connected to a foreign trade and would not otherwise be subject to corporation tax.

In Sofia's case, she owns 100% of the shares in SolProp Ltd, therefore the entire gain would be attributed to her. Because her father explained the company was created to avoid capital gains tax, it is unlikely the motive defence will be available. The gain will therefore be attributed to her and she will be required to report the gain on her UK tax return and pay CGT on it at a rate of 18% or 28% (depending on the level of her other income and gains in the year), by 31 January 2023.

As Sofia is non-UK domiciled and the gain relates to a non-UK asset, she could claim the remittance basis of taxation in the year of disposal and keep the proceeds outside the UK, in which case no tax would be payable on the attributed gain. However, as Sofia has been resident for at least 7 of the previous 9 tax years, she would need to pay the £30,000 remittance basis charge to claim the remittance basis in 2021/22.

In addition, Sofia needs to bring the funds to the UK in order to buy her new home, so she will have to pay tax on the proceeds either in the year of disposal on the arising basis or on remittance of the proceeds to the UK on the remittance basis. Depending on the level of Sofia's other income and gains in 2021/22, it may not be worth her claiming the remittance basis, since she needs to remit the funds to the UK anyway, and both personal allowance and annual exempt amount would be lost on the remittance basis.

Extraction of funds

The proceeds can either be distributed by way of dividend or capital distribution. A dividend paid by a non-UK tax resident company to a UK shareholder is taxed as foreign income. Again, as Sofia is bringing all of the sale proceeds to the UK, it is not possible to claim the remittance basis to reduce the tax payable on the dividend.

As long as the distribution is made within three years of the accounting period in which the gain arises, Sofia will get a tax credit for the CGT paid on the attributed gain to reduce her tax liability on the dividend distribution.

If the company is no longer required and is liquidated so the funds are extracted by capital distribution, a further capital gain would arise on the deemed disposal of shares. The gain would be calculated as the funds Sofia received at the time of the liquidation less the value on the date that Sofia acquired them (probate value on her father's death). Any CGT paid in respect of the attributed gain that has not already been credited against her tax liability on the dividend distribution can be treated as an allowable cost when calculating the gain on the sale of shares. This would be subject to CGT at 10% or 20%, depending on Sofia's level of income/gains in the year.

MARKING GUIDE

TOPIC	MARKS
SolProp Ltd would realise a capital gain	0.5
- Outside scope of UK tax	0.5
Identification & explanation of s.3 TCGA 1992 rules	1.0
Definition of close company	0.5
Attribution of gain to UK shareholders	0.5
Subject to CGT	0.5
Gain only attributed if:	
- connected to tax avoidance,	0.5
- not connected to foreign trade, and	0.5
- not otherwise subject to corporation tax.	0.5
100% gain attributed to Sofia	1.0
Father's CGT avoidance motive = attribution of gain	1.0
Report gain on tax return	0.5
Pay CGT at 18% or 28% (depending on other income/gains)	0.5
Sofia is non-UK domiciled; remittance basis available	0.5
No tax if proceeds kept outside UK	0.5
Resident 7 out of 9 tax years	0.5
Payment of £30,000 remittance basis charge, loss of PA & AEA	0.5
Funds needed in the UK, therefore taxed either:	
- on arising basis in year of disposal or	0.5
- at point of remittance if remittance basis is claimed	0.5
- May not be worth claiming remittance basis	0.5
Extraction of funds as dividend:	
- Taxed as foreign income	0.5
- Tax credit for s.3 tax paid if within 3 years of accounting period	1.0
Extraction of funds as capital:	
- Potential second capital gain on disposal of shares	0.5
- No tax credit	0.5
- But s.3 tax allowed as deduction in calculating capital gain	0.5
- Tax rate 10% or 20% (depending on other income/gains)	0.5
TOTAL	15

ANSWER 3

Abdul has used an asset bought with offshore income on which he has claimed the remittance basis as collateral for a loan for funds which have been brought to the UK. This is a taxable remittance as it is a 'relevant debt' under ITA 2007, s.809L(3)(c). This would trigger a remittance of £600,000 being the lower of the overseas income used as security and the value of the funds brought to the UK. This would be subject to UK income tax unless reliefs are available.

If any of the investments made by Abdul qualify for business investment relief, the foreign income brought to the UK in order to make that investment is treated as not remitted to the UK. In effect, those funds are remitted tax free if the appropriate claim for relief is made.

The exemption from the remittance rules is not automatic. A claim must be made by the first anniversary of 31 January following the end of the tax year in which the funds are brought into the UK (i.e. 31 January 2024 for the 2021/22 tax year).

Conditions for relief

Business investment relief will be available if Abdul makes an investment in an 'eligible trading company'. An eligible trading company is a private limited company whose shares are not traded on a recognised stock exchange.

The meaning of 'trade' is relaxed for these provisions, with a business carried on for the generation of income from land (i.e. a property business) also considered a trade.

The investment must be made within 45 days of the date the funds are brought into the UK.

An investment can be made by way of loan but business investment relief is not available if Abdul has obtained an 'abnormal' benefit as a result of making the investment. Loan interest paid on commercial terms is not an abnormal benefit.

Jafar Property Investments Ltd

As the above conditions are met, business investment relief will be available on the £300,000 loan to Jafar Property Investments Ltd.

Karim and Abdul Ltd

As the above conditions are met, business investment relief is also available on this £50,000 investment.

Business investment relief can be made by an individual into a close company in which he is a participator.

In addition, as the company has EIS designation, Abdul will be able to claim income tax relief on the funds invested via his tax return.

The tax relief will be £50,000 at 30%, being £15,000.

EIS relief is not prevented by Abdul becoming a non-executive director in the period up to three years after the share issue.

Altaf Clothing

An investment into a partnership does not qualify for business investment relief.

As such, Abdul will be treated as having remitted foreign income of £225,000 and will be liable to UK income tax on this.

Snazzy Computers Ltd

The investment will not qualify for business investment relief as Abdul did not make this investment within 45 days of remitting the funds to the UK.

As such, Abdul will be treated as having remitted foreign income of £25,000 and will be liable to UK income tax on this.

Abdul and Hussain Ltd

As conditions are met, business investment relief would have been available on this investment in 2020/21.

Abdul has until 31 January 2023 to make a claim for business investment relief if has not already done so.

However, as Abdul has sold some of his shares in this company a taxable remittance will arise as he did not take a mitigation step to take the proceeds up to the amount of the original investment offshore and/or reinvest the actual disposal proceeds in another qualifying company, within 45 days of receipt of the proceeds.

As the disposal proceeds of £325,000 are less than the original investment of £1million, Abdul would have had to have taken £325,000 offshore or reinvested the disposal proceeds of £325,000 in another qualifying company.

As Abdul did not do this, a remittance of £250,000 (i.e. the base cost of the shares sold of 250/1,000 shares x £1,000,000) will arise. The taxable remittance is deemed to take place at the time of the 'chargeable event' (i.e. at the time of disposal, in 2021/22).

The original investment was comprised of a proportionate amount of the income and gains that were in the mixed fund immediately before the transfer was made i.e. £300,000 of foreign income and £700,000 of capital gains.

The amount remitted will be £75,000 of foreign income (£300,000 x 250/1,000) and £175,000 of capital gains (£700,000 x 250/1,000).

In addition, there is a gain arising of £75,000 on the disposal of the shares (proceeds of £325,000 minus base cost of £250,000, as calculated above). Neither BADR nor Investors Relief will be available as Abdul has not held the shares for long enough.

Abdul will be due to pay UK CGT on this gain by 31 January 2023. He will also be due to pay taxes on the remittances arising in the 2021/22 year by this date.

MARKING GUIDE

TOPIC	MARKS
Taxable remittance on amount brought to UK unless relief available	½
Deadline for making a claim	½
Eligible trading company definition	½
Trade includes property business	½
Investment can be by way of loan	½
45 day time limit	½
BIR not available if abnormal benefit	½
Interest is not an abnormal benefit	½
Application: BIR available on Jafar Property investments	½
EIS relief will also be available	½
Rate of EIS relief	½
No restriction due to being a non executive director	½
Application: BIR available on Karim and Abdul Ltd	½
Investment in partnership does not qualify for relief	½
Taxable remittance on this amount	½
Investment after 45 days in Snazzy Computers does not qualify for relief	½
Taxable remittance on this amount	½
Abdul and Hussain: BIR would have been available	½
Should make a claim by 31 January 2023 for Abdul and Husain if not already done so	½
Should have taken a mitigation step within 45 days	½
Outline of a mitigation step	½
Investment in listed companies is not a qualifying investment	½
How much should have been taken offshore/re-invested	½
Quantum of gross remittance and when it arises	½
Mixed funds interaction with BIR when investment made	½
Amount of foreign income remitted on disqualifying event	½
Amount of foreign gain remitted on disqualifying event	½
Gain arising on the share sale and due date for tax	½
Neither BADR nor IR available	½
EIS reinvestment relief available for £50,000 of gain.	½
TOTAL	15

ANSWER 4

		£
Salary		116,840
Employee Pension	(W1)	(7,010)
Car benefits	(W2)	9,484
Train Fares	(W3)	0
Parking Space	(W4)	0
Parking Penalty	(W5)	0
Share option	(W6)	16,378
Motorbike	(W7)	41,417
Professional subscriptions	(W8)	(145)
Training fees	(W9)	0
Total Taxable Employment Income		<u>176,964</u>

W1 – Pension Contributions

An employer's contributions to a registered pension scheme in respect of an employee are not chargeable as earnings.

The pension operates under the net pay arrangement scheme. This means that Emma's contributions are deducted from her gross salary.

W2 – Company Cars

Car 1

$$£55,730 \times 33\% = £18,390$$

$$\text{Available for two months. } £18,390 \times 2/12 = £3,065$$

Car 2

	£
List price	73,000
Accessories	2,000
Number Plates	27
Capital Contribution	<u>(5,000)</u>
	70,027

$$£70,027 \times 11\% = £7,702$$

$$\text{Available for 10 months. } £7,702 \times 10/12 = £6,419$$

$$\text{Total car benefit } £3,065 + £6,419 = £9,484$$

The maximum capital contribution that can be deducted is £5,000.

The benefit in kind cannot be reduced for the six weeks when Emma was unable to drive the car as it was still available for private use.

The £525 paid by Emma's employer for the right to use the personalised number plate does not form part of the vehicle's cost for tax purposes.

No deduction can be made for the £250 Emma paid to her employer for private use of the vehicle as this was made too late. The deadline is 6 July following the end of the tax year.

W3

No claim can be made by Emma in respect of the train fares incurred in travelling from home to work as this is ordinary commuting.

W4

No tax charge arises in respect of the cost of parking provided at or near an employee's place of work.

W5

As Emma's employer is the registered keeper of the vehicle and the penalty was fixed to the vehicle, the payment of the penalty does not give rise to any taxable income for Emma.

W6 – Share Option

	£
Market value at exercise £71 x 1,000	71,000
Price paid £52 x 1,000	<u>(52,000)</u>
	19,000
Employer's NI 19,000 x 13.8%	<u>(2,622)</u>
Taxable	16,378

The National Insurance treatment above is on the assumption that the company is a Plc and the shares are therefore Readily Convertible Assets.

W7 – Motorbike

The benefit in kind on an asset transferred is the higher of:

A) the market value at the date of transfer; or

B) the market value when the asset was first made available to the employee, less the amounts already taxed.

Market value at date of transfer: £35,000

	£
Market value when first made available	65,000
Taxed:	
2019/20 £65,000 x 20% x 7/12	(7,583)
2020/21 £65,000 x 20%	(13,000)
2021/22 £65,000 x 20% x 8/12	<u>(8,667)</u>
	35,750

Therefore, the benefit in kind is £35,750 - £3,000 = £32,750 (plus the £8,667 benefit in kind for the first eight months of the year.)

W8

Emma's subscriptions are an allowable deduction as they are listed HMRC's approved professional subscriptions list.

W9- Training Fees

These expenses were not incurred by Emma in the performance of her duties. This means that the expenses are not an allowable deduction.

MARKING GUIDE

TOPIC	MARKS
Treatment of Pension Contributions	1
Calculate benefit in kind for car 1	$\frac{1}{2}$
Correct treatment of personalised number plate	1
Car 2 – no deduction for six weeks when Emma could not drive the vehicle and reason why	1
Car 2 – no deduction for private use payments and reason why	1
Car 2 – Calculate benefit in kind	$\frac{1}{2}$
Explain why no claim can be made for train fares	$\frac{1}{2}$
No tax charge for parking at or near place of work	$\frac{1}{2}$
Explain treatment of parking penalty	1
Calculate taxable amount arising from exercise of share option	2
Explain basis of tax charge for an asset transferred	$\frac{1}{2}$
Calculate benefit for motorbike use up to date transferred	1
Calculate & explain benefit arising on transfer of motorbike	$1\frac{1}{2}$
Deduct professional subscriptions & explain why these are allowable	1
Explain why no deduction is available for the training costs	1
State total taxable income	$\frac{1}{2}$
TOTAL	15

ANSWER 5

The maximum amount of pension contribution an individual can make is the higher of 100% of their relevant earnings (including salary and trading income) or £3,600. The contributions made to Nigel and his wife's pensions are within these limits.

Nigel receives tax relief on his pension contributions through a salary sacrifice arrangement, i.e. the pension contributions are deducted from gross pay before Income Tax and NIC are calculated.

The contributions made by Haypass Ltd into Amit and Nigel's pensions are tax-free benefits. They do not receive further tax relief on these employer contributions. However, Nigel will have a taxable benefit in relation to the contributions Haypass Ltd makes to his wife's pension scheme. The benefit will be reported on Nigel's P11D and will be subject to Income Tax and Class 1 NIC.

Nigel's wife will receive tax relief on the contribution to her pension scheme. If she is a higher rate taxpayer, she will claim relief through her tax return; basic rate relief will be provided at source.

If the contributions made to an individual's pension scheme in a tax year exceed the annual allowance (£40,000 for 2021/22), an annual allowance charge applies. The excess contribution is subject to Income Tax at the individual's marginal rate.

For high earners, the annual allowance is tapered by £1 for every £2 of adjusted income over £240,000, to a minimum allowance of £4,000. High earners are individuals who have 'threshold income' over £200,000 and 'adjusted income' of over £240,000. Threshold income is net income for tax purposes less the gross amount of any pension contributions for which basic rate tax relief has been given at source. Adjusted income is net income for tax purposes plus employee and employer pension contributions.

Nigel's threshold income is above £200,000 (W1) so we need to consider if his adjusted income is above £240,000. His allowance in 2021/22 is restricted to £4,000 because his adjusted income was £366,840 (W2).

W1

	£
Salary	264,000
Plus: benefit (wife's pension)	5,000
Plus: investment income	82,000
Less: salary sacrifice (pension)	<u>(15,840)</u>
Threshold income	<u>335,160</u>

W2

	£
Net salary (after 6% sacrifice)	248,160
Plus: investment income	82,000
Plus: employee contributions	15,840
Plus: employer contributions	15,840
Plus: benefit (wife's pension)	<u>5,000</u>
Adjusted income	<u>366,840</u>

Nigel does not have any unused allowances from the last three years due to his employers contributions and only the current year allowance is available:

2021/22 - £4,000 (current year)
2020/21 - £4,000 (used)
2019/20 - £10,000 (used)
2018/19 - £10,000 (used)
Total = £4,000

He could contribute a maximum of £4,000 in 2021/22 without an annual allowance charge.

Total contributions of £31,680 (W3) were made in 2021/22 (including both employee and employer contributions), which exceeds the allowance. Nigel will suffer an Income Tax charge on the excess of at his marginal rate. He is an additional rate taxpayer, so the charge will be £27,680 x 45% = £12,456. This will be payable on 31 January 2023 as part of his Self-Assessment liability. However, as the amount due is over £2,000 he can make an election for the pension fund to meet this liability.

W3

	£
Employee contributions (6% of salary)	15,840
Employer contributions (matched)	<u>15,840</u>
Total contributions	<u>31,680</u>
Less: available allowances	<u>(4,000)</u>
Excess contributions	<u>27,680</u>

Amit's threshold income is below £200,000 so he is entitled to an allowance of £40,000 in 2021/22.

His pension input is the increase in the capital value of the scheme during the tax year. This will be calculated as:

Value of rights at the end of the tax year	
40/60 x £117,000 x 16	1,248,000
Value of rights at the start of the tax year	
40/60 x £106,000 x 16	<u>1,130,667</u>
Pension input amount	117,333
Pension input amount	117,333
Less annual allowance	<u>(40,000)</u>
	<u>77,333</u>

Annual allowance charge (49,070 x 40% W4) + (28,263 x 45%) = £32,346

W4

Calculation of marginal rate:

	£
Income (70,667 + 39,000)	109,667
(original salary 106,000 * 8/12) + (new salary 117,000 * 4/12)	
Less personal allowance	<u>(7,737)</u>
(PA £12,570 restricted by (109,667 – 100,000)/2)	
Taxable income	<u>101,930</u>
Higher rate band remaining	48,070
(150,000 – 101,930)	

This will be reportable on Amit's 2021/22 Self-Assessment tax return by 31 January 2023 and the tax payable by the same date.

Alternatively, as the charge exceeds £2,000 and the pension input amount exceeds the £40,000 annual allowance, Amit could choose to use a scheme pays arrangement. This means the charge is paid out of the pension scheme rather than by Amit personally.

For the scheme to pay the charge, Amit will need to notify the scheme provider by 31 July 2023.

As the value of Amit's pension at 5 April 2022 exceeds the lifetime allowance for 2021/22 (£1,073,100), it is likely he will also be subject to a lifetime allowance excess charge when he starts drawing his pension. The value in excess of the prevailing lifetime allowance at that time will be taxed at 55% if taken as a lump sum or at 25% if taken as a regular pension income.

MARKING GUIDE

TOPIC	MARKS
Maximum pension contributions = relevant earnings or £3,600 Nigel & Nigel's wife within limits	0.5
Tax relief through salary sacrifice, both tax and national insurance	0.5
Employer contributions are a tax-free benefit, no further tax relief on employer contributions	0.5
Employer makes contributions to Nigel's wife's scheme = taxable benefit for Nigel	0.5
Subject to Income Tax and Class 1 NIC	0.5
Reported on P11D	0.5
Nigel's wife gets tax relief	0.5
Annual allowance – explain concept & identify £40,000 for 2021/22	0.5
Consider threshold income	0.5
Tapered by £1 for every £2 over £240,000 adjusted income	0.5
Explain adjusted income definition	0.5
Explain calculation of annual allowance charge – income tax at marginal rate on excess contribution	0.5
Amit entitled to £40,000 allowance	0.5
Nigel entitled to tapered £4,000 allowance	0.5
No carry forward available	0.5
Nigel calculation:	
Employee and employer contributions counted toward allowance	0.5
£31,680 = exceeds available allowance	
Charge at 45%	0.5
Reported on tax return, paid by 31 January 2023 or scheme pay election	0.5
Amit calculation:	
Pension input increase in capital value during the year	0.5
Value of rights at the end of the tax year $40/60 \times 117,000 \times 16 = 1,248,000$	0.5
Value of rights at the start of the tax year $40/60 \times £106,000 \times 16 = 1,130,667$	0.5
Pension input amount = 117,333	0.5
Annual allowance charge $(49,070 \times 40\%) + (28,263 \times 45\%) = £32,346$	1.5
Reported on tax return & paid by 31 January 2023	0.5
Option for scheme pays; paid out of pension scheme rather than personally	0.5
Charge > £2,000 & contributions > £40,000	0.5
Must notify scheme by 31 July 2023	0.5
Lifetime allowance charge likely when pension drawn	0.5
Tax at 55% if lump sum or 25% if annual income	
TOTAL	15

ANSWER 6

£

Non-Savings Income

Rental Income	225,200	(W1)
Trust Income	10,000	(W6)
Estate Income	<u>8,750</u>	(W7)
	243,950	

Dividend income

Dividend	8,000	
Estate dividend	<u>1,335</u>	(W8)
Taxable dividend income	9,335	
Total income	253,285	

No personal allowance as adjusted net income for the year exceeds £125,140

37,700	@ 20% =	7,540	
112,300	@ 40% =	44,920	
93,950	@ 45% =	42,278	
2,000	@ 0% =	0	
7,335	@ 38.1% =	<u>2,795</u>	
		97,533	
Less: reduction for interest		<u>(2,660)</u>	(W9)
Total tax liability		94,873	
Less: tax deducted at source			
Estate non-savings income		(1,750)	(W7)
Estate dividend income		<u>(100)</u>	(W8)
Total tax payable		93,023	

Rental profits (W1)

Commercial property			
Property income on accruals basis as gross rents exceed £150,000 for the year		225,000	
Residential property income		45,000	
Mortgage interest on commercial property	(25,000)		(W2)
Insurance	(2,000)		(W3)
Management fees	(4,500)		(W4)
Replacement allowance for bed. This is an allowable expense under replacement of domestic items relief on the basis that the conditions within s311A of ITTOIA 2005 are met.	(500)		

Replacement allowance for washing machine. This is an allowable expense under replacement of domestic items relief on the basis that the conditions within s311A of ITTOIA 2005 are met. The amount of the allowable deduction is reduced by any amounts received on the disposal of the old item. However, relief is available for incidental expenditure incurred on disposing of the old item or purchasing the new item.	(550)	
Mileage	(5,750)	(W5)
Rental profits		<u>231,700</u>
Rental losses brought forward		<u>(6,500)</u>
Taxable rental profits		225,200
No deduction for capital expenditure of conservatory	25,000	
No deduction for cost of sofa. Relief is not available for the cost of the initial provision of furnishings in a residential property.	750	
Mortgage interest on commercial property (W2)		
Total repayments		125,000
Less capital repayments. Relief for capital repayments of a mortgage are not an allowable cost.		<u>(100,000)</u>
Interest repayments		25,000
Insurance (W3)		
The calculation is on accruals basis, as explained above.		
4/12 x 1,800		600
8/12 x 2,100		<u>1,400</u>
		2,000
Management Fees (W4)		
45,000 x 10%		4,500
Mileage (W5)		
Higher of actual basis (including capital allowances) and mileage allowance. This is an irrevocable choice.		
Actual basis		
15,000/50,000 x 7,500 =		2,250
Capital allowances		360
Total expense		2,610
Mileage allowance		
10,000 x 45p		4,500
5,000 x 25p		<u>1,250</u>
		5,750

Other income (W6)

The transfer of asset abroad rules apply as there has been a transfer to a person abroad and income has become payable as a result of this, with a view to UK tax. Charge under s 742E and s742D ITA 2007

Rental value of property (£3,750 x 12), based on availability of property not actual use	45,000
Less: rent paid (£2,925 x 12)	<u>(35,100)</u>
Benefit of property	9,900
Cost of furniture	15,000
Multiplied by official rate of interest (2%) multiplied by 6 months/12 months	150
Less: amount paid	<u>(50)</u>
Benefit of furniture	100
Benefit of property	9,900
Benefit of furniture	<u>100</u>
Total benefit	10,000

Estate Non-Savings Income (W7)

The rental income is received net of basic rate tax

$7,000 \times 100 / 80 =$	8,750
Tax deducted at source	
$8,750 @ 20\% =$	1,750

Estate Dividend Income (W8)

The dividend income is received net of basic rate tax.

$1,235 \times 100 / 92.5 =$	1,335
Tax deducted at source	
$1,335 @ 7.5\% =$	100

Mortgage Interest (W9)

Interest from 6 April to 5 October	5,000
Interest from 6 October to 5 April	3,000
Allowable incidental costs. Incidental costs of obtaining finance are allowable.	300
Unused amounts brought forward	<u>5,000</u>
Total eligible interest	13,300

No deduction to protect against exchange rate. This is specifically not an incidental cost of obtaining finance, per s58 ITTOIA 2005.

350

Relief is based on the lower of:

- | | | |
|------|---|---------|
| i. | The eligible interest, as calculated above. | 13,300 |
| ii. | The property income for the year less property losses brought forward | 225,200 |
| iii. | Adjusted total income | 243,950 |

Tax reducer is therefore:

13,300 x 20%= **2,660**

MARKING GUIDE

TOPIC	MARKS
Rental income on accruals basis for commercial property and identifying the £150,000 gross threshold	1
Commercial interest calculation and allowable in full	½
Insurance expense on accrual basis	½
Calculation of motor expense on actual basis including capital allowances for comparison	1
Mileage allowance calculation and claim	1
Management fees	½
Replacement allowance for bed	½
Replacement allowance for washing machine including installation	1
Losses brought forward	½
No deduction for conservatory	½
No deduction for new sofa as not replacement	½
Benefit on property	½
Less amount paid as deduction	½
Benefit on furniture calculation before prorate	1
Prorate benefit on furniture	1
Deduction for amount paid	½
Gross estate non-savings income	½
Gross estate dividend income	½
No personal allowance	½
Tax on Basic Rate Band	½
Tax on Higher Rate Band	½
Tax on Additional Rate Band	½
Dividend allowance	½
Tax on Dividend Income	½
Allowable residential finance costs including the incidental legal costs	1
Disallowing the finance costs for protecting against exchange rates	½
Including finance costs b/fwd	½
Finance costs lower of three options	1½
Deduction finance costs as tax reducer	1
Deduction of tax deducted at source	½
TOTAL	20