THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

May 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- 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.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. 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.

1. Paintlite Ltd is an unquoted paint-manufacturing company which was incorporated in the UK in 1995. The company has always been owned by four siblings: Dennis, Liz, Kate and Matthew. There are currently 100 ordinary shares of £10 each in issue, which rank equally for dividends, votes and on a sale or winding up. Dennis and Liz hold 30 shares each and Kate and Matthew hold 20 shares each. The company has recently been valued at £1,800,000. All shares were subscribed for at par value.

Dennis would like to retire in the next six months and has offered to sell his shares to the other shareholders. Kate and Matthew would like to buy them, but they do not have enough cash available.

They are not keen on offering the shares for sale to external investors.

Paintlite Ltd has a significant cash reserve, so Kate has suggested that company funds could be used to purchase the shares.

As Dennis has spent so many years building Paintlite Ltd, he would like to keep a small shareholding for sentimental purposes. Kate and Matthew have agreed that he can keep two shares. He is to receive proceeds of £336,000 which is considered to be market value for the 28 shares he will sell.

Although she has not expressed any desire to retire or sell her shares, Kate and Matthew have asked Liz to sell her shares too, since she significantly reduced her involvement in the company two years ago when she bought a house in Spain. She now very rarely visits the factory and is resident in Spain. Liz will receive proceeds of £360,000 which is the market value for her 30 shares.

Jon is a key employee in the factory management team at Paintlite Ltd and receives an annual salary of £60,000. Kate and Matthew would like to grant Jon an unapproved share option, allowing him to buy 10 shares at an exercise price of £9,000 per share. The option will be granted by Kate and Matthew, rather than by Paintlite Ltd. They expect Jon to exercise the shares in around three years' time when they anticipate the shares will be worth £12,000 per share.

Requirement:

1) **Discuss how the purchase of Dennis and Liz's shares should be funded and explain any tax implications for Dennis and Liz if the company's funds are used.** (15)

2) **Discuss the tax implications of the proposed share option for Kate and Matthew. You are NOT required to comment on Jon's tax position.** (5)

Total (20)

2. Ellie Harris is UK domiciled and was resident in the UK from birth until May 2018, when she left the UK for employment in Portugal. This employment ended on 5 April 2021 and she returned to live in England on 6 April 2021. Ellie's Portuguese employer paid her final salary payment of £1,400 on 8 April 2021. All the duties of Ellie's employment were carried out in Portugal and she did not visit the UK during this time.

In November 2020 Ellie sold her shareholding in Happy Holidays plc, making a capital gain of £21,720. She paid tax of £608 on this gain in Portugal. Happy Holidays plc is a UK company. Ellie originally purchased the shares in September 2015.

On 20 July 2021 (in the sixteenth week of the tax year), Ellie was appointed as a director of Seaside Photos Ltd. She was paid £16,000 gross salary during 2021/22. Prior to the company's year-end on 31 March 2022, the board of Seaside Photos Ltd met on 1 March to discuss bonuses for the company directors. It was agreed that each director would receive a bonus of £3,000. The bonuses will be paid on 30 June 2022.

In October 2021, Ellie sold a piece of jewellery for £5,200. Ellie inherited the jewellery from her Grandmother. The probate value was £7,100.

At 6 April 2021, Ellie had capital losses brought forward of £1,631.

Requirement:

Calculate, with explanations, Ellie's Tax and National Insurance liabilities for the year ended 5 April 2022. (15)

3. Lenny Jones is UK tax resident and lives in England with his wife, Jenny. Until 31 August 2021 he was employed by Purple Stories Ltd as the manager of their London warehouse. Purple Stories Ltd operates a book distribution business.

Purple Stories Ltd opened up a new warehouse in Birmingham and asked Lenny to be its manager. Lenny agreed and he and Jenny moved to Birmingham, where Lenny started his new duties on 1 September 2021. After living in temporary accommodation, Lenny and his family purchased a new house on 30 November 2021.

During 2021/22 he was paid a basic salary of £75,600 from which PAYE of £7,000 was deducted and he received the following expense reimbursements:

Date	Description	Amount
		£
9 June 2021	Family trip to Birmingham to find suitable new property	1,750
31 August 2021	Costs of Lenny's temporary accommodation in Birmingham until house purchase	1,250
30 November 2021	Stamp Duty Land Tax on Lenny's new house in Birmingham	3,750
31 December 2021	Cost of redecorating bedrooms in Lenny's house in Birmingham	700
	Total	7,450

Lenny also received a round sum allowance of £1,750 on 30 April 2021 to cover general business expenses in 2021/22. Lenny has receipts which show that his actual expenses were:

Date	Description	Amount
		£
19 October 2021	Subscription to trade association	850
31 October 2021	Entertaining customers	900
	Total	1,750

Purple Stories Ltd made a loan to Lenny in 2020/21, £12,500 of which was still outstanding on 6 April 2021. Lenny was advanced a further £3,500 on 6 September 2021. He paid interest of £150 during 2021/22 and did not make any repayments.

Lenny subscribed for 2,000 shares in an EIS qualifying company, Hazel Trouser Ltd, on 1 March 2019 and paid £50,000 for them. He received EIS Income Tax relief of £15,000. Lenny sold the shares for £30,000 on 19 September 2021.

In 2018, Lenny subscribed £10,000 for shares in an unquoted software development company, White Skirt Ltd. The company ceased to trade on 10 March 2022 and appears to be insolvent so it is unlikely that Lenny will see any return on his investment.

During 2021/22:

1) Lenny and Jenny jointly borrowed £40,000 which Lenny alone used to buy 15% of the shares in Green Shawl Ltd, a close company in Northampton which manufactures furniture. The interest paid on the loan in the year was £2,000 and was paid from a joint bank account.

2) Lenny paid £750 of interest on a loan of £10,000 to acquire 10% of the shares in Turquoise Belt Ltd, an Australian unquoted company, which manufactures electronic goods.

3) Lenny made a gift of 10 shares in Indigo Sandal Ltd to a UK charity when the shares were worth £2,000. Indigo Sandal is an unquoted company based in Dorset, which manufactures phones. The shares were acquired for £1,000.

4) Lenny received interest from his £40,000 4% Treasury stock 2020 investment which is paid (gross) twice a year on 31 March and 30 September.

5) Lenny received a dividend distribution of £2,480 from a UK unit trust.

6) Lenny and Jenny received interest of £1,750 from a jointly owned Eurobond.

7) Lenny received interest of £300 from an overseas bank account, net of overseas taxes of 20%. There is no double tax treaty in place between the UK and the source country of the interest.

Requirement:

Calculate, with explanations, Lenny's UK tax position for the 2021/22 tax year. (20)

4. In 2021/22 Scarlett and Melanie, who are unrelated, both disposed of assets.

Scarlett sold 100 acres of farmland with a farmhouse to Ron, who is a property developer. Throughout her period of ownership, Scarlett let the land to a local farmer and she occupied the farmhouse as her main residence. Scarlett had not acquired or held the land and farmhouse with the intention of development.

Scarlett received immediate consideration of £3 million. In addition, she will receive further consideration equal to 10% of any profits in excess of £1.5 million which Ron makes from developing the land. Ron has indicated that he anticipates making a £2.4 million profit from the entire development.

Melanie sold the entire share capital of Green Ltd to Ron. Green Ltd's only asset was farmland adjoining Scarlett's land. Melanie inherited her shares in Green Ltd, several years ago, from her late father who operated the company as a commercial farming business. Since then she has been the sole director and the company's only activity has been letting the land to a local farmer. The land had not been held with the intention of development.

Melanie received immediate consideration of £2 million and will receive additional consideration based on the profit made by Ron on developing the land. She anticipates that this additional consideration will be around £60,000.

Requirement:

Explain how Scarlett and Melanie will be taxed on their sales. You are NOT required to provide any calculations. (15)

5. In August 2012, Horace subscribed £150,000 to acquire Series A 12% Loan Stock of Haste Ltd, which could be redeemed in Sterling or in US Dollars. He also subscribed £150,000 to acquire Series B 12% Loan Stock which could only be redeemed in Sterling. The interest rate was considered to be a market rate.

Both loan stocks were transferable, with no restrictions preventing Horace from selling them to a third party at any time and a market for these securities existed.

The loan stocks were to be redeemed at par value in August 2022.

The principal activity of Haste Ltd was investing in commercial property for letting to third parties.

Horace has recently discovered that after several bad investments the company is now insolvent and that he is unlikely to ever receive anything.

Requirement:

Describe how the Loan Stocks will be treated for tax purposes and detail any claim or election that Horace can make. (10)

6. Thomas was born in the UK and has a UK domicile of origin. In 1995, he moved to Paris for work purposes. A few years later, Thomas met Lucille, a French-domiciled lawyer from Marseille. In 2000 they got married and settled in Marseille. At that point, Thomas considered that he had cut all of his ties with the UK and had acquired a French domicile of choice.

In 2007, Thomas received a new job offer based in London, so he and Lucille decided to temporarily move to the UK, with the intention of returning to France after two years. Thomas arrived in the UK to take up his full-time employment on 1 June 2007 and Lucille followed in September 2007. They retained their property in Marseille, which was only used by the family during holidays.

Although they had planned to return to France in 2009, Thomas received a further job opportunity in London, which led him and Lucille to decide to stay in the UK for longer than intended.

Since becoming UK resident, Thomas and Lucille have both claimed to be non-domiciled and have each claimed the remittance basis a number of times. Thomas has never paid the remittance basis charge, nor has he ever remitted any of his foreign income or capital gains to the UK.

Lucille has paid the remittance basis charge on four occasions, including for the 2015/16 tax year. On 3 August 2015, she remitted a sum of £1,000,000 to the UK from her French bank. Immediately before the transfer, the account contained £1,500,000, including £750,000 foreign income and £250,000 foreign capital gains, neither of which had ever been subject to UK tax. The balance of £500,000 was funds held prior to Lucille becoming UK resident.

From the remitted sum, on 31 August 2015 Lucille subscribed £460,000 for 4,600 shares in a UK company called Broadbean Ltd. She spent the balance of her remitted funds on purchasing a property in London and paid UK tax on this remittance.

Her investment in Broadbean Ltd qualified for Business Investment Relief and Lucille made a claim on her 2015/16 tax return. The investment also qualified for the Enterprise Investment Scheme (EIS) and Lucille subsequently made a standalone claim for EIS Income Tax relief. At the same time, she also made a claim to defer a capital gain of £460,000 realised in 2015/16 on the sale of some quoted shares.

On 1 May 2022, Lucille sold 3,000 of her Broadbean Ltd shares when the shares were worth £250 each.

Requirement:

Discuss the impact of the changes in Thomas and Lucille’s residence on their domicile statuses for Income Tax and Capital Gains Tax purposes and advise, with calculations, how Lucille can mitigate her UK tax exposure upon sale of the Broadbean Ltd shares. (20)