THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

November 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.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Wesley Turner is a UK resident and domiciled individual. He is a higher rate taxpayer who owns a large portfolio of commercial properties as well as shares in KG Ltd, a successful engineering company.

In May 2021, one of his properties was damaged in a fire. Immediately after the fire, the property was valued at £145,000. He claimed £80,000 on his insurance and spent £68,500 of this restoring the property. After the restoration was completed in February 2022, the property was valued at £265,000. He had originally purchased the building in July 2007 for £171,450.

In November 2021, Wesley gifted 1,000 shares in KG Ltd to each of his two daughters, Khloe and Grace. Khloe is a UK resident and Grace is a Spanish resident. A holding of 1,000 shares in the company was valued at £18,250 when the gifts were made.

Wesley originally incorporated KG Ltd in October 2003, subscribing for all 5,000 ordinary £1 shares at their nominal value. The company's most recent balance sheet showed the following assets:

	£
Freehold property	620,985
Three small storage units	90,000
Cash at bank	326,721

The small storage units are let to a third party. The freehold property is used for the purposes of the trade.

On 1 April 2022, Wesley sub-let a building to an unconnected third party, granting them a 15 year lease in return for a premium of £35,000. Wesley paid £60,000 for a 35 year lease on this building on 1 January 2005 and pays the same annual rent to his landlord as his tenant will pay to him under the terms of the sub-lease.

At 6 April 2021, Wesley had capital losses brought forward of £2,740 and he has previously used up his full lifetime allowance for Business Asset Disposal Relief.

Requirement:

Calculate, with explanations, Wesley's Capital Gains Tax liability for 2021/22 assuming that he takes advantage of all available elections. (20)

2. Sofia Meier has been resident in the UK since 6 April 2014 but she has a domicile of origin in Notopia and still considers herself domiciled there.

Sofia owns 100% of the shares in SolProp Ltd, a Notopian incorporated and tax resident limited company. Sofia inherited these shares from her father on his death in 2013, when they were worth £560,000.

SolProp Ltd's only asset is a residential property located in Notopia, which it acquired for £410,000 in 2008. The company's only liability is a mortgage secured on the property of £270,000. The company does not have a trade or any business activity. The property has never been Sofia's main residence and it has never been rented out. It has been used by various family members for holiday purposes. Many years ago, Sofia's father told her that setting up the company would reduce his UK Capital Gains Tax liabilities as he was UK resident at the time.

Sofia would now like to buy a new home in the UK, but she needs to raise funds to do so. She would like SolProp Ltd to sell the Notopian property and then she would extract all of the sale proceeds from the company in order to acquire the UK property. SolProp Ltd has received an offer of £980,000 for the Notopian property. The buyer wants direct ownership of the property and does not want to buy the company shares. No foreign tax will be payable on the disposal.

Requirement:

Explain the UK tax implications for Sofia of the proposed sale and the subsequent extraction of funds. Calculations are not required. (15)

3. Abdul is domiciled in Ruritania but has been UK resident since 2009. He claims the remittance basis.

On 30 April 2021, Abdul borrowed £600,000 from an offshore bank. The funds were paid to a new UK bank account on 1 May 2021. The loan was secured against his Ruritanian house which he purchased using £1 million of foreign income which had arisen since 2010 and was never remitted to the UK. No foreign taxes have been paid on the income. From the funds paid into his UK bank account, he made the following investments:

1) On 1 May 2021, Abdul made a loan of £300,000 to Jafar Property Investments Ltd, a UK unquoted company. The company rents out residential properties in London. Jafar Property Investments Ltd pays interest to Abdul at a commercial rate.

2) On 1 June 2021, Abdul used £50,000 to subscribe for a 10% shareholding in Karim and Abdul Ltd, a UK close company which operates a restaurant business. The company has issued an EIS3 to Abdul in respect of his investment. Abdul became a non-executive director of the company on 1 August 2021.

3) On 2 June 2021, Abdul used £225,000 to acquire an interest in Altaf Clothing, a UK partnership which carries on a clothing manufacturing business.

4) On 1 August 2021, Abdul used £25,000 to subscribe for shares in Snazzy Computers Ltd, a company which carries on the business of providing specialist technological services. The shares are listed on AIM.

On 16 December 2021, Abdul sold 250 shares in Abdul and Hussain Ltd, a UK company which manufactures furniture, for £325,000. Abdul is a director of the company. Abdul used the proceeds to make investments in UK companies listed on the London Stock exchange.

Abdul had acquired 1,000 shares in Abdul and Hussain Ltd on 1 January 2021 for £1 million. In order to make the investment, he transferred £1 million to the UK on that date from an account in Ruritania. Immediately prior to the transfer, the balance of this account was £2 million, which comprised £600,000 of foreign income and £1,400,000 of foreign gains on which Abdul had originally claimed the remittance basis.

Requirement:

Discuss the availability of Business Investment Relief and other tax matters related to the above transactions. (15)

4. Emma Bridges is UK resident and domiciled and is employed as an engineer by a large company.

Emma's gross salary for 2021/22 was £116,840.

During 2021/22, Emma's employer paid £10,750 into a registered pension scheme and Emma made personal contributions into the scheme of 6% of her gross salary. The pension scheme is operated under the net pay arrangement rules.

Emma was provided with a company car in June 2018 which was available for private use. The car's list price was £55,730 and it had CO_2 emissions of 141g/km.

On 1 June 2021, Emma's employer replaced her car with a petrol hybrid car, which was first registered on that date. This car had a list price of £73,000 and they added accessories costing £2,000. The vehicle has an electric range of 35 miles and produces CO_2 emissions of 42g/km. Emma had agreed with her employer that she would make a contribution of £6,500 towards the car so that she could have a better model than the one she was originally offered.

Emma is also required to make a contribution of £25 per month towards the private use of this new vehicle. She made a total payment of £250 to her employer on 31 July 2022.

Emma's employer also paid £525 for the right to use a personalised number plate EB39 BRI and it cost them £27 to get the plates printed and fitted to the new vehicle for Emma.

The registered keeper of the vehicle is Emma's employer.

In August 2021, Emma broke her ankle and was unable to drive for six weeks. During this time she travelled to and from her place of work on the train at a cost of £17.50 per day. Her employer did not reimburse her for this expense.

Emma's employer provides her with a parking space close to the site where she works. This costs them £60 per month.

In October 2021, a penalty of £70 for illegal parking was fixed to Emma's company car while she was out shopping. Her employer paid this directly to the issuer of the penalty.

In 2018, Emma's employer granted her an unapproved option to buy £1,000 shares in the company for £52 per share. When the option was granted, the shares were worth £68 each. In October 2021, Emma exercised the option, when the shares were worth £71 each. She was required to pay all the resulting tax and National Insurance.

In September 2019, Emma's employer lent her a motorbike. When it was originally lent to her, it had a market value of £65,000. On 1 December 2021, they agreed to let Emma keep the motorbike in return for a payment to them of £3,000. At this point it had a market value of £35,000.

During 2021/22, Emma paid professional subscriptions to the Engineering Council of £145. She also paid £975 in training fees to learn about a new method of precision moulding as she thought this might help her to win a promotion in the future. These expenses were not reimbursed by her employer.

Requirement:

Calculate, with explanations, Emma's taxable employment income for 2021/22. (15)

5. Haypass Ltd has two pension schemes:

1) A final salary pension scheme for employees who joined before 1 January 2000 which has an annual accrual rate of 1/60th, providing a maximum pension benefit of 2/3rds of final salary.

2) A money purchase pension scheme for those who joined on or after 1 January 2000 into which the company pays 6% of gross salary.

<u>Amit</u>

Amit has worked for the company for 46 years and is a member of the final salary pension scheme. On 6 April 2021, his annual salary was £106,000. He was promoted in December 2021 and his annual salary was increased to £117,000.

Amit's salary was the only income he received during 2021/22 and he does not have any unused annual allowances available from earlier years.

<u>Nigel</u>

Nigel joined the company in April 2017, on a gross salary of £264,000 per annum which has not changed since then. He became a member of the money purchase pension scheme when his employment commenced but he did not make any contributions until 2021/22, during which he sacrificed 6% of his gross salary in return for additional pension contributions of this amount. He has never been a member of any other pension scheme.

As a part of Nigel's package, the company contributes £5,000 per annum to his wife's registered pension scheme. His wife is employed at another company earning a salary of £24,000 per annum and does not make any pension contributions personally.

Nigel also received investment income of £82,000 each year.

Requirement:

Discuss the tax consequences of the payments made to Amit's, Nigel's, and Nigel's wife's pension schemes and calculate any tax charges applicable in 2021/22. (15)

6. Janet owns the following properties which she lets out.

1) A restaurant in Manchester which is let out for £225,000 a year. The tenant is due to pay rent quarterly in advance, but Janet only received £200,000 from this tenant in 2021/22, due to unstable market conditions. Janet is expecting to receive the unpaid rent soon.

2) A house in Dorset which was let out on a long-term let. Janet received rent of £45,000 in respect of this property in 2021/22, which was the full amount of rent due for this property from 6 April 2021 to 5 March 2022. The tenant relocated on 5 March 2022 and the house has been empty since that date, although Janet is looking for new tenants.

Janet incurred the following property expenses during 2021/22:

1) <u>Restaurant</u>

(a) £125,000 of mortgage payments, of which £100,000 were capital repayments and £25,000 were interest charges.

(b) Janet paid her buildings insurance premiums in advance. On 31 July 2020 she paid £1,800 for the policy for the year to 5 August 2021. On 31 July 2021, she paid £2,100 for the policy for the year to 5 August 2022.

2) <u>House</u>

(a) Janet paid letting agents' fees of 10% of the gross rents.

(b) Janet replaced a bed for £500.

(c) Janet bought a new washing machine costing £900. She traded in the old washing machine for £400 and met the rest of the cost with £500 of cash. Janet spent £50 to install the new washing machine.

(d) Janet spent £25,000 on a new conservatory, as she thinks that this will help improve the chances of renting out the property again.

(e) Janet paid £750 for a new sofa to go in the conservatory

(f) Janet incurred £5,000 of interest on her mortgage with a UK Bank from 6 April 2021 until 5 October 2021. As she could obtain cheaper finance with a Ruritanian bank, Janet remortgaged the property and paid interest of 5,000 Ruritanian dollars (£3,000) from 6 October 2021 to 5 April 2022.

(g) Janet spent £300 on legal fees for preparing the documents relating to remortgaging the property.

(h) Janet spent £350 to insure against any losses arising from any movements in the exchange rate between Ruritanian dollars and sterling.

Janet acquired a BMW on 6 April 2021 for £20,000. She travelled 50,000 miles during 2021/22 in her car. 15,000 miles related to business visits to her rental properties. The total capital allowances Janet could claim for the year on the car are £360, after any private use adjustment. However, her total expenses in relation to the vehicle for the year were £7,500.

Janet was not able to offset residential mortgage interest payments of £5,000 against her tax liability for 2020/21. Janet also has rental losses of £6,500 from 2020/21 which she has not used.

<u>Other income</u>

Janet received a dividend of £8,000 in 2021/22.

Janet is a discretionary beneficiary of an offshore trust set up by her father in order to avoid UK taxes. The trust has an investment portfolio which generated £200,000 of foreign income in 2021/22. This income has not been subject to tax.

The trust allows her to live in a house in London that it owns, paying rent of £2,925 per month when the market rent is £3,750 per month. The property was available to her for the whole tax year but she only stayed in the property for 11 months of 2021/22.

The trust bought furniture for the property for £15,000 on 5 October 2021, as there was not enough furniture in the property prior to that date to allow reasonable enjoyment of the house. Janet made a one-off payment to the trust of £50 for the use of the furniture in 2021/22.

Janet received two income distributions in 2021/22 from her late uncle's estate which was in the process of being administered. The net amounts Janet received were £1,235 of dividend income and £7,000 of rental income.

Requirement:

Calculate, with explanations, Janet's tax position for 2021/22. You are not required to comment on the tax position of the trust. (20)