
Institution **CIOT - ATT-CTA**
Course **CTA Adv Tech Taxation of Individual**

Answer-to-Question-_1_

Fire damaged

The proceeds received from the insurance are not small because 11,500 is > £3,000 and is more than 5% of the compensation received.

The automatic treatment would to treat this as a part disposal

proceeds	80,000	
cost	(60,960)	$171,450 \times 80/80+145$
Gain	19,040	

However, an election can be made under s.23 to be taxed on the uninvested proceeds received.

Proceeds retained	11,500	
cost	(9,980)	$y \times a/A+B$
$171,450+68500 \times$	$11.5/11.5+265$	
Gain	1,520	

Therefore better to make the s.23 election.

The date of the disposal is Feb 2022 as this is when the compensation was received.

The gift of shares is to a connected person and as such the

disposal takes place at market value.

to Khloe

Proceeds	18,250	
Cost	(1,000)	
Gain	17,250	
Gift relief	(15,066)	see below for workings.
Gain	2,184	

Gift relief is available to Khloe because the shares gifted are shares in an unquoted trading company and possibly shares in a personal trading company which he owns >5% of the ordinary share capital and the company is a trading company. Additionally, engineering is trading company. A claim for gift relief should be jointly made between Mr Turner and Khloe within 4 years from the end of the tax year. i.e by 5 April 2026.

However, gift relief is restricted where the company holds chargeable assets (CA) and chargeable business assets (CBA)

Therefore gift relief is restricted to: $\text{Gain} \times \text{CBA/CA}$

The cash is not a chargeable asset for CGT purposes and is ignored.

The storage units are not chargeable business assets as they are an investment let out to a third party.

Gift relief restcited by

$$620,985 / (620985+90000) = 87\%$$

$$\times 17,250 = 15,066$$

Gift of shares to Grace

Proceeds	18,250
Cost	(1,000)
Gain	17,250

This gain is chargeable to CGT and no gift relief is available because Grace is not a UK resident at the the time.

Gift relief is withdrawn if the individual becomes non-uk resident within 6 year of the gift relief claim.

However, Business asset disposal relief will be available because KG ltd is Mr Turners personal trading company (i.e he holds at least 5% of the ordinary share capital and is entitled to at least 5% of the ovting rights and is either entitled to 5% of the distributable profits and 5% of the assets on a windup). The gain will be taxed at 10%.

The lease is a grant of a short lease from a short lease. Therefore an element is chargeable to CGT and income tax.

Headlease

property income: $p \times 50 - y / 50$

$60,000 \times 50 - 34 / 50$

$= 19,200$

CGT Premium = $60,000 - 19,200 = 40,800$

Sublease

Property income: $35,000 \times 50 - 14 / 50 = 25,200$

CGT Premium = $35,000 - 25,200 = 9,800$

Cost =

$\text{Cost} \times (s-x) / y$

Remaining at grant 18 years 3 months

remaining at end 2 year 9 months

total lease 35 = 91.981

$2y = 11.629$

$3y = 16.959$

$(16.959 - 11.629) \times 9/12 + 11.629 = 15.6265$

$18y = 68.697$

$19y = 70.791$

$(70.791 - 68.697) \times 3/12 + 68.697 = 69.2205$

35 = 91.981

60,000 x (69.2205 - 15.6265) / 91.981

Proceeds	35,000	
Cost	(34,959)	
Less prop in.	(25,200)	on sublease
Gain	0	

no gain and loss cannot be created from property income on sublease.

	BADR	no BADR	Res property
compensation			1,520
to khloe	2184		
grace	17,250		
AEA	(10,780)		(1,520)
	6,470		

Tax 6,470 x 10% = 647

due by 31 january 2023

-----ANSWER-1-ABOVE-----

-----ANSWER-2-BELOW-----

Answer-to-Question- 2_

Sofia is a UK resident who is non domiciled and as such she is able to make a claim for the remittance basis of taxation as 2021/22 is her 8th year of UK residence.

If she were to claim the remittance basis she would have claim this on her tax return and pay a remittance basis charge of £30,000 as she has been UK resident for at least 7 out of the last 9 tax years.

As a UK resident she will ordinarily be liable to tax on her UK disposals of assets and to the extent she claims the remittance basis (RB) she will not be liable to report and foreign disposals. She would only be required to report any remittances made to the UK of offshore income and gains.

The sale of the company would need to be considered under the UK's Transactions in Land anti avoidance legislation because the rules apply where:

- a) an individual is party to a transaction in securities
- b) the main purpose, or one of the main purposes, is to obtain an income tax advantage, and
- c) The individual or any other person obtains an income tax advantage as a result of the transactions.

The rules cover and purchase and sale, alternation of rights or issuing of new securities.

The rules would apply where Sofia receives consideration in respect of a distribution, transfer or realisation of assets in a close company and doesn't pay any income tax or the rules can apply where Sofia receives consideration in respect of a transaction in securities involving two or more close companies.

Consideration is anything that is valueable and would also apply if Sofia became non-UK resident.

A close company is a company which is controlled by five or fewer shareholders and any number of directors and as such the rules would apply to Sofia.

where HMRC are satisfied that the rules apply, they are able to issue a counteraction notice to Sofia requiring her to nullify the income tax advantage obtained.

there is an exemption under s.686 that the transaction in securities rules don't apply if there has been a fundamental change in the ownership and as such Sofia could possibly look at passing the ownership of the company to the foreign buyer despite him not wanting this.

It is likely that S.3 TCGA will apply to Sofia on the gain of the property which will mean the gain in SolProp of the sale of the property will be apportioned back to Sofia as she is a UK resident shareholder. Under s.3 where the gain is connected to avoidance and not to a foreign trade the gain on the sale of the property would be attributable back to Sofia.

As she is 100% shareholder, the gain would fully be apportioned back to Sofia and charged to UK CGT. This applies automatically regardless of whether the gain is distributed or kept within the company.

In a year where the RB is claimed she would have no annual exempt amount available to reduce the gain slightly and would also be charged at the UK residential property rates of 18/28%.

If the company distributes the profit to Sofia either by dividends or a capital distribution within 3 years of the accounting period end of SolProp any tax paid by Sofia on the gain apportioned to her can be credited against the tax due on any dividends paid.

Therefore Sofia's best option would be to distribute the gain made via dividends and claim the remittance basis in the year.

There are several ways Sofia can extract profits from the company following the sale. She can pay herself dividends from the company which would be treated as dividend income taxable at 38.1% in the UK and the £2,000 allowable would be available.

Alternatively, she could pay herself a salary from the profits made which would be taxed at the additional rate of 45%.

If the RB is claimed, the dividend distribution would be foreign income and would be taxable at 45%, but she would receive

a credit for the tax paid as apportioned under s.3 TCGA.

The gain element of the property disposal is deemed to be remitted before the proceeds element.

Where possible she should ensure she remits clean capital before other foreign income as this would not be reportable.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question-_3_

Business Investment Relief (BIR) allows for a qualifying investment to be made using foreign income and gains into the UK and as such it has the effect of being treated as not being a remittance for a non-UK domiciled individual.

BIR has no limits on the amount that can be investment but it must be claimed as it doesn't apply automatically.

The investment can be in the form of an acquisition of shares, securities or a loan to a trading company.

Any BIR investment must be made within 45 days of the funds being brought to the UK to avoid it being treated as a remittance.

Where abnormal benefits are received by Abdul this causes no BIR relief to be available on the investment.

Where a potentially chargeable event takes place such as the sale of the shares the proceeds must be taken offshore within 45 days or the proceeds must be reinvested within the same timeframe.

The proceeds for the purposes of BIR are the lower of either 1) the actual disposal proceeds or "X".

"X" is the original amount invested less any part which has been either remitted to the UK or removed from the UK or has been reinvested into another investment.

The loan to Jaffa is a qualifying investment because Abdul had made a loan to the company which is unlisted. The availability of BIR is not prohibited despite the main trade and income of the business is renting out residential properties in the UK. Additionally, the restriction on the benefits received condition is not breached as Abdul is not receiving an abnormal benefit because the interest received is at a commercial rate.

The loan would be also deemed to be exempt from CGT because it can be seen to be a qualifying corporate bond because the loan stock was issued after March 1984, is expressed in sterling and

cannot be converted into another currency.

A claim for BIR should be made by 15 June 2021.

The £50,000 subscription into Karim and Abdul Ltd is also a qualifying investment for BIR and the investment also qualifies for EIS. As a result of this, the investment will be treated as not being remitted to the UK and an income tax reducer of $30\% \times 50,000 = 15,000$ will be available for 2021/22. As Abdul became a non-executive director this does not impact the eligibility of EIS because non-exec directors are usually unpaid and therefore the EIS conditions are not breached.

He should ensure that other EIS conditions are not breached such as himself and his associates not holding over 30% of the company shares.

He should ensure that a claim is made by 15 July 2021.

The investment of £225,000 to acquire an interest in a partnership is not a qualifying investment for BIR because a partnership is not a company. A partnership has an unincorporated status under the law. As such this will be treated as a remittance of funds to the UK and will be subject to a charge of $(225,000 \times 45\%) 101,250$.

The £25,000 used to subscribe for shares in Snazzy computers Ltd would be an eligible investment because the AIM market qualifies under the BIR conditions.

Where Abdul is unsure on any treatment he can ask HMRC for their opinion on whether an investment would qualify.

The sale of 250 shares in Abdul and Hussain Ltd is a potentially chargeable event but as the proceeds have been fully reinvested into listed shares and securities the investment is not qualifying for BIR and as such 250,000 is deemed to be remitted to the UK of £325,000.

The statutory ordering rules deem that foreign income is remitted in the following order:

UK employment income
untaxed foreign income
untaxed foreign gains
taxed foreign incomes
taxed foreign gains

Therefore the bank account holds 30% foreign income 600k/2m and 70% gains.

the remittance is the lower of the sum invested 250,000 of the proceeds of 325,000.

thereofre £250,000 is the lowest and is deemed to be remitted from foreign income first giving rise to a tax charge at 45% = 112,500.

The offshore mortgage that is used to fund his home means that any capital repayments or payments towards the interest on the property will not be deemed to be a remittance as the mortgage and property is offshore.

For any uk property morgage he should try and use UK funds to pay the capital and interest payments to avoid a chargeable remittance.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- _4_

Salary of **116,840** is fully taxable and is charged to PAYE and NIC Class 1 primary and secondary (class 1 secondary is payable by her employer).

Employer pension contributions are fully exempt benefit and are not taxable.

Emma's personal pension contributions are not employment income and therefore not taxable. She would have made this contribution net. Therefore this received tax relief under net pay and reduces her taxable employment income by **7,010**.

The pension contributions do not receive relief from national insurance.

The employer contributions do not attract employers NI of 13.8% or employees national insurance of 2%.

Car

$$55,730 \times 33\% \times 2/12 = \mathbf{3,065}$$

$$(140 - 75) / 5 = 13\% + 20\% = 33\%$$

taxable as earnings, not subject to PAYE or Class 1 primary NIC, only class 1A.

Car 2

$$73,000 + 2,000 - 5,000 \text{ (max £5,000 contribution)}$$

$$= 70,000 \times 11\% \times 10/12 = 6,417$$

Less sums in respect of private use only (250)

$$= \mathbf{6,167}$$

taxable as earnings, not subject to PAYE or Class 1 primary NIC, only class 1A.

Number plate:

$$(525 + 27) = 552 \times 20\% = \mathbf{110}$$

This is a use of an employer's asset and therefore the mv x 20% is used to calculate the taxable amount.

travel costs: The cost of £17.5 a day cannot be deducted from her earnings because this is ordinary commuting to her normal place of work.

Car space: The provision of a car parking space is an exempt benefit. Not taxable as earnings.

Fine:

The payment of the fine is a discharge of a personal liability of Emma's and therefore not PAYE income, no class 1 is due but is reportable on the P11d and Class 1A is due. This is deemed to be earnings of **£70**.

Share options

There is no charge on grant.

On exercise:

MV at exercise	71,000	(71 x 1000)
Cost	(52,000)	(52 x 1000)
employment income	19,000	

No restriction on the amount of PAYE and NI due because we assume the shares are readily convertible assets.

Motorbike

Use of employers asset.

Higher of:

MV at time given 35,000

OR

Value when first made available less amounts charged to tax.

19/20 $65000 \times 20\% \times 7/12 = 7583$

20/21 $65000 \times 20\% = 13,000$

21/22 $65,000 \times 20\% \times 9/12 = 9,750$

= **46,367**

professional subscription. **£145** allowable deduction if on HMRC approved bodies.

However the training of 975 is not allowed by HMRC as a deductible expense from income.

Total taxable employment income 184,464

Benefits can be payrolled so that 1/12 of the benefit is collected each month via PAYE. Accommodation and beneficial loans cannot be payrolled.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question-_5_

An individual can contribute upto 100% of their relevant earnings to a pension scheme in that tax year. Anyone can pay up to £3,600 regardless of their earnings.

Amit

He is a member of a final salary scheme and his total pension input is the increase in the value of his individual rights.

At start of year:

Maximum 40 years contribution $\frac{2}{3} \times 60$ years.

$$40/60 \times 16 \times 106,000 = 1,130,667$$

$$\text{At end of year: } 16 \times 40/60 \times 16 \times 117,000 = 1,248,000$$

$$\text{increase in year} = 117,333$$

He does not have threshold income over £200,000 therefore there is not restriction to the annual allowance of £40,000.

But there will be a pension tax charge on the excess.

This is $(117,333 - 40,000) 77,333 \times 40\%$ (marginal rate assuming no other income such as savings or investment income) 30,933.

He could ask his pension provider to pay the pension tax charge to mitigate the charge.

Nigel

He is a member of the a defined contribution scheme

Threshold income:

Net income	351,000	(264+5+82)
less personal pension contributions	0	
threshold income	351,000	
is in excess of	200,000.	

Adjusted income
Net income 351,000
Add: occupational 0
Add: ER contributions 0
adjusted income 351,000

Therefore his annual allowance is fully abated down to the minimum of £4,000.

He has unused annual allowance of. The
2018/19 10,000
2019/20 10,000
2020/21 4,000
total 24,000
Later years used before earleir years.

Total pension input 15,840 (264,000 x 6%)

Therefore his b/f unused amount of 24,000 cover the pension input.

There is not further tax charge

The contribution to his wife's pension would be a taxable benefit on Nigel himself and would attract Class 1 NICs. The pensions payments are deductible in arriving at the taxable profits for the company.

However, consideration should be given to Nigel's overall pension input to ensure a pension tax charge will not apply in future years.

He could ask his employer to pay the pension tax charge in future years .

-----ANSWER-5-ABOVE-----

 -----ANSWER-6-BELOW-----

Answer-to-Question-_6_

	NS	Sav	Div		
propert y w1 & w2	223,950				
Div			8,000		
discret ionary trust w3	60,000				
w4 R185 income			1335		
w4 r185 income	8,750				
total	292,700	0	9,335		
PA w5	0				

Tax due

NS

$$37,700 = 7,540$$

$$112,300 \times 40\% = 44,920$$

$$142,700 \times 45\% = 64,215$$

Div

$$2,000 \times 0\% = 0$$

$$7,335 \times 38.1\% = 2,795$$

Total tax	111,930
R185 credit	(100)
r185 credit	(1,750)
Mortgage interesrt	(2,600)

total tax due 107,480 by 31 jan 2023

w1 - Property income
calculated on the accrual basis as income exceeds 150,000
from UK property business.

mancheater
income 225,000
less expenses:
mortgage (25,000) fully deductible as commercial property,
not residential
insurance (2,000) Apr - Jul 1,800 x 4/12 = 600
Aug - Apr 2,100 x 8/12 = 1,400
Profit **198,000**

Dorset
income 45,000
Less expenses:
Agent fees (4,500) 45,000 x 10%
replacment bed (500) replacement of domestic item
washer (550) 900 - 400 (scrap value) +
install cost 50
conservatory - Capital expenditure, not
allowed.
new sofa - no relief for initial cost of
new furniture
interest see working 2
legal finance costs are not deducutible for
mortgage
insurance relates to mortgage admin costs, not allowed.
Profits **39,450**

w2 - relief for interest is given by way of a 20% tax redcuer
on the lowest of:

- 1) eligible interest
- 2) property income less b/f property losses
- 3) adjusted total income

no relief for mortgage finance costs.

we should include the b/f mortgage unused costs of 5,000 too.
 $5,000 + 5000 + 3000 = 13,000 \times 20\% \mathbf{2,600}$

Car can have the flat rate or proportion of motor expenses.
If capital allowances have been claimed, no deduction for actual

expenditure. motor expenses must be claimed consistently year on year. Therefore, if flat rate claimed = $10,000 \times 45p + 5,000 \times 25p = 5,750$ or 7,000.

She should claim 7,000.

Total profit from property: $198,000 + 39,450 - 7,000$ (car)
less losses 6,500 = **223,950**

w3 discretionary trust.

under s.731 The benefit is matched to the relevant income and a charge is imposed on the lower of the benefits received and the relevant income.

MV rent = 45,000 (12 months of availability)

furniture = 15,000

total benefits received 60,000

w4 -the income distributions from her uncle's estate will carry a tax credit of

$1235 \times 100/92.5 = 1335$ gross value. Tax credit 100

rental income $7,000 \times 100/80 = 8,750$ gross value. Tax credit 1,750

w5 - no personal allowance as excessive income over abated amount of 125,140