The Chartered Tax Adviser Examination

November 2017

Suggested solutions

Awareness Module D Taxation of Individuals

Nov 2017 Awareness Individuals

1)

	Total £	Non-savings income £	Dividend income £	
Employment income	100,000	100,000		
Dividends	52,000		52,000	
Total income	152,000	100,000	52,000	
Personal allowance (£nil as income exceeds £122,000)	-	-	-	**1**
Taxable income	£152,000	£100,000	£52,000	

	Income £		Tax £	
Non-savings income at basic rate	32,000	20%	6,400	**[**
Non-savings income at higher rate	68,000	40%	27,200	**1**
Dividend allowance	5,000	0%	0	**1**
Dividends at higher rate	45,000	32.5%	14,625	**[**
Dividends at additional rate	2,000	38.1%	762	**1**
Income Tax liability			48,987	
Less, PAYE			(29,200)	**[**
Less, POAs made			(3,000)	**1**
Balancing payment required on 31/01/2018			£16,787	

2)

	£	Ben £	Employer £	
Class 1 NICs: months 1 to 11				
Up to Primary Threshold (PT)	672			
Above PT	2,528			
	3,200			
£2,528 at 12%	303			
£303 x 11 months		3,333		**1**
Up to Secondary Threshold (ST)	676			
Above ST	2,524			
	3,200			
£2,524 at 13.8%	348			
£348 x 11 months			3,828	**1**
Class 1 NICs: month 12				
Up to PT	672			
Above PT and up to Upper Earnings Limit (UEL) (£3,583 - £672)	2,911			
Above UEL	4,617			
	8,200			**1**
£2,911 at 12%	349			
£4,617 at 2%	92			
		441		**1**
Below ST	676			
Above ST	7,524			
	8,200			
£7,524 at 13.8%			1,038	**1**
Total Class 1 NICs payable		£3,774	£4,866	

3)

Part 1: Average method

$$\frac{£80,000 + £65,000}{2} = £72,500$$ **1**

£72,500	x	3%	=	£2,175	**1**
£2,175	x	3/12	=	£544	**1**

Part 2: Strict method

£80,000	x	3%	x	2/12 =	£400		**1**
£65,000	x	3%	x	1/12 =	£162		**1**
					£562		

4)

Part 1

Douglass must satisfy the following conditions during the period beginning 1 year before the date of investment and ending 3 years after the date of investment: **1**

A: He pays tax in the UK. **1**

B: He must own no more than 30% of the company's share capital (including his associates). **1**

C: He must not be an employee or paid director of the company. **1**

Part 2

£10,000 x 30% = £3,000 **1**

5)

Fiona and George satisfy the automatic UK residence test for 2016/17 as they have spent more than 183 days in the UK during the tax year. **1**

However, 2016/17 is a split year for Fiona because she is leaving the UK for full-time work abroad. **1**

And it is a split year for George because he is leaving the UK to accompany Fiona, his spouse. **1**

Fiona and George are UK resident for the period from 6 April 2016 to 31 December 2016. **1**

They are non-UK resident for the period from 1 January 2017 (1st overseas workday) to 5 April 2017. **1**

6)

For the cottage to qualify as a FHL, all of the following conditions must be met:

(1)	The property is furnished – Yes.	
(2)	The property is in the UK or any other state in the European Economic Area – Yes.	
(3)	It is available to let at least 210 days in tax year – Yes.	**1***
(4)	It is let for 105 days or more (the letting condition) – No.	**1**

Therefore, the cottage fails to qualify as a FHL for 2016/17.

However, Harriet may elect for the cottage to be treated as qualifying for FHL status for 2016/17 if all of the following conditions are met: **1**

(1)	The property qualified as a FHL for 2015/16 – Yes.	**1**
(2)	The property failed to qualify for 2016/17 because it failed to meet the letting condition – Yes.	
(3)	Harriet genuinely intended to meet the letting condition for 2016/17 – Yes.	**1**

Therefore, Harriet may elect for the cottage to be deemed to qualify as a FHL for 2016/17.

***This mark for considering the other conditions – i.e. not just the letting condition**

7)

	£	£	
Income			
Income element of premium (W)	12,600		**2***
Rent receivable for period 3/6 x £6,000	3,000		**1**
		15,600	
Expenditure			
Insurance payable for period 3/12 x £1,500	375		**1**
Repairs	1,700		**1**
		(2,075)	
Property income		£13,525	

Working

	£
Premium	30,000
Less, 2% x £30,000 x (30-1)	(17,400)
Income element	12,600

***1 mark for including income element of premium plus 1 mark for correct amount**

8)

	£	
Withdrawal within 3 years:		
2,570 shares x £2	5,140	**2***
Withdrawal between 3 and 5 years		
3,000 shares x £1.20	3,600	**2***
Withdrawal after 5 years	Nil	**1**
	£8,740	

***1 mark for recognising withdrawal gives rise to employment income plus 1 mark for correct amount**

9)

	£	£	
Painting (chattel; proceeds > £6,000):			
Proceeds	8,000		
Cost	(4,000)		
Gain	4,000		**1**
Restricted to (5/3) x (£8,000 - £6,000)		£3,333	**1**
Shares:			
Transfer to spouse so no-gain/ no-loss		£nil	**1**
Property (sale to connected party; MV used):			
Proceeds (market value)	230,000		
Cost	(175,000)		
Gain		£55,000	**1**
Jewellery (chattel; proceeds < £6,000):			
Proceeds	6,000		
Cost	(7,000)		
Loss		£(1,000)	**1**

10)

Capital Gains Tax

	£		£	
Capital gains			60,000	
Annual exemption			(11,100)	**1**
Taxable gains			48,900	
CGT at basic rate (working)	18,625	18%	3,352	**1**
CGT at higher rate	30,275	28%	8,477	**1**
			£11,829	

Working: Basic rate band:

£32,000 + (500 x (100/80)) =	32,625	**1**
Less used, (£25,000 - £11,000)	(14,000)	**1**
	£18,625	

11)

	Sales of shares acquired 27/02/17 £	Sales of shares from s.104 pool £	**2***
Proceeds:			
5,000 x £2	10,000		
20,000 x £2		40,000	
Cost:			
5,000 x £1.30	(6,500)		
20,000 x £1.50 (Working)		(30,000)	
Capital gain on shares acquired 27/02/17	3,500		**1**
Capital gain on shares in s.104 pool		10,000	**1**

Total capital gain (£3,500 + £10,000) £13,500

Working: s. 104 pool

	Shares	Cost £
11 October 2007	12,500	15,850
3 April 2010	20,000	32,000
9 May 2011	2,000	3,900
	34,500	51,750

Cost per share = £1.50 **1**

***1 mark for matching with shares acquired 27/02/17 and 1 mark for matching with s.104 pool**

12)

Part 1

Poppy is required to make payments on account for 2017/18 because:

(1) Her tax due for 2016/17 is more than £1,000; and **1**

(2) Less than 80% of her tax liability for 2016/17 was collected at source. **1**

Part 2

	£	£	
IT and CGT liability for 2016/17	4,700		
Less, POAs made	(900)		
Balancing payment for 2016/17		3,800	**1**
IT liability for 2016/17	3,300		
Divide by 2	1,650		
First POA for 2017/18		1,650	**2***
Payment required by 31/01/2018		£5,450	

***1 mark for including POA plus 1 mark for correct amount**