The Chartered Institute of Taxation

Awareness

Module D: Taxation of Individuals

November 2023

Suggested solutions

Answer 37

	Total	Non-savings income	Savings income	Dividend income	
	£	£	£	£	
Salary	104,000	104,000			
Interest	800		800		
Dividends	5,200			5,200	
Total income / adjusted net income	110,000	104,000	800	5,200	
Personal allowance (working)	(7,570)	(7,570)			**1+1***
Taxable income	£102,430	£96,430	£800	£5,200	

Income Tax:	£		£	
Non-savings income at basic rate	37,700	20%	7,540	**[**
Non-savings income at higher rate	58,730	40%	23,492	**1**
Savings income at nil rate	500	0%	0	**[**
Savings income at higher rate	300	40%	120	**1**
Dividend income within dividend allowance	2,000	0%	0	**[**
Dividend income at upper rate	3,200	33.75%	1,080	**1**
Income Tax liability			£32,232	

Working:
Adjusted net income £110,000 - £100,000 = £10,000
£10,000 / 2 = £5,000
£12,570 - £5,000 = £7,570

***1 for deducting personal allowance plus 1 for correct amount**

Answer 38

(£53,300 (working) - £50,000) / 100 = 33% **1**

33% x £1,885 = £622 **1**

Working:	£	
Employment income (after deducting occupational pension contributions)	53,000	**1**
Dividend income	1,300	**1**
Gross donation (100/80) x £800)	(1,000)	**1**
Adjusted net income	£53,300	

Answer 39

As the cottage is furnished, is in the UK and is **available for commercial letting for at least 210 days** in the tax year, it will be treated as a furnished holiday let (FHL) if it is **let for at least 105 days** (the letting condition). **1+1**

It does not meet the letting condition for 2022/23 as it was let for 80 days.

However, it is possible to elect for the cottage to qualify as a FHL for 2022/23 as: **1**

1. 2022/23 is the first year in which the letting condition is not met (ie the conditions were met for 2021/22), and **1**

2. Claire had a genuine intention to meet the letting condition in 2022/23. **1**

Answer 40

	£	
Car benefit percentage: 5%		
5% x £53,000 (working)	2,650	**1**
Reduce for period unavailable (6 months/12 months)	(1,325)	**1**
	1,325	
Less, contributions for private use (6 x £50)	(300)	**1**
Benefit in kind	£1,025	
Class 1A NICs (£1,025 x 15.05%)	£154	**1**

Working:

	£	
List price	58,000	
Less, capital contribution (capped at £5,000)	(5,000)	**1**
Revised list price	£53,000	

Answer 41

	£	£	
Pension input amount		50,000	
Annual allowance for 2022/23	40,000		**1**
Less restriction (working)	(30,000)		
Tapered annual allowance for 2022/23	10,000		
Add, unused annual allowance bfwd	6,000		**1**
Total annual allowance available		(16,000)	
Annual allowance charge		£34,000	
Income tax at 45% (taxed as top slice of income)		£15,300	**1**

Working:

Tutorial note: Annual allowance is restricted as threshold income (employment income £250,000) exceeds £210,000 and adjusted income (below) exceeds £240,000.

	£	£	
Employment income	250,000		
Pension contribution	50,000		**1**
Adjusted income		300,000	
		(240,000)	
Excess income		£60,000	
Restriction (£60,000 / 2)		£30,000	**1**

Answer 42

The tax reducer is equal to 30% of the subscription: 30% x £100,000 = £30,000.	**1**
The tax relief is the lower of the tax reducer (£30,000) and the Income Tax liability for the year of subscription (2022/23) of £22,000: therefore £22,000.	**1**
However, it is possible to carry back the subscription to the preceding tax year – 2021/22 - in which case the relief is the lower of £30,000 and £46,000: therefore, £30,000.	**1**
For the claim to be successful, the person must be a qualifying investor. For Zohan, this means **he must not become connected with the company before 1 September 2025** (being the 5-year period ending with the 3-year anniversary of the subscription). An employee is connected with the company.	**1**
However, an exception is made where the person becomes a paid director after the subscription provided the remuneration is reasonable.	**1**
This would appear to be the case here and so Zohan becoming a director should not affect the claim for EIS Income Tax relief.	

Answer 43

Alan acquired the shares at a discount; therefore, he will have taxable income equal to the gift element of the award (market value less price paid).	**1**
As the shares are unlisted, and as there were no arrangements in place for them to be sold, the shares were **not readily convertible assets and so the gift was not subject to PAYE**.	**1**
Instead, Alan must account for the tax through the self-assessment system. The award must be **included in his tax return for 2022/23** and **the tax due paid on or before 31 January 2024**.	**1+1**
Schtuff Ltd should have notified HMRC of the award of the shares by **6 July 2023** (ie 6 July following the end of the tax year).	**1**

Answer 44

Primary contributions payable by Laura		
£nil as below Primary Threshold of £190/£242 per week	£nil	**1***
Primary contributions payable by Meg:		
(£20,000 - £11,908) x 13.25%	£1,072	**1**
Secondary contributions Payable by Finggs Ltd:	£	
In respect of Laura: £nil as below Secondary Threshold of £175 per week	nil	*****
In respect of Meg: (£20,000 - £9,100) x 15.05%	1,640	**1**
	£1,640	

Finggs Ltd is not eligible for the employment allowance for 2022/23 as:

- Secondary Class 1 NICs are payable in respect of one employee only, and **1**
- That employee is a director of the company. **1**

***1 mark awarded where £nil in both instances**

Answer 45

A person is a Scottish taxpayer for a tax year if either:

1. They have a close connection to Scotland, or **1**

2. They do not have a close connection with Scotland or another part of the UK and they spend more days in the tax year in Scotland than in any other part of the UK. **1**

As Issa has two residences in the UK, 'close connection' is determined by which of the two is his main residence. **1**

This is the residence with which he had the greatest degree of connection and is not necessarily where he spent most time.

Various factors can determine this, including where the person's family lives (ie which residence is the family home). For Issa, this is in England. **1**

Therefore, based on the information provided, Issa is not a Scottish taxpayer for 2022/23. **1***

***This mark for coming to a reasonable conclusion based on the information provided.**

Answer 46

	£	
Shares (see working 1)	14,125	
Vase (see working 2)	5,000	
Racehorse (exempt as wasting chattel)	-	**1**
Net gains/losses	£19,125	

Working 1 - shares:

	Shares bought on 14 December 2022	s.104 pool	Total	
	£	£	£	
Number of shares	250	750	1,000	**1***
Proceeds (£20 per share)	5,000	15,000	20,000	
Cost (£15 x 250 / below)	(3,750)	(2,125)	(5,875)	
Gain	£1,250	£12,875	£14,125	

s104 pool

	Shares	Cost £	
Acquired 17 August 2015	2,500	5,000	
Acquired 28 March 2019	500	3,500	
	3,000	8,500	**1**
Disposal: (750/3,000) x £8,500	(750)	(2,125)	**1**
	2,250	£6,375	

Working 2 - Vase
Gain is lower of:
- proceeds less cost (£9,000 - £400) = £8,600, and
- 5/3 x (£9,000 - £6,000) = £5,000, therefore £5,000 **1**

***For correct application of share matching rules**

Answer 47

	£	£	
Proceeds	90,000		
Less, legal fees	(900)		1
		89,100	
Less, cost (working)		(55,350)	
Capital gain		33,750	
Less, annual exemption		(12,300)	1
Taxable gain		£21,450	
CGT at 20%		£4,290	1

Working:

Cost	220,000	
Add, SDLT	1,400	1
	£221,400	
Applying part disposal formula: (£90,000 / (£90,000 + £270,000)) x £221,400	£55,350	1

Answer 48

Filing and payment deadline was 31 March 2023 (three months from date of issue of notice to file the return as later than 31 January 2023). Submission and payment on 31 October 2023 was seven months late. **1**

	£	
Late submission:		
Initial penalty	100	1
Six months late: daily penalties of £10 for 90 days	900	1
More than six months late: greater of £300 and £190 (5% of £3,800)	300	1
	£1,300	
Late payment:		
More than 30 days: 5% of £3,800	190	
More than five months: 5% of £3,800	190	
	£380	1