Chartered Institute of Taxation

Excellence in Taxation

The Chartered Tax Adviser Examination

6 November 2019

AWARENESS

Module D – Taxation of Individuals

1. For 2018/19, Rick's taxable income was as follows:

	£
Savings income	33,500
Dividend income	170,000
Taxable income	£203,500

Calculate Rick's Income Tax liability for 2018/19.

	S	D
Savings	33,500	
Dividend	—	170 000
	33 500	170 000.
Personal allowance	—	—
	33,500	170,000.
S = 5000 @ 0%.	Nil	
28,500 ~~29,500~~ @ 20%.	5700	
D = 2000 @ 0%.	Nil	
149,000 @ 32.5%.	48,425	
20,000 @ 38.1%.	7620	
	61,745.	

* no personal allowance as reduced to nil after excess in income over £100,000.

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2. Maggie (age 87) and Glen (age 62) have been married since 2001. For 2018/19, Maggie had total income of £48,000 and Glen had total income of £42,000.

Briefly explain, with supporting calculations, the amount of the married couples allowance available to Maggie and Glen for 2018/19.

- As Maggie was born before 6 April 1935, they are eligible to claim ~~marriage~~ married couple allowance
- As Maggie's total income is higher than Glen's, she will be eligible to claim the allowance.

→ ~~reduce~~ allowance is reduced for income over £28,900

= (48,000 - 28,900) / 2 = 9550

allowance	8695
reduction	(9550)
allowance	3360 → cannot be below £3360.

- allowance deducted from income tax liability

= 3360 × 10%

= £336.

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3. On 1 October 2015, Daryl paid a premium of £80,000 on the grant of a 40 year lease on an investment property.

On 6 October 2018, Daryl granted a 10 year sub-lease to Carol, charging a premium of £35,000 and an annual rent of £24,000. Daryl has made the election to use the accruals basis to calculate his property income.

Daryl's brother, Merle, lives near a busy sports stadium which has limited parking facilities. He rented out his driveway, on an ad-hoc daily basis, to visitors to the stadium, at the rate of £5 per day. The driveway was rented out for 175 days during 2018/19.

Calculate, with brief explanations where necessary, Daryl and Merle's assessable property income for 2018/19.

- allowable deduction for premium paid

= 80,000 – (2% x (40-1) x 80,000)

= £17,600.

- income =

→ annual value 24,000 x 6/12 = 12,000.

→ premium ~~35,000 x~~ 40 35,000 / 10 x 6/12 = 1,750

13,750.

- parking = 5 x 175

= £875

→ allowable ~~deduction~~ income as rented out for more than 155 days within the year.

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4. Rosita is employed by Xoombie Ltd. She is provided with a company car with CO_2 emissions of 113g/km and a list price of £32,000. The car was purchased in 2016 with Rosita making a contribution of £7,000 towards the purchase price. Petrol for private journeys was not provided.

On 6 May 2018, the car developed a fault and was taken to the garage for repairs. The car was repaired and returned to Rosita on 1 June 2018.

On 6 November 2018, Rosita transferred from the Birmingham branch of Xoombie Ltd to the Edinburgh branch. The company paid Rosita's qualifying relocation expenses of £11,500. → max £8000.

You are required to:

1) **Calculate Rosita's assessable benefits for 2018/19.**

2) **Calculate the Class 1A National Insurance Contributions payable by Xoombie Ltd based on the information provided above.**

~~① Car~~

~~32,000 x 20% + ((110 - 95) / 5)~~

~~32000 x 23% = 7360.~~

~~less: contrib~~

① Car:

(32,000 - 7000) x 20% + ((110 - 95) / 5)

25,000 x 23% = 5750.

~~→ no deduc~~ → no deduction for being in the garage for repairs as it is less than 30 days.

Reallocation

= (11,500 - 8000) → allowable deduction of £8000

= 3500

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② Class 1A

= ~~5750 x 13.8%.~~

= 3500 x 13.8% = 483.

→ car will be taxed under Class 1B

NJC.

5. Lori had been employed by Hershelle Ltd since 2007. For 2018/19 her monthly gross salary was £4,000.

On 2 January 2019, Lori resigned from Hershelle Ltd and was asked to leave immediately, although her employment contract required a notice period of two months.

On 25 January 2019, Lori received a termination payment of £33,000 from Hershelle Ltd.

Briefly explain, with supporting calculations, the taxation treatment of Lori's termination payment.

	£
Termination payment	33,000
PENP = 2/12 x 4000	~~(667)~~ 667
less: allowance	(30,000)
	3667

→ PENP will be charged ~~as the she~~ at 2 months of the year as she did not work her notice period.

→ as termination payment above £30,000, eligible for an allowance of £30,000 to be deducted.

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6. Dale and Andrea are a married couple with three young children.

Dale has been employed by Shaene Ltd since 5 May 2009 and joined its employer supported childcare scheme on that date. For 2018/19, he received childcare vouchers to the value of £85 per week in addition to his annual salary of £54,000.

For 2018/19, Dale's wife Andrea received child benefit of £2,501. She is self-employed and had trading income of £12,000 for 2018/19.

Neither Dale nor Andrea had any other sources of income for 2018/19.

Calculate Dale's Income Tax liability for 2018/19.

- as Dale's income is above £50,000, there will be a child benefit charge.
- The charge will be included on Dale's income tax liability as he earns the most out of him and Andrea.

income	54,000
vouchers (85 x 52)	4420
	58,420
less: personal allowance	(11,850)
	46,570.
34,500 @ 20%	6900
12,070 @40%	4828
	11,728

child benefit charge

(~~£54,000~~ - 50,000) x 1%.

= 40% x 2501	1000
	12,728.

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7. Ezekiel (age 37) is domiciled in Canada and has been resident in the UK since 2015. During 2018/19, he received dividends of £24,500 on shares held in Canadian companies. The dividends were paid into his Canadian bank account.

On 20 February 2019, while on holiday in Canada, he withdrew funds of £23,000 from his Canadian bank account to buy a gold watch. He brought the watch back to the UK on 25 February 2019. No other withdrawals were made from this account during 2018/19.

Briefly explain the basis and amounts on which Ezekiel will be taxed in the UK on his overseas income.

- not deemed domicile as not spent ~~15~~ 15 out of 20 ~~days~~ years in the UK, although he is resident for the 18/19 tax year.
- As such he will not be subject to UK tax on worldwide income of £24,500.
- Instead he will be subject to UK tax on income ~~be~~ brought to the UK (ie the market ~~val~~ value of the watch) even though the funds were withdrawn ~~to the from~~ in ~~Canda~~. Canada.
- The remittance basis charge will not apply as he has not been resident for 7 out of 9 years, plus he does not claim remittance basis.

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8. On 5 September 2016, Carl subscribed for £100,000 of newly issued shares in Soleye Ltd, a qualifying Enterprise Investment Scheme (EIS) company and claimed EIS Income Tax relief of £30,000 (£100,000 x 30%) in 2016/17.

On 10 October 2018, Carl sold the shares for £25,000, incurring selling costs of £500.

Carl elected to offset the loss on the disposal of the EIS shares against his 2017/18 income, which was income from employment of £260,000.

You are required to calculate:

1) **The Income Tax relief withdrawn on the disposal of the shares.**

2) **The Income Tax relief obtained in 2017/18 for the loss on the disposal of the shares.**

① Lower of:

- income tax reducer = 30,000
- loss = ~~25,000~~ (100,000 - 25,000) x 30%
  = £22,500.
- income tax relief = £22,500.

②

proceeds	25,000
selling costs	(500)
costs	(100,000)
	(75,500).

75,500 x 30% = £22,650.

- can offset £22,650 of the loss against the 17/18 liability.

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9. On 1 October 2014, Tara acquired a freehold property for £800,000. On 1 July 2018, she granted a 30 year lease to Denise for a premium of £50,000. Legal and professional fees incurred on the grant of the lease were £1,000. The freehold reversion was valued at £950,000.

Calculate the chargeable gain arising on the grant of the lease in 2018/19.

~~proceeds = premium~~.

- grant of a short lease as less than 50 years

→ treated as part disposal of freehold.

	£
proceeds = premium	50,000.
fee = ~~1000 x 50,000~~	(1000)
cost = $800,000 \times \frac{50,000}{50,000+950,000}$	(40,000)
gain	9000.

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10. On 10 February 2019, Gabriel sold 10,000 shares in Scopper plc for £45,000. The shares had been purchased as follows:

	Number	£
11 April 2014	2,000	2,200
14 September 2017	6,000	7,500
1 March 2019	1,000	1,200

On 19 November 2018, Scopper plc made a 1 for 2 bonus issue.

Calculate the chargeable gain arising on the sale of the shares in 2018/19.

	shares	cost
11/4/14	2000	2200
14/9/17	6000	7500
	8000	~~44~~ 9700
~~2~~ 1 for 2	4000	4850
	12,000	14,550
Sale (10,000-1000)	(9000)	(10,913)
	3000	3637

~~30 days~~ ~~5,104~~

~~proceeds (10,000/12,000 x 7500)~~ ~~9094~~ ~~7500~~

~~Proceeds (9000/10,000 x 45,000)~~ ~~33,750~~

~~(2000/~~

~~cost (10,913)~~ ~~(10,913~~ ~~(3637)~~

	30 days	s.104
~~proceeds~~		
~~(9000/10000 × 45,000)~~		~~40,500~~
~~cost~~	~~(45,000)~~	~~(10,913)~~

	30 days	s.104
proceeds (~~9000~~ 1000/10,000 × 45,000)	4500	
(9000/10,000 × 45,000)		40,500
cost	(1200)	(10,913)
	3300	29,587

11. On 17 September 2011, Eugene purchased a 100% holding in Neagan Ltd, a trading company, for £350,000. He worked full-time for the company until 2 December 2017 when he sold his entire shareholding.

The consideration for the sale was cash of £720,000 to be received immediately plus an amount contingent on the company's results for the year ended 31 December 2018. The contingent amount was valued at £25,000 on 2 December 2017. Eugene received £38,500 on 5 March 2019.

addition

Eugene was a higher rate taxpayer for both years.

Calculate the Capital Gains Tax payable by Eugene for 2017/18 and 2018/19.

- As the consideration is not certain, the contingent amount will be added to the cash sale, and ~~a~~ the difference will be ~~to~~ taken into account in 18/19 tax year.

17/18 £

proceeds (720,000 + 25,000) 745,000

cost (350,000)

395,000

ER @10% 39,500

18/19 £

proceeds (38,500 - 25,000) 13,500 → higher amount than expected in 17/18, so addition must be charged.

~~E~~R @10% 1350

12. On 3 January 2016, Dwight, who had always been UK resident, became non-UK tax resident when he started work in his employer's New York office. He returned to the UK and resumed his UK tax residence on 22 December 2018.

Dwight realised the following gains on capital assets disposed of between 3 January 2016 and 22 December 2018:

	Purchased	Sold	Gain £
Quoted shares	1 September 2010	5 March 2017	25,000
Painting	10 April 2017	12 May 2018	10,000

Briefly explain Dwight's liability to UK Capital Gains Tax on the disposals made during his period of non-UK residence.

Painting

- As it was purchased when Dwight was non resident in the UK and was sold when he was non resident, the gain will not be eligible ~~fo~~ to UK Capital gains tax.

Shares.

- Purchased when UK resident, but sold when non-UK resident. As such the gains will not be subject to Capital gains tax when sold, they will be subject to tax when Dwight returns to the UK.

→ eligible for split year rule as non-UK resident for less than 5 years.

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