(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

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☐ Tick box if you have answered in accordance with Scots Law

☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advanced Technical Paper you have attempted (if not already ticked below)

☐	Taxation of Owner-Managed Businesses	✓	Taxation of Individuals
☐	Domestic Indirect Taxation	☐	Cross-Border Indirect Taxation
☐	Inheritance Tax, Trusts & Estates	☐	Taxation of Major Corporates
☐	Human Capital Taxes		

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

(a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
(b) Write on both sides of the page.
(c) Not write in the margin areas indicated.
(d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
(e) Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

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QUESTION NUMBER 6

To : Ted (Tax Partner)
From : Tax Adviser
Date : Today
Subject : Agnes Wool - takeover of Wooly Ltd

Ted,

As requested, I have summarised below the Capital Gains Tax (CGT) implications for your client, Agnes Wool, on the sale of her shares.

Firstly, if we consider her current shareholding in Wooly Ltd. Agnes would qualify for entrepreneur's relief (ER) on the sale of the shares as she is ~~an~~ making a material disposal of business assets.

Agnes meets the conditions for ER as she holds more than 5% of the shares in an unquoted, trading company, is employed by the company and has been in this position for more than one year.

ER allows qualifying gains to be taxed at 10% up to a lifetime limit of £10 million.

This lower rate of CGT will be useful for Agnes as she has already utilised her annual exemption for capital gains elsewhere.

Looking next to the takeover Offer from Garments Plc. The type of consideration provided will have different outcomes for CGT.

Cash consideration crystallises an immediate gain that will be taxable on disposal of the Wooly Ltd shares.

For share for share exchanges, there is no immediate gain. As this is 'paper for paper' the new shares will take on the base cost of the old shares. This defers any gain until such time that the new

QUESTION NUMBER 6

shares are sold.

Further consideration must also be given to the timing of any cash consideration and any conditions attached to this.

Where future consideration ascertainable and simply subject to a time delay or condition being satisfied, the value of the ascertainable amount is treated as proceeds in the year of disposal. If then in due course the amount is not received, the tax return for the year of disposal can be amended.

Where the future consideration is unascertainable, the estimated value at today's date would be treated as proceeds at the time of disposal. In due course, any under/over calculation would be done in the tax year the future consideration is received.

I have attached workings showing the

QUESTION NUMBER 6

treatment of each option.

Finally, it would likely be worth Agnes electing to disapply the share for share election so that she can claim ER on the whole disposal. She would be unlikely to qualify for ER on the future disposal of Garment Plc shares as she will only hold 1% of the shares.

As the consideration in option one is to be received in instalments over 18 months, Agnes could apply to pay her CGT liability in instalments. 50% of the CGT would be due on the normal payment date of 31 January following the tax year with the balance payable as 50% of each further instalment. The instalments can be paid over the lower of the consideration period or 8 years.

Please let me know if you have any queries

Kind regards, Tax Adviser.

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QUESTION NUMBER 6

Attachment.

Option 1

	Mv of considern	Base cost	Tax imp.
Cash - immediate	100'000	16'667	
Cash - instalment	300'000	50'000	immediate gain
Cash - five years	200'000	33'333	
	600'000	100'000	

Proceeds	600'000
Less cost	(100'000)
	500'000
Tax @ 10%	50'000

QUESTION NUMBER 6

Attachment

Option 2

	MV of considern	Base cost	Tax imp.
Cash - immediate	100'000	16'667	gain
Shares (10'000 x ₺30)	300'000	50'000	no gain
Profits (₺200'000 est)	200'000	33'333	gain
	600'000	100'000	

Proceeds	300'000
Less: cost	(50'000)
Gain	250'000
Tax @ 10% ER	25'000

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QUESTION NUMBER 3

- grant of short lease from short lease
- ded'n from propelty income for head lease premium.
- have chosen first option with lower premium

G: n° years sub-granted	20
R: n° years reverts	10
A: n° years head acquired	30
Premium	20'000
Less: cost x(G-R)/A	
100'000 x (72.770 - 46.695)/87.330	(29'858)
	(9'858)
Less: income element	
P - (P x 2% x (n-1))	
20'000 - (20'000 x 2% x (10-1))	(16'400)
Capital loss	(26'258)

- The capital loss can be carried forward to offset future capital gains.

QUESTION NUMBER 3

Income tax

Rental income

(₺10'000 x 3/12 assume accruals basis) 2'500

Premium - income element	16'400
Less: ded'n for head lease (capped)	(16'400)
	2'500

or ₺10'000 if on cash basis and annual rent paid in advance

(W1) ded'n for head lease

P - P x 2% x n - 1

100'000 - (100'000 x 2% x 30-1) 42'000

42'000 x % n° sub / % no head

42'000 x 46.695 / 87.330 22'457

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QUESTION NUMBER 3

2) Part two

1) Purchase propeity outright
- will have base cost of asset of £300'000 for CGT
- The annual interest of £20'000 will be fully deductible from business profits as relates to commercial propeity so will reduce income tax.

2) Pay premium of £80K for 10 year lease.
- The premium would be spread evenly over the 10 year period as a deduction against business profits for IT
- The interest on the loan is still wholly and exclusively for the business so will be fully deductible from business profits for IT.

3) No premium and rent.
- The annual rent costs would be deductible from business profits for IT.

QUESTION NUMBER 1.

Firm's address

Client address

Date

Dear Janine

UK residence position for 2018/19

Further to our meeting, I have summarised below your UK residence position for 2018/19.

When determing UK residence, we must refer to the Statutory Residence Test (SRT) which is made up of three parts:

i) automatic overseas test
ii) automatic UK test
iii) the sufficient ties test

The strict ordering rule applies and you must consider each test in turn. Once you have satisfied one test you don't have to consider the other tests.

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QUESTION NUMBER 1

You returned to the UK on 15 December 2018 meaning that you spent 112 days in the UK. This can be considered against each test below.

The automatic overseas tests include

i) resident in UK in one or more of previous three years and spend fewer than 16 days

ii) ~~non~~ resident in none of the previous three years and spend fewer than 46 days.

iii) work full time overseas.

You do not satisfy any of the above criteria based on your number of days in UK and your overseas employment has ended.

Looking next to the automatic UK test.

i) you spend 183 days or more in the UK

ii) you have a home in the UK where for 91 consecutive days you had a home in the UK and no overseas home or an overseas home in which you spend no more than the permitted time

QUESTION NUMBER 1

iii) you work full time in the UK with no significant breaks.

As you purchased a flat in Birmingham on 1 December 2018, you will satisfy the condition of having a home in the UK. You moved into the flat immediately on return to the UK and have lived there for more than 91 days with no overseas home.

You will therefore be resident in the UK in 2018/19.

Split year rules may also apply since you are UK resident in the tax year. Case 6 will apply as you are returning to the UK after ceasing to work full time overseas. The overseas part of the tax year will be from 6 April 2018 until your last day of employment on 10 December 2018. Your UK part will commence from 11 December 2018 to 5 April 2019. It is not based on the day you return to the UK

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QUESTION NUMBER 1

Per the attached appendix, I have calculated your capital gains tax liability for 2018/19

The gain arising on the sale of your London flat will benefit from ~~y~~ the EIS deferral available on your EIS subscription. You can defer a gain on any asset if you subscribe to EIS shares and the gain only comes back into charge when you sell the EIS shares in the future.

If your capital gains annual exemption is available, you can defer a specified amount of £3'300. If you have already used up your annual exemption elsewhere, the full £15'000 gain could be deferred.

Please let me know if you have any queries

Kind regards,
Yours sincerely
Tax Adviser.

QUESTION NUMBER	1

Appendix

(W1) Flat
- purchased ~~both~~ and sold whilst UK resident

Proceeds	465'000
less: cost	(450'000)
Gain	15'000

(W2) Shares - sold to connected person
- deemed to be at MV
- sold whilst non-resident but temporary non-residence rules apply as returned within 5 years

Proceeds (MV 4.50x12'250)	55'125
Less: cost	
(5'000x2.45+1'250x3.50+6'000x3.70)	(38'825)
	16'300
Less: amount rec'd from son	(16'300)
(£100'000 capped)	nil gain

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QUESTION NUMBER 1

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(W3) EIS

- can qualify for EIS deferral relief on gain of other asset.
- would be lower of:

i) amount of gain

ii) amount invested in EIS shares

iii) Specified amount.

	£
Gain on property	15'000
less: annual exemption	(11'700)
	3'300
less: EIS deferral relief	(3'330)
Chargeable gain	nil

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QUESTION NUMBER 5

	Non savings	Savings	Dividend
	£	£	£
Salary	123'600		
Lumpsum	30'000		

	Non saving	Saving	Dividend	Bonds
	£	£	£	£
Salary	123'600			
Lump sum	30'000			
Dividends			10'000	
Bank interest		1'200		
Treasury int. (W1)		1'746		
Japanese bond (W2)				1'000
UK pension	1'500			

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QUESTION NUMBER 5

	Non saving	Saving	Dividend	Bond
	£	£	£	£
Aus pension 250'000				
	405'100	2'946	10'000	1'000
Less: share loss (60'000) (W5)				
Less: personal allowance (restricted to nil)	-			
Taxable income	345100	2'946	10'000	1'000

Tax:

44'500 @ 20%	8'900
115'500 @ 40%	46'200
185'100 @ 45%	83'295
2'946 @ 45% (no saving allowance)	1'326
2'000 @ 0% (dividend allowance)	-
8'000 @ 38.1%	3'048
1'000 @ 45%	450
	143'219
Less: PAYE	(35'620)
Less: Tax at source	(600)
Tax Due	106'999

QUESTION NUMBER 5

(W1) Treasury stock

- accrued income scheme

50000 x 3%	1'500 pa

01.10.18 - 04.02.19 = 127/365 days due interest

06.04.18 - 04.02.19 = 305/365

1'500 x 305/365	1'253

Bought:

75'000 x 4%	3'000

05.02.19 - 05.04.19 = 60/365

3'000 x 60/365	493
Total interest	1'746

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(W2) Japanese bond

Proceeds	10'000
Less: subscribed	(9'000)
Tax as top slice	1'000

(W3) Offshore non-reporting

Proceeds	12'500
Accumulated income	1'500
	14'000
Less: cost	(15'000)
Capital loss	(1'000)

Remains as capital loss even though non-reporting fund.

Notes:

1) Premium bonds exempt from tax.
2) First 25% lump sum from UK pension will be ~~drawn down tax free~~ taken tax free.
3) Lump sum given for services provided so will be taxable as employment income.
4) Due to level of adjusted net income, the personal allowance is restricted to nil

QUESTION NUMBER 5

(W4) Offshore reporting fund

Interest (500x2)	1'000
Excess income	700
	1'700

- treated as capital gain not income

(W5) Share loss to offset income

Proceeds	100'000
Less: cost	(160'000)
Loss to offset income	(60'000)

- held for > 3 years so no tax reducer implications

(W6) Gift aid

8'000 x 100/80	10'000

(W7) Tax bands

34'500 + 10'000	44'500
150'000 + 10'000	160'000

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QUESTION NUMBER 5

Notes:

Rajesh has been in UK for 15 out of last 20 years so if not UK domiciled, he will be deemed domicile.

Rebasing of foreign assets at 5 April 2017 only applied to non-domiciled individuals who have claimed the remittance basis in the past.

~~Rajesh was non resident for less than 5 years in 1999-2004~~

QUESTION NUMBER 2

Notes for meeting.

Becky Clark

- The shares are worth £2'000 each and she is being awarded 10 shares; this would have normally cost £20'000.

- Becky is not required to pay anything for the shares at the date of the award. Instead, this will be treated as a notional loan that is outstanding with her employer.

- When the shares are awarded, there is no plan in place to sell so they are not readily convertible assets so they are not subject to tax under PAYE.

- In due course, when the loan is due to be repaid, likely when the sales are sold, Becky will be charged to income tax on the value of shares at award.

- As there are no restrictions on the shares the value will be equal to the market value of €2'000 per share

- The gain on any future sale of the shares will be reduced by any amount charged to income tax.

Patrick Smythe

- Patrick has already been charged to income tax on the value of shares given to him in 2016/17.

- On conversion there will be a further charge to income tax for the value of the new shares after conversion

Shares post conversion (€120x100)	12'000
Less: amount paid	(1'000)
Less: charged to income tax	(5'000)
Taxable income in 2019/20	6'000

- When Patrick comes to sell the shares, there will be a capital gain:

QUESTION NUMBER 2

Proceeds (£135 x 100)	13'500
Less: cost	(1'000)
Less: amount charged to IT (5'000 + 6'000)	(11'000)
Gain in 2019/20	1'500

- The resulting gain will be covered by Patrick's annual exemption of £11'700 so there will be no CGT to pay.

~~As the share state~~

- The taxable income of £6'000 will be subject to PAYE so he will have a lower salary payment in that mouth of conversion

QUESTION NUMBER 4

City Tax Advisers
High Street
PA1 ABC

Mr D Stevenson
1 Town Avenue
PA1 EFG

Date

Dear Mr Stevenson

Thank you for your recent letter providing an update in the change in circumstances for you and your wife Holly.

Taking each of your points in turn, I would comment as follows:

Wages error

Employment income is taxable on a receipts basis based on the date of entitlement. As you should have received your wages from Harry's Kitchens Ltd on 25 March 2019 ~~and~~ then this will be taxable on you in 2018/19 despite being physically paid to you on

1 May 2019.

Conveyancing fees
I understand that your new employer paid conveyancing fees for the sale of your London home and the purchase of your new home in Liverpool.

Can you please confirm if you were required to rellocate to Liverpool for your new job?

Qualifying relocation costs paid directly by the employer or reimbursed to you for actual costs incurred can be an exempt benefit up to the value of £8 000. There would therefore be no tax or national insurance implications.

If it is determined that these are not qualifying relocation costs, this would be taxable on you and subject to PAYE/NIC.

Temporary time at Head Office
Where you are required to travel to a temporary workplace for less than 24

months, the costs incurred for attending this temporary workplace can be deducted from your employment income.

Presuming your employer has not reimbursed you for the mileage, you could claim a deduction for mileage at HMRC's approved rates of £0.45 for the first 10,000 miles and £0.25 for each mile thereafter.

Trips to Wales

As there is no pattern to your visits to the outlets in Wales, we would need to look at the percentage of your working time spent at your main office workplace compared to time spent at the Welsh outlets.

Where you spend less than 40% of your working time at these outlets, this will be a temporary workplace for the purposes of claiming deductions for expenses.

Fuel allowance

The amount paid to you for fuel is a

round sum allowance for which you will be subject to tax and national insurance

If you are able to demonstrate the actual costs incurred using this round sum allowance, you could obtain a deduction for your employment income. Approved mileage rates, as mentioned above, would allow you to ~~be~~ reduce your taxable income.

Gifts from employer

Trivial benefits that are less than £50 each will be tax free for you. As you are not a director, there is no cap on the number of trivial benefits ~~they~~ you can receive each year. The gifts of a bottle of champagne and a turkey would be deemed to be a trivial benefit so there will be no tax implications.

Molly's pension

The pension ~~scheme~~ lifetime allowance is now £1'030'000 for 2018/19.

QUESTION NUMBER 4

where her pension scheme exceeds this lifetime allowance, Molly will be subject to a charge.

There is only one lifetime allowance so where some has already utilised by her first pension, she will be restricted with her second pension

Molly has two options available with regards to the excess over the lifetime allowance:

1) She can take a lump sum now, for the value of the excess, that will be taxed at 55%.

2) Alternatively, she can pay 25% now and keep the amount in the pension. When she draws down on the pension in due course, these drawdowns would be subject to tax at that point as well. Depending on her level of income, this could be taxed at 20/40/45%.

QUESTION NUMBER 4

Should you wish to discuss the above further, please do let me know.

Yours sincerely

Tax Adviser.

QUESTION NUMBER

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