The Chartered Tax Adviser Examination

May 2019

Suggested solutions

Module D Taxation of Individuals

1)

		£	£	
Salary			22,000	
Accommodation benefit:				
Basic charge		3,200		
Further charge	(210,000 – 75,000) x 2.5%	3,375		2*
		6,575		
Rent paid by Pete	12 months x 100	(1,200)		1
			5,375	
Use of furniture	20% x £8,000	1,600		1
Gas and electricity bills paid		1,800		
			3,400	
Total employment income			30,775	1**

1 for including a further charge, using correct calculation, 1 for using MV rather than cost (purchased >6years before being made available)
***For including salary, basic charge and household bills correctly*

2)

	£		
Non savings: £48,000 – £11,850		*PA deduction/use of BR band*	1
£34,500 x 20%	6,900		
£1,650 x 40%	660		1
£36,150			
Interest:			
£500 x 0%	0		1
£900 x 40%	360		1
Dividends:	0		
£1,750 x 0%	0		1
Income Tax liability	£7,920		

3)

Earnings for Class 1:		£	
Monthly basic pay	£54,000 / 12	4,500	
Bonus		4,400	1
Mileage claim	600 miles x (60p-45p)	90	1
		£8,990	1*
£3,863-£702 = £3,161	12%	379	1
£8,990-£3,863 = £5,127	2%	103	1
		£482	

**For excluding the medical insurance*

4)

		£	
Rental income receivable	8 months x £600	4,800	1
Agent letting fees	8% x £4,800	(384)	1
Decorating costs		(800)	1
Finance costs	£3,400 x 50%	(1,700)	1
		£1,916	1*

**For excluding the initial repairs and new furniture as capital in nature*

5)

A deduction from total income can be made for interest on borrowings for a qualifying purpose. The £300 loan interest must be apportioned between the office machinery for use in his employment and equipment for personal use, giving a deduction from total income of £214 (£300 x £2,500/£(2,500+1,000)). 2

Employee contributions to an occupational scheme are deducted from employment income to reduce the amount of employment income subject to Income Tax. 1

A qualifying EIS investment will give Scott a potential Income Tax reducer of £2,400 (£8,000 x 30%). This can be set against his Income Tax liability for the 2018/19 and/or the 2017/18 tax years, but cannot create a repayment; i.e. there must be a high enough Income Tax liability to set the credit against. 2

6)

		£	
Tax due on net benefit provided:			
BR employees	£300 x 50 x 20/80	3,750	1
HR employees	£300 x 50 x 40/60	10,000	1
		13,750	
Gross value of benefit	(£300 x 100) + £13,750 = £43,750		1
Class 1B National Insurance	13.8% x £43,750	6,037	1
Payable 22 October 2019 (electronically)		£19,787	1

7)

PPR will be available for periods when Pat was actually living in the apartment, and also for any periods of deemed occupation. This means that 120 months of the 173 months of ownership will qualify for PPR as follows:

Period	**Number of months**	**Description**	
1 June 2004 – 31 May 2006	24	Lived there so covered by PPR	1
1 June 2009 – 30 November 2012	42		
1 June 2006 – 31 May 2009	36	Any period working overseas covered by PPR under deemed occupation periods provided owner returns to the property afterwards (which he does.	1
		The year travelling can also be treated as though he lived there under the "3 years for any reason" rule, which again is dependent on him returning to the property	1
1 December 2012 – 1 November 2018	18	No "conditional" forms of deemed occupation available as doesn't return to the property but can claim the final 18 months of ownership	1
	120		

In addition, letting relief can be claimed for the remaining 53 months proportion of the gain, restricted to the lower of: 1
i) £40,000
ii) PPR already claimed
iii) Gain relating to the letting period.

8)

2018/19
Matt will have made the first payment on account for 2018/19 of £4,200 on 31 January 2019 and will be due to make the second payment on 31 July 2019, with each instalment being based on 50% of the Income Tax payable for 2017/18. 2

The balancing payment of income tax of £800 will be payable on 31 January 2020. 1

The Capital Gains Tax of £1,280 will be payable in full on 31 January 2020 as this is not paid as part of the payment on account system. 1

2019/20
Matt will be required to make payments on account of £4,600 each for the year on 31 January 2020 and 31 July 2020 with each instalment based on 50% of the income tax for 2018/19 but these can be reduced based on his forecast of the tax which will be due for the year as this is expected to be lower. 1

9)

When the options were granted on 20 April 2012 no tax would be payable. 1

Normally where options are granted under a tax advantaged scheme like EMI, no tax would be payable at the date of exercise. However, where the options are granted at a discount, a charge to Income Tax arises at the date of exercise based on the discount given. Katie will have extra employment income subject to Income Tax for 2018/19 of £5,000 (5,000 x (£6-£5)). 2

On sale of the shares on 31 August 2018, Katie will realise a capital gain and pay Capital Gains Tax based on the difference between the sale price of £12 and the market value at the date of grant of £6. This will result in a gain of £30,000. 2

10)

	Commercial	Residential	
	£	£	
Proceeds	200,000	180,000	
Base cost	(115,000)	(105,000)	
Gain	85,000	75,000	1
Annual exempt amount	(0)	(11,700)	1*
Taxable gains	85,000	63,300	
Basic rate band available	£34,500 – £18,150 = £16,350		1
£			
16,350 x 18%		2,943	
46,950 x 28%		13,146	2**
85,000 x 20%	17,000		
Capital Gains Tax payable £33,089			

**For using against residential rather than commercial property gain*
***Can be calculated by using the BR band against the commercial property instead and get to the same answer. These two marks are for using the BR band at 10/18% accordingly and recognising that the residential property is taxed at different rates.*

11)

The scholarship award of £1,500 is exempt so will not be included as taxable income. 1

The dividends from the VCT are exempt from Income Tax, but the dividends from the SEIS investment are taxable dividends. However, Rose will have use of the dividend allowance of £2,000 to cover these. 2

The income distribution from the trust has been paid to Rose net of an additional rate tax credit. The £1,850 needs to be grossed up for this giving gross income to be included in her tax calculation of £3,363 (£1,850 x 100/55). 1

Tax will be calculated at Rose's relevant rate but the tax credit of £1,513 will be set against this and may result in a tax repayment due to Rose. 1

12)

	£	£	
2019/20 Usual annual allowance (AA)	40,000		1
Abatement as threshold income > £110,000 and adjusted income > £150,000			1
Restriction £(185,000 – 150,000) / 2	(17,500)		1
		22,500	
2016/17 – 2018/19 Unused AA b/f:			
Restricted AA per year	22,500		
Actual contributions (gross)	(20,000)		
Unused x 3 years	2,500	7,500	2
Maximum AA available for 2019/20		30,000	