The Chartered Institute of Taxation

Awareness

Module D Taxation of Individuals

May 2021

Suggested answers

Answer 37

		£	
Basic charge	Annual value	8,000	1
Additional charge	£(290,000 – 75,000) x 2.25% *Based on MV when made available as > 6 years since purchase*	4,838	1+1
Total		12,838	
Time apportioned	£12,838 x 8/12 (available from 1 August 2020)	£8,559	1

Class 1A National Insurance on the benefit will be payable by Strok plc on or before 19 July 2021 (or 22 July 2021 if paid electronically) 1

Answer 38

		£	
Non-savings	£4,500 x 20%	900	
Savings	£500 x 0% *Savings income starting rate band*	-	1
	£1,000 x 0% Personal *savings allowance*	-	1
	£500 x 20%	100	
Dividends	£2,000 x 0% *Dividend allowance*	-	1
	£1,000 x 7.5%	75	
		1,075	1
Marriage allowance	£1,250 x 20%	(250)	1
Income tax payable		£825	

Answer 39

				Property 1	Property 2	
				£	£	
Rental income	11 months x £800			8,800		
	2 months x £900				1,800	
				8,800	1,800	1
	Tax reducer not expense			-		1
Furniture	Like-for like cost	2,200				1
	Proceeds received	(180)				1
					(2,020)	
Net assessable property income			£8,580*	£8,800	£(220)	1*

*For offsetting property 2 loss against property 1 profit

Answer 40

The 2019/20 balancing payment was due on the 31 January 2021. The payment on 1 April 2021 was therefore two months late and will be subject to interest at the official rate of 2.60%. 1

In addition, since payment was made more than 30 days late, a 5% surcharge will also be payable on the outstanding amount, but only on the balancing payment, as payments on account are not subject to these surcharges. 1 + 1

The first 2020/21 payment on account was also due on the 31 January 2021. As with the balancing payment, interest will be charged at 2.6% for the two months that this is late. 1

The second 2020/21 payment on account was due on the 31 July 2021 and so was paid on time. No interest or penalties would apply. 1

Answer 41

1) In 2019/20, Nick had use of the annual allowance for that year of £40,000 but was also able to bring forward any unused allowance from up to three previous tax years, provided he was a member for those years. 1

Nick became a member of a plan on 6 April 2016 so any unused annual allowances could be brought forward to 2019/20 from 2016/17, then 2017/18 and finally 2018/19. However, his 2018/19 contributions would have used the £10,000 available allowance from 2016/17. 1

The £50,000 gross contribution in 2019/20 is therefore covered by the £40,000 annual allowance for 2019/20 and £10,000 unused allowance brought forward from 2017/18. 1

2) For 2020/21 Nick could make a gross contribution of £50,000 without incurring an annual allowance charge:

		£	
2020/21	Annual allowance	40,000	
2017/18	B/F unused	10,000	
	£(40,000 – 20,000 – 10,000 (used in 2018/19))		1
2018/19		-	
2019/20		-	
		£50,000	1

Answer 42

Principal Private Residence relief is available to exempt any part of the gain arising relating to a period of actual or deemed occupation. 1

Certain periods of absence from the property can be deemed occupation, provided the property is actually occupied before and after the absence. These include:

- Any period of time spent overseas by reason of their employment 1*
- Up to a maximum of four years working elsewhere in the UK 1*
- Up to a maximum of three years for any reason 1*

Additionally, for a property which has been the owner's main residence at some point during their ownership, the final 9 months of ownership are always deemed occupation. 1

For Mandy this means that the only periods remaining chargeable would be the 18 months employed elsewhere in the UK (as she didn't reoccupy the property afterwards) and 27 of the last 36 months of ownership when she was living elsewhere with her partner.

**If not linked to being conditional on occupation before/after, lose one of these three marks*

Answer 43

			Residential	Other	
			£	**£**	
Residential			80,000		
Commercial	Proceeds			250,000	
	Incidental costs of sale			(2,800)	
	Original cost			(180,000)	
	Roof repair – not capital			-	
				67,200	1
AEA			(12,300)		1
Taxable gains			£67,700	£67,200	
		£			
	Basic rate band	37,500			
	Taxable income	(28,600)			
	Available	8,900	£		1
Residential	£8,900 x 18%		1,602		1*
	£58,800 x 28%		16,464		
Other	£67,200 x 20%		13,440		1*
	CGT payable		£31,506		

**Marks awarded for application of basic/higher rates and relevant rate for each type of gain regardless of which taxed first*

Answer 44

Steve is UK resident but not domiciled, so while he is subject to UK Income Tax on his worldwide income, this could be on the arising or remittance basis. 1

If Steve had overseas unremitted income and gains of less than £2,000, the remittance basis would be automatic, but Steve has unremitted income of £13,400 (£18,400 - £5,000) so this will not apply.1

Steve could elect to be taxed on the remittance basis but this would result in him losing his entitlement to the personal allowance for Income Tax purposes, and the annual exempt amount for Capital Gains Tax purposes. 1+1

Electing would mean that Steve would pay UK Income Tax only on the £5,000 remitted to the UK rather than the entire overseas property income of £18,400. 1

The remittance basis charge would not apply as Steve has been in the UK for less than seven years. 1

Max 5

Answer 45

The first automatic UK resident test applies where a taxpayer spends at least 183 days in the UK during the tax year. Kelly only came to the UK on 18 October 2020 so has been in the UK for less than 183 days in 2020/21. 1

The second test applies where the taxpayer has a home in the UK for all or part of the tax year and they are present for at least 30 separate days during the tax year, and there is a period of at least 91 consecutive days (at least 30 of which fall in the tax year) when they either have no home overseas, or they have a home overseas but are present in each of those homes on fewer than 30 separate days during the tax year. 3

In Kelly's case, her overseas home was sold before 18 October 2020 and replaced with a UK home in February 2021. There are therefore at least 30 days of occupation in the UK home during 2020/21 and a period of at least 91 days when she has no home overseas. 1

The third test is that the taxpayer carries out full time work in the UK for a period of at least 365 days, part of which falls in the tax year. Kelly takes up full time work on 5 January 2021 under a permanent contract, so this can be expected to last for at least 365 days. 1

Max 5

Answer 46

Employee's National Insurance – Becky
Monthly pay = £30,000 / 12 months = £2,500 per month.

		£	
£(2,500 – 792) x 12% x 11 months		2,255	1
December 2020 = £2,500 + £2,000 bonus = £4,500			1*
	£		
£(4,167 – 792) x 12%	405		
£(4,500 – 4,167) x 2%	7		
		412	1
Total payable		£2,667	

Employer's National Insurance:

Becky	Aged < 21 therefore no contributions payable on earnings up to £50,000		1
Sam	£(2,500 – 732) x 13.8% x 12 months	£2,928	1

**For recognising need to calculate monthly*

Answer 47

Income treatment		£	
Amount received		140,000	
Subscription cost		(5,000)	1
Taxable as income		£135,000	
Dividend nil rate band	£2,000 x 0%	-	1
Balance of dividends	£133,000 x 38.1%	£50,673	1
Capital treatment			
Amount received		140,000	
Cost of shares		(20,000)	1
Capital gain		£120,000	
Capital Gains Tax	10% as qualifying for BADR	£12,000	1

Answer 48

For a Company Share Option Plan to apply, there are certain conditions which must be met:

- The options cannot be granted at a discount below the market value of the shares at the date of grant
This appears to be met by Crispor plc 1

- The maximum value of shares over which an employee holds options must be no more than £30,000 1
The options Crispor plc intend granting to Millie are for 5,000 at £7.20, which would exceed the £30,000 limit so this would mean the CSOP treatment could not apply 1

It is permitted under a CSOP to grant options to full or part-time employees, and also to only grant options to selected employees. 2