THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Michael was born in the UK in 1989 to unmarried parents. His father was born and raised in the UK with UK parents and his mother was born and raised in Australia with Australian parents.

In 1991, when Michael was two years old, Michael and his mother moved from the UK to Australia to live permanently. Michael's father remained in the UK.

In 2001, when Michael was 12 years old, Michael's mother arranged for him to go to boarding school in the UK. Michael's mother remained in Australia.

In 2007, when Michael was 18 years old, he finished boarding school and chose to stay in the UK and attended university here and then became a full-time employee in the UK of a UK company. Michael got married in the UK and started a family. Before Michael's children were born, he and his wife drafted Wills which were written under English law.

Michael and his wife purchased a home together and are raising their children in the UK. Michael is an active member of the local basketball club and the Parent Teacher's Association. Michael exercises his entitlement to vote in local and general elections in the UK.

Michael now is 35 years old and he and his wife are considering relocating their family to move indefinitely to Australia. If they do, they will sell their UK home, leave their UK employment, move their children out of school and set up their permanent home in Australia. They do not have any plans to return to the UK once they are settled in Australia.

Requirement:

Discuss the concept of domicile with specific reference to Michael's personal circumstances and explain how his domicile impacts his UK taxation position. (20)

You are NOT required to discuss Inheritance Tax.

2. Hilda Roseberry commenced employment with Weston plc on 1 April 2024. Weston plc is a quoted company with net assets of £50 million. Weston plc offers a flexible benefits package under which employees can choose to give up part of their salary in return for benefits. Hilda has chosen the following:

Flex package	Further information	£
Base salary	Before deductions for selected benefits.	150,000
Car	Car selected: Tesla Model S, WLTP Emission 0 g/km, list price £120,000.	(12,000)
Parking space near the office	Parking permit at a monthly cost to Weston plc of £200.	(2,400)
Golf club membership	Weston plc to pay Hilda's joining fee of £1,800 on 1 June 2024. The actual cost to Weston plc is £1,600.	(1,800)
Childcare vouchers	Hilda has not claimed these previously. Weston plc purchases vouchers monthly, the face value is £500. The vouchers cost Weston plc £450 per month.	(6,000)
Additional employer contribution of 6% of base salary to the Weston plc pension scheme	£150,000 x 6% = £9,000	(9,000)
Actual salary		118,800

Weston plc operates a net pay registered pension scheme to which the employer contributes 3% of base salary and Hilda contributes 5%. Hilda does not currently contribute to any other pension schemes.

In addition, Hilda has just been granted a share option to purchase 1,000 Weston plc shares. The option can be exercised at any time at an exercise price of £2.00 per share. The current share price is £2.50. Hilda anticipates exercising the option in March 2025 and then immediately selling these shares when the value is expected to be £3.25 per share.

Hilda has no other sources of income.

Requirement:

Calculate, with explanations, the post-tax cash that Hilda will receive from her employment in 2024/25. (15)

3. Caroline began employment with ABC Ltd during 2020/21 and was automatically enrolled in the company's occupational workplace pension. Prior to this, Caroline was not a member of any UK pension scheme.

Each year she sacrifices some salary for additional employer pension contributions.

Caroline's salary and pension contributions have been as follows:

Tax Year	2020/21	2021/22	2022/23	2023/24
	£	£	£	£
Annual salary before salary sacrifice	150,000	200,000	250,000	135,000
ABC Ltd base employer pension contributions	7,500	10,000	12,500	6,750
ABC Ltd additional pension contribution	-	30,000	-	-
ABC Ltd salary sacrifice pension contributions	7,500	10,000	12,500	6,750
Personal top – up contributions	-	-	-	60,000

In 2021/22 ABC Ltd paid a bonus of £30,000 by way of an additional employer pension contribution, which is shown in the table above. During this year, Caroline made a qualifying Gift Aid donation of £5,000.

In 2022/23 Caroline disposed of a residential property resulting in a capital gain of £20,000.

Requirement:

Calculate with explanations, the 2023/24 pension tax charge due and explain how this can be paid. (15)

4. Rupert and Paige are UK resident and domiciled individuals. They were both directors of RP Science Ltd until they recently resigned and sold their shares. RP Science Ltd was incorporated on 1 April 2007. On the date of incorporation, Rupert and Paige subscribed for their shares at par and were both appointed as Directors.

RP Science Ltd operates a successful trading business. It does not own any investment assets or hold excess cash. It has the following issued share capital:

40 Ordinary £1 A shares
110 Ordinary £1 B shares
1,000 Ordinary £1 C shares
1,000 Ordinary £1 D Shares

All of the shares carry equal rights to dividends.

The A, B and C shares carry the right to one vote each. The D shareholders have no voting rights.

The entire share capital of RP Science Ltd was acquired by a third party on 31 March 2024 for £750,000. 42% of the sale price was paid on 31 March 2024. The balance will be paid in four equal instalments every 12 months beginning on 31 March 2025.

Prior to the sale, Rupert owned all of the B shares and Paige owned all of the D shares and 250 C shares. All of the other shares were owned by unconnected individuals.

The Articles state that on a sale of the entire share capital of the company or if the business is wound up, each A share carries the right to receive the first £10,000 per share. The balance of the sale proceeds or funds available on a winding up will then be split equally between all of the shares, including the A shares.

On 1 April 2007, Paige also acquired a laboratory building, which cost £600,000. Since acquiring the building, Paige has let 25% of it to an unconnected research company. The other 75% has been let to RP Science Ltd at a rent that is 50% of the market rate.

Paige also sold the laboratory building for £985,000 on 31 March 2024. The sale proceeds are being paid in five instalments starting with 42% which was paid on 31 March 2024 and then the balance in four equal instalments every 12 months beginning on 31 March 2025.

Paige is interested in paying her Capital Gains Tax liability in instalments.

Rupert and Paige are both higher rate taxpayers. Neither of them has ever made a claim for business asset disposal relief.

Requirement:

Calculate, with explanations, Rupert and Paige's Capital Gains Tax liabilities for the year ended 5 April 2024 and explain whether Paige can pay her liability in instalments. (15)

5. Irina is domiciled in Utopia. She arrived in the UK in September 2015 to study at a university in London. She has been UK resident ever since.

After graduating, she started working in the UK as an architect on 1 August 2017 with an annual salary of £55,000. This increased to £62,000 on 6 April 2020, then to £68,000 on 6 April 2022. Her employer deducts Income Tax and National Insurance Contributions from her salary via PAYE.

On 1 May 2020, Irina inherited £450,000 cash and a valuable antique located in Utopia from her uncle. Her uncle had died in Utopia and the cash was paid to Irina's Utopian bank account where it accrued annual interest of 4%. No Utopian tax was payable on the inheritance, or on the annual interest generated. No tax was withheld at source.

Irina transferred £16,000 from her Utopian account to her UK bank account on 1 July 2020. She used this to purchase a car for personal use in the UK.

On 14 June 2021, Irina sold the antique and realised a capital gain of £94,190. She opened a new bank account in Jersey to receive the sale proceeds. The proceeds have not been remitted to the UK.

On 1 September 2022, Irina transferred an additional £45,000 from her Utopian account and used this as a deposit to buy a flat in London with her boyfriend.

Irina is not aware of the UK tax filing rules. She has never registered for self assessment, filed a tax return or made a payment of tax to HMRC. Utopia is a Category 1 territory.

Requirement:

Explain Irina's reporting obligations and any penalties she will receive for non-compliance.
(15)

6. Oliver is UK resident and domiciled.

During 2023/24, he was employed and received a salary of £86,415. Tax was deducted at source using a tax code of 1170L, which was based on:

	£
Personal allowance	12,570
Medical Benefit	(865)
Tax free allowance	11,705

His employer provided him with private medical insurance at a cost of £980.

On 1 November, his employer provided him with a company vehicle, which he was allowed to use privately. The vehicle is described on the manufacturer's website as a commercial vehicle and is sold with one row of seats in the front. Prior to providing the vehicle to Oliver, his employer modified it to add an extra row of seats and windows behind the existing seats. This cost £2,175.

The list price of the vehicle is £40,000 and it has a petrol engine that emits CO_2 emissions of 202g/km.

Oliver owns a buy to let property. In 2022/23 the tenant began to miss rent payments. On 8 April 2023, Oliver engaged a solicitor to assist him with evicting the tenant. The tenant was evicted in June 2023, having paid rent of just £150 since 6 April 2023. The solicitor's bill was £736.

In June 2023, Oliver paid buildings insurance for the buy to let property of £298. He also replaced the sofa at a cost of £1,200. He sold the old sofa for £85.

A new tenant moved in on 1 December 2023 having signed a six-month tenancy agreement. It cost Oliver £240 to have the tenancy agreement drawn up. The new tenant pays their rent of £775 per month in advance on the first day of each month.

Oliver has a mortgage on the buy to let property. The interest had been fixed at £217 per month since June 2021. Oliver was not able to claim any tax relief on the mortgage interest in 2022/23 but he had been able to claim this in previous years.

He negotiated a new fixed rate mortgage from 1 June 2023 onwards. The interest from that date was £197 per month. The lender's fees for arranging the new mortgage were £999.

On 30 September 2023 Oliver withdrew £21,469 from a single premium life policy. This was the first time he had taken any funds out of the policy. He originally invested £80,000 on 1 October 2019.

During 2023/24 Oliver made donations of £135 net under gift aid.

For the 2022/23 tax year, Oliver's self assessment tax return showed a liability of £1,052. This included Capital Gains Tax of £25. He was required to make payments on account for the year ended 5 April 2024.

Requirement:

Calculate, with explanations, the amount that Oliver will need to pay to HMRC on 31 January 2025. (20)