

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Individuals

May 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax senior in a firm of Chartered Tax Advisers. Stephen Hooper is a client of your firm.

Stephen has sent an email (**EXHIBIT A**) to your manager, Anna Pearce, outlining changes in his circumstances.

He has been offered some further consultancy work. This work was previously carried out through his company, Hooper Ltd, which has now been liquidated. He has also been offered an opportunity to take a new role with his current employer. Additionally, Stephen is considering borrowing additional funds against the value of his rental property and is considering incorporating the property business in order to reduce tax due.

In response to the email, Anna arranged a meeting with Stephen, and has provided you with notes from the meeting (**EXHIBIT B**).

The following exhibits are provided to assist you:

EXHIBIT A: Email from Stephen Hooper

EXHIBIT B: File note of a meeting between Anna Pearce and Stephen Hooper

EXHIBIT C: Pre-seen information

Requirement:

Prepare a draft report advising Stephen Hooper on the tax issues raised by his email and recommending any actions he should take.

EXHIBIT A

Email from Stephen Hooper

To: Anna Pearce
From: Stephen Hooper
Date: 24 April 2023
Subject: Tax Advice

Dear Anna

Hooper Ltd

As you know, I recently liquidated my company, Hooper Ltd, which provided health and safety consultancy services.

I received two distributions from the liquidators. The first distribution of £40,000 was included by you in my 2022/23 tax return. I received the second and final distribution of £10,000 on 10 April 2023, when the liquidation was completed.

I have recently been offered some further health and safety consultancy work and will set up a new company, SH Ltd, to contract with the customer and carry out this work. I am expecting that the new contract will take six months to complete and will generate a profit of £17,000 after Corporation Tax. The work will mainly be sub-contracted, so will not impact my employment with King Enterprises plc.

King Enterprises plc

Since I started employment with King Enterprises plc in September 2022, I have been working in their office in Nottingham. I don't have a car, so I cycle to work.

I have been offered a new role at King Enterprises plc. My salary is currently £50,000. If I take the new position, my salary will increase to £60,000 per year. Additionally, because the new role involves travelling between different worksites, I will have the ongoing option of either being provided a company car and all fuel, or a travel allowance amounting to £10,000 cash per year, which I would use to lease a car and pay for all fuel for it.

If I accept the new role, I will be based at home two days per week and on the other three days my time will be split between three separate sites in and around Sheffield. The car will only be used for work purposes, as I have no other need for a car and my partner has her own car.

Please could you let me know the tax implications of the promotion and whether it would be better for me to take the company car or the cash allowance?

12 Valerie Close

I would like to minimise tax on my rental income and would like your advice on whether it would be a good idea to transfer 12 Valerie Close to a company, as I am now a higher rate taxpayer.

The current market value of the property is £400,000, and it has an outstanding interest-only mortgage of £250,000.

I have recently met with my mortgage broker because I intend to borrow an additional £100,000 against this property, in order to realise some of its increased value. The additional money borrowed will be put towards general living expenses and a holiday with my partner and her children.

My mortgage broker has advised me as follows:

- 1) The current interest rate on the mortgage of £250,000 is 3.5%.
- 2) If I borrow an additional £100,000 the interest rate on the entire mortgage of £350,000 will increase to 4.0%.
- 3) If the property is transferred to a company, the mortgage can also be transferred. The interest rate charged to the company will be 4.5% on a mortgage of £350,000.
- 4) There are no additional financing charges beyond the higher interest rate.

I hope to hear from you shortly.

Regards

Stephen Hooper

EXHIBIT B

File note of a meeting between Anna Pearce and Stephen Hooper

Date of meeting: 1 May 2023

Present: Anna Pearce and Stephen Hooper

Stephen Hooper confirmed the following points in relation to the issues raised in his email of 24 April 2023:

Hooper Ltd

- 1) The reason for the liquidation of Hooper Ltd was that Stephen was keen to extract the company's accumulated funds in a tax efficient way as soon as possible.
- 2) The new health and safety contract is with a former client of Hooper Ltd. Hooper Ltd had bid for this work before it was wound up, but at the time Stephen believed that Hooper Ltd was unlikely to win the contract.
- 3) Once the contract is complete, Stephen intends to liquidate SH Ltd and has no further plans to continue trading as a health and safety consultant.

King Enterprises plc

- 1) Stephen would be required to spend on average one day per week at each of the three sites in Sheffield over the next three years.
- 2) The Sheffield sites are all within seven miles of each other. The journey from Stephen's home to any one of the sites is between 40 and 45 miles, depending on which site he is travelling to. His journey from home to any one of the sites takes approximately one hour, regardless of which he travels to.
- 3) Details of the company car which would be provided to Stephen are as follows:

Make and model: Hyundai Kona
List price: £26,525
CO₂ emissions: 130g/km
Fuel: petrol, paid for by King Enterprises plc
- 4) If Stephen opts for the cash allowance, he will pay for the same car on a lease, which will cost £429 per month. This includes all costs except fuel, which will also be paid for by Stephen.
- 5) Stephen expects to travel approximately 12,200 miles each year between his home and the sites in Sheffield, which will cost an estimated £2,000 per year for petrol.
- 6) King Enterprises plc pays employer pension contributions of 8% of Stephen's salary. No employee contributions are made and Stephen makes no separate contributions. The £10,000 travel allowance would not be pensionable.

12 Valerie Close

- 1) Stephen purchased the property in 2001 with a mortgage of £120,000. He subsequently borrowed a further £130,000 against the property in 2007, the additional borrowing was spent on Stephen's general living expenses.
- 2) The market value of the property on 1 June 2020 was £350,000.
- 3) Rental profit before mortgage interest is expected to remain approximately £11,100 per year going forward. Additional administrative costs if the property business is incorporated would reduce this to £10,000 per year.

Stephen's partner has two children, aged 11 and 12, who live with her and Stephen. Her only income is a salary of £50,000 plus child benefit.

EXHIBIT C

Pre-seen information

Stephen Hooper – Background Information

Client name	Stephen Hooper
Date and place of birth	5 April 1974, United Kingdom
Address	16 Babbage Way, Nottingham
Marital status	Single
Children	No children
Tax residence status	United Kingdom (not a Scottish or Welsh taxpayer)
Domicile	United Kingdom
Will	No Will

Stephen Hooper – Asset Schedule at 25 April 2023

<u>Asset</u>	<u>Cost</u>	<u>Notes</u>
12 Valerie Close, Nottingham	£150,000	Residential property purchased 1 June 2001. Stephen lived here as his main residence until 1 June 2020, when he moved into his partner's house. Let to long-term tenants since 1 June 2020.

Stephen Hooper – 2022/23 Tax Return

Tax Calculation

	£
Pay from all employments	29,548
Profit from UK land and property	11,100
Dividends from UK companies	<u>9,000</u>
Total income received	49,648
Minus Personal Allowance	<u>(12,570)</u>
Total income on which tax is due	<u>37,078</u>
<u>Income Tax charged</u>	
Basic rate £28,078 x 20%	5,615.60
Dividends £2,000 x 0%	0.00
Dividends £7,000 x 8.75%	<u>612.50</u>
Income tax charged after allowances and reliefs	6,228.10
Minus relief for finance costs £8,750 x 20%	<u>(1,750.00)</u>
Income Tax due after tax reductions	4,478.10
Minus tax deducted from employments	<u>(2,484.20)</u>
Total Income Tax due	1,993.90
Plus Capital Gains Tax	
Business Asset Disposal Relief gains after deducting the Annual Exempt Amount £26,900 x 10%	2,690.00
Income Tax and Capital Gains Tax due	<u><u>£4,683.90</u></u>

Disclosure

On 31 March 2023 I received a distribution of £40,000 from the liquidators of Hooper Ltd, a trading company 100% owned by me of which I was a working director. I had owned the shares and worked for the company for longer than two years, so have claimed Business Asset Disposal Relief to reduce the rate of tax on the distribution to 10%. The distribution is approximately 80% of the total proceeds that I expect to receive, therefore 80% of the base cost of my shares has been deducted in calculating the gain of £39,200.

Detailed summaries for year ended 5 April 2023

	£
UK Dividends:	
Hooper Ltd	9,000
Employment income:	
Hooper Ltd gross pay	4,548
Hooper Ltd tax deducted	0
King Enterprises plc gross pay	25,000
King Enterprises plc tax deducted	2,484
Income from UK Property:	
Rents receivable	14,400
Less expenses:	
Agent commission	1,400
Repairs and maintenance	500
Insurance	600
Accountancy	800
	<u>3,300</u>
Profit	<u>11,100</u>
Finance costs on residential property not included in expenses	8,750
Capital disposals:	
Hooper Ltd	
Disposal proceeds	40,000
Cost	800
Chargeable gain eligible for Business Asset Disposal Relief	<u>39,200</u>