Association of Taxation Technicians

Examination

May 2005

PAPER 1 – PART II

PERSONAL TAXATION

TIME ALLOWED - 3 HOURS
(for Part I and Part II)

You are required to answer **all** questions in Part I (printed separately) and any **three** out of five questions in Part II.

The maximum number of marks for each question in Part II is shown in brackets.
For Part II, start each answer on a fresh sheet.
All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
Marks are specifically allocated for good presentation.

1. Ben Thompson (age 48) is a full-time director of Watnot Ltd.

During 2004/05 he was paid a salary of £75,000 and had the private use of a car provided by his employer. The car had a list price of £25,000 when new in January 2004 and had an emissions rating (petrol) of 165g/km.

In September 2004, the company offered to replace his car with a more expensive model. Ben declined the offer and instead on 5 October 2004 the company purchased a car with a list price of £7,500 and an emissions rating (petrol) of 145g/km for use by his wife. Ben pays for all petrol used in his car with the company credit card. His wife pays for the petrol for use in the car provided for her use personally.

Since March 2004, the company has paid £100 a month medical insurance to cover Ben and his family. In January 2005, his son had a minor operation on his leg costing £1,800 which was paid for by the insurance company.

During August 2004, Ben attended an international business conference in Florida. His wife went with him for a holiday. They stayed for five nights and the cost of the double room was £100 per night upgraded from £75 per night for the single room originally booked for Ben. The return air fares were £1,000 each. All costs were paid by the company.

In December 2004, Ben was transferred to the new head office 200 miles from his original office which necessitated moving house. The company paid the following expenses in connection with his move:

	£
Agents fees	4,500
Removal costs	750
Stamp Duty	10,500
Legal fees	1,800

Ben and his wife also receive income from a house they jointly own in France which is let as furnished holiday accommodation. During 2004/05 the income and expenses were:

	£
Rental income	20,000
Caretaker's wages	2,600
Heat and light	1,400
Interest on loan to purchase property	7,000

During 2004/05 Ben and his wife made three trips to France to inspect the property between lettings costing £450 per person for each return trip. They used the property for their own holidays for four weeks in the year.

In October 2004 Ben sold 40,000 shares in Wata Loss Ltd, an unquoted trading company at 10p per share. He had subscribed for the shares in January 1998 at 60p per share. He has no other capital disposals in the year and wishes to claim tax relief as soon as possible.

In February 2005 Ben received net interest of £3,200 from a two year high interest deposit bond which had matured. During 2004/05 he also realised £10,000 from the sale of 3% Government stock which included £400 accrued interest and received UK dividend income of £1,800 (net).

You are required to show your computation of Ben's net assessable income and tax chargeable for 2004/05. (20)

2. Susan and Carl Fisher have a son about to go to university. Due to the high cost of student accommodation, they are considering buying a house for their son to live in while he is studying. To help with the cost he would rent out three of the rooms to other students. They are considering two options:

1) Purchase the house in their names, 50% of the cost being financed by a mortgage which will be covered by the rental from the rooms. They will sell the house when their son finishes his course, hoping to make a profit which they will give to him.

2) Take out a mortgage on their own house to obtain the funds to purchase the property in their son's name. He will either sell the house at the end of his course and repay the mortgage from the proceeds or take out his own mortgage to pay off their loan. He will receive the rent from the rooms but will pay sufficient to his parents to cover the mortgage repayments.

They have asked you to explain the Income Tax, Capital Gains Tax and Inheritance Tax consequences of the two options.

You are required to draft a letter to Susan and Carl explaining in respect of each of the two options:

1) The Income Tax consequences. (8)

2) The Capital Gains Tax consequences. (8)

3) The Inheritance Tax consequences. (4)

Total (20)

3. On 5 July 2005 Sharon Johnson (age 45) exercised options under her employer's approved SAYE share option scheme after saving for a five year period and immediately sold the shares realising a gain of £200,000. Her earning for 2004/05 were £100,000 and the tax deducted therefrom was £32,208.

Sharon has been advised by a friend that she can save tax by investing in shares that qualify either under the Enterprise Investment Scheme or through a Venture Capital Trust. She has asked you to explain the tax implications of the two different types of investment and let her have an estimate of any potential tax savings.

You are required to draft a letter to Sharon explaining:

1) The potential liability to Income Tax and Capital Gains Tax if no investment is made. (4)

2) The tax reliefs available for an individual investing in a shares qualifying under the Enterprise Investment Scheme. (6)

3) The tax reliefs available for an individual investing in a company qualifying as a Venture Capital Trust. (6)

4) Potential Income Tax and Capital Gains Tax liabilities on the disposal of either investment. (4)

Total (20)

4. Lynn and Joe Field are separated and considering a divorce. They are both aged 65 and have two children aged 35 and 38.

Lynn and Joe both own shares in the family trading company for which Joe works full-time. Lynn does not work as she has sufficient income from her pension and dividends paid by the company. Joe wants both his shares and Lynn's shares to be passed to their children but Lynn wishes to retain ownership of her shares so that she continues to receive the dividend income. He has agreed that she can continue to live in the family home, which is in his sole name, until her death, when it will be sold and the money passed to the children.

They know nothing about Inheritance Tax and are concerned that a divorce may increase any potential charge on their deaths. They have asked you to explain the basis of charge to Inheritance Tax and whether any action can be taken to mitigate any potential future liability. They will consider your explanation when deciding whether or not to go ahead with the divorce.

You are required to draft a letter to Lynn and Joe explaining:

1) The basis of charge to Inheritance Tax. (8)

2) Any available relief to which they may be entitled. (9)

3) Ways to mitigate the potential future liability on their estates on death. (3)

Total (20)

5. Harold Butcher is 38 and has provided you with the following information in connection with his 2004/05 tax return:

1) On 30 September 2004 he sold 20,000 shares in QRC plc (a public quoted company) at £5 per share. He had purchased 10,000 shares at £4 per share on 5 April 1990. In January 2003 he purchased a further 10,000 share at £3 per share and then in December 2003 took up his full entitlement to a rights issue of 1 for 2 shares held at £2 per share.

2) In March 2005 he sold his 10% shareholding in his father's family trading company for £300,000. The shares had been given to him by his father in June 2003 at which time they had a market value of 60,000. He and his father jointly elected under TCGA 1992 s.165 to hold-over the gain of £59,000.

3) In June 2004 he sold a vintage car for £30,000. He had purchased the car in August 2000 for £25,000.

4) In November 2004 he received £15,000 from an insurance company in respect of smoke damage to a painting. He had inherited the painting from his grandfather in May 2000 at a probate value of £30,000. It cost £10,000 to restore the painting following the damage and it was then valued at £50,000.

5) In October 2004 he sold shares in a public quoted company for £100,000 which he had purchased the previous month for £150,000.

Harold has spent two years working abroad and was non-resident until his return to the UK on 20 April 2004. In January 2004 he sold investments realising gains of £10,000 which had been purchased in March 2002 prior to his departure from the UK.

Harold had income of £20,000 for 2004/05.

You are required to show your computation of Harold's net chargeable gains for 2004/05 and his Capital Gains Tax liability. (20)