Association of Taxation Technicians

Examination

November 2005

FA 2005

PAPER 1

PERSONAL TAXATION

ANSWERS WITHOUT MARKS

Part I - Suggested answers

1.

Employment income	3,200	
BSI	1,000	
Dividend	1,000	
PA	(4,895)	
	305	
Tax:		
305	@ 10%	31
Less Dividend tax credit		(100)
		Nil
Repayable – tax deducted from BSI		£200

Note: Must show dividend tax credit not repayable for 1 mark

2.

Non-UK domiciled therefore based on income remitted

2004/05	£10,000
2005/06	£18,000

3. Car benefit:

Cost – 18,000 x .15 = 2,700 x 6/12 = £1,350

4.

55,000 @ 30% = £16,500

5.

Due date for filing – 18 February 2007
Interest calculated from – 18 March 2007

Note: marks will be given if date of 19th is shown

6.

Employment		8,500
Job-seekers allowance		525
		9,025
Personal allowance	4,895	
Blind person's allowance	1,610	(6,505)
		£2,520

7.

Pension	2,000
Bank interest	1,500
Employer's pension	4,000
	7,500
Personal allowance	(7,220)
	280
@ 10%	28
Tax deducted (300 + 641)	(941)
Repayment due	£913

8.

WTC (1,620 + 1,595 + 660)	3,875
CTC	1,690
	5,565
(13,500 + 5,000) 18,500 – 5,220 = 13,280 @ 37%	(4,914)
	651
Family CTC	545
	£1196

9.

Income - £7,800 x 100/60	12,000
Personal allowance	(4,895)
	7,105
2,090 @ 10%	209
5,015 @ 22%	1,103
	1,312
Tax deducted	(4,800)
Repayment	£3,488

10.

Maximum penalty:
100 x 2 (64 employees) x 4 (over 3 months late)
= £800

11.

Computer £3,250 @ 20% 650 – 500 = £150

12.

Gain	18,500
Annual exemption	(8,500)
	10,000
2,090 @ 10%	209
7,910 @ 20%	1,582
	£1,791

13.

Gain	15,000
Loss for year	(4,000)
	11,000
Annual exemption	8,500
	2,500
Loss b/fwd	5,000
c/fwd	£2,500

Must show set off of loss in year

14.

Proceeds		30,000
Cost		(15,000)
		15,000
Proceeds	20,000	
Cost	15,000	(5,000)
Heldover		10,000

Proceeds	30,000
Less: Gain heldover	(10,000)
Cost	£20,000

Must show calculation of amount heldover against proceeds

15.

Proceeds	100,000
Less: cost	(65,000)
	35,000
Gain after taper relief (90%)	£31,500

16.

May 2000	3,000	@£3	9,000
Rights 1:1	3,000	@£2.50	7,500
			16,500

5,000 x 16,500/6,000 = £13,750

17.

Proceeds	300,000
Cost	(100,000)
Indexation	
$\frac{162.6-130}{130}$ = 0.251 x 100,000	(25,100)
	174,900
PPR (5 + 3) / 15	(93,280)
	£81,620

18.

Gift to son		4,000
Marriage exemption		(4,000)
Gifts to grandchildren	(£300 x 4)	1,200
Gift to daughter in law		2,000
Marriage exemption		(1,000)
		£2,200

19.

Shares in Melon Ltd	1,000 @ £30	30,000
100% BPR		(30,000)
Factory		200,000
		£200,000

20.

August 1998 – over 7 years before death – exempt

May 2001		26,000
Annual exemption 01/02	3,000	
Annual exemption 00/01	3,000	(6,000)
		£20,000

Part II - Suggested answers

Suggested Answer 1.

Daniel Radhill

1)	Salary				45,000
	Less: share save				1,200
					43,800
	Accommodation (Note 1)			6,750	
	Beneficial loan (Note 2)			225	6,975
					50,775
	Furnished holiday letting (Note 3)				12,600
	Bank interest				2,500
	UK dividend (450 x $^{100}/_{90}$)				500
					66,375
	Personal allowance				(4,895)
					61,480
	Income tax	2,090		@ 10%	209
		30,310		@ 22%	6,668
	Re Pension	6,000		@ 22%	1,320
	Re Gift aid	1,000		@ 22%	220
		21,580		@ 40%	8,632
	Dividends	500		@ 32.5%	162
					17,211
		PAYE	13,390		
	Tax credit		50		
					(13,440)
					3,771
	Underpayment b/fwd				500
					£4,271

2) Payment due 31 January 2007

Re 2005/06	4,271
First payment on account 2006/07 (½ x £4,271)	2,136
	£6,407

3) Return must be submitted by 30 September 2006

Amount to be collected in coding must be less than £2,000

Note 1

Accommodation

Annual value		3,500
Cost	350,000	
Less	75,000	
	275,000	
@ 5%		13,750
Rent paid		(12,000)
		5,250
Furniture £7,500 @ 20%		1,500
		£6,750

Note 2

Beneficial loan interest

(10,000 + 8,000) x ½ = £4,500 x 6/12 @ 5%	£225

Note 3

Furnished holiday lets

Rent received		18,000
Water rates	600	
Agents fees	1,800	
Cleaner	1,260	
Wear & tear (18,000 – 600) @ 10%	1,740	
		(5,400)
		£12,600

Ignoring land registry fees and re-wiring and structural repairs

Suggested answer 2

File note re: Christopher Kirk

1) Taking on new client:

1.) Client has right to choose or change professional adviser

2). Under Money Laundering Regulations must obtain satisfactory evidence of new client's identity and assess money laundering risk

3). Must assess whether client is acceptable in terms of risk to practice, and whether firm has capability to manage those risks

4). Must assess whether firm has skills and is is competent to act for client

5.) Must request prospective client's permission to communicate with existing adviser

6.) When permission is given - should ask previous adviser, in writing, for all information necessary to enable member to decide whether or not to accept appointment.

7.) Issue letter of engagement to client confirming terms of the engagement.

8) Advice letter should include – purpose for which advice required, background facts and assumptions, alternatives open to client, risks associated with advice, relevant caveats and exclusions.

2) Reporting of ex-gratia and rental income

9) Establish whether client has been issued with notice requiring completion of tax return.

10) If not – must advise HMRC of new source of income by 5 October following end of year of assessment.

11) Must complete tax return to show all sources of income – return to be submitted by 31 January or three months from date of issue of return form if after 31 October and HMRC advised before 5 October.

12) Must establish amount of ex-gratia to be shown on return – must show £30,000 exemption if employer has taken that into account in deducting tax, - show tax deducted

13) If unsure about exemption – complete HMRC helpsheet IR204

14) Must complete pages for income from land & buildings regarding rental income – show rents receivable less allowable expenses

15) Mortgage interest allowable as loan for purpose of acquiring property – but interest only – not capital part of repayment.

16) Costs of acquiring property not allowed as deduction from income – taken into account as part of cost.

3) Income tax

17) Likely full amount of ex-gratia will be taxed as income – taxed at 40% therefore balance to pay.

18) Net rental income taxed as top part of income – 40% as pension covers basic rate band.

19) Balance of tax payable 31 January following year of assessment

20) Rental income may lead to payments on account being due each 31 January and 31 July depending on level of extra tax due.

Note: The above is an indication only as to the points to be covered in an answer and any other relevant points made will be marked appropriately.

Suggested answer 3

Address

Address

Date

1) 1) Individual liable to income tax on worldwide income if resident in UK and UK income if non-resident.

   2) Year of departure by concession split into two periods. Liable on all income up to date of departure and rental income after departure.

   3) Residence is presence in UK for more than 183 days in tax year.

   4) Personal allowance still available if non-resident if individual is UK citizen.

2) 5) For employee resident and ordinarily resident in UK cost of travelling to and from UK to take up work abroad is allowed as deduction from earnings although as employer is paying for trip it is offset against the employer's cost.

   6) If employment abroad lasts more than 60 days – employee can claim deduction for two outward and return journeys per person per tax year for wife and children under 18 to visit him but only if travelling expenses paid or reimbursed by employer.

   7) Board and lodging costs abroad are allowable expense if employer pays for them direct or reimburses employee – there is no deduction allowed if employee bears own cost.

   8) A round sum expenses allowance cannot be treated as payment or reimbursement.

3) 9)Rental income based on rents accrued less expenses

   10) Expenses allowable include rates, insurance, property maintenance, agents letting fees, professional fees.

   11) If let furnished a claim can be made for renewal of furniture or an annual wear & tear allowance of 10% of gross rents less any payments which are landlord's obligation.

   12) Improvements to property not allowed against rental income – can be added to cost of property on disposal.

   13) Interest on loan to purchase property allowed.

   14) Tax deducted by agent from rents received if non-resident landlord but can be avoided if tax returns submitted and tax affairs up to date.

   15) Must show rental income on tax return – notify HMRC if not presently issued with a return form each year.

   16) Rental income will be taxed as non-savings income – tax due 31 January and 31 July.

4) 17) CGT due on a gain on disposal of chargeable asset calculated as proceeds less acquisition cost, indexation allowance and taper relief- costs include cost of improvements to property, agents, fees and legal fees of buying & selling.

   18) Principal Private Residence Relief available – must occupy house for period during ownership - PPR is for period of occupation and last three years of ownership.

   19) Deemed occupation for PPR while working abroad but must reoccupy on return unless required by terms of employment to reside elsewhere in UK.

   20) If PPR and then let as residential accommodation can obtain further relief – lower of £40,000 or amount of PPR.

   21) CGT only chargeable if taxpayer resident in UK or returns to UK within five years of departure.

Note: The above is an indication only as to the points to be covered in an answer and any other relevant points made will be marked appropriately.

Suggested answer 4

1) Sale of shares in VCT - gain exempt for CGT

Assessment issued to recover Income tax relief of £30,000

Payment of tax due 30 days from date of issue of assessment

2) Loss on shares in Longbridge may be set against other income of year

3) Mark - CGT

	75%	nil	
House (Note a)	62,500		
Share option (Note b)		2,250	2,250
Taper 75%	(46,875)		
	15,625		15,625
			17,875
Annual exemption			(8,500)
			9,375
CGT @ 40%			£3,750

Mark – Income Tax

Income	65,000
Loss	(20,000)
PA	(4,895)
	40,105
2,090 @ 10%	209
30,310 @ 22%	6,668
7,705 @ 40%	3,082
	£9,959

Janine – CGT

	75%	30%	nil	Total
House (Note a)	62,500			
Share option (Note b)			2,250	
Flat (Note c)		71,475		
Taper 70 / 30 %	(46,875)	(21,442)		
	15,625	50,033	2,250	67,908
Annual exemption				(8,500)
				59,408
CGT (32,400-(12,500 – 4,895)) 24,795 @ 20%				4,959
34,613 @ 40%				13,845
Total				£18,804

Janine – income tax

Income	12,500
PA	(4,895)
	7,605
2,090 @ 10%	209
5,515 @ 22%	1,213
	£1,422

Notes:

a) House

Proceeds	310,000
Cost	(185,000)
Gain	£125,000

Taper 75%
Mark 50%
Janine 50%

b) Share Options for Mark & Janine

1,500 @ £6	9,000
1,500 @ £4.50	(6,750)
	£2,250

Taper – nil

c) Flat – Janine

Proceeds (MV)	225,000
Cost (March 82)	(75,000)
Indexation $\frac{162.6 - 79.44}{79.44}$ = 1.047 x 75,000	(78,525)
Gain	£71,475

Taper 30%

d) VCT – Mark

Proceeds	100,000
Cost	(75,000)
Gain	£25,000 – exempt

e) Longbridge Ltd - Mark

Loss	£20,000

Suggested answer 5

1) Basis of charge

Inheritance Tax:

1. IHT charged on reduction in value of estate.

2. Husband and wife have separate estates - nil band for each husband and wife – so no different whether married or not.

3. Related property rules means assets held by ‘related parties’ (e.g. husband and wife) are added together for purposes of valuation – this could affect value of company shares – may give greater value if ‘related’ property i.e. they get married.

4. PET potentially exempt transfers - exempt if death occurs after 7 years from date of gift.

5. Annual exemptions - £3,000 each individual for each year, can carry forward unused exemption one year.

6. Transfers between husband and wife exempt – this can allow them to equalise estates with out additional charge.

Capital gains tax:

7. Capital gains charged on difference between cost and proceeds.

8. In case of gift or sale at undervalue proceeds are taken as market value - cost is actual cost or value at March 1982 if greater.

9. Transfers between husband and wife are at no gain / no loss for CGT – each has annual exemption whether married or not.

2) Relief available:

Inheritance Tax:

10. Transfer of company shares can be exempt if owned for more than two years and still owned by donee at date of death (or replacement asset still owned if proceeds reinvested in other business assets).

11. Taper relief available for tax due on gifts within seven years of death if donor survives more than three from date of gift.

12. Gifts in consideration of marriage – to children, grandchildren and others – both can make gifts.

Capital gains tax:

13. Gain on sale of business property at undervalue (gift) may be held over if election made by donee and donor(s).

14. Gain on sale or gift of houses may be exempt if qualifying as PPR.

15. Only one PPR available to each individual – but depends on where they live – not who owns property.

16. If PPR at some time during ownership – can also claiming residential accommodation relief – lower of £40,000 or PPR.

3) Mitigation:

17. If they get married they can transfer assets between themselves after the marriage to equalise their estates.

18. Give assets now not required to maintain current life style – this can be done whether or not marriage takes place.

19. Consider gifts out of income – habitual, must leave enough income to maintain standard of living.

20. Consider leaving assets to children/ grandchildren rather than each other to utilise nil rate bands.

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