



Association of Taxation Technicians

Examination

May 2007

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 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 new sheet of paper.
- 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. Jeremy and Christine, who are both aged 40, have been married since 1992. They have a 14-year-old son named David.

Jeremy is a self-employed window cleaner and Christine has part-time employment with the local council. Details of their income and outgoings are as follows:

JEREMY

Income

		£
Adjusted profits	Year to 31 March 2006	23,600
	Year to 31 March 2007	37,580
Income received from a discretionary trust (The trust's income is derived from bank deposits)		615
Dividends from the Ruritanian Santi Bank (This sum is net of withholding tax at the rate of 25%)		825
ISA Interest		675

Outgoings

A contribution of £780 to an approved HM Revenue & Customs personal pension scheme.

CHRISTINE

Income

		£
Salary from employment		15,000 (tax deducted at source £1,800)
Income received from an interest in possession trust (The trust's income is derived from bank deposits)		620
Interest on National Savings Bank investment account		160

Outgoings

A contribution of 5% of her gross salary is paid by Christine into her employer's occupational pension scheme. Her employer contributes an additional 6%.

A donation of £390 to a local charity under the Gift Aid Scheme.

(Note: all of the above amounts, excluding profits, represent amounts actually received or paid.)

- 1) You are required to calculate the Income Tax payable by Jeremy and Christine for 2006/07. (11)**

Their son David has the following sources of income:

- (a) A salary from a Saturday job.
- (b) Interest on a savings account opened for him by his father.
- (c) Interest on a savings account opened for him by his grandmother.

- 2) You are required to explain how the sources of income will be treated in David's Income Tax computation. (3)**

Jeremy and Christine have recently inherited an investment property which they intend to let. The property is in their joint names.

- 3) You are required to explain the declaration that Jeremy and Christine could make to minimise their Income Tax liability, assuming that they want to continue to hold the property in joint names. (3)**

Total (17)

2. Barbara is in business letting out properties. She owns her own house, two other properties and leases a third. The following information relates to the year to 5 April 2007.

Own house

Barbara lives in her own house but lets out furnished rooms in the property. The rental income is £5,000 and she estimates that expenses of £800 are incurred with the letting.

Property 1

This is a house let unfurnished at a rent of £10,000 per annum. Expenses incurred were £500 for general property maintenance, £1,400 interest on a loan to purchase the property, £1,100 for employing a gardener and £6,000 for installing a new kitchen.

Property 2

This property is a house let as furnished accommodation for a rent of £15,000 per annum. Expenses incurred were Council Tax £800, repairs £600, cleaning £500 and redecorating costs of £920.

Property 3

This property is a leasehold shop. Barbara had purchased a 30-year lease on the premises for £20,000 on 1 January 2000 and pays an annual rent of £12,000. On 1 June 2006, Barbara granted a new sublease on the premises for 20 years for which she received a premium of £30,000. Barbara had let the shop at an annual rent of £21,000. This was increased to £24,000 with effect from 1 June 2006. Expenses incurred were the cost of replacing the gutters at £3,000 and other deductible expenses of £4,500.

Annual buildings insurance (including Insurance Premium Tax at 4%) was paid as follows:

	<u>Year to 31 December 2006</u>	<u>Year to 31 December 2007</u>
	£	£
Own home (35% relates to letting)	720	780
Properties 1, 2 and 3	2,484	2,640

(Note: rents on all properties were receivable monthly in advance).

You are required to:

- 1) **Explain the Capital Gains Tax implications of Barbara renting out part of her own house.** (2)
- 2) **Calculate Barbara's net property income for 2006/07.** (12)
- 3) **Property may be jointly owned by a husband and wife. The joint ownership may take the form of either:**
 - (a) **Joint tenancy, or;**
 - (b) **Tenancy in common.**

Explain the difference between these two types of joint ownership.
(For Scots law candidates – what is the difference between joint property and common property?) (5)

Total (19)

3. On 15 October 2001 Abigail inherited 4,000 ordinary shares of £1 each in Thomas Ltd, a UK trading company, from her uncle's estate. Her uncle had purchased the shares for £10,000 on 20 May 1996 and they were valued at £14,200 on 15 October 2001.

On 21 May 2006 Thomas Ltd was taken over by Excalibur plc, a multi-national trading company. The terms were that each existing Thomas Ltd shareholder would receive 3 ordinary shares, 2 new preference shares and £5 cash for every 2 ordinary shares held. This issue satisfies the conditions of s.135 TCGA 1992.

The market values of the shares on 21 May 2006 were:

	<u>Value per share</u>
	£
Thomas Ltd ordinary shares	7.20
Excalibur plc ordinary shares	2.10
Excalibur plc preference shares	1.80

You are required to:

- 1) **Calculate the capital gain arising after taper relief in May 2006.** (6)
- 2) **If Abigail decided to sell some of her newly acquired preference shares, what would be the cost per share used in the Capital Gains Tax computation?** (2)
- 3) **On the assumption that for 2006/07 Abigail had other chargeable gains of £15,000 and taxable income of £30,000, calculate her Capital Gains Tax payable and state the due date of payment.** (4)

Total (12)

4. Claude had been employed by Reading Ltd since 2002. His monthly gross salary was £3,000. Unfortunately he was made redundant on 31 August 2006. Reading Ltd gave him an ex gratia payment of £20,000, together with statutory redundancy pay of £4,000. He then received Job Seeker's Allowance of £57 per week for four weeks. He commenced employment with Villa Ltd on 1 October 2006 and his new gross monthly salary is £4,100.

As an employee of Reading Ltd he drove a company car. Reading Ltd had purchased the car as new in 2004. Claude had been the only driver. The car was a 1600cc petrol driven Ford, list price £16,000 and the carbon dioxide emissions were 193 grammes per kilometre. Reading Ltd paid all running costs, including private fuel. On his redundancy Claude was allowed to retain the car at an agreed valuation of £8,000.

Claude's new job with Villa Ltd will require a substantial amount of driving. Villa Ltd have informed Claude that after six months he will be provided with a new company car, but until then he will use his own car. Villa Ltd pays a mileage allowance of 48p per mile. In the period to 5 April 2007 Claude was reimbursed for 12,500 business miles.

- 1) **You are required to calculate Claude's employment income for 2006/07.** (8)
- 2) **A contract of employment may be terminated by either the employer or the employee. You are required to explain the following terms:**
 - (a) **Summary dismissal, and;**
 - (b) **Constructive dismissal.** (4)

Total (12)