



Association of Taxation Technicians

Examination

May 2007

PAPER 1

PERSONAL TAXATION

ANSWERS
(without marking guide)

Answers:

1)	Upper income limit before abatement of relief	20,100
	Gross income received	<u>22,400</u>
	Excess income over limit	2,300
	Maximum personal allowance aged 70	7,280
	Restrict by 2,300/2	-1,150
	Personal Allowance	<u>6,130</u>
2)	Proceeds	9,000
	Less: Cost	<u>(1,000)</u>
	Gross Chargeable Gain	8,000
	Restrict to $5/3 \times$ Proceeds less £6,000 = $5/3 \times (9,000 - 6,000)$	5,000
	Taper Relief Non Business Asset 7 years	(75%)
	Chargeable Gain after Taper	<u>3,750</u>
3)	Proceeds	94,000
	Less: Cost	<u>(28,000)</u>
	Gross Gain	66,000
	Indexation: $\text{£}28,000 \times (162.6 - 101.9)/101.9$	<u>(16,679)</u>
	Gain after indexation	49,321
	Taper Relief: Non Business Asset 8 years + bonus year = 9 years	(65%)
	Chargeable Gain after Taper	<u>32,059</u>
4)	Late filing penalty (filed after 31 Jan 06)	100
	Late filing penalty (filed after 31 July 06)	100
	5% surcharge as tax unpaid at 28 Feb 06	150
	5% surcharge as tax unpaid at 31 July 06	150
	Interest on late paid tax (7 months @ 5%)	87.50

5	Child Tax Credit:	
	• Family Element	£ 545
	• Child Element (1,765 * 2)	£ <u>3,530</u>
	• Child Tax Credit	£ 4,075
	Working Tax Credit	
	• Basic Element	£ 1,665
	• Lone Parent Element	£ <u>1,640</u>
	• Working Tax Credit	£ 3,305
	Maximum Tax Credit	£ 7,380
	Restrict by 37% * (15,000 – 5,220)	(£ <u>3,618</u>)
	Tax Credits available	£ 3,762

6)	Actual expenditure	£25,000
	Allowable Expenditure:	
	P(3)/P(1) x £25,000	
	P(1) = 87.330 (30 years remaining)	
	P(3) = 77.227 (22 ½ years remaining)	
	[22 years (76.399) + 6months (0.828)]	
	= 77.227 / 87.330 x £25,000 = £22,108	

Calculate Allowable Loss:

Proceeds	6,000
Allowable Cost	(22,108)
Allowable Loss	<u>(16,108)</u>

7 2005/06

Proceeds: deemed to be market value	£ 15,000
Less: Cost	(£ <u>17,000</u>)
Allowable loss	(£ 2,000)

The loss on the sale of the painting is in respect of a disposal to a connected person. It cannot be offset against chargeable gains other than those arising on further disposals to the same connected person. It is therefore carried forward to 2006/07.

2006/07

Proceeds: deemed to be market value	£ 35,000
Less: Cost	(£ <u>19,000</u>)
Chargeable Gain	£ 16,000
Losses brought forward	(£ 2,000)
Annual Exempt Amount	(£ <u>8,800</u>)
Taxable gains 2006/07	£ 5,200

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	Cost £	March 1982 m.v £
Proceeds	70,000	70,000
Less: Cost/ March 1982 m.v.	(2,000)	(15,000)
Enhancement Expenditure	(7,000)	(7,000)
Gain/ (Loss) before indexation	61,000	48,000
Indexation		
(162.6-79.44)/79.44 *15,000		
1.047 (3 decimal places)	(15,705)	(15,705)
(162.6-81.04)/81.04*7,000		
1.006 (3 decimal places)	<u>(7,042)</u>	<u>(7,042)</u>
Indexed Gain	38,253	25,253
Taper Relief @ 65%		
Chargeable Gain		<u><u>16,414</u></u>

Note: The holding period for taper relief purposes is 8 complete tax years post April 1998 plus a bonus year as the asset was held on 17 March 1998.

- 9
- Short Tax Return (Rental income of up to £15,000 may be disclosed on a Short Tax Return)
 - Full Tax Return (directorships of active companies cannot be disclosed on a Short Tax Return)
 - Short Tax Return (Pension & UK source dividend income may be disclosed on a Short Tax Return)
- 10
- | | |
|-----------------------------|-----------------|
| Joseph's total gross income | |
| • £15,000 * 100/80 | £ 18,750 |
| • £9,000 * 100/90 | <u>£ 10,000</u> |
| • Total Income | £ 28,750 |

Personal Allowance

- Maximum Personal Allowance £ 7,420
- Restrict by ½ (£28,750 - £20,100) (£ 4,325)
- Restricted to the minimum allowance £ 5,035

Total restriction applied: £2,385

Married Couple's Allowance

Married Couple's Allowance is calculated by reference to Joseph's income as the couple were married before 5 December 2005.

- Maximum MCA aged 75 or above £ 6,135
- Restrict by ½ (£28,750 - £20,100)* (£ 1,940)
- Total Married Couple's Allowance £ 4,195

- Less: half of basic MCA transferred (£ 1,175)
- MCA available £ 3,020

*Note: This restriction to the MCA is reduced by the £2,385 already applied in reducing the Personal Allowance above.

- 11 Under ESC A11 Bob will be treated as non UK resident from 1 October 2006 (the date of departure) until 1 November 2008 (the date of return).

For 2006/07 and 2008/09 this is a concessionary split year treatment as he is overseas by reason of employment and his absence covers a complete tax year.

The French employment income would not be taxed in the UK throughout the period of absence.

- 12 The Proceeds of Crime Act 2002.

Money laundering is the process by which the proceeds of crime are converted into assets which appear to have a legitimate origin, so that they can be retained permanently or recycled into further criminal activities.

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- | | |
|--|-------------|
| a. Statutory Maternity or Paternity Pay: | Taxable |
| b. Child Benefit: | Not Taxable |
| c. Disability Living Allowance: | Not Taxable |
| d. Carer's allowance : | Taxable |

- 14 The recipient must **claim** that the capital sum should not be treated as a disposal and:

- the capital sum is wholly applied in restoring the asset, or
- only a small part of it (5% or less) is not used for the restoration and the unused amount is not reasonably required for the restoration, or
- the amount of the capital sum is small, as compared with the value of the asset.

An amount is treated as small if it is 5% or less of the value of the asset or if it is no more than £3,000.

If the receipt is not treated as a disposal, it is deducted from any expenditure allowable in computing a gain on the subsequent disposal of the asset.

- 15 a. Real property is freehold land and buildings (including attached

fixtures).

- b. Choses in Action are assets such as debts, shares, patents, trademarks and other forms of intellectual property.
- c. Choses in Possession are:
 - o Chattels Real (leasehold land & buildings)
 - o Personal Chattels (furniture, clothes, moveable plant etc).

Scots law

- a. Heritable property is any interest in land and things affixed to land.
- b. Moveable property is everything other than heritable property.
Corporeal moveables are property equivalent to the English law concept of personal chattels (furniture, clothes, moveable plant etc).
- c. Incorporeal moveables are property equivalent to the English law concept of a chose in action, such as debts, shares, patents, trademarks and other forms of intellectual property.

Q1
(a) JEREMY

Income Tax Computation
2006/07

	Total	Non Savings	Dividends
Adjusted profit	37,580	37,580	
Trust income (615 x 100/60)	1,025	1,025	
Dividends (825 x 100/75)	1,100		1,100
	-----	-----	-----
Statutory total income	39,705	38,605	1,100
Personal allowance	(5,035)	(5,035)	
	-----	-----	-----
Taxable income	34,670	33,570	1,100
	-----	-----	-----
Tax	2,150	@ 10%	215
	31,420	@ 22%	6,912
	730	@ 10%	73
Basic rate band:	-----		
£33,300 + (780 x 100/78)	34,300	@ 32.5%	120
	370		

			7,320
Less double tax relief, lower of:			
(i) Overseas tax £275			
(ii) UK tax (73 + 120)			(193)

Tax liability			7,127
Less tax credits			
Trust income			(410)

Tax payable			6,717

Note : ISA interest is exempt from tax

CHRISTINE

Income Tax Computation
2006/07

	Total	Non Savings	Savings
Salary	15,000	15,000	
Less occupational pension scheme contribution (5%)	(750)	(750)	
	-----	-----	
	14,250	14,250	
Trust income (620 x 100/80)	775		775
NSB interest	160		160
	-----	-----	-----
Statutory total income	15,185	14,250	935
Personal allowance	(5,035)	(5,035)	

Taxable income	----- 10,150 -----	----- 9,215 -----	----- 935 -----
Tax	2,150	@ 10%	215
	7,065	@ 22%	1,554
	935	@ 20%	187
Tax liability			----- 1,956 -----
Less tax credits			
Salary		1,800	
Trust income		155	(1,955)
Tax payable		-----	----- 1 -----

Tutorial notes:

The employer's pension contribution has no effect on Christine.

Basic rate relief for the gift aid contribution has been given at source.

b)

David is treated as an ordinary taxpayer and is entitled to a personal allowance of £5,035. Any tax due on his salary will be deducted under the PAYE system.

Provided the interest on the savings received from his father does not exceed £100 per annum it can be included as part of David's income. If more than £100 is received, the whole amount will be treated as part of his father's income.

As a child (up to age 18) David can receive money from anybody else (including grandparents) and any interest received will be assessed as David's own. If his total income is likely to be below the level of his personal allowance, he can register to have the interest paid gross by completing a form R85.

c)

Income from assets held in joint names is normally split equally for tax purposes. This would not be beneficial here as Jeremy is a higher rate taxpayer, whereas Christine is a basic rate taxpayer.

The couple can, however, make a declaration to the effect that the asset is actually owned in unequal proportions. Such a declaration takes effect from the date it is made, provided notice is given to HMRC on form 17 within 60 days.

Owning the property in unequal proportions would require there to be a tenancy in common, but this would enable Christine to be assessed on, for example, 95% of any future property income. This income would then be taxed at 22%, assuming it does not take her in to the higher rate tax band.

Q2

1) If Barbara continues to live in the property while letting part of it, her principal private residence exemption will not be affected if the lodgers effectively live as part of her family.

However, if the letting extends beyond this, the proportion of the gain that relates to the part let will be chargeable.

This gain will be reduced by the lower of £40,000 and a sum equivalent to the exempt gain on the owner occupied part.

2) Barbara's property income for 2006/07.

INCOME			
Own property		5,000	
Property 1		10,000	
Property 2		15,000	
Property 3 (W1)		23,500	
Premium on Property 3 (W2)		13,000	

		66,500	
EXPENSES			
Own property			
Rent a room relief	4,250		
Property 1			
Repairs	500		
Loan interest	1,400		
Gardener	1,100		
Kitchen	-		
Property 2			
Council Tax	800		
Repairs	600		
Cleaning	500		
Redecorating	920		
Wear & tear allowance	1,420		
(15,000 - 800) x 10%			
Property 3			
Gutters	3,000		
Other	4,500		
Rent paid	12,000		
Relief for premium	47		
Insurance (W4)	2,523	(33,560)	
(Properties 1, 2 & 3)	-----	-----	
Net income from property		32,940	

Working 1

	£	£
Property 3		
£21,000 x 2/12		3,500
£24,000 x 10/12		<u>20,000</u>
		<u>23,500</u>

Working 2

Premium received		30,000
Less: £30,000 x 2% x (20 – 1)		<u>(11,400)</u>
		18,600
Premium on head lease	20,000	
Less: £20,000 x 2% x (30 – 1)	<u>(11,600)</u>	
Assessable on landlord	<u>8,400</u>	
Relief for sublease £8,400 x 20/30		<u>(5,600)</u>
Assessable on Barbara		<u>13,000</u>

Working 3

Prior to the granting of the new sublease, Barbara was entitled to an annual deduction in respect of the premium paid on the head lease. The amount due for 2006/07 is:

$$£8,400/30 = £280 \times 2/12 = 47$$

Working 4

Insurance:		
£2,484 x 9/12		1,863
£2,640 x 3/12		<u>660</u>
		<u>2,523</u>

3) (i) Joint tenancy – property is owned by two or more people, each holding 100% of the property.

On the death of either spouse the property automatically passes to the surviving spouse.

If either co-owner wishes to dispose of their interest all co-owners must agree to do so.

ii)

Tenancy in common – property is owned by two or more persons, each owning a share of the property.

Individual owners can dispose of their share of the property without the consent of the other owners.

On death that person's share will not pass to the surviving spouse but will pass according to the terms of the deceased's will.

SCOTTISH LAW

Under Scottish law where property is held jointly the owners have no separate estates but each holds 100% of the property. If co-owners wish to sell the property they must all agree to do so. It also means that on the death of one of the owners the ownership of the entire property passes automatically to the surviving spouse.

In the case of common property, each owner has a title to his own share which he may dispose of as he wishes and on death it will pass according to the terms of his will, legal rights or intestacy. However this is the way that husbands and wives own property in Scotland as the owners can use a special destination to ensure that the property passes to the survivor.

ANSWER 3**ABIGAIL**

1) On 15 October 2001, Abigail inherited 4,000 shares in Thomas Ltd at a value of £14,200. On 21 May 2006 Thomas Ltd was taken over by Excalibur plc. In exchange for her 4,000 shares Abigail received:

6,000 Ordinary shares
4,000 Preference shares
£10,000 Cash

Excalibur plc	Market Value per share	Value of new holding	Apportionment of cost
Ordinary shares	2.10	12,600	6,004
Preference shares	1.80	7,200	3,431
Cash	-	10,000	4,765
TOTALS		29,800	14,200

Cash received on takeover	10,000
Less apportioned cost	(4,765)

	5,235

Taper relief, 25% chargeable = £1,308

Total marks available

2) Should any preference shares be sold the apportioned base cost per share would be:

3,431
----- = £0.85775
4,000

Total marks available

3)

Capital Gain on takeover	1,308	
Other gains	<u>15,000</u>	
Total gains	16,308	
Less annual exemption	<u>(8,800)</u>	
Chargeable gains	7,508	
Taxable income	30,000	
Gains (Basic rate band)	<u>3,300</u> @ 20%	660
	33,300	
Gains (Higher rate band)	4,208 @ 40%	1,683
Tax payable 31 January 2008		2,343

Total marks available
TOTAL MARKS

Q4

1) CLAUDE

Income from employment 2006/07

Salary – Reading Ltd	(5 x £3,000)	15,000	
Car benefit	(25% x 16,000 x 5/12)	1,666	
Fuel benefit	(25% x 14,400 x 5/12)	1,500	
Redundancy Ex gratia payment	20,000		
Car (at valuation)	8,000		
Exemption	(30,000)		
Statutory Redundancy Pay	4,000 (26,000) -----		
		2,000	
Job Seeker's Allowance	(4 x £57)	228	
Salary – Villa Ltd	(6 x £4,100)	24,600	
Car allowance			
10,000 x (48 – 40) p	800		
2,500 x (48 – 25) p	575	1,375	
TOTAL INCOME FROM EMPLOYMENT		46,369	

The car benefit percentage is based upon the carbon dioxide emissions. It is a minimum 15% when the emissions are up to 140 g per km. For emissions over 140 g the percentage will increase by one for every 5 g. Therefore, with 193 g the minimum 15% will increase to 25%.

2)

i) Summary dismissal occurs where the employer dismisses the employee without notice or without waiting for the expiry of a fixed term contract.

It usually occurs where an employee has committed an act of gross misconduct and, in such an event, the dismissal is not treated as a breach of contract.

The employee is only entitled to be paid a salary up to the date the employment is terminated.

ii) It is constructive dismissal where an employer attempts to ignore or vary an essential part of an employment contract without the agreement of the employee.

If the employee resigns, the employer will be liable for breach of contract.