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Association of Taxation Technicians

Examination

May 2008

PAPER 1 – PART I

PERSONAL TAXATION

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

You are required to answer **all** questions in Part I and Part II (printed separately).

Part I

- You must write your answers in this booklet using the space provided under each question and complete your candidate number at the top of this page.
- Each question carries between two and four marks as indicated in brackets.
- It is expected that your answers will be in brief bullet point format or summary computations.
- It is not expected that you will require all of the space provided.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

1. Edmund is 67 years old and holds 2,000 shares in Aslan plc. The company declared net dividends of £5 and £6 per share for the years ending 31 March 2007 and 31 March 2008 respectively. These dividends were paid on 26 June 2007 and 30 June 2008 respectively. In 2007/08 Edmund also received £50,000 from his employment, from which £4,180 of tax was deducted under PAYE.

Calculate the Income Tax payable by Edmund for 2007/08.	(4)

2. Charles and Victoria had been married for many years but decided to separate amicably on 17 May 2007; neither party sought a divorce. On 12 October 2007 Victoria gave Charles a painting which was worth £40,000 and on 16 April 2008 she sold him a Sevres dinner service, which was valued at £15,000, for £10,000.

Explain how these disposals will be treated for Capital Gains Tax purposes. (2)

- 3. Mark owned £10,000 of Mandy Ltd 6% loan stock which paid interest on 6 May and 6 November each year. He acquired these units on 6 April 2004 for £9,980 cum div. On 6 January 2008 he sold all 10,000 units cum div for £10,200.
 - 1) Calculate the amount of interest, if any, chargeable to Income Tax for 2008/09.
 - Assuming the loan stock is not an exempt asset, calculate the chargeable 2) gain (before taper relief) for 2007/08. (4) _____ _____ _____

4. Peter owned a commercial property which he bought in February 1978 for £15,000. The market value of the property at 31 March 1982 was £28,000. The property was let to an unquoted trading company with which Peter had no connection. Peter sold the property on 5 December 2007 for £500,000, with £400,000 being receivable on completion and £100,000 in May 2008.

Calculate the chargeable gain after taper relief for 2007/08.	(4)

5. Susan made two payments on account for 2006/07 of £1,500 each; one on 28 February 2007 and one on 30 September 2007. Her balancing payment for 2006/07 was £5,000. She paid this on 31 May 2008, the same day that she filed her personal tax return for 2006/07. She had no payments on account to pay for 2007/08.

Calculate the penalties, surcharges and interest that Susan will suffer in relation to these payments and filings (assume the rate of interest on unpaid tax is 5%). (4)

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- 6. In which of the following scenarios might a Capital Gains Tax charge arise, and why? (Assume that the proceeds of the overseas disposals are not brought into the UK and ignore the effect of any double taxation agreements).
 - 1) Sale of an overseas commercial property by a UK resident and domiciled individual.
 - 2) Sale of a UK residential property by a non-UK resident but UK domiciled individual.
 - 3) Sale of an overseas property by a UK resident but non-domiciled individual.

(3)

7. Ben's non-qualifying life assurance policy matured in August 2007. The policy had run for 10 complete years and he received a chargeable event certificate advising that a gain of £120,000 had arisen. Ben's only other income for 2007/08 was £30,000 net rental income.

Calculate the top-slicing relief available in relation to this gain.	(4)

8. On 6 April 2006 Lucy received a notice to file her 2005/06 personal tax return. However, having failed to do so, she received a determination from HM Revenue & Customs of the tax payable for that year. She believes that the determination is excessive and has asked you for advice.

Explain what action Lucy should take to ensure that she only pays what she considers to be the right amount of tax. (2)

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In July 2007 Bob gave his girlfriend Wendy $\in 300,000$; the exchange rate at that tim was £1: $\in 1.7$. He had acquired $\in 1$ million in June 2000 when the exchange rate wa £1: $\in 1.90$.
Calculate Bob's chargeable gain for 2007/08.
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10. In 2005 William gave his brother John £500,000 which John put towards the purchase of a £750,000 house. John emigrated in 2006 and, from 6 September 2007, William moved into the house and lived there rent-free. Full market rent for the occupation of this property would be £24,000 per annum.

Calculate the tax charge that arises on William for 2007/08 and explain the election that he could make to avoid it. (3)

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- 11. Muriel receives the following benefits from her employment:
 - A diesel Volvo XC90, registered in May 2006 and with a list price of £40,000. The CO_2 emissions are 219g/km. Fuel for private mileage is also provided. A parking space is provided in a car-park close to the office; her employer pays 1)
 - 2) £3,000 per annum to secure this space.
 - 3) A loan of £200,000 on which she pays interest of 2%.
 - 4) A mobile phone.

Calculate the amounts chargeable to Income Tax in respect of these benefits for 2007/08. (4)

12. What are the three main types of fee arrangements that are encountered in practice? Where a member of the Association of Taxation Technicians (ATT) is to receive commission from a third party as a result of a client taking action based on his advice, what disclosure must the member make? (3)