



Association of Taxation Technicians

Examination

May 2008

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. Patsy works as a receptionist for Big plc. The company provided her with a written statement confirming the terms of her employment shortly after she commenced.

During 2007/08 Patsy worked for 35 hours per week and was paid £24,000. Tax of £2,700 was deducted from this under PAYE. Patsy also received net savings interest of £400 in 2007/08; she received the same amount in 2006/07.

Big plc gives £70 of childcare vouchers per week to any employee with a child below the age of five. These vouchers are paid throughout the year and may only be redeemed at specified registered childcare facilities.

During 2006/07, Patsy received a salary of £16,000 and the same childcare voucher scheme was available throughout the year.

Patsy has a three-year-old daughter, Lucy, with her ex-husband, Oscar from whom she separated three years ago. Lucy is in registered childcare throughout the year, which costs a total of £200 per week and which Patsy uses the vouchers in part payment thereof.

Patsy has been paying money into a bank account for Lucy for several years and, in both 2006/07 and 2007/08, Lucy received interest of £120 (net) on the account.

You are required to:

- 1) **Calculate Patsy's entitlement to Child Tax Credit and Working Tax Credit for 2007/08.** (7)
- 2) **Calculate the Income Tax payable by Patsy for 2007/08.** (5)
- 3) **Explain what the written statement confirming the terms of her employment is required to include.** (5)
- 4) **Outline the implied duties that Patsy owes to her employer.** (3)

Total (20)

2. To assist with the preparation of his tax return, your client, David, has sent you details of a number of assets which he has sold:

In May 2006, David bought an investment property for £250,000 with the intention to lease the property to a long term tenant. Shortly after he acquired the property, a neighbour offered to buy part of the garden for £15,000. David agreed and the land was sold in August 2006.

On the land was a garage, which was destroyed by fire in February 2008. David received £30,000 compensation under his insurance policy but decided not to rebuild the garage as the property was worth £250,000 without it.

In February 1998, David bought a large (20 person) antique solid silver dinner service for £8,000. He did not use all of this and in October 2007 he sold 12 of the place settings for £7,000. At this time the remaining part of the dinner service was worth £14,000.

In January 2002, David and three of his friends bought a racehorse for £8,000 in total (each paying £2,000). The horse has won several races and the friends were able to sell the racehorse in December 2007 for £28,000.

David inherited a painting in December 1998, when it was worth £4,000. However, he did not like the picture and in November 2007 he sold it to his business partner, Mary, for £5,000; the painting was worth £9,000 at the time.

David is a higher rate taxpayer, with a salary in excess of £200,000 per year.

You are required to:

- 1) **Explain the election that David could make for the sale of the garden to not be treated as a disposal for Capital Gains Tax purposes.** (2)
- 2) **Assuming David makes the election discussed in question 1), calculate his Capital Gains Tax liability for 2007/08 and state the due date.** (13)

David now informs you that in January 1992, he subscribed for 8,000 shares in Jammy Ltd, an unquoted trading company, at a cost of £9,000. The company ceased trading in 2007/08, at which time the shares were worthless.

- 3) **Advise David of the alternative reliefs available in respect of the loss on the shares in Jammy Ltd and of which claim would be most beneficial.** (5)

Total (20)

3. Last week one of the partners in your firm met with James, an entrepreneur who set up a new company in August 2007. James has previously been advised that the new company meets the requirements to qualify for the Enterprise Investment Scheme (EIS) and would like further details on the tax relief available to the investors in the company.

The shareholders are:

James, who owns 56% of the shares (investing £200,000) and is the managing director;

James's father, Ian, owns 5% of the shares (investing £40,000) and is not employed by the company;

James's brother, Charles, owns 5% of the shares (investing £40,000) and is not employed by the company;

James's friend, Sue, owns 5% of the shares and is employed by the company as a manager (investing £40,000); and

James's friend, Tara, owns the remaining 29% (investing £230,000). She is not employed by the company.

You are required to:

- 1) **Outline the Income Tax relief available to an individual who invests in qualifying EIS shares.** (3)
- 2) **Explain the Capital Gains Tax implications of investing in qualifying EIS shares.** (7)
- 3) **Explain whether each of these investors qualifies for the reliefs discussed above.** (10)

You are not required to discuss the withdrawal of any tax relief given.

Total (20)