The Chartered Tax Adviser Examination

May 2008

PAPER IIB – TAXATION OF INDIVIDUALS, TRUSTS AND ESTATES

Suggested Answers

QUESTION 1

A Tax Adviser
Chartered Tax Advisers
High Street
Anytown

Mr F Giles

Home Farm
Country Lane
Countryside

May 2008

Dear Mr Giles

Home Farm – Inheritance Tax Position

You have requested advice on your inheritance tax (IHT) position. In total you and your wife have an estate of £1,300,000 before reliefs and ignoring chattels and other household items. This is significantly in excess of the current nil rate bands for IHT and in the absence of specific reliefs, a substantial IHT liability would arise.

Relief is available from IHT for agricultural property comprised within an estate. The legislation provides a definition of agricultural property (see below). Depending on the nature of ownership of the agricultural property, relief may be due at 50% or 100% (but only on the agricultural value). Relief is due at 100% if there is a right to vacant possession immediately or within 12 months, or the property is let on a tenancy which commenced after 1 September 2005, or the property was held before 10 March 1981 and certain specified conditions are satisfied. To the extent that Agricultural Property Relief (APR) is not available then Business Property Relief (BPR) may be available.

Agricultural property is agricultural land or pasture and includes buildings whose use is ancillary to such land or pasture including cottages and farmhouses of a character appropriate to the property. As far as farmhouses are concerned then this definition has been tested in the two “Antrobus” cases which were heard before the courts.

The first Antrobus case established the following tests in establishing whether APR is available in respect of the value of a farmhouse:

- whether the house is appropriate by reference to its size, content and layout, with the farm buildings and the particular area of land being farmed;
- whether the house is proportionate in size and nature to the requirements of the farming activities carried on;
- the 'elephant test' - one knows a farmhouse when one sees one;
- whether the educated rural layman would regard the property as a house with land or a farm; and

how long has the farmhouse been associated with the agricultural property.

In this case there is some scope to satisfy these tests with the main areas of difficulty being whether the “farmhouse” is a house with land or a farm. On the basis of the current arrangements it is difficult to see that these fundamental requirements are being met. Therefore there must be considerable doubt as to whether APR is available on the farmhouse at Home Farm.

A farmhouse will only qualify if it is ancillary to the qualifying agricultural property. A farmhouse can not qualify in its own right. There is also the other issue as to whether or not the property is of a character appropriate to the land. In this case a large 5 bedroomed Georgian house may be excessive in the context of only 30 acres of land.

In any case a further problem is the restriction of APR by reference to value that was established by the Antrobus 2 case. APR is only available on the agricultural value rather than the market value of the property. In that case the agricultural value was considered to be only 70% of the market value. Therefore in any case full relief would not be available. The position on the farm buildings is difficult as they are so close to the farmhouse and so would tend to add to its value if it was sold to a private buyer. The poor agricultural usage of these buildings is unhelpful in terms of trying to justify entitlement to APR. A return to dairy farming by the partnership (even on a small scale) and reinstatement of the milking parlour would clearly boost any claim for relief.

APR will be available on the let farmland at 100% because the tenancy commenced after 1 September 1995 but this would only exempt value of £100,000. However, a further point is that Business Property Relief (BPR) might be available on the furnished holiday let in isolation as a business asset but this is a difficult position to justify to HM Revenue & Customs. This is because it is necessary to show that the letting activity amounts to a business. This is difficult to satisfy for a single let building albeit on an FHL basis. If it was available then it could potentially be available at 100% and so exempt the value of the furnished holiday let unit. That would give rise to difficult valuation issues.

Therefore on the basis that you do retire from the farming partnership it would appear that APR would be restricted to £100,000 leaving a joint chargeable estate of £1,200,000. Even after allowing for the full utilisation of both nil rate bands there would be a potential tax liability of £230,400 on which the instalment basis would be available.

There are two areas of planning action that should be considered:

First, establishing farming activities such that an argument for APR on Home Farm could be made. To do this it is necessary to show greater farming activity. This could perhaps be achieved by letting the 30 acres at Home Farm to the farming partnership rather than another neighbouring farm. It is also important that you and your wife remain in the farming partnership. This raises a number of complex issues that would need to be considered further before any planning action is taken.

Secondly, that you consider owning the property jointly with your wife as joint tenants. Whilst the new rules on transferability of any unused nil rate band on a first death may be appropriate in this case on the second death it may instead be better to have more planning options available on a first death. These issues need to be carefully considered as part of drafting your wills. It is certainly vital that you have valid legal wills in place.

I trust you will appreciate that this letter raises important issues on the exposure of your estate to IHT that need to be further discussed in due course.

Yours sincerely

A Tax Adviser

QUESTION 2

1 **Calculation of Liabilities/Refunds**

Income Tax Computation 2007/08

	Bill	Cathy
	£	£
Income from employment:		
Salary	62,000	22,500
	62,000	22,500
Income from self-employment	9,500	(3,800)
	71,500	18,700
Savings income (£1,400/80%)	875	875
	72,375	19,575

Income Tax and Class 4 NI Payable:

	Bill	Cathy	Bill £	Cathy £
Personal allowance	5,225	5,225		
10% band	2,230	2,230	223	223
Savings Band	0	875		175
Basic Rate	35,539	11,245	7,819	2,474
Higher Rate	29,381		11,752	
	72,375	19,575	19,794	2,872
Class 4 NI - £9,500-5,225 * 8%			342	
			20,136	2,872
Tax Paid at Source:				
Salary			(16,600)	(3,887)
Bank interest			(175)	(175)
Tax Due			3,361	(1,190)
Percentage of tax paid at source			83.31%	

No payments on account due

Class 4 NI Refund Due

Class 4 NI suffered at 8% but maximum already paid as Class 1
Class 4 should only be suffered at 1%

Refund to be claimed of £299.25

It is necessary for Bill to reclaim the overpaid Class 4 National Insurance by making a claim to the National Insurance Office. It is not possible to pay the Class 4 at only the lower rate of 1%. The Class 4 NI will have to be paid on 31 January 2009 and then reclaimed. Hence the full Class 4 liability is still relevant for the purposes of the 80% test for payments on account.

Cathy will receive her tax refund shortly after the submission of her tax return.

2 **Deferment Application - Bill**

It is necessary for Bill to first pay a higher sum in respect of Class 4 national insurance and then claim a refund. This is unhelpfully bureaucratic and can be avoided if a deferment application is made. However this can only be made prior to the start of a tax year and so strictly it is not now possible for 2008/09. An application should be made for 2009/10.

Class 4 Loss Relief - Cathy

It is beneficial for Cathy to claim relief for her initial self-employment period loss against her other income for 2007/08. As Cathy was not a higher rate taxpayer in the past then there is nothing to be gained by carrying back the loss, nor to carrying it forward as Cathy is expected to be a basic rate taxpayer in 2008/09. Indeed the basic rate has been reduced for 2008/09 such that if losses were carried forward a lower level of loss relief would be achieved. This will also achieve a tax refund at the earliest possible date and so help cashflow.

However there is a danger that loss relief is not obtained for the purposes of Class 4 and so it is necessary to separately carry forward the loss of £3,800 for Class 4 purposes.

Cathy's Contribution Record

Cathy is concerned about her contribution record for state pension purposes. As Cathy is paying Class 2 national insurance then there is nothing further required in respect of the current or previous tax years. For those not liable to pay national insurance then there is the option to pay voluntary contributions under Class 3. However I doubt that this is appropriate in respect of any past years. This is because you are in receipt of Home Responsibilities Protection (HRP) as you receive Child Benefit. This reduces the number of qualifying years that you would otherwise require. There are proposals to reduce the number of qualifying years required for a state pension. Cathy should complete a form BR11 and submit it to the Contributions Office to obtain a state pension forecast for based on her contribution record.

QUESTION 3

TaxNet Advisers
34 Winter Street
London
EC1E 2BP

Miss Y Graves

Cedar House
Horsham Road
Surrey
RH5 4NN

Dear Yvonne

Disposal of London Flat

I write in connection with the disposal of your London flat.

The basic principle of the Principal Private Residence relief (PPR) is that gains from the sale of your only or main residence are exempt from capital gains tax, provided that the property was occupied by you throughout the period of ownership. There are special provisions to cover certain periods when the property was left unoccupied or it was let out, which I will analyse separately below.

Qualifying Periods

You acquired the flat on 1 August 1998 but did not immediately occupy it as you were making some improvements prior to moving in. This lasted for 4 months and although you did not actually occupy the flat, there is a Revenue concession which allows you to claim this period as deemed occupancy.

The periods during which you actually occupied the property will unsurprisingly qualify for the relief.

You will also be allowed to claim as deemed occupancy up to 4 years whilst working in the UK and in addition up to 3 years for any reason.

The last 36 months is always treated as a period of occupation provided that the property was a dwelling house and was occupied as your principal private residence at some point during the period of ownership.

I shall deal with the period during which the property was rented out separately.

PPR Qualifying Period – Summary

Date	Comments	Exempt (months)	Chargeable (months)
01/08/1998 – 30/11/1998	Deemed occupation (IR Concession)	4	0
01/08/1998 – 31/03/1999	Actual occupation	4	0
01/04/1999 – 31/07/2004	Deemed occupation (4 years working away, up to 3 years for any purpose)	64	0
01/08/2004 – 30/09/2004	Actual occupation	2	0
01/10/2004 – 31/05/2005	Rented out	0	8
01/06/2005 – 31/05/2008	Deemed occupation (final 36 months)	36	0
		110	8
Total period of ownership:		118	

Flat Extension

You arranged for the flat extension as you were aware that this would increase the value of the property and therefore the main reason was to realise a larger gain on the sale.

There are provisions in the legislation that potentially restrict the PPR relief where any expenditure is incurred on the property wholly or partly for the purpose of realising a gain from the disposal. It is therefore necessary to calculate the gain that relates to the increase in value due to the acquisition of the Extension. This “Extension Gain” cannot be decreased by the PPR relief.

	Total £	Flat £	Extension £
(a) Disposal Proceeds	750,000		
(b) Value of flat without extension (on sale date)		690,000	
Consideration resulting from acquisition of extension (a) - (b)			60,000
Cost of flat, enhancement expenditure, SD & legal fees	(265,688)	(265,688)	
Cost of building the extension	(22,500)		(22,500)
Unindexed Gain	461,812	424,312	37,500

Calculating the chargeable gain

The “Extension Gain” will not be reduced by the PPR relief as per comments above and therefore, £37,500 will be chargeable.

To calculate the gain left in charge for the flat, account will be taken of the PPR relief as calculated above.

In addition to the periods of actual and deemed occupancy, as the flat was let as residential accommodation, the gain arising attributable to the period of letting is chargeable only to the extent that it exceeds the lower of:

- The PPR relief; or
- The gain arising during the letting period; or
- £40,000.

The flat and extension gains should be added together in order to arrive at the total net gain.

Flat

		£
Gain		424,312
PPR Relief	£424,312 × 110/118	(395,545)
Gain after PPR		28,767
Rent Relief		
Lower of:		
PPR relief	£395,545	
Letting gain – £424,312 × 8/118	£28,767	
Maximum relief £40,000	£40,000	(28,767)
Net gain on 'Flat' portion		–
(+) "Extension Gain"		37,500
Total net gain		37,500

As you can see, the total net gain on the disposal of the flat will amount to £37,500. In order to have a nil capital gains tax liability, you would have to sell some of your shares which stand at a loss.

Taper relief applies to the entire gain, including the 'extension' element, from the original purchase date. You would need total losses amounting to £23,346 in order to leave in charge a gain after taper relief of £9,200, which is the annual exemption available for the tax year.

If the disposal takes place in May 2008, and you decide not to sell the shares that stand at a loss, the capital gains tax will be **payable by 31 January 2010.**

Election

Finally, there are a few points which you should be aware bearing in mind your impeding marriage.

Any election would only have an effect for the period(s) of time you have more than one dwelling house available to you and it would therefore be relevant to elect which should be considered your PPR. In the absence of an election, the PPR period is decided on the facts. The treatment adopted above was to assume that your London flat was your PPR.

You do not have to nominate the dwelling house which is factually your main residence as the residence which is to attract relief. If you have more than one residence the relative extent to which each is occupied as a residence is not a material factor.

It is important to note that a married couple can only have one main residence for tax purposes between them.

The time limit for a notice nominating a residence is two years from the date on which you first had a particular combination of residences. Whenever there is a change in the combination of residences a new period begins with a new opportunity to make an election.

There is no statutory form for an election but a written nomination by you (or if this is done after you get married, by you and Chris) is to be made by notice to the Inspector and is to be signed by (both of) you. After you are married and living together, you can have only one main residence for both. Please let me know if you require that I draft this for you.

You plan to buy a holiday home in the South West and in due course you may move into that house with Chris. You should give some thought to electing that house as your PPR, especially in the 3 years leading up to the sale of the Surrey property. As you know, the last 3 years of ownership is always exempted provided it was a PPR at some point during the period of ownership. The aim is to maximise the amount of PPR available amongst all the properties taking into account the potential gain on the sale.

I hope the above is helpful but as usual, please do not hesitate to contact me if you have any questions.

Kind regards

Yours sincerely

TaxNet Advisers

QUESTION 4

MEMORANDUM

From: Tax Adviser
To: David Burn – ABC UK
Subject: John Davis – of ABC Holdings

John Davis arrived in the UK on 1 May 2007 to take up a 24-month contract with ABC UK.

John will be treated as resident in the UK from the date of arrival to the date of departure as he came to the UK with a purpose of employment that will last for 24 months.

However, John will be treated as not ordinarily resident in the UK as his intention when he arrived was to stay in the UK for a period of less than 3 years.

John is likely to be considered not domiciled in the UK as it appears that his father is domiciled in Utopia and John's stay in the UK is only for a temporary purpose.

(a) **Estimated income tax on employment securities**

1. The shares received on 30 June 2007 relate to employment exercised outside the UK before John became resident in the UK and therefore are not taxable in the UK.
2. The share options appear to have been granted in respect of John's employment in the UK at a date when he is resident but not ordinarily resident in the UK. Furthermore, he is still resident in the UK when he exercises the options and sells the shares.

On the grant of the options, there will be no income tax charge.

In view of John's non-UK ordinary residence, there is no tax charge on the exercise of the options but an annual charge under the benefits legislation will arise deeming that an interest-free loan ("the notional loan") have been made by ABC UK to John between the time of the exercise and disposal of the shares.

The notional loan is considered as discharged on the disposal of the shares and a tax charge arises on the effective write-off of the loan. This tax charge will be based on the difference between the price paid for the options and the market value at exercise.

The tax charge on the sale of the shares, giving rise to the discharge of the notional loan, will be collectable under PAYE because there is a ready market for the shares.

The taxable benefit arising from the notional loan should be included on John's P11D for the year ended 5 April 2008.

Care needs to be taken that whilst 155,000 options were granted, only 120,000 were exercised. The remaining 35,000 may still be exercised up until such a time the options have lapsed.

Income tax change:

	£
Market value on exercise	1.50
(-) Price paid on exercise	(1.00)
Gain per share	0.50
Number of options	120,000
Gain on discharge of the notional lc	60,000
National loan	
£60,000 × 6.25% × (30/365 days)	308
Salary – May/07 to Mar/08	91,667
Total income	151,975
(-) Personal allowance	(5,225)
Taxable income	146,750
£2,230 @ 10%	223
£32,370 @ 22%	7,121
£112,150 @ 40%	44,860
Income tax	52,204

(b) **National Insurance**

1 The NIC treatment of the shares received on 30 June 2007 will follow that for income tax. Accordingly, there is no employee or employer NIC liability.

2 An NIC charge would apply on the normal basis. As John is not a director, he is not subject to the annual basis.

	£	£
Class 1 – Primary (employee)		
10 months – Monthly salary of £8,333		
11% on earnings between £435 and £2,903		2,714.80
1% on earnings above £2,903 (£8,333 - £2,903)		543.00
		3,257.80
1 month – normal salary of £8,333 + Gain on discharge notional loan £60,000		
11% on earnings between £435 and £2,903		271.48
1% on earnings above £2,903 (£68,333 - £2,903)		654.30
		925.78
Total Class 1 – Primary	£4,183.58	

	£
Class 1 – Secondary (employer)	
12.8% on earning above £435	
10 months – Monthly salary of £8,333	10,109.44
1 month salary + gain on exercise £68,333	8,690.94
	18,800.38
Class 1A – Secondary Contribution – Employer only	
12.8% on the notional beneficial loan - £308	£39.42

(c) **Capital Gains**

The shares were acquired on 1 December 2007 and disposed of on 31 December 2007. The difference between the disposal proceeds and the exercise value will be chargeable to capital gains tax.

	£
Proceeds – 120,000 shares × £1.67	200,400
(-) Market value of the shares on date of acquisition – 120,000 × £1.50	(180,000)
Chargeable gain	20,400

QUESTION 5

1 **Trustee's Income Tax Liability**

As there are no related settlements, the full basic rate band of £1,000 is available. Gross interest of £1,000 will be taxed at 20% and the remaining £500 at 40%. This gives a liability of £400.

There are trustee's expenses of £500 which are set against the dividend income after being grossed up by 100/90 to £556. The income used to pay these expenses is taxed at the basic rate for dividends, ie 10%, which is covered by the non-refundable tax credit of the same amount, so there is no further liability on this income.

The trustees will have an income tax liability on the remainder of the dividend income of £22,375 (gross dividend of £99,444 at 32.5% less tax credit of £9,944).

This gives a total of £22,775.

However it is also necessary to consider whether this is sufficient to cover the income tax reclaimable on the distributions (s493 ITA 2007).

There is no balance on the tax pool brought forward.

Distributions:

	Gross	Tax	Net
	£	£	£
Rupert	30,000	12,000	18,000
Nigella	30,000	12,000	18,000
Winnifred	30,000	12,000	18,000
	90,000	36,000	54,000

Additional income tax is payable by the trustees of £13,225 making the total payment to be £36,000.

Rupert's position – Rupert is a higher rate taxpayer and will not be able to recover any of the tax suffered. He will have received gross income of £30,000 and retained a net sum of £18,000. If he had received the income direct then he would have received gross income of £33,333 and would have retained £22,500. He is therefore worse off by £4,500. The position on his share of the gross interest is the same whether he received it direct or via the trust as in either case it would be subject to 40% income tax. In addition the trust expenses would be avoided but this is ignored as is the residual monies retained in the trust.

Nigella's position is that she will only be a basic rate taxpayer and so will be able to recover some of the tax paid by the trustees. This income will be taxable at the basic rate of 22% and so Nigella will be able to recover tax of £5,400. She will be treated as having received gross income of £30,000 and retaining £23,400. If she had received the income direct then she would have been treated as receiving gross dividend income of £33,333 as well as gross interest of £500. Again, if the trust expenses are ignored then if she had received the income direct she would only have had a higher rate liability on £1,508 of dividend income giving rise to an income tax liability of £339 on the dividend income and £100 (20%) on the interest income. She would therefore have received £30,000 of dividend income together with gross interest of £500, suffered an income tax liability of £439 and hence retained £30,061. This does of course allow for distribution of all monies and so is not quite like for like.

Winnifred will suffer lower rate and basic rate tax on the amount of the distribution over the personal allowance giving rise to a tax liability of £5,183 assuming no other UK source income. As such she would be able to recover tax deducted of £6,817 meaning that she retains £24,817 in total. She would also be in a better position if she received the dividend income direct as it is disregarded income for the purposes of calculating the income tax liability on a non-resident as set out in s811 ITA 2007. She would therefore be able to retain the full distribution of £30,000. Again one would also need to consider the position on the gross interest received by the trustees of £500 and the trustee expenses. However, clearly she would be in a better tax position if the shares were owned absolutely by her.

2 **Calculation of Estate Rate and Tax due on Appointments out of Trust**

		£
Initial value of trust fund on 1 July 1998 (9,000 × £50)		450,000
Available nil rate band on date of appointment	312,000	
Less: settlor's transfers in 7yrs before trust set up	(100,000)	(212,000)
		238,000
IHT at lifetime rates		£47,600

Effective rate 47,600/450,000 = 10.57778%

IHT rate on distributions = 10.57778% × 30% × 39/40 = 3.094

Value of Trust Fund

Value of Trust Fund on 1 July 2008 (9,000 * £200)	1,800,000
Cash on deposit (£90,000 + £1,500 - £500 -£54,000)	37,000
Income tax liability	(36,000)
Value of trust fund to be distributed £1,801,000	1,801,000

IHT due on appointment of trust fund, assuming the trustees pay the tax, is:

£1,801,000 × 3.094%/ (100% - 3.094%) = £57,502.

The IHT will be payable on 30 April 2009 if paid in full. The instalment option is available though because the shares are in an unquoted company.

Calculation of IHT due on 1 July 2008

		£
Value of Trust Fund on 1 July 2008 (9,000 × £200)		1,800,000
Cash on deposit (£90,000 + £1,500 - £500 -£54,000)		37,000
Income tax liability		(36,000)
		1,801,000
Available nil rate band on date of principal charge	312,000	
Less: settlor's transfers in 7yrs before trust set up	(100,000)	(212,000)
		1,589,000

IHT due at 20% * 30% = £95,340

The IHT will be payable on 30 April 2009 if paid in full. The instalment option is available though because the shares are in an unquoted company.

3 The trust is a relevant property settlement and therefore hold-over relief is available under s260 TCGA 1992. However, s261 prevents this relief from being available on any appointment out to Winnifred whilst she is non-resident. Given that there is a substantial capital gain before reliefs, this makes any appointment out to Winnifred very unattractive.

The fact that the gain is held over and that the beneficiaries would inherit a low CGT base cost is not a particular concern because of the desire to keep the shares within the family. However, it could pose problems for future IHT planning.

The trust structure is attractive from a longer term IHT planning perspective. In due course, Rupert, Nigella and Winnifred are likely to have children and in future the shares could be passed out to them so skipping a further generation. An additional point here is that the trust structure is likely to be helpful in keeping the assets within the family should Rupert, Nigella or Winnifred enter into a marriage that subsequently ends in divorce.

QUESTION 6

(a) **Income Tax**

The tax charge for non-UK residents on investment income arising in the UK is restricted to the amount of tax, if any, deducted at source. Examples of types of income which may be excluded from the computation are interest from UK banks and building societies and dividends from UK companies. However if tax is limited in this way, personal allowances (if otherwise due) will not be given against other income.

For income from property in the UK and income connected to a trade in the UK, UK tax is payable. If the non-resident taxpayer is taking advantage of the restriction on tax described above, the absence of the personal allowances may be significant where they also have income where tax is directly assessed.

Individuals who are nationals of EU countries, such as Wolfgang and Eva, may claim personal allowances as non-UK residents.

Due to the level of rental income (which cannot be excluded from the tax computation), it is more beneficial for Wolfgang and Eva to claim personal allowances and include their other UK income in the computation.

As Wolfgang is aged 74, he is entitled to age related allowance and as his total income is below £20,900, this is not restricted. As his wife is 76 years old, Wolfgang will be entitled to married couple's allowance at the higher rate.

Wolfgang needs to report 1/15th of the income and expenses arising on the property on his tax return. It is irrelevant whether the rents have been paid or not as they are taxable on an "accrual's basis". If it becomes evident that such rents will not be received, then a provision for bad debts should be considered.

As the owners of the property are not resident in the UK, the agent will be required to account for tax to HM Revenue & Customs under the non-resident landlord scheme unless the owners apply to receive the rental income gross.

The question of whether the replacement roof is a capital or revenue expense needs to be considered. The key test is whether it is the roof which is the entirety of the asset (in which case the replacement of the entire roof rather than the repair by replacing a few tiles) would be capital, or whether it is the building which is the entirety in which case the cost would be a revenue expense as a repair. The latter view is preferable and hence a deduction should be claimed.

Wolfgang's Income Tax Computation

	£	*Non-savings* £	*Savings* £	*Dividends* £
Rental Profits (£300,000 – £102,000) × 1/15		13,200		
Dividends 25,000 shares × 12p × 100/90				3,333
Interest income £2,840 × 100/80			3,550	
Statutory Total Income		13,200	3,550	3,333
(-) Personal Allowance (aged 74)		(7,550)		
Taxable income		5,650	3,550	3,333
£2,230 × 10%	223.00			
£3,420 × 22%	752.40			
£3,550 × 20%	710.00			
£3,333 × 10%	333.33			
	2,018.73			
(-) Married Couples Allowance £6,365 × 10%	(636.50)			
-) Non-repayable notional with holding tax on dividends	(333.33)			
(-) Withholding tax on savings income	(710.00)			
Income tax due by 31 January 2009	338.90			

Alternative Basis – Exclude investment income but lose personal allowances

	£
Rental profits – £13,200	
£2,230 × 10%	223.00
£10,970 × 22%	2,413.40
	2,636.40

Eva's Income Tax Computation

	£	*Non-savings* £	*Dividends* £
Rental Profits (£300,000 – £102,000) × 1/3		66,000	
Dividends £4,000 × 100/90			4,444
Statutory Total Income		66,000	4,444
(-) Personal Allowance		(5,225)	
Taxable income		60,775	4,444
£2,230 × 10%	233		
£32,370 × 22%	7,121		
£26,175 × 40%	10,470		
£4,444 × 32.5%	1,444		
	19,259		
(-) Non-repayable notional withholding tax on dividends	(444)		
Income tax due by 31 January 2009	18,814		

Payments on account of the 2008/2009 liability will be due on each

31 January 2009 and 31 July 2009 and will amount to £9,407 each

Alternative Basis – Exclude investment income but lose personal allowances

	£
Rental profits – £66,000	
£2,230 × 10%	223.00
£32,370 × 22%	7,121
£31,400 × 40%	12,560
	19,904

Capital Gains Tax

- The gain arising on the sale of the UK shares is not chargeable as Wolfgang is neither resident nor ordinarily resident in the UK. It is irrelevant whether the proceeds are received in the UK or not.
- The gain arising on the sale of the asset used in the trade will be chargeable to UK capital gains tax. This is one of the few instances where an individual who is not UK resident or ordinarily resident is chargeable to capital tax.

The gain is calculated as follows:

	£	
Proceeds	50,000	
(-) Cost	(40,000)	
Chargeable Gain	10,000	
Wolfgang's half share	5,000	– this will be covered by the annual exemption