Candidate Number			

You must tick the box below if you have answered this Module.



The Chartered Tax Adviser Examination

INSTITUTE OF TAXATION

May 2009

AWARENESS

MODULE D – TAXATION OF INDIVIDUALS

- You should only answer this module if you have not/do not intend to sit the Taxation of Individuals Advisory paper.
- Each question carries 5 marks.
- You should answer all the questions from the modules you choose.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You must answer questions in the spaces provided.
- You may not need all the space provided.
- You should make all calculations to the nearest month and pound unless stated otherwise.

1. Jerome has been self-employed for many years. His total Income Tax liability for 2007/08 was £26,568. Some of this was paid by deduction at source as follows:

	£
Tax deducted on savings income	3,150
Dividend tax credit	1,200
Tax deducted on REIT income	424

In respect of 2007/08, Jerome also paid Capital Gains Tax of £258

Jerome made his first payment on account for 2008/09 on 31 January 2009 and paid an amount of £9,800, based on estimated computations.

In 2008/09, Jerome made a gain on a gift to his brother, of shares in an unquoted investment company resulting in a Capital Gains Tax liability for 2008/09 of £10,120. Jerome's brother intends to keep the shares as a long-term investment.

You are required to:

- 1) Calculate the amount of any further payment to be made to HM Revenue & Customs by 31 July 2009.
- 2) Identify an option that is available to Jerome to reduce the amount of Capital Gains Tax payable by 31 January 2010.

You are NOT required to consider interest on late paid tax.

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2. Miguel is a director of Blake Ltd. The employment package provided to him during 2008/09 includes the following:

Sala	ary	£43,000
Car		
-	original list price	£45,000
-	accessories added later	£2,000

The car has carbon dioxide emissions of 194g/km. Blake Ltd does not pay for any petrol for private use.

In addition Miguel borrowed £25,000 interest free from the company in August 2006 to help fund the purchase of a holiday home. He repaid £6,000 of the loan on 5 July 2008.

You are required to calculate Miguel's assessable employment income for 2008/09.

3. Sanish has been UK resident for the last 15 years, but is Indian domiciled. He has received overseas dividends of £120,000 (gross), and has remitted £25,000 of this to the UK during 2008/09. He has made a remittance basis election for 2008/09. Sanish also has UK income of approximately £100,000 each year.

You are required to:

- 1) Calculate Sanish's UK Income Tax liability due to the overseas income. Ignore double tax relief.
- 2) Identify two situations where an individual who is UK resident but not UK domiciled can apply the remittance basis without having to make an election.

4. Angelina is the managing director of Ballet Ltd. She is considering ways of creating incentives for key members of staff. She has heard about Enterprise Management Incentives (EMIs), but knows very little about them. Ballet Ltd is owned by a number of individuals and has no subsidiaries.

You are required to:

- 1) State the main conditions that the company must fulfill to qualify under an EMI scheme.
- 2) Briefly explain the Income Tax treatment, for the key employees, of the options under an EMI scheme.

5. Evie, aged 50, has the following income and payments for 2008/09:

Salary from Shaming Ltd Dividends (net of tax credit)	£ 43,150 486
Gift aid payment (net)	1,880
Interest paid	4,200

The interest paid of \pounds 4,200 is made up of \pounds 4,000 on the loan to purchase Evie's house, and \pounds 200 to purchase shares in Shaming Ltd, an employee controlled company.

Calculate Evie's Income Tax liability for 2008/09.

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6. The employees of Dane plc have the choice between contributing into the company's occupational pension scheme or contributing into their own personal pension schemes.

The company will also contribute into whichever scheme an employee chooses.

The employees earn between £12,000 and £250,000 per annum.

Explain the Income Tax implications of both the employer and employee contributions, and explain how relief will be given to the individual.

7. Imogen has two investment properties that she let out during 2008/09.

 $\underline{2 \ Watson \ Street}$ This property was first let on 6 October 2008. The tenant paid a premium of £10,000 for the five year lease.

6 Dooher Gardens This property qualifies as a furnished holiday letting.

You are required to:

- 1) Calculate the amount of the lease premium subject to Income Tax.
- 2) State three tax advantages of 6 Dooher Gardens being treated as furnished holiday lettings.

- 8. Flea Ltd has approximately 20 employees on the payroll, including the following:
 - 1) <u>Abdul</u>

He has a salary of £40,000 per annum and is paid 45p per business mile for using his own car.

2) <u>Shonay</u>

Shonay is 68 years old, and in addition to her £15,000 salary, she is provided with private medical insurance paid for by the company.

The company also pays for an annual dinner costing £180 per person for all employees. There is a PAYE settlement agreement in place relating to this cost.

For each element of remuneration mentioned above, briefly explain which classes of National Insurance Contributions apply, identifying whether it is payable by the employee or Flea Ltd.

You are NOT required to perform any calculations.

9. David and Doreen own the entire share capital of Willis Ltd, They each subscribed for 500 ordinary shares of £1 each in January 1983.

David has always worked as a full-time director of the company, whilst Doreen has had no involvement other than owning the shares. David and Doreen also personally own the freehold building from which Willis Ltd operates. They let the building rent free to the company. David and Doreen purchased the building in February 1983.

David now wishes to retire, and the couple intend to buy a second home. To fund this purchase, David and Doreen sold their shares in March 2009, each realising a gain on disposal before reliefs of £449,500. In the same month, they also sold the freehold building each realising a gain before reliefs of £650,000. David and Doreen made no other disposals during 2008/09, and David has capital losses brought forward at 6 April 2008 of £20,000.

You are required to calculate the Capital Gains Tax payable by David and Doreen for 2008/09, assuming all relevant claims and elections are made.

10. Pardeep purchased 5,000 ordinary shares of £1 each in Puck plc for £20,000 on 20 January 1999. On 25 May 2008, Puck plc was taken over by Creed plc. The shareholders received the following for each £1 ordinary share in Puck plc:

	Market Value at 25 May 2008
Two ordinary shares in Creed plc	£7.16 per share
£3 Qualifying Corporate Bonds	-
(QCBs) in Creed plc	£0.96 per £1 of QCBs

On 26 March 2009 Pardeep sold all 10,000 of the ordinary Creed plc shares for \pounds 43,000, and \pounds 10,000 of QCBs in Creed plc for \pounds 21,000. Pardeep has never worked for either company and his shareholdings have always been less than 1% of the issued share capital.

Calculate Pardeep's chargeable gains arising on the disposals in 2008/09.

11. Gordon has recently left university and is planning to purchase his first house. He is still unsure about what to do next with regard to work and/or travelling the world.

Gordon assumes that the gain on the eventual sale of the house will be exempt from Capital Gains Tax whatever life choices he makes.

Identify five periods during which Gordon may not be living in the house, but in respect of which part of the eventual gain on sale may still be exempt from Capital Gains Tax.

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- Theo disposed of two assets during 2008/09 as follows: 12.
 - 1)

Land Theo inherited 25 acres of land in July 2000 when the probate value was £400,000. On 5 August 2008 he sold 15 acres to a developer for £986,800, from which solicitor's fees totalling £6,800 are to be deducted. The remaining 10 acres were valued at £600,000 on that date.

2) <u>Lease</u> Theo acquired a 15 year lease on 10 January 2003 for £20,000. On 10 January 2009 he sold the lease for £13,425.

Calculate Theo's Capital Gains Tax payable for 2008/09.

