Strategic Professional – Options

Advanced Taxation – United Kingdom (ATX – UK)

ATX - (UK)

Time allowed: 3 hours 15 minutes

ALL THREE questions are compulsory and MUST be attempted

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted Section B – BOTH questions are compulsory and MUST be attempted

Do NOT open this question paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

TAX RATES AND ALLOWANCES

Throughout this exam kit:

1. You should assume that the tax rates and allowances for the tax year 2018/19 and for the financial year to 31 March 2019 will continue to apply for the foreseeable future unless you are instructed otherwise.
2. Calculations and workings need only to be made to the nearest £.
3. All apportionments should be made to the nearest month.
4. All workings should be shown.

INCOME TAX

		Normal rates	Dividend rates
Basic rate	£1- £34,500	20%	7.5%
Higher rate	£34,501 - £150,000	40%	32.5%
Additional rate	£150,001 and above	45%	38.1%
Savings income nil rate band	- Basic rate taxpayers		£1,000
	- Higher rate taxpayers		£500
Dividend nil rate band			£2,000

A starting rate of *0%* applies to savings income where it falls within the first £5,000 of taxable income.

Personal allowance

Personal allowance	£11,850
Transferable amount	£1,190
Income limit	£100,000

Where adjusted net income is £123,700 or more, the personal allowance is reduced to zero.

Residence status

Days in UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	.Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK tie (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

Remittance basis charge

UK resident for:	Charge
7 out of the last 9 years	£30,000
12 out of the last 14 years	£60,000

Car benefit percentage

The relevant base level of $C0_2$ emissions is 95 grams per kilometre.

The percentage rates applying to petrol cars with $C0_2$ emissions up to this level are:

50 grams per kilometre or less	13%
51 grams to 75 grams per kilometre	16%
76 grams to 94 grams per kilometre	19%
95 grams per kilometre	20%

Car fuel benefit

The base figure for calculating the car fuel benefit is £23,400.

Individual Savings Accounts (ISAs)

The overall investment limit is £20,000.

Property income

Basic rate restriction applies to 50% of finance costs.

Pension scheme limits

Annual allowance	£40,000
Minimum allowance	£10,000
Threshold income limit	£110,000
Income limit	£150,000
Lifetime allowance	£1,030,000

The maximum contribution that can qualify for tax relief without any earnings is £3,600.

Approved mileage allowances: cars

Up to 10,000 miles	45p
Over 10,000 miles	25p

Capital allowances: rates of allowance

Plant and machinery

Main pool	18%
Special rate pool	8%

Motor cars

New cars with $C0_2$ emissions up to 50 grams per kilometre	100%
$C0_2$ emissions between 51 and 110 grams per kilometre	18%
$C0_2$ emissions over 110 grams per kilometre	8%

Annual investment allowance

Rate of allowance	100%
Expenditure limit	£200,000

Cash basis accounting

Revenue limit	£150,000

Cap on income tax reliefs

Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

CORPORATION TAX

Rate of tax	-	Financial year 2018	19%
	-	Financial year 2017	19%
	-	Financial year 2016	20%
Profit threshold			£1,500,000

VALUE ADDED TAX

	20%
Standard rate	£85,000
Registration limit	£83,000
Deregistration limit	

INHERITANCE TAX: nil rate bands and tax rates

Nil rate band		£
6 April 2018 to 5 April 2019		325,000
6 April 2017 to 5 April 2018		325,000
6 April 2016 to 5 April 2017		325,000
6 April 2015 to 5 April 2016		325,000
6 April 2014 to 5 April 2015		325,000
6 April 2013 to 5 April 2014		325,000
6 April 2012 to 5 April 2013		325,000
6 April 2011 to 5 April 2012		325,000
6 April 2010 to 5 April 2011		325,000
6 April 2009 to 5 April 2010		325,000
6 April 2008 to 5 April 2009		312,000
6 April 2007 to 5 April 2008		300,000
6 April 2006 to 5 April 2007		285,000
6 April 2005 to 5 April 2006		275,000
6 April 2004 to 5 April 2005		263,000
Residence nil rate band		125,000
Rate of tax on excess over nil rate band	- Lifetime rate	20%
	- Death rate	40%

Inheritance tax: Taper relief

	Percentage
Over 3 but less than 4 years	**reduction**
Over 4 but less than 5 years	20%
Over 5 but less than 6 years	40%
Over 6 but less than 7 years	60%
	80%

CAPITAL GAINS TAX

			Normal	**Residential**
Lower rate			**rates**	**property**
Higher rate			10%	18%
Annual exempt amount			20%	28%
Entrepreneurs' relief	-	Lifetime limit		£11,700
	-	Rate of tax		£10,000,000
				10%

NATIONAL INSURANCE CONTRIBUTIONS

Class 1	Employee	£1 - £8,424 per year	Nil
		£8,425-£46,350 per year	12%
		£46,351 and above per year	2%
Class 1	Employer	£1- £8,424 per year	Nil
		£8,425 and above per year	13.8%
		Employment allowance	£3,000
Class 1A			13.8%
Class 2		£2.95 per week	
		Small profits threshold	£6,205
Class 4		£1-£8,424 per year	Nil
		£8,425-£46,350 per year	9%
		£46,351 and above per year	2%

RATES OF INTEREST (assumed)

Official rate of interest	2.50%
Rate of interest on underpaid tax	3.00%
Rate of interest on overpaid tax	0.50%

STANDARD PENALTIES FOR ERRORS

Taxpayer behaviour	Maximum penalty	Minimum penalty- unprompted disclosure	Minimum penalty- prompted disclosure
Deliberate and concealed	100%	30%	50%
Deliberate but not concealed	70%	20%	35%
Careless	30%	0%	15%

STAMP DUTY LAND TAX

Non-residential properties	0%
Up to £150,000	2%
£150,001-£250,000	5%
£250,001 and above	

STAMP DUTY

Shares	0.5%

Section A – BOTH questions are compulsory and MUST be attempted

Question 1

Your manager has had a meeting with Rachael and Liza, potential new clients, who are partners in the BB Partnership. The memorandum recording the matters discussed, together with an email from your manager, is set out below.

Memorandum

To	The files
From	Tax manager
Date	15 March 2019
Subject	BB Partnership

Background

Rachael and Liza began trading as the BB Partnership on 1 June 2014. Accounts have always been prepared to 31 March each year. They are each entitled to 50% of the revenue profits and capital profits of the business.

On 31 Jan 2020, the whole of the BB Partnership business will be sold as a going concern to Kite ltd, a quoted trading company. The consideration for the sale will be a mixture of cash and shares. Capital gains tax relief on the transfer of a business to a company (incorporation relief) will be available in respect of the sale.

Rachael and Liza are both additional rate taxpayers in the tax year 2018/19 and anticipate continuing to do so in future years. They are very wealthy individuals, who use their capital gains tax annual exempt amounts every year. Both of them are resident and domiciled in the UK.

The sale of the business on 31 Jan 2020

The assets of the BB Partnership business have been valued as set out below. All of the equipment qualified for capital allowances.

	Value	Cost
	£	£
Goodwill	1,200,000	Nil
Net current assets	45,000	45,000
Equipment (no item to be sold for more than cost)	165,000	200,000
Total	1,410,000	245,000

The total value of the consideration will be equal to the value of the assets sold. Rachael and Liza will receive consideration of £1410,000 in total: 20% consideration will be received in the form of cash while rest of the consideration will be received in the form of 282000 shares in Kite ltd. Following the purchase of the BB Partnership, Kite ltd will have an issued share capital of 15,000,000 shares.

Future transactions of Rachael:

On 1 August 2020, Rachael will make a gift of 10,000 of her shares in Kite ltd to the trustees of a discretionary (relevant property) trust for the benefit of her nieces and nephews. Rachael will pay any inheritance tax liability in respect of this gift. The trustees will transfer the shares to the beneficiaries

over the life of the trust.
Rachael has already made the following gifts:

- 1 May 2018- Cash of £300,000 to a discretionary (relevant property) trust
- Cash of £50,000 to one of her nieces

Liza:
On 1 July 2021, Liza will give 50,000 of her shares in Kite ltd to her grandson.

For the purposes of giving our advice, the value of a share in Kite ltd can be assumed to

On 31 Jan 2020	£4
On 1 August 2020	£6
On 1 July 2021	£8

Email from your manager

I want you to prepare a memorandum for the client file in respect of the following:

(i) Capital allowances
An implication of the capital allowances of the BB Partnership for its final trading period ending with the sale of its equipment to Kite ltd for £165,000 on 31 Jan 2020.

(ii) Rachael
(1) A calculation of the inheritance tax payable by Rachael in her lifetime in respect of the gift of the shares to the trustees of the discretionary (relevant property) trust on 1 August 2020
(2) The date on which the tax would be payable.
(3) A brief explanation of the availability of capital gains tax gift relief in respect of the transfer of the shares to the trustees of the discretionary (relevant property) trust and the subsequent transfers of shares from the trustees to the beneficiaries.

(iii) Liza
The value of incorporation relief available to Liza , the gift of the shares to Liza's son and the effect of incorporation relief on the base cost of the remaining shares owned by Liza, as she intends to sell all of her shares in Kite ltd in the next few years.

You should also include BRIEF explanations of the availability of any additional or alternative reliefs, and the date(s) on which any capital gains tax will be payable.
Tax manager

Required:
(a) Prepare a summary of the information which would be required, together with any action(s) which should be taken by the firm before it agrees to become the tax advisers to Rachael and Liza.

(5 marks)

(b) Prepare the memorandum requested in the email from your manager. The following marks are available:

a. Capital allowances. (4 marks)
b. Rachael. (8 marks)
c. Liza. (14 marks)

Note: Ignore value added tax (VAT).

Professional marks will be awarded in part (b) for the overall presentation of the memorandum, the provision of relevant advice and the effectiveness with which the information is communicated.

(4 marks)

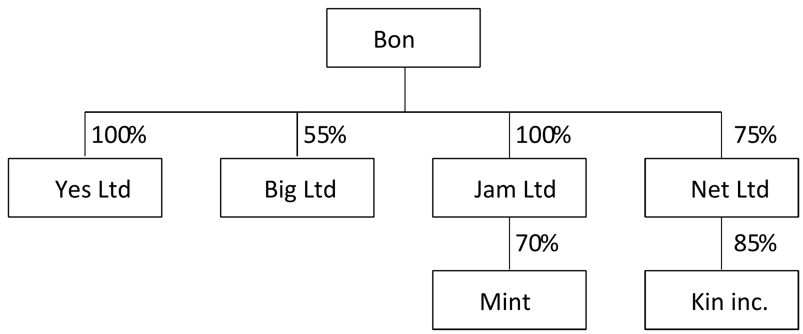
(35 marks)

Question 2

Your manager has sent you an email, with two attachments, concerning the Bon Ltd group. The attachments consist of extracts from the group's files and a schedule of information from the group finance director. The email details the work your manager requires you to do. The three documents are set out below.

Attachment 1: Bon Ltd group – extracts from the group's files

Group structure



All companies are UK resident trading companies except for Kin inc. Kin inc is an overseas resident company

Yes Ltd was incorporated and began trading on 1 November 2019. There have been no other changes to the ownership of the group for many years.

Attachment 2: Schedule of information from the group finance director –

Budgeted results for the year ending 31 March 2020 (as at 3 November 2019)

	Bon Ltd	Yes Ltd	Big Ltd	Jam Ltd	Mint Ltd	Net Ltd	Kin inc.
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trading profit	430	240	410	400	355	530	350
Chargeable gain (notes 1 and 2)	0	100	100	0	45	80	210
Taxable total profits	430	340	510	400	400	610	560

Notes:

1. On 2 November 2019, Jam Ltd sold the Woo building. This sale resulted in a capital loss of £76,000. This loss is not reflected in the figures above.
2. Rollover relief will not be claimed in respect of any of the group companies' chargeable gains.

Flee Co

Bon Ltd is planning to purchase 60% of the ordinary share capital of Flee Co in May 2020.

Flee Co has been a wholly-owned subsidiary of Sip Co since 1 January 2009. Both Flee Co and Sip Co are, and will continue to be, resident in the country of Malta.

Net Ltd – sale of the Sor building

Net Ltd purchased the Sor building on 1 July 2018 for £460,000 plus value added tax (VAT) of £92,000. In the year ended 31 March 2018, and in all subsequent years, 70% of this building was used to make taxable supplies and 30% was used to make exempt supplies. The capital goods scheme applies to the Sor building.

Net Ltd will sell the Sor building during the year ending 31 March 2023 for £700,000.

Email from your manager – dated 4 November 2019

Please carry out the following work in respect of the Bon Ltd group:

(a) Relief for the capital loss of Jam Ltd

- Identify, with supporting explanations, those companies to which the capital loss on the sale of the Woo building could be transferred, such that the group's cash flow position would be improved.

Note:

- All of the companies in the group, apart from Yes Ltd, are required to pay corporation tax in quarterly instalments. This will be true regardless of how the capital loss on the sale of the Woo building is relieved.
- On the assumption that the whole of the capital loss is transferred to Net Ltd, calculate the quarterly payment of corporation tax due on 14 January 2020 from that company. Please carry out this calculation in £'000s.

Note:

- On each instalment payment date, each group company pays the amount of corporation tax necessary in order to ensure that it has paid the correct total amount of tax based on the latest budgeted figures.
- Explain the potential advantage to the Bon Ltd group of entering into group payment arrangements for corporation tax.

(b) Flee Co

In respect of the proposed purchase of 60% of the shares of Flee Co:

- Explain why Flee Co will be a controlled foreign company (CFC) following the purchase;
- Explain how any CFC charge in respect of Flee Co would be calculated;
- State the conditions which need to be met in order for the 12-month exempt period exemption to be available.

(c) Net Ltd – value added tax (VAT) on the sale of the Sor building

The group finance director is considering whether or not to opt to tax the Sor building. In respect of the two alternatives:

- explain whether or not VAT should be charged on the sale of the building in March 2023;
- Calculate the final VAT adjustment (i.e. only the sale adjustment) which will be made under the capital goods scheme.

Tax manager

Required:

Prepare the notes as requested in the email from your manager. The following marks are available:

a) Relief for the capital loss of Jam Ltd.

(11 marks)

b) Flee Co.

(8 marks)

c) Net Ltd – value added tax (VAT) on the sale of the Sor building.

(6 marks)

(25 marks)

Section B – BOTH questions are compulsory and MUST be attempted

Question 3

Aslam has recently taken up a new employment and is seeking advice on the tax treatment of certain components of his remuneration package and the destruction of his painting.

Aslam:

- Is UK resident and domiciled.
- Commenced employment with Pulp Ltd on 1 January 2020.
- Will have no source of income, other than from Pulp Ltd, in all relevant future tax years.
- Will be a higher rate taxpayer in all relevant future tax years.
- Has relocated to London, from a city more than 200 miles north of London, to take up this employment.

Remuneration package from Pulp Ltd:

- Aslam will receive an annual salary of £128,000.
- On 1 January 2020, Pulp Ltd made a one-off lump sum payment of £20,000 to Aslam as an inducement to take up employment with the company.
- Pulp Ltd paid Aslam £7,000 towards his costs of relocating to London. The company is also paying him £1,800 each month for three months from 1 January 2020 towards renting accommodation in London until he purchases a new house on 1 April 2020.
- On 1 January 2020, Aslam was granted share options in PulpLtd's unapproved share option scheme.
- From 6 April 2020, Aslam will participate in PulpLtd's approved occupational pension scheme.

Relocation to London:

- Aslam incurred costs in relation to his relocation to London of £7,500. This amount includes estate agent fees of £2,800 in connection with the sale of his previous house on 30 November 2019.
- Aslam signed a three-month lease for a flat in London from 1 January 2020 at a monthly rental of £2,000.

Aslam – pension contributions:

- Aslam has made tax-allowable contributions of £40,000 (gross) to a personal pension plan for the last five tax years and will continue to do so in future tax years.
- From the tax year 2020/21, Pulp Ltd will contribute an amount equal to 15% of Aslam's annual salary to its approved occupational pension scheme.
- Aslam will make no contributions to Pulp Ltd's occupational pension scheme.

PulpLtd's share option scheme:

- On 1 January 2021, Pulp Ltd granted Aslam options over 3,000 shares in its unapproved share option scheme at a 5% discount on the market value of the shares on that date.
- The market value of Pulp Ltd shares on 1 January 2020 was £4·40 per share.
- Aslam will exercise the options on 6 April 2025, and immediately sell the shares.
- Pulp Ltd believes that the market value of its shares on 6 April 2025 will be £6·50 per share.

Destruction of painting

- Aslam purchased an antique painting on 5 May 2017 for £ 55,000.

- He took the painting to the new house.
- The painting got destroyed due to fire on 9 February 2020
- Insurance proceeds of £ 88,000 were received on 1 April 2020
- Aslam is intending to get another painting within few months

Required:

a) Explain the extent to which the receipt of the £20,000 lump sum inducement payment, and the relocation package in relation to Aslam's move to London, will give rise to taxable employment income for him.

(5 marks)

b) Explain, with supporting calculations, the tax consequences for Aslam of participating in:

(i) Pulp Ltd's approved occupational pension scheme in the tax year 2020/21.

(5 marks)

(ii) Pulp Ltd's unapproved share option scheme, in respect of the grant of the options on 1 January 2020 and the exercise of the options and subsequent sale of the shares on 6 April 2025.

(4marks)

Note: Ignore national insurance contributions (NIC) in parts (i) and (ii).

c) The implication of any relief(s) available in respect of the insurance being received against the destruction of painting and state the dates within which reliefs can be availed

(6 marks)

(20 marks)

Question 4

Samatha intends to start a new business,Readings , selling stationery material. This business will be partly financed by an inheritance which Samatha will receive following the recent death of her mother.

Samatha's inheritances and gifts from her parents

- On 1 February 2014, Samatha's father, Paresh, died.
- He left £160,000 to Samatha and the residue of his estate to his wife, Leela (Samatha's mother).
- The residue of Paresh's estate was valued at £720,000 and included the family home.
- Paresh had not made any gifts during his life.
- On 1 April 2014,Leela gave Samatha 180,000 in cash. This was the only lifetime gift Leela made.
- On 1 November 2019, Leela died.
- Samatha inherited the whole of Leela's estate, which was valued at £850,000. The estate consisted of the family home (valued at £340,000), together with furniture, cash and quoted shares (valued in total at £510,000).

Vat issues related to stationery material

- Samantha intends to start her business on 1 April 2020
- The sale of stationery material is regarded as zero rated supply

Structure of the business

- Samantha is unsure whether to start her business as a sole proprietorship or to incorporate it as a company.
- She will withdraw the whole profit in the form of salary of £76,000 if she would run an unincorporated business
- But if she would run an incorporated business then she will withdraw £50,000 in the form of dividend and the rest of the profit in the form of salary.

Investment property:

- Samatha owns an investment property, which has never been used as her principal private residence.
- The current market value of the property is less than the price Samantha paid for it, and its value is expected to fall further throughout the tax year 2020/21.
- Samantha is considering gifting the investment property to her adopted child, Fiona, in her lifetime rather than leaving it to her in her estate on death.

Required:

(a) Samatha's post-tax inheritance from Leela.

(6 marks)

(b) Why the business would be permitted to register for VAT from 1 April 2020, and the advantages and disadvantages of doing so

(4 marks)

(c) What are the income tax implications if business is either run as a sole proprietorship or as a company? Discuss it from the perspectives of Samantha only.

(4 marks)

(d) Advise Samantha whether or not there are any capital gains tax or inheritance tax advantages, for herself, or for Fiona, if she were to gift the investment property to Fiona now, rather than leaving it to her estate on death.

(6 marks)

(20 marks)

End of Question Paper