
Answers

1 Jodie

Paragraphs for inclusion in a letter from manager

Client Jodie
Prepared by Tax senior
Date 5 June 2015

Tax implications of emigration from the UK and related matters

(a) UK tax residence status and liability to UK income tax

Using the automatic overseas tests it has already been concluded that you will not be automatically regarded as non-UK resident in the tax year 2016/17. It is therefore necessary to consider the automatic UK residence tests. Applying these, you will also not be regarded as UK resident because you will not:

- be in the UK for 183 days or more; or
- have a home in the UK but no home overseas; or
- work in the UK.

Accordingly, because your status cannot be determined automatically, it will be determined by the number of ties you have with the UK. Because you have been UK resident in one or more (actually all) of the three tax years preceding 2016/17 and you will be in the UK for between 46 and 90 days in the tax year 2016/17, you will be UK resident if you satisfy three or more UK ties. I set out the ties below:

	Satisfied?
– In the UK for more than 90 days in either or both of the tax years 2014/15 and 2015/16	Yes
– Spouse or children under 18 who are resident in the UK	No
– Working in the UK for 40 days or more	No
– Accommodation available in the UK for a continuous period of more than 90 days	No
– In the UK for the same or more days than in any other country	No

You can see from this that, if you proceed in accordance with your plans, you will only satisfy one of the UK ties, such that you will not be UK resident in the tax year 2016/17. However, if you were to change your plans (for example, the number of days which you spend in the UK in 2016/17), this may have an effect on your residence status.

As a non-UK resident, you will not be subject to UK income tax on your overseas income.

(b) Relief available in respect of the trading loss

The terminal trade loss for the final 12 months of trading is £22,750 (see appendix). This loss can be offset against your taxable trading profits for the final tax year of trading (however, you have no trading profit in the tax year 2015/16) and the three previous tax years, relieving later years before earlier years.

The total tax which you will save by relieving the losses in this way will be £7,500 (see appendix).

(c) Capital gains tax

Becoming non-UK resident in the tax year 2016/17

As a non-UK resident, you will not be subject to UK capital gains tax on the disposal of any assets. However, if you were to return to the UK within five years, any gains made whilst you were in Riviera in respect of assets owned when you left the UK (for example, the shares in Butterfly Ltd) would be subject to capital gains tax in the tax year you return. This rule will apply because you have been UK resident for at least four of the seven years prior to the tax year 2016/17.

Because you will become non-UK resident within six tax years of receiving the shares in Butterfly Ltd from your mother, you will be treated as having made a chargeable gain equal to the gain held over at the time of the gift. This gain will be chargeable immediately before you become non-resident, i.e. on 5 April 2016. Accordingly, a chargeable gain of £23,000 (£60,000 – £37,000) will arise in the tax year 2015/16. This gain will be taxed at 28% rather than 18% because the gain on the sale of your business premises (see below) will be regarded as having used the whole of your basic rate band.

Sale of your business assets

The chargeable gain of £55,000 (£190,000 – £135,000) on the sale of your business premises will be taxed at 10% due to the availability of entrepreneurs' relief. This relief is available because you had owned the business for at least a year prior to 31 May 2015 and you have sold the premises within three years of ceasing to trade.

The computer equipment is not a chargeable asset as the cost and sales proceeds of each item did not exceed £6,000. There is no chargeable gain on the inventory because inventory is not a capital asset.

Sale of your home

Tax is not normally charged on a gain on the sale of a home if the owner has always lived in it. However, where the land exceeds 0.5 hectares, this exemption does not apply to the excess land unless the land is necessary for the enjoyment of the property. This is a judgemental matter and will require further work before a conclusion can be reached.

Capital gains tax liability for 2015/16

Your total capital gains tax liability for 2015/16 will be at least £8,860 (see appendix).

(d) Other matters

Leaving the UK – inheritance tax implications

Whilst you are UK domiciled, or deemed domiciled, your worldwide assets will be subject to UK inheritance tax, even after you have left the UK. Once you are no longer UK domiciled or deemed UK domiciled, only your assets located in the UK will be subject to UK inheritance tax.

You will become non-UK domiciled once you have left the UK and severed all ties with the UK. However, for the purposes of UK inheritance tax, you will be deemed to be UK domiciled for a further three years once you have ceased to be domiciled under the general law.

Value added tax (VAT)

You should notify HM Revenue and Customs that you have ceased trading by 30 June 2015. If you fail to do so, you may be required to pay a penalty.

On your final VAT return you are required to account for VAT on any business assets which you have retained and in respect of which you have claimed input tax (i.e. the inventory). This is invariably calculated by reference to the market value of the assets at the cessation of trade. However, this VAT is not payable if it does not exceed £1,000. Accordingly, you will not need to account for VAT in respect of your inventory as it was only worth £3,500.

Appendix

A Terminal loss relief

1. Calculation of the terminal trading loss

	£	£
2015/16 (6 April 2015 to 31 May 2015)		
Loss (£18,000 x 2/5)		7,200
Overlap relief		6,500
2014/15 (1 June 2014 to 5 April 2015)		
1 June 2014 to 31 December 2014		
Profit (£3,000 x 7/12)	(1,750)	
1 January 2015 to 5 April 2015		
Loss (£18,000 x 3/5)	10,800	
		<u>9,050</u>
		<u>22,750</u>

2. Tax saving available in respect of the terminal loss

	Note	2012/13 £	2013/14 £	2014/15 £	Total £
Trading income		67,000	2,000	3,000	
Offset of loss		<u>17,750</u>	<u>2,000</u>	<u>3,000</u>	<u>22,750</u>
Tax relief available:					
2014/15	1			x 0%	0
2013/14	2		x 20%		400
2012/13	3	x 40%			<u>7,100</u>
					<u>7,500</u>

Notes

1. Your income in the tax year 2014/15 was relieved in full by your personal allowance, such that no income tax will be saved in respect of the loss relieved against your trading income of that year.
2. In the tax year 2013/14, relief for the losses is available at 20% because you were a basic rate taxpayer.
3. In the tax year 2012/13, relief for the losses is available at 40% because you had at least £17,750 of income which was taxable at the higher rate of tax.

B Capital gains tax liability for the tax year 2015/16

	Qualifying for entrepreneurs' relief £	Not qualifying for entrepreneurs' relief £
Chargeable gains:		
Business premises (£190,000 – £135,000)	55,000	
Shares in Butterfly Ltd (£60,000 – £37,000)		23,000
Less: annual exempt amount		(11,000)
	<u>55,000</u>	<u>12,000</u>
Capital gains tax at 10%/28%	<u>5,500</u>	<u>3,360</u>
Total liability (£5,500 + £3,360)		<u>8,860</u>

Tutorial note: The annual exempt amount will be deducted from the gain on the shares in Butterfly Ltd as this gain is taxed at a higher rate than that applied to the business premises.

2 Helm Ltd group of companies

(a) Sale of Bar Ltd

Chargeable gain on the sale of Bar Ltd

On 1 December 2013, Aero Ltd and Bar Ltd were members of a capital gains group because they were both 75% subsidiaries of Helm Ltd. Accordingly, the building was deemed to have been transferred for consideration which gave Aero Ltd neither a gain nor a loss ('no gain, no loss') on this date.

However, a degrouping charge equal to the gain which would have arisen if the building had been sold at its market value as at 1 December 2013 arises because:

- The sale of Bar Ltd on 30 April 2014 was within six years of the no gain, no loss transfer; and
- Bar Ltd owned the building at the time it left the Helm Ltd group.

The degrouping charge is added to the sales proceeds received by Helm Ltd in respect of the sale of Bar Ltd.

	£
Sale proceeds	1,200,000
Degrouping charge (below)	<u>82,000</u>
	1,282,000
Less: cost	(1,000,000)
indexation allowance (October 2013 to April 2014)	
(((255.7 – 251.9)/251.9) x £1,000,000)	<u>(15,085)</u>
Chargeable gain on the sale of Bar Ltd	<u>266,915</u>

Tutorial note: The indexation factor should not be rounded to three decimal places because the disposal relates to shares in the share pool.

Degrouping charge in respect of the building

	£
Deemed proceeds of market value as at 1 December 2013	830,000
Less: cost to Aero Ltd	(425,000)
indexation allowance (July 1994 to December 2013)	
(0.760 ((253.4 – 144.0)/144.0) x £425,000)	<u>(323,000)</u>
Degrouping charge	<u>82,000</u>

Substantial shareholding exemption (SSE)

The SSE is automatically available where a trading company sells shares in another trading company out of a shareholding of at least 10% of that company's ordinary share capital. The SSE is not available unless the substantial shareholding has been owned for a continuous period of at least 12 months in the two years prior to the sale.

However, this 12-month period can include a period where the assets used in the trade of the company being sold were used in the trade of another company in the capital gains group. Accordingly, because the assets owned by Bar Ltd were used in the trade of Aero Ltd (which has itself been part of the capital gains group for 12 months), the SSE will be available on the sale of the shareholding in Bar Ltd even though Helm Ltd had not owned these shares for 12 months.

Stamp duty land tax (SDLT)

No SDLT was due on the purchase of the building by Bar Ltd from Aero Ltd because Helm Ltd owned at least 75% of the ordinary share capital of both companies at the time of the purchase.

However, because Helm Ltd has sold Bar Ltd within three years of the transfer of the building, the relief from SDLT will be withdrawn and Bar Ltd will have to pay SDLT of £33,200 (£830,000 x 4%).

(b) Drill Ltd

Any amounts charged in the accounts in relation to the loan, i.e. both the interest and the loan arrangement fee, will be relieved in accordance with the loan relationship rules. The tax treatment of these amounts depends on whether the loan is for trading or non-trading purposes.

One quarter of the building will initially be rented out to a third party, such that £300,000 (1/4 x £1,200,000) of the loan is for non-trading purposes. Accordingly, 22.2% (£300,000/£1,350,000) of the loan is for non-trading purposes, and the balance of 77.8% is for trading purposes.

The amounts charged for trading purposes are allowable when calculating taxable income.

The amounts charged for non-trading purposes are deducted from any income or other credits relating to non-trade loan relationships, i.e. the small amount of interest income received by Drill Ltd. Given the amounts involved, this will result in a non-trade loan relationship deficit, which can be utilised as follows:

- deducted from total profits of the accounting period;
- surrendered as group relief;
- carried back and offset against credits in respect of non-trading loan relationships in the previous 12 months;
- carried forward for offset against future non-trading income and chargeable gains.

(c) Cog Ltd – chargeable gain on the sale of the warehouse

Rollover relief

Rollover relief will not be available to relieve the chargeable gain arising on the sale of Cog Ltd's warehouse. This is because the warehouse was not a qualifying business asset for the purposes of this relief, as it had never been used by the company for the purposes of its trade.

Drill Ltd's capital losses

Drill Ltd's capital losses are pre-entry capital losses because they were realised before Drill Ltd became a member of the Helm Ltd group. As such, the losses can only be offset against chargeable gains on:

- assets sold by Drill Ltd before it became a member of the Helm Ltd capital gains group;
- assets already owned by Drill Ltd at the time it became a member of the Helm Ltd capital gains group;
- assets purchased by Drill Ltd for use in its trade after it became a member of the Helm Ltd capital gains group (excluding any assets purchased from members of the Helm Ltd group).

Accordingly, Drill Ltd's capital losses cannot be used to relieve the chargeable gain on the sale of the warehouse by Cog Ltd.

(d) Becoming tax advisers to Gomez and the Helm Ltd group of companies

Information required:

- Evidence of the identity of Gomez (for example, his passport) and his address.
- The primary business address and registered office of each of the companies.
- Proof of incorporation of each of the companies.
- Details of the directors and shareholders of the companies and the identities of those persons instructing the firm on behalf of the companies.

Actions to take:

- We must have regard to the fundamental principles of professional ethics, for example, integrity and professional competence. This requires us to consider whether becoming tax advisers to Gomez and the Helm Ltd group of companies would create any threats to compliance with these principles. If any such threats are identified, we should not accept the appointment unless the threats can be reduced to an acceptable level via the implementation of safeguards.
- We should contact the existing tax adviser(s) in order to ensure that there has been no action by Gomez or the companies which would preclude the acceptance of the appointment on ethical grounds.

3 Nocturne Ltd

(a) Provision of a laptop computer for Jed

Option 1: Purchase of a new laptop computer

Nocturne Ltd is a close company as it is controlled by any three of its four shareholders. As Jed is not a director or employee of Nocturne Ltd, the provision of the laptop computer will not be treated as a benefit in kind, but as a distribution. Nocturne Ltd will not be able to claim capital allowances in respect of the new laptop computer and there will be no national insurance contribution implications.

No further capital allowances are available to Nocturne Ltd in respect of the existing laptop computer as its tax written down value is already £nil.

The after-tax cost of Option 1 is the cost of the laptop computer of £1,800.

Option 2: Transfer of an existing laptop computer

The disposal of the laptop computer to Jed will give rise to a balancing charge in Nocturne Ltd of £150 (market value – tax written down value of main pool). This will give rise to an additional corporation tax liability of £30 (£150 x 20%)

The laptop computer is an exempt asset for capital gains tax purposes, as it is a chattel which cost and is worth no more than £6,000.

The new laptop computer to be used in the business will be eligible for capital allowances. The annual investment allowance is available for the full amount of the expenditure, so the corporation tax relief in the year ending 31 March 2016 will be £360 (£1,800 x 20%). Therefore the net cost will be £1,440 (£1,800 – £360)

The after-tax cost of Option 2 is £1,470 (£1,440 + £30).

Option 2 is therefore the preferable option for Nocturne Ltd.

(b) Provision of loan finance by Siglio

Siglio will receive interest on the loan from Nocturne Ltd net of a 20% income tax deduction. It will be taxed as savings income in Siglio's income tax computation at his marginal rate of tax, but with credit given for the tax deducted at source.

As Siglio has taken out a loan to provide the loan finance to Nocturne Ltd, he will be able to obtain tax relief on the interest paid on the loan because the following conditions are satisfied:

- Nocturne Ltd is a close company; and
- Siglio owns at least 5% of the shares in Nocturne Ltd.

Also, as he is the company's managing director, it is highly likely that he works full time for Nocturne Ltd. Therefore, Siglio will be able to deduct the interest paid on the bank loan in calculating his taxable income each year.

(c) (i) Recoverable input VAT for the year ended 31 March 2015

Applying the *de minimis* tests to the annual figures provided:

Test 1

Total input VAT is £13,132 (£7,920 + £1,062 + £4,150)

Although the value of the exempt supplies is less than 50% of the total supplies, the total input VAT is above the *de minimis* limit of £7,500 (£625 x 12) so Test 1 is not satisfied.

Test 2

Total input VAT less input VAT directly attributed to taxable supplies is £5,212 (£13,132 – £7,920). This is below the *de minimis* limit of £7,500 and the value of exempt supplies is less than 50% of the total supplies so Test 2 is satisfied and all the input VAT incurred of £13,132 is reclaimable.

(ii) Annual test

The annual test allows a business to apply the *de minimis* tests once a year instead of for every VAT return period.

The conditions to be satisfied are:

1. The business must have been *de minimis* in the previous partial exemption year;
2. The business will consistently apply the annual test throughout any given partial exemption year; and
3. There are reasonable grounds to expect that the input tax incurred by the business in the current partial exemption year will not exceed £1 million.

Nocturne Ltd satisfied the *de minimis* condition in respect of the partial exemption year ended 31 March 2015 (condition (1)) and there is no reason to believe that conditions (2) and (3) will not be met in relation to the partial exemption year ending 31 March 2016.

The benefits for Nocturne Ltd result from a provisional recovery of all input tax during the partial exemption year ending 31 March 2016 as the company can recover the full amount of input tax suffered in each return period without

performing calculations to see if the *de minimis* tests are satisfied each time. This will provide a cash flow benefit and an administrative time saving. This administrative time saving is particularly useful as Nocturne Ltd's turnover and associated costs are expected to increase in the year ended 31 March 2016, such that the simplified *de minimis* tests 1 and 2 may not be satisfied and the more complicated *de minimis* test 3 might otherwise be required. Notwithstanding these benefits, an annual adjustment will have to be performed at the end of the year using the *de minimis* limits for the year as a whole, which may result in the need to repay part of the VAT previously recovered in full.

4 King

(a) Minimum number of shares in Wye Ltd to be sold to generate £30,000 of after-tax proceeds

Each share sold will generate sale proceeds of £45 and result in a gain of £40 (£45 – £5).

King's annual exempt amount for the tax year 2015/16 has already been used.

King is an additional rate taxpayer so will pay capital gains tax at 28% on his taxable gains.

The capital gains tax in respect of a single share is £11.20 (£40 x 28%).

The after-tax proceeds from the sale of a single share is therefore £33.80 (£45.00 – £11.20).

Therefore the number of shares to be sold to generate £30,000 in after-tax proceeds is 888 (£30,000/£33.80).

Tutorial note: *Alternative calculation, if X is the number of shares to be sold:*

$$45X - (40X \times 28\%) = 30,000$$

$$45X - 11.2X = 30,000$$

$$33.8X = 30,000$$

$$X = 888$$

(b) (i) Gifts into the interest in possession trust

Capital gains tax

£30,000 cash

This is an exempt asset for capital gains tax purposes.

Cottage in Newtown

A chargeable gain will arise on the gift of the property by reference to its market value at the date of the gift.

Gift relief will be available on the transfer as it is a chargeable lifetime transfer for inheritance tax purposes. King does not need the trustees' consent for this; he alone can elect for the full gain arising to be deferred such that no capital gains tax will be payable now. The election must be submitted by 5 April 2020 (within four years after the end of the tax year in which the transfer is made).

Inheritance tax

The transfer into an interest in possession trust is a chargeable lifetime transfer and accordingly an immediate lifetime charge may arise.

The value of the transfer is £345,000 (£315,000 + £30,000). This will be reduced by the annual exemption for 2015/16 of £3,000. The annual exemption for the tax year 2014/15 is not available to bring forward as it will have been used against the potentially exempt transfer made to Florentyna in that year. The net chargeable value is therefore £342,000.

No chargeable lifetime transfers have been made in the seven years prior to 1 October 2015, so King's full nil rate band is available to use. Therefore, as King is to pay the inheritance tax, the amount due will be £4,250 ((£342,000 – £325,000) x 25%).

Tutorial note: *Potentially exempt transfers have no effect on the nil rate band while the donor is still alive.*

(ii) Income tax payable on the trust income by Florentyna

As the trust is an interest in possession trust, all of the income must be paid out to the life tenant of the trust, Florentyna.

The only income will comprise dividends from the quoted shares so it will be received by Florentyna net of a notional 10% tax credit and taxed as dividend income in her hands.

Florentyna's 2015/16 personal allowance will have been used against her employment income. Therefore, as Florentyna is a basic rate taxpayer, she will be liable to income tax at the rate of 10% on the grossed up dividend income. However, there will be no additional tax to pay as the liability will be covered by the accompanying tax credit from the trust.

(c) Gift of the flat in Unicity

For the purposes of inheritance tax associated operations may be defined as:

- (a) two or more operations which affect the same property; or
- (b) any two or more operations, where one is effected with reference to the other(s).

Where the rules apply, the series of transactions will be regarded as a single gift at the time of the final transaction in the series such that the total value transferred will be subject to tax.

The flat will be gifted to Axel, subject to a pre-existing tenancy agreement between King and Joy, as original owners of the property, and Axel's daughter as tenant. Because of this agreement, the property will not have a right to vacant possession, such that its value will be reduced. The creation of the tenancy agreement and subsequent gift of the property may therefore be considered to constitute 'associated operations' for inheritance tax purposes by HM Revenue and Customs (HMRC). If this is the case, HMRC may treat the letting agreement with Axel's daughter and the transfer of the property to Axel as a single transaction, such that the transfer of the flat will be valued on a vacant possession basis for inheritance tax purposes.

As a result, when the potentially exempt transfer becomes chargeable, the value of the gross chargeable transfer will be increased by £67,143 to £267,143 (working). If King dies on 1 May 2017, his nil rate band will be fully used against his two previous lifetime gifts (to Florentyna and the trust), such that there will be an additional inheritance liability due to the application of the 'associated operations' rules of £26,857 (£67,143 x 40%)

Working:

King's share of the property is valued on a related property basis.

Without vacant possession

	£
Value of the gift: £250,000 x $\frac{£160,000}{£160,000 + £40,000}$	200,000
Less: annual exemptions – all used	<u>0</u>
Gross chargeable amount	<u>200,000</u>

With vacant possession

Value of the gift: £340,000 x $\frac{£220,000}{£220,000 + £60,000}$	267,143
Less: annual exemptions – all used	<u>0</u>
Gross chargeable amount	<u>267,143</u>
Difference (£267,143 – £200,000)	<u>67,143</u>

5 Cate and Ravi

(a) Cate – after-tax cost of taking on the part-time employee

	£
Salary	12,000
Childcare vouchers (£25 x 52)	1,300
Mileage allowance (£0.50 x 62 x 48)	1,488
Class 1 National insurance contributions (NIC) (W1)	<u>579</u>
Total additional expenditure	15,367
Less: Income tax saving (£15,367 x 40%)	(6,147)
Class 4 NIC saving (£15,367 x 2%)	(307)
Income tax saving on personal allowance (£7,684 x 40%) (W2)	<u>(3,074)</u>
After-tax cost	<u>5,839</u>

Workings:

1. Class 1 NIC employer's contributions

	£
Salary: (£12,000 – £7,956) = £4,044 x 13.8%	558
Mileage allowance ((£0.50 – 0.45) x 62 x 48) x 13.8%	<u>21</u>
	<u>579</u>

Tutorial note: The £2,000 employment allowance would already have been fully offset against the Class 1 NICs payable in respect of D-Designs' existing employees.

2. Personal allowance

	Before £	After £
Basic personal allowance	10,000	10,000
Less: $\frac{1}{2}$ (£90,000 + (£27,000 x 100/90) = £120,000 – £100,000)	(10,000)	
$\frac{1}{2}$ ((£120,000 – £15,367) – £100,000)		(2,316)
	0	7,684

Tutorial notes:

- 1: Only the excess mileage allowance over 45p per mile is liable to NIC.
- 2: Childcare vouchers up to £55 a week for a basic rate taxpayer are exempt from NIC.
- 3: Before taking on the additional part-time employee Cate's net income was £120,000, so her personal allowance would have been reduced to £nil.

After taking on the employee, Cate's net income will be reduced by the total additional expenditure of £15,367 to £104,633. She will therefore be entitled to a reduced personal allowance for the year of £7,684.

(b) Cate – sale of second-hand books

The tax treatment of the income from the sale of the second-hand books will depend on whether or not Cate is deemed to be carrying on a trade of selling books. If she is, the income will be treated as trading income, and subject to income tax in the same way as her taxable profits from D-Designs. If not, then the sales will be dealt with under the capital gains tax rules.

In determining how Cate should be taxed, HMRC will make reference to the 'badges of trade', a series of factors to be considered in order to determine whether or not an individual is trading. In this case, the key relevant factors would include:

Factors indicating that the sale of books does not constitute a trade:

- the fact that Cate has inherited the books; she did not buy them for resale;
- selling second-hand books is not related in any way to her existing business, the running of a chain of dress shops;
- the frequency of transactions; this would appear to be a one-off batch of sales.

Factor indicating that the sale of books does constitute a trade:

- having some of the books rebound may be viewed as 'supplementary work' in order to generate increased profit.

Based on the above factors, it is more likely that the capital gains tax treatment will apply. For capital gains tax purposes books are chattels so, as no individual book is likely to have a value in excess of £6,000, if the capital gains tax treatment does apply, any gains made by Cate will be exempt from tax.

Tutorial note: Marks were available for discussion of any relevant factors and for reaching a sensible conclusion.

(c) Ravi – capital gains tax on overseas property gain

Ravi is resident in the UK, so would normally be liable to pay UK capital gains tax on disposals of both his UK and overseas assets on an arising basis.

On this basis, the gain on the disposal of the overseas property is fully liable to UK capital gains tax, as his annual exempt amount for the tax year 2014/15 has already been used. As Ravi is a higher rate taxpayer, capital gains tax will be charged at the rate of 28% and the capital gains tax payable will therefore be £19,600 (£70,000 x 28%). Double tax relief will be available against this UK capital gains tax liability for any tax suffered on the same gain in Goland.

However, as Ravi is not domiciled in the UK, he should consider making a claim for the remittance basis for the taxation of his overseas gain. As he has not remitted any of the proceeds from the sale, if he makes such a claim, there will be no gain chargeable in the UK. However, he will lose his entitlement to the annual exempt amount, which will generate an additional capital gains tax liability of £3,080 (£11,000 x 28%) on his UK asset gains. Additionally, as Ravi has been resident in the UK since February 2007 (at least seven out of the last nine tax years), he will be liable to pay a remittance basis charge of £30,000. The total amount payable as a result of claiming the remittance basis would therefore be £33,080 (£3,080 + £30,000). Therefore a remittance basis claim will not be worthwhile for the tax year 2014/15.

Professional Level – Options Module, Paper P6 (UK)
Advanced Taxation (United Kingdom)

June 2015 Marking Scheme

	<i>Available</i>	<i>Maximum</i>
1 (a) Automatic UK residence	2	
UK ties		
Number of ties	1	
Consideration of each tie (1 mark each – maximum four marks)	4	
Conclusion	1	
Tax implications	1	
	<u>9</u>	7
(b) Calculation of terminal loss	4	
Relief available		
Calculation	2	
Explanations	3	
	<u>9</u>	8
(c) Becoming non-UK resident		
Future liability to capital gains tax	3	
Shares in Butterfly Ltd	3	
Disposals		
Business assets	3	
Home	2	
Liability	2	
	<u>13</u>	11
(d) Inheritance tax		
Cessation of UK domicile	1	
Deemed domicile	1	
Liability to UK inheritance tax	1	
Value added tax		
Notify HM Revenue and Customs	1	
Business assets retained	2	
	<u>6</u>	5
Followed instructions	1	
Clarity of explanations and calculations	1	
Effectiveness of communication	1	
Overall presentation and style	1	
	<u>4</u>	4
Total		<u>35</u>

	<i>Available</i>	<i>Maximum</i>
2 (a) Chargeable gain on the sale of Bar Ltd		
Calculations		
Degrouping charge	2	
Chargeable gain on the sale of Bar Ltd	2.5	
Explanations	2	
Substantial shareholding exemption	3	
Stamp duty land tax	3	
	<u>12.5</u>	11
(b) Loan arrangement fee	1	
Split of loan	1.5	
Tax treatment of costs	4	
	<u>6.5</u>	5
(c) Rollover relief	1	
Capital losses	3	
	<u>4</u>	4
(d) Information needed	3	
Action to take	3	
	<u>6</u>	5
Total		<u>25</u>
3 (a) Close company	1	
Purchase of new computer for Jed	2.5	
Transfer of existing computer to Jed	3.5	
Conclusion	0.5	
	<u>7.5</u>	7
(b) Treatment of interest received	1.5	
Conditions for income tax deduction	2.5	
Conclusion re Siglio	0.5	
	<u>4.5</u>	4
(c) (i) <i>De minimis</i> Test 1	2	
<i>De minimis</i> Test 2	2	
Conclusion	0.5	
	<u>4.5</u>	4
(ii) Annual test – conditions	2	
– Application to Nocturne	1	
– Implications	3	
	<u>6</u>	5
Total		<u>20</u>

	<i>Available</i>	<i>Maximum</i>
4 (a) Calculation of number of shares	3	
	<u>3</u>	3
(b) (i) Capital gains	4	
Inheritance tax	3	
	<u>7</u>	6
(ii) Life tenant entitled to full income	1	
10% notional tax credit	1	
No additional tax payable, with reasons	2.5	
	<u>4.5</u>	4
(c) Explanation of associated operations	1	
Application to gift of flat	1.5	
Implication – value with vacant possession	1	
Increase in inheritance tax liability	4.5	
	<u>8</u>	7
Total		<u>20</u>
5 (a) Total additional expenditure	5	
Income tax and Class 4 NIC saving	2	
Saving due to personal allowance	2.5	
	<u>9.5</u>	9
(b) Trading income v capital gain issue	1	
Relevant badges of trade factors	3	
Any reasonable conclusion	1	
Chattels, so exempt CGT	1	
	<u>6</u>	5
(c) CGT on an arising basis as UK resident	2	
Optional remittance basis as not UK domiciled	1	
CGT effect if remittance basis used	2	
Remittance basis charge	1.5	
Conclusion	0.5	
	<u>7</u>	6
Total		<u>20</u>