

Your manager has received a letter from Jodie in connection with her proposed emigration from the UK. Extracts from the letter and from an email from your manager are set out below.

Extract from the letter from Jodie

I was born in 1975 and I have always lived in the UK. I plan to leave the UK and move to the country of Riviera on 5 April 2016. My intention is to move to Riviera permanently and acquire a new home there. However, if my children are not happy there after four years, we will return to the UK.

My husband died three years ago. My brother lives in Riviera and is the only close family I have apart from my children. I will not have any sources of income in the UK after 5 April 2016. I intend to work part-time in Riviera so that I can look after my children. In the tax year 2016/17, I will return to the UK for a holiday and stay with friends for 60 days; for the rest of the tax year I will live in my new home in Riviera.

My unincorporated business

I prepared accounts to 31 December every year until 31 December 2014. I then ceased trading on 31 May 2015. I made a tax adjusted trading loss in my final period of trading of £18,000.

I was unable to sell my business as a going concern due to the decline in its profitability. Accordingly, on 31 May 2015 I sold my business premises for £190,000. I paid £135,000 for these premises on 1 June 2002. I also sold various items of computer equipment, which I had used in my business, for a total of £2,000. This equipment cost me a total of £5,000. I retained the remaining inventory, valued at £3,500, for my own personal use.

My taxable income for the last five tax years is set out below. There is no property income in the 2015/16 tax year because I sold my rental property in May 2014.

	2011/12	2012/13	2013/14	2014/15	2015/16
	£	£	£	£	£
Trading income	64,000	67,000	2,000	3,000	Nil
Property income	15,000	13,000	14,000	2,500	Nil
Bank interest	2,000	2,000	3,000	3,500	8,000(est.)

Other matters

On 30 April 2015 I sold my house, which is built on a one hectare plot, for £400,000. I purchased the house for £140,000 in March 1994 and lived in it throughout my period of ownership. I have been living in a rented house in the UK since 1 May 2015. My tenancy of this rented house will end on 5 April 2016.

When we spoke, you mentioned that you wanted details of any gifts I have received. The only item of significance is 2,000 ordinary shares in Butterfly Ltd which my mother gave to me on 14 May 2013 when the shares were worth £60,000. Butterfly Ltd is a UK resident trading company.

My mother and I submitted a joint claim for capital gains tax holdover relief on the gift of these Butterfly Ltd shares, such that no capital gains tax was payable. I recently received an offer of £68,000 for these shares, but I decided not to sell them. My mother had inherited the shares from her brother on 18 December 2001 when they were worth £37,000. Neither I nor my mother have ever worked for Butterfly Ltd.

Extract from an email from your manager

Please prepare paragraphs for inclusion in a letter from me to Jodie addressing the following issues.

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

Assuming Jodie leaves the UK in accordance with her plans, explain how her residence status for the tax year 2016/17 will be determined and conclude on her likely residence status for that year. To help, I have already concluded that Jodie will not be regarded as non-UK resident using the automatic overseas tests so there is no need to consider these tests.

State how becoming non-UK resident will affect Jodie's liability to UK income tax.

Required:

Prepare the paragraphs for inclusion in a letter from your manager to Jodie as requested in the email from your manager. The following marks are available:

(a) UK tax residence status and liability to UK income tax. (7 marks)