

Your manager has had a meeting with Florina and Kanzi who are clients of your firm. Florina's father, Winston, also attended the meeting. The notes prepared following the meeting and an email from your manager setting out the work he requires you to do are set out below.

Meeting with Florina, Kanzi and Winston on 6 September 2017

Florina

Florina is a director of and shareholder in Flight Hip Ltd. She earns an annual salary of £50,000 and receives a dividend of £20,000 from the company every year. She received total taxable benefits of £25,000 from the company in the tax year 2016/17. Flight Hip Ltd is not a close company. Florina's benefits include a company car together with free petrol for both business and private use. The car's benefit percentage by reference to its CO2 emissions is 26%. Florina drives 19,000 miles per year of which 2,000 miles are in the performance of her employment duties. The total cost of all of the petrol used by Florina in the tax year 2016/17 was £3,000. Florina's only other income consists of dividends of £1,500 received in June every year from Landing Properties Ltd. Landing Properties Ltd is an unquoted UK resident company, unrelated to Flight Hip Ltd. Florina purchased 4,000 shares (a holding of less than 1%) in Landing Properties Ltd for £8,000 on 1 August 2001. She is considering selling these shares to Padarn, an unconnected individual, for their market value of £40,000. This would result in a capital gains tax liability of £4,180. I suggested that it may be possible to reduce the tax due by making a gift of some of the shares to Kanzi, who would then sell them to Padarn, and I agreed to provide Florina with further details.

Kanzi

Kanzi is an artist. His annual taxable trading income is approximately £14,000. Although Kanzi is not employed by Flight Hip Ltd, the company provides him with a car and free petrol. The car's benefit percentage by reference to its CO2 emissions is 23%. Kanzi drives 5,000 miles per year; the total cost of the petrol used by Kanzi in the tax year 2016/17 was £800. Kanzi should be treated as a member of Florina's household for the purposes of the employment income legislation.

Email from your manager – dated 7 September 2017

Please carry out the following work.

a) Florina and Kanzi

Sale of shares in Landing Properties Ltd

Explain whether or not gift relief would be available in respect of a gift of shares in Landing Properties Ltd from Florina to Kanzi. On the assumption that gift relief would be available, calculate, with supporting explanations, the number of shares which Florina should give to Kanzi, prior to the eventual sale of the shares to Padarn, and the maximum reduction in the total capital gains tax payable which could be achieved.

Tax manager

Required:

Carry out the work requested in the email from your manager. The following marks are available:

(a) Florina and Kanzi. Note: The following mark allocation is provided as guidance for this requirement:
Sale of shares in Landing Properties Ltd (5·5 marks)