Tolley® Exam Training

ATT PAPER 1

PERSONAL TAXATION

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sittings

PQ161

Tolley® Tax intelligence from LexisNexis®

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the publisher.

This material contains general information only. Whilst every care has been taken to ensure the accuracy of the contents of this work, no responsibility for loss occasioned to any person acting or refraining from action as a result of any statement in it can be accepted by the author or the publishers.

Unless otherwise agreed to by LN in writing, use of the Online Services is permitted only via individual users engaged in an active user session and may not be collected via automated or robotic methods.

Regardless of the data delivery method, content may not be used in conjunction with a generative AI solution.

INTRODUCTION

This Pre Revision Question Bank contains exam standard questions all with answers updated to Finance Act 2025. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2026** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written **questions** carrying from 10 to 25 marks each, usually split into shorter subsections with marks allocated to each subsection, with no question choice. There are **98 marks for technical content and 2 marks for presentation skills** available.

Presentation Skills Marks

The presentation skills marks on this paper will be awarded as follows:

> **2 marks** - Presentation is very good. Full sentences are used where appropriate throughout. Answers flow well and are in a logical order. Explanations clearly relate to the question scenario.
>
> **1 mark** - Broadly the presentation is acceptable. Full sentences are used where appropriate, although some minor lapses are acceptable. Answers generally flow well and in a logical order. Explanations contain a reasonable reference to the question scenario.
>
> **0 marks** - There is little effort to use full sentences where they would be expected. The answers do not flow well, with ideas not presented in a logical order. Explanations are mainly regurgitation of legislation/ learning materials with limited reference to the question scenario.

There are likely to be email/letter style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying “yes I know that point, yes I understand that advice given” - the test is would you have actually put those points in your answer? You won’t find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated to that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

© RELX (UK) Limited 2026

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

ETHICS

ATT Papers 1 to 6 are each expected to each contain questions that have parts testing Ethics topics for between 3 and 7 marks in total across the paper.

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (6th edition) that are included in the Papers 1 to 6 syllabuses are:

Chapter 4	New clients and engagements
Chapter 5	Client service
Chapter 6	Objectivity (including conflicts of interest)
Chapter 7	Other client handling issues
Chapter 8	Charging for services
Chapter 9	Complaints
Chapter 10	Ceasing to act
Chapter 19	The Fundamental Principles
Chapter 20	The Standards for Tax Planning
Chapter 21	Help sheet A: Submission of tax information and 'tax filings'
Chapter 22	Help sheet B: Tax advice
Chapter 23	Help sheet C: Dealing with errors
Chapter 24	Help sheet C2: Dealing with errors – Members in business
Chapter 25	Help sheet D: Requests for data by HMRC
Chapter 26	Help sheet E: Members’ personal tax affairs

The required depth of knowledge is “Principles” ie candidates are expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There are also some short questions for Ethics at the back of this bank. Attempting these questions will be good preparation for the exams.

© RELX (UK) Limited 2026

CONTENTS

ATT TAX TABLES 2026

QUESTIONS FOR PAPER 1

No	Name	Topic	Marks
1	Dorothy	IT comp incl benefits and property income	20
2	Jiten Shah	CGT comp	15
3	Mina	Employment benefits and NIC, ethics	16
4	Hayley	IT comp incl pension and VCT, motor expenses	19
5	Friendly Co plc	Share schemes	15
6	James	EIS IT and CGT	20
7	Ciaron	CGT comp incl takeover, compensation and EIS	15
8	Janaki Smith	Letter re CGT chargeability and overseas	20
9	Daphne Ralf	Admin, property income, jointly owned property	15
10	Ada	Overseas OWR, dividends and gains	15
11	Jayne Tennison	Letter re overseas aspects of IT & CGT	21
12	Joe	Letter re PRR and NR CGT, disposal of shares for NR individual	15
13	Vincent	CGT comp incl compensation, grant of short lease, inter-spouse transfer	18
14	Newt	IT comp incl benefits and termination package	18
15	Zeena	CGT share matching rules, PRR, BADR, GR	25

ETHICS FOR ATT PAPER 1-6

No	Name	Topic
1-20	n/a	Various short Ethics questions

ATT EXAMINATIONS
2026
TAX TABLES

INCOME TAX

	2025/26
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	500
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil

Scottish Tax Rates and Thresholds (Note 2)

£	%
1 – 2,827	19
2,828 – 14,921	20
14,922 – 31,092	21
31,093 – 62,430	42
62,431 – 125,140	45
125,140+	48

Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	3,130
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000
De minimis trusts amount	500

Notes: (1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not Scottish) taxpayers.

(2) Scottish taxpayers pay Scottish income tax on non-savings income.

(3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.

(4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.

(5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS
2026
TAX TABLES

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note 1) £	Minimum pension age
2025/26	60,000	55

Lump sum allowance £268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles		
Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2025/26

	Electric range (miles)	Car benefit %	
Emissions			
0g/km	N/A	3%	
1-50g/km	≥130	3%	
1-50g/km	70-129	6%	
1-50g/km	40-69	9%	
1-50g/km	30-39	13%	
1-50g/km	<30	15%	
51-54g/km		16%	
55-59g/km		17%	
60-64g/km		18%	
65-69g/km		19%	
70-74g/km		20%	
75g/km or more		21%	+ 1% for every additional whole 5g/km above 75g/km
155g/km or more		37%	

Fuel benefit base figure £28,200

Taxable benefits for vans – 2025/26	**£**
Van benefit – No CO_2 emissions	Nil
Van benefit – CO_2 emissions > 0g/km	4,020
Fuel benefit	769

Official rate of interest – from 6 April 2025 (assumed) 3.75%

ATT EXAMINATIONS
2026
TAX TABLES

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£2,172 per month	£2,372 per month	£2,728 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold	£1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay		**Weekly rate**
Average weekly gross earnings	£125.00 or more	£118.75

Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £187.18 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay/neonatal care pay	For each qualifying week, the lower of 90% of AWE and £187.18

QUALIFYING CARE RELIEF

	Flat rate	**Placement < 11**	**Placement ≥ 11**
Year to 5 April 2026	£19,690 per year	£415 per week	£495 per week

CHILD BENEFIT

Year to 5 April 2026

Rates	**Weekly rate**
	£
First child	26.05
Each subsequent child	17.25

Child benefit charge	**Withdrawal rate**
Adjusted net income >£60,000	1% of benefit per £200 of income between £60,000 and £80,000
Adjusted net income >£80,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES (assumed)

Late payment interest	7.00%
Interest on underpaid corporation tax instalments	5.50%
Repayment interest	3.50%
Interest on overpaid corporation tax instalments	4.25%

ATT EXAMINATIONS
2026
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS 2025/26

Class 1 limits	Annual	Monthly	Weekly
	£	£	£
Lower earnings limit (LEL)	6,500	542	125
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	5,000	417	96
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

	2025/26	
Employment allowance		
Per year, per employer	£10,500	
Class 1 primary contribution rates		
Earnings between PT and UEL		8%
Earnings above UEL		2%
Class 1 secondary contribution rates		
Earnings above ST (Notes 1 & 2)	15%	

Notes:

(1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(2) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates	
Class 1A contributions	15%
Class 1B contributions	15%
Class 2 contributions	
Rate	£3.50 pw
Small profits threshold (Note 3)	£6,845 pa

Note: (3) Self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

Class 3 contributions	£17.75 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£12,570
Annual upper profits limit (UPL)	£50,270
Percentage rate between LPL and UPL	6%
Percentage rate above UPL	2%

SIMPLIFICATION MEASURES

'Rent-a-room' limit	£7,500
Property allowance/Trading allowance	£1,000

ATT EXAMINATIONS
2026
TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses			
Car or van	First 10,000 business miles		45p per mile
	Additional business mile		25p per mile
Motorcycles			24p per mile
Business use of home	25 – 50 hours use		£10 per month
	51 – 100 hours use		£18 per month
	101+ hours use		£26 per month
Private use of business premises	No of persons living there:	1	£350 per month
		2	£500 per month
		3+	£650 per month

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

Notes: (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars).
(2) The main pool rate applies to cars with CO_2 emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
(3) The special pool rate applies to cars with CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses
Capital expenditure incurred by a person on research and development.
New cars if the car either emits 0g/km of CO_2 or it is electrically propelled (until 31 March 2026/5 April 2026).
Electric vehicle charging points expenditure (until 31 March 2026/5 April 2026).

Further FYAs available to companies
Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards.

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50% (from 1 April 2021)

VALUE ADDED TAX

Standard rate 20% VAT fraction 1/6

Limits

Annual registration limit	£90,000
De-registration limit	£88,000

Thresholds	**Cash accounting**	**Annual accounting**
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (from 1 March 2025)

Engine size	**Petrol**	**LPG**	**Engine size**	**Diesel**
1400cc or less	12p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	13p
Over 2000cc	23p	21p	Over 2000cc	17p

Electricity rate 7p

ATT EXAMINATIONS
2026
TAX TABLES

CORPORATION TAX

Financial year	**2025**	**2024**
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%

Research and development expenditure

Financial year	**2025**
RDEC	20%
Alternative relief for loss making R&D intensive SMEs (Note 1):	
Enhanced R&D Intensive Support (ERIS) - total relief	186%
R&D tax credit for R&D intensive SME losses	14.5%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m *or* assets ≤ €86m.

INHERITANCE TAX

Death rate 40% (Note 2) **Lifetime rate** 20%

Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2030	£325,000

Residence nil rate bands (Note 4)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2030	£175,000

Note: (4) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption	£3,000
Small gifts	£250
Wedding gifts – Child	£5,000
– Grandchild or remoter issue or other party to marriage	£2,500
– Other	£1,000

ATT EXAMINATIONS
2026
TAX TABLES

CAPITAL GAINS TAX

	2025/26
Annual exempt amount	£3,000
CGT rates for individuals (Notes 1 & 2)	
Gains qualifying for business asset disposal relief/investors' relief (Note 3)	14%
Gains falling within remaining basic rate band (Note 4)	18%
Gains exceeding basic rate band	24%
CGT rates for trusts	
Gains qualifying for business asset disposal relief/investors' relief	14%
Other gains	24%
CGT Rate for personal representatives (PRs)	
All gains	24%
Business Asset Disposal relief (BADR)	
Relevant gains (lifetime maximum) (Note 5)	£1 million
Investors' relief (IR)	
Relevant gains (lifetime maximum) (Note 6)	£1 million

Notes: (1) For individuals, gains are taxed as if they are the top slice of income.
(2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
(3) From 6 April 2026 the rate will be 18%
(4) The remaining basic rate band is calculated as £37,700 (2025/26) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
(5) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million
(6) For qualifying disposals made before 30 October 2024 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

ATT EXAMINATIONS
2026
TAX TABLES

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	–	–	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

PAPER 1
QUESTIONS

1. Dorothy, aged 35, works for Toto plc on a gross salary of £75,000. In 2025/26 PAYE of £22,000 was deducted at source.

   Dorothy used her own car to travel 12,500 miles on the company's business in 2025/26 and Toto plc reimbursed her at a rate of 50p per mile.

   On 6 April 2023 Dorothy borrowed a specialist piece of equipment from her employer and kept it until 5 January 2026 when she bought it from Toto plc for £250. The value of this piece of equipment on 6 April 2023 was £5,200 and it was worth £1,000 when she bought it in 2025/26.

   Dorothy also has a small property portfolio, consisting of three properties: Straw Cottage, Tin Hall and Lion House.

   Straw Cottage had been let for many years at £12,000 per annum, payable on the 1st of each month in advance. However, from 1 August 2025, this was, following arm's length negotiations, decreased to £10,000 per annum.

   Tin Hall was occupied by Dorothy's nephew throughout 2025/26 at a rent of £4,000 per annum, paid monthly in arrears, which was significantly below the market value.

   Despite Dorothy's best efforts to find a tenant, Lion House has been empty for a year or so but, following some refurbishment work, new tenants moved in on 1 May 2025 on a rent of £34,320 per annum, payable on the 1st day of each month in advance, with a two month initial rent-free period.

   Expenses paid by Dorothy in relation to these properties during 2025/26 were:

	Straw Cottage	Tin Hall	Lion House
	£	£	£
Mortgage interest	10,000	-	12,000
Water rates	250	350	650
Council Tax	Paid by tenant	1,250	2,600
Redecorating throughout	–	3,800	2,500
Repairs to furniture	–	–	750
Adding a window to the attic extension	–	–	1,250
New bedroom furniture (previously none)			750
Replacement carpets			3,400

   During 2025/26, Dorothy also received dividends of £5,000, bank interest of £11,250 and a dividend of £1,800 out of the rental profits of a real estate investment trust (REIT).

   Dorothy makes an annual gift aid payment of £5,000.

   Requirement:

   Calculate the Income Tax payable by Dorothy for 2025/26. (20)

2. Jiten Shah is 45 and has been UK resident for many years. He earns £360,000 per annum and has provided you with the following details regarding capital assets.

   1) In May 2025 he sold 3,000 shares in Peaches plc, an unconnected quoted trading company, for £30,000. He had purchased 1,000 shares in March 2002 at £3 per share. In August 2007 there was a 2 for 1 rights issue at £4 per share which he took up in full. In December 2016, there was a bonus issue of shares at 2 for 3. Jiten has never worked for the company.

   2) In November 2025, he sold 10,000 shares in a company which was a qualifying Venture Capital Trust, for £20,000. He had subscribed for the shares at £1 each in September 2021.

   3) On 1 December 2025 he sold a lease over a local field for £65,000. He had bought the lease on 1 May 2019, when it had 30 years left to run, for £60,000.

   4) In February 2026 he sold 10,000 shares (< 5% holding) in the company which employs him for £40,000. The shares had been acquired under a tax advantaged Save as You Earn share option scheme, the options being exercised at £1 per share in January 2026.

   5) In March 2026, he sold a painting for £4,000 which he had purchased for £8,000 in April 2014.

   6) On 7 May 2025, he sold Sea View Cottage for £325,000. Jiten had purchased the freehold of the cottage in September 2008 for £78,000. He undertook extensive renovations during 2010 which cost £32,000 and repairs to the property in 2019 caused by general wear and tear which cost £8,000.

   7) On 18 August 2025 he granted a 75-year lease on Cliff Top House to Harry for a premium of £136,000. Jiten had purchased the freehold of the property on 6 April 2020 for £200,000. He incurred legal fees in relation to the preparation of the lease document of £2,750. The value of the freehold on 18 August 2025, after the lease was granted, was £280,000.

   At 6 April 2025 Jiten had capital losses brought forward of £10,000.

   Requirement:

   Calculate the Capital Gains Tax payable by Jiten for 2025/26. Give explanations for omitting any of the above from your computation. (15)

3. Your firm has just accepted Mina as a new client. She has informed you that she lived in Newcastle and was offered full time employment by Red Ltd, a marketing company based in Kent. Mina moved to Kent on 6 April 2025 in accordance with the terms of her new employment contract. She received written particulars of the terms of her employment on her first day.

   In order to help Mina to meet the costs of this move, Red Ltd provided the following:

   1) A £10,000 one off payment towards her moving costs, which was paid gross on 30 June 2025. This payment was in respect of the costs of selling Mina's old house (solicitor and estate agent fees of £8,300) and removal costs of £1,700.

   2) An apartment for Mina to live in. This cost the company £325,000 in March 2025 and has an annual value of £12,000.

   3) Furniture and other assets (such as television sets and artwork) were provided in the apartment at a cost of £14,000.

   4) An interest free loan of £85,000.

      The arrangement is that Mina repays 25% of the capital of £85,000 on 6 August in 2025, 2027, 2029 and 2031 and that she will pay interest each year, but at a rate below the market rate.

      In 2025/26 Mina paid interest of £1,000 to Red Ltd.

   Red Ltd also provided Mina with a company car on 6 July 2025. It has a CO_2 emissions rating of 115g/km and a list price of £26,000. Red Ltd also provides all fuel for the car.

   Mina is a 45% rate taxpayer for the year. Unless otherwise stated, all benefits were provided throughout the tax year.

   Requirement:

   1) Calculate the Income Tax payable by Mina in respect of the benefits provided for 2025/26. (12)

   2) Briefly explain whether National Insurance Contributions are payable in respect of these benefits (1)

   3) Identify what your firm should have done and /or considered before taking Mina on as a new client. (3)

   Total (16)

4. Hayley, aged 47, is employed by Fitzhugh Ltd, a publishing company, and earns a gross annual salary of £230,000 from which PAYE of £84,000 is deducted.

From 6 April 2025, Fitzhugh Ltd contributed the equivalent of 15% of Hayley's salary into a registered personal pension scheme. In 2025/26, Hayley made a net payment of £32,000 into her personal pension. Hayley had unused annual allowance from the previous three years of £8,000.

Hayley's only other source of income in the year was from a house she owns on the South Coast of England. The house is rented fully furnished. Her accountant has reported the following income received and expenditure paid for 2025/26:

	£
Rental income	29,936
Utility bills and insurance	(6,450)
Council tax	(1,200)
Repairs – repainting property after water leak	(3,700)
Interest paid on mortgage	(2,000)
Conversion of loft into bedroom	(8,000)
Replacement bedroom furniture	(1,000)

Hayley is considering purchasing a car next year that she will use on occasion to travel to the property, as well as for family journeys.

Hayley subscribed for 2,000 shares in a Venture Capital Trust (VCT) on 1 May 2025 and paid £35,000 for them. She received a dividend of £2,000 from the VCT on 1 August 2025.

Requirement:

1) Calculate the Income Tax payable by Hayley for 2025/26. (16)

2) Explain the tax treatment of any motor expenses Hayley will incur in relation to the vehicle she intends to purchase for use in her property business. (3)

Total (19)

5. You are a tax consultant at Chase & Co and act for Friendlyco plc, a listed company. One of the partners at Chase & Co has received an email from Robert Fairhead, the finance director at Friendlyco plc.

"We have been considering implementing a share option plan for our current employees for some time as we are keen to provide an incentive arrangement which aligns our employees' interests with those of our shareholders. If possible we would like to do this in a tax efficient manner. I have heard that there are two tax favoured option arrangements, which may be appropriate for the company: a Save As You Earn Share Option Scheme or a Company Share Option Plan. I should be grateful if you would provide me with some further information in respect of each of the plans I have mentioned."

The partner wants a summary of the key features of each plan.

Requirement:

1) Explain the key features of a Save As You Earn Share Option Scheme. (5)

2) Explain the key features of a Company Share Option Plan. (5)

Friendlyco plc has decided to implement both a Save As You Earn Share Option Scheme and a Company Share Option Plan. Friendlyco plc adopted both plans and granted options to its employees on 5 May 2025. The closing price for its shares on 4 May 2025 was £3.25.

Requirement:

3) State the minimum exercise price that can be set for the acquisition of a Friendlyco plc share under the Save As You Earn Share Option Scheme, to ensure there is no Income Tax charge at exercise. (1)

4) State the maximum number of Friendlyco plc shares that an employee can acquire under a Company Share Option Plan. (1)

Chase & Co also act for CF plc. CF plc operates its own tax advantaged share option schemes and a number of CF plc's employees have exercised their share options recently:

a) Jane Brown was granted a Save As You Earn Share Option in April 2024 over 500 shares with an exercise price of £2 per share. The option was exercised following her retirement from employment in April 2026.

b) Chase Young was granted a Company Share Option in June 2021 over 1,000 shares with an exercise price of £1.25.

c) Eliya Smith was granted a Company Share Option in January 2024 over 750 shares with an exercise price of £2.25.

The above employees' share options were exercised on 1 May 2026, in accordance with the terms of the relevant share plan rules. On the date of exercise the market value of CF plc's shares was £2.50.

Requirement:

5) Calculate the amount, if any, chargeable to Income Tax for Jane Brown, Chase Young and Eliya Smith on the exercise of each of their options. (3)

Total (15)

6. Last week one of the partners in your firm met with James, an entrepreneur who set up a new company in August 2025. James has previously been advised that the new company meets the requirements to qualify for the Enterprise Investment Scheme (EIS) and would like further details on the tax relief available to the investors in the company.

The shareholders are:

James, who owns 56% of the shares (investing £400,000) and is the managing director;

James's father, Ian, owns 5% of the shares (investing £40,000) and is not employed by the company;

James's brother, Charles, owns 5% of the shares (investing £40,000) and is not employed by the company;

James's friend, Sue, owns 5% of the shares and is employed by the company as a manager (investing £40,000); and

James's friend, Tara, owns the remaining 29% (investing £230,000). She is not employed by the company.

Requirement:

1) Outline the Income Tax relief available to an individual who invests in qualifying EIS shares. (3)

2) Explain the Capital Gains Tax implications of investing in qualifying EIS shares. (7)

3) Explain whether each of these investors qualifies for the reliefs discussed above. (10)

You are not required to discuss the withdrawal of any tax relief given.

Total (20)

7. Ciaron owned 100 shares in Teddy Ltd, a trading company, which he acquired in May 2002 for £10,000. On 15 May 2025 he sold these shares to Scrumpy plc in return for consideration of £400,000. The consideration comprised:

	Value £
Cash	100,000
75,000 £1 Ordinary shares in Scrumpy plc	75,000
150,000 £0.50 Preference shares in Scrumpy plc	200,000
£30,000 loan notes in Scrumpy plc	25,000

Advance clearance was obtained from HM Revenue & Customs that paper for paper treatment was available in relation to the disposal.

The loan notes meet the conditions to be treated as Qualifying Corporate Bonds for tax purposes.

Ciaron encashed the loan notes for £30,000 on 15 February 2026 and sold half of the preference shares for £2 per share on 5 April 2026.

Some years ago, Ciaron had bought a Renault Clio for £14,000, with £12,000 of the price being attributable to the personalised number plate 1 TAX. He sold the car in August 2025 for £21,000 with £20,000 being attributed to the number plate.

In March 2025, Ciaron's house was burgled and a valuable painting stolen. The painting had been bought for £7,000 and, in July 2025, the insurance company paid Ciaron £28,000 as market value compensation for the loss. In September 2025 Ciaron spent £15,000 on a painting to replace the one that was stolen.

Ciaron works full time in advertising earning £80,000 per annum.

Requirement:

1) Calculate Ciaron's Capital Gains Tax liability for 2025/26, clearly explaining your treatment of the receipt from the insurance company. (11)

(You should assume that Business Asset Disposal Relief will not be available.)

Ciaron is considering subscribing £260,000 in the autumn of 2026 for 50% of the shares in a new unlisted trading company; the company would provide office cleaning services.

Requirement:

2) Outline the effect that such a subscription could have on Ciaron's 2025/26 Capital Gains Tax liability. (2)

3) Explain whether Income Tax relief is available in respect of the subscription. (2)

Total (15)

8. You are a tax manager at Chase & Co and have received the following e-mail from Rick Brown one of the partners at Chase & Co:

"Last Monday I had a meeting with a new client, Janaki Smith. Janaki has been working in Overseabia for the past five years and returned to the UK in March 2025. Janaki had always previously been resident in the UK. Janaki is keen to ensure her tax affairs are in order and in particular is seeking advice in relation to her Capital Gains Tax position. Janaki owns a number of assets in both the UK and Overseabia and has made a number of capital disposals in the tax year 2025/26. I explained the basic rules of Capital Gains Tax to her during the meeting and have agreed to provide a written summary of the matters we covered.

Janaki's husband is Overseabian and came to the UK for the first time with her in March 2025. His assets are mainly in Overseabia and he has not made any disposals since arriving in the UK. Janaki is keen to find out how her husband would be subject to tax in the UK if he were to make any capital disposals. I have agreed to provide her with a summary of the relevant rules.

I have undertaken all the necessary client acceptance requirements and would be grateful if you would prepare a letter for me to send to Janaki."

Requirement:

Write a letter to Janaki explaining:

1) Which individuals are chargeable to Capital Gains Tax, what is meant by a chargeable disposal, the annual exempt amount and rates of Capital Gains Tax. (5)

2) What assets are chargeable to Capital Gains Tax. (Your answer should include six examples of exempt assets.) (4)

3) When a chargeable disposal occurs and how any taxable gain is reported. (3)

4) Whether she will be liable to Capital Gains Tax in respect of the disposal of her Overseabian assets. (1)

5) How any gains made by her husband in respect of his Overseabian assets may be taxed. (7)

Total (20)

9. Your firm has a new client, Daphne Ralf. Daphne was sent a notice to file a tax return for 2023/24, along with several reminders, which she did not receive as they were sent to her old address. After seeing the television reminders about filing a tax return the following year, Daphne finally submitted her 2023/24 tax return on 28 February 2026, showing an outstanding Capital Gains Tax liability of £10,000 on disposals from her share portfolio. She paid this tax liability at the same time.

Daphne also sent this email yesterday, forwarded to you by your manager, Tom Collins.

"I bought a furnished bungalow on 1 February 2025 and started renting it from 6 April 2025. I increased the rent I charged my tenant from £1,160 to £1,360 per month from 6 November 2025. All rents were paid on the 6th day of each month.

I paid the following expenses during 2025/26:

	£
Repairs	720
Buy-to-let mortgage interest	6,240
New conservatory	19,300
Replacement bed	450
New sofa	500
Replacement of kitchen units	2,300
Insurance (for year 31 January 2027)	420

I also paid £390 insurance on 1 February 2025 for the year to 31 January 2026. My only other income for 2025/26 is a salary from employment of £65,000

I am thinking about putting the bungalow in joint names with my husband. He pays Income Tax at a lower rate than me and it will save us Capital Gains Tax when we sell it. Can you very briefly tell me if that is acceptable to the tax authorities? I am worried that they may think it sounds a bit dodgy."

Tom is meeting with Daphne in a few days to discuss her tax position.

Requirement:

1) Explain the penalties which will be incurred by Daphne in respect of the late filing of her tax return and the late payment of tax. (7)

2) Calculate Daphne's property income assessment for 2025/26 including a brief explanation of the tax treatment of the mortgage interest. (5)

3) Prepare a brief memo for Tom, explaining any tax or ethical issues raised by Daphne's plans to put the bungalow in joint names with her husband. (3)

Total (15)

10. Ada has contacted you explaining that she arrived in the UK on 1 May 2025.

She works for Beta Ltd, a UK employer, with half of her duties being undertaken in the UK and half overseas.

Prior to her arrival she had never been to the UK before, having been born in Ruritania. She has been advised that she will be UK tax resident from her date of arrival and does not need advice on this issue.

Ada is also a shareholder in Green Ltd, a non-UK company. Green Ltd paid a dividend in June 2025 and Ada's dividend was paid into her bank account in Ruritania. Green Ltd usually pays an annual dividend each June.

In August 2025, Ada sold some of her shares in Green Ltd, realising a capital gain. The proceeds of that disposal are currently held in her bank account in Ruritania. She may sell the remainder of her Green Ltd shares in around five years' time to fund her early retirement.

Ada is enjoying her time in the UK and is considering staying beyond her employment. She hopes to work in the UK for about five more years. She is currently renting accommodation and would like to use some of the monies from both the June 2025 dividend and the proceeds from the share sale to purchase a property in the UK. She has heard in the past about tax reasons for 'keeping her money offshore' and wishes to understand if this applies to her.

Ada does not require advice with respect to overseas tax suffered on any of her overseas income. She has, however, asked you to identify any claims she should make to reduce her exposure to UK tax.

Requirement:

Write an email to Ada in which you:

1) Explain the basis on which her employment income, dividend income and capital gains will be subject to UK tax, including how this will change over time whilst she is tax resident in the UK. (12)

2) Briefly explain the tax consequences, if any, of Ada bringing her foreign income and gains to the UK. (3)

Total (15)

11. Jayne Tennison, who is currently UK resident, is International Marketing Director of Mirren Holdings plc earning £80,000 per annum. She is due to leave the UK in December 2026 to set up and run a new subsidiary company based in Singapore. The appointment will be for at least five years.

She is divorced with two teenage children who will follow at the end of their current school year once Jayne is settled and has found suitable accommodation. Jayne is considering whether to sell their family home in London before leaving the UK or to rent it as residential accommodation. She may sell the house on her return to the UK or in a few years' time if the family does not return to the UK.

Jayne has asked you to explain her liability to UK taxation under the above circumstances.

Requirement:

Draft a letter to Jayne explaining:

1) Jayne's residency status for 2026/27 and 2027/28. (5)

2) The liability to Income Tax on employment and rental income for the year of departure and following years of absence, including availability of the personal allowance. (3)

3) The basis of calculating and taxing rental profits, including reporting and payment of the tax. (8)

4) The potential capital gains tax on the disposal of the house immediately or in the future. (5)

Total (21)

12. Your firm advises Joe, a UK resident higher rate taxpayer, who owns two residences in the UK. One is in Cheltenham, where he and his family spend most of their time, and the other is a flat in London which is only used intermittently. The Cheltenham property was bought in February 2025 on the same date that they sold their previous family home. The London flat was bought about five years ago but has increased substantially in value since then. Joe lived in the flat during the week for the year immediately after acquisition whilst working full time in London. Since then, the flat has been available for the family to use as and when they are in London, which they do on a regular basis.

Joe is very tempted to sell the London flat as soon as possible as he feels that the value will begin to fall soon. He has been told by a friend that no Capital Gains Tax will be payable as it is his home. Joe has no intention of ever selling his current Cheltenham property.

Joe has also asked a question on behalf of his brother Milton, a higher rate taxpayer, who has been non-UK resident for over fifteen years and has not set foot in the UK in that period. For the past eleven years Milton has owned three properties in the UK. One is a residential property that he has never lived in but has been let to various tenants; another is a shop premises which is let to an unconnected retailer; the last is a residential property that has stood empty. Milton also owns shares in Trainers Plc a sports company in the UK.

The values of Milton's let property, the shop premises and the shares have risen sharply since acquisition while, in contrast, the vacant property has fallen in value. Milton is considering selling all three properties and the shares and would like to understand his tax position in relation to the disposals. Milton has given his authority for you to discuss his affairs with his brother Joe.

Requirement:

Write a letter to Joe in which you:

1) Explain the extent to which the gain arising on the disposal of the London flat will be subject to Capital Gains Tax if no action is taken, and what action Joe could take to mitigate the tax charge. (7)

2) Explain the extent to which Milton will suffer a Capital Gains Tax charge on the gains/losses arising on the disposal of his UK properties and shares. (8)

You are not required to discuss the reporting requirements or payment dates.

Total (15)

13. Vincent purchased a holiday cottage for £165,000 in January 2019. During October 2025 the property suffered extensive water damage as a result of flooding. The insurers valued the cottage at £80,000 following the flood and eventually paid Vincent £120,000 on 20 February 2026 to undertake the necessary repairs to the cottage. Vincent spent all the insurance proceeds renovating the property. On 3 May 2026 he sold the cottage for £345,000. The cottage has never been used as Vincent's main residence.

A number of assets were destroyed by the flood including an oil painting. Vincent received £12,500 compensation for the painting and managed to sell it to a local shop for £100. Vincent originally purchased the painting in 2008 for £5,000. Vincent decided to use the insurance proceeds to buy a new painting and reinvested £10,000 in doing this. He used the remaining £2,500 to pay for a holiday.

Vincent also owned the freehold on a shop unit. He bought it for £109,000 in November 2016. In May 2025 Vincent granted a 40-year lease on the shop unit to an unconnected individual for a premium of £52,000. The reversionary interest was valued at £202,000 in May 2025.

In December 2015, Vincent bought a 0.1% interest in the shares of Regal plc, a quoted trading company, for £5,750. In May 2025 he gave the shares to his wife, Alberta, as a birthday present when they were worth £8,430. In March 2026 Alberta gave the shares to their daughter, Alice, on her 21st birthday when they were worth £12,000.

Neither Vincent nor Alberta has ever worked for Regal plc.

Requirement:

1) Calculate the chargeable gains arising on the receipt of the insurance proceeds and the subsequent disposal of the cottage. (4)

2) Explain how your answer to 1) would differ if Vincent had made a claim to rollover the insurance proceeds. (3)

3) Calculate the chargeable gain arising on the disposal of the painting and the base cost for capital gains purposes of the new painting. (3)

4) Calculate Vincent's chargeable gain on the grant of the lease (3)

5) Explain how the May 2025 gift of shares from Vincent to Alberta will be treated and state the base cost of the shares for Alberta.

Explain how the March 2026 gift from Alberta to Alice will be treated for Capital Gains Tax purposes. Comment on whether any CGT reliefs might be available and state the base cost of the shares for and Alice. (5)

Total (18)

14. Newt, aged 50, has been employed by Rowling Ltd for eight years. His salary from 6 April 2025 was £78,000 per annum and he received the following benefits as part of his remuneration package:

Car

Newt was provided with a petrol-engined car which he used for both personal and business mileage. The car had a list price of £15,000 when acquired in 2022, but Newt had requested that the car be delivered with leather seats which cost an extra £1,000 and was not included within the list price. A month after taking delivery, he asked that a leather steering wheel cover be added at a cost of £75 and this was done within two months, without the car being off the road at any point. The car has CO_2 emissions of 122g/km. Newt handed the car back to Rowling Ltd when he ceased employment.

Rowling Ltd does not own the car but leases it at a cost of £450 per month. The company does not provide petrol for private mileage.

Loan

Rowling Ltd had made an interest-free loan of £20,000 to Newt when he first joined the company to help him to buy his home. This amount had remained outstanding for many years until £8,000 was repaid on 1 April 2025 and £5,000 on 5 September 2025. Newt paid off the balance of the loan on 5 October 2025.

On 5 October 2025, Rowling Ltd dismissed Newt from his employment, with the following payments being made:

a) Statutory redundancy pay of £7,000
b) £10,000 as a termination bonus as detailed in Newt's contract of employment.
c) An ex-gratia payment of £48,000

Although Newt was on two months' notice, he received an additional payment of £5,000 to leave immediately and did not work out any of his notice period.

For 2025/26, PAYE of £19,000 has been deducted from his employment income and no payments on account have been made.

During 2025/26, Newt also received £2,500 of UK bank interest and UK dividends of £4,000.

Requirement:

Calculate the Income Tax payable by Newt for 2025/26 and state the date by which this will be due for payment. (18)

15. Several of your clients have come to you for advice regarding capital gains tax.

Zeena

Zeena, has bought and sold shares in Leirge plc as follows:

Date	Event	Number of Shares	Cost	Proceeds
			£	£
15 February 2001	Bought	10,000	12,000	
1 March 2009	Sold	1,000		600
12 May 2025	Bought	15,000	18,000	
1 June 2025	Sold	10,000		33,000
15 June 2025	Bought	5,000	15,000	

Zeena made no other disposals in 2025/26.

Hamza

On 31 July 2025 Hamza sold his house in Manchester and made a capital gain (before reliefs) of £650,325.

Hamza bought the house on 1 February 2008 and occupied the house as his main residence from that date until 30 April 2010. On 1 May 2010 he went to work in South Wales, renting the house to tenants while he was away.

On 1 July 2018 Hamza returned to Manchester and reoccupied the house as his main residence until the date of sale.

Nigella

Nigella is a part-time director of Z Ltd since July 2007.

Z Ltd is an unquoted trading company which has an issued share capital of one million £1 ordinary shares which carry the same rights.

Nigella acquired shares as follows:

July 2007	Inherited 52,800 ordinary shares from her uncle
August 2019	Received a bonus issue of 1 for 6

On 24 May 2025, Nigella gave her daughter, Irina, 49,280 ordinary shares in Z Ltd.

Irina, who has never worked for Z Ltd, plans to sell all of her shares on 16 July 2027.

Luka

On 4 August 2025, Luka sold 13,650 shares in B Ltd, an unquoted trading company, to his brother for £40,950 when the market value per share was £5.20.

Luka had bought 51,600 shares in B Ltd in June 2006 for £129,000.

Georgia

Ezra is the finance director and sole shareholder of K Ltd, a qualifying Enterprise Investment Scheme (EIS) company.

Ezra is considering issuing some new shares in K Ltd to his friend Georgia. Georgia has around £1.5 million to invest from the recent sale of other assets on which she realised large capital gains. If she invests in K Ltd she intends to keep the shares for at least five years.

Requirement:

1) Calculate, with explanations, Zeena's chargeable gains for 2025/26. (10)

2) Calculate, with supporting explanations, the amount of private residence relief and letting relief available on the disposal of Hamza's house. (4)

3) Explain whether business asset disposal relief is available on the gift of shares in Z Ltd from Nigella to Irina, and on the planned sale of shares by Irina. (4)

4) Calculate the amount of the gift relief available on Luka's disposal of shares in B Ltd and explain how the gain eligible for gift relief in 2025/26 is determined. (3)

5) Explain the Income Tax and Capital Gains Tax implications for Georgia if she invests in EIS shares in K Ltd. (4)

Total (25)

ANSWERS TO QUESTIONS

1. DOROTHY

Income Tax Computation 2025/26		Non-savings income	Interest	Dividends	
		£	£	£	
Salary		75,000			**[½]**
Mileage 10,000 miles @ (50p – 45p)		1,125			**[½]**
2,500 miles @ (50p – 25p)					**[½]**
Use of asset	(W2)	780			
Acquisition of asset	(W2)	2,090			
Dividends				5,000	**[½]**
Bank interest			11,250		**[½]**
REIT (1,800 x 100/80)		2,250			**[½]**
Property income	(W1)	28,950			
		110,195	11,250	5,000	
Less: Personal allowance	(W3)	(2,472)	–	–	**[½]**
Taxable income		107,723	11,250	5,000	
Tax					
43,950 (W4) @ 20%		8,790			
63,773 @ 40%		25,509			
107,723					
500 @ 0%		Nil			
10,750 @ 40%		4,300			**[2½]**
500 @ 0%		Nil			
4,500 @ 33.75%		1,519			
		40,118			
Less: Tax relief on interest					
22,000 (W1) x 20%		(4,400)			**[1]**
		35,718			
Less: tax paid at source:					
PAYE		(22,000)			**[½]**
REIT		(450)			**[½]**
Income tax payable		13,268			

Workings

W1) Property Income

		Straw Cottage	Tin Hall	Lion House	
		£	£	£	
Rental income received	(12,000/12 x 3 + 10,000/12 x 9)	10,500			**[½]**
Rental income			4,000		**[½]**
Rental income received	(34,320/12 x 10)			28,600	**[½]**
Mortgage interest**		Nil		Nil	**[½]**
Water rates		(250)	(350)*	(650)	**[½]**
Council tax			(1,250)*	(2,600)	**[½]**
Redecorating			(3,800)*	(2,500)	**[½]**
Repairs to furniture				(750)	**[½]**
Attic window (capital improvement)				Nil	**[½]**
Bedroom furniture (capital as new)				Nil	**[½]**
Replacement carpets – replacement of domestic items relief				(3,400)	**[½]**
		10,250	Nil	18,700	
Total				28,950	**[½]**

* expenses restricted to income received on nominal lease **[1]**
** interest available for relief as tax reducer (10,000 + 12,000) = 22,000

Tutorial Note:

Property income is calculated on the cash basis as gross annual property income does not exceed £150,000.

W2) Use/Acquisition of Equipment

Benefit assessed in	2023/24	20% x 5,200	1,040	
	2024/25	20% x 5,200	1,040	**[½]**
	2025/26	(20% x 5,200) x 9/12	780	**[1]**
			2,860	
Benefit assessed on transfer in 2025/26 is higher of:				
MV at acquisition by Dorothy			1,000	**[½]**
Original market value less assessed for use		(5,200 – 2,860)	2,340	**[½]**
Therefore:			2,340	**[½]**
Less: Employee contribution			(250)	**[½]**
			2,090	

W3) Personal Allowance

Standard personal allowance		12,570	**[½]**
Total net income (110,195 + 11,250 + 5,000)	126,445		**[½]**
Less: Gift aid (5,000 x 100/80)	(6,250)		**[½]**
	120,195		
Less: Limit	(100,000)		
	20,195		
Less: (50% x 20,195)		(10,098)	**[½]**
		2,472	

W4) Basic Rate Band

Basic rate band	37,700	
Add: Gift aid (5,000 x 100/80)	6,250	**[½]**
	43,950	

Max for question 20

2. JITEN SHAH

Summary

	£	
Peaches plc (W1)	23,400	
Lease (W3)	10,924	
Shares (W4)	30,000	
Sea View Cottage (W6)	215,000	
Cliff Top House (W7)	67,865	
Loss on painting (W5)	(2,000)	**[½]**
Chargeable gains	345,189	
Less: AEA	(3,000)	**[½]**
Less: Capital loss b/f	(10,000)	**[½]**
Taxable gains	332,189	
CGT liability:		
Tax @ 24%	79,725	**[1]**

Tutorial Note:

The shares in Peaches plc do not qualify for business asset disposal relief as Jiten has never worked for the company.

The shares acquired by way of the Save as You Earn share option scheme do not qualify for business asset disposal relief as Jiten does not own at least 5% of the company's shares nor has he held them for two years.

Workings:

W1) Shares in Peaches plc

S.104 holding

	No. of shares	Cost	
		£	
March 2002	1,000	3,000	**[½]**
August 2007 rights issue			
(2/1 x 1,000 shares @ £4)	2,000	8,000	**[1]**
	3,000	11,000	
December 2016 Bonus issue			
(2/3 x 3,000 shares)	2,000	Nil	**[1]**
	5,000	11,000	
Sale May 2025			
(3,000/5,000 x £11,000)	(3,000)	(6,600)	**[1]**
C/fwd	2,000	4,400	

	£	
Proceeds	30,000	
Less: Cost	(6,600)	
Chargeable gain	23,400	**[½]**

W2) VCT shares

Gain exempt on first £200,000 acquired per tax year. **[1]**

Tutorial Note:

There is no minimum holding period for the gain to be exempt

W3) Lease

	£	
Sale proceeds	65,000	
Less: Cost		
% 23 yrs 5 months / % 30 yrs x 60,000		
78.708 (Note)/87.330 **[½]** x 60,000	(54,076)	**[½]**
Chargeable gain	10,924	

Note

% 23 yrs 5 months = 78.055 + 5/12 (79.622 – 78.055) = 78.708 **[1]**

W4) Employer company shares

	£	
Proceeds	40,000	
Less: Cost (£1 x 10,000)	(10,000)	**[1]**
Chargeable gain	30,000	

W5) Painting

	£	
Deemed proceeds (non wasting chattel)	6,000	**[1]**
Less: Cost	(8,000)	
Allowable loss	(2,000)	

W6) Sale of Sea View Cottage

	£	
Proceeds	325,000	
Less: Cost	(78,000)	**[½]**
Renovation costs	(32,000)	**[½]**
Repairs (income expense)	Nil	**[½]**
Chargeable gain	215,000	

W7) Grant of long lease of Cliff Top House

	£	
Premium	136,000	**[½]**
Less: Legal costs	(2,750)	**[½]**
Less: Cost		
£200,000 x £136,000/(£136,000 + £280,000)	(65,385)	**[1]**
Chargeable gain	67,865	

Total for question 15

3. MINA

1)

The taxable benefits are as follows:

	£	
Removal expenses (W1)	2,000	
Living accommodation: annual value	12,000	**[½]**
Expensive living accommodation charge (W2)	9,375	
Use of assets (W3)	2,800	
Company car (W4)	5,655	
Fuel benefit (W5)	6,134	
Loan benefit (W6)	1,656	
Total taxable benefits	39,620	
Income Tax payable @ 45%	17,829	**[½]**

Workings

W1)

Qualifying removal expenses of up to £8,000 are exempt from tax. The excess of £2,000 is taxable (£10,000 paid, less £8,000). **[1]**

W2)

Expensive living accommodation (where property has a cost to the employer of more than £75,000) gives rise to an additional tax charge. This is calculated as (£325,000 – £75,000) x 3.75% (the official rate of interest). **[1]**

W3)

The private use of assets belonging to the employer gives rise to taxable benefit calculated as 20% of the value of the assets when first made available, ie £14,000 @ 20% = £2,800. **[1]**

W4)

Company car benefit calculated as:

Car benefit % (115 – 75)/5 = 8 + 21	29%		
Benefit (£26,000 x 29%)	£7,540		**[1½]**
Available for 9 months (£7,540 x 9/12)	£5,655		**[1]**

W5)

Fuel benefit: £28,200 x 29% x 9/12	£6,134	**[1½]**

W6)

Average method:

	£	
(£85,000 + £63,750) x ½ x 3.75%	2,789	**[1]**
Less: Interest paid	(1,000)	
	1,789	

Strict method:

	£	
(£85,000 x 4/12 x 3.75%)	1,062	**[1]**
(£63,750 x 8/12 x 3.75%)	1,594	**[1]**
	2,656	
Less: Interest paid	(1,000)	**[½]**
	1,656	

Mina will elect for the strict basis to apply and the taxable benefit for 2025/26 will be £1,656. **[½]**

Total 12

2)

Mina's employer will have to pay Class 1A NIC on these benefits. **[½]**

There is no national insurance charge for Mina. **[½]**

Total 1

3)

Complied with the identification requirements set out in in the anti-money laundering guidance. **[1]**

Consider whether Mina will be acceptable in terms of risks. **[1]**

Consider whether the firm has the skills and competence to service Mina's requirements. **[1]**

Consider whether there is any conflict of interest in accepting Mina as a new client and if so how and whether it might be managed. **[1]**

Contact Mina's previous adviser to ensure there is nothing that would preclude acceptance on ethical grounds (ie undertake a professional enquiry). **[1]**

[See Chapter 4, para 4.3 of the 6th edition
Professional Responsibilities & Ethics for Tax Practitioners' book.]

Max 3

Total for question 16

4. HAYLEY

1)

Income tax computation 2025/26

	£	
Employment income		
– salary	230,000	**[½]**
Property income (W1)	17,586	
Total income	247,586	
Less: Personal allowance (W2)	Nil	
Taxable Income	247,586	
77,700 (W3) @ 20%	15,540	**[½]**
87,440 @ 40%	34,976	**[½]**
165,140		
82,446 @ 45%	37,101	**[½]**
247,586	87,617	
Less: Tax reducer (W4)	(10,500)	
Less: Tax reduction for interest (2,000 x 20%)	(400)	**[½]**
Add: Annual Allowance Charge (W5)	7,894	
Less: PAYE	(84,000)	**[1]**
Income tax payable	611	

Workings

W1) Property income

Rental income	29,936	**[½]**
Less:		
Utility bills & insurance	(6,450)	**[½]**
Council tax	(1,200)	**[½]**
Repairs	(3,700)	**[½]**
Interest paid on mortgage	nil	**[½]**
Conversion of loft into bedroom – capital expenditure	nil	**[½]**
Bedroom furniture – replacement of domestic items relief	(1,000)	**[½]**
Profit	17,586	

W2) Personal Allowance

Net income	247,586	
Less: Personal pension contribution (32,000 x 100/80)	(40,000)	
Adjusted net income	207,586	**[½]**
Exceeds £125,140 so no PA available		**[½]**

W3) Basic rate band

Basic rate band	37,700	
Pension contribution (100/80 x 32,000)	40,000	**[½]**
	77,700	
Higher rate band	125,140	
Pension contribution (100/80 x 32,000)	40,000	
	165,140	**[½]**

W4) VCT subscription

Income tax reducer at 30% of £35,000 = £10,500 **[1]**

Dividends from VCT shares are exempt **[1]**

W5) Pension Savings

Annual Allowance tax charge

Pension Savings in Year:

Employer contributions (230,000 x 15%)		34,500	**[½]**
Employee contributions (32,000 x 100/80)		40,000	**[1]**
Total pension savings		74,500	

Available Annual Allowance:

Threshold income (247,586 – 40,000) (exceeds £200,000)	207,586		**[½]**
Net income	247,586		
Add: Employer pension contributions	34,500		
Adjusted income	282,086		**[½]**
Less	(260,000)		
Excess income	22,086		
2025/26 Annual Allowance		60,000	**[½]**
Less: Restriction (1/2 x 22,086)		(11,043)	**[½]**
Tapered annual allowance		48,957	
Unused b/f		8,000	**[½]**
Total allowance		56,957	

Annual Allowance Tax Charge

(74,500 – 56,957) @ 45% 7,894 **[1]**

Tutorial Note:

Although employer pension contributions are generally a tax free benefit they do use up the Annual Allowance and where the Annual Allowance is exceeded the employee suffers an Annual Allowance charge as above.

Total 16

2)

If Hayley purchases a car to use for her property business she can choose to deduct either:

- The proportion of actual motor expenses (including capital allowances) that relate to her business use, or **[½]**

- A flat rate expense for business miles travelled. **[½]**

As the proposed vehicle is a car, under the flat rate expense option she could claim:

- 45p per mile for her first 10,000 miles, and **[½]**
- 25p per mile for any additional miles. **[½]**

Hayley would not be able to claim her actual expenditure, or any capital allowances, in relation to the vehicle. **[½]**

Once Hayley has claimed the flat rate she would need to use this method each year while the car remains in the business. **[½]**

Hayley would also be able to deduct incidental expenses associated with her journeys to the property **[½]**

where they are incurred for business purposes. **[½]**

These could include tolls and parking fees. **[½]**

Max 3

Total for question 19

5. FRIENDLY CO PLC

1)

- Under a Save as You Earn Share Option Scheme an employee is granted an option, which is conditional on the employee entering into an approved savings arrangement. **[1]**
- An employee is required to save a fixed amount of up to £500 per month **[1]** for a three or five year contract. **[1]**
- The accumulated savings can be withdrawn together with a tax-free bonus at the end of the savings period. **[1]**
- The number of shares under option is calculated by reference to the expected proceeds of the savings arrangement (including the bonus). **[1]**
- The exercise price cannot be less than 80% of the market value of the shares at the date of invitation to participate. **[1]**
- All UK resident employees and full-time directors must be invited to participate in an offer under a Save as You Earn scheme. **[1]**
- Normally a Save as You Earn option cannot be exercised before the savings plan matures and the employee has six months from this date in which to exercise the option. **[1]**
- There is no income tax liability on the grant of options. **[1]**
- Providing the option is exercised at least three years from the date of grant there will be no income tax on exercise. **[1]**

[Credit will be given for any other relevant points]
Max 5

2)

- Under a Company Share Option Plan a participant is given the right to purchase shares at a specified time in the future at a price set at the outset. **[1]**
- A company whose shares are placed under option is normally listed on a recognised stock exchange. However, an unlisted company can implement a scheme provided it is free from the control of another company. **[1]**
- Options can only be granted to employees and full-time directors, but they do not have to be offered to all employees or directors. **[1]**
- The exercise price for the shares must not be less than their market value at the date of grant. **[1]**
- The maximum value of shares that any one employee can hold under an unexercised option is £60,000. **[1]**
- There is no income tax liability on the grant of options. **[1]**
- Providing the option is exercised between three and ten years from the date of grant there will be no income tax on exercise. **[1]**

[Credit will be given for any other relevant points]
Max 5

3) The exercise price cannot be less than 80% of the market value of the shares on the date of grant **[½]** therefore £2.60. **[½]**

Total 1

4) The maximum number of shares that can be acquired must not exceed a market value of £60,000 **[½]** therefore £60,000/£3.25 = 18,461 shares. **[½]**

Total 1

5) Jane Brown – the option is exercised within three years of grant but as her employment terminates due to retirement, the option can be exercised within six months of termination with no tax on exercise. **[1]**

Chase Young – the option is exercised more than three years from the date of grant **[½]** and therefore no tax arises on exercise. **[½]**

Eliya Smith – the option is exercised within three years of grant and therefore income tax arises on the option gain **[½]** £1,875 – £1,688 = £187. **[½]**

Total 3

Total for question 15

6. JAMES

1) General Rules – Income Tax Relief

- Maximum investment qualifying for relief £1 million **[½]**
- The limit is £2 million where at least £1 million is invested in knowledge-intensive companies **[½]**
- 30% tax relief on amount of qualifying investment as tax reducer **[½]**
- Can reduce IT liability to nil, excess relief cannot be repaid **[½]**
- Relief can be carried back to previous tax year, provided limit in that year is not exceeded **[½]**
- Cannot be 'connected' with EIS company (ie broadly cannot be an employee **[½]** (including an existing paid director) or hold > 30% shares together with your associates) **[½]** [ss.166,167 & 170 ITA 2007]

Max 3

2) General Rules – Capital Gains Tax Relief

- Gains arising on the sale of qualifying shares are not chargeable to CGT if held for three years before disposal **[1]** and the individual was entitled to income tax relief on the subscription **[½]**
- Loss relief is available on shares disposed of at a loss:
  - The capital loss is reduced by any income tax relief obtained **[1]**
  - Can elect to offset the loss against net income of year of disposal, or against net income of prior year instead of using the loss against capital gains **[1]**
  - The loss is always allowable regardless of how long the shares have been held **[1]**
- EIS Reinvestment Relief (a form of capital gains deferral) is available even if income tax relief was not available: **[½]**
  - Unlimited gains may be deferred **[½]**
  - Gain deferred can be on any kind of asset **[1]**
  - Reinvestment in qualifying EIS shares must be within one year before or three years after the original gain arose **[1]**
  - Can specify the amount of relief claimed (ie to preserve annual exempt amount) **[1]**
  - The gain to be deferred is frozen and crystallises in the year:
    (i) the sale of the EIS shares occurs, **[1]** or
    (ii) the EIS shares cease to be eligible shares **[½]**

Max 7

3)

	Income Tax	Capital Gains Tax
James	• No income tax relief as James owns > 30% and also because he is employed by the company **[1 for either reason]**	• CGT EIS Reinvestment Relief available **[½]** • Gains/Losses on EIS shares taxed as for normal shares **[½]**
Ian	• No income tax relief as associated with son & combined shareholding > 30% **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains/Losses on EIS shares taxed as for normal shares **[½]**
Charles	• Income tax relief available as a brother is not an associated person for EIS purposes **[½]** • Income tax reducer available in respect of £40,000 investment. Max relief of £40,000 @ 30% = £12,000 **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains on EIS shares not chargeable to CGT if held ≥ 3 years **[½]** • Loss relief available for EIS shares even if owned < 3 years **[½]**
Sue	• No income tax relief as employed by company **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains/Losses on EIS shares taxed as for normal shares **[½]**
Tara	• Income tax relief available • Income tax reducer available in respect of £230,000 investment. Max relief of £230,000 @ 30% = £69,000 **[1]**	• CGT EIS Reinvestment Relief available **[½]** • Gains on EIS shares not chargeable to CGT if held ≥ 3 years **[½]** • Loss relief available for EIS shares even if owned < 3 years **[½]**

Max 10

Tutorial Note:

s.253 ITA 2007 gives the definition of who an individual's 'associates' are for the purposes of calculating the individual's shareholding in the EIS company.

An 'associate' includes an individual's 'spouse or civil partner, ancestor or lineal descendant'. Therefore, James's father is an associate, but his brother is not.

Total for question 20

7. CIARON

1) Allocation of base cost on takeover

	Value of consideration	Percentage of consideration	Allocate base cost in same proportion	
	£	%	£	
Cash	100,000	25%	2,500	**[1]**
75,000 £1 Ordinary shares in Scrumpy plc	75,000	18.75%	1,875	**[1]**
150,000 £0.50 Preference shares in Scrumpy plc	200,000	50%	5,000	**[1]**
£30,000 loan notes in Scrumpy plc	25,000	6.25%	625	**[1]**
	400,000	100%	10,000	

Immediate gain on cash element:

	£	
Proceeds	100,000	
Less: Cost	(2,500)	
Gain	97,500	**[1]**

Encashment of loan notes

No charge on the increase in the value of the loan notes from £25,000 to £30,000. **[1]**

Crystallisation of the gain frozen on the takeover:

	£	
Proceeds	25,000	
Less: Cost	(625)	
Gain	24,375	**[1]**

Sale of half the preference shares

	£	
Proceeds – 75,000 x £2	150,000	**[1]**
Less: Cost – ½ x £5,000	(2,500)	
Gain	147,500	**[1]**

Renault Clio

The car is an exempt asset and not subject to CGT. **[½]**

The disposal of the personalised number plate is a chargeable disposal:

	£	
Proceeds	20,000	
Less: Cost	(12,000)	
Gain	8,000	**[1]**

Painting

The date of disposal for CGT purposes is the date on which the insurance proceeds are received. **[½]**

As Ciaron has reinvested in a replacement asset within 12 months of the receipt of the insurance proceeds, the immediately chargeable gain is limited to the amount of the proceeds not reinvested.

Insurance proceeds not reinvested = 28,000 – 15,000 = £13,000 **[1]**

CGT Summary

Gains	£
Cash on takeover	97,500
Encashment of loan notes	24,375
Sale of half the preference shares	147,500
Disposal of the personalised number plate	8,000
Insurance proceeds on painting	13,000
Chargeable gains	290,375
Less: Annual exempt amount **[½]**	(3,000)
Taxable gains	287,375
CGT:	
Tax @ 24% **[½]**	68,970

Max 11

Tutorial Note:

The gain arising in respect of the cash element of the consideration may qualify for business asset disposal relief depending on whether Ciaron worked for the company. However, in the requirement you are specifically told to assume business asset disposal relief will not be available. Make sure you always follow the Examiner's instructions.

2)

If Ciaron were to subscribe £260,000 into the new company and that company was successful in claiming EIS status **[½]**, £260,000 of the 2025/26 gains could be held over against the EIS investment **[1]**, thereby reducing his CGT liability for 2025/26 by £62,400 **[½]**.

Total 2

3)

No income tax relief would be available **[1]** as Ciaron would be considered to be connected with the company by reason of owning more than 30% of the share capital. **[1]**

Total 2

Max for question 15

8. JANAKI SMITH

Advisor name and address
Date

Client name
Client address

Dear Janaki

UK CAPITAL GAINS TAX

Further to our meeting last week I have outlined the matters we discussed which will hopefully provide you with a useful summary.

1) The charge to Capital Gains Tax

Individuals who are UK resident **[½]** are subject to Capital Gains Tax (CGT) on all of their chargeable disposals. **[½]**

Non-UK residents are only subject to CGT on the disposal of:

- UK residential property and UK commercial property **[½]**
- shares in companies whose interests in UK land make up at least 75% of its gross assets. **[½]**

Chargeable disposals include:

- the sale of an asset or part of an asset **[½]**
- the gift of part or all of an asset **[½]**
- the receipt of insurance proceeds on the loss or destruction of an asset. **[½]**

Most individuals are eligible for an annual exempt amount, which is £3,000 for 2025/26 **[½]**. The annual exempt amount is deducted from the total chargeable gains in order to arrive at the figure of taxable gains for the year. **[½]**

Taxable gains are treated as the 'top slice' of income **[½]**. Normally gains falling within the basic rate band are subject to tax at 18% **[½]** and any amounts above the basic rate band are subject to tax at 24%. **[½]**

Max 5

2) Assets chargeable to Capital Gains Tax

All assets are chargeable to Capital Gains Tax unless they are specifically exempted by legislation. **[1]**

Examples of exempt assets include:

- motor vehicles **[½]**
- betting and lottery winnings **[½]**
- medals (unless purchased) **[½]**
- foreign currency **[½]**
- wasting chattels (chattels with an estimated life of 50 years or less, such as racehorses) **[½]**
- non-wasting chattels if the gross proceeds and costs are both £6,000 or less. **[½]**

[Any six from the legislation – ½ each]

Max 4

3) When a chargeable disposal arises and how a taxable gain is reported

Generally, a chargeable disposal occurs on the date of contract **[½]**. If the contract is conditional, the date of disposal is the date the condition is met. **[½]**

If you dispose of a UK residential property and make a taxable gain, the disposal must be reported to HMRC on an online property return **[½]** within 60 days of completion of the disposal **[½]**. The disposal will also need to be reported on your self-assessment return. **[½]**

All other taxable disposals should be reported on your self-assessment tax return for the tax year in which the disposal is made **[½]**. Alternatively, they can be reported using an online real-time return anytime up to 31 December following the tax year of disposal. **[½]**

Max 3

4) Disposal of Overseabian assets

As you are UK tax resident you will be liable to Capital Gains Tax on any gains made on the disposal of your worldwide assets. **[1]**

Total 1

5) Your husband's Capital Gains Tax position

As 2025/26 is your husband's first year of UK residence **[½]** and he has not been tax resident in the UK in any of the previous ten years **[½]**, he will be a 'qualifying new resident'. **[1]**

This means that he will be eligible to claim Foreign Income and Gains (FIG) relief **[1]** in respect of gains arising on the disposal of his Overseabian assets. **[½]**

As a result, any gains included in the claim will be exempt from UK CGT. **[1]**

Your husband will be able to take advantage of this relief for the first four tax years that he is UK resident. **[1]**

However, if he does make a claim he will not be entitled to the CGT annual exempt amount (or personal allowance for income tax purposes). **[1]**

A FIG relief claim will also mean that any non-UK capital losses will be disallowed. **[1]**

If he does not make a claim, he will be subject to capital gains tax on the disposal of his worldwide assets as they arise. **[½]**

Your husband will then be subject to capital gains tax in the UK in the same way as you are, from the beginning of the fifth tax year of UK residence. **[½]**

Max 7

If you have any questions or need any further information, please do not hesitate to contact me.

Yours sincerely
Rick Brown

Total for question 20

9. DAPHNE RALF

1) Late filing penalty

The penalty is calculated as follows:

- Initial penalty: failure to submit a tax return by the initial deadline (ie 31 January 2025 if filing electronically) will lead to an automatic penalty of £100. **[½]** This is payable even if no tax is due **[½]**

- More than three months late: if the tax return is still outstanding after three months the fine may increase by £10 for each day **[½]** it remains overdue, up to a maximum of £900; **[½]** Daphne could therefore be fined the maximum of £900 for being more than three months late **[½]**

- More than six months late: the fine increases by a further £300 or by 5% of the tax due if higher. **[½]** She will therefore receive a penalty of £500 (ie 5% of the tax due) for being more than six months late **[½]**

- More than 12 months late: the fine increases by another £300 or by 5% of the tax due if higher. **[½]** A second charge of £500 therefore applies for being more than 12 months late. **[½]**

The maximum total penalty for the late filing of the tax return is £2,000. **[½]**

Tutorial Note:

When calculating the additional penalties due where a return is more than six months and more than 12 months late, the penalty rate of 5% is applied to the net liability to tax of the year, taking into account tax deducted at source. The net liability is not reduced by any amount that has been paid towards this liability.

It is assumed in this question that any income tax liability has been met by tax deducted at source.

Late payment penalty

In addition to the penalties above, Daphne also incurs penalties for being late with her tax payment.

A penalty of:

- 5% of the tax due **[½]** is charged as the tax payment is more than 30 days late (£500) **[½]**

- plus a further 5% as more than six months late (£500) **[½]**

- plus a third surcharge of 5% as the tax payment is more than 12 months late (£500). **[½]**

Total penalty of £1,500 **[½]**

Daphne will also be charged interest on all late payments **[½]** at the rate set by HM Revenue & Customs at the time, as well as interest on the various penalties from the time they were payable. **[½]**

Max 7

Tutorial Note:

Strictly, the second late payment penalty is due if tax is unpaid more than five months after the first late payment penalty, ie more than five months and 30 days after the due date. Similarly, the third penalty is due if tax is unpaid more than 11 months after the first late payment penalty. However, credit was given for stating they were due if tax was outstanding more than six months and 12 months after the due date.

2) Property income

	£	
Rent:		
£1,160 x 7 months [6.4.25 – 6.10.25]	8,120	**[½]**
£1,360 x 5 months [6.11.25 – 6.3.26]	6,800	**[½]**
	14,920	
Expenses:		
Repairs	(720)	**[½]**
Mortgage interest	(Nil)	
Conservatory (capital)	(Nil)	**[½]**
Replacement bed (replacement of domestic items relief)	(450)	**[½]**
New sofa	(Nil)	**[½]**
Replacement of kitchen units (treated as repair)	2,300	**[½]**
Insurance (paid 1 February 2026)	(420)	**[½]**
Property income	11,030	

Relief for the mortgage interest is given by way of a tax reducer at 20% against the income tax liability. **[1]**

Total 5

3) Memo to Tom Collins

Tax and ethical issues

The proposed joint ownership may reduce the couple's overall income tax liability as Daphne's husband pays tax at a lower rate than Daphne. **[½]**

Regardless of their actual shares in the property, as they are husband and wife the income will be split 50:50. So each will be taxed on 50% of the rental income. **[½]**

As long as this is a genuine gift **[½]** of the property then this is a legal method **[½]** of reducing their combined tax liability and is not tax evasion. **[½]**

There would need to be an outright gift of a share of the property to Daphne's husband to effect a genuine transfer of ownership. **[½]**

On a future sale, the proceeds of sale and any capital gain would be split with Daphne's husband, which may also save CGT on a future sale. **[½]**

However, this advice is with regard to Daphne's tax position, as we do not act for her husband. **[1]**

Max 3

Tutorial Note:

If for example, Daphne chose to transfer 95% of the property to her husband, then because they are husband and wife, the rental income will still be split 50:50. However, it is possible to make an election to split income in accordance with their beneficial entitlement. Then Daphne would be taxed on 5% of the rental income and her husband on 95%.

Total for question 15

10. ADA

To: Ada
From: Candidate
Date: Today
Subject: Basis of UK taxation

Dear Ada

Although UK residents are generally taxable in the UK on their worldwide income and gains, new residents can usually take advantage of the foreign income and gains ('FIG') regime **[1]** to exempt their foreign income and gains from UK tax. **[½]**

Employment income

As you have not been UK resident for any of the ten tax years prior to becoming UK resident **[½]**, and 2025/26 is one of your first four years of UK residence **[½]**, you are a 'qualifying new resident' **[½]** for UK tax purposes from 2025/26. This means that you are eligible to access the FIG regime.

One of the claims available under the FIG regime is for 'foreign employment relief' **[½]**, otherwise known as Overseas Workday Relief ('OWR') **[½]**.

By claiming OWR, you will pay UK income tax the proportion of your salary related to your UK duties **[½]**, whilst the proportion relating to your overseas duties **[½]** will be exempt from UK tax. **[½]**

However, the amount of relief available is subject to the annual financial limit **[½]** which caps OWR to the lower of **[½]** 30% of the qualifying employment income **[½]** and £300,000. **[½]**

Dividend income

A FIG relief claim is also available for other 'qualifying foreign income' **[½]**. This includes the dividends received from Green Ltd as they have a non-UK source. **[½]**

If you make a FIG relief claim for the dividends you will pay no UK tax on them. **[½]**

There is no annual financial limit for general foreign income. **[½]**

Capital gains

The FIG regime also applies to 'qualifying foreign gains' **[½]**. As the Green Ltd shares are shares in a non-UK company, a claim for FIG relief is available for the gain that arose on their disposal. **[½]**

If you make a claim, you will pay no UK tax on the gain. **[½]**

There is no annual financial limit for foreign gains. **[½]**

Claiming FIG relief

As mentioned above, FIG relief is only available for your first four tax years of UK residence, ie for 2025/26 through to 2028/29. **[½]**

A separate claim must be made for foreign employment income, other foreign income and foreign gains. **[½]**

You do not need to make a claim for every year of this four year period **[½]** and you can make a claim for, say, foreign income without also making a claim for foreign gains. **[½]**

However, if you do not make any FIG relief claims for a particular tax year you will pay UK income tax on all foreign income and gains arising in that year. **[½]**

Claiming FIG relief results in a loss of both your income tax personal allowance **[½]** and capital gains tax annual exempt amount. **[½]** Even if you, say, make a foreign income claim only you lose both your personal allowance and annual exempt amount. **[½]**

Once you have been UK tax resident for four tax years you will no longer have access to the FIG regime and all your foreign income and gains will be taxable in the UK on an arising basis. **[½]** This will apply to you from the beginning of 2029/30, should you remain UK tax resident up to that point. **[½]**

Max 12

You would like to use the proceeds from the offshore income and gains to buy a UK property. Irrespective of whether you make a claim under the FIG regime, **[½]** the proceeds may be brought into the UK as and when required, without a tax charge. **[1]**

Furthermore, any accumulated income or capital from prior to becoming UK resident can also be brought into the UK without a tax charge. **[½]**

If you had been UK tax resident prior to 6 April 2025 (before the FIG regime) then a tax charge for bringing income or gains to the UK may have applied, **[½]** as you could have been taxed on a remittance basis on any pre-6 April 2025 income or gains. **[½]**

The remittance basis continues to impact so called 'non-domiciled' taxpayers who claimed remittance basis in the past **[½]** in respect of any pre-6 April 2025 unremitted income or gains. **[½]**

'Unremitted foreign income and gains' means income and gains arising in a tax year in which the remittance basis was claimed which have not already been taxed in the UK. They are taxed in the year of remittance. **[½]** However, this does not apply to you. **[½]**

Max 3

Please let me know if you have any queries.

Regards,

Candidate

Total for question 15

11. JAYNE TENNISON

Our address

Your address

Date

Dear Jayne

LEAVING THE UK

1) The liability to Income Tax

Your liability to income tax will be based on your residency status.

Your residence position will be determined by applying the detailed rules of the Statutory Residence Test (SRT). **[½]** This is a complex test so I have only outlined below the key aspects that are likely to apply.

It is likely you will remain UK resident in 2026/27, the year of departure, under the '183 day test'. This applies if you spend at least 183 days in the UK in the year. If that is not the case, you are still likely to be UK resident in 2026/27 based on another test - the 'full time' work in the UK test. **[1]**

As a UK resident, the year of departure may, in some situations, be split into two parts:

- a 'UK' part for which you will be taxed as a UK resident and
- an 'overseas part' for which you will be taxed as a non-UK resident. **[1]**

2026/27 is likely to be split due to satisfying specific conditions under 'Case 1' of the SRT as you are leaving the UK to start full-time work abroad. In this case the overseas part of the tax year will start on the first overseas workday. **[1]**

If Case 1 does not apply, the tax year may be split under Case 3 – Ceasing to have a home in the UK, in which case the overseas part of the tax year will start with the day on which you cease to have a home in the UK. **[½]**

It is likely that you will be non-resident in 2027/28 and future years under the 'work abroad' test as you will have a full-time contract of employment abroad throughout the year. **[1]**

Total 5

2)

Whilst UK resident you will be liable to income tax on your worldwide income. **[1]**

Whilst non-resident for a tax year, you will be liable to UK income tax on UK source income only, which will include rental income from the London house. **[1]**

A personal allowance is available in full in the tax year of departure. Thereafter you will still be able to claim a personal allowance as a non-resident individual who is a British citizen. **[1]**

Total 3

3) The basis of calculating rental profits

Income tax will be due on rental profits, calculated as rents received in the tax year less allowable expenses paid. **[1]** Rental profits will be taxed as non-savings income. **[½]**

Allowable expenses will include rates, insurance, property maintenance, agent's letting fees and professional fees **[1].** If the property is let furnished then any future costs of replacing domestic items on a like for like basis, such as furniture and furnishings will be allowable expenses. **[1]**

However, improvements to the property are not allowed as an expense against rental income. **[1]** They can be added to cost of property when calculating any capital gain on disposal. **[½]**

Some tax relief is available for interest on a loan to purchase the property. Relief is not given as a deduction from rental income but instead the interest is eligible for relief at 20%, given as a reduction in your tax liability. **[1]**

Rental income must be reported on your self assessment return. If you do not currently submit a return then you will need to notify HMRC. **[1]**

After the first tax year (when tax is due on 31 January following the end of the tax year) tax will be due via two payments on account based on your prior year liability due on 31 January in the tax year and 31 July after the tax year with a balancing payment on 31 January following the tax year. **[1]**

In your period of non-residency you would be a non-resident landlord in respect of the London property if you keep it and rent it out. This means that basic rate tax must be deducted by your agent from the net rents received (or by the tenant, if there is no agent). **[1].** This can be avoided on application for the non-resident landlord scheme if tax returns are submitted and tax affairs are up to date. **[1]**

Max 8

Tutorial Note:

The answer above refers to the non-residents landlord's scheme. This is not a core topic and full marks could have been gained in this part without referring to it. In written questions like this, all relevant points will be rewarded.

4) <u>The potential gain for capital gains tax purposes on the disposal of the house</u>

If the property is sold prior to departure, the full gain is likely to be exempt from CGT due to Private Residence Relief (PRR). **[½]**

The conditions for PRR are as follows:

- you must occupy the house as your main residence at some point during ownership **[½]**
- PRR is available for periods of actual occupation, and additionally the last nine months of ownership **[½]**
- PRR can also be claimed for deemed occupation periods while you are working abroad, but you must reoccupy on return (unless required by terms of employment to reside elsewhere in UK). **[1]**

The gain on disposal is calculated as proceeds less all costs including the acquisition cost, cost of improvements to the property and any legal fees of buying and selling. **[1]**

Any gain not covered by PRR is potentially exposed to CGT. There is an annual exempt amount, currently £3,000, that is available to partially shelter such gains. **[½]**

Any remaining gains are subject to CGT at 18%/24%. 18% is chargeable on gains falling in the basic rate band (after taking account of taxable income) with the balance charged at 24%. **[1]**

If you sell the property whilst non-resident the gain remains chargeable, as it is a UK property. But in this case only the gain arising since 6 April 2015 would be taxable (subject to PRR for any period of occupancy in UK residency period). **[1]**

I hope this explains the issues. Please contact me if you wish to discuss matters further.

Yours sincerely,
A Adviser **Max 5**

Total for question 21

12. JOE

1)

An adviser
Adviser's address

Joe
Joe's address

[Date…]

Dear Joe

Your property sale

If no action is taken the whole of the capital gain arising on the disposal of the London flat will be subject to Capital Gains Tax (CGT) **[½]**. The gain will be calculated as the difference between the sale proceeds and the acquisition cost **[½]** and will be taxed at 24%, **[½]** after deduction of any available annual exempt amount. **[½]**

The flat is not exempt from CGT as it is only a gain arising on your main residence that is exempt **[½]**. In the absence of an election **[½]**, your main residence is determined as a matter of fact **[½]** and, clearly, this is your Cheltenham property **[½].** There is, however, the option, within two years of the acquisition of a second property **[½]**, to make an election that one or other of your properties should be treated as your main residence **[½]** as long as you actually use the chosen property as a residence. **[½]**

The purchase of your current Cheltenham home in February 2025 is, for these purposes, the acquisition of a second property **[½]**; you are therefore still within time to make an election to treat the London flat as your main residence. **[½]**

The election can be backdated to the date of the acquisition of your current Cheltenham property. **[½]**

The element of the gain arising on your London flat from February 2025 to the date of sale will then benefit from private residence relief and be exempt from CGT. **[1]**

Max 7

2) Milton's property sales

The gain accruing on the let residential property **[½]** after 5 April 2015 **[½]** will be subject to CGT on disposal.

The gain can be calculated in two ways:

- By default, a value as at 5 April 2015 would need to be obtained and the gain would be the difference between the disposal proceeds and that value. **[1]**

- Alternatively, and on election by Milton **[½]**, the gain for the whole period of ownership can be calculated as disposal proceeds less acquisition cost and the post 5 April 2015 portion worked out on a straight line time apportionment basis. **[1]**

The gain will be subject to tax at 24% **[½]** after deduction of any available annual exempt amount. **[½]**

The gain arising on the sale of the shop premises will also be subject to CGT as it is UK land and buildings. **[½]** As it is not residential property, only the gain arising from 6 April 2019 is chargeable. **[½]** The gain is calculated by a similar default method, taking the difference between the disposal proceeds and the market value at 6 April 2019. There is no option for a time apportionment method for non-residential property. **[½]**. The gain will also be subject to tax at 24%. **[½]**

The loss arising on the vacant residential property will be an allowable loss **[½]** that could be relieved against his other capital gains. The allowable loss can be calculated as described above via the default and elected route **[½]** but, in addition, there is the possibility to elect for the allowable loss to be calculated as the difference between the sale proceeds and the acquisition cost. This does not require any apportionment to identify just the post-5 April 2015 loss **[½]**. This last method would appear to be beneficial in this case. **[½]**

Milton's share sale

As a non-resident individual, Milton's gain on the disposal of the shares in Trainers Plc will not be subject to CGT. **[1]**

Please do not hesitate to contact me if you have any queries.

Yours sincerely,

Max 8

An Adviser

Total for question 15

13. VINCENT

1)

Part disposal on receipt of insurance proceeds – 2025/26

	£	
Compensation received	120,000	**[½]**
Less: Cost A/(A+B) x original cost		
120,000/(120,000 + 80,000) **[1]** x 165,000 = 99,000 **[½]**	(99,000)	
Gain	21,000	

Disposal of the cottage 2026/27

	£	
Proceeds	345,000	**[½]**
Less: Remaining base cost (165,000 – 99,000)	(66,000)	**[1]**
Less: Enhancement expenditure	(120,000)	**[½]**
Gain	159,000	

Total 4

2)

If Vincent had made a claim, he would not be treated as having made a part disposal on the receipt of the insurance proceeds and therefore would not have made a chargeable disposal in respect of the cottage during 2025/26. **[½]**

Instead, he would have deferred the gain (and the capital gains tax due date) to the following tax year. **[½]**

This is because he would have been treated as rolling over the insurance proceeds **[½]** against the original cost of the cottage. **[½]**

This would have reduced the base cost of the asset to £(165,000 – 120,000) = £45,000. **[1]**

Total 3

Tutorial Note:

The £120,000 enhancement is then added to the base cost of £45,000. When the cottage is sold for £345,000 the gain will be £180,000 (345,000 – 45,000 – 120,000). Notice that this is the same amount as the two gains split in part 1, which illustrates that the election just defers the gain and CGT payment to a later transaction. However, making the election means that only one annual exempt amount can be used.

3)

	£	
Capital sum received	12,500	**[½]**
Add: Scrap value	100	**[½]**
	12,600	
Less: Cost	(5,000)	**[½]**
Gain	7,600	
Less: Deferred gain	(5,100)	**[½]**
Chargeable gain	2,500	

	£	
Cost of new asset	10,000	**[½]**
Less: Rolled over gain	(5,100)	**[½]**
Revised base cost	4,900	

Total 3

Tutorial Note:

As the question did not state that the election for rollover was to be made, credit would be given if the gain on the destroyed painting was shown as £7,600 and the base cost of the new painting as £10,000 although it was the examiner's intention that rollover relief would be dealt with and the phrasing of the question was hinting at this.

4) Grant of a short lease out of freehold

Capital element of premium received = 'a' (W)	40,560	
Less: Deemed cost		
$\frac{a}{(A+B)} = \frac{£40,560}{(£52,000 + £202,000)} \times £109,000$	(17,406)	**[1½]**
Chargeable gain	23,154	

Working:

Income tax element of premium

	£	
Premium received (A)	52,000	**[½]**
Less: 2% x premium x (N – 1)		
2% x £52,000 x 39 years = 'a'	(40,560)	**[1]**
Income element	11,440	

Therefore, the capital element = (£52,000 – £11,440) = £40,560

Total 3

5) Inter-spouse transfer (May 2025)

Assets are transferred between married couples at nil gain / nil loss, so no gain arises (the connected person rules do not apply). **[1]**

The value of the asset at the date of the gift is ignored. **[½]**

Alberta's base cost for future disposal = original cost to Vincent = £5,750. **[½]**

Connected person transfer to daughter (March 2026)

The normal rule for gifts to connected persons applies. **[½]** The shares are transferred at market value of £12,000. **[½]**

A chargeable gain arises on Alberta of £6,250 (£12,000 – £5,750). **[½]**

Gift relief is not available as they are quoted shares and Alberta owns less than 5% interest. **[1]**

Business asset disposal relief is not available as Alberta owns less than 5% interest. **[½]** In addition, Albert does not work for the company. **[½]**

Alice's base cost for future disposal = market value at date of gift = £12,000. **[½]**

Max 5

Total for question 18

14. NEWT

1)

		Non-savings	Interest	Dividends	Termination Payment	
		£	£	£		
Salary 6/12 x 78,000		39,000				**[½]**
Termination payment (W1)		23,000			17,000	
Car (W3)		2,400				
Loan (W4)		178				
Interest			2,500			**[½]**
Dividend				4,000		**[½]**
Net income		64,578	2,500	4,000	17,000	
Less: Personal allowance		(12,570)	-	-		**[½]**
Taxable income		52,008	2,500	4,000	17,000	
37,700	@ 20%	7,540				**[½]**
14,308	@ 40%	5,723				**[½]**
52,008						
500	@ 0%	-				**[½]**
2,000	@ 40%	800				**[½]**
500	@ 0%	-				**[½]**
3,500	@ 33.75%	1,181				**[½]**
17,000	@ 40%	6,800				
Income Tax liability		22,044				
Less: PAYE		(19,000)				**[½]**
Income Tax payable		3,044				

Due for payment – 31 January 2027 **[½]**

W1) Termination payment

		Termination Payment	Normal Earnings	
		£	£	
Termination bonus			10,000	**[½]**
Statutory redundancy		7,000		**[½]**
Ex gratia payment	48,000			
Payment to leave immediately (non-contractual PILON)	5,000			**[½]**
Less: PENP (W2)	(13,000)		13,000	**[½]**
Total taxable as normal earnings			23,000	
		40,000		
		47,000		
Exempt amount		(30,000)		**[1]**
Taxable		17,000		

W2) Post employment notice pay (PENP)

(78,000 /12) x 2/1 = 13,000 **[1]**

W3) Car benefit

		£	
List price			
When new		15,000	**[½]**
Leather seats		1,000	**[½]**
Leather steering wheel	Under £100	Nil	**[½]**
		16,000	
Applicable percentage			
Round down emissions		120	**[½]**
Less: Base emissions		(75)	**[½]**
Excess		45	
Divide excess by 5		9	**[½]**
Add base percentage		21	**[½]**
Applicable percentage		30	
Benefit	30% x 16,000	4,800	
Non-availability	6/12 x 4,800	(2,400)	**[½]**
		2,400	

W4) Loan

Average method

Balance at start of year		12,000	
Balance just prior to clearance		7,000	
Average loan balance		9,500	**[½]**
Benefit	9,500 x 3.75% x 6/12	178	**[1]**

Strict method

6/4/25 – 5/9/25	5/12 x 12,000 x 3.75%	188	**[1]**
6/9/25 – 5/10/25	1/12 x 7,000 x 3.75%	22	**[1]**
		210	

Assumed that HMRC will not insist on the strict basis as not a significant distortion. **[½]**

Total for question 18

15. ZEENA

1) Zeena's chargeable gains computation 2025/26

Under the matching rules, there were no shares sold on the same day as the date of disposal, **[½]** but Zeena bought some shares on 15 June 2025 which is within the 30 days after the disposal date of 1 June 2025. **[½]**

Therefore, under the matching rules the shares bought on 15 June 2025 are sold first: **[½]**

	£	
Proceeds (W1)	16,500	
Less: Cost	(15,000)	**[½]**
Chargeable gain	1,500	**[½]**

Under the matching rules the remaining 5,000 shares sold on 1 June 2025 are matched to the s.104 pool (W2): **[½]**

	£	
Proceeds (W1)	16,500	
Less: Cost (W4)	(6,000)	**[½]**
Chargeable gain	10,500	**[½]**

Chargeable gains for 2025/26:

	£	
Gain on shares matched under 30 day rule	1,500	
Gain on s.104 shares	10,500	
Total chargeable gains	12,000	**[½]**

Workings

W1) 5,000/10,000 **[½]** × £33,000 **[½]** = £16,500 **[½]**

W2) s.104 pool:

Date	Number of shares	Cost	
		£	
15 February 2001	10,000	12,000	**[½]**
Less:			
Sale March 2009 (W3)	(1,000)	(1,200)	**[½]**
	9,000	10,800	
12 May 2025	15,000	18,000	**[½]**
Total	24,000	28,800	
Less:			
Sale 1 June 2025 (W4)	(5,000)	(6,000)	**[½]**
Balance c/f	19,000	22,800	

W3) 1,000/10,000 **[½]** x £12,000 **[½]** = £1,200

W4) 5,000/24,000 **[½]** x £28,800 **[½]** = £6,000

Total 10

2) Hamza

Private Residence Relief:

		Number of months			
		Total	Exempt	Chargeable	
1.2.08 to 30.4.10	Owner occupied	27	27		**[½]**
1.5.10 to 30.6.18	Working elsewhere in the UK	98	48 [1,3]		
			36 [2,3]	14 [4]	**[½]**
1.7.18 to 31.7.25	Owner occupied	85	85		**[½]**
		210	196	14	

	£	
PRR (£650,325 x 196/210)	606,970	**[½]**
Letting relief [4]	Nil	

Notes:

1) As Hamza is working elsewhere in the UK, a maximum of four years of his period of absence from his house will be deemed occupation. **[½]**

2) Hamza can treat three years of absence for whatever reason as deemed occupation. **[½]**

3) Each period of deemed occupation must be both preceded and followed by actual occupation at some point. **[½]**

4) There is no letting relief as the whole property is let. Lettings relief is only available if there is shared occupancy with the owner. **[½]**

Total 4

3) Nigella

BADR will be available on Nigella's gift to Irina **[½]** as Nigella is a director of Z Ltd **[½]**, which is a trading company **[½]** and Nigella held at least 5% of the shares **[½]** in Z Ltd for the two years prior to the gift. **[½]**

Irina is not entitled to BADR on the sale of her shares **[½]** as Irina is not an employee of Z Ltd **[½]**, nor did she hold at least 5% of the shares **[½]** in Z Ltd for the two years prior to sale.

Total 4

Tutorial Note:

Nigella has at least a 5% interest in Z Ltd both before and after the bonus issue:

Shares owned by Nigella	Issued share capital	% interest
52,800	1,000,000	5.28%
61,600	1,166,666	5.28%

It is assumed that the shares also carry equal voting rights, rights to distributable profits and rights to assets on a winding up

4) Luka

The chargeable gain arising is the actual capital profit made **[½]**, calculated as the difference between the actual sale proceeds received and the cost of the shares. **[½]**

The gift relief claim is the balancing difference between the capital gain before reliefs and the chargeable amount. **[½]**

Gift relief = £30,030 **[1½]**
(13,650 shares x (£5.20 MV – £2.50 Cost) – (£3.00 – £2.50) capital profit)

[Note: Marks are available for the explanation of the calculations, therefore full marks will not be gained if only calculations with no explanation are given.]

Total 3

Tutorial Notes:

The amount per share at each event needs to be calculated as follows to determine that it is a sale at undervaluation:

- MV per share = £5.20
- Cost per share = (£129,000 ÷ 51,600) = £2.50
- Actual SP per share = (£40,950 ÷ 13,650) = £3.00

The gift relief can be directly calculated (as above) or the full computation can be performed as follows:

- Capital gain before reliefs = £36,855 (13,650 shares sold x (£5.20 – £2.50)
- Chargeable gain = £6,825 (13,650 shares sold x (£3.00 – £2.50))
- Gift relief = £30,030 (£36,855 – £6,825)

5) Georgia

Income Tax relief

- Georgia can claim relief against her income tax liability for funds used to subscribe for shares in a K Ltd. **[½]**

- There is an annual investment limit of £1 million for 2025/26. **[½]**

- The relief is 30% of the amount invested, provided she has sufficient income tax liability to match against the relief. **[½]**

- Accordingly, the maximum amount of investment relief that can be obtained is £300,000 (30% x £1,000,000). **[½]**

- Georgia could invest all £1.5 million and carry back £500,000 of the investment to offset in the previous tax year 2024/25 income tax computation, provided the maximum relief has not been utilised already in that previous tax year. **[½]**

- If the company is a knowledge intensive company, the annual investment relief limit is £2 million for 2025/26, so the maximum investment relief is £600,000. **[½]**

Max 2

Capital Gains Tax relief

- It is also possible to defer capital gains arising on other asset disposals as the sale proceeds are used to invest in EIS shares. **[½]**

- The deferred gain will only become chargeable when Georgia disposes of her EIS shares. **[½]**

- On disposal after five years the qualifying EIS shares will be exempt from capital gains tax **[½]** as they will have been held for at least three years after acquisition. **[½]**

- If a loss arises on the disposal of the EIS shares, it is an allowable loss but the loss should be reduced by the income tax relief retained. **[½]**

Max 2

Total 4

Total for question 25

ETHICS QUESTIONS

1. A member must be courteous and considerate to all with whom they come into contact in a professional capacity.

   Courtesy falls within which of the five 'Fundamental Principles' relating to members?

2. The 'Standards for Tax Planning' are critical to any planning undertaken by members.

   What are the five Standards and provide a brief explanation of them.

3. You have taken on a new client and wish to agree a contingent fee as the basis of payment for the work required.

   State three of the guidelines in relation to using contingent fees.

4. A director of a company to which you provide tax advice has asked if you would like to invest in the company.

   Outline the guidance given to members on financial involvement with a client.

5. **When should engagement letters for tax clients be reviewed?**

6. You receive a call from the bank manager of a client. He requests a copy of the client's latest income tax return in order to support an application for a loan.

   According to the Professional Rules and Practice Guidelines, which of the five 'Fundamental Principles' is threatened in this situation?

7. The Professional Rules and Practice Guidelines list four examples of ways in which a member can charge for services.

   List the four methods.

8. **Where a member of the ATT is to pay a commission to a third party for introducing a client, what disclosure must the member make to the client?**

9. **State four matters that you would expect to be dealt with in the covering letter accompanying a typical contract for the provision of tax services.**

10. **What are the three choices available to a member who is asked to act for both parties to a transaction?**

11. You are a tax technician working on a personal tax return for a client. Looking back to last year's return you think you have discovered an error. You are unsure of how to deal with this.

What steps should you take, according to the flowchart on 'Dealing with Errors'?

12. The profits of a trade, profession or vocation must be computed in accordance with Generally Accepted Accounting Principles (GAAP) subject to any adjustment required or authorised by law in computing profits for those purposes. This permits a trade, profession, vocation or property business to disregard non-material adjustments in computing its accounting profits.

How does the accounting concept of materiality apply when making adjustments required to accounting figures so as to arrive at taxable profits?

13. A member dealing with third parties on a client's behalf must be careful not to inadvertently assume a duty of care towards the third party.

State four ways in which the member may manage these risks.

14. A member may sign a tax return in their capacity as a liquidator.

Name three other ways in which they can sign a return.

15. The Professional Rules and Practice Guidelines state that a member should request the prospective client's permission to communicate with the client's existing adviser before accepting a new appointment.

Explain why a member should communicate with an existing adviser.

16. **Describe briefly four principles set out in the Professional Rules and Practice Guidelines that govern a member accepting a new client.**

17. **According to the Association of Taxation Technician's Professional Rules and Practice Guidelines, what procedures should be put in place to handle complaints from clients?**

18. P Ltd is engaging Dov, a member of ATT, to assist with tax compliance work. The company is offering to pay a monthly fee in return for which its finance department is likely to want between two and five days of work from Dov per month.

Identify the major areas of concern when accepting a client on a retainer arrangement.

19. You discover that due to an error by HMRC you have received an excessive repayment of tax, on behalf of a client.

Briefly state what action you should take.

20. **When a member delegates work to a junior, or subcontracts it, who takes responsibility for this work, according to the Professional Rules and Practice Guidelines?**

ETHICS ANSWERS

The references in brackets at the end of the answers are to the 6th edition of the text book "Professional Responsibilities & Ethics for Tax Practitioners".

1. Professional behaviour.

[Chapter 19 section 19.6 para 2.22]

2. The five standards are:

- Client Specific – it must be specific to the particular client's facts and circumstances;
- Lawful – Members must act lawfully and with integrity at all times and expect the same from their clients;
- Disclosure and transparency – All relevant facts must be disclosed to HMRC;
- Tax planning arrangements – Members must not promote tax planning that is set out to achieve results contrary to the intention of Parliament;
- Professional judgement and appropriate documentation – members must exercise professional judgement on a number of matters and keep timely notes.

[Chapter 20 section 20.2 point 1]

3. Any three from Chapter 8, section 8.2, for example:

- Contingent fees can carry increased risks, such as a third party questioning the independence and objectivity of the member. Accordingly, where a contingent fee basis is adopted, a member should take care not only to ensure that their conduct meets, but is seen to meet, the required principles of integrity and objectivity.
- A member should be aware that there may be legal or regulatory restrictions to having a contingent fee.
- It is advisable that where contingent fees are used the engagement letter should set out the scope of the work they cover and stipulate the action to be taken should subsequent events cancel all or part of the benefits to the client of the contingent fee arrangement. It should set out clearly and precisely whether part or the entire fee is to be repaid and whether interest is payable.

4. Having a financial involvement with a client may impair or be perceived as impairing a member's ability to act objectively. Members should exercise care before entering into any kind of financial arrangement with a client. This includes, for example, lending money or investing in the business of a client.

[Chapter 6 section 6.5 para 6.5.1]

5. Engagement letters should be reviewed:

- annually; and
- when the scope of services changes significantly.

[Chapter 4 section 4.10 points 1 and 3]

6. Confidentiality

[Chapter 19 section 19.5 para 2.16]

7. Time and expenses
Fixed fees
Contingent (including success) fees
Insurance

[Chapter 8 section 8.1 para 8.1.2]

8. If an ATT member is to pay a commission, they must disclose to the client:

- the amount and nature of the fee, commission or other reward; and
- the identity of the third party recipient.

[Other valid points will gain credit]

[Chapter 4 section 4.2 para 4.2.1]

9. Any four from Chapter 4 section 4.11, for example:

(i) Who we are acting for;
(ii) Period of engagement;
(iii) Scope of services;
(iv) AEOI, including FATCA

10. The three choices are:

- To advise both parties of the conflict and to give both the opportunity to consider if they wish to seek alternative representation, or agree that you continue to act for both, if appropriate;

- To act for one client only – normally the one who first sought advice;

- To act for neither party – if the conflict cannot be managed.

[Chapter 6 section 6.4 para 6.4.2]

11. You should:

    1) Establish the facts – is there an error?

    2) If there is an error – is it trivial?

    3) If it is not trivial – is specific authorisation required from the client to disclose the error to HMRC?

    4) If specific authorisation is required and the client is unwilling to give authorisation, and this is confirmed in writing, you must write to the client explaining the consequences of non-disclosure

    5) If client still refuses to authorise disclosure, you are required to cease to act, notify HMRC, and your MLRO/NCA.

    [Other valid points will get credit.]

    [Chapter 23 section 23.2 - flowchart]

12. The application of GAAP does not extend beyond the accounting profits. Thus, the accounting concept of materiality cannot be applied when completing tax filings, for example, when computing adjustments required to accounting figures so as to arrive at taxable profits.

    [Chapter 21 section 21.6 points 16-17]

13. Any four from Chapter 7 section 7.2 para 7.2.5, for example:

    - Including a clear notice or caveat in the information stating that the advice has been prepared for the client and that no liability is accepted to any third parties who choose to make use of the information.

    - Requiring that the client seek consent before information with which the name of member is associated is released by the client to third parties.

    - Requiring the third party and/or its advisers to undertake in writing that a member be excluded from liability or held harmless as a consequence of making the information available to them.

    - Communicating to the third party the terms upon which the information is released including limitations on scope, stating that the advice was prepared only with the client's interests mind, may not apply in all circumstances, and confirmation that no responsibility is accepted.

14. Any three from:

    - receiver
    - administrator
    - under personal appointment as trustee
    - under personal appointment as executor
    - under personal appointment as attorney
    - under personal appointment as director

    [Chapter 21 section 21.11 point 33]

15.

a) The member is aware of any professional reason why they should not accept the appointment.

b) The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period.

[Chapter 4 section 4.4 paras 4.4.1-4.4.2]

16. Any four from Chapter 4 section 4.3 para 4.3.1, for example:

- Comply with the identification requirements set out in the anti-money laundering/terrorist financing guidance.
- Consider whether the potential client will be an acceptable client in terms of the risks which will arise for the practice from acting for that client and whether the member has the capability to manage those risks.
- Consider whether the member and firm will have the skills and competence to service the client's requirements during the course of the engagement.
- Consider whether there is any conflict of interest in accepting the client and if so whether and how it might be managed.

17. The ATT's rules state that the procedures should ensure that:

- Each new client is informed in writing of the name and status of the person to be contacted in the event of the client wishing to complain about the services provided and of the ability to complain to the Taxation Disciplinary Board (TDB). This information should be included in the engagement letter.
- Each complaint is acknowledged promptly in writing.
- Each complaint is investigated thoroughly and without delay by a person of sufficient experience, seniority and competence who preferably was not directly involved in the act or omission giving rise to the complaint and the client is told about investigation.
- If the investigation finds that the complaint is justified, wholly or in part, any appropriate action is taken.
- Consideration is given as to whether to inform the firm's professional indemnity insurer

[Chapter 9 section 9.1 para 9.1.1]

18. One area of concern is what is covered by the arrangement. Therefore, the member should normally set out the retainer arrangement in writing so that the member and the client clearly understand the extent and limitations of the agreement and the point when further charges may be levied.

    The other area for concern is that a member should watch out for conflicts of interest, given that under a retainer, the client can call on that member's services at any time, which may mean that the member may not be able to fulfil their obligations to other clients.

    [Chapter 8 section 8.4 paras 8.4.2-8.4.3]

19. You should return it to HMRC as soon as practicable.

    You do not need your client's authority to return an excessive repayment but should notify your client that you have done so.

    [Chapter 23 section 23.5 point 21]

20. If a member delegates work, the member remains primarily responsible for the work so should exercise sufficient supervision to confirm that the work performed is satisfactory and that it is carried out by persons who have been suitably trained to carry out the work involved.

    [Chapter 5 section 5.4 para 5.4.1]