

Tolley[®] Exam Training

CTA ADVANCED TECHNICAL PAPER

TAXATION OF INDIVIDUALS

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sittings

PQ120

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This Advanced Technical Pre Revision Question Bank contains 16 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.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2026** and your own personalised version of the approved online legislation.

Using this question bank

All the CTA Advanced Technical exams are **3.5 hours** in length.

We suggest you **allocate 2 minutes per mark** which allows for 10 minutes initial reading time.

10 mark question = 20 minutes

15 mark question = 30 minutes

20 mark question = 40 minutes

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 the 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 recommend you do this using 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.

Preparing your answers

Questions set on the Advanced Technical papers **do not require a specific format** of answer - all questions will require a direct answer (rather than a letter to a client or an email to the tax partner). Requirements will start with words like “Explain”, “Discuss”, “Compare” and “Calculate”.

There may be scenarios where there is no single correct answer or where the answer is not definitive. You will be expected to **make recommendations** as to actions which should be taken by the subject of the question.

You are expected to produce **full and reasoned answers** sufficient to demonstrate your knowledge and application in order to gain the available marks. **Brief bullet points are unlikely to be sufficient.**

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

The CIOT do not award “presentation and higher skills” (PHS) marks on individual questions nor will they form part of the 100 marks available on a paper. Instead, when they carry out their normal review of a script that is just below a pass, **up to two bonus PHS marks per paper** can be awarded which could therefore boost a candidate from a fail to a pass.

When awarding these bonus marks, the CIOT have stated they will consider:

- The accuracy of spelling and grammar.
- Whether full sentences have been used where appropriate (in some cases appropriately detailed lists may be appropriate, for example setting out the conditions for a relief to apply).
- Whether answers flow well and are presented in a logical order.
- Whether conclusions have been reached where it is appropriate to expect a conclusion.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated for 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? A good question to ask yourself is would the reader pay money for your advice? 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?

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 through 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

In the advanced technical papers, it is quite likely that there is no single right answer. The model answer is only one possible solution. You may well have included valid points which are not included in 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?

CONTENTS**QUESTIONS**

NO	NAME	TOPIC	MARKS
1	Sheena Steeple	Husband and wife - IT and CGT computations	20
2	TruTeck Ltd	IT and NIC re overseas secondments	20
3	Mr and Mrs Moore	Unapproved options and EMI's – IT, CGT, NIC	15
4	Mr Walker	Sale of land, inc. anti-avoidance	20
5	Ethel and Florence	CGT & residence issues	20
6	Mrs Lindsay	IT comp including benefits, EIS, gift to charity	20
7	Mr Marshall	Employment expenses	15
8	Sue McDonnell	Briefing note and CGT comp; share disposals, BADR on assoc disposal	20
9	Mr Sharma	IT and CGT of various EIS transactions	20
10	Mr Toogood	Purchase of own shares and Termination	20
11	Mr White	IT & CGT comps; various lease transactions	15
12	Michael	Non Resident landlord	20
13	Harriot Walton**	Defined benefit pension	15
14	Steve Ford	APN	10
15	Isabelle	Residence and the FIG regime	20

INCOME TAX - RATES AND THRESHOLDS

	2025/26	2024/25
Rates	%	%
Starting rate for savings income only	0	0
Basic rate for non-savings and savings income only	20	20
Higher rate for non-savings and savings income only	40	40
Additional and trust rate for non-savings and savings income	45	45
Dividend ordinary rate	8.75	8.75
Dividend upper rate	33.75	33.75
Dividend additional rate and trust rate for dividends	39.35	39.35
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,700	1 – 37,700
Higher rate band	37,701 – 125,140	37,701 – 125,140
Dividend allowance	500	500
Savings allowance		
– Taxpayer with basic rate income	1,000	1,000
– Taxpayer with higher rate income	500	500
– Taxpayer with additional rate income	Nil	Nil
Scottish Tax Rates⁽¹⁾	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	42
Advanced rate	45	45
Top rate	48	48
Scottish Tax Thresholds⁽¹⁾	£	£
Starter rate	1 – 2,827	1 – 2,306
Scottish basic rate	2,828 – 14,921	2,307 – 13,991
Intermediate rate	14,922 – 31,092	13,992 – 31,092
Higher rate	31,093 – 62,430	31,093 – 62,430
Advanced rate	62,431 – 125,140	62,431 – 125,140
Top rate	125,140+	125,140+

INCOME TAX - RELIEFS

	2025/26	2024/25
	£	£
Personal allowance ⁽²⁾	12,570	12,570
Married couple's allowance ⁽³⁾	11,270	11,080
– Maximum income before abatement of relief - £1 for £2	37,700	37,000
– Minimum allowance	4,360	4,280
Transferable Tax allowance for married couples and civil partners ⁽⁴⁾	1,260	1,260
Blind person's allowance	3,130	3,070
Enterprise investment scheme relief limit ⁽⁵⁾	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	200,000	200,000
De minimis trusts amount	500	500

- Notes:** (1) Scottish taxpayers pay Scottish income tax on non-savings income.
(2) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(3) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
(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.

CTA EXAMINATIONS

2026

TAX TABLES



ISA limits	2025/26	2024/25
Maximum subscription:	£	£
'Adult' ISAs	20,000	20,000
Junior ISAs	9,000	9,000

Pension contributions

	Annual allowance ⁽¹⁾	Minimum pension age
2025/26 and 2024/25	£60,000	55
Basic amount qualifying for tax relief	£3,600	
Lump sum allowance	£268,275	

Note: (1) 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

Car or van ⁽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.

INCOME TAX - BENEFITS

Car benefits – 2025/26

Emissions	Electric range (miles)	Car benefit %	
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 ab 75g/km
155g/km or more		37%	

	2025/26	2024/25
Fuel benefit base figure	£ 28,200	£ 27,800
Van benefits		
No CO ₂ emissions	Nil	Nil
CO ₂ emissions > 0g/km	4,020	3,960
Fuel benefit for vans	769	757

Official rate of interest (assumed)	from 6 April 2025 3.75%	from 6 April 2024 2.25%
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CTA EXAMINATIONS

2026

TAX TABLES



CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) ⁽¹⁾	100%
WDA on plant and machinery in main pool ⁽²⁾	18%
WDA on plant and machinery in special rate pool ⁽³⁾	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) ⁽⁴⁾	3%

- Notes:** (1) On first £1,000,000 of investment in plant & machinery (not cars).
 (2) The main pool rate applies to cars with CO₂ 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 CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).
 (4) A 10% rate applies in respect of special tax site expenditure.

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred on research and development.
 New zero-emission goods vehicles (until 31 March/5 April 2025).
 New cars that either emit 0g/km of CO₂ (50g/km prior to April 2021) or are electric (until 31 March/ 5 April 2026).
 Electric vehicle charging points (until 31 March/5 April 2026).

First year allowances (FYA) available to companies only

	Main pool assets	Special rate pool assets
Expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards ⁽⁵⁾	100%	50%
Expenditure on new plant and machinery (other than cars) in a special tax site	100%	100%

- Notes:** (5) 130% for main pool expenditure and 50% for special rate pool expenditure between 1 April 2021 and 31 March 2023.

INCOME TAX - SIMPLIFICATION MEASURES

	2025/26	2024/25
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses		
Cars or vans	First 10,000 business miles	45p per mile
	Additional business miles	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

CTA EXAMINATIONS

2026

TAX TABLES



NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	2025/26			2024/25		
	Annual	Monthly	Weekly	Annual	Monthly	Weekly
Lower earnings limit (LEL)	£6,500	£542	£125	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£12,570	£1,048	£242
Secondary threshold (ST)	£5,000	£417	£96	£9,100	£758	£175
Upper earnings limit (UEL)	£50,270	£4,189	£967	£50,270	£4,189	£967
Upper secondary threshold for under 21 (UST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Apprentice upper secondary threshold for under 25 (AUST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Special tax sites upper secondary threshold	£25,000	£2,083	£481	£25,000	£2,083	£481

Class 1 primary contribution rates

Earnings between PT and UEL	8%	8%
Earnings above UEL	2%	2%

Class 1 secondary contribution rates

Earnings above ST ⁽¹⁾	15%	13.8%
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Note: (1) Rate of secondary NICs between the ST and the UST, AUST & special tax sites upper secondary threshold is 0%.

	2025/26	2024/25
Employment allowance		
Per year, per employer	£10,500	£5,000
Class 1A contributions	15%	13.8%
Class 1B contributions	15%	13.8%
Class 2 contributions		
Rate	£3.50 pw	£3.45 pw
Small profits threshold (SPL) ⁽²⁾	£6,845	£6,725
Lower profits limit (LPL)	N/A	N/A

Note: (2) From 2024/25, 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	£17.45 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£12,570	£12,570
Annual upper profits limit (UPL)	£50,270	£50,270
Percentage rate between LPL and UPL	6%	6%
Percentage rate above UPL	2%	2%

OTHER PAYROLL INFORMATION

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 pay	For each qualifying week, the lower of 90% of AWE and £187.18
Statutory sick pay	£118.75 per week

CTA EXAMINATIONS

2026

TAX TABLES



Student Loan	Plan 1:	9% of earnings exceeding £26,065 per year (£2,172.08 per month/ £501.25 per week)
	Plan 2:	9% of earnings exceeding £28,470 per year (£2,372.50 per month /£547.50 per week)
	Plan 4:	9% of earnings exceeding £32,745 per year (£2,728.75 per month /£629.71 per week)
Postgraduate Loan		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

National living/minimum wage (April 2025 onwards)

Category of Worker	Rate per hour £	Category of Worker	Rate per hour £
Workers aged 21 and over	12.21	16–17 year olds	7.55
18–20 year olds	10	Apprentices	7.55

Accommodation Offset £10.66 per day

CHILD BENEFIT

Year to 5 April 2026	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%
Interest on underpaid corporation tax instalments	5.50%
Repayment interest	3.50%
Interest on overpaid corporation tax instalments	4.25%

CAPITAL GAINS TAX

	2025/26	2024/25
Annual exempt amount for individuals	£3,000	£3,000

CGT rates for individuals, trusts and estates

Gains qualifying for business asset disposal ⁽¹⁾ /investors' relief ⁽¹⁾	14%	10%
Gains for individuals falling within remaining basic rate band ⁽²⁾	18%	18%
Gains for individuals exceeding basic rate band and gains for trusts and estates ⁽³⁾	24%	24%

- Notes:** (1) From 6 April 2026 the rate will be 18%
(2) For disposals prior to 30 October 2024, the rate was 10% for assets other than residential property
(3) For disposals prior to 30 October 2024, the rate was 20% for assets other than residential property

Business Asset Disposal relief	2025/26	2024/25
Relevant gains (lifetime maximum) ⁽⁴⁾	£1 million	£1 million

Investors' relief	2025/26	2024/25
Relevant gains (lifetime maximum) ⁽⁵⁾	£1 million	£1 million

- Note:** (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.
(5) For qualifying disposals made before 30 October 2024 the lifetime limit was £10 million.

CTA EXAMINATIONS

2026

TAX TABLES



Lease percentage table

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

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

CTA 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%
Patent rate	10%	10%

EU definition of small and medium sized enterprises

	Small ⁽²⁾	Medium ⁽²⁾	Extended definition for R&D expenditure
Employees ⁽¹⁾	< 50	< 250	<500
Turnover ⁽¹⁾	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets ⁽¹⁾	≤ €10m	≤ €43m	≤ €86m

- Notes:** (1) Must meet employees criteria and either turnover or balance sheet assets criteria.
(2) Thresholds apply for transfer pricing and distributions received by small companies.

Research and development expenditure

Financial year	2025 and 2024
RDEC	20%
Enhanced R&D Intensive Support (ERIS) - total relief for loss making R&D intensive SMEs	186%
R&D tax credit for R&D intensive SME losses	14.5%

VALUE ADDED TAX

	Standard rate	VAT fraction
Rate	20%	1/6
Limits	2025/26	2024/25
	£	£
Annual registration limit	90,000	90,000
De-registration limit	88,000	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			

CTA EXAMINATIONS

2026

TAX TABLES



OTHER INDIRECT TAXES

	2025/26	2024/25
Insurance premium tax⁽¹⁾		
Standard rate	12%	12%
Higher rate	20%	20%

Notes: (1) Premium is tax inclusive ($\frac{3}{28}$ for 12% rate and $\frac{1}{6}$ for 20% rate).

Landfill Tax (pro rated for part tonnes)

Standard rate	£126.15 per tonne	£103.70 per tonne
Lower rate	£4.05 per tonne	£3.30 per tonne

Landfill Communities Fund (LCF)⁽²⁾	5.3% x landfill tax liability	5.3% x landfill tax liability
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Notes: (2) Relief for 90% of qualifying contributions

Aggregates Levy (pro rated for part tonnes)	£2.08 per tonne	£2.03 per tonne
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Plastic Packaging Tax (PPT) (pro rated for part tonnes)	£223.69 per tonne	£217.85 per tonne
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Climate Change Levy (CCL)⁽³⁾

	2025/26	2024/25
Electricity	0.775p per kwh	0.775p per kwh
Natural gas	0.775p per kwh	0.775p per kwh
Liquified petroleum gas (LPG)	2.175p per kg	2.175p per kg
Any other taxable commodity	6.064p per kg	6.064p per kg

Carbon Price Support (CPS) rates

Natural gas	0.331 per kwh	0.331 per kwh
LPG	5.28p per kg	5.28p per kg
Coal & other taxable solid fossil fuels	£1.5479 per GJ on GCV	£1.5479 per GJ on GCV

Tobacco products duty

	From 6pm 30.10.2024	Before 6pm 30.10.2024
Cigarettes	16.5% x retail price + £334.58 per thousand cigarettes (or £446.67 per thousand cigarettes ⁽⁴⁾)	16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes ⁽⁴⁾)
Cigars	£417.33 per kg	£395.03 per kg
Hand-rolling tobacco	£476.83 per kg	£412.32 per kg
Other smoking/chewing tobacco	£183.49 per kg	£173.68 per kg
Tobacco for heating	£343.91 per kg	£325.53 per kg

Notes: (3) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2025/26 (2024/25 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (11%), for LPG it is 23% (23%) and 11% (11%) for any other taxable commodity

(4) The £446.67/£422.80 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)

CTA EXAMINATIONS

2026

TAX TABLES



Alcohol Duty⁽¹⁾

From 1 February 2025

	Duty in £ for each litre of pure alcohol in the product		Duty in £ for each litre of pure alcohol in the product
Beer (ABV)		Spirits/Spirit based products (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.61	1.3% to 3.4%	9.61
3.5% to 8.4%	21.78	3.5% to 8.4%	25.67
8.5% to 22%	29.54	8.5% to 22%	29.54
Stronger than 22%	32.79	Stronger than 22%	32.79
Cider (not sparkling) (ABV)		Wine/sparkling wine (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.61	1.3% to 3.4%	9.61
3.5% to 8.4%	10.02	3.5% to 8.4%	25.67
8.5% to 22%	29.54	8.5% to 22%	29.54
Stronger than 22%	32.79	Stronger than 22%	32.79
Sparkling cider (ABV)		Other fermented products like fruit ciders (ABV)	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.61	1.3% to 3.4%	9.61
3.5% to 5.5%	10.02	3.5% to 8.4%	25.67
5.6% to 8.4%	25.67	8.5% to 22%	29.54
8.5% to 22%	29.54	Stronger than 22%	32.79
Stronger than 22%	32.79		

Notes: (1) There are reduced rates for qualifying draught products

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	From 1.4.25	From 1.4.24
>£0.5m - ≤ 1m	£4,450	£4,400
> £1m - ≤ 2m	£9,150	£9,000
> £2m – ≤ 5m	£31,050	£30,550
> £5m – ≤ 10m	£72,700	£71,500
> £10m – ≤ 20m	£145,950	£143,550
> £20m	£292,350	£287,500

CTA EXAMINATIONS
2026
TAX TABLES



INHERITANCE TAX

Death rate	40% ⁽¹⁾	Lifetime rate	20%
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Note: (1) 36% rate if 10% or more of the deceased person'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⁽²⁾

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

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

STAMP DUTY/SDRT

Stamp duty⁽³⁾	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax (SDRT)⁽⁴⁾	- On agreements to transfer shares ⁽²⁾	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes: (3) Does not apply to UK securities traded on a recognised growth market (eg AIM).

(4) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

STAMP DUTY LAND TAX (SDLT)

Qualifying purchases in a Freeport receive full SDLT relief

CTA EXAMINATIONS

2026

TAX TABLES



Stamp Duty Land Tax on purchase price / lease premium / transfer value – England & NI

From 1 April 2025

Basic Rate % ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	Residential ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	Rate %	Non-Residential
0	£0 - £125,000	0	£0 - £150,000
2	£125,001-£250,000	2	£150,001 - £250,000
5	£250,001 - £925,000	5	£250,001 +
10	£925,001 - £1,500,000		
12	£1,500,001+		

- Notes:** (1) The basic rates are increased by 5% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 5% on all purchases of residential properties, subject to Note 2 below.
- (2) Companies (and certain other entities) pay 17% on purchases of residential property valued > £500,000 (subject to exceptions).
- (3) First-time buyers purchasing a single dwelling as their only/main residence may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will be 0% on the first £300,000, for a property bought for a maximum £500,000 (5% on the excess up to £500,000). No relief is available for a property over £500,000.
- (4) Non-resident individuals and companies will pay an additional 2% surcharge for purchases of residential property. This is in addition to the basic rate, the higher rate (where applicable, in Note 1), and the 17% rate (where applicable, in Note 2).

New leases – Stamp Duty Land Tax on lease rentals – England & NI

Rate (%)	Net present value of rent	
	Residential	Non-residential
0	Up to £125,000	Up to £150,000
1	Excess over £125,000	£150,001-£5m
2	N/A	Over £5m

Land and Buildings Transaction Tax (LBTT) on purchase price – Scotland

2025/26

Basic Rate % ⁽⁵⁾⁽⁶⁾⁽⁷⁾	Residential	Rate % ⁽⁵⁾	Non-Residential
0	up to £145,000	0	£0 - £150,000
2	£145,001 - £250,000	1	£150,001 - £250,000
5	£250,001 - £325,000	5	£250,001 +
10	£325,001 - £750,000		
12	£750,001 +		

- Notes:** (5) Rates are charged on the portion of consideration that falls in each band. The same tax is payable for a premium granted for a land transaction, except for residential leases which are generally exempt. Special rules apply to a premium for non-residential property where the rent exceeds £1,000 a year.
- (6) The 'Additional Dwelling Supplement' (ADS) of 8% of the relevant consideration applies broadly to purchases of an additional dwelling by individuals & trusts (over which the beneficiary has substantial rights) & to purchases of a dwelling by certain businesses, companies & other trusts.
- (7) There is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

New leases – Land and Buildings Transaction Tax (LBTT) on lease rentals - Scotland

Rate (%)	Net present value of rent ⁽⁸⁾	
	Non-residential	
Zero	Up to £150,000	
1%	£150,001 to £2,000,000	
2%	£2,000,001+	

- Note:** (8) Residential leases are generally exempt

QUESTIONS

1. On 4 January 2026, Roofix Ltd (a roofing company) was put into liquidation. Sheena Steeple owned 10,000 ordinary £1 shares in Roofix Ltd. 5,000 of these shares were acquired in 1995 on her 21st birthday as a gift from her mother when their value was £2,000. No gift relief was claimed at that time. Sheena subscribed for the balance of 5,000 shares in 2011 when Roofix Ltd raised capital by means of a new share issue. These shares cost £8,000. The liquidator has informed her that she will receive no proceeds following the liquidation of Roofix Ltd.

Sheena also stood as guarantor on a loan of £15,000 made to Roofix Ltd by Bodgit Bank to purchase machinery needed by the business. Under the terms of the guarantee she was liable to pay any outstanding interest payments on the loan. She has therefore paid the sum of £5,000.

In addition, Sheena loaned Roofix Ltd £7,500 in 2022 to allow repairs to be carried out on Roofix Ltd's warehouse, and this loan will also not be repaid.

As it became clear that Roofix Ltd was running into difficulty, Sheena sold some of her other assets to raise capital as follows:

- 1) In May 2025 Sheena sold a painting to her sister. She had purchased this in Asia in 2009 for £9,000, but her sister would only give her the current market value of the painting which has been agreed with a specialist dealer as £3,000.
- 2) On 10 June 2025 Sheena sold her holding of 6,000 £1 ordinary shares in Windowbox Ltd, a UK trading company, to a third party for £87,000. There are 100,000 shares in issue. She had purchased the shares in 2012 for £58,000.
- 3) In July 2025 Sheena sold her vintage sports car for £65,000, which she had bought in 1997 for £10,000.

Sheena's income for the year ended 5 April 2026 comprised her director's fees from Roofix Ltd of £20,000 (from which PAYE of £2,600 has been deducted) together with net taxable income from letting a furnished holiday cottage of £4,000. She had only commenced as a director of Roofix Ltd in April 2025 when she had returned to work after raising her family.

Sheena's husband, Bill also holds 10,000 shares in Roofix Ltd, which were originally acquired by Sheena as part of the subscription in 2011. Sheena subscribed £16,000 for these 10,000 shares (in addition to the 5,000 shares which she retained) and transferred them to Bill in January 2016 when Roofix Ltd was doing very well and the holding of 10,000 shares was worth £50,000.

Aged 61, Bill is somewhat older than Sheena and his only income for the year ended 5 April 2026 was a company pension of £15,000 from which tax of £486 has been deducted. In the year to 5 April 2025 his total earnings were £60,000 with PAYE deducted of £11,500.

In 2025/26 Bill realised other capital gains of £5,000, after deducting his annual exempt amount.

Requirement:

- 1) Calculate, with explanations where necessary, Sheena's income tax and capital gains tax liability for the year ended 5 April 2026. (17)
 - 2) Explain Bill's income tax and capital gains tax position for 2025/26 and explain how the loss on the shares in Roofix Ltd can be used. (3)
- Total (20)

2. TruTeck Ltd (TL) has always traded from within the UK, but recently decided to take advantage of new trading opportunities by setting up a subsidiary in Winterland (a country situated outside the EEA), TruTeck Winterland Ltd (TW).

TW is going to need support from the UK based workforce of TL in the short-term. TL is offering key staff, currently employed by TL in the UK, secondments to work for TW in Winterland. Whilst in Winterland these staff will help train the staff of TW. After the secondments, the staff will return to their UK duties.

TL is proposing that:

- 1) Staff will be seconded to TW for 18 months at a time. Start dates for each secondment will be 1 January or 1 July 2027.
- 2) Seconded staff will work full-time for TW in Winterland, have no UK duties and will be paid in Winterland Dollars (W\$) by TW.
- 3) All benefits and expenses of the Winterland secondment, as listed below, will be arranged and paid for by TW.
- 4) Expenses of travel will include the costs of travel between the UK and Winterland at the start and end of the 18 month secondment and also one trip per month between the UK and Winterland, either for seconded staff or their relatives.
- 5) A rented apartment will be provided for the use of each seconded employee and their family throughout the secondment.

It is anticipated that employees already owning property in the UK may rent out their UK properties whilst on secondment.

TL has confirmed that all of the staff to be seconded are currently classified as resident within the UK and have been for some time.

Winterland has no double tax treaty with the UK and has no reciprocal social security agreement with the UK.

Requirement:

- 1) **Discuss the UK tax and national insurance implications of the proposed overseas secondment.** (14)
 - 2) **Comment on the UK tax implications of employees receiving rental income on UK property whilst on secondment and future disposals of those properties following their return to the UK.** (6)
- Total (20)

In each case, calculations are not required.

3. Mr and Mrs Moore have been granted options to purchase shares by their respective employers.

Mr Moore is employed by ORC plc, an AIM listed company. He has been granted non-tax advantaged options to buy up to 10,000 shares at a price of £1.50 per share, which he will exercise in three years' time at which point he hopes that the share price will have increased to £2.00 per share. Mr Moore is planning to sell the shares when his daughter goes to university in five years' time, when he hopes that the share price will be £3.00 per share.

Mrs Moore works five hours per day (25 hours a week) at Scrumptious Chocolates Ltd, a small unlisted company that makes handmade chocolates. She has been granted options under an EMI option scheme over shares that represent 2% of the company's share capital. The options may only be exercised on an agreed sale of the company.

The directors of Scrumptious Chocolates Ltd have set the option price to be £1.00 per share. The value agreed with HM Revenue & Customs is £1.60 per share. The directors are planning to sell Scrumptious Chocolates Ltd in two or three years' time when they hope that the value of the company will be £2.00 per share.

Mrs Moore also runs her own business running drama workshops for children. She currently runs weekend workshops which are proving very popular and she would like to expand her business to run workshops during school hours. To do this, she plans to change her work pattern at Scrumptious Chocolates Ltd so that she will work three eight-hour days, which will allow her to run workshops in schools on the other two weekdays. The management at Scrumptious Chocolates Ltd are aware of Mrs Moore's business although she has not yet asked to change her hours.

Mr and Mrs Moore are both higher rate taxpayers and always use their capital gains tax annual exempt amount against gains on their investment portfolio.

Requirement:

Explain the income tax, capital gains tax and national insurance implications for Mr and Mrs Moore in relation to the share options. You are not required to calculate any potential tax liabilities. (15)

4. Mr Walker farms an 85 acre mixed farm in Wiltshire, most of which he has owned for the past 26 years. The farm includes a farmhouse, which is Mr Walker's main residence, some agricultural buildings and 75 acres of farmland which he farms himself (50 acres is arable land which he uses to grow crops and the remaining 25 acres is grazing land which he uses to raise livestock).

In addition, his farm includes a further 10 acres of agricultural land which was purchased five years ago and has been let to a third party who cultivates and grazes the land on an annually renewable licence. This 10 acres of land is adjacent to his farm and also adjoins a new development of residential property in the local village. He purchased the land with a view to realising the future potential development value.

Following the relaxation of planning policy in the area, Mr Walker has been approached by a property development company looking to develop his land for both commercial and residential use. The proposal is to develop the land in two phases. The first phase will involve the construction of a residential housing development on 10 acres of land currently subject to the renewable licence, on 20 acres of the arable land and on the 10 acres of the grazing land. After completion of the residential phase, which is estimated to be in around two to three years, the next phase is to build a commercial business park on the remaining land. The farmhouse will then be demolished.

Outline planning permission has been granted and the developer has approached Mr Walker with three proposals for the sale of the farm:

- 1) An outright sale of the whole farm for a fixed sum to be agreed in advance.
- 2) Sale of the initial 40 acres of land required for the residential development for a fixed sum agreed in advance, followed by another sale 24 months later of the remaining 45 acres of land and property at a price to be agreed at the time.
- 3) An outright sale of the whole plot for a lower fixed sum, followed by an additional amount once the land has been developed, based on a percentage of the proceeds received by the developer from each house sale.

Mr Walker is keen to proceed with the sale of the farm and has asked your advice on the tax implications of the three proposals.

Requirement:

Explain the capital gains tax and income tax implications of each of the three proposals for the sale of the farm, assuming the sale or, where there is more than one, the initial sale, completes in 2025/26. (20)

5. Ethel and Florence are sisters who each own 100 ordinary £1 shares in Meadows Investments Ltd, an investment company. Their holdings represent the entire issued share capital of the company. The shares were subscribed for at par in May 2007.

On Ethel's retirement, she and her husband Edward sold their house in the UK and bought a cottage on the Mediterranean. They emigrated on 31 March 2023. On 30 April 2023, Ethel sold her shares in Meadows Investments Ltd to Florence at their market value of £1,300,000.

Edward fell ill and needed medical treatment in the UK so on 3 July 2025 Ethel and Edward returned to the UK having let out their overseas cottage and bought a house in the UK. Ethel and Edward had undertaken the following capital transactions:

- 1) 500 shares in a listed Australian mining company were acquired on 30 June 2023 by Ethel and sold at a gain of £20,000 on 30 June 2024.
- 2) Shares from a UK portfolio held since 2020 were sold by Ethel on 10 April 2023 at a loss of £70,000. These were replaced by new shares on 15 May 2023 but a further loss of £15,000 arose on disposal on 30 November 2023.
- 3) Edward transferred a holiday cottage in the UK to Ethel on 30 September 2014. The property had been acquired by Edward on 30 September 2012 for £250,000. Ethel sold the cottage on 30 September 2023 for £300,000. No main residence election had been made in respect of the cottage.
- 4) To fund living expenses, Ethel sold the remainder of her portfolio of listed shares on 30 July 2025, realising net gains of £80,000.

On returning to the UK, Ethel explained to Florence that it was only Edward's health issues which brought about their return. The Mediterranean climate also appeals to Florence, who is single and is now considering a move overseas, although she will visit her sister every few months. Florence has advised that she will not be disposing of her shares in Meadows Investments Ltd as these are required to provide her with an income for her lifetime.

Florence does however own a commercial property in Wales which was transferred to her from her aunt's discretionary trust in 2021. The property was valued at £120,000 in 2021 and a Capital Gain of £70,000 was held over under s.260 TCGA 1992. She also has a residential property in York which she bought in 2020 for £180,000. The York property has never been her main residence.

Florence is interested in how her residency position would influence Capital Gains Tax on her assets and how HM Revenue & Customs would determine whether she will be treated as ceasing to be UK resident for tax purposes.

Requirement:

Discuss the Capital Gains Tax implications of the above matters for Ethel and Florence. (20)

6. Mrs Jane Lindsay is employed by Lovett Timber Ltd (Lovett) as a salesperson. She is UK resident. She does not own any shares in Lovett and is not a director. She has provided you with the following information for her 2025/26 tax return.

As well as a basic salary of £160,000, she is entitled to a bonus based on the profits of Lovett each year. Under the terms of her contract, she must still be employed two months after the award date. PAYE of £75,000 was deducted in 2025/26. She has received the following bonuses:

<u>Lovett's year end</u>	<u>Amount</u> £	<u>Date of award</u>	<u>Date of receipt</u>
31 December 2024	40,000	1 March 2025	1 May 2025
31 December 2025	29,000	1 March 2026	1 May 2026

Mrs Lindsay is not provided with a company car, but does use her own car for business travel. In 2025/26 she drove 12,000 business miles and was reimbursed at Lovett's flat rate of 30p per mile. She is provided with a parking space at Lovett's head office car park. In 2025 Lovett also rewarded her at Christmas with £300 of vouchers for a high street store.

She also receives private medical insurance cover for her and her family. This would have cost £1,200 if she had obtained the cover herself, but Lovett has a discount rate for their employees and the cost to Lovett was £1,000. She was given an interest free loan of £38,000 on 1 March 2025. On 1 February 2026 she repaid £23,200 of the loan. The remainder of the loan was outstanding on 5 April 2026.

During 2025/26, she received bank interest of £1,500 and dividends of £15,500. The dividends included £1,500 from shares in a qualifying VCT, which she purchased from a private investor two years ago for £30,000. She also cashed in an offshore single premium bond making a gain of £25,000. In December 2025 she invested £5,000 in Junetown Ltd, a qualifying Seed Enterprise Investment Scheme (SEIS) company.

Mrs Lindsay disposed of her shares in Abacus Ltd on 15 February 2026. She had subscribed for 10,000 shares in January 2022 at a cost of £60,000. Abacus Ltd has not performed well so she decided to sell the shares for £20,000 to a private investor. Abacus Ltd is an Enterprise Investment Scheme (EIS) qualifying company and she received full income tax relief of £12,000 in the year of purchase.

Mrs Lindsay made donations under payroll giving of £100 per month and also made a cash donation under the gift aid scheme of £8,500 to a local charity. In addition, she gave £1,000 to a charity registered in France. In March 2026 she also decided to make an additional donation to a local charity of the shares she owned in Homefind plc, a quoted trading company based in the UK. These shares had a market value of £10,000 in March 2026, but they have since increased in value and are currently worth £12,000.

Requirement:

- 1) **Calculate Mrs Lindsay's tax payable or repayable for 2025/26. You should take advantage of any reliefs and allowances available and provide explanations where appropriate.** (17)
 - 2) **Outline what, if any, National Insurance Contributions will be payable by Mrs Lindsay and Lovett Timber Ltd as a result of the employment income and benefits provided in the year. Calculations are NOT required.** (3)
- Total (20)

7. Kevin Marshall has recently received a job offer to work as a sales director for Extra Tools Ltd with an annual salary of £140,000. Whilst he is happy with the salary, he is concerned that he would have to incur a substantial amount of expenses in order to perform his duties, not all of which would be reimbursed by Extra Tools Ltd. Before accepting the offer, he would like to ascertain the tax treatment of the expenses and has provided the following details.

Travel Expenses

Mr Marshall would be based in Extra Tools Ltd's head office in Redtown. After six months he would be seconded to Extra Tools Ltd's regional office in Bluetown, for one day per week, over a period of 36 months.

Mr Marshall would be required to travel in his own car to visit customers during his working day. He would mainly visit the office first but on occasions would travel directly to the client. Extra Tools Ltd would pay Mr Marshall a mileage allowance for journeys to visit clients at the rate of 40p per mile.

From time to time, he would have to pay for the cost of overnight accommodation when undertaking business travel. If he has to stay away from home for more than one night, the cost of the full stay would be reimbursed by Extra Tools Ltd.

He would also be required to undertake training and would attend a college one day a week. He would travel there directly from home and the journey is two miles further than the journey to the office in Redtown.

Professional Fees

Mr Marshall would pay annual subscriptions to The Institute of Directors and to a rugby club, neither of which would be reimbursed by Extra Tools Ltd. He would meet customers and conduct business at the rugby club.

Business Entertainment

Mr Marshall would be expected to incur expenses entertaining customers. Part of this cost would be refunded by Extra Tools Ltd, but he would have to suffer some costs without reimbursement.

Household Expenses

Rather than staying on after hours in the office Mr Marshall would undertake some paperwork at home in the evenings. He would like therefore confirmation of whether he can claim a tax deduction for a proportion of his household expenses such as utility costs. Mr Marshall would also use his home broadband when working from home.

Extra Tools Ltd has confirmed that it would pay the cost of his home telephone by contracting with and paying the supplier directly (the phone would not be used exclusively for business and private usage would not be restricted). Extra Tools Ltd has also advised that it would meet the cost of any tax liability arising from this under a PAYE Settlement Agreement (PSA).

Other Expenses

If Mr Marshall accepts the job he would be required to pay a fee to Sales People Ltd, an employment agency who recommended the job to him.

Requirement:

Outline the tax treatment of the expenses described above and the effect of the PSA. You should also briefly explain the National Insurance treatment of each reimbursed item. Calculations are not required. (15)

8. Sue McDonnel is a founder shareholder of Phips Ltd (Phips), an unquoted trading company. She became a director of Phips in August 2016.

She holds 355 £1 Ordinary shares which represents 20% of the ordinary share capital of Phips. These were acquired as follows:

<u>Date</u>	<u>Shares acquired</u>	<u>Amount paid £</u>	<u>Notes on acquisition history</u>
1 June 2013	120	15,000	Subscription under the Enterprise Investment Scheme (EIS) on which Income Tax relief was given. Full Capital Gains Tax deferral was claimed in relation to an earlier gain arising on the sale of a non-residential investment property.
1 May 2015	40	Nil	1 for 3 bonus issue.
1 September 2019	60	80,000	Purchased from a third party investor at arm's length.
1 December 2021	80	8,000	Exercise of Enterprise Management Incentive scheme share options. Exercise price of £100 per share. Market value at date of grant was £350 per share. The shares were unrestricted and the market value on exercise was £2,200 per share.
1 January 2025	55	Nil	Gifted by Mrs McDonnel's husband who took early retirement from Phips in June 2024. He originally acquired 100 shares at £1,000 per share in April 2018 and 100 at £2,200 per share in December 2018, which both represented full market value. He has retained the balance of 145 shares.

An offer has been made by Driver plc, a UK subsidiary of a large US corporation, to acquire the whole of Phips Ltd. The offer price is £2,250 per share which will be paid as follows:

£1,000 per share payable in cash immediately;

£500 payable in cash on the first anniversary of the sale;

£250 payable in cash on the second anniversary of the sale; and

£500 to be satisfied by the issue of new shares in Driver plc immediately.

Mrs McDonnel also owns a large production facility which was acquired in April 2014. Between April 2014 and April 2016, the whole of the property was let at full rent to the previous owners. Since April 2016 three quarters of the property has been let to Phips at half market rent and the rest has been let at a commercial rent to a third party. As part of the acquisition of the shares of Phips, Driver plc has indicated that they would wish to purchase the property and a capital gain will arise.

Mr and Mrs McDonnel are both higher rate taxpayers and have made no other capital gains in the year and have no brought forward capital losses.

Requirement:

- 1) **Prepare a detailed computation of the Capital Gains Tax liabilities for Mr and Mrs McDonnell on the proposed disposal of their shares on the assumption that they undertake no planning.** (10)
 - 2) **Discuss any planning opportunities available to maximise reliefs and allowances on the sale of the shares in Phips Ltd.** (3)
 - 3) **Explain the potential for Business Asset Disposal Relief on the proposed sale of the business premises.** (7)
- Total (20)

Assume that both Mr and Mrs McDonnell have not previously used any of their lifetime limit for Business Asset Disposal Relief and that the disposal is completed in 2025/26.

9. Mr Sharma has made a number of transactions associated with investments and proposed investments in companies, each of which is a 'qualifying company' under the Enterprise Investment Scheme ('EIS').

Mr Sharma disposed of an investment property on 31 March 2026 making a capital gain of £400,000 and would like to defer the gain if possible. Mr Sharma is UK resident and domiciled and pays Income Tax at the additional rates.

Vespasian Ltd

On 4 July 2024 Mr Sharma subscribed £100,000 for 10% of the company's ordinary share capital and received Income Tax relief of £30,000. Vespasian Ltd needed to raise capital to buy new machinery, so on 30 April 2026 Mr Sharma subscribed £200,000 for further shares which gave him 35% of the company's ordinary share capital.

Claudius Ltd

Mr Sharma's business partner already owns 25% of the ordinary share capital of Claudius Ltd. Mr Sharma intends to subscribe £100,000 in 2026/27 which will give him 20% of the equity of the company.

Constantine Ltd

On 1 April 2023, Mr Sharma subscribed £75,000 for 10% of the ordinary share capital in Constantine Ltd, in respect of which he claimed Income Tax relief of £22,500. His brother is the company's major shareholder. He subscribed a further £75,000 on 1 May 2025 giving him 20% of the share capital and a further £75,000 on 1 May 2026 bringing his shareholding to 30% of the company's ordinary share capital. On 1 June 2024 he became a director of Constantine Ltd and began working part-time for the company for which he is paid a commercial salary.

Trajan Ltd

Mr Sharma received Income Tax relief of £30,000 for 2024/25 in respect of the issue, on 30 June 2024 of 100,000 £1 ordinary shares in Trajan Ltd subscribed for at par. On 30 April 2026 the company went into liquidation and no return of capital to the investors is expected.

Hadrian Ltd

Mr Sharma subscribed £250,000 in respect of 500,000 50p ordinary shares in Hadrian Ltd, issued on 1 December 2023 against which Capital Gains Tax deferral relief was claimed in respect of an earlier disposal. On 10 March 2026 Mr Sharma borrowed £125,000 from the company, and following your firm's advice, HM Revenue & Customs were notified on 20 April 2026 of a chargeable event as required by para 16 Sch 5B TCGA 1992.

Requirement:

Discuss the Income Tax and Capital Gains Tax consequences of the above matters and advise on any reliefs and planning which may be relevant. You should include statutory references where relevant. (20)

10. Mr Toogood, aged 58, requires advice regarding a major issue that has arisen between him and his three fellow directors at TipTop Furniture Ltd (TF Ltd), a furniture manufacturing company where he has been a director and shareholder for the last four years.

Mr Toogood has had a fundamental disagreement with the other directors regarding the expansion of TF Ltd's business into Europe, and he now wishes to sever his ties with TF Ltd completely.

This involves not only giving up his directorship of TF Ltd but also disposing of his 25% shareholding. He owns 100 ordinary shares that are currently valued at £750 per share. He acquired his holding four years ago when he subscribed for the shares for their nominal value of £100 per share. He was not able to claim any tax reliefs in respect of the subscription.

Mr Toogood's son Trevor is employed at TF Ltd and has indicated that he is keen to purchase 50% of his father's shareholding, but he can only afford to pay £500 per share, a value Mr Toogood is happy to accept.

It is understood that TF Ltd itself is willing to repurchase the balance of Mr Toogood's holding at a price of £750 per share, and as this will facilitate his exit from TF Ltd. He is willing to accept this offer as well.

Additionally, TF Ltd is willing to pay a lump sum of £20,000 which is equivalent to six months salary if Mr Toogood agrees to resign his directorship within the next 28 days. He would like assurance that this sum will be received tax-free as, in his view, it is effectively a redundancy payment.

It has also been agreed his company car will be transferred to him. The car is currently valued at £15,000.

Mr Toogood is in receipt of other earnings of £50,000 annually and has investment income in excess of £200,000 per annum. Every year he makes capital disposals from his quoted share portfolio which utilise his annual Capital Gains Tax exempt amount.

Requirement:

Assuming the disposals occur in 2026/27, outline the Income Tax and Capital Gains Tax consequences of the various aspects of the proposed transactions with illustrative computations where relevant. You should also indicate what further information you require Mr Toogood to provide. (20)

11. Mr White has a property portfolio and has provided details of the transactions he undertook with unrelated third parties in 2025/26.

Alpha House

Mr White granted a 70-year lease on this residential property, on 6 May 2025, for £60,000. The annual rent payable under the lease is £5,000, payable monthly in advance. The value of his right to receive rent and the freehold reversion was £30,000. Mr White purchased the freehold of the property for £50,000 on 1 June 2018. The property had been let to tenants under a short-assured tenancy since purchase and they vacated in March 2025.

Blue House

Mr White was granted a 15-year lease on this residential property for a premium of £20,000 on 6 May 2024. On 6 November 2025 he granted a five-year sublease on the property for a premium of £10,000 and an annual rent of £3,000, payable monthly in advance. The property was not previously let.

Cedar House

Mr White granted a 15-year lease on this residential property on 6 October 2025 for an annual rent of £6,000, payable monthly in advance. No upfront payment was made under the contract. As part of the lease the tenants are required to undertake improvement works to the property which will increase its value by £10,000. Mr White acquired the freehold of this property on 6 May 2016 for £80,000. The value of the reversion on the grant of the lease was £90,000.

Dune House

Mr White sold the lease on this commercial property for £40,000 on 1 April 2026. He acquired the lease on 1 April 1990 for £12,000 and it is due to expire on 31 March 2033.

Mr White has also advised that his employment income for 2025/26 was £20,000 with tax deducted at source of £2,110. He had no other capital gains in the year.

Requirement:

Calculate Mr White's total Income Tax and Capital Gains Tax payable for the 2025/26 tax year. (15)

12. Michael is a non-UK resident British citizen who owns a commercial property in the UK, which has a number of tenants. He left the UK on 5 April 2025.

He employs his son Jason to manage the property, including collecting the rent and administering and paying expenses. Jason is resident in the UK. Michael has two other employees who clean and maintain the communal areas and who are paid by Jason from the rent. Jason pays the rent net of expenses to his father each month. Michael has previously submitted his own tax returns and has always paid his tax on time. He has had no correspondence with HMRC regarding these properties. The following information relates to 2025/26:

- 1) Rent received was £66,000.
- 2) Jason was paid a salary of £15,000.
- 3) The two employees were each paid £4,500.
- 4) The payroll was operated by Jason and there are no issues arising from this.
- 5) There were insurance costs of £2,362.
- 6) Repairs incurred in the year amounted to £8,211.
- 7) Michael's only other UK income was bank interest of £1,726 and dividends of £9,100.

Requirement:

- | | |
|---|-------------|
| 1) Discuss Michael and Jason's current UK tax obligations in relation to the rental income | (7) |
| 2) Provide a calculation with explanations of Michael's UK Income Tax liability for 2025/26. | (13) |
| Total | (20) |

13. Harriot Walton received a letter from her employer’s pension scheme saying that there has been a large increase in the value of her pension rights and that this might have an effect on her Income Tax liability. The following information is relevant:

- 1) Until 1 September 2025 when she was promoted, Harriot’s salary was £48,000 per annum.

From 1 September 2025 her salary is £68,000 per annum.

- 2) Her 2025/26 P11D shows total benefits in kind of £14,240.
- 3) The pension scheme is a final salary scheme with an accrual rate of 1/60. Harriot joined the scheme on 6 April 2014.
- 4) During the year ended 5 April 2026 her employer made contributions of £7,000 for Harriot. Harriot did not make any personal contributions.
- 5) She had net rental profits of £168,000 in 2025/26. No interest was paid by her on property related loans.

Harriot has unused annual allowance as follows:

	£
2024/25	16,533
2023/24	9,067
2022/23	17,600

Requirement:

Explain, with supporting calculations, the Income Tax implications arising from Harriot’s letter from the pension scheme and the information provided above. (15)

14. Three years ago, Steve Ford was faced with a substantial tax bill as a result of a large bonus payment from his employer. Along with several colleagues, he was persuaded to invest in a scheme which promised to greatly reduce his tax bill for that year. He was assured that the scheme was legitimate and would stand up to scrutiny from HM Revenue & Customs.

He was advised that the scheme had a DOTAS number which he should quote in his tax return, which Steve duly did. When his return was submitted, HM Revenue & Customs opened an enquiry into it, specifically in relation to this scheme. They have since been corresponding with the scheme promoter to try to reach a conclusion, but little progress appears to have been made and nothing has been resolved.

Steve has now received an Accelerated Payment Notice from HM Revenue & Customs for an amount roughly equal to the tax he saved plus interest.

Requirement:

Discuss the options available to Steve with regard to the Accelerated Payment Notice. Calculations are not required. (10)

15. Isabelle relocated from South Africa to her multinational accountancy firm’s London office in September 2023. She flew into the UK on 1 September 2023 and began work at the London branch on 4 September 2023. Isabelle had never previously been UK resident.

When Isabelle arrived in the UK she initially stayed in a hotel and then on 7 September 2023 she moved into a rented flat close to the office. She worked a full schedule for the London team, while continuing to undertake some duties for clients in South Africa. In 2025/26, Isabelle’s employment income is £85,000 (PAYE deducted £21,583). Her e-diary records 230 workdays in the tax year, 50 of which were worked in South Africa.

She purchased a small portfolio of South African shares in May 2025 and received £1,136 in dividends in 2025/26. The South African tax authorities withheld tax at 20%.

Isabelle also owns an apartment in South Africa which has been let since she came to the UK. The amounts paid into her South African bank account were £6,400 in 2023/24 (this amount wholly relates to the period from the date she became UK resident) and £11,200 in 2024/25. In 2025/26, she incurred a £1,200 loss when her tenant moved out and significant repairs were required before a new tenant could move in.

For 2023/24 and 2024/25, Isabelle elected to use the remittance basis. Her foreign rental income was not remitted to the UK and therefore not taxed in the UK.

She intends to buy a home in the UK in 2030 and plans to bring all accumulated foreign income to the UK at that time.

Requirement

- 1) **Explain why Isabelle became UK resident in 2023/24 and state the date she became UK resident.** (3)
 - 2) **Explain whether Isabelle is eligible to claim relief under the FIG regime in 2025/26.** (2)
 - 3) **Calculate, with supporting explanations, the tax payable/(repayable) for 2025/26 assuming all beneficial claims are made. Quantify the tax saving as a result of the claims and state the date by which the claims must be made.** (10)
 - 4) **Explain the tax implications if Isabelle brings all her accumulated foreign income into the UK in 2030 as planned. You should discuss any appropriate tax planning opportunities. You are not required to perform any calculations.** (5)
- Total (20)

ANSWERS

1. SHEENA STEEPLE

CAPITAL GAINS TAX (CGT)Shares in Roofix Ltd

As the company is insolvent and in liquidation, Sheena should make a claim under s.24(1A) TCGA 1992 that the shares are now of negligible value.

She will therefore be treated as disposing of the shares at the date specified in the claim (probably 4 January 2026 – the commencement of liquidation) and reacquiring those shares at market value on that date which is effectively nil.

Sheena originally received some of the shares from her mother, and later she subscribed for further shares. Both of these acquisitions are pooled for the purpose of determining the CGT base cost on subsequent disposals.

Therefore, when making the transfer to Bill in 2016, Sheena is treated as giving some of the shares she subscribed for, and some that she had received by way of gift.

Sheena's pool is as follows:

	No	Cost £
Gift in 1995	5,000	2,000
Subscriptions in 2011:		
5,000	5,000	8,000
10,000	<u>10,000</u>	<u>16,000</u>
Total	20,000	26,000
Transfer to Bill in Jan 2016	<u>(10,000)</u>	<u>(13,000)</u>
Value remaining in pool	10,000	13,000

Half of Sheena's shares were transferred to Bill in 2016. Of the remaining shares Sheena holds, 2,500 are of the 5,000 original shares from her mother and 7,500 are of the 15,000 shares subscribed for.

With regard to the subscribed shares, the attributable loss of £9,750 (7,500/10,000 shares x £13,000) qualifies for income tax relief under s.131 ITA 2007 as the shares have been subscribed for in cash and the company is a qualifying trading company as defined by s.137 ITA 2007.

While the restriction on the set off of losses under s.24A ITA 2007 potentially applies to loss claims under s.131, no restriction applies as the loss does not exceed £50,000.

Sheena could claim the loss against income of 2025/26 or 2024/25. She only returned to work in April 2025, so a claim for 2024/25 is unlikely to be beneficial as the Personal Allowance would have covered her property income.

She did not personally subscribe for the gifted shares, so no income tax relief is due under s.131 ITA 2007. Therefore, an allowable capital loss arises of £3,250 which is available to offset any capital gains.

Loan Guarantee

Payment of interest under a loan guarantee may qualify as a capital loss under s.253(4) TCGA 1992. To qualify for relief, the payment must be made under a formal guarantee following the loan becoming irrecoverable. The liquidator would need to confirm formally that the loan was irrecoverable.

The loan must have been made initially for a qualifying trading purpose – the purchase of machinery would qualify.

A capital loss of £5,000 therefore arises.

Director's Loan Account

As the loan was originally made to the company for a qualifying purpose, the negative balance on the Director's Loan Account balance gives rise to an allowable capital loss of £7,500.

Painting

The painting is a non-wasting chattel which has been sold at a marginal loss.

	£
Proceeds (deemed)	6,000
Less: Cost	<u>(9,000)</u>
Loss	<u>(3,000)</u>

As this is a loss on a disposal to a connected person (sister) it is ringfenced and can only be offset against current year or future gains on disposals by Sheena to her sister.

Shares in Windowbox Ltd

	£
Proceeds	87,000
Less: Cost	<u>(58,000)</u>
Gain	<u>29,000</u>

No Business Asset Disposal Relief is available as there is no indication that Sheena is an officer or employee of the company.

No Investor's Relief is available as Sheena did not subscribe for these shares on/after 17 March 2016.

Vintage sports car

If the car had been constructed or adapted for the carriage of passengers, it will be exempt under s.263 TCGA 1992.

Otherwise the gain will be exempt under s.44 TCGA 1992 as it is a wasting chattel (it is machinery and by definition has a predictable life of less than 50 years).

Gains summary

	£
Windowbox Ltd	29,000
Less:	
Loss on shares in Roofix Ltd	(3,250)
Loss on loan guarantee	(5,000)
Loss on directors' loan	<u>(7,500)</u>
Chargeable gains	13,250
Less: annual exempt amount	<u>(3,000)</u>
Taxable gain	<u>10,250</u>
CGT due @ 18% (basic rate taxpayer)	<u>1,845</u>

The loss on the painting (£3,000) is carried forward and can be offset against gains on future disposals to Sheena's sister.

INCOME TAX

	£
Director's fees	20,000
Property income	4,000
	24,000
Less: Loss under s.131 ITA 2007	(9,750)
Net income	14,250
Less: personal allowance	(12,570)
Taxable income	<u>1,680</u>

Tax

Income tax due @ 20%	336
CGT due	1,845
Total tax due	2,181
Less: tax paid	(2,600)
Tax repayable	<u>(419)</u>

Bill's Position

As Bill received his shares as a result of an inter-spousal transfer and the shares were subscribed for by Sheena in cash, then by virtue of s.135(3) ITA 2007, Bill can also claim relief under s.131 ITA 2007 following a negligible value claim.

He can offset the capital loss of £9,750 arising on the subscribed Roofix Ltd shares against his income of 2025/26 or 2024/25.

As part of Bill's income was charged at the higher rate of 40% in 2024/25, claiming the loss against his 2024/25 income is more advantageous. This will generate a repayment of income tax due to the PAYE deducted.

There is a capital loss arising on the shares not originally subscribed for of £3,250. This is available to Bill to use against current year gain. This reduces the gains to £1,750 so these will be subject to tax at 18% giving rise to a liability of £315 (£1,750 x 18%).

He will have no further liability on his pension income in 2025/26 as this has been correctly taxed at source.

MARKING GUIDE

TOPIC	MARKS
<u>Part 1)</u>	
<u>Shares in Roofix Ltd:</u>	
– Make claim under S.24	½
– Effect of claim	1
– S.131 relief for loss on subscribed shares	1
– Mention of restriction / £50,000 rule	½
– Effect of S.131	1
– Capital loss relief on gifted shares	½
<u>Loan guarantee:</u>	
– Payment of interest – capital loss	1
– Conditions	1
– £5,000 capital loss	½
<u>Director's loan account:</u>	
– Qualifying purpose	1
– £7,500 capital loss	½
<u>Painting:</u>	
– Non-wasting chattel	½
– Allowable loss calc	½
– Allowable loss – ringfenced	½
<u>Shares in Windowbox Ltd:</u>	
– Calculation	½
– No BADR or IR	½
<u>Sports car:</u>	
– Wasting chattel	½
– Exempt	½
<u>Calculation of CGT:</u>	
– Taxable gain	1
– Tax @ 18%	1
<u>Income tax:</u>	
– Aggregate income	½
– S.131 relief	½
– PA	½
– Tax	1
Overall repayment	1
<u>Part 2)</u>	
Acquired shares from wife so can claim S.131	1
Possible claims 2025/26 or 2024/25	1
Advise 2024/25	½
Loss on non-subscribed for shares set against gains – tax at 18%	½
No further tax on pension income	½
TOTAL (MAX)	20

Examiner's report:

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Almost without exception candidates supplied little background about the negligible value claim i.e. the mechanics of such a claim.

A significant number of candidates framed their responses to the question of the negligible value claim by reference to EIS relief. Instead of describing the conditions which allow an income tax loss claim in respect of an investment in a close trading company, reference was made to an "EIS company". Candidates seemed to be unaware that EIS relief is a very specific relief and not a general concept.

Additionally, candidates seemed unaware of the reliefs available to individuals who had invested in trading companies either in the form of a loan, loan guarantee or as a shareholder and lost that investment.

Those candidates who did know that income tax relief was available following the loss on shares did not draw a distinction between shares subscribed for and shares received via gift. A significant number of candidates were however prepared to give income tax relief to Bill without allowing the same relief to Sheena despite the fact that it was in fact Sheena who had made the original investment in the company.

No candidate calculated Sheena's overall tax position correctly. A handful of candidates were able to calculate the income tax position but nobody calculated the Capital Gains Tax position without error.

On the whole the marks for the question were earned from basic Capital Gains tax knowledge such as the exemption for cars and the rules surrounding chattels.

2. TRUTECK LTD

- 1) The UK Income Tax and National Insurance implications of being seconded overseas

Income Tax

The liability to UK income tax in respect of the individual's income in a tax year depends upon whether the individual is resident in the UK or not for tax purposes and whether the income derives from the UK or is overseas income.

Tax years before the tax year in which the secondment takes place

As the employees are UK resident, they are liable for UK income tax on their worldwide income as it arises.

Tax years in which the secondment falls

The UK tax legislation has a Statutory Residence Test which determines the individual's residence status for the tax year.

In general, an individual's residence status is determined for a tax year as a whole. However, in certain circumstances, the legislation allows split-year treatment, whereby the tax year may be split into a UK part and an overseas part. The individual is then treated as UK resident in the UK part of the tax year and non-UK resident during the overseas part of the tax year.

The application of these rules differs depending upon whether the secondment starts on 1 January or 1 July.

18 month secondment starting on 1 January 2027

This secondment will span three different tax years and we will consider each in turn.

For the tax year in which the secondment starts, the employee will be treated as UK resident under the automatic residence test. This is because the employee will have been present in the UK for at least 183 days. The employee will also be UK resident because they work full-time in the UK, and because they have a home in the UK (however only one test needs to be satisfied in order to be UK resident).

In the second tax year the employee will be treated as non-UK resident because they will satisfy the "work abroad" test. Broadly the work abroad test is met where:

- The individual works abroad for an average of at least 35 hours a week for the whole of the tax year; and
- They have no significant break in that overseas work (being 31 days or more without an overseas workday); and
- They are present in the UK for fewer than 91 days in the tax year of which fewer than 31 days are spent working in the UK.

In the third tax year the employee will regain UK residence status. This is because they will again satisfy at least one of: the 183 day test, the UK work test and the home test. It is likely that they will, in fact, satisfy all three.

The years of departure and return will be split into UK and overseas parts if one of the Cases set out in the legislation apply.

For the year of departure, the potentially applicable case is Case 1 which applies when the employee is UK resident under the statutory residence test and:

- The employee satisfies the 'overseas work criteria' between the date of departure and the end of the tax year; and
- The employee is non-UK resident in the following year under the 'work abroad' rules.

The 'overseas work criteria' are broadly as outlined above – ie, the employee works abroad for an average of at least 35 hours a week, and days spent in the UK are within the permitted limits (being fewer than 91 days of which fewer than 31 days are spent working). These limits are scaled down in the year of departure.

Where the Case 1 conditions are met, the employee will be UK resident up to the date they start working overseas and non-UK resident from the first overseas workday.

On completion of the secondment, the tax year of return can be split under Case 6.

Case 6 applies where:

- The individual is non-resident in the previous year under the 'work abroad' rules (as outlined above);
- The individual was UK resident in at least one of the four tax years immediately preceding that year; and
- The employee satisfies the 'overseas work criteria' between the start of the tax year and the final overseas workday.

Where the Case 6 conditions are met, the employee will resume UK residence from the day after their final overseas workday.

Consequently, if the 18 month secondment starts on 1 January, the employee will be non-UK resident throughout the period of secondment (being from the date of the first overseas workday until the overseas secondment finishes).

This would mean that, during the period of the secondment, the employee will only pay UK income tax on their UK income. All employment income and expenses paid whilst on secondment will be foreign income (being income paid in return for duties performed outside the UK). This foreign income would not be taxable in the UK.

18 month secondment starting on 1 July 2027

A secondment starting on 1 July 2027 will last until 31 December 2028. It is assumed that on their return the employee will resume full-time work in the UK and re-occupy their home.

This secondment spans two tax years. In both tax years the employee will remain resident in the UK. This is because they will satisfy either the home test or the UK work test.

Split year treatment will not be available. Case 1 will not apply because the employee will not be non-UK resident in the following year (2028/29 in this instance) under the 'work abroad' rules. This is because the UK days/workdays will exceed the permitted limits and there will have been a significant break in the overseas work.

Consequently, the employee will remain resident in the UK throughout the 18 month period of the secondment. As a result, income from the employment with TW will be subject to income tax in the UK. If the income is also taxable overseas, double tax relief may have to be calculated. This reduces the UK income tax liability by the lower of the UK and the foreign tax paid on the income.

Benefits and employment expenses

The secondment is for less than two years and does not constitute the whole of the employment of an employee. As such, Winterland will be regarded as a temporary workplace for the employees and payments or reimbursements of costs of travel to and from Winterland as well as the payment of rent for an apartment there do not constitute a taxable benefit.

Costs of journeys to and from the overseas location by a spouse, civil partner or minor child do not give rise to a taxable benefit as long as:

- The employer pays or reimburses the cost of the travel;
- The employee is abroad for at least 60 consecutive days;
- Journeys are restricted to two return journeys by the same person in a tax year.

TW intends to pay for one return visit per month for either employees or their relatives. Only up to two of these journeys per tax year by relatives can therefore be tax free and only if made by a spouse, civil partner or minor child of the employee (not by relatives in general).

Other UK income

Other UK income remains potentially taxable during the secondment, whether the employee is considered UK resident or not. For example, UK savings and dividend income and UK property income remains taxable in the UK.

The UK personal allowance is not usually available to non-UK residents. However it continues to be available to the employees provided they are UK or EEA Nationals.

How UK income would be taxed during an overseas assignment would depend on the individual's residence status. In the year in which the employee is non-UK resident for the whole tax year, the non-resident employee could treat UK savings and dividend income as 'disregarded income'. This means that there would be no UK tax liability on such income. However the UK personal allowance would then be lost.

National Insurance Contributions (NICs)

As Winterland has no reciprocal social security arrangement with the UK, for the first 52 contribution weeks of any overseas employment the employee and employer usually remain liable to Class 1 primary and secondary NICs.

This depends on meeting three conditions:

- The employer having a place of business in the UK,
- The employee being ordinarily resident in the UK for NICs purposes (meaning they normally live in the UK apart from occasional or temporary absences, and have a settled and regular mode of life in the UK); and
- The employee being resident in the UK immediately before the secondment began.

Where the benefits provided are exempt from income tax, they are also exempt from NICs. For example, the provision of travel costs and accommodation will not attract a Class 1A NICs charge for employers.

2) The UK tax implications of continuing to own UK property if seconded overseas.

If the property is let out during the owner's absence, this will give rise to property income.

If the individual is non-UK resident (say under a secondment that starts on 1 January), UK property income would be dealt with under the Non-Resident Landlords' Scheme. This means that non-resident landlords would receive their rent net of 20% basic rate tax deducted at source by either the tenant or an appointed agent. The tax withheld is available to set against the UK tax liability on the annual rental profits.

A non-resident landlord can apply to HMRC to receive the rent gross. Such an application will be successful if the landlord has a good self-assessment history or they will not have a liability to tax (eg. if the net rental income is covered by the personal allowance). However, this will oblige the non-resident landlord to comply with all self-assessment obligations.

If classified as UK resident (say under a secondment that starts on 1 July), the rental income will be taxable on the individual in the usual way.

Rental income is taxable after a deduction for rental expenses. Relief for mortgage interest will be given by way of a tax reducer at 20%.

If the property is sold in the future, private residence relief (PRR) will exempt any gains which arise during periods when the individual occupied the property as their private residence. Therefore, gains arising during periods of absence will be taxable.

Certain periods of absence can be classified as deemed occupation. For example, the last nine months of ownership are always treated as deemed occupation.

Deemed occupation also includes any period of absence, no matter how long, during which the individual was employed abroad. This particular period needs to be preceded and followed by actual occupation of the property.

If a property is sold without the employee returning to the property, there may be a capital gains tax liability. However, the requirement to reoccupy the property after a period of absence does not apply where an individual who has worked abroad is unable to resume occupation because the terms of the employment require them to work elsewhere. So, it is still possible that any period of absence would be covered by the deemed occupation rules and that no gain would be taxable.

MARKING GUIDE

TOPIC	MARKS
<u>Part 1</u>	
Liability dependent on residence	1
Tax years before secondment – taxed on worldwide income	1
<u>Secondment on 1 January:</u>	
Residence status	
– Year 1	1
– Year 2	1
– Year 3	½
Split year treatment	1
Position re income and expenses	1
<u>Secondment on 1 July:</u>	
Residence status	1
Split year treatment	1
Re income	1
Re expenses	1
DTR	½
Savings and dividend income	½
Personal allowance	1
National Insurance – First 52 weeks charged to Class 1	1
Class 1A NIC excluded on exempt benefits	½
<u>Part 2</u>	
Let property – rental income	½
Non-resident landlords' scheme – net of 20% tax	1
Qualify to receive rent gross	½
Rents taxed after deductible expenses	½
Relief for interest	½
<u>PRR:</u>	
No PRR for periods of absence	½
Last nine months of ownership	½
Deemed occupation – any period employed abroad	½
Condition of actual occupation before and after	½
Unable to re-occupy as working elsewhere	½
No gain taxable	½
TOTAL	20

Examiner's report:

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The section on benefits was particularly poorly answered. Candidates often seemed to be guessing whether a benefit was taxable or not and did not justify their answer. Language used to discuss whether benefits were taxable or not was often very imprecise. In contrast, the treatment of NICs was dealt with particularly well, with most candidates being aware of the rules where there is no reciprocal social security agreement with the UK.

3. MR AND MRS MOOREThe tax consequences of Mr Moore being granted non-tax advantaged share options

The options are being granted by reason of Mr Moore's employment. There is no charge to income tax or national insurance contributions (NICs) on the grant of the options. There is, however, a charge when the options are exercised.

The income tax charge on exercise is based on the difference between the open market value of the shares at the time of exercise (£2.00/share), less the cost of the shares (the exercise price of £1.50/share).

As the shares are listed on the AIM, they will be regarded as being subject to trading arrangements and as such classed as readily convertible assets within s.702 ITEPA 2003. Consequently, Class 1 NICs will be due on the difference between the market value at exercise and the amount paid for the shares. If Mr Moore is required under the terms of the share option agreement to pay the employer's Class 1 NICs, this amount is deducted from the amount chargeable to income tax.

As the shares are readily convertible assets, PAYE must be operated. If PAYE exceeds cash pay for the pay period, pay is reduced to zero. The employer will then meet the liability and duly seek recovery from the Mr Moore.

Mr Moore is required to reimburse the employer for the tax deducted no more than 90 days after the end of the tax year in which the charge arises. Any amounts not reimbursed become a taxable benefit to be reported on form P11D. Tax not recovered is also treated as earnings for Class 1 NICs for the earnings period in which that 90th day falls.

When Mr Moore sells his shares the transaction will be subject to capital gains tax (CGT). The base cost of the shares will be the aggregate of the exercise price, the amount charged to income tax at exercise and any employer's NICs paid by Mr Moore. Business Asset Disposal Relief (BADR) will not be available as it is assumed that the company is not his personal company. CGT will therefore be payable at 24% on any gain.

The tax consequences of Mrs Moore being granted EMI share options

There are no immediate income tax or NIC consequences of Mrs Moore being awarded the EMI options.

As the options have been issued at a discount, ie the exercise price is less than the market value of the shares on the date of grant, income tax is payable on the exercise of the option. This charge is calculated as the difference between the lower of the market value at the date of grant and the market value at the date of exercise, less the exercise price. Assuming the share price increases as is expected, the amount subject to income tax is £0.60 per share, i.e. the difference between the market value of the shares at grant, £1.60 per share and the exercise price of £1.00 per share.

As there are arrangements in place at exercise to sell the shares, they will be readily convertible assets and Class 1 NICs and PAYE applied.

The base cost of the shares on the subsequent disposal is calculated in the same way as for Mr Moore's non-tax advantaged share options outlined above, being the aggregate of the exercise price and the amount charged to income tax at exercise. Provided there is at least two years between the grant of the option and the sale of the shares, BADR will be available on the sale of the shares. There is no requirement for Mrs Moore to hold 5% of the company. Consequently, CGT at 18% (BADR rate applicable from 6 April 2026), will be payable on the gain.

The requirements for eligible employees are set out in Sch 5 ITEPA 2003 which states that for Mrs Moore to be eligible for the EMI scheme she would have to work at least 25 hours a week or spend at least 75% of her working time at Scrumptious Chocolates Ltd.

Mrs Moore's current arrangement of 25 hours a week meets these requirements. However, if she changes her hours to work three 8 hour days this would amount to 24 hours a week and the first requirement would not be met. For the second requirement to be met her self-employed business would have to take up not more than eight hours per week.

Ceasing to satisfy the working hours requirement is a disqualifying event and the tax advantaged status of the options would only be retained if Mrs Moore exercised her options within 90 days of failing to meet the eligibility requirements. As these options can only be exercised on the agreed sale of Scrumptious Chocolates Ltd which will not be for two or three years, it is likely that the EMI status of these options would be lost if Mrs Moore failed to meet the eligibility requirements after the options have been granted.

This would mean that on exercise, the income tax charge would consist of two elements. First, the tax charge under the normal EMI and second the increase in share value between the date of the disqualifying event and the date of exercise.

MARKING GUIDE

TOPIC	MARKS
<u>Mr Moore</u>	
No income tax or NICs on the grant of the option	½
Income tax at the exercise of the option/explanation of taxable amount	1
Class 1 NIC as the shares are readily convertible assets	1
Explanation of NICable amount/employers NIC point	1
Can reduce net pay to nil	1
Taxable benefit if PAYE not recovered from Mr Moore and Class 1 NICs	1
CGT on the sale of shares	½
Calculation of base cost	½
Comment on BADR and rate	1
<u>Mrs Moore</u>	
No income tax or NICs on the grant of the option	½
Income tax at exercise as issued at discount/explanation of taxable amount	1
Class 1 NIC as shares are readily convertible assets	1
CGT on sale/explanation of base cost	1
Comment on BADR & rate	1½
Effect of changing working hours on eligibility	1
Implications of disqualifying event	1½
TOTAL	15

Examiner's report:

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Most candidates identified correctly the tax charge that would be payable on the exercise of the non-tax advantaged options and also that there would be no tax charge on the grant. Most candidates also identified that, as a readily convertible asset, Class 1 National Insurance would be payable and PAYE would be operated at exercise.

The majority of candidates correctly calculated the capital gain that would be payable when the shares are sold however a significant number commented that the gain would be covered by the annual exempt amount and that tax may be paid at 18% when the information given in the question meant that the capital gain would be taxed at 24%.

Candidates found the EMI scheme trickier than the non-tax advantaged scheme with some going into detail about the conditions that the company must meet to offer an EMI scheme. This was not required.

Good candidates identified that, as there are arrangements in place to sell the shares when they are exercised, they would be readily convertible assets and as such Class 1 National Insurance and PAYE would be applied.

Most candidates commented it was likely that Mrs Moore would cease to be an eligible employee if she changed her working hours as suggested. Good candidates commented that if this happened she would have 90 days to exercise her options, which, given the attaching conditions, meant that the EMI status is likely to be lost.

4. MR WALKERProposal One

Under this proposal the proceeds of sale would be treated as a capital receipt and the capital gain (subject to any exemptions and anti-avoidance legislation) will be chargeable to capital gains tax (CGT).

The usual practice is to treat the disposal of land which includes the whole or part of two or more separate acquisitions as a single computation. Assuming this is how the sale is structured, the gain will need to be apportioned between the three main assets included in the sale which are identified as:

- The farmhouse,
- The land which has been actively farmed by Mr Walker, including the agricultural buildings, and
- The additional land which Mr Walker purchased and has let on a renewable licence.

As Mr Walker is occupying the farmhouse as his main residence, and provided no part is used exclusively for business, it will qualify for private residence relief and therefore the gain on this element of the proceeds will be exempt.

The exemption extends the relief available on the farmhouse to land and any outbuildings within the 'permitted area', which is a half hectare curtilage, or a larger area if it is required for the reasonable enjoyment of the dwelling. The relief is only available where use is principally domestic rather than agricultural, such as the garden, immediate grounds and any domestic outbuildings.

The gain on the land and buildings which Mr Walker has actively farmed will be subject to CGT but should also qualify for Business Asset Disposal Relief (BADR), which reduces the tax rate chargeable on gains to 14% on a lifetime limit of £1 million.

To qualify for this relief Mr Walker needs to have made a material disposal of business assets. Business assets in this case means an asset used in his business at the time it ceased to be carried on. The business must have been owned by Mr Walker for at least two years prior to cessation. The disposal of the whole farm would inevitably mean a cessation of the farming business, which he has owned for the past 26 years. Therefore, the gains on the land and any agricultural outbuildings should qualify for BADR.

However, the land which is currently let on an annual licence has not been used in Mr Walker's farming business and will therefore not qualify for BADR. Without a claim for BADR, the CGT rate applicable on the chargeable gain, after deducting the annual exempt amount of £3,000, will be 24% (some of the gain will be taxed at 18% if his taxable income falls below the higher rate threshold).

However, this assumes that the anti-avoidance legislation of Section 517B Income Tax Act 2007 does not apply. This section will apply in cases where a gain of a capital nature is obtained from the disposal of land, if the land was acquired with the main purpose or one of the main purposes of realising a profit or gain from its disposal.

As the original intention had been to realise the future development potential of the land subject to the licence, Section 517B may be invoked by HM Revenue and Customs (HMRC). This will result in the gain being treated as income arising when the gain is realised. Depending on other taxable income, some or all of this gain may be charged to income tax at the higher (40%) or additional (45%) rates of income tax.

Proposal Two

This is similar to Proposal One in that the proceeds of each sale would again be treated as a capital receipt and the capital gain (again subject to any exemptions and anti-avoidance legislation) would be chargeable to CGT.

- The first sale is a part disposal of the actively farmed land and the land subject to the renewable licence.

If Mr Walker continues farming activities on the remaining land, the gain on the first disposal will not qualify for BADR as there is no disposal of the business.

He would either need to dispose of, or cease completely, one or both of his farming activities and not simply dispose of the individual parcels of land. These are business assets rather than discrete businesses and therefore any gain on the sale of the land would be subject to the standard rates of CGT at 18% or 24% as appropriate.

Mr Walker would again be at risk of Section 517B being invoked in which case the gain arising on the sale of the land subject to the licence would be charged to income tax rather than CGT.

On the second disposal, Mr Walker would be ceasing his farming business and a claim for BADR should be available in respect of the gain on the actively farmed land. However, it will take place after 6 April 2026 and so the rate of BADR will be 18% not 14%. There is also the commercial risk that the developer no longer wants the land.

Provided Mr Walker has continued to occupy the farmhouse as his main residence, the gain on this element will be covered by private residence relief.

Proposal Three

One of the common applications of Section 517B involves 'slice of the action' schemes.

These schemes involve the landowner selling land to a developer in return for a fixed sum, followed by future contingent payments based on the success of the development. The slice of the action contract will fall under the transactions in land rules in Section 517B ITA 2007 because the land is being developed with the main purpose or one of the main purposes of realising a profit on the disposal of the developed land.

Therefore, while the initial fixed sum Mr Walker receives will be treated as capital and taxed in the same way as Proposal 1, the additional contingent payments will be subject to income tax. However, Section 517B cannot apply to any such payments in respect of the disposal of his main residence, which is exempt from CGT under the private residence relief rules.

There is no formal clearance procedure. However, it may be advisable to apply to HMRC under their non-statutory clearance procedures. This will mean that the correct treatment of the transaction can be agreed with HMRC in advance of the filing date for the return.

MARKING GUIDE

TOPIC	MARKS
<u>Proposal One:</u>	
Farmhouse – PRR applies	½
PRR curtilage	1
Gain on land actively farmed – valid BADR claim	1
Material disposal/Business assets	1
Cessation of farming activities	1
Grazing land – capital receipt	1
Non BADR qualifying – not used in trade	½
CGT annual exempt amount	½
Marginal rates of CGT without BADR	1
Anti-avoidance S.517B – gains treated as income	1
Main purpose	1
<u>Proposal Two:</u>	
No BADR claim on initial disposal	1
Need to dispose of or cease, business for valid BADR claim	1
Marginal rates of CGT apply	½
BADR available on second disposal	1
PRR available if still occupies farmhouse	1
Potential S.517B issue re grazing land	1
<u>Proposal Three:</u>	
Initial receipt taxed as capital	1
CGT treatment per option 1	1
S.517B applies on contingent payments	1
Private residence eligible for PRR exempt from S.517B	1
Non-statutory clearance advisable	1
TOTAL	20

Examiner's report:

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This related to the disposal of land, some of which had been used in a trade, some held for investment and a private residence. There was also potential anti-avoidance relating to transactions in land and 'slice of the action' arrangements.

Most candidates recognised that private residence relief would be available but a significant number did not discuss Business Asset Disposal Relief on the trading land and that it would not be available on the land held as an investment.

Under the second proposal it was assumed that he would continue farming, but marks were awarded where candidates reasoned that he would cease trading on the initial sale, or that the two transactions were part of the same sale contract.

The third proposal related to 'slice of the action' arrangements and income tax, but marks were awarded where candidates treated this as a chose in action and cited *Marren v Ingles*.

5. ETHEL AND FLORENCE**1) TREATMENT OF CAPITAL DISPOSALS BY ETHEL****100 Ordinary £1 shares in Meadows Investments Ltd**

Ethel is non-UK resident in 2023/24. Therefore the gain of £1,299,900 arising on the disposal on 30 April 2023 will not initially be liable to UK CGT being a gain made in a non-UK resident period.

Upon her return to the UK on 3 July 2025, Ethel will resume residence under the second automatic residence test as her only or main home will be in the UK. She will also be UK resident in 2025/26 under the first automatic residence test as she will spend 183 days or more in the UK. The tax year 2025/26 will be split under Case 4 (starting to have an 'only home' in the UK) such that Ethel will be UK resident from 3 July 2025.

Ethel was UK resident in four of the seven years preceding the year of departure and has resumed UK residence within five years. The rules for temporary non-UK residents in S.1M TCGA 1992 must therefore be considered.

In this case, chargeable gains and losses made in the intervening period (being 6 April 2023 to 2 July 2025) on assets held at departure are treated as accruing to the taxpayer in the year in which the taxpayer resumes UK residence.

The gain of £1,299,900 on the transfer of shares in Meadows Investments Ltd on 30 April 2023 will therefore be taxable in 2025/26.

Australian mining company shares

The gain is not taxable at the time of disposal as it was made in a non-UK resident period.

The shares were acquired and sold during the period of non-UK residence. The gain is not therefore taxable on Ethel's return to the UK as the shares were acquired after Ethel's departure from the UK (s.1N TCGA 1992).

UK shares

The loss realised on the UK shares on 10 April 2023 will be treated as accruing in the year of return (2025/26) and can be offset against gains arising in that year.

The loss arising on the further disposal on 30 November 2023 cannot be offset against gains, as both the acquisition and disposal arose in the period of non-UK residence.

Holiday cottage

The transfer from Edward to Ethel is at nil gain nil loss (NGNL) as they are spouses. Ethel is deemed to acquire the cottage on the date of the NGNL transfer, ie, 30 September 2014. Ethel's base cost of the cottage will be the original cost to Edward of £250,000.

The disposal of the cottage falls within the non-UK resident capital gains (NRCG) rules for residential property, which only charges the gain from 6 April 2015. It will be necessary to determine the amount arising after 6 April 2015 which would be taxable in 2023/24 under this provision.

The gain chargeable would in the first instance be calculated using the default method, which takes the increase over the value at 6 April 2015. We would need to ascertain the value of the cottage at 6 April 2015.

Alternatively the chargeable gain may be calculated by time-apportioning the gain based on the original cost. In this case the gain chargeable would be £47,222 (£50,000 x 8.5 years/9 years).

Depending on the value of the cottage at 6 April 2015, capital gains tax will be due on the amount of the gain after deduction of the 2023/24 annual exempt amount. The tax will be charged at the higher or lower rates in respect of residential property (24% or 18% respectively) depending on the available basic rate band.

However, this disposal should have been reported to HMRC on an online property return and the tax paid within 60 days of completion. Penalties for late returns will be charged in respect of the late filing. Interest will be charged from the due date for payment until the day before payment is made. Penalties will also be charged in respect of the late payment as the tax was outstanding 30 days after 31 January after the end of the tax year.

The pre April 2015 element of the gain will be treated as accruing in the year of return (2025/26).

Portfolio of listed shares

It is likely that split year treatment will apply in 2025/26. The gain of £80,000 arises after Ethel has regained UK residence and is therefore taxable at the time of disposal.

The gains taxable in 2025/26 (after deduction of available losses and the annual exempt amount) will be taxed at 24% to the extent that they exceed Ethel's unused basic rate band. Gains within the basic rate band will be taxed at 18%.

2) DEPARTURE OF FLORENCE FROM UK

How residency impacts Florence's CGT position

An individual is chargeable to CGT in respect of disposals of worldwide assets if they are resident in the UK in the year in which the disposal is made.

Non-UK resident individuals are generally not liable to UK CGT, even on disposals of assets situated in the UK. There are exceptions to this general rule, for example in the case of disposals by individuals who are temporarily non-UK residents, and on disposals of UK land (including buildings) by non-UK resident individuals, or on gains on assets used in a trade (commonly referred to as the NRCG rules).

Commercial property in Wales

If Florence leaves the UK, there is no deemed disposal for assets held at the time of departure.

However, the property is subject to a held-over gain under s260 TCGA 1992 and this becomes charged to tax if the donee becomes non-UK resident within six years of the end of the tax year in which the gift is made, and still owns the asset (s.168 TCGA 1992).

The gain of £70,000 held over on the transfer from the discretionary trust to Florence of the Welsh property would therefore become taxable on Florence at the time of her departure. However, as the property remains a chargeable asset by virtue of the NRCG rules, Florence could elect not to be charged on the held over gain when she becomes non-UK resident (s.168A TCGA 1992). If the property is sold whilst she is non-UK resident the held over gain will become chargeable, in addition to the gain chargeable under the NRCG rules.

York residential property

There will also be a charge if Florence disposes of the York property whilst she is non-UK resident under the NRCG rules.

How HMRC determine residence position

HMRC will apply the statutory residence test to determine whether Florence is treated as ceasing to be UK resident for tax purposes.

They will first consider whether she will satisfy the automatic overseas tests. Since she has been resident in the UK, she will need to be present in the UK for fewer than 16 days in the tax year to be treated as automatically non-UK resident.

If she is not non-UK resident under the automatic overseas tests, HMRC will proceed to consider the automatic UK tests. If she is present for 183 days or more in the tax year or has a home in the UK, she will be treated as UK resident. Given that Florence is planning to move overseas it is unlikely that these tests will be satisfied.

HMRC would then consider the sufficient ties test. It is likely that Florence would have two ties with the UK, being a 90-day tie (for the first two tax years after leaving) and an accommodation tie (if she stays with her sister for sufficient days).

As Florence has been UK resident for one or more of the previous two tax years, with two ties she would be non-UK resident if she spends less than 91 days in the UK. A 'day' in this context normally means one on which she is present in the UK at midnight. Days of departure are therefore usually ignored but days of arrival are counted.

The length of time she spends in the UK will determine her residence status. Therefore Florence will need to consider her intentions as to how often she is planning to visit the UK once she has moved abroad.

MARKING GUIDE

TOPIC	MARKS
<u>Ethel</u>	
Meadow Investments	
- Disposal when NR – not chargeable	½
- S.1M will apply	1
- Resident 4 out of 7 years prior to departure	½
- Less than 5 years	½
- Chargeable on return in 2025/26	½
Australian Company	
- Disposal when NR - not chargeable	½
- Shares bought after departure – S.1N applies	½
UK shares	
- Loss – April 2023 – treated as accruing in 2025/26	½
- Loss – Nov 2023 – not allowed shares acquired after departure	½
Holiday cottage	
- NRCG disposal	½
- Gain after 6 April 2015 chargeable	½
- Default – MV 6 April 2015	½
- Time apportion from 6 April 2015	½
- Liability and due date	½
- Return requirements	1½
- Penalties/interest	½
- Balance of gain chargeable under S.1M on return	1
- Pre April 2015 element of gain taxed in year of return	½
Listed shares	
- Disposal after return chargeable	½
Applicable rates in 2025/26	½
<u>Florence</u>	
Effect of Residence	
- If resident subject to CGT	½
- If NR not subject to CGT	½
- Subject to NRCG rules	½
- No deemed disposal on departure	½
- Clawback of gift relief if NR < six years	1
- Effect on Welsh property	1
- NRCG rules re York property	½
Determination of residence position	
- Statutory residence test	½
- Application of automatic overseas test	½
- Application of automatic residence test	½
- Application of sufficient ties test	1
- Two ties	½
- 91 days	½
TOTAL	20

Examiner's report:

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This question was reasonably well answered with the majority of candidates being able to demonstrate an understanding of the rules regarding Capital Gains Tax and temporary non-UK residence and could work through the transactions to comment upon the treatment of each. The disposal of the holiday cottage, which followed an inter spouse transfer, caused some difficulties but many candidates understood the concept that the property had been held prior to the couple becoming non resident.

Many candidates were also able to demonstrate an understanding of the position at the beginning and end of the period of non-UK residence, with regard to split year treatment.

Good marks were obtained in many cases for commenting upon residence. Candidates also scored marks for correctly commenting upon the crystallisation of the held over gain at the time of becoming non-UK resident.

6. MRS JANE LINDSAY

PART 1Income tax computation 2025/26:

	Non savings £	Savings £	Dividends £
Employment income (W1)	198,800		
Benefits and expenses (W2)	890		
Interest		1,500	
Life assurance gain (W6)		25,000	
Dividend income (W5)			14,000
	<u>199,690</u>	<u>26,500</u>	<u>14,000</u>
Less: EIS loss (W7)	(28,000)		
Less: Gift of shares to charity (W8)	(10,000)		
	<u>161,690</u>	<u>26,500</u>	<u>14,000</u>
Less: Personal Allowance (tapered to nil)	(Nil)		
Taxable income	<u>161,690</u>	<u>26,500</u>	<u>14,000</u>
Tax			
48,325 @ 20% (W9)			9,665
87,440 @ 40% (W10)			34,976
25,925 @ 45%			11,666
26,500 @ 45%			11,925
500 @ 0%			Nil
13,500 @ 39.35%			<u>5,312</u>
			73,544
Less: Seed EIS relief (£5,000 @ 50%)			<u>(2,500)</u>
			71,044
Less: Tax deducted at source: PAYE			<u>(75,000)</u>
Tax repayable			<u>(3,956)</u>

Workings:W1) Employment income

	£
Salary	160,000
Add: Bonus (date paid)	40,000
Less: Payroll giving (£100 x 12)	<u>(1,200)</u>
	<u>198,800</u>

W2) Benefits and expenses

	£
Vouchers	300
Medical insurance	1,000
Loan benefit (W3)	990
Mileage (W4)	(1,400)
Car parking space	<u>Exempt</u>
Taxable benefits	<u>890</u>

W3) Loan benefit

	£	
Average basis: $\pounds(38,000 + 14,800) / 2 = \pounds26,400 \times 3.75\%$	990	

Strict basis: $(\pounds38,000 \times 10/12 \times 3.75\%) + (\pounds14,800 \times 2/12 \times 3.75\%)$	1,280
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A benefit of £990 will be reported on the P11D. HMRC could insist on the strict basis as this gives a higher figure for the benefit. However as the use of the average basis does not lead to a significant distortion in the benefit, the P11D figure would probably remain taxable.

[Credit is given for taxing either amount as long as workings are shown.]

W4) Mileage

	£	£
Amount reimbursed (12,000 @ 30p)		3,600
Less: Authorised mileage rates		
10,000 miles @ 45p	4,500	
2,000 miles @ 25p	500	
		(5,000)
Mileage shortfall		(1,400)

W5) Dividend income

	£	
Dividends received		15,500
Less: Dividend not taxable from qualifying VCT		(1,500)
Taxable dividends		14,000

W6) Life assurance gain

The offshore life assurance gain is treated as savings income. As the gain arises from an offshore bond, it does not have a UK basic rate tax credit.

W7) Sale of EIS shares

	£	£
Proceeds		20,000
Cost	60,000	
Less: Income tax relief not clawed back (> three years)	(12,000)	
		(48,000)
Net loss		(28,000)

Relief under s.131 ITA 2007 claimed for loss to be set against income in the year.

W8) Gift of shares to UK charity

The market value of the shares at the date of the gift (£10,000) is a deductible payment under s.431 ITA 2007.

W9) Basic rate band

	£	
Basic rate band		37,700
Add: Gross gift aid $\pounds8,500 \times 100/80$		10,625
		48,325

Donations to non-UK charities cannot claim gift aid tax relief.

W10) Higher rate band

	£
Higher rate band	125,140
Add: Gross gift aid £8,500 x 100/80	<u>10,625</u>
	<u>135,765</u>

PART 2

Mrs Lindsay's salary and bonus are subject to Class 1 national insurance contributions (NICs), both primary (payable by Mrs Lindsay) and secondary (payable by Lovett Timber Ltd).

Vouchers are treated as earnings and are also subject to Class 1 NICs, both primary and secondary.

There are no NICs on the mileage allowance as there is no profit element.

The private medical insurance and loan benefit are subject to Class 1A NICs only payable by Lovett Timber Ltd.

The car parking space is an exempt benefit and no NICs are payable by either party.

MARKING GUIDE

TOPIC	MARKS
PART 1	
<u>Employment income & benefits:</u>	
Bonus	1
Payroll giving deduction	1
Vouchers – cash value	$\frac{1}{2}$
Medical insurance – cost to employer	$\frac{1}{2}$
Car parking space – exempt	$\frac{1}{2}$
<u>Loan benefit:</u>	
Average basis / strict basis / decision	$1\frac{1}{2}$
Mileage shortfall	1
Bank interest	$\frac{1}{2}$
Dividends (VCT exempt)	$\frac{1}{2}$
EIS loss calculation	1
Take relief against income	1
MV of shares deducted against income	1
Personal allowance reduced to nil	1
Calculation basic rate/higher rate bands	1
<u>Life assurance bond:</u>	
Savings income	1
No basic rate tax credit as offshore	$\frac{1}{2}$
Seed EIS relief	1
Correct tax rates	2
Deduction of tax credits	$\frac{1}{2}$
	17
PART 2	
Cash pay subject to Class 1 NICs primary and secondary	1
Vouchers earnings for Class 1 NICs	1
Other benefits subject to Class 1A NICs	$\frac{1}{2}$
No NICs on parking space / mileage allowance as no tax	$\frac{1}{2}$
	3
TOTAL	20

Examiner's report:

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Most candidates answered the question to a decent standard, demonstrating a good knowledge of how most of the benefits were taxed. Common errors included the different treatment of the various donations to charity and the amount of the loss that was available to be set against income with a s.131 ITA 2007 election. Also, the majority of candidates identified the bonus was taxable on the earlier of receipt or entitlement, but then missed the fact that Mrs Lindsay became entitled to payment as long as she was still employed two months later. Candidates lost marks by failing to mention the National Insurance treatment of each item of employment income and benefits, with most focussing on salary and bonus only. Also to be awarded marks, the comments needed to be specific rather than "Class 1A NIC is applied to benefits". A few candidates wasted time calculating the NICs liability for both Lovett Timber and Mrs Lindsay, despite the question clearly stating calculations were not required.

7. KEVIN MARSHALL

Generally, a tax deduction is allowed against employment income if the individual is obliged to pay the expense as a holder of the employment and the expenditure is incurred 'wholly, exclusively and necessarily' in the performance of the employment duties. To meet the 'necessarily' test HM Revenue & Customs would ask whether Mr Marshall could do his job without incurring the expense. This test is very difficult to meet and specific provisions have been written into the legislation to allow certain deductions.

Travel expenses

Any travel expenses Mr Marshall incurs between his home and the office in Redtown would not be allowable as this would constitute ordinary commuting. However, costs of travel to the regional office would be allowable as this would be classed as a temporary workplace. A temporary workplace is a place an employee attends in the performance of his duties for the purposes of performing a task of limited duration or for some other temporary purpose. A workplace is not normally temporary if a period of attendance will last over 24 months, but this only applies if an employee spends more than 40% of their working time there. As Mr Marshall would only spend one day a week in Bluetown for a limited duration, these travel costs would be allowable.

Mr Marshall's travel costs to visit customers would be allowable regardless of whether he visits the office first, although the costs of going to the office first would not be allowable. Mr Marshall will be reimbursed for these journeys at the rate of 40p per mile. HMRC approved rates allow a deduction for mileage payments at the rate of 45p per mile for the first 10,000 miles and 25p per mile for mileage over this. Mr Marshall would be able to claim a tax deduction for mileage based on the difference between the HMRC rate and the amount reimbursed should it be less than the HMRC rate. If he receives more than the HMRC rate, this would be taxable income. Mileage payments are not earnings for National Insurance purposes if they do not exceed 45p per business mile.

Where an individual has to stay away overnight on business, the cost of the accommodation is part of the cost of business travel and the cost of meals and accommodation while travelling for business purposes would be tax deductible. As Mr Marshall must meet the cost of any journey lasting only one night he would be able to claim a tax deduction for this.

Any reimbursement of business expenses is exempt and no tax liability arises. For National Insurance purposes if the expenses reimbursed by the employer are specific and distinct payments of expenses actually incurred by an employee in carrying out their work, they will not attract contributions.

Mr Marshall's travelling costs to college would not be allowable as this is substantially ordinary commuting.

Professional fees

The subscription to the Institute of Directors would be deductible as it relates to Mr Marshall's employment and is included on the HMRC approved list of professional subscriptions. The subscription to the rugby club would not be deductible as HMRC would not deem this to be necessary for the employment (despite the fact that Mr Marshall would meet customers at the club).

Business Entertainment

Relief for expenses in connection with entertainment is not allowed unless the expense has been paid or reimbursed by the employer and has been disallowed in arriving at the employer's taxable profit. The expenses reimbursed to Mr Marshall would be disallowed in the employer's tax computation and consequently will not be taxable on him. No National Insurance contributions would be due on the amounts reimbursed if they can be identified as business expenses.

Mr Marshall would not be able to claim a deduction for the expenses that he bears the cost of himself.

Household Expenses

Household expenses are deductible from earnings if HMRC accept an employee's home is a workplace. Before a deduction can be permitted for a household expense it must be demonstrated that the expense has been incurred wholly, exclusively and necessarily in the performance of the duties of the employment. HMRC only accept that these conditions are met where the duties that the employee performs at home are substantive duties of the employment and at no time is the employee able to choose between working at the employer's premises or elsewhere. As Mr Marshall would be able to perform the duties in the employer's office and would be working from home by choice, no deduction would be available for household expenses.

The costs of his broadband connection would only be allowable if his internet connection was exclusively for business use, which is clearly not the case here.

As Mr Marshall's home telephone is not used exclusively for business and private calls are not restricted, the payment of this by the company would result in a taxable benefit. As Extra Tools Ltd has agreed to pay the tax due under a PAYE Settlement Agreement (PSA) Mr Marshall would not suffer a tax liability or NICs in respect of this personally. Under the PSA, Extra Tools Ltd would pay the tax liability on Mr Marshall's behalf and as the payment of the tax liability is also a benefit to him, this would be taken into account by grossing-up the benefit. Class 1B NIC would be payable by Extra Tools Ltd on the total benefit including the tax which would have been payable.

Other Expenses

Fees paid by an employee to an employment agency for obtaining employment are not deductible as HMRC consider such payments are not made in the performance of duties of employment. Mr Marshall cannot therefore claim a deduction for this cost.

MARKING GUIDE

TOPIC	MARKS
General rules	1
<u>Travel expenses:</u>	
Travel between home and office not allowable	½
Travel to temporary office	1
Travel to visit customers/HMRC mileage rates	2
Accommodation costs	2
Travel to college	1
Professional subscriptions	1
Business Entertainment	2
<u>Household expenses:</u>	
General expenses	1
Broadband	1
Telephone / PSA	1½
Employment agency	1
TOTAL	15

Examiner's report:

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Most candidates were able to demonstrate a reasonable knowledge of the rules regarding the deductibility of travel expenses and accommodation. Almost all candidates outlined the authorised mileage rates although few mentioned the correct position for National Insurance. The majority of candidates set out the correct treatment for professional fees although many seemed to be confused as to whether this was reimbursed by the employer despite the fact that this was mentioned in the question. Few candidates were able to set out and apply the correct rules in relation to whether Mr Marshall could receive a deduction for household expenses. However, most candidates were able to set out the effects of the PAYE Settlement agreement and this part of the question was answered well. Many candidates lost out on marks by not mentioning the National Insurance treatment of the reimbursed expenses at all despite this being specifically requested in the question.

8. SUE MCDONNEL

Potential gainsMr McDonnel:

Shareholding			145
			£
Cash sale proceeds	Note 1	£1,750 per share	253,750
Base cost	Note 2		(180,444)
			73,306
Annual exempt amount			(3,000)
Taxable gains			70,306
24%	Note 3		16,873

Mrs McDonnel:

Shareholding			355
EIS exempt shares	Note 4		(160)
Taxable shares			195

			£
Cash sale proceeds	Note 1	£1,750 per share	341,250
Base cost	Note 5		(152,444)
Gains on share disposal:			188,806
Held over capital gain falling back into charge	Note 7	15,000	
Annual exempt amount	Note 8	(3,000)	
Taxable gains		12,000	188,806
14%	Note 9		26,433
24%	Note 10	2,880	
Total CGT =			£29,313

Note 1

In the absence of any election, the taxable consideration will consist of the initial cash of £1,000 and deferred cash of £500 and £250 per share. The balance of £500 settled in the form of shares will be a share for share exchange and will not be taxable immediately.

Note 2

The base cost of Mr McDonnel's shares will be the aggregate of the consideration paid for his shares. This comes to £320,000 (100 shares at £1,000 per share and 100 shares at £2,200 per share). The aggregate base cost per share will be £1,600. Mr McDonnel's remaining shares will have a base cost of £232,000 (145 x £1,600).

The base cost relating to the cash consideration is 1,750/2,250 of the total ie £180,444.

Mrs McDonnel will be deemed to acquire the shares at her husband's original cost ie 55 shares at £1,600 per share = £88,000.

Note 3

Mr McDonnel's gain will not benefit from Business Asset Disposal Relief (BADR) as he was not an employee or director of the company at the point of sale. Neither will he benefit from Investors' Relief (IR) as he did not subscribe for the shares on or after 17 March 2016.

Note 4

The gain on the EIS shares will be exempt from CGT as they have been held at least three years. The 40 bonus shares will be added to the exempt EIS shares.

Note 5

<u>Date</u>	<u>Shares</u>	<u>Cost</u> £	
September 2019	60	80,000	
December 2021	80	28,000	(Note 6)
January 2025	55	<u>88,000</u>	(Note 2)
Total		<u>196,000</u>	

Neither the EIS shares nor the bonus issue shares relating to them are included in the pool.

The base cost is apportioned between the cash and share consideration in the ratio 1,750:500. The cash element is $1,750/2,250 \times £196,000 = £152,444$

Note 6

The CGT base cost will be the market value at the date of grant of the EMI share options (being the price paid for the shares (£100) plus the amount charged to income tax, which was the discount at grant (£250) = £350).

Note 7

The held over capital gain on the EIS shares will fall back into charge on disposal of the shares.

Note 8

The annual exempt amount will be set against gains subject to 24% tax in priority to those subject to 14%.

Note 9

Mrs McDonnell's gain will qualify for BADR as Phips Ltd is a trading company, she is an office holder and has held more than 5% of the shares for the two years prior to disposal.

Note 10

The reinstated gain will be subject to 24% capital gains tax as Mrs McDonnell is a higher rate taxpayer (and the gain qualifying for BADR would have used up any remaining basic rate band in any case).

Planning Opportunities:Sale of Shares

After the sale of the shares Mrs McDonnell has £811,194 (£1m - £188,806) of her BADR lifetime limit available.

Mrs McDonnell may consider electing out of the share for share exchange under s169Q TCGA 1992 and paying CGT on the full sale consideration now. This will ensure that she maximises her BADR. If the election is not made then a proportion of the capital gain will be held over under the share for share provisions. This gain will become taxable on a subsequent sale of the Driver Plc shares and it is highly unlikely that these will qualify for BADR. As such the future gain is likely to be taxed at 24%.

Mr McDonnell may transfer some or all of his shares to his wife at no gain no loss prior to the sale. This will ensure that the whole of the capital gain benefits from BADR in the hands of Mrs McDonnell.

He may wish to retain a small number of shares in order to make use of his own CGT annual exempt amount.

If Mr McDonnell were to transfer all of his shares to Mrs McDonnell, and Mrs McDonnell makes the s169Q election to disapply the share for share exchange rules, her gain eligible for BADR would be:

Shareholding	145 + 195	340
Sale proceeds	£2,250 per share	765,000
Base cost	£232,000 + £196,000	<u>(428,000)</u>
Gains on share disposal:		<u>337,000</u>

She would therefore still have £663,000 of her BADR lifetime limit available.

Property Disposal

In the absence of any reliefs the gain would be taxed at 24%.

Provided the sale is connected with the proposed disposal of the shares of Phips Ltd then this should qualify as an associated disposal and a proportion of the gain will qualify for BADR.

It is necessary to consider the full history of the property in order to calculate the proportion of the gain that will benefit from BADR.

The restriction to BADR can be summarised as:

- i) One quarter of the property has never been occupied by Phips Ltd and therefore one quarter of the gain will not qualify for BADR.
- ii) Sue McDonnell only became a director in August 2016 so the shareholder/ director (or employee) condition for BADR is only satisfied from this date and so the gain on the associated disposal arising before this date does not qualify for the relief. It will therefore be necessary to time apportion the gain around August 2016.
- iii) The remaining post August 2016 portion of the gain should qualify for an element of BADR. Where rent has been paid by Phips Ltd then the proportion of the gain qualifying for BADR is further restricted. As half market rent has been charged then the BADR is restricted by 50%.

MARKING GUIDE

TOPIC	MARKS
The initial and deferred cash will be taxable immediately.	$\frac{1}{2}$
The share for share element of the gain will be held over	$\frac{1}{2}$
Base costs of share will be pooled	1
Correct calculation of remaining share base cost	$\frac{1}{2}$
The balance will be apportioned in the ratio of cash to total consideration	$\frac{1}{2}$
Mr McDonnell will not qualify for BADR and is taxed at 24%	$\frac{1}{2}$
EIS shares exempt from CGT	$\frac{1}{2}$
Bonus shares added to original holding and exempt	$\frac{1}{2}$
Apportionment of the base cost in the ratio of cash to total consideration	1
Base cost equivalent to market value on the date of grant	1
Held over capital gain will fall back into charge	1
Annual exempt amount set against gains subject to 24% in priority	1
Mrs McDonnell's shares will qualify for BADR and be taxed at 14%	1
The balance of the reinvested gain falling back into charge is taxed at 24%	$\frac{1}{2}$
	10
Possible to elect under s169Q TCGA 1992 to waive share for share exchange	1
Propose transfer of shares from Mr to Mrs McDonnell	1
Mr McDonnell to retain some shares in order to utilise his exempt amount	$\frac{1}{3}$
	3
Taxed at 24% without relief	1
Possible associated disposal	1
Relief limited to proportion occupied by personal company	1
One quarter let to third parties will fall outside BADR	1
The gain relating to the period before Mrs McDonnell became a director will be excluded from BADR on a time apportionment basis	1
Restriction for rent charge	1
Restriction proportionate to market rent	$\frac{1}{7}$
	7
TOTAL	20

Examiner's report:

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To answer this question well required planning and thought before committing to paper. Those who had a good idea of how they would approach the question scored more highly. Many candidates appeared to have dived into the question without due consideration of how they were to structure the answer and as a consequence the answers were confused and easy marks were missed.

By and large candidates scored highly on the associated disposal section and showed a good appreciation of the restriction. The majority of candidates also scored well on the identification of planning opportunities including the waiver of the share for share provisions in order to secure full BADR.

Common problem areas were:

- The majority of candidates failed to note the CGT exemption on the EIS shares and also that the deferred capital gain would fall back into charge. There was generally a very poor understanding of how this element would be taxed.
- Many candidates calculated the base cost on the EMI share incorrectly.
- A number of candidates produced over a page explaining in detail the rules for BADR on a share sale including statutory references. The only requirement was to identify whether or not BADR was applicable.

9. MR SHARMA

Statutory references are to ITA 2007 unless stated otherwise.

Vespasian Ltd

Income tax relief is not available for an existing shareholder unless the shares already held were acquired as part of an issue of shares which qualified for EIS income tax relief or are subscriber shares (S.164A).

Mr Sharma received income tax relief in respect of his existing shareholding so this condition is satisfied.

In addition, for income tax relief, the investor must not be connected with the company within the period beginning two years before the issue of the shares and ending (normally) three years after the issue of the shares (S.163).

An investor is connected with a company if he (taking into account the shareholdings of associates) holds or is entitled to more than 30% of the company's ordinary share capital (S.170). Mr Sharma's subscription of £200,000 on 30 April 2026 takes his shareholding to 35% and he is therefore connected with the company.

If the investor becomes connected with the company at any time during the above period, the shares cease to qualify for income tax relief. The £30,000 income tax relief granted for 2024/25 will therefore be withdrawn. Income tax relief will also not be available for the further subscription.

Mr Sharma's further investment of £200,000 will however qualify for deferral relief under Sch 5B TCGA 1992 since the connection test does not apply for CGT purposes. The investment must be made within the qualifying time, being one year before and three years after the gain arose (Sch 5B para 1(3) TCGA 1992). The subscription will therefore be within the time limit.

No part of the gain on the sale of property can be deferred against the original share subscription on 4 July 2024 since this is more than one year before the gain arose.

Claudius Ltd

Mr Sharma will not be able to claim EIS income tax relief in respect of his investment in Claudius Ltd as he will be connected with the company.

A person is connected with a company if he and his associates own or are entitled to acquire more than 30% of the ordinary share capital and loan capital of the company (S.170). The definition of an associate for this purpose includes a business partner (S.253). Mr Sharma will however be able to claim CGT deferral relief in 2025/26 against his investment of £100,000.

Constantine Ltd

Mr Sharma received income tax relief in respect of his existing shareholding so this condition is satisfied.

A director is normally connected with a company under S.167 at the time when shares are issued.

Since Mr Sharma is paid a commercial salary for his work for the company, he became connected with the company on 1 June 2024. He therefore was connected with the company when he was issued with further shares on 1 May 2025.

S.169 however allows him to claim income tax relief despite the connection provided certain conditions are met.

Condition A is that the remuneration is reasonable and Condition B is that the director had no connection at the time when the shares were issued.

If Condition B is not met, Condition C is that the shares were issued before the termination date for the latest share issue which did meet Condition B. The latest share issue where Condition B would have been met was the original investment on 1 April 2023 for which the termination date is 31 March 2026.

Mr Sharma is therefore able to claim income tax relief for his further investment of £75,000 on 1 May 2025. He will not be able to claim income tax relief on the additional investment on 1 May 2026 since this falls after the three-year termination date for his original investment and does not therefore meet Condition C.

Mr Sharma is not connected with the company other than as a director as his interest does not exceed 30% at any point. While shares held by associates are attributed for this purpose, Mr Sharma's brother is not an associate since the definition of associate in S.253 does not include siblings.

He cannot claim CGT deferral relief in respect of the gain on sale of property on 31 March 2026 in respect of his initial investment in the company as the shares were subscribed for more than a year before the gain arose and therefore is outside the time limit. However, deferral relief is available for his further subscriptions of £75,000 on 1 May 2025 and 1 May 2026 as these occurred within the time limit.

Trajan Ltd

Income tax relief for investment in an EIS company may be subject to withdrawal if the shares are disposed of or value is received from the company. However, HMRC do not regard this as applicable where a company is liquidated. If any distribution is received from the liquidator this will result in a partial withdrawal of relief under S.209.

The liquidation of the company will trigger a disposal of Mr Sharma's shares in Trajan Ltd under S.24 TCGA 1992. The capital loss may be offset against gains arising in the year or carried forward.

Alternatively, a claim may be made under S.131 for loss relief against Mr Sharma's income for 2026/27 or 2025/26. As Mr Sharma is an additional rate taxpayer, it will be more tax efficient for loss relief to be claimed under S.131. The loss will be restricted by the £30,000 income tax relieved earlier and so assuming that no distribution is received from the liquidator the loss will be restricted to £70,000.

Hadrian Ltd

The receipt of £125,000 by way of loan will be treated as a return of value within the period of restriction under Sch 5B para 13(2) TCGA 1992. Under Sch 5B para 13(1)(b) TCGA 1992, the shares are treated as ceasing to be eligible shares at the date the value is received.

Para 16, Sch 5B requires notice of a chargeable event to be given within 60 days of the individual 'coming to know' of the event, which was duly given on 20 April 2026.

However, the withdrawal of relief may be avoided if the company receives replacement value as defined in para 13B. Replacement value includes disposing of an asset to the company for less than market value or purchasing an asset from the company for more than market value.

It also includes making any payment (subject to certain exceptions) to the company, and therefore the obvious solution would be for the loan to be repaid by Mr Sharma as soon as possible.

Summary of deferred gains:

	£	£
Gain on property disposal 2025/26		400,000
Deferral relief available:		
Vespasian Ltd 2026/27	200,000	
Claudius Ltd 2026/27	100,000	
Constantine Ltd 2025/26	75,000	
Constantine Ltd 2026/27	<u>25,000</u>	
		<u>(400,000)</u>
Gain chargeable		<u>Nil</u>

MARKING GUIDE

TOPIC	MARKS
<u>Vespasian Ltd</u>	
Existing shareholder condition	½
Explanation of connection test	1
Connection test met by subscription as a result of owning 30% of shares	½
Income tax relief withdrawn	1
Qualifying for CGT deferral relief re investment on 30 April 2026	1
No deferral re 2025/26 gain against original investment	½
<u>Claudius Ltd</u>	
No income tax relief as connected with co (associated with bus partner)	1
CGT deferral available as no connection test for CGT	1
<u>Constantine Ltd</u>	
Existing shareholder condition	½
Connection test for directors	1
Effect of remuneration	1
Income tax relief for investment of £75,000 on 1 May 2025	1
No IT relief for investment on 1 May 2026	1
No CGT deferral re investment 1 April 2023 as > 12mths before gain	½
Deferral relief for investments of £75,000 on 1 May 2025 and 1 May 2026	1
Not connected with company due to brother	½
<u>Trajan Ltd</u>	
Income tax relief not withdrawn on liquidation if no distribution received	½
Liquidation gives rise to disposal under S.24 TCGA	½
Loss relief available under S.131 ITA 2007	1
Loss net of income tax relief	1
<u>Hadrian Ltd</u>	
Loan is a return of value	½
Effects of return of value ie withdrawal of deferral relief	½
Possibility of replacement value by repayment of loan	1
Summary of reliefs	2
TOTAL	20

Examiner's report:

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Candidates generally scored better on this question.

The question states in any case that all the companies were qualifying companies. Some candidates summarised the rules for qualifying companies which was unnecessary.

Many candidates appreciated that the question of whether a person is connected to a company and thus debarred from relief involves the rights of associates, though the rules were often incorrectly applied. Many candidates also appreciated that being a paid director or employee made the investor connected with the company though often wrongly that the exception under s.168(f) ITA 2007 applied for reasonable payments of remuneration (in a self employed capacity only). As a result, s.169 was not applied, which not only requires that any remuneration should be reasonable but also no connection prior to becoming an employee.

A number of candidates dealt with the IT and CGT issues as regards the investments but failed to deal with or quantify the CGT deferral relief available against the gain on sale of property, which was a substantial part of the question.

As regards the case of Hadrian Ltd, where a loan of £125,000 from the company constituted a return of value, some candidates correctly considered that part of any income tax relief given in respect of the £250,000 investment would be withdrawn, although the question does not state that any income tax relief was claimed.

However, many considered that the CGT deferral relief falling back into charge would only be on £125,000 whereas under CGT rules the whole gain deferred of £250,000 comes back into charge. No candidate suggested that withdrawal of relief may be avoided if the investor had given 'replacement value' e.g. by repaying the loan.

10. MR TOOGOODThe sale of shares in TipTop Furniture Ltd (TF Ltd) to Mr Toogood's son Trevor

As this is a disposal of a capital asset to a connected person, it is deemed by HMRC to take place at market value. Therefore, although Trevor will only pay Mr Toogood £500 per share, Mr Toogood will be subject to capital gains tax (CGT) on the transfer as if he had been paid full value being £750 per share.

As the shares constitute business assets (being shares in an unquoted trading company), Mr Toogood can claim gift relief. This requires a claim signed by both Mr Toogood and Trevor no later than four years after the end of the tax year in which the transaction took place (5 April 2031 if the transfer takes place in 2026/27).

The effect of gift relief is that tax on the part of the value that is not paid by Trevor (£250 per share) will be deferred until Trevor disposes of the shares. The effect of the claim is shown in the Appendix.

Additionally, as this is a disposal of shares in a trading company of which, for at least two years, Mr Toogood has been an officer and has held more than 5% of the shares, business asset disposal relief (BADR) will be due. This means that the taxable gain will be charged to CGT at a rate of 18% (BADR rate applicable from 6 April 2026), giving tax payable of £3,600.

BADR must be claimed by Mr Toogood no later than the anniversary of the filing date for the tax year to which the claim relates (31 January 2029 if the transfer takes place in 2026/27).

Because Trevor is an employee of TF Ltd and he has paid below market value for the shares, HMRC could argue that he is in receipt of employment income under the Employment Related Securities (ERS) legislation.

However, providing Mr Toogood executes a properly worded deed of transfer and makes it clear that Trevor is purchasing the shares as a result of a normal family relationship (rather than as a result of his employment with the company), the ERS rules will not apply.

Repurchase of the balance of the shares by TF Ltd

The gain on a repurchase of shares by the issuing company will normally be treated as a distribution to a selling shareholder and taxed as if they had received a dividend.

However, if the following conditions are satisfied, the gain will instead be subject to CGT:

- The shares must be purchased by an unquoted trading company to benefit its trade. As Mr Toogood and his fellow directors have had a fundamental disagreement about the future path of the business, this is clearly satisfied.
- The seller needs to substantially reduce his interest in the company. As Mr Toogood is disposing of all of his shares and withdrawing from TF Ltd, this satisfies the requirement.
- The seller must be resident in the UK.
- The seller must not be connected with the company post sale. As Mr Toogood will have severed all his ties with TF Ltd post sale this is not an issue.
- The seller must have owned the shares for at least five years prior to the buy-back (or three years if the shares were acquired by inheritance).

However, Mr Toogood has not owned the shares for at least five years, therefore the CGT treatment cannot apply. He would need to wait a further 12 months before the share buy-back which, in view of his relationship with his fellow shareholders, may not be practical.

The payment he receives from TF Ltd in excess of the original subscription price will therefore be treated as a dividend. The dividend will be $50 \times £(750 - 100) = £32,500$. It is likely that the dividend allowance will have already been utilised and hence this will be subject to income tax at a rate of 39.35%, giving tax payable of £12,789.

The original amount of £5,000 subscribed for the shares will be treated as a return of share capital and no tax will be payable on this amount.

The lump sum payment of £20,000

This can only be paid tax free if it can be shown to be compensation for loss of office, to which Mr Toogood is not contractually entitled and in respect of which he has no expectation of payment, and if it does not represent post-employment notice pay.

It would be necessary to have sight of Mr Toogood's employment contract in order to make any definitive comment on this matter. Things are further complicated by the fact that the payment is made in return for Mr Toogood's resignation and removal from TF Ltd within a specific time frame and it needs to be confirmed that this does not constitute legal notice.

If Mr Toogood is entitled to a notice period and he does not work all of that notice period then some or all of the payment may be taxable as post-employment notice pay. This will normally be the amount of his basic salary that he would have received for the contractual notice period (or for the part of this period not worked). For example, if his notice period is six months and he does not work any of that notice period, the whole of the £20,000 payment will be taxable as earnings. Again, it would be necessary to have sight of his employment contract to comment further.

HMRC may argue that as a director of TF Ltd Mr Toogood could have expected a compensatory payment given that he is in a position within TF Ltd to decide whether such a payment is made. It is necessary to ascertain whether TF Ltd generally makes payments of this type to outgoing senior employees as HMRC may consider this should they enquire further into the nature of the payment.

As Mr Toogood is approaching retirement age, HMRC may also try to argue that the payment has been made as part of a retirement benefit package. If so, the compensation payment will be fully taxable.

Finally, as the payment of the compensation is being made together with a purchase of part of Mr Toogood's shareholding, HMRC may try to argue that instead of being a compensation payment, it is instead part of the proceeds of the share transaction and thus it would be added to the amount of the distribution and taxed accordingly. Given that Mr Toogood is receiving full market value for his shares, this seems unlikely.

If it can be argued that the payment is an ex-gratia payment for loss of office, then it can be received income tax free as the cash payment received is less than £30,000 (the maximum amount that can be received tax free). In addition, since the payment is less than £30,000 there would be no employers Class 1A National Insurance Contributions (NICs) due.

If the payment is deemed to be fully taxable, the income tax payable will be £9,000 (£20,000 x 45%). NICs under Class 1 for both employee and employer would also be due.

Company car

Whether the £20,000 is deemed to be post-employment notice pay (in full or in part) or not the transfer of the car is likely to represent an ex-gratia element of the termination package.

If all of the cash payment is post-employment notice pay the whole of the £30,000 exemption will be available and the transfer of the car will be exempt.

If none of the cash payment is post-employment notice pay it will use up £20,000 of the tax-free amount. Consequently £10,000 of the car value will be exempt leaving £5,000 chargeable. In which case the tax due will be £2,250 (£5,000 x 45%). There would also be a liability to employer's Class 1A NICs on the chargeable amount.

APPENDIXCapital gains tax arising on the sale of Mr Toogood's shares to Trevor

	£
Deemed proceeds (50 x £750)	37,500
Less: Original cost (50 x £100)	<u>(5,000)</u>
Gain	32,500
Less: Held over gain	<u>(12,500)</u>
Chargeable gain = Excess proceeds £(25,000 – 5,000)	<u>20,000</u>
CGT @ 18%	<u>3,600</u>

MARKING GUIDE

TOPIC	MARKS
<u>Sale of shares to Trevor:</u>	
Identification of MV transaction	1
Availability of BADR	2
Calculation of gain with correct hold over	2
Mention of employment related securities issue	1
<u>Company purchase of own shares:</u>	
Correct treatment with reasons	3
Calculation of tax due	1
Correct valuation used	1
<u>Lump sum payment:</u>	
Discussion of why a payment would be made tax free – expectation, contractual entitlement	2
Mention of requirement to see contract	1
Consideration of PENP	1
Mention of retirement benefit issue	1
Mention of £30,000 tax free if payment is ex-gratia	1
Calculation of potential tax due	1
Inclusion of car in termination package	1
Car: tax/NICs	1
TOTAL	20

Examiner's report:

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The majority of candidates knew that the transaction between Mr Toogood and his son was a market value transaction that would qualify for gift relief however the calculation of the relief due was generally poor.

Most candidates were aware of the requirements for the company purchase of own shares to be treated as a capital transaction however many failed to use the information to come to the correct conclusion. Additionally, many candidates saw this section as an opportunity to state in full all they know about company purchase of own shares and in the event they were unsure of the outcome many hedged their bets by showing the tax charge for both outcomes.

The explanations of the termination payments were generally good with most candidates correctly dealing with the company car. Generally, the accuracy of the CGT calculations was poor: a large number of candidates used the wrong cost as the basis of the CGT calculations as a result of incorrect multiplication of share costs.

11. MR WHITE

Tax Calculation 2025/26

	£	£
Employment Income		20,000
Property Income (working 1)		<u>20,433</u>
		40,433
Less: Personal allowance		<u>(12,570)</u>
		<u>27,863</u>
Income Tax liability (£27,863 @ 20%)		5,573
Less: Tax deducted at source		<u>(2,110)</u>
Income Tax payable		<u>3,463</u>
Capital Gains (working 7)		63,163
Less: Annual Exempt Amount	_____	<u>(3,000)</u>
		<u>60,163</u>
Capital Gains Tax payable		
(37,700 – 27,863) 9,837 @ 18%		1,771
(60,163 – 9,837) 50,326 @ 24%		12,078
		<u>13,849</u>
Total tax payable		<u>17,312</u>

W1) Summary of property income

Mr White would be assessed on the cash basis.

Alpha House (working 2)	4,583
Blue House (working 3)	5,650
Cedar House (working 5)	<u>10,200</u>
	<u>20,433</u>

Dune House – no income tax implications

W2)

Rent received £5,000 x 11/12	<u>4,583</u>
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W3)

Premium assessable to income tax (working 4)	4,400
Rent received £3,000 x 5/12	<u>1,250</u>
	<u>5,650</u>

W4)

Premium received		10,000
Less 2% x (5 – 1) x 10,000		<u>(800)</u>
		9,200

Less: Allowance for premium paid		
Payment to superior landlord	20,000	
Less: 2% x (15 – 1) x 20,000	<u>(5,600)</u>	
	<u>14,400</u>	
14,400 x 5/15		<u>(4,800)</u>
Premium assessable to income tax		<u>4,400</u>

W5)

Premium assessable to income tax (working 6)		7,200
Rent receivable 6,000 x 6/12		<u>3,000</u>
		<u>10,200</u>

W6)

Improvements which tenant must undertake deemed premium

Deemed premium received		10,000
Less: 2% x (15 – 1) x 10,000		<u>(2,800)</u>
Assessable to income tax		<u>7,200</u>

W7)Summary of capital gains

		£
Alpha House (working 8)		26,667
Blue House (working 10)		312
Cedar House (working 12)		560
Dune House (working 14)		<u>35,624</u>
		<u>63,163</u>

W8)

Disposal proceeds		60,000
Cost (Working 9)		<u>(33,333)</u>
Gain		<u>26,667</u>

W9)

60,000/(60,000+30,000) x 50,000		<u>33,333</u>
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W10)

Premium received		10,000
Less: Depreciated cost (working 11)		<u>(5,288)</u>
		4,712
Less: Amount chargeable as income (working 4)		<u>(4,400)</u>
		<u>312</u>

W11)

X - Unexpired term at time of granting sublease	13.5 years
Z - Unexpired term on expiration of sublease	8.5 years
Y - Unexpired term on granting of head lease	15 years

$$X = 56.167 + (58.971 - 56.167 \times 6/12) \quad 57.569$$

$$Z = 39.399 + (43.154 - 39.399 \times 6/12) \quad 41.277$$

$$Y = 61.617$$

$$57.569(X) - 41.277(Z) / 61.617(Y) \times 20,000 \quad \underline{5,288}$$

W12)

Deemed premium 10,000

Less: Amount charged to income tax (working 6) (7,200)

2,800

Less: Cost (working 13) (2,240)

560

W13)

$$2,800 / (10,000 + 90,000) \times 80,000 \quad \underline{2,240}$$

W14)

Disposal proceeds 40,000

Less: Cost (working 15) (4,376)

35,624

W15)

X - Unexpired term of lease on assignment 7 years

Y - Unexpired term of lease on 1 April 1990 43 years

$$X = 35.414$$

$$Y = 97.107$$

$$35.414(X) / 97.107(Y) \times 12,000 \quad \underline{4,376}$$

MARKING GUIDE

TOPIC	MARKS
<u>Alpha House</u>	
Property income	½
Capital Gain	1
<u>Blue House</u>	
Property income	½
Premium assessable as income	1
Capital Gain	3
<u>Cedar House</u>	
Property income	½
Premium assessable as income	1½
Capital Gain	2
<u>Dune House</u>	
Capital Gain	2
<u>Tax computation</u>	
Income Tax computation	1
CGT computation (rates/annual exempt amount/calculation)	2
TOTAL	15

Examiner's report:

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Many candidates answered this question well and were able to demonstrate a good knowledge of the rules on the taxation of leases.

However, many missed out on easy marks by failing to prepare the computation after working out the taxable income and gains for each property or by failing to apportion the rental income received in the year correctly.

The majority of candidates calculated the rental income and capital gain for Alpha House correctly, which was on the grant of a long lease from a freehold.

A number of candidates lost marks by failing to deduct an amount for the allowance for the premium paid on the head lease when calculating the amount chargeable to Income Tax for Blue House and did not use the correct periods when calculating the property's base cost.

Most candidates correctly identified that the amount the tenants were required to pay for the improvement works on Cedar House should be treated as a premium and were able to correctly calculate the amount chargeable to Income Tax, but few correctly calculated the base cost for Capital Gains Tax.

12. MICHAELIncome from property

An individual with UK source income, including rented property, remains potentially liable to tax in the UK on that income regardless of residency status.

In principle, the income from property is subject to deduction of tax at source. Tax should be deducted by the agent or tenant with the final settling of the tax bill under self-assessment. The agent can net off the allowable expenses before deducting basic rate tax from the net amount. Those expenses would be the same as could be deducted by a UK resident person in calculating income from property.

This tax should be submitted to HMRC along with a quarterly return as well as an annual return being required. The deadline is 30 days from each quarter date.

Interest is payable on tax paid late. There are penalties for failure to register and make returns.

HMRC can issue assessments to collect tax which has not been deducted.

There is a scheme available called the non-resident landlords scheme under which it is possible to apply to HMRC to receive the rent gross with all tax then being dealt with under self-assessment. Approval is usually given to operate the scheme if the landlord's UK tax affairs are up to date, they have never had any tax obligations or they are not expecting to have any tax to pay in the year when the application is made.

The landlord must agree to fully comply with all UK tax obligations.

If there is no authority to pay gross, Jason will be treated as an agent for the purposes of the scheme and he will have the relevant compliance obligations outlined above.

It is recommended that an application be made for gross payment as soon as possible.

Tax liability

Non-resident individuals are taxable on any UK source income. However, there is a provision which limits the liability to Income Tax on those non-residents.

The liability is a maximum of the sum of the following figures:

- a) any amount of tax deducted from disregarded income for the tax year plus any tax treated as deducted or shown as tax credit (A); and
- b) any amount of tax that would be the liability to Income Tax ignoring the disregarded income but removing any entitlement to allowances such as the personal allowance (B).

Disregarded income is defined as savings and investment income (including interest and dividends from UK companies), annual payments such as royalties from Intellectual Property, state pension income and social security income.

Michael's UK income derives from three sources: the property income, interest and dividends.

<u>Property income</u>	Note	£	£
Gross rent			66,000
Less: Wages	N1	9,000	
Payment to Jason	N2 and N3	15,000	
Insurance		2,362	
Repairs		8,211	(34,573)
Net income			<u>31,427</u>

Notes

- N1) No deduction for employer's NIC as wages are below threshold
- N2) No deduction for employer's NIC as liability covered by the employment allowance.
- N3) Assuming HMRC accept that this is a commercial level of pay for the work done.

Total income

Property income	£
Interest	31,427
Dividends	1,726
Total	<u>9,100</u>
	<u>42,253</u>

Operation of provisions to restrict liability

Total tax to pay without restriction:

	Non-savings income £	Savings £	Dividends £
Property income	31,427		
Interest		1,726	
Dividends			9,100
Personal allowance	(12,570)		
	<u>18,857</u>	<u>1,726</u>	<u>9,100</u>

A personal allowance is available as Michael is a British citizen.

Tax	£
18,857 x 20%	3,771
1,000 x 0%	0
726 x 20%	145
500 x 0%	0
8,600 x 8.75%	<u>753</u>
Total	<u>4,669</u>

With restriction:

'A' – no tax has actually been deducted at source but the dividends are treated as being taxed at 8.75% so this would be £796 (being £9,100 x 8.75%)

'B' – the only other income is the property income and the tax on this without the availability of the PA is 31,427 x 20% = £6,285. The total of A + B = £7,081

It is therefore not beneficial to apply the restriction so the normal calculation will apply.

If tax had been deducted at source from the rent, this would not affect the overall computation but Michael would get credit for the tax deducted.

MARKING GUIDE

TOPIC	MARKS
<u>Property income</u>	
Tax deducted at source by agent	1
Can net off expenses	1
Returns and general compliance	2
Can apply for NRLS	1
Must comply with UK tax	1
Recommend that apply now	1
<u>Tax liability</u>	
UK source income taxed subject to s.811	1
S811 – maximum	1
Disregarded income	1
Property income calculation	2
Total income	1½
Tax without s.811	2
PA available	1
With s.811	1½
Do not apply s.811	1
Tax if deducted	1
TOTAL	20

Examiner's report:

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This question was not well answered with many candidates failing to recognise the disregarded income calculation or to explain what it was when they did recognise it. Whilst most candidates recognised the Non-Resident Landlord Scheme and the implications, there was often a lack of basic explanation and fairly generic descriptions of its operation.

13. HARRIOT WALTON

For a final salary pension scheme, the pension input amount is the amount of any increase in value of the individual's rights under the scheme during the tax year. The value of the individual's rights for this purpose is taken to be the maximum annual pension entitlement multiplied by 16. It is therefore necessary to calculate this value at the beginning and end of the tax year. The growth in the value of Harriot's rights during the year was £76,800 (W1). A tax charge arises on the amount by which this growth exceeds her available annual allowance.

The standard annual allowance for the 2025/26 tax year is £60,000, but this is tapered where a taxpayer is classed as a high income individual for this purpose. The minimum amount that the allowance can be reduced to is £10,000.

A high income individual for 2025/26 is one who meets the following criteria:

- 1) threshold income exceeds £200,000 and
- 2) adjusted income is over £260,000

Harriot's threshold income for the year is £241,907 and her adjusted income is £318,707 (W2) therefore she is a high income individual.

The annual allowance is reduced by £1 for every £2 of adjusted income over £260,000. This gives Harriet an annual allowance of £30,646 for 2025/26. (W2)

She can also make use of her unused annual allowances from the previous three tax years, which total £43,200.

The chargeable amount is £2,954 and Harriot's annual allowance charge for 2025/26 is £1,329 (W3).

The charge will need to be declared on Harriot's 2025/26 tax return and paid to HM Revenue & Customs with her balancing payment for that year, which will be due on 31 January 2027.

Harriot is not able to elect to pay the annual allowance charge from the fund as it only arises due to her annual allowance being tapered and in any event is less than £2,000.

WorkingsW1) Increase in Value of Rights (ignoring inflation)

At 6 April 2025: 11 years' service £48,000 salary

Value of rights therefore $11/60 \times 48,000 \times 16 = £140,800$

At 5 April 2026: 12 years' service £68,000 salary

Value of rights therefore $12/60 \times 68,000 \times 16 = £217,600$

Increase: $£217,600 - £140,800 = \underline{£76,800}$

Tutorial Note:

In practice, the opening value will be uplifted to take account of inflation. Inflation should, however, be ignored in the exam, unless specific details are given in the question.

W2) Annual Allowance for 2025/26

Adjusted income:

	£
Salary ((48,000 x 5/12) + (68,000 x 7/12))	59,667
Benefits in kind	14,240
Rental income	<u>168,000</u>
Threshold income	241,907
Pension input (working 1)	<u>76,800</u>
Adjusted income	<u>318,707</u>

Restriction: $(318,707 - 260,000)/2 = 29,354$ Annual allowance: $60,000 - 29,354 = \underline{\underline{£30,646}}$ **Tutorial Note:**

When calculating the adjusted income figure for the member of a final salary scheme it is the pension input amount that is used rather than the amount of any employer contributions.

Total Available Annual Allowance for 2025/26

	£
2025/26	30,646
2022/23	17,600
2023/24	9,067
2024/25	<u>16,533</u>
Total:	<u>73,846</u>

W3) Annual Allowance Charge $£76,800 - £73,846 = £2,954$

All subject to income tax at the additional rate

Charge due:

2,954 x 45%	<u>£1,329</u>
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MARKING GUIDE

TOPIC	MARKS
Explain how total pension input is calculated for final salary scheme	2
Calculate value of rights on 6 April 2025	1
Calculate value of rights on 5 April 2026	1
Calculate increase in value of rights	$\frac{1}{2}$
Explanation of annual allowance charge	1
Calculate threshold income	1
Calculate adjusted income	1
Explain why Harriot is a high income individual	1
Explain how Annual Allowance is tapered	1
Minimum allowance is £10,000	$\frac{1}{2}$
Calculated restricted Annual Allowance for 2025/26	1
Calculate total available Annual Allowance for 2025/26	1
Calculate Annual Allowance Charge	1
Payment deadline	1
Explanation that payment election not possible	1
TOTAL	15

14. STEVE FORD

HMRC can issue an Accelerated Payment Notice (APN) and require the payment of tax when all of the following conditions are met:

- 1) The taxpayer's return is under enquiry;
- 2) The taxpayer has obtained a tax advantage from 'tax arrangements'; and
- 3) The arrangements are notifiable under DOTAS (or other specific circumstances not relevant here).

The APN is simply a method of obtaining payment up front. The issue of an APN is not an indication that HMRC have reached a conclusion, and payment of the tax is an interim payment on a 'without prejudice' basis of any tax that may become due if HMRC are successful in their challenge.

The tax demanded should be the amount of tax saved by the use of the avoidance scheme, calculated to the best of HMRC's information and belief.

Payment of the tax demanded by an APN will not close the matter.

There is no statutory right of appeal against the APN itself, as this would only bring up the same arguments which are already ongoing in connection with the case itself.

However, within 90 days of issue, Steve can make representations to HMRC in writing either objecting to the circumstances in which the APN has been issued (for example if it does not meet all of the above conditions) or disputing the calculation of the tax due if he believes it to be incorrect.

HMRC must then consider the representations and either confirm the APN or withdraw it.

If the issue of the APN is valid, the tax demanded must be paid within 90 days and this will prevent further interest accruing. The tax paid will be deducted from any final liability once the case is decided. Any overpayments will also be repaid to the taxpayer with a repayment supplement.

There are penalties for late payment of tax demanded by an APN which are a percentage of the amount due. 5% will be charged if the tax is not paid by the due date. A further 5% will be added after 5 months, and if the tax is still outstanding after 11 months, another 5% is added.

There is no interest charge for late payment of an APN, however interest will continue to accrue on the underlying tax due from the enquiry until the APN tax is settled.

If Steve wants to settle his tax affairs, he can request this, and HMRC will work with him to settle the case. It may be worth contacting the scheme promoters to see how the enquiry is progressing and what the current position is to determine whether he should continue with their appeal or whether he may be best advised to try to negotiate an early settlement with HMRC and bring an end to the matter.

MARKING GUIDE

TOPIC	MARKS
APN conditions:	
– Tax return under enquiry	½
– Taxpayer obtains an advantage from tax arrangements	½
– Arrangements notifiable under DOTAS	½
APN secures payment of tax upfront	½
Does not indicate that HMRC have reached a conclusion	½
Payment is an interim payment “without prejudice”	½
Tax demanded is amount saved by the scheme	½
Payment of the tax does not close the matter	½
No statutory right of appeal against an APN	½
Can make representations within 90 days	½
Can query the circumstances	½
Can query the calculation of tax due	½
HMRC consider representations and confirm or withdraw	½
Tax must be paid within 90 days of issue	½
Any overpayments will be refunded with repayment interest	½
Penalties for late payment	1
Prevents further interest arising on the final tax due	½
Can request an early settlement	1
TOTAL	10

15. ISABELLE**1) Residence in 2023/24 - Reason and date**

Isabelle is UK resident in 2023/24 as she meets the automatic UK tests. She is present in the UK for at least 183 days in the tax year (1 September 2023 to 5 April 2024). Only one automatic UK test needs to be met, so that alone makes her UK resident. She also meets the full-time UK work test and the UK home test.

As she is UK resident for the year and Case 5 (starting full-time work in the UK) applies, the split-year treatment applies: the UK part begins on her first UK workday, so Isabelle becomes UK resident on 4 September 2023.

Tutorial Note:

Case 4 might also apply, as Isabelle is starting to have a home in the UK only. If Case 4 does apply, then she will be UK resident from the date that she has her only home in the UK i.e. 7 September 2023. Where a tax year can be split under both Cases 4 and 5, the case which will apply is that which results in the shortest overseas part of the tax year. This is Case 5. So Isabelle will be UK R from 4 September 2023.

2) Eligibility to claim relief under the FIG regime in 2025/26

Isabelle has not been UK resident in any of the ten tax years prior to 2023/24, so she is a qualifying new resident under the FIG regime for foreign income and foreign employment income (OWR).

As a qualifying new resident, Isabelle can access the FIG regime for up to four tax years from arrival. She is therefore eligible for this relief in 2025/26 on her foreign income, including non-UK dividends, non-UK property income and her foreign employment income (i.e. employment income attributable to non-UK duties).

3) 2025/26 tax saving if all beneficial claims are made

Compare Isabelle's 2025/26 tax position without a FIG claim and without a FIG claim to determine the tax saving from making all possible FIG relief claims.

Option 1 – No FIG relief:

	Non-savings £	Dividends £
Employment income	85,000	
Non-UK property income (Note 1)	Nil	
Non-UK dividends (1,136 x 100/80)		1,420
Total income	85,000	1,420
Less: Personal allowance	(12,570)	
Taxable income	72,430	1,420
Tax		
37,700 @ 20%		7,540
34,730 @ 40%		13,892
500 @ 0%		Nil
920 @ 33.75%		<u>311</u>
Tax liability		21,743
Less: Double tax relief (Note 2)		(284)
Less: PAYE		(21,583)
Tax repayable		(124)

Notes:

- The £1,200 property loss is allowable but cannot be relieved sideways against other income. It is carried forward and set against the first available overseas property income in the future. Assuming Isabelle continues to be a higher rate taxpayer, this will save £480 (£1,200 x 40%) of tax.
- As a UK resident, Isabelle is taxable in the UK on her worldwide income on the arising basis. Where the same income is also taxed overseas, double tax relief (DTR) is available. DTR is equal to the lower of the overseas tax suffered or the UK tax liability on that foreign income.

Isabelle is a higher rate taxpayer by virtue of her employment income. This means that her foreign dividend income (above the dividend allowance) will be taxed at a rate of 33.75%. As the foreign tax withheld was 20%, Isabelle will be able to relieve the whole of the foreign tax credit of £284 (£1,420 x 20%) in her UK tax computation.

Option 2 - Claiming FIG relief:

	Non-savings £	Dividends £
Employment income	85,000	
Non-UK property income (Note 3)	Nil	
Non-UK dividends (1,136 x 100/80)		<u>1,420</u>
Total income	85,000	1,420
Less: FIG Relief		
– OWR (Note 4)	(18,478)	
– Foreign income (Note 5)		<u>(1,420)</u>
Net income	66,522	Nil
Less: Personal allowance (Note 6)	(Nil)	
Taxable income	<u>66,522</u>	<u>Nil</u>
Tax		
37,700 @ 20%		7,540
28,822 @ 40%		<u>11,529</u>
Less: PAYE		<u>(21,583)</u>
Tax repayable (Note 7)		<u>(2,514)</u>

Notes:

- Foreign income losses are disallowed in any tax year in which a FIG claim is made. The £1,200 property loss is therefore ignored and cannot be carried forward.
- OWR apportionment: £85,000 x 50/230 = £18,478 (qualifying foreign employment income).

Capped at the lower of:

- 30% x £85,000 = £25,500
- or £300,000.

The cap does not restrict Isabelle's OWR. In 2025/26 the claim is £18,478.

Since qualifying foreign income exceeds the personal allowance, it makes sense to claim OWR. The tax lost when the personal allowance is withdrawn is £5,028 (£12,570 x 40%), compared with tax saved as a result of the OWR claim of £7,391 (£18,478 x 40%).

5. FIG relief for foreign income is claimed on a source-by-source basis. However, the personal allowance is withdrawn if any FIG claim is made. Once the personal allowance is lost, it is usually optimal to claim FIG on all eligible foreign income sources to maximise the benefit.

Tutorial Note:

An alternative to Option 2 would be to claim OWR on the foreign employment income but not claim FIG relief on the dividend, leaving the dividend taxed on the arising basis so that double tax relief (DTR) can be claimed. This is not preferable, as South African withholding tax on the dividend is 20%, whereas the UK rate on the dividend above the allowance is 33.75%. DTR would therefore still leave £27 (£311 – £284) of UK tax payable on the dividend. Claiming FIG relief on the dividend removes it entirely, which is more beneficial than relying on DTR.

6. The personal allowance is withdrawn in any tax year a FIG claim is made.
7. DTR does not apply to the dividend, because the foreign income is removed by the FIG claim. DTR only applies where foreign income remains taxable in the UK.

Conclusion:

Tax saved if FIG relief is claimed is £2,390 (£2,514 - £124). However, the benefit of the property loss is lost (a £480 tax saving in the future). It is still better to claim relief, as the tax saving exceeds the loss of that benefit.

Isabella must make an election for OWR to apply and claim relief separately for the foreign dividend and foreign employment income on her self-assessment return. The deadline for the election and claims for 2025/26 is 31 January 2028.

4) Unremitted property income and implications of remitting in 2030

Because Isabelle claimed the remittance basis in 2023/24 and 2024/25 and did not remit those property profits, they are unremitted foreign income for pre-April 2025 years.

From 6 April 2025, the remittance basis is no longer available. Instead, foreign income (and gains) are taxed on an arising basis subject to a claim under the FIG regime where applicable. However, pre-2025 unremitted foreign income remains chargeable if and when it is remitted. Any amounts she brings to the UK after 6 April 2025 are taxed in the year of remittance as non-savings income at her marginal rate (currently 40%).

The Temporary Repatriation Facility (TRF) is a transitional option. Isabelle may designate amounts of qualifying overseas capital (pre-6 April 2025 unremitted foreign income) to be taxed at a flat rate (12% in 2025/26 and 2026/27 and 15% in 2027/28). These funds can then be remitted without a further UK charge at any time, including after the TRF window closes (for example, in 2030, when she plans to remit).

Amounts designated under the TRF do not qualify for any foreign tax credits. In Isabelle's case no foreign tax has been paid on the South African property profits, so there is no DTR to consider.

Given her plan to bring all accumulated foreign income to the UK in 2030, Isabelle should consider designating the 2023/24 and 2024/25 unremitted property income within the TRF window to lock in 12% or 15% rates, rather than facing marginal non-savings rates in 2030. Amounts designated are not treated as 'income' in her tax computation and will not affect the tapering of the personal allowance, child benefit clawback or annual allowance charges. Instead, the tax is a stand-alone charge and is added to the final tax liability alongside other adjustments.

The deadline for making a designation election is the first anniversary of 31 January after the end of the tax year (31 January 2028 for 2025/26 TRF designation elections).

Isabelle can claim FIG relief on foreign income arising in 2025/26 and 2026/27, as these fall within the four-year period from her arrival. If she claims FIG relief in these years, the specified foreign amounts are not chargeable in the UK and can be brought to the UK in any later tax year without further tax. If she does not claim FIG relief in those two years, she will be taxed on her foreign income as it arises and so any subsequent remittances will have no further UK tax consequences. This will also be the position for any foreign income earned from 2027/28 onwards when she no longer qualifies for FIG.

MARKING GUIDE

TOPIC	MARKS
UK R and reason	1
Split year – full time work in UK (Case 5)	1
UK R from 4 September 2023	1
Consideration of Case 4	$\frac{1}{1}$
Sub total (max)	3
Qualifying new resident in tax year 2023/24	1
FIG regime available for up to 4 tax years from arrival and not before 2025/26	$\frac{1}{1}$
Sub total	2
<u>Income Tax computation: no FIG relief:</u>	
Overseas property loss carried forward	$\frac{1}{2}$
Overseas dividend grossed up for foreign tax	$\frac{1}{2}$
PA	$\frac{1}{2}$
Calculation of tax liability	2
DTR	1
PAYE	$\frac{1}{2}$
<u>Income Tax computation: with FIG relief:</u>	
Overseas property loss not allowable	1
Overseas dividend exempted	$\frac{1}{2}$
No scope for DTR	$\frac{1}{2}$
Calculation of OWR	1
Financial limit not applicable	$\frac{1}{2}$
No PA	$\frac{1}{2}$
Calculation of tax liability	1
PAYE	$\frac{1}{2}$
Tax saving as a result of claiming FIG relief	$\frac{1}{2}$
Due date for claim	$\frac{1}{2}$
Sub total (max)	10
Unremitted foreign income will be taxed when remitted	1
Tax rate	$\frac{1}{2}$
TRF = transitional i.e. 2025/26, 2026/27 and 2027/28	$\frac{1}{2}$
Designated unremitted income taxed at flat rate	$\frac{1}{2}$
No further tax when designated income remitted	$\frac{1}{2}$
No foreign tax credit on designated income	$\frac{1}{2}$
Due date for claim	$\frac{1}{2}$
FIG relief available for foreign income of 2025/26 and 2026/27	$\frac{1}{2}$
If no claim made, and for tax years when FIG relief not available: overseas income taxed on arising basis and can be remitted at any time without any further tax	$\frac{1}{2}$
Sub total	5
TOTAL	20