

Tolley[®] Exam Training

CTA APPLICATION & PROFESSIONAL SKILLS

IHT, TRUSTS AND ESTATES (IHTTE)

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sittings

PQ130

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This APS Pre Revision Question Bank contains 2 exam standard questions all with answers updated to Finance Act 2025.

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

You should now use this question bank to practise your technique and timing. Practice is the key to passing the APS paper – if you do not approach these practice case studies in the same way as you will the ‘real thing’ you will be reducing your chances of obtaining a pass.

Remember that you can read the pre-seen information in advance of attempting each question - it is always the final Exhibit.

Make sure you have 3.5 hours of uninterrupted time – stopping and starting means you may well take more than the allotted time and will give you a false impression of what can be achieved. 3.5 hours may seem a long time to allocate to practise a case study – but remember developing your exam technique for this paper is just as important as learning the technical detail required.

Do not attempt these case studies by just planning your answer and then reading the suggested answers. It is vital to practice typing up a full answer.

We recommend you complete a “Reflection” sheet each time you have finished a case study as part of the self-review process where you compare your typed up answer to the suggested answer provided and so we have included a copy of this sheet at the end of each answer in this question bank.

Guidance on Approach to APS questions

Over the next few pages there is some general information on how to approach the APS paper in order to be successful in this part of your CTA examination.

There is also some information about the way this case study paper will be marked.

Revision Question Banks

A separate further Revision Question Bank containing six further case studies will be available nearer to the date of your real exam.

CONTENTS**GUIDANCE ON THE APS PAPER**

- The APS Paper
- Approaching the APS Paper
- How the APS Paper is marked
- Appendix A: Narrative on Assessment Factors
- Appendix B: The Format of Letters and Reports

CTA TAX TABLES**CASE STUDIES**

NO	NAME	SITTING
1	James Dexter	
2	Cresswell Family Settlement	May 2021

REVISION GUIDANCE

PURPOSE OF THE APS PAPER

The purpose of the Application and Professional Skills paper (APS) is to test your ability **to produce a report or letter which a client would value**.

It does this by focusing on **three skills** – Structure, Identification and Application (I&A) and Relevant Advice and Substantiated Recommendations (RA&SR).

In order to secure a pass, you are required to demonstrate **competence in all three** skills. We shall look at the way these competencies will be assessed in more detail later in this guidance.

The Case Study Question

The question will be drafted in such a way that:

- You need to **apply** your technical knowledge rather than simply regurgitate it
- You need to **weigh up options** and **reach a conclusion** as to which is the best option
- Detailed computations will not need to be prepared in order to answer the question
- Detailed technical analysis of obscure points will not be required
- You need to **communicate** information which may be complex in a clear manner and so the requirement will **always be for a report or letter to a client**
- It tests a **range of material** including topics from the matching Advanced Technical (AT) paper(s) as well as the specified awareness level topics (per the syllabus grids)

The CIOT anticipate that a full answer would be between 3,000 to 3,500 words (3,500 is an absolute limit given to the examiners when they draft their model answers) but there is no need for you to focus on word count in your answer script, this info is just given for guidance.

It is likely that questions will require **planning for a future action** rather than simply commenting on historic events.

It is also likely that consideration will be required of **interaction** between **taxes. Aspects of the law, ethics and accounting** CBE syllabuses may also need to be considered where relevant and appropriate.

The first part of the question will always be the introduction. This will cover key introductory matters but will not contain detailed material. It will be around half a side long, giving an **outline of the scenario** and will provide you with a good idea as to the likely requirements.

The introduction will cover:

- Who you are – eg stating “You are a tax manager in a firm of Chartered Tax Advisers.”
- Who the client is
- Outline of the scenario
- Reference to exhibits, for example – “you have recently received a letter (**EXHIBIT A**) from Mr Jones regarding his future plans.”

Exhibits

Exhibits will be as similar as possible to **real documents** that may be presented to an adviser in practice. Types of exhibits may include:

- Letters or emails from clients, colleagues and other advisers
- Accounts (eg trust accounts) or extracts from accounts
- Extracts from reports from other advisers, eg solicitors, surveyors
- Extracts from legal documents (such as Wills or trust deeds)

The final exhibit will always be the pre-seen information.

Pre-seen Information

The pre-seen information will give **background details** relevant to the client in the question, but it will not guide you as to the actual examination question requirements. It is intended that the pre-seen information will better equip you to deal with the case study in the examination environment and makes the question more aligned to a real-life client situation.

It will be provided **two weeks in advance** of the examination. You will only receive the pre-seen information for the question you registered for when you sent in your exam entry (ie IHTTE).

You **may discuss** the pre-seen information with whoever you choose.

The pre-seen information will be provided again with the question, as the final exhibit and will comprise information which would typically be found in a client **permanent file**, such as:

Individuals:

- Name, address, date and place of birth
- Residence and/or domicile status (unless this is to be determined)
- Name, date, place of birth of spouse (or statement that not married/widowed), date of marriage
- Employment status / details of business interests
- Names & dates of birth of children / grandchildren
- Will or statement that there is no Will
- Details of assets and income (if relevant)
- Details of previous chargeable transfers

Trusts:

- Name of trust and trustees (and their residence status)
- Date of settlement
- Name and current status of settlor
- Details of beneficiaries and dates of birth
- Trust Deed (or summary of trust terms)

- Initial assets settled and details of hold-over claims
- Trustee powers

The intention behind the material is to allow you to become familiar with the background of the client to avoid confusion on the day.

The pre-seen information will not include information on the anticipated transaction or event that is the subject of the question. As is the case in practice, the pre-seen information may include material which is not required to answer the question.

HOW TO APPROACH THE APS PAPER

The Application and Professional Skills (APS) paper will test your ability to **apply** your tax knowledge to a practical case study.

In order to be successful in this paper you will need to have the ability to:

- Sift through information, distinguishing between the key elements and those which are less important;
- Communicate clearly in a manner appropriate to your client giving clear recommendations and coming to a conclusion;
- Apply knowledge to a problem which will involve an understanding of the interaction of several taxes and which may not have a single correct answer.

Whilst the case study may well require you to carry out computations, this will only be in the context of providing results for you to comment on in depth in the written part of your answer.

The case study will require you to prepare a **detailed report or letter for your client** and you should incorporate an **Executive Summary** in your answer.

As this paper is intended to be a practical case study, whilst there will be a clear requirement, the specific content required will not be set out in detail.

In particular, you will be expected to **identify and comment on relevant ethical, professional, legal, accounting, regulatory and commercial issues** although the question requirement may not explicitly mention these.

Similarly, you should **consider the possible application of other taxes** to the scenario, beyond the primary tax being examined. It is important to be able to differentiate between various taxes, whilst considering the impact of one on the other.

The case studies are **not intended to be time pressured**. The aim is to allow you to have time to submit a complete answer, thus demonstrating your ability to deal with practical situations.

Successful candidates should be able to demonstrate a good technical knowledge of the tax topics examined in the **related Advanced Technical syllabus** paper(s) and the **Awareness topics identified as within the syllabus for their chosen APS case study**.

Such students should also have an understanding of aspects of ethics, law and accountancy relevant to a tax practitioner from the CBE text books.

The examiner will be looking for:

- Sufficient breadth of knowledge to appreciate all the tax implications of a particular problem
- Identification of the key issues
- Application of knowledge to arrive at sensible recommendations and coming to a conclusion
- Communication skills, using a well-structured pattern
 - use of headings
 - use of good English
 - use of summaries

Good examination technique is essential. It is the **quality** of the work produced that is important – **not** the **quantity**.

Due to the nature of the paper there is unlikely to be a single correct answer.

As you read the following notes which have been produced to help you deal effectively with the case studies, it is important to remember to focus on demonstrating your **professional skills** as well as application of your tax knowledge.

You need to take into account the **format** of the response, whether the style and tone is suitable for the client and whether the response is structured effectively.

Therefore, whilst it may be natural that your initial focus is likely to be on the technical detail required, it is just as important to plan how and to what extent that detail needs to be included in your answer.

Approach to the Case Studies

You should aim to adopt the following approach when attempting a case study:

1. READ
2. ANALYSE
3. PLAN
4. WRITE
5. REVIEW

1. READ

The CTA APS exam is 3.5 hours.

Start by identifying the issues carefully. This is important to establish some key things:

- Who you are
- What you are required to do
- Who you are writing the report to

These are important facts you must register before you move on to the next stage.

In the real examination you will have already had the pre-seen information but remember this will be provided to you again as the final exhibit.

The starting point is to **read the requirement**, which is in bold text usually on the first page of the case study.

However, the requirement may be general in nature, for example 'Prepare a report addressing Jane's queries', so a review of all the information provided is necessary at this stage.

Now read the information contained in the body of the question and the exhibits, **highlighting key information** and jotting down notes on a piece of paper. Most of the detail will be in the exhibits so make sure you are comfortable with what is there.

In particular you should consider carefully the issues highlighted in the question and the information that is likely to be important, for example:

- Family relationships, ages etc (you may already be familiar with this from the pre-seen info)
- Needs of client and any preferences expressed/courses of action ruled out
- Actions already undertaken
- Reliefs available
- Timing issues

Now **re-read the requirement**. It is very easy at this stage to formulate an answer to what you would LIKE the question to ask, rather than what it ACTUALLY asks. Make sure you do not fall into the trap of typing up an answer that is not relevant to the question asked.

During this initial reading time you should have time to look up things in the legislation that will help you answer certain parts of the case study. Leave the legislation open at the relevant pages.

2. ANALYSE

Once you are satisfied you understand the requirement, you can move on to the next stage. Do not rush this part, as it is crucial to the whole process.

In the light of the requirement, re-read the question, decide which facts are important/relevant/not relevant. **Determine the areas to be addressed** in the answer.

Remember that each sentence and exhibit is there for a reason – there should not be much irrelevant information. Information may be included to highlight an issue, to identify a key point or to eliminate a course of action the examiner does not want covered.

There will be certain pieces of information that you either do not understand or cannot see the relevance of. It is possible for example that you will not use all the information provided in the pre-seen information. You need to concentrate on what you know and what you can do. Think positively and do not dwell on the areas you cannot get credit for.

For each issue you have highlighted – unless stated otherwise – you should **consider the implications for all relevant taxes**.

Look up in the legislation any areas of uncertainty, conditions etc.

3. PLAN

Now is the time to **produce a plan of the answer you intend to produce**.

You can either **handwrite or type** your plan but note that it will not be marked by the CIOT so it does not need to be included as part of your answer – the marker will only assess the actual report/letter you are asked to produce. You may decide that you prefer to handwrite your plan for ease of reference. You may decide you prefer to type it so that you can expand it. You need to practice these different approaches to work out whether handwriting or typing your plan works best for you.

For each issue you have highlighted, you should note down the areas which need to be discussed, taking into account the order of importance and considering all the implications. The plan can be in bullet point format but should contain sufficient detail to act as a checklist for when you start writing the actual answer. By producing a useful plan, you should be able to ensure that all points are covered in your final answer in a logical order.

You may have to **perform calculations as part of the plan** so that you can then analyse/comment on the results. These calculations should be typed up straight away as part of your answer – not handwritten. You should include them as an Appendix to the report/letter you will go on to write.

By the time you have finished the plan the hard work is really over – not only do you know what the case study wants you to consider, but you have now also considered all aspects, decided what needs to be included in your answer and know what **recommendations** you will give your client in the report/letter and the conclusion you have come to with regard to any options discussed.

Remember to determine the format of your answer – this is usually specified in the requirement.

You should also consider how you are going to allocate your remaining time to writing your answer to each element of the case study. **Never** overrun on time allocation, as this will have a detrimental effect on your overall answer. Come back to an incomplete section at the end of the exam if you have time.

These first three areas of the approach will take approximately thirty minutes to one hour leaving you between 2 and 2.5 hours of further exam time. The more calculations you have to do the more time you will need to allocate to your plan.

4. WRITE

Only start typing up the formal answer once the analysing and planning stages have been completed.

The format of the answer is very important. If the correct format is not used, there is significant risk that you will not be awarded a pass for the “Structure” competency. You will then fail the paper.

The following formats are recommended:

REPORT

TO:
FROM:
DATE:
SUBJECT:

The report should start with an “Introductory section” (normally no more than half a page) which should say:

- Who the report is intended for.
- What the report is based on (for example, “this report is based on your meeting with Amy Lim on 23 April 2026 and your subsequent letter to Amy dated 24 April”).
- Who can rely on the report. We suggest you simply remember the following standard wording: “This report is intended solely for use by you. Chartered Tax Advisers LLP accepts no responsibility for any reliance placed on this report by other parties”.
- The purpose of the report (summarised briefly).

A contents page is not required.

You can assume that the scope of the report is covered by the engagement letter. Unless it is specifically suggested otherwise in the question, there is no need to refer to the engagement letter in your answer.

If there are any limitations to our advice, these should be stated. Remember we are tax advisers, not lawyers or investment advisers. So any legal or investment advice should be referred to the client’s solicitor or IFA.

The Introductory section should be followed by an Executive Summary. Normal practice is to type this up last (but make sure it is inserted after the Introductory section).

The Executive Summary summarises the main advice and recommendations. There should be sufficient information in the Executive Summary that the reader can understand the recommendations without reading the detailed analysis. In effect, the Executive Summary is a snapshot of the key recommendations which can be read as a stand-alone document.

You should not introduce anything new in the Executive Summary. Everything in the Executive Summary should be available in the body of the report.

There is no need for a separate 'Conclusions' section at the end of the report as this is likely to be a repetition of the Executive Summary. [You will not lose marks for this, but you will have wasted time.]

Even though the client will have contacted your Tax Manager / Tax Partner for advice, the report is from your firm to the client. **The report should therefore use "We" throughout.** Alternatively, **you may prefer to use the third person**, eg. "[client name]" instead of "you" and "It is recommended that" instead of "we recommend". Whichever you choose, **you must be consistent** and not jump between the two. The use of "I" is not appropriate in a report.

The body of the report should be divided into sections (each dealing with a separate issue). A numbering system should be established. Keep this simple. Following the layout of the answers in this question bank is recommended.

The report should include appropriate advice, recommendations and conclusions. These are the key points which should be extracted for the Executive Summary.

Where advice is supported by computations, these should generally be in Appendices at the end of the report. Short "one or two line" calculations can be shown in the body of the report as you go along if you think that is beneficial to the reader.

It is important to **include and explain your workings**. This ensures that even where an error is made early on, credit can be given for the method applied to the later parts.

LETTER

Letters should be correctly addressed using the address information in the question. Letters should be headed, finished and signed off (do not use your own name – "Tax Adviser" will do).

[Firm's Name & Address per Q]

[Client Name & Address per Q]

Date

Dear [Client Name per Q] – eg, Dear Alex / Dear Mr Brown

SUBJECT OF LETTER

Introduction

Summary of Key Points (Executive Summary)

Body of letter (divided into sections)

Yours sincerely
Tax Adviser

If the client is referred to by their title throughout the question (for example, Mr Brown) or if the title is used in correspondence between adviser and the client (in the Exhibits), the title should be used in the salutation (for example Dear Mr Brown).

Normally however, the question will use forenames throughout and the salutation should therefore replicate this (for example, Dear Alex).

The first paragraph should briefly set out the background to the letter and the information on which it is based (for example a letter from the client). It should say who can rely on the letter.

Any limitations of advice should be stated here.

At APS, a letter question could require a letter from one individual to another (or to a joint client such as a couple), so **use of first person is acceptable**. For example, "I recommend", "I advise" etc is normally appropriate. You would then sign off as "Tax Adviser".

Instead, you might choose to write to the client in your position as a representative of your firm. In that case "we" is accepted. You would then sign off as "Chartered Tax Advisers LLP".

It is important that the use of "I" or "we" is consistent. Never jump between the two.

After the Introduction, there should be an 'Summary of key points' to set out the key findings/conclusions of the letter. This serves the same purpose as an Executive Summary in a report and could also be called that.

The letter should be divided into sections. A numbering system for those sections is normally helpful.

Supporting computations should generally be in an Appendix.

The letter should include advice, recommendations and conclusions.

The letter should be signed off with "Yours sincerely".

Advice common to both reports and letters

Always keep in mind that **you are asking a client to pay for the document you are producing!** The examiners are themselves tax advisers and will always have that in mind. Therefore put yourself in your client's shoes and ask yourself whether you would pay money for the advice you are receiving.

First and foremost, your answer **must be written in a way the client can understand**. Clients do not want a series of options – they want **recommendations** as to which of the options should be adopted or discarded.

Above all else, clients want to know:

- 1) WHAT they should do; and
- 2) WHEN they should do it.

It is vital that you **come to a conclusion**. Don't sit on the fence. You are unlikely to pass this paper unless you make sensible and positive recommendations which your client can understand.

Do not be afraid to state the obvious (credit is often allocated for this) but keep answers short and to the point. Remember "quantity" is not important. The examiner does not want to spend his time reading irrelevant and unnecessary paragraphs.

Try not to put more than one important point in each paragraph. Otherwise your points may get lost and you will not receive credit for them.

Leave a line between each paragraph. "White space" is important and helps the marker. It also helps the product look more professional.

Paragraphs should ideally **not run to more than three or four- lines**. Using short "snappy" paragraphs makes answers easier on the eye, and therefore more likely to attract credit.

A handy tip is to **say the sentence to yourself in your head before you type it**. If it doesn't make sense, don't type it!

Always use good grammar and spell words correctly. Do not use slang.

Try not to baffle the reader with technical jargon. Your client is not a tax expert. If they were, they wouldn't need you. So **keep your language clear and simple**.

Use full sentences, even when any lists or bullet points are being used.

Abbreviations are acceptable as long as they have been previously defined. For example, "The gain on the disposal of your shares will be eligible for Business Asset Disposal Relief (BADR). The effect of BADR is to reduce the rate of tax on the capital gain to X%...."

The APS paper is testing your professional skills - you need to show the marker that you deserve to be awarded the CTA qualification because you can provide **clear, relevant and reasoned tax advice** to your client.

Whilst in theory it would be possible to score well on professional skills even though the technical standard of your answer was poor, this is a fairly unlikely scenario. To be assessed as competent with regard to your professional skills, it will almost certainly be necessary for you to have demonstrated reasonable technical skills.

Nevertheless, where a technical inaccuracy flows through the remainder of the answer with consequent differences in the conclusions drawn and advice offered, you could still be assessed as a competent with regard to your professional skills.

The CIOT guidance on letters and reports is included in Appendix B later in this section.

5. REVIEW

About 10 minutes before the end of the examination you should sit back and review your answer and fine tune it as needed.

Make sure you have produced an **Executive Summary** and that you have included this at the **start** of the report / letter, even if you created it last.

HOW THE APS PAPER IS MARKED

The following information is a copy of the document available on the CIOT website.

Introduction

In order to secure a pass in this paper, candidates are required to demonstrate competence in each of three skills:

- Structure
- Identification and Application
- Relevant Advice and Substantiated Recommendations

Structure

Structure is assessed across the answer as a whole and a pass or fail grade will be awarded. As noted above, a fail in this skill (or in either of the other two skills) will result in an overall fail. In arriving at the result for this skill, each of the following factors will be graded as either No Fault, MINOR Fault or MAJOR Fault (with a single grade for each – i.e. a candidate cannot get multiple MINOR faults on grammar and spellings for example):

- Overall format
- Introduction and conclusion
- Clear layout with headings
- Flow of answer
- Appropriate style
- Grammar and spellings
- Appropriate calculations
- Lack of irrelevant material

A candidate will pass Structure if they have either:

- 1) No MAJOR faults; or
- 2) One MAJOR fault and no more than 3 MINOR faults.

A candidate will fail Structure if they have either:

- 1) Two or more MAJOR faults; or
- 2) One MAJOR fault and four or more MINOR faults

Further narrative on what is expected for each factor is set out in Appendix A. Note that a different, but appropriate style to that adopted by the examiner will not be a fault.

Identification and Application

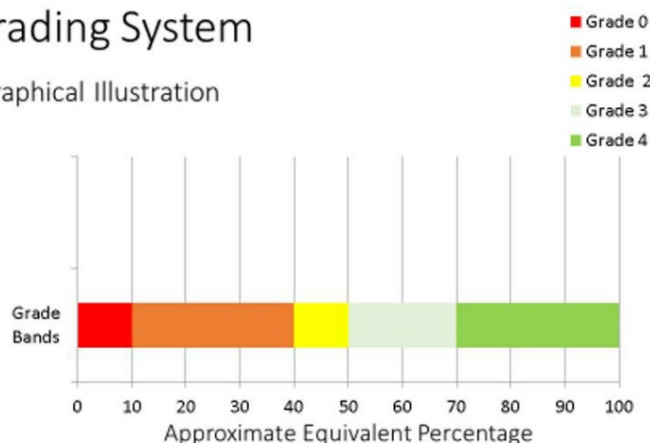
Identification and Application is assessed for competence across a number of broad topics within the answer. There will typically be four to six topics and a grade will be awarded for performance in that topic of 0,1,2,3 or 4 as follows:

<i>Grade</i>	<i>Description</i>
0	Not attempted
1	Competence insufficiently demonstrated
2	Limited competence demonstrated
3	Competent
4	Highly competent

If a perfect answer represents 100%, the above grades may be considered as roughly equal to the following percentages of a perfect answer.

Grading System

Graphical Illustration



The grades awarded for each topic will be weighted and averaged to produce a weighted average grade for the skill across the whole answer. The weighting will reflect the importance and anticipated time required for each assessment area. The weighted average grade will be converted to a final grade of 0,1,2,3 or 4 as follows:

Weighted Average Grade	Final Grade
0.00 – 0.49	0
0.50 – 1.49	1
1.50 – 2.49	2
2.50 – 3.49	3
3.50 – 4.00	4

As noted above, a final grade of 3 is required to secure a pass, which means that candidates must achieve a weighted average grade of at least 2.5 across their answer.

For each topic the following factors will be considered:

- 1) Identification of issues (20% to 40%)
- 2) Application of technical knowledge (50% to 70%)
- 3) Use of information - Reference to material in question and Use of information (10% to 20%).

The relative weighting of these factors will vary from topic to topic, but typically will be in the ranges set out above.

Further narrative on what is expected for each factor is set out in Appendix A.

Relevant Advice and Substantiated Recommendations

The method of assessment of this skill is the same as for Identification and Application except that there will normally be fewer topics: typically between three and four topics.

For each topic the following factors will be considered:

- Questions posed by client answered AND Client advised what to do (20%-30%)
- Options weighed up AND Recommendations and conclusions supported AND Recommendations & conclusions weighted appropriately (30%-50%)
- Technically correct advice (10%)
- Commercial advice (20%-30%)
- Ethics and law (0%-10%)

Further narrative on what is expected for each factor is set out in Appendix A.

APPENDIX A - NARRATIVE ON ASSESSMENT FACTORS

Structure

Factor	Detail	MAJOR and MINOR faults
Overall format	The answer is set out in the format demanded. Thus, if it is a letter, it will be properly set out as a letter with addresses, date, "Dear X" and conclude "Yours sincerely" etc. If it is a report, it will give some indication as to what it is about and who it is for.	<p>Failure to produce an answer in the required format (for example, producing a letter when a report is required, or vice versa, or producing what is essentially a memo rather than a report) will be a MAJOR fault.</p> <p>Having adopted the correct format, errors in the format (for example, using "Yours faithfully" when the letter starts "Dear Rashid") will be a MINOR fault.</p> <p>Differences of style are not a fault.</p>
Introduction and Conclusion/Executive Summary	<p>The report or letter should contain an introduction setting out the terms of reference, information being relied on etc.</p> <p>It should also contain a summary of the key findings and recommendations in a Conclusion/ Executive Summary. (The actual content of the Conclusion/Executive Summary is marked under Relevant Advice and Substantiated Recommendations).</p>	<p>Omission of either the introduction or the Conclusion/Executive Summary will be a MAJOR fault.</p> <p>Omission of elements of the introduction will be a MINOR fault.</p>
Clear layout with headings	The body of the letter or report should be laid out in a clear way with appropriate headings so that the reader can navigate around it easily and spot the key areas without reading the entire document to try to find a discussion of, for example, income tax on some employment related shares.	<p>A failure to use appropriate headings will usually be a MINOR fault.</p> <p>If the layout is extremely poor with no headings this will be a MAJOR fault.</p>
Flow of answer	The answer 'flows' so that a logical chain of thought is presented to the reader rather than a series of random comments (which may nevertheless be technically correct).	<p>Occasional elements of the answer not in a logical order will be a MINOR fault.</p> <p>An answer which is significantly jumbled will be a MAJOR fault.</p>

<p>Flow of answer (continued)</p>	<p>For example, this means that:</p> <ol style="list-style-type: none"> 1) A tax rule should be explained first and then applied. 2) It may be ordered so that: all taxes on a particular topic are considered together; all topics for a tax are considered together; or perhaps all topics for a relief are considered together. What is appropriate may depend on the question. It may also be the case that different approaches to the same question could be taken. 	
<p>Appropriate Style</p>	<p>The style of writing should be appropriate to what is being produced. For example, a report to a client or lay person should not contain lots of legislative references. The letter/report should not be written in the form of notes.</p>	<p>Extensive use of brief bullet points will be a MAJOR fault. The appropriate use of lists and appropriately numbered and explained points in full sentences will not be a fault.</p> <p>Inclusion of some references will not always be a fault, particularly if there is a discussion (for example) about the application of a key case to the client's situation.</p> <p>Significant numbers of inappropriate references will be a MINOR fault.</p>
<p>Grammar & spellings</p>	<p>The letter or report should be grammatically correct and free of spelling mistakes.</p>	<p>In practice, an adviser is likely to use a spelling and grammar checker and accordingly occasional spelling and grammatical errors will not be a fault.</p> <p>A number of errors such that a client would clearly notice them will be a MINOR fault.</p> <p>Large numbers of errors throughout the answer such that it becomes a significant distraction for the client will be a MAJOR fault.</p>
<p>Appropriate calculations</p>	<p>The answer should contain an appropriate level of calculations. This may mean no calculations, illustrative calculations or specific calculations. Any calculations should be linked to the narrative.</p>	<p>Only the appropriateness of calculations is considered here. The accuracy of calculations is assessed as part of Application of Technical Knowledge</p> <p>Excessive calculations will be a MINOR fault.</p>

<p>Appropriate calculations (continued)</p>		<p>A failure to adequately link the odd calculation to the answer will be a MINOR fault.</p> <p>A failure to provide a minor calculation which might be expected but has not specifically been requested in the question will be a MINOR fault.</p> <p>An absence of calculations or illustrative calculations where required or a failure to link most calculations to the answer will be a MAJOR fault.</p>
<p>Irrelevant material</p>	<p>The answer should not contain large amounts of irrelevant or duplicated material.</p>	<p>Isolated and brief irrelevant material will not be a fault.</p> <p>An element of duplication is expected in that the Executive Summary (or equivalent) will summarise and refer to material elsewhere in the answer.</p> <p>Occasional irrelevant or duplicated material will be a MINOR fault</p> <p>Large quantities of irrelevant or duplicated material will be a MAJOR fault.</p>

Identification and Application

Factor	Detail	Weighting of Factor for each Topic	Grading Guidance
<p>Identification of issues</p>	<p>The issues which are specific to the client and the requirement of the question should be identified. This covers not only the requirements identified by the client but also issues which the candidate should identify from the information as important to the client.</p>	<p>20%-30%</p>	<p>1 = The issues specific to the client and the requirements of the question have not been identified or have only been identified to a very limited extent.</p> <p>2 = The requirements of the question have been identified and some issues specific to the client have been identified to a very limited extent.</p> <p>3 = The requirements of the question have been identified and most issues specific or important to the client have been identified including some of those which may not be spelt out in the question or referred to by the client. Explanations are of a satisfactory standard.</p> <p>4 = All requirements of the question have been identified and all or virtually all issues specific or important to the client have been identified and clearly explained.</p>

<p>Application of technical knowledge</p>	<p>Technical information provided is correct and has been applied correctly to the specific circumstances of the question.</p> <p>As part of this, the accuracy of calculations will also be considered. However the focus is primarily on the method rather than the arithmetical accuracy.</p> <p>The application of knowledge includes its indirect application to other taxes which may be relevant to the scenario</p>	<p>50%-70%</p>	<p>1 = The technical information provided is largely incorrect and it has not been applied to the specific circumstances of the question</p> <p>2 = The technical information is broadly correct, but it has not been provided for all issues identified or it hasn't been applied to the specific circumstances of the question.</p> <p>3 = The technical information is correct except for minor points and has been provided for all issues identified and to the circumstances of the question. There may be some minor lack of clarity in explanations or in the quality of explanations.</p> <p>4 = Technical information is correct except for very minor points, is applied appropriately and is clearly explained. Calculations are largely arithmetically correct as well as correct in their method.</p>
<p>Use of information</p> <p>Reference to question</p>	<p>Information provided to the candidate in the question has been used appropriately.</p> <p>Candidate has referred back to question where appropriate.</p>	<p>10%-20%</p>	<p>1 = Little reference back to material in question nor has information in the question been used appropriately.</p> <p>2 = Some attempt to refer to information provided or use information appropriately.</p> <p>3 = A reasonable attempt has been made to use information provided in an appropriate way.</p> <p>4 = Very good attempt to use information provided in an appropriate way.</p>

Relevant Advice and Substantiated Recommendations

Factor	Detail	Weighting of Factor for each Topic	Grading Guidance
<p>Questions posed by client answered</p> <p>Client advised what to do</p>	<p>Any questions posed by the client must be answered and advice provided.</p> <p>A client comes to a Chartered Tax Adviser to be advised as to what to do. This means that they should not simply be presented with a series of factually correct observations and then left to interpret what they should do, but instead should receive considered and appropriate advice recommending what they should do.</p>	<p>20%-30%</p>	<p>Key Question - “What should I do?”</p> <p>The key element of this factor is that the client is advised what to do. Merely answering specific factual questions posed by the client (for example, “Is transaction X taxable?” carries little weight in the assessment as this should be a given in any answer.</p> <p>Open questions like “should I do x or y?” require the client to be told what to do.</p> <p>Questions may also be implied rather than explicitly set out in the question.</p> <p>1 = Some attempt has been made to answer any specific factual questions posed by the client but no attempt has been made to tell the client what they should do. Implied questions are not answered.</p> <p>2 = All Specific factual questions posed by the client have been answered and a limited attempt has been made to tell the client what they should do. Some implied questions may have been identified.</p> <p>3 = All specific factual questions posed by the client have been answered. A reasonable attempt has been made to advise the client what to do. Implied questions have been identified but the advice may not be fully developed.</p> <p>4 = All questions have been answered and good advice has been provided to the client on what to do.</p>

<p>Technically correct advice and recommendations (continued)</p>	<p>example to discuss either something which is purely factual or as analysis before advice is covered in Identification and Application. The score will therefore mainly (but not exclusively) relate to the Executive Summary (or equivalent).</p>		<p>contradiction where the candidate seems unclear on the correct position. Alternatively, there may be incorrect technical advice on relatively minor areas which would fundamentally change the recommendations.</p> <p>3 = In relation to all key areas, the advice provided is technically correct. In some minor and unimportant areas which would not affect the overall recommendations, the advice may not be complete or technically correct. There are no significant contradictions in technical advice.</p> <p>4 = The advice provided is technically correct.</p>
<p>Commercial and wider advice</p>	<p>Advice provided should not simply provide an answer which produces the best tax outcome, but should also consider the wider position to ensure that the advice is appropriate.</p> <p>It <u>may</u> include a consideration of:</p> <ul style="list-style-type: none"> i. Commercial/financial outcomes ii. How HMRC may view the advice/transactions. iii. Practical/operational factors iv. Social/environmental/technical /funding issues <p>The above list is not exhaustive as the issues identified should be appropriate to the scenario. Candidates are not expected to go into depth on the above areas but should be evidencing an appreciation that their advice should not be seen in isolation. It is important to recognise that better answers will add value to the client.</p>	<p>20% - 30%</p>	<p>Key Question – “Has the candidate demonstrated a wider thought process?”</p> <p>1 = The advice provided is in isolation and there has been no significant attempt to consider the wider implications.</p> <p>2 = There has been a limited attempt to consider the wider implications of the advice but this is incomplete or impractical.</p> <p>3 = There has been a reasonable attempt to consider wider implications, including for example how HMRC may consider the transaction or what further advice from other professionals may be required. There may be minor elements of the advice that are not entirely commercial, or practical</p> <p>4 = There has been a good attempt to consider the commercial implications of the advice including wider issues. Advice given is commercial. The client is likely to feel that the answer has added value.</p>

Ethics and law	Where the topic contains matters on which candidates are expected to comment on legal or ethical matters, credit will be available. On some topics there may be no expectation of comment and hence no credit available	0%-10%	<p>1 = Some ethical and legal issues identified but with little explanation of the implications nor recommendations.</p> <p>2 = Ethical and legal issues identified with explanation of implications but little in the way of recommendations.</p> <p>3 = Ethical and legal issues identified and implications explained with recommendations made. The weighting within the answer may not be appropriate.</p> <p>4 = All elements covered appropriately.</p>
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Although there may or may not be specific information that is expected on ethics and law for which positive credit may be available, it needs to be recognised that unethical or illegal advice is a serious issue and that simply scoring 0 on a maximum of 10% of the score for a topic is not an appropriate penalty. As a result, where a candidate advises a client to undertake an illegal act or to take actions which are clearly not ethical they will be penalised by way of a downward adjustment to the score they would otherwise have achieved for this skill. Depending on the circumstances this may result in a fail irrespective of the quality of the rest of the answer. It is expected that it will be rare that this adjustment is applied.

APPENDIX B - THE FORMAT OF LETTERS AND REPORTS

Introduction

Structure is one of the three skills assessed in the Application and Professional Skills paper. The purpose of this note is to provide some further guidance on letters and reports.

Letters and Reports

The APS questions always either require the candidate to produce a letter or require the candidate to produce a report. Reports and letters are not the same thing and it is therefore vital that candidates produce the correct document.

Whilst it is recognised that candidates will be trained to produce letters and reports in the house style for their firm and therefore there is not a single prescribed format required for the exam, it is also clear that significant numbers of candidates would appreciate guidance from us as to how they may be formatted. A different but appropriate presentation is not penalised. For clarity, we have flagged below comments relating to style which are not penalised using STYLE

General Points for both Letters and Reports

1. Abbreviations may be used in the answer. They should be defined on their first use, for example Business Property Relief ('BPR'). There is no need to produce a separate list of abbreviations (although this will not lose credit, it will not gain credit).
2. Full sentences should be used throughout, including when any lists or bullet points are used.
3. Unless the question provides information to the contrary, candidates may assume that the letter/report is covered by the engagement letter and accordingly there is no need to refer to the engagement letter in their answer.

Letters

1. The requirement to produce a letter will only be used in questions where the candidate is advising their client and not for situations where the candidate is, for example, the in-house tax manager.
2. The letter should include the address of the sender, the name and address of the client and the date. Where the address is given in the question, this should be used in the answer. Where the address is not given, "Your address" and "My address" may be used or an address may be invented. Whilst the address of the client should always be at the top of the letter, candidates may if they wish have the details of their firm elsewhere (eg the bottom of the first page) as would be the case for headed notepaper – STYLE. In terms of formatting within the constraints of the exam it is likely to be easier to adopt a normal business format of the firm's address in the top right with the client's address on the left.
3. Candidates may if they wish include a filing reference, however there is no requirement to do so - STYLE.
4. If the client is referred to by their title throughout the question (for example Mr Brown) or if the title is used in correspondence between adviser and the client (in the Exhibits), the title should be used in the salutation (for example Dear Mr Brown). Normally however, the question will use forenames throughout and the salutation should therefore do this (for example, Dear Alex).
5. After the salutation, there should be a heading appropriate for the content/purpose of the letter.
6. There should then be an introduction briefly setting out the background to the letter and the information on which it is based (for example a letter from the client) and any limitations.

7. Where the letter is to and about individuals it should use 'you' throughout unless there are two clients (for example husband and wife) in which case for clarity it may be necessary to use their names (for example, David should do X while Mary should do Y). Where the client is a company, the letter should say "the Company should" or "G Ltd should" - STYLE. It should not jump between "I" and "we".
8. As the letter will be from one person to another, it should be written in the first person, thus, "I recommend" not "it is recommended". STYLE
9. If there are calculations, (for example comparing option A with option B) it may be appropriate for these to be in an enclosure to the letter rather than in the main body of the letter.
10. In the body of the letter, conclusions and recommendations should be drawn out at appropriate points. For example, if a section of the letter considers whether a company should be sold, at the end of that section there should be a conclusion on this point.
11. The letter should include a section summarising the key advice and recommendations. This may either follow the introduction or be at the end of the letter. As the letter is a more personal document than a report, "Conclusions" is likely to be a more appropriate term than "Executive Summary" - STYLE. There should be sufficient information that the recipient can understand the recommendations without reading the detailed analysis. It should not provide new analysis on a particular topic, but may combine or draw together conclusions from the body of the letter. For example, the body of the letter may include sections on two separate points each of which has a conclusion which potentially conflict. The Conclusion may refer to those conclusions and weigh them up in making a final recommendation.
12. There should not be two separate Conclusions sections at the beginning and end of the letter as they are likely to be largely the same and will waste time (although it will not lose credit).
13. The letter should conclude with "Yours sincerely".

Reports

1. A report will always be required in questions where the candidate is not an adviser in practice (for example, where the candidate is an in-house tax manager). In questions where the candidate is an adviser in practice, a report will often be required.
2. It should start with a heading setting out who the report is to and what is the subject of the report.
3. There is no need to produce a contents page. Although this will not lose credit, it will not gain credit.
4. The introduction should confirm who the report is for and say who may rely on it. It should briefly set out the information on which it is based (for example a letter from the client) and any limitations. The adviser's name and date of the report may follow this or be at the end of the report. The address may be included.
5. In the body of the report, conclusions and recommendations should be drawn out at appropriate points. For example, if a section of the report considers whether a company should be sold, at the end of that section there should be a conclusion on this point.
6. The Executive Summary summarises the main advice and recommendations. There should be sufficient information so that the recipient can understand the recommendations without reading the detailed analysis. It should not provide new analysis on a particular topic, but may combine or draw together conclusions from the body of the report. For example, the body of the report may include sections on two separate points each of which has a conclusion which potentially conflict. The Executive Summary may refer to those conclusions and weigh them up in making a final recommendation.

7. There should not be a separate Conclusions section at the end of the report as well as the Executive Summary as this is likely to be largely the same and will waste time (although it will not lose credit).
8. Rather than using “you should” the report will normally use the client’s name (for example “Peter should” or “the company should”), particularly where the report is addressed to a group of people (for example the Board of directors) - STYLE.
9. The report may be written in the third person, thus “it is recommended”. Where the report is from a firm of advisers, if the first person is used, “we recommend” will be more appropriate than “I recommend” - STYLE. Whichever form is chosen, it should be used throughout the report.

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

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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

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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

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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

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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

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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

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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)

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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

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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

1. You work for Prestige Tax Solutions LLP, a firm of Chartered Tax Advisers.

Olivia Dexter-Smythe is a long-standing client. Olivia is the sole shareholder and Managing Director of Space Matters Ltd, a company which specialises in interior design for residential dwellings.

Olivia and her son, James Dexter, recently attended a meeting with your Tax Director, Andrew Townsend. Notes of the meeting are attached (**EXHIBIT A**).

Further to that meeting, James Dexter, has written to Andrew Townsend seeking advice on a number of UK taxation issues and a copy of his letter is attached (**EXHIBIT C**).

Andrew has passed the letter to you and has asked you to draft a Report to James Dexter for him to review. You can assume that all necessary client acceptance procedures have been successfully completed and that any potential conflict of interest issues have been properly dealt with. Due to the Lasting Power of Attorney in place between Olivia and James, you are advised that any taxation advice concerning Olivia can be addressed to James.

The following Exhibits are provided to assist you:

EXHIBIT A: Notes of Meeting dated 30 September 2026

EXHIBIT B: Olivia Dexter-Smythe – Statement of Assets at 30 September 2026

EXHIBIT C: Letter from James Dexter to Andrew Townsend dated 12 October 2026

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft Report to James Dexter for Andrew Townsend to review recommending appropriate courses of action to mitigate the Inheritance Tax exposure on Olivia's death and to minimise James's UK tax liabilities for the time he is living in the UK.

Assume you are writing in October 2026 and that the 2025/26 tax rules and rates continue to apply.

You can assume that Utopia is not in the European Economic Area and that there is no Double Taxation Agreement between the UK and Utopia.

EXHIBIT ANotes of Meeting dated 30 September 2026

Between: Andrew Townsend (PTS)
And: Olivia Dexter-Smythe & James Dexter
Date: 30 September 2026
Subject: Estate Planning

Olivia requested the meeting because she has recently been informed by her doctor that she has a degenerative illness as a result of which, she is unlikely to live for more than another two years. The illness will shortly affect her ability to make decisions, so a Lasting Power of Attorney is now in place, giving James the right to make decisions about both Olivia's health and welfare and her financial affairs. [A copy of the LPA was provided and is on file.]

Olivia has a sizeable estate and is anxious that James and his family benefit from this to the maximum extent. The family is therefore very keen to explore ideas about how to minimise the Inheritance Tax exposure on Olivia's death.

Olivia provided me with a list of her current assets with estimated valuations (**EXHIBIT B**). James will be the sole beneficiary of her estate. Olivia is happy to make lifetime gifts to James if this will reduce taxes due on her death.

Olivia was recently widowed for the second time. Her first husband, Major Roger Dexter (James's father), was a Major in the British Army and was killed in action in 1984. He left his entire estate worth £100,000 to Olivia. She remarried Dr. Richard Smythe in 1999 and he passed away in 2025 leaving an estate of cash and quoted shares worth £500,000 entirely to Olivia. Neither Roger nor Richard had made any lifetime transfers.

James Dexter was born and raised in the UK, but he has been living in Utopia and has been resident there since 2014/15. He is married to a Utopian citizen (Zoe) and has no intention to return to the UK. James had acquired a Utopian domicile of choice in 2018.

James and Zoe run a company in Utopia which provides interior design solutions for shops and offices. They have two teenage children.

James has been in the UK for a few days and will return to Utopia tomorrow. He then intends to come back to the UK in November 2026, to help look after Olivia. He will also take over the day-to-day running of Space Matters Ltd. James will return permanently to Utopia after Olivia's death. Until then he will spend occasional weekends in Utopia visiting Zoe and the children. His family will also come to the UK for short visits. While he is in the UK, James will stay with Olivia at Wayborn House.

Space Matters Ltd used to be consistently profitable, but the deterioration in Olivia's health has led to a fall in orders causing the company to make losses. The current financial year will also be loss-making. In order to bring the business back into profit, James intends to make changes in product offerings and initiate some modernisations in the way the company operates. This will inject extra value into the shares, after which he will look to sell the company.

James also has some queries about his own personal tax situation and any possible effect that his coming to live in the UK may have on this. He has asked if PTS could act on his behalf. He will write to me separately about these issues (**EXHIBIT C**). I agreed to act on James's behalf (subject to our normal client acceptance procedures).

A summary of the corporation tax position for Space Matters Ltd is given in **EXHIBIT D**.

A summary of Olivia Dexter-Smythe's tax return for 2025/26 is also provided at **EXHIBIT D**.

EXHIBIT BOlivia Dexter-Smythe – Statement of Assets at 30 September 2026

	Value £
Private residence (Wayborn House)	1,500,000
Chattels and personal possessions	50,000
Shares in Space Matters Ltd (100% holding)	500,000
Quoted share portfolio (*)	500,000
Bank deposits	<u>450,000</u>
Estimated estate value	<u>3,000,000</u>

(*) Consisting mainly of banking shares which have been held for many years and which have a low acquisition cost.

EXHIBIT CLetter from James Dexter to Andrew Townsend dated 12 October 2026

Andrew Townsend	7 Octopus Villas
Prestige Tax Solutions LLP	Freetown
30 Farringdon Street	Utopia
London	FTN007
EC4A 4HH	

12 October 2026

Dear Andrew,

Thank you for seeing my mother and me the other week. As discussed at the meeting, Space Matters Ltd has been struggling recently, but the company's underlying business is sound and (with some strategic changes, such as shifting into commercial design solutions) I believe the company can soon be returned to profit. I assume the company loss relief rules in the UK are as they are in Utopia in that unused losses can be carried forward against future trade profits?

I had a substantial portfolio of listed equities and investment properties in Utopia, but due to a change in the Utopian Estate Duty (UED) laws, I was advised by my solicitor to put these into trust to avoid UED. Most of my investments are therefore held in the Dexter Family Trust which I created in April 2019. I am the sole Trustee. Zoe, our children and I are the beneficiaries. We tend to leave the trust alone and live on the dividends we take from our company.

I also have a few Utopian assets which I still own personally (most notably our family home along with some personal possessions and some small bank deposits). I am therefore interested in whether my temporary move to the UK will affect my Inheritance Tax exposure? I assume that the family trust will be unaffected as this is fully invested in Utopia and we do not intend to acquire any UK investments. As I may be in the UK for a couple of years, would you recommend that I retain sole Trusteeship of the trust or appoint Zoe as a co-Trustee? I have power to appoint or remove Trustees and to add or remove beneficiaries at my discretion.

I do not currently file a UK tax return as I have no UK income or assets. This will change as I intend to appoint myself as a director of Space Matters Ltd and draw a salary to give me some UK spending money. The company is in a bit of a mess, so I will need to work on a full-time basis for the first 12 months or so (which hopefully my mother's health will permit). I assume that my Utopian income will not be taxed in the UK whilst I am here.

Yours sincerely,
James Dexter

EXHIBIT DPre-seen informationExtract from Permanent File of Olivia Dexter-Smythe

Client: Olivia Jane Dexter-Smythe (nee Adams)
 UK resident: Yes
 UK domiciled: Yes
 Address: Wayborn House, Wayborn Lane, Devizes, Wiltshire, SN10 8JB
 Date of birth: 30 June 1959
 Place of birth: Bath, England

 Date of marriage 1: 21 March 1978
 Spouse: Major Roger Edward Dexter
 Date of death: 2 May 1984

 Date of marriage 2: 16 May 1999
 Spouse: Dr. Richard Anthony Smythe
 Date of death: 30 March 2025

 Will: Yes (30 April 2025 – copy on file)
 Estate to James Edward Dexter
 Lifetime gifts: None

 Children (one): James Edward Dexter
 DOB: 21 May 1980

Space Matters Ltd – Summarised Corporation Tax computations

Year ended 31 March:	2023	2024	2025	2026
	£	£	£	£
Trading profit	49,589	28,923		
Trading loss			(15,111)	(50,231)
Bank interest	401	350	275	222
Tax computations:	£	£	£	£
Trading profit	49,589	28,923	Nil	Nil
Bank interest	401	350	275	222
	49,990	29,273	275	222
Less: Trading losses		(14,836)	(275)	(222)
Total taxable profits	<u>49,990</u>	<u>14,437</u>	<u>Nil</u>	<u>Nil</u>
Losses c/fwd at 1 April 2026				<u>50,009</u>

Olivia Dexter-Smythe – Tax Return 2025/26

	£
Salary from Space Matters Ltd	12,500
Bank interest	1,950
Dividends from quoted share portfolio	7,350

2. You are a Tax Manager in a firm of Chartered Tax Advisers. Following a meeting last week, your Tax Partner, Alison Clarke, has received an email (**EXHIBIT A**) from Richard Cresswell and Tara Marchant who are Trustees of the Cresswell Family Settlement, a new client of your firm.

The Cresswell Family Settlement was a lifetime trust created by Lady Lily Cresswell in 2019. The current Trustees were not aware of the existence of the trust until recently as their elderly aunt and uncle were the original trustees.

Lily's death on 2 March 2024 has triggered a further Inheritance Tax charge which is now overdue and one of the trust assets must be sold to fund the liability. In addition, the beneficiaries of the trust are approaching their respective 30th birthdays, after which the trust will cease.

Alison has asked you to review the email and the other documents provided by Richard and Tara (**EXHIBITS B and C**) and to prepare a draft report to the Trustees addressing their concerns.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Richard Cresswell to Alison Clarke on behalf of the Trustees

EXHIBIT B: Valuation of assets held by the Cresswell Family Settlement

EXHIBIT C: Financial information for Cresswell Garden Centres Ltd

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report to the Trustees of the Cresswell Family Settlement, for review by Alison Clarke, which provides recommendations in relation to the sale of assets and advice on the tax issues arising on the cessation of the settlement.

Assume you are writing in May 2026 and ignore any proposed changes to APR and BPR due to take effect on 6 April 2026.

EXHIBIT AEmail from Richard Cresswell to Alison Clarke on behalf of the Trustees

To: Alison Clarke [alison.clarke@abctax.co.uk]
From: Richard Cresswell [richard@cgc.co.uk]
Date: 1 May 2026
Subject: Cresswell Family Settlement

Dear Alison,

Thank you for your time last week. Tara and I have discussed matters further and have detailed below our areas of concern.

As you know, we were not aware that the Cresswell Family Settlement existed until recently. Our mother, Lily, was always very private and never discussed her financial affairs with us. She only confided that a trust had been created to our Uncle Oliver and Aunt Violet.

Amanda and Darcy have always declared the income from the assets that turned out to be held on trust, on their own tax returns. Oliver administered the trust since its creation but both he and Violet retired as Trustees in March this year due to ill health and Tara and I agreed to be appointed in their place.

As requested, I enclose valuations of the trust assets which also include Oliver's notes (**EXHIBIT B**).

The solicitor dealing with our mother's estate has advised us that an Inheritance Tax liability of £70,500 (including interest charges calculated to the end of June 2026) was due on 30 September 2024, as Lily did not survive seven years from creating the trust.

The trust bank account only holds a small balance, so we need to sell a trust asset to fund this.

The best option to raise the money quickly will be to sell either Bramble Cottage or the paddock. Bramble Cottage is in a terrible condition, but we think there will be considerable interest from property developers if it is listed in the next local property auction on 31 May 2026. Alternatively, the paddock could be sold to the neighbouring farmer, as he has always wanted to buy the land.

If Bramble Cottage is sold, the combined (VAT inclusive) auction house and legal fees will be 1.5% of the proceeds. If the paddock is sold, our solicitor will charge a flat fee of £500 (VAT inclusive) for the legal transfer. Either option will raise sufficient proceeds but obviously we have not factored in the tax consequences and need your assistance with this.

The second area of concern is that my daughter Amanda will be 30 years old on 18 September 2026 and Tara's daughter, Darcy will be 30 years old on 21 May 2028, after which the trust will end. Please would you clarify the tax issues we should be aware of in relation to this and if there is any action we need to take before Amanda's birthday?

Amanda and Darcy have agreed to pay the tax due when the trust ends as they have each received a sizeable cash legacy from their grandmother. However, we do not want either of them to be left in a position where the tax liabilities from the trust consume most of their inheritance. They both plan to keep the shares in the company as they want the ownership to stay within the family and they are also happy to keep the rental assets as long-term investments.

Finally, we should tell you about the changes made to the business (Cresswell Garden Centres Ltd) over the past few years as this may be relevant.

As you know, the company was not in a healthy financial position when our mother died. She had a strong view on how the business should be run and always insisted that plants and bulbs would be the only products on sale. She refused to allow any gardening related products, other merchandise or food and drinks to be sold and she resisted online sales until 2017.

In Summer 2024 we undertook a major overhaul of the business and decided to reduce the floor space in each store dedicated to our own stock down to about 60% of the total area. We now only stock the most unusual varieties of plants and bulbs, but we have not cut staff numbers as we want to maintain the best levels of customer service.

The remaining area in each centre is now let to third-party retailers who sell items such as outdoor clothing and shoes, art and craft materials, gardening equipment and furniture. Part of the area in each centre is also let to a well-known bakery chain which runs an in-store café on the premises.

We have been amazed at the increase in customers visiting each site and the demand for our specialist plants and bulbs means we have been able to increase prices. The increase in profits in such a short space of time has exceeded our expectations and Tara and I wish that we had persuaded our mother to make these changes years ago.

Enclosed is some financial information prepared by the company accountant, which he says will be of use to you (**EXHIBIT C**).

We look forward to hearing from you shortly regarding our queries.

Yours sincerely

Richard Cresswell
On behalf of the Trustees of the Cresswell Family Settlement

EXHIBIT BValuation of assets held by the Cresswell Family Settlement

<u>Assets settled</u>	<u>Lily's acquisition price</u>	<u>Value on 12 August 2019</u>	<u>Apportioned Inheritance tax (see Note 3)</u>	<u>Current value</u>
	£	£	£	£
300 ordinary shares in Cresswell Garden Centres Ltd	See Note 1) below	2,400,000	nil	2,625,000
Wilton House, Oxfordshire (inherited from Percy in 2005)	420,000	1,340,000	270,000	1,500,000
Bramble Cottage, Oxfordshire (purchased by Lily in 2008)	72,000	80,000	16,000	99,000
The paddock, Oxfordshire (10 acres of land purchased by Lily in 2015)	150,000	70,000	14,000	92,000
Trust bank account	n/a			3,900

Oliver Knight's Notes

- 1) Lily held 1,000 ordinary shares in Cresswell Garden Centres Ltd on 12 August 2019. She acquired 500 shares for £500 on incorporation in 1978 and she inherited 500 shares from Percy. Probate value of the 500 shares on 7 May 2006 was £7.5 million.
- 2) HMRC has agreed that Inheritance Tax Business Property Relief at 100% was available on the shares in Cresswell Garden Centres Ltd on Percy's death, at the date of transfer to the Trustees of the Cresswell Family Settlement and on Lily's death.
- 3) Inheritance tax of £233,000 was due on the creation of the Cresswell Family Settlement. The Trustees paid this liability in instalments over a five-year period. The apportioned Inheritance Tax figures shown above relate to the combined total of the tax payable on the creation of the trust and the additional tax payable by the Trustees on Lily's death (but not the late payment interest), apportioned across the trust assets.
- 4) Where the relief was available, Lily claimed capital gains holdover relief on the assets transferred into the trust.
- 5) When Lily bought the paddock, she thought that planning permission could be obtained to construct several residential properties on the site. By 2019, it was discovered that the surrounding hedgerow was the nesting place for a rare species of bird, so planning permission would never be granted. Lily transferred the paddock into the trust at this point and the Trustees immediately let the land to a local arable farmer who has used the additional land to grow his crops ever since.

EXHIBIT CFinancial information for Cresswell Garden Centres Ltd

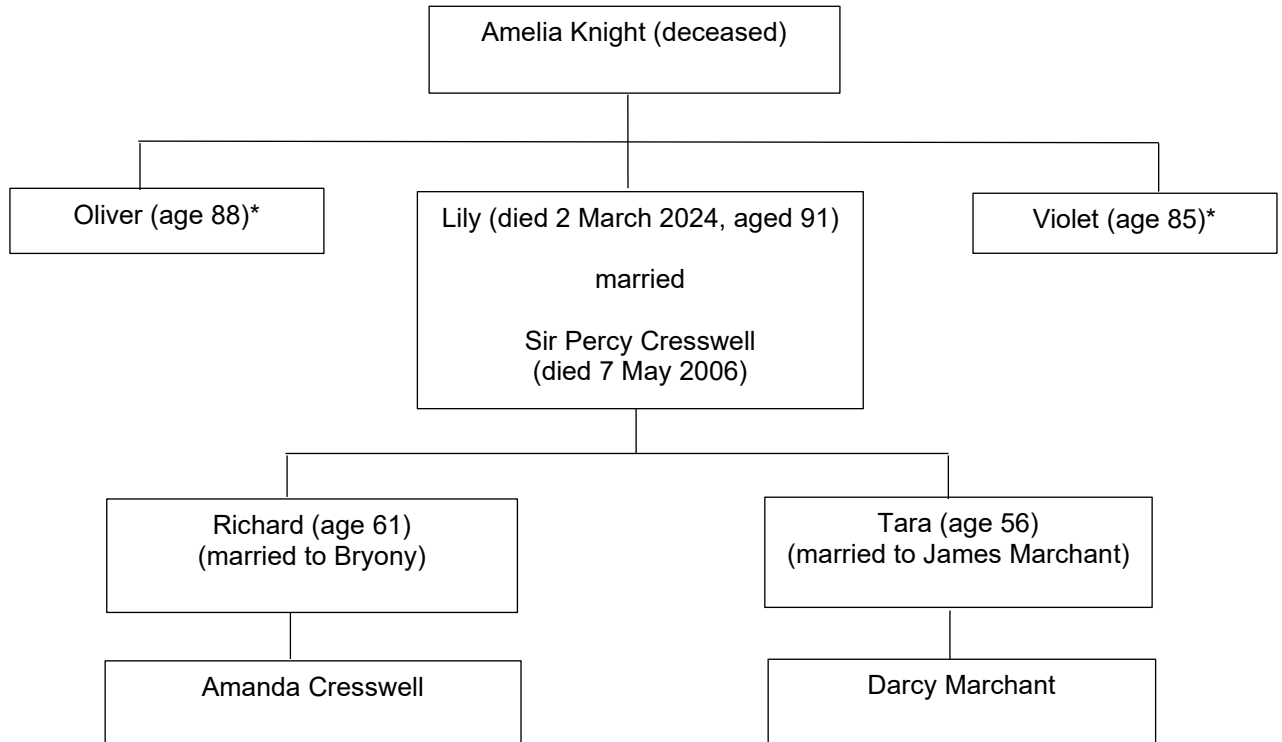
<u>Balance sheet information</u>	<u>31 March 2026</u>		<u>31 March 2025</u>	
	£	£	£	£
Fixed assets				
Land and buildings	3,600,000		3,600,000	
Investment property	2,400,000		2,400,000	
Plant and machinery (Note 1)	<u>202,000</u>		<u>236,000</u>	
		6,202,000		6,236,000
Current assets				
Stocks	595,000		580,000	
Debtors	85,000		25,000	
Cash in bank and in hand	<u>103,000</u>		<u>125,000</u>	
	783,000		730,000	
Creditors: amounts falling due within one year	<u>(315,000)</u>		<u>(285,000)</u>	
Net current assets		468,000		445,000
Net assets		<u>6,670,000</u>		<u>6,681,000</u>
 <u>Profit and loss information</u>		<u>Y/e 31 March 2026</u>		<u>Y/e 31 March 2025</u>
		£		£
Turnover:				
Plant and bulb sales		2,170,000		2,260,000
Letting floor space		<u>1,820,000</u>		<u>1,305,000</u>
Total		<u>3,990,000</u>		<u>3,565,000</u>
Profit:				
Plant and bulb sales		988,000		904,000
Letting floor space		<u>1,116,000</u>		<u>985,650</u>
Total		<u>2,104,000</u>		<u>1,889,650</u>

Average number of employees during the financial year

	<u>Y/e 31 March 2026</u>	<u>Y/e 31 March 2025</u>
Retail staff (Note 2)	26	25
Lettings staff (Note 3)	<u>2</u>	<u>2</u>
Total	<u>28</u>	<u>27</u>

Accountant's Notes

- 1) Plant and machinery is made up of fixtures, shelving and fittings and tills for plant and bulb sales areas only. The third-party retailers who rent floor space from the company provide their own shop fixtures and fittings.
- 2) The company's retail staff work on the shop floor of each garden centre as sales assistants, dealing with plant and bulb sales only. The third-party retailers provide their own staff and their sales are dealt with separately by these staff and go through their own tills.
- 3) The company employs two administration staff who deal solely with issues relating to the third-party lettings. They deal with matters such as maintenance contracts, cleaning of the let areas, leases and rent collection.

EXHIBIT DPre-seen informationFamily Tree

* both Oliver and Violet are married with children and grandchildren of their own who are not shown on the family tree.

Permanent File InformationClient name

Trustees of the Cresswell Family Settlement

Settlor

Lady Lily Cresswell (deceased)

Trustees

Original Trustees: Oliver Knight and Violet Taylor
Current Trustees: Richard Cresswell and Tara Marchant

Date of creation

12 August 2019

Beneficiaries

Amanda Cresswell
Darcy Marchant

Trust background information

Lady Lily Cresswell, a widow, was UK resident and domiciled in England. Her husband, Sir Percy Cresswell, left his entire estate to her on his death.

Lily created her only trust, the Cresswell Family Settlement, on 12 August 2019 for the benefit of her two grandchildren, Amanda Cresswell and Darcy Marchant.

The Inheritance Tax due on creation was paid by the Trustees.

The original Trustees were Lily's brother, Oliver and her sister, Violet. They retired as Trustees in March 2026 when it was agreed that Lily's children, Richard and Tara, should take over.

All members of the family are higher rate taxpayers and have always been resident in the UK.

Assets settled on trust (no changes since creation)

300 ordinary shares in Cresswell Garden Centres Ltd.

Wilton House, Oxfordshire (a large residential five-bedroom property, currently let).

Bramble Cottage, Oxfordshire (a two-bedroom residential property in a poor state of repair, habitable but currently unoccupied).

10 acre paddock, Oxfordshire (the land is currently let to a local arable farmer who uses it for growing additional crops).

Information relating to Cresswell Garden Centres Ltd

Lily and Percy were keen gardeners and in 1978 they turned their hobby into a business, setting up an unquoted company, Cresswell Garden Centres Ltd.

The total issued share capital of the company is 1,000 ordinary shares. Lily was the majority shareholder, holding the remaining 700 shares in the company following the gift to the Cresswell Family Settlement, until her death.

Richard and Tara have been employed by Cresswell Garden Centres Ltd since the early 1990s, but none of the other family members shown above works in the business.

Lily did not allow Richard and Tara to have much say in running the business during her lifetime.

As a result, the company's profits have declined over the past 20 years, mainly because Lily resisted their attempts to introduce new products and other retailers into the garden centres.

Summary of terms of trust

The income from the trust fund is to be paid to the beneficiaries in equal shares.

The Trustees have the power to advance in whole or in part, as they think fit, the presumptive capital entitlement of a beneficiary by deed prior to him or her attaining the age of 30 years.

In default of an exercise of the above power, each beneficiary will become absolutely entitled to an equal share of the trust fund when they attain the age of 30 years.

In the event that none of the beneficiaries attain the age of 30 years, the trust fund will be held absolutely for any surviving issue of Amelia Knight who have attained the age of 30 years at the end of the trust period.

Lady Lily Cresswell's estate

Lily's net estate was valued at £14.5 million. Under the terms of her Will, she left a tax-free legacy of £150,000 to each of Amanda and Darcy and the residue of her estate to Richard and Tara equally.

Other than creating the Cresswell Family Settlement, Lily's only lifetime transfers were as follows:

- 1) 6 April annually (commencing on 6 April 2010) – £1,500 to Amanda and £1,500 to Darcy which utilised her Inheritance Tax annual exemption.
- 2) 5 May 2019 – gift of Sandy Villa, a holiday home, valued at £205,000 to Richard.
- 3) 10 July 2019 – gift of Highbury House, an investment property, valued at £206,000 to Tara.

Grant of Probate was issued to the executors on 1 March 2025.

Engagement letter

The firm's GDPR compliant engagement letter was signed by the Trustees on 20 April 2026 covering tax compliance and advisory services.

1. JAMES DEXTER**REPORT**

From: Prestige Tax Solutions LLP
To: James Dexter
Date: 19 October 2026
Subject: UK Taxation issues

INTRODUCTION

This Report is prepared following your meeting with Andrew Townsend on 30 September 2026 and in response to your letter to us dated 12 October 2026. This Report will discuss Inheritance Tax mitigation for Olivia's estate and the UK tax implications of you living in the UK.

This Report is intended solely for use by James Dexter ('you') and Olivia Dexter-Smythe ('Olivia') and is based on the law as at 19 October 2026. Prestige Tax Solutions LLP accepts no responsibility for any reliance placed on this Report by other parties.

Prestige Tax Solutions LLP
19 October 2026

EXECUTIVE SUMMARY AND KEY RECOMMENDATIONSEstate planning for Olivia

The following steps will save over £270,000 in Inheritance Tax (IHT):

- 1) Olivia should enter into a Deed of Variation (DoV) no later than 29 March 2027 to vary the terms of Richard Smythe's Will. The DoV should redirect £325,000 to you. The DoV should contain an IHT statement. This will ensure that Richard's IHT Nil Rate Band is utilised in your favour (instead of being wasted).
- 2) Olivia should gift a 50% share in Wayborn House to you. This will reduce Olivia's estate and trigger access to the Residence Nil Rate Band which would otherwise be reduced to nil. You should thereafter share occupation of Wayborn House with Olivia. Olivia should continue to pay all household expenses.
- 3) Olivia should gift £1,500 to each of your children on 6 April 2027 and on each 6 April thereafter.

Tax planning for James

- You will become UK resident once you start working in the UK. Whilst UK resident, we recommend that you make a foreign income claim under the Foreign Income and Gains (FIG) regime to exempt the dividends received from your company in Utopia and your Utopian bank interest so that they are not taxed in the UK.
- We recommend Zoe is appointed as a Trustee of the Dexter Family Trust ('the Trust') as soon as possible. This will avoid a Capital Gains Tax (CGT) emigration charge when you resume residence in Utopia.
- You will not become long-term UK resident (LTUKR) for IHT purposes for the limited time you expect to be here. Your personal assets in Utopia will then fall into your UK estate. Although you are protected from personal IHT charges in respect of the trust assets, we recommend that you make the appropriate FIG relief claims to prevent you paying UK tax on the trust's income and gains.

- Modernisation and product changes can be made to Space Matters Ltd ('Space Matters') without this prejudicing the ability to carry forward its trading losses.
- A sale of shares in Space Matters should take place when you are non-UK resident as any gain would not then be chargeable to UK CGT. Proceeds of any asset sales should be retained outside the UK to avoid IHT as you are unlikely to be LTUKR following your mother's death.

SECTION A: INHERITANCE TAX MITIGATION FOR OLIVIA'S ESTATE

(A1) General IHT planning strategy

Without advance planning, the IHT payable on Olivia's death will be approximately £740,000 (see Appendix 1). This will be borne by you as the sole beneficiary of her estate.

The current IHT Nil Rate Band (NRB) is £325,000. The NRB is the amount of the estate which is taxed at nil percent.

As things stand, Olivia's estate can claim for the NRBs which were unused in the estates of both her deceased husbands to be transferred to her. This (together with her own NRB) will give Olivia's estate access to three NRBs.

However, the NRB is capped at £650,000 meaning that one of the NRBs will be wasted. With advance planning we can access this 'third' NRB and reduce Olivia's chargeable estate by £325,000.

A Residence Nil Rate Band (RNRB) is available where a deceased's main residence passes to a lineal descendant. The RNRB is £175,000.

In addition, the estate can claim for any RNRB unused in the estate of one deceased spouse. This will uplift the RNRB to a maximum of £350,000.

The RNRB is not currently available because the value of Olivia's estate is too high. The RNRB is restricted for estates valued at over £2 million. By reducing Olivia's estate to £2 million or less, we can access the full RNRB.

Substantial IHT can be saved using these strategies.

If Olivia makes lifetime gifts, they are Potentially Exempt Transfers (PETs). A PET is chargeable to IHT only if the donor dies within seven years of the gift. Given Olivia's diagnosis, we must assume that any PETs will become chargeable to IHT meaning that the opportunity to save IHT by lifetime gifting is limited.

(A2) Maximising the benefit of nil rate bands

Richard Smythe died in March 2025 leaving his estate to Olivia. Olivia will not be able to benefit from Richard's unused NRB as she is already inheriting a NRB from your father's estate.

As Richard died less than two years ago, Olivia could enter into a Deed of Variation (DoV) under which part of Richard's estate can be redirected to a nominated beneficiary (ie you).

The DoV should be made in writing within two years of death (so needs to be in place by 29 March 2027). The deed should be drawn up by a solicitor.

If an Inheritance Tax statement is made within the DoV, Richard's Will is rewritten for IHT purposes, so that he is treated as having made the legacy directly to you on his death.

£325,000 of Richard's estate then becomes chargeable to IHT, but no tax will be payable as this transfer is covered by his NRB.

If a DoV redirects £325,000 to you and an IHT statement is made, the effect is that:

- 1) Olivia's estate is reduced by £325,000 (the redirected legacy can be settled by Olivia transferring £325,000 to you from bank deposits); and
- 2) As this is treated as a legacy to you from Richard's Will, this is not a PET made by Olivia and is not charged to IHT when Olivia dies.

Olivia's death estate will be unchanged with respect to the number of NRBs she can offset and on her death she will still benefit from two NRBs (hers and your father's) as before.

(A3) Utilising the Residence Nil Rate Band

Olivia's estate is currently valued at £3 million. If the value of the estate is reduced to £2 million, a RNRB of £350,000 will become available.

The DoV will account for £325,000 of this reduction. Olivia should then give away at least another £675,000 of value by lifetime gifts.

Although any gift will be a PET and will still be chargeable to IHT on her death, IHT will ultimately be saved by reducing the value of the estate and obtaining the RNRB.

We do not recommend that Olivia gifts shares in Space Matters because these shares already benefit from 100% Business Property Relief (BPR) and so are not liable to IHT.

Retaining the shares will also uplift their base cost for CGT on Olivia's death, meaning that you, as the beneficiary, will only be subject to gains on increases in value subsequent to Olivia's death.

A gift of cash or quoted shares would reduce Olivia's income (which is already modest).

A gift of the banking shares would give rise to CGT liabilities as the shares have a low CGT base cost and no deferral relief is available.

Better planning would be to retain these shares as their base cost would be uplifted to probate value on Olivia's death.

It is therefore recommended that Wayborn House is the subject of the gift.

If Olivia gives a 50% interest in Wayborn House to you, her remaining 50% interest would be valued on her death on a discounted basis (as half a house is a less attractive purchase in the marketplace). HMRC accept that 10% is a reasonable discount.

The reduction in value of the estate as a result of gifting a 50% interest would be:

	£
Value of 100% interest in Wayborn House	1,500,000
Less: Value of 50% interest in Wayborn House ($£1,500,000 \times \frac{1}{2} \times 90\%$)	<u>(675,000)</u>
Value transferred	<u>825,000</u>

Olivia could continue to occupy Wayborn House without falling foul of the 'gifts with reservation of benefit' rules provided that:

- (a) You and Olivia share occupation of the house between now and her death; and

- (b) Olivia does not obtain a residual benefit by virtue of you paying a disproportionate amount of the household expenses. We therefore recommend that Olivia continues to bear the full household running costs as this further depletes the value of her estate.

The gift of a share in the house is a disposal for CGT. However, no chargeable gain will arise because the house is Olivia's main residence and so private residence relief will extinguish any gain.

As you will not provide any consideration for your share of the house, you will not be liable for Stamp Duty Land Tax.

(A4) Utilising exemptions

Individuals can give away up to £3,000 of value per tax year exempt from IHT. The unused exemption from the previous tax year can also be used.

A gift of Wayborn House before 6 April 2027 will use the exemptions for 2026/27 and 2025/26. Olivia should then give away a further £3,000 on 6 April 2027 and each 6 April thereafter. The IHT saving is 40% of the amount gifted.

We recommend that Olivia gifts £1,500 each annually to your two children.

The exemption for gifts from income is difficult to use as Olivia's annual income is modest (and this exemption can be hard to justify for donors with reduced life expectancy).

(A5) IHT savings

As shown in Appendix 2, if Olivia:

- 1) Varies Richard's estate to divert £325,000 to you; and
- 2) Gives you a 50% interest in Wayborn House,

the IHT exposure is reduced from £740,000 to £467,600 (a saving of £272,400).

SECTION B: UK TAX IMPLICATIONS OF JAMES DEXTER LIVING IN THE UK

(B1) Income tax and capital gains tax position

To determine your exposure to UK income tax and capital gains tax we need to consider your residence status.

You will spend about 150 days in the UK in 2026/27. This is not enough of itself to make you UK resident.

You will be UK resident if either:

- You work full-time in the UK; or
- You have a 'home' in the UK.

You intend to work full-time for Space Matters (meaning 35 hours a week on average over a 12-month period). Assuming this is the case, you will be able to use the split-year rules and will be UK resident with effect from your first UK workday. You will be non-UK resident between 6 April 2026 and that date.

For income tax and CGT purposes, you will be subject to UK tax on your worldwide income and gains from the day you become UK resident, ie in November 2026.

As you were non-UK resident in the ten consecutive tax years before 2026/27 (in fact for the 12 years from 2014/15 to 2025/26) you will be a 'qualifying new resident' in 2026/27 and eligible to make a claim to exempt your overseas income (and any gains) under the Foreign Income and Gains (FIG) regime. If you make the relevant claim there will be no UK tax on your overseas dividends from your Utopian company or interest from your bank accounts, although you will lose your personal allowance that you would otherwise set against your salary from Space Matters.

This claim will be available to you in your first four years of UK residence, ie until 5 April 2030, assuming you remain in the UK. It seems likely, considering the prognosis for your mother's illness, that you will have returned to Utopia by that date and so your Utopian income (and any overseas gains) will be taxable in the UK in the meantime only if you do not make the relevant FIG relief claims.

You will however be taxable in full on any UK income received from Space Matters during the period.

(B2) Inheritance tax position

A different test, albeit one that is also based on your residence status, applies to determine your exposure to UK inheritance tax (IHT).

For IHT purposes we look at whether you were UK resident in at least ten out of the 20 tax years before any year in which there is a chargeable event for IHT purposes (eg a gift to a trust or death).

If so, you will be 'long-term UK resident' (LTUKR) and subject to IHT on your worldwide assets. If not, you will be chargeable only in respect of assets located in the UK.

For example, if you were to die in the current tax year (2026/27), we would look back at your UK residence over the previous 20-year period (ie 2006/07 to 2025/26). As you were UK resident for only eight of these years (ie 2006/07 to 2013/14) and non-UK resident for the other 12 years (ie 2014/15 to 2025/26), you have fewer than ten years of UK residence ending with the year 2025/26. 2026/27 is your ninth year of UK residence (a split year counts as a full year of residence for these purposes) and so you would not be LTUKR in 2026/27. Consequently, your overseas assets will not be subject to IHT as they would be 'excluded property' and not part of your death estate.

You will continue to be treated in this way in 2027/28. The 20-year period ending with 2026/27 commences with the year 2007/08 and you have again been UK resident only for eight of those years. In fact, you will not become LTUKR until 6 April 2036 (after ten consecutive tax years of UK residence). However, given your mother's prognosis and your plans to return to Utopia following her death, it is unlikely that you will be UK resident for that long. Hence you will never come within the scope of UK IHT in respect of your foreign sited assets.

(B3) The Dexter Family Trust – IHT issues

As you were the settlor of the Dexter Family Trust and set it up before 6 April 2025, until that date its IHT status was determined by reference to your domicile status in April 2019 when it was settled. As you were then non-UK domiciled, the trust assets were excluded property, as they were all assets situated outside the UK. Hence the trust would have been considered to be an 'excluded property trust'. This means that you made no chargeable lifetime transfer at the date of the settlement and the trust was protected from UK IHT charges (ie the exit and principal charges).

With effect from 6 April 2025, the excluded property status of trust property depends not only on where it is located but also on the residence status of the settlor of the trust. If the settlor becomes LTUKR on or after 6 April 2025, the foreign sited assets of a trust lose their excluded property status and so come within the scope of IHT. Such assets retain their excluded property status, however, for as long as the settlor remains non-LTUKR.

As explained above, you will not become LTUKR until 6 April 2036 and so the assets of the Dexter Family Trust will continue to be excluded property until that time. As you will have long since returned to Utopia, the trust will never come within the charge to IHT during your comparatively short period of residence in the UK.

Should you die whilst resident in the UK, you would appear to come within the scope of the gift with reservation of benefit ('GWROB') rules because you are a beneficiary of the trust. By virtue of those rules, the assets of the trust would be treated as part of your estate and prima facie chargeable to IHT. However, this rule will not apply as the trust property (provided it is foreign sited) would be excluded property should you suffer an untimely death.

(B4) The Dexter Family Trust – Income Tax and CGT issues

The income tax and CGT position of the Trust depends on where it is tax-resident.

You are currently the only Trustee. The Trust is therefore non-UK resident as 'all' the Trustees are non-UK resident.

This will change following November 2026 because at that point you will become UK resident meaning that the Trust will also become resident. As the split year rules do not apply to trusts, it will become resident only from 6 April 2027, however. It will therefore remain non-UK resident for the whole of 2026/27.

UK resident trusts pay UK income tax and CGT on worldwide income and gains. The Trust would then be required to submit UK tax returns.

The trust tax rates are 39.35% on dividends and 45% on other income. Income used to defray trust management expenses is taxed at the dividend ordinary rate and the basic rate according to the source from which they are treated as paid.

The trust will pay CGT on trust gains at 24%.

The Trust is 'settlor-interested' as you and/or Zoe can benefit from it. This means that the trust income (before expenses) should be reported on your own tax return and be taxed in your hands. To prevent double taxation, you would receive credit for income tax paid by the trust.

However, as you will still be a 'qualifying new resident' (as explained above) in 2027/28 and the income will arise from a non-UK source, you can make a FIG relief claim to exempt that income from UK tax.

It is possible to exclude you and Zoe as beneficiaries of the trust if you need to remain in the UK after the four-year FIG relief period (ie after 5 April 2030). We can discuss this in the future if necessary. Currently, making a FIG relief claim is a simpler solution in this situation.

The main problem with importing a trust to the UK is that if that trust subsequently becomes non-UK resident again – which your trust will when you leave the UK and return to Utopia – a CGT 'emigration charge' will apply.

Where a UK resident trust becomes non-UK resident, it is treated as having sold all its assets for their market value at that point. This will generate chargeable gains and create

a CGT liability for the trust. Any capital appreciation will be charged to UK CGT and this liability cannot be deferred or postponed.

The emigration charge can be avoided by ensuring that the Trust does not become UK resident in the first place. This can be achieved by appointing Zoe as a Trustee in 2026/27, for example before you become UK resident – ie before your first UK workday with Space Matters.

If Zoe acts as co-Trustee while you are UK resident, the Trust will have 'mixed residence' Trustees. In this case, as the settlor (you) was non-UK resident and non-UK domiciled when the Trust was created (as this was before 6 April 2025), the Trust will be non-UK resident. You can therefore remain as a Trustee.

We therefore recommend that Zoe is appointed as a Trustee as soon as possible. This will ensure that there is no point during 2027/28 and later years when all the Trustees are UK resident. This will avoid a CGT emigration charge when you return to Utopia.

Non-UK resident trusts pay income tax only on UK income. As the Trust has no UK income, UK tax returns would not be required.

Under certain anti-avoidance rules, trust gains arising to a non-UK resident trust while you are UK resident will be taxed on you in the UK (even if both you and Zoe were excluded from benefit). This is because the definition of a 'settlor interest' for CGT is wider than it is for income tax and includes your children. You can recover any CGT liabilities on trust gains from the trust.

Once again you can make a claim under the FIG regime, this time in respect of the foreign gains treated as accruing to you, during your first four years of UK residence to exempt the gains from CGT.

You will, however, need to register personally for self-assessment and submit UK tax returns. These returns should disclose all your income and gains, including income and gains from Utopia. The foreign income and gains must be reported and any FIG relief claim made in the same return in respect of each item of income and each gain.

As explained above, if you do make a FIG relief claim, you will lose access to your UK income tax personal allowances and the CGT annual exempt amount.

(B5) Space Matters Ltd – Tax relief for losses

The trading losses made by the company can be:

- 1) Set against other income arising in the same period (eg bank interest); then
- 2) Carried back and set against total profits of the previous 12 months; then
- 3) Carried forward and relieved against future total profits of the company.

The losses have already been set against current and previous years' profits as far as possible.

Where there is a change in ownership of a company and that is followed within five years by a 'major change' in the nature or conduct of its trade, carry forward relief for losses arising before the change of ownership will be denied.

However, this rule does not apply where the change in ownership happens as a result of an inheritance or unsolicited gift. Therefore, once Olivia's shares pass to you, any changes you make in order to make the company profitable again should not impact on the ability to bring forward the trading losses.

Trading losses can therefore be carried forward as long as Space Matters continues to carry-on the same trade in subsequent accounting periods.

Simply changing the company's product offerings so that it offers interior design solutions for shops and offices as well as for residential dwellings, will still enable the losses arising to be offset against future profits.

(B6) Sale of Space Matters Ltd and other assets

You will sell the company once it is back in profit.

We recommend that the shares are retained by Olivia as they will qualify for 100% BPR in her estate. The shares will pass to you with a CGT base cost equal to their market value at the time of her death. A sale shortly afterwards will not give rise to a substantial gain.

In any event, if you sell the shares when non-UK resident, any gain will not be chargeable to UK CGT. The same is true of the quoted shares. This will not be the case, however, if the disposal occurs within your first four years of UK residence as you cannot make a FIG relief claim in respect of UK sited assets.

Any gains on the sale of Wayborn House will be chargeable to UK CGT even whilst you are non-UK resident. However, this is unlikely to be a serious issue as gains are likely to be low (and private residence relief might be available as you may be able to claim that the house is your main residence – we can revisit this when the time arises).

We recommend that sale proceeds are kept offshore as the cash will be excluded property as you are not a LTUKR (as previously explained).

APPENDIX 1

IHT on Olivia's death assuming no advance planning

	£	£
Wayborn House		1,500,000
Chattels and possessions		50,000
Shares in Space Matters Ltd	500,000	
Less: BPR	<u>(500,000)</u>	
		Nil
Quoted shares		500,000
Bank deposits		<u>450,000</u>
		2,500,000
Less: NRB		<u>(650,000)</u>
Taxable estate		<u>1,850,000</u>
IHT @ 40%		<u>740,000</u>

APPENDIX 2

IHT on Olivia's death assuming planning proposals implemented

(i) PET on gift of a 50% share in the House:

	£
Wayborn House (value transferred)	825,000
Less: Annual exemptions	<u>(6,000)</u>
PET chargeable on death	819,000
Less: NRB	<u>(650,000)</u>
Taxable	<u>169,000</u>
IHT @ 40% (assuming death within three years of gift)	<u>67,600</u>

(ii) Death estate:

	£	£
Wayborn House (discounted half share)		675,000
Chattels and possessions		50,000
Shares in Space Matters Ltd	500,000	
Less: BPR	<u>(500,000)</u>	
		Nil
Quoted shares		500,000
Bank deposits	450,000	
Less: Redirected by DoV	<u>(325,000)</u>	
		<u>125,000</u>
		1,350,000
Less: RNRB		<u>(350,000)</u>
Less: NRB (used against PET)		<u>(Nil)</u>
Taxable estate		<u>1,000,000</u>
IHT @ 40%		<u>400,000</u>

Computations assume that asset values remain unchanged.

ASSESSMENT NARRATIVE FOR JAMES DEXTER**Structure**

A simple pass or fail will be awarded.

Identification and Application

The following are the relevant topics for assessment with their weightings:

1	25%	Appreciating that PETs are likely to be chargeable. Identifying that Nil Rate Bands are inherited from two spouses and one will be wasted. Identifying that the estate exceeds £2 million so RNRB will be wasted. Appreciating that reducing the estate by lifetime gifts will access RNRB. Determining that quoted shares are not suitable for gifting due to potential CGT. Identifying that a share in the house can be gifted without a GWROB provided they share occupation. Calculating loss to donor.
2	25%	Identifying that Richard died less than two years ago so a DoV could be used to create a chargeable transfer and use his NRB. Explaining the effect of an IHT statement. Suggesting use of annual exemptions. Comparative IHT calculations to illustrate tax savings.
3	25%	Determining the correct residence position for James. Identifying that James is a qualifying new resident. Explaining that a FIG relief claim is possible, so overseas income and gains are not taxable. Identifying that he is not a long-term UK resident (LTUKR) for IHT until 6 April 2036. Explain that personal assets will fall into his estate from next April. Explaining that GWROB rules don't apply. Identifying that a principal charge will not arise.
4	15%	Identifying that if the Trust becomes UK resident, an emigration charge will apply when James returns home. Identifying that appointing Zoe as a Trustee before James becomes UK resident means that the Trust will stay non-resident. Identifying that income and gains will still be taxed on James in the UK even if the Trust is non-resident. Explaining that a FIG relief claim is possible as all income/gains are non-UK source.
5	10%	Explaining how company losses are relieved. Identifying loss restriction rules on change in ownership, but these do not apply to inherited shares. Explaining James's CGT position re shares and other inherited assets.

A grade of 0, 1, 2, 3 or 4 is awarded to each topic. The weighting is applied to that grade to produce a weighted average grade. This is then converted to a final absolute grade by rounding up or down to the nearest grade. In order to secure a pass, a final grade of 3 or 4 is required.

Relevant Advice and Substantiated Recommendations

The following are the relevant topics for assessment with their weightings:

1	25%	Recommend DoV with IHT election to redirect £325k to James.
2	30%	Recommend gift of share of house with shared occupation and use of AEs. Recommend FIG relief claim to exempt foreign dividends and interest.
3	30%	Recommend appointing Zoe as a Trustee as soon as possible. Recommend FIG relief claim to exempt attributed income and gains.
4	15%	Advise that he can continue with plans to change the company's trade as long as the company retains the same general trade.

The final grade will be determined for this skill in the same way as for Identification and Application.

APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
GENERAL:		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
STRUCTURE:		
Did you use the correct report (or letter) format?		
Did you include an introduction?		
Does your executive summary contain key issues only?		
Does your executive summary read as a stand-alone document?		
Did you use headings and subheadings to help navigation?		
Does your answer flow in a logical order?		
Did you use style/language appropriate for the reader?		
Are there only a few spelling/grammatical mistakes?		
Did you include appropriate calculations in an Appendix?		
Are your calculations linked to the narrative?		
Did you avoid including irrelevant material?		
I&A:		
Did you identify all the issues? If not, go back to the Question and see where that issue was and try to work how you missed it?		
Is the technical information you provided correct? Has it been applied correctly to the scenario? Is it easy for a lay person to understand?		
Did you use the information provided in the question in appropriate way?		
RA&SR:		
Have you told the client what to do?		
Have you explained to the client why they should do what you have recommended? Did you set out the pros and cons and weigh them up? Is your advice in relation to key areas technically correct?		
Did you consider the wider implications of your advice (such as commercial considerations and legal/ethical issues)?		
Having reviewed your answer, do you think that if you were the client, you would be happy paying for this advice?		

2. CRESSWELL FAMILY SETTLEMENT (MAY 2021)**REPORT**

To: Trustees of the Cresswell Family Settlement
From: ABC Tax LLP
Date: 5 May 2026
Subject: Sale of Trust Assets and Cessation of the Trust

INTRODUCTION

This Report is prepared for the Trustees of the Cresswell Family Settlement ('the trust').

This Report is intended solely for use by the Trustees and their beneficiaries. No liability is accepted for any reliance on this Report by other parties.

The Report is based on Richard Cresswell's email to Alison Clarke dated 1 May 2026 and on information held on our files.

The Report considers the tax issues relating to the sale of assets to fund the trust's Inheritance Tax (IHT) liability and the cessation of the trust.

EXECUTIVE SUMMARY

- We recommend Bramble Cottage is sold at auction in May 2026 to facilitate payment of the outstanding IHT. Around £480 more Capital Gains Tax (CGT) is payable on selling Bramble Cottage than the Paddock. However, the Paddock will qualify for 100% Agricultural Property Relief when IHT exit charges are imposed on assets leaving the trust. The IHT saving of about £4,500 for the beneficiaries by retaining the Paddock is far greater than the small amount of extra CGT which will be paid on selling Bramble Cottage.
- IHT exit charges will arise on 18 September 2026 and 21 May 2028 when the beneficiaries each become entitled to their respective shares in the trust. We have reviewed the business activities of Cresswell Garden Centres Ltd ('the Company') and conclude that IHT Business Property Relief at 100% will be available on the Trustees' shareholding. This means IHT of £32,109 will be payable by Amanda and £40,136 will be payable by Darcy.
- A CGT disposal also arises when the Paddock and Wilton House leave the Trust. However, any CGT charge on the land and property is deferred for Amanda until 21 May 2028 when Darcy becomes entitled.
- In the absence of any claims, CGT of £196,440 will be payable on disposal of the Paddock and Wilton House in May 2028. Holdover relief is only available in respect of Darcy's share of the gain. Deferral relief cannot be claimed on Amanda's share as the CGT disposal does not coincide with the occasion of her IHT exit charge.
- For Amanda to avoid a large CGT liability, we recommend that the Trustees exercise their power to advance Darcy's interest in the trust to her on 18 September 2026. This will enable the Trustees to claim holdover relief on all of the land and property gains. Darcy's IHT exit charge will reduce to £32,109 (a saving of £8,027) and both beneficiaries will be left with most of their inheritance from Lily.
- A disposal also occurs when the shares leave the trust, resulting in a total CGT liability of £89,964. We recommend that a holdover relief claim is made, so no CGT is payable on the disposal. Amanda and Darcy will acquire the shares at the Trustees' base cost.

- As both Amanda and Darcy will each have at least 5% of the shares, you should consider making them officers (eg directors) or employees of the Company. This will give them access to Business Asset Disposal Relief (BADR) on a future disposal of their shares after two years which will reduce the CGT rate on gains from 24% to 18%.

SECTION A: SALE OF ASSETS TO FUND THE IHT LIABILITY

Additional IHT is payable because Lily, as settlor, did not survive seven years from the transfer of assets into trust.

The Trustees have advised that the liability is £70,500 (to include interest) and the funding options are a disposal of either Bramble Cottage or the Paddock.

We will look at each of these in turn.

(A1) Sale of Bramble Cottage

The sale of Bramble Cottage will result in a capital gain on which CGT is payable at 24%.

The Trustees' CGT base cost is £88,000 being Lily's £72,000 acquisition price (as holdover relief was claimed) plus £16,000 of IHT apportioned to and payable by the Trustees which can be added to the cost.

Assuming a sale price of £99,000 is achieved, CGT of £1,924 will be payable (see Appendix 1).

As Bramble Cottage is a residential property, this liability must be paid and reported to HMRC within 60 days of the completion of its sale. HMRC will charge penalties if the 60-day deadline is missed.

The Trustees must set up an online CGT account with HMRC to facilitate the reporting requirements.

(A2) Sale of the Paddock

The sale of the Paddock will also result in a CGT liability for the Trust.

Lily originally purchased the Paddock for £150,000 in 2015, but by 2019 it had decreased in value and so a capital loss arose on the transfer into trust.

It is only possible to claim holdover relief on capital gains (not losses). This means that the Trustees' CGT base cost is £70,000 (being the value on 12 August 2019) plus the £14,000 apportioned IHT relating to the property.

Assuming a sale price of £92,000 is achieved, CGT of £1,440 will be payable (see Appendix 1).

This is £484 less than the CGT on Bramble Cottage.

Also, as the Paddock is not residential property, there is no requirement to report the disposal within 60 days. Instead the gain will be disclosed on the 2026/27 trust return with CGT payable by 31 January 2028.

It may therefore appear that selling the Paddock is the better option. However, there is an IHT issue the Trustees must also consider before they make a final decision.

The beneficiaries will shortly become entitled to their share of the trust assets and IHT exit charges will arise at those respective times

No IHT is payable where assets transferred to the beneficiaries qualify for 100% Agricultural Property Relief (APR).

APR is available if land is let and has been used for agricultural purposes for at least seven years. The Paddock has been used for growing crops which is an 'agricultural purpose'.

By 18 September 2026, when Amanda is 30, the Trustees will have let the Paddock for seven years and as the ownership period will be satisfied, the Paddock will qualify for 100% APR. No IHT exit charge will therefore arise on its transfer to Amanda in 2026 and (by parity of reasoning) none will arise on its transfer to Darcy in 2028).

APR is only available on the agricultural value of the land. We understand that the land does not have any market value premium, but we suggest you confirm this with a surveyor.

(A3) Recommendation

The sale of either Bramble Cottage or the Paddock will provide sufficient net proceeds to settle the IHT liability and the CGT on the respective sales.

However, if the Paddock is sold, when Amanda and Darcy respectively reach their 30th birthdays and an IHT exit charge is imposed on the cash that the trust will then hold and no APR will be available.

As no IHT reliefs are available in respect of Bramble Cottage when it is distributed to Amanda and Darcy, overall IHT liabilities will increase.

The calculations in Appendix 2A show that the rate at which IHT is charged in September 2026 will be 4.2% if Bramble Cottage is sold. If the Paddock is sold, Amanda's liability will increase by just under £2,000 (see Appendix 2B).

Darcy's IHT exit charge will also increase if the Paddock is sold (see Appendix 2A). But as the rate of IHT will then be higher at 5.25%, her liability will increase by just under £2,500 (see Appendix 2B).

The total potential IHT increase of approximately £4,500 on selling Bramble Cottage is much higher than the small CGT saving of £484 which would be achieved by selling the Paddock.

We therefore recommend that Bramble Cottage is sold.

SECTION B: CESSATION OF THE TRUST

Under the terms of the trust, the beneficiaries become absolutely entitled to an equal share of the assets on their 30th birthdays.

Amanda is 30 on 18 September 2026 and Darcy is 30 on 21 May 2028, after which the trust will cease.

(B1) IHT issues

The trust is a relevant property trust for IHT purposes as it was created after March 2006.

This means that IHT exit charges will arise when the assets leave the trust in September 2026 and May 2028.

The exits will fall within the first ten years of the creation of the trust and so the IHT rate applicable to the assets leaving the trust is based on their initial value and the number of quarters that have elapsed since creation.

No IHT is payable on assets qualifying for 100% APR (where there is no market premium) and in addition, no IHT is payable on assets qualifying for 100% Business Property Relief (BPR).

BPR is available at 100% on unquoted shares (if certain conditions apply).

We understand that HMRC agreed that 100% BPR was available on the shares on Lily's death.

However, as the Company's business activities have changed since then, this should be reviewed.

The conditions for BPR are that:

- (a) The shares must have been owned for at least two years;
- (b) The shares must not be listed on a recognised stock exchange;
- (c) There must not be a binding contract in place for the sale of the shares; and
- (d) The Company must be 'trading' - BPR will not apply if a company is wholly or mainly dealing in securities, stocks or shares, land or buildings or making or holding investments.

In relation to the Trustees' holding, conditions a) to c) seem to be satisfied.

However condition d) is less clear cut and will need to be explored.

In relation to d), the Company must be carrying out mainly trading activities (not investment activities). 'Mainly' in this context means more than 50%.

As the Company commenced letting floor space to third parties (an investment activity) during 2024 alongside the sale of plants and bulbs (a trading activity), we must consider whether the Company is still 'mainly' a trading company for BPR purposes.

Case law has considered the meaning of 'wholly or mainly holding investments' and where there are both trading and investment activities within one business, all aspects of that business over a reasonable period prior to a chargeable event must be considered.

The leading case on this area sets out five factors to take into account and this approach is followed by HMRC when considering BPR claims.

The factors are:

- 1) How the capital of the business is employed.
- 2) The split of the turnover between trading and investment.
- 3) The profits generated by each side of the business.
- 4) The time spent by employees and directors.
- 5) The overall context of the business.

These criteria must then be considered together and 'in the round'.

From reviewing the financial information, turnover from trading exceeds investment income with around 54% relating to trading activities for the year to 31 March 2026.

However, the investment side is more profitable, representing nearly 53% of profits for the same period.

The plant and equipment relates solely to the trading activities and you have advised us that 60% of each garden centre is still dedicated to your own stock.

In addition, the total staff time dedicated to the trading side of the business far exceeds the investment business.

Looking at the overall context of the business, even though the profit from the investment side is higher, all other factors point to the Company carrying out mainly trading activities.

Assuming this does not alter by the time Amanda and Darcy become entitled to the trust assets, BPR will be available on the Company shares. We should however keep this under review.

Assuming the Company is trading, any 'excepted assets' held by the Company will restrict the BPR. An 'excepted asset' is one which has not been used in the business for the previous two years or which is no longer required for the business.

The land and buildings that are let out will not be treated as excepted assets as they are part of the overall 'business'.

HMRC can argue that large cash balances which are surplus to a company's business needs are excepted assets and accordingly restrict BPR. The balance sheet at 31 March 2026 shows a cash balance of £103,000. Given the size of the business and comparing this to turnover, this amount of cash is likely to be needed for working capital so BPR should not be restricted.

The financial information indicates that there are no excepted assets held and 100% BPR should be available on the full value of the shares without restriction.

A calculation of the IHT exit charges at 18 September 2026 and 21 May 2028 are provided in Appendix 2A. They assume that Bramble Cottage has been disposed of to pay the trust's tax liabilities.

Amanda's IHT liability will be £32,109 and is payable to HMRC by 31 March 2027.

Darcy's IHT liability will be £40,136, payable by 30 November 2028.

Please note, we have used current market values for the purpose of these calculations. It will be necessary to obtain updated valuations of the assets on the actual exit charge dates.

(B2) CGT issues

(i) Shares in the Company

For CGT purposes, there is a disposal at market value by the Trustees when the beneficiaries become absolutely entitled to the shares.

Holdover relief was claimed on the shares on the trust's creation in 2019 and so the Trustees will take on Lily's base cost. Lily acquired 500 shares on incorporation for £500 and inherited 500 shares from Percy at the probate value of £7.5 million, so her total cost was £7,500,500.

This means the Trustees' CGT base cost for 300 shares is £2,250,150 (300/1,000 x £7,500,500).

Amanda and Darcy will become entitled to the shares and the Trustees' gain on each appointment will be £187,425.

The Trustees will not be eligible for BADR as this relief only applies where a beneficiary of an interest in possession trust has a personal holding of 5% or more of the shares and is an employee or office holder of the company. This is not the case here and so the trust gains will be taxed at 24%.

A CGT liability of £44,982 will be due by 31 January 2028 in respect of Amanda's entitlement.

CGT of £44,982 is due by 31 January 2030 for Darcy. See Appendix 3 for computations.

Alternatively, as the appointment of shares to Amanda and Darcy is a chargeable event for IHT, the Trustees and beneficiaries can defer these liabilities by making a joint holdover relief claim.

No CGT will then be payable and Amanda and Darcy will acquire their shares at the Trustees' base cost for future CGT disposals.

(ii) Recommendation

We recommend that claims for holdover relief are made in respect of the gains on the shares to save a total CGT liability of £89,964.

As Amanda and Darcy intend to retain the shares for the foreseeable future and there are no current plans to sell the Company, acquiring the shares at the Trustees' lower base cost should not be an issue for them.

As a side point, as Amanda and Darcy will each have 5% of the shares, the Company should consider appointing them as officers or directors so that BADR will be available to them on a disposal after two years. This will reduce the CGT rate on any gains from 24% to 18%. There is no requirement for either of them actually to work for the company.

(iii) The Paddock and Wilton House

The CGT position is different for the Paddock and Wilton House because of the rule in *Crowe v Appleby*.

Where a beneficiary becomes entitled to an undivided share in land or property, there is no disposal by the Trustees until such a time as all the beneficiaries become entitled.

In this case it means that a CGT liability will not arise on 18 September 2026 when Amanda turns 30 and becomes entitled to her share of the properties. Recognition of the gain will instead be deferred until 21 May 2028, when Darcy also becomes absolutely entitled to her share of the properties.

The CGT liabilities which will arise in May 2028 are £2,400 for the Paddock and £194,040 for Wilton House (see Appendix 3). In the absence of any claims, the CGT on the Paddock is payable by 31 January 2030. The disposal of Wilton House would be reportable within 60 days of completion of the transfer with CGT payable at the same time.

As the transfer to Darcy in May 2028 will trigger an IHT exit charge, holdover relief can be claimed on her half share of the gains. No CGT will be then payable and Darcy will acquire the property at the Trustees' base cost for future CGT purposes (plus any IHT attributable to these assets).

By comparison, Amanda's IHT exit charge arose on 18 September 2026 but the CGT disposal of the properties will not occur until 21 May 2028. The CGT liability does not arise at the same time as the IHT liability and so holdover relief will not be available on her share of the gain. This leaves Amanda with a potential CGT liability of £98,040 (see Appendix 3).

We note that the Trustees have power to advance a beneficiary's capital entitlement to them prior to reaching the age of 30. If the Trustees exercise this power in respect of Darcy and advance her capital entitlement to her on 18 September 2026 (ie on Amanda's 30th birthday), the CGT disposal of the properties and the IHT exit charge will arise at the same time for both beneficiaries.

This will enable Amanda to also claim holdover relief on the land and property gains and save £98,040 in CGT.

(iv) Recommendation

The beneficiaries wish to settle the tax liabilities on the cessation of the trust.

Without a claim for holdover relief on the properties, Amanda's liability will be £130,149 (£98,040 CGT plus £32,109 IHT). This will leave her with a balance of just under £20,000 out of her £150,000 pecuniary legacy.

We therefore recommend that the Trustees exercise their power to advance Darcy's share of the trust assets to her at the same time as Amanda and for both beneficiaries to be asked to consent to a CGT holdover relief claim on the gains arising on the Paddock and Wilton House.

As they both intend to keep the properties as long-term investments, it is less of an issue that they will acquire the properties at a lower base cost for future CGT purposes.

In addition, if Darcy's capital is advanced to her earlier, her IHT exit charge will decrease to the same amount as Amanda's, providing her with a saving of £8,027 over her original IHT liability.

After making CGT holdover claims on the shares and the properties, Amanda and Darcy will each have the IHT exit charge of £32,109 to settle by 31 March 2027, leaving them with £117,891 each out of their £150,000 pecuniary legacies.

This is a tax saving of £98,040 for Amanda and £8,027 for Darcy.

ABC Tax LLP
5 May 2026

APPENDIX 1

CGT computations for sale of Bramble Cottage or Paddock

	Bramble Cottage	Paddock
	£	£
Proceeds	99,000	92,000
Less: Selling costs	<u>(1,485)</u>	<u>(500)</u>
	97,515	91,500
Less: Trustees' base cost (including IHT)	<u>(88,000)</u>	<u>(84,000)</u>
Gain	9,515	7,500
Less: Annual exempt amount (AEA)	<u>(1,500)</u>	<u>(1,500)</u>
	<u>8,015</u>	<u>6,000</u>
CGT @ 24%	<u>1,924</u>	<u>1,440</u>
Net cash available:		
Net proceeds	97,515	91,500
Less: Required to meet IHT	<u>(70,500)</u>	<u>(70,500)</u>
Less: CGT on sale	<u>(1,924)</u>	<u>(1,440)</u>
Available proceeds	<u>25,091</u>	<u>19,560</u>

APPENDIX 2A

Exit charges on beneficiaries becoming entitled following sale of Bramble Cottage(i) Amanda 18.9.26

	£	£
Initial values (12 August 2019):		
Shares		2,400,000
Wilton House		1,340,000
Paddock		70,000
Bramble Cottage		80,000
Less: IHT on creation		<u>(233,000)</u>
		3,657,000
Nil band	325,000	
Less: CTs in 7 years before creation (Note)	<u>(411,000)</u>	
		<u>(Nil)</u>
		3,657,000
Notional tax @ 20%		<u>731,400</u>
Effective rate:	$731,400 / 3,657,000 \times 100$	<u>20%</u>
Actual rate: 20% x 30% x 28/40	12.8.19 – 18.9.26 = 28 quarters	<u>4.2%</u>
Assets ceasing to be relevant property:		
150 shares in Company (100% BPR)		Nil
½ share of Wilton House		750,000
½ share of Paddock (100% APR)		Nil
Cash	½ x £(3,900 + 25,091*)	<u>14,495</u>
		<u>764,495</u>
Exit charge: £764,495 x 4.2%		<u>32,109</u>

*Net cash proceeds from the sale of Bramble Cottage (see Appendix 1)

Note: The PETs in 2019 (£205,000 + £206,000) became chargeable transfers as a result of Lily's death in 2024. As these transfers exceeded £325,000, no nil rate band is available for the trust and so the effective rate of tax on the exit is automatically 20%.

Tutorial Note:

Candidates who explained this without calculating initial values would be given equal credit.

(ii) Darcy 21.5.28

Effective rate:		<u>20%</u>
Actual rate: 20% x 30% x 35/40	12.8.19 – 21.5.28 = 35 quarters	<u>5.25%</u>
Exit charge: £764,495 x 5.25%		<u>40,136</u>

APPENDIX 2B

If the Paddock is sold and Bramble Cottage is retained, the amount of the exit charge on the distribution to Amanda is:

Assets ceasing to be relevant property:	£
150 shares in Company (100% BPR)	Nil
½ share of Wilton House	750,000
½ share of Bramble Cottage	49,500
Cash	½ x £(3,900 + 19,560*)
	<u>11,730</u>
	<u>811,230</u>
Exit charge: £811,230 x 4.2%	<u>34,072</u>

*Net cash proceeds from the sale of the Paddock (see Appendix 1)

The amount of the exit charge on the distribution to Darcy will be:
£811,230 x 5.25% = £42,590.

Hence, the additional amount of IHT payable on the sale of the Paddock is:

Amanda: £34,072 – £32,109 (see Appendix 2A)	<u>£1,963</u>
Darcy: £42,590 - £40,136 (see Appendix 2A)	<u>£2,454</u>

APPENDIX 3

Cessation of trust - CGT computations(i) Appointments to Amanda 18.9.26

	Shares £	Paddock £	Wilton House £
Proceeds (MV)	1,312,500	No disposal	No disposal
Less: Trustee base cost	(1,125,075)		
Less: AEA (used on Bramble Cottage)	(Nil)		
Taxable gain	<u>187,425</u>		
CGT @ 24%	<u>44,982</u>		

(ii) Appointments to Darcy 21.5.28

	Shares £	Paddock £	Wilton House £
Proceeds (MV)	1,312,500	94,000	1,500,000
Less: Trustee base cost	(1,125,075)	(84,000)	(690,000)
Gain	187,425	10,000	810,000
Less: AEA			(1,500)
Taxable gain	<u>187,425</u>	<u>10,000</u>	<u>808,500</u>
CGT @ 24%	<u>44,982</u>	<u>2,400</u>	<u>194,040</u>

(iii) Potential CGT payable by Amanda in 2028

	Paddock £	Wilton House £
Gains (50%)	5,000	405,000
Less: Trust AEA	(Nil)	(1,500)
Taxable	<u>5,000</u>	<u>403,500</u>
CGT @ 24%	<u>1,200</u>	<u>96,840</u>

Tutorial Note:

This question required a number of detailed calculations to be performed. In response to our query on an APS INDS paper about the importance of getting such computations correct, the CIOT Examiner for that paper responded as follows:

“There is no expectation that detailed calculations will be carried out and approximate numbers are fine, although obviously good calculations will help candidates with their analysis”.

The same approach will be adopted here. Approximate calculations which support your general analysis are therefore acceptable. The numbers do not have to be totally accurate to secure a pass. You should therefore be careful not to waste time and overrun in trying to get your computations unnecessarily ‘perfect’.

ASSESSMENT NARRATIVE FOR CRESSWELL FAMILY SETTLEMENT (MAY 2021)**Structure**

A simple pass or fail will be awarded.

Identification and Application

The following are the relevant topics for assessment with their weightings:

1	10%	Identify and calculate the CGT liabilities arising on the proposed sale of Bramble Cottage and the sale of the Paddock.
2	20%	Identify that a sale of the Paddock will result in a loss of APR on the upcoming IHT exit charges. Calculate the additional IHT due.
3	30%	Identify and analyse whether the shares in Cresswell Garden Centres Ltd will qualify for 100% BPR. Calculation of the IHT exit charges arising.
4	15%	Identify the CGT issues arising on the cessation of Amanda and Darcy's interests in the trusts in relation to the shareholding in the company.
5	10%	Identify the CGT liability arising on the cessation of Amanda and Darcy's interests in the trusts in relation to the Paddock and Wilton House.
6	15%	Identify that the Paddock and Wilton House are indivisible assets and the impact of the rule in <i>Crowe v Appleby</i> on Amanda and Darcy's distributions. Recognising that the trustees can exercise their power of advancement in respect of Darcy's entitlement.

A grade of 0, 1, 2, 3, or 4 is awarded to each topic. The weighting is applied to that grade to produce a weighted average grade. This is then converted to a final absolute grade by rounding up or down to the nearest grade. In order to secure a pass, a final grade of 3 or 4 is required.

Relevant Advice and Substantiated Recommendations

The following are the relevant topics for assessment with their weightings:

1	15%	Advice and recommendations on whether the Trustees should sell Bramble Cottage or the Paddock.
2	30%	Advice on whether the company's business will meet the 'wholly or mainly trading' tests and if the trust's shareholding will qualify for 100% BPR.
3	25%	Advice and recommendations on the CGT implications of the transfer of shares in the company to Amanda and Darcy from the trust. To include consideration of holdover relief.
4	30%	Advice and recommendations on the CGT implications of the transfer of the Paddock and Wilton House to Amanda and Darcy from the trust. To include consideration of the impact on Amanda and Darcy's inheritance from Violet and the availability of the Trustees' power of advancement.

The final grade will be determined for this skill in the same way as for Identification and Application.

CANDIDATE SCRIPT FROM MAY 2021

A real candidate script for this case study that scored a clear pass can be found on the CIOT website here:

<https://www.tax.org.uk/may-2021-past-exam-papers-scripts-suggested-answers>

Don't forget that the paper was set in May 2021 when the syllabus included tax law up to and including FA 2020 and so the candidate script answer will not be based on up to date tax law.

Examiner's report:

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GENERAL COMMENTS

This question required a report for the Trustees of an interest in possession settlement. Candidates were required to advise on the proposed sale of either a plot of land or a residential property in order to settle an overdue IHT liability. They were also required to advise on the tax implications of the beneficiaries becoming entitled to the trust assets on their 30th birthdays and any action to be taken prior to the first beneficiary's birthday.

Most candidates dealt with the first issue well and recommended which asset should be sold and explained why. In comparison, the tax implications of the beneficiaries becoming entitled to the trust assets were not dealt with as well, with many candidates only concentrating on the land and property leaving the trust and failing provide any recommendations in relation to the unquoted shares.

STRUCTURE

Nearly all the candidates produced their answer in report format and included an introduction, executive summary, dealt with each issue in turn and included their calculations as appendices. For a few, the report was set out in a more truncated bullet point format akin to a list.

Some candidates produced an overview of the trust which served as a good introduction to their report. However, in several instances it was clear that this had been prepared in advance of the exam based solely on the pre-seen information. Whilst this is acceptable, it is important to ensure that any overview must be updated to account to reflect the additional information provided in the exam paper and in several cases this had not been done. As a consequence the overview did not sit correctly with the facts given.

IDENTIFICATION AND APPLICATION**CGT on the sale of Bramble Cottage or the sale of the paddock:**

Most candidates were able to correctly calculate the CGT liability on the sale of Bramble Cottage and the majority recognised that the Trustees' IHT liability arising on the creation of the trust and on Lily's death were also allowable deductions for CGT purposes.

Credit was also given to candidates who stated that only the IHT relating to the creation of the trust should be allowed for CGT and who apportioned the IHT figures shown in Exhibit B accordingly.

In the main, candidates were able to calculate the gain arising on the sale of the paddock and apply the correct CGT rate. Unfortunately, there were a lot of candidates who used Lily's original purchase price as the trustees' base cost, so incorrectly calculated a capital loss arising on the sale. As CGT holdover relief is only available to holdover capital gains, not capital losses, this relief would not have been available to Lily on the paddock, so the Trustees' base cost was the market value on 12 August 2018.

Availability of APR on the paddock:

All candidates recognised that the paddock would qualify for 100% APR once the Trustees had owned the land for seven years, but not all explained why this was the case.

Most were aware that the loss of the relief would increase the IHT liability on the exit charges arising on Amanda and Darcy's birthday. However, few candidates attempted to quantify the additional IHT payable to compare this to the CGT charge arising on the sale of the paddock.

Analysis of the shares in Cresswell Garden Centres Ltd for BPR purposes and calculation of the IHT exit charges.

The changes made to the business since 2024 required reconsideration of the availability of BPR. This was dealt with well by over half the candidates and in many cases all the relevant factors were explained and considered in detail. However, of the remaining candidates many made their decision based on a single factor, such as the fact that the profits of the investment side exceeded the trading element or the fact that 60% of floor space was still used in the trade, rather than considering the overall business.

Some candidates were also confused by the balance sheet entry for 'investment property' valued at £2.4 million, as they thought that this related to an additional separate investment premises, when it actually related to the 40% of floor space in the garden centre allocated to third party lettings.

Most candidates made a reasonable attempt at calculating the IHT exit charge arising on Amanda's entitlement and the majority calculated the actual rate of IHT correctly. Unfortunately, very few candidates applied the actual rate of tax to the correct figures, due to either forgetting to include or miscalculating the balance of the trust's cash account. In addition, only a handful of candidates calculated the IHT exit charge arising on Darcy's birthday if no action was taken.

CGT issues on cessation of the interests in the trust in relation to the shareholding in Cresswell Garden Centres Ltd

Despite having analysed the BPR status of the shares in the company, many candidates did not go on to consider the CGT implications of Amanda and Darcy becoming entitled to the shares on their respective 30th birthdays. Of the candidates who did consider this, generally most were able to calculate the CGT liability on the deemed disposal using the correct base cost and some also referred to the availability of CGT holdover relief.

CGT liability on the cessation of the interests in the trust in relation to the paddock and Wilton House

Again, a large number of candidates did not calculate the CGT liability arising on the paddock or Wilton House when Amanda and Darcy become entitled to them and just explained that CGT holdover relief could be claimed in respect of both properties if the trustees exercised their power of advancement.

Whilst this is correct, it is important to remember that this claim still requires a calculation of the gain to be held over and without calculating the gain it is impossible to advise the client how much tax is being saved or deferred.

Impact of the rule in *Crowe v Appleby* on the capital distributions and recognition of the trustees' power of advancement

Surprisingly, nearly every candidate attempting this question appeared to be aware that the rule in *Crowe v Appleby* applied, although it is safe to say that many candidates failed to correctly understand why it was relevant nor were able to explain its impact on the availability of CGT holdover relief for Amanda on her share of the land and buildings.

However, many candidates did suggest that the Trustees exercise their power of advancement to enable Darcy to receive her entitlement at the same time as Amanda paving the way for CGT holdover relief to be claimed on the full land and building gains.

Credit was also given to candidates who suggested an exercise of the power of advancement on the basis that 100% BPR may not be available by May 2028 when Darcy would become entitled, if Cresswell Garden Centres Ltd continue to expand the letting side of the business.

RELEVANT ADVICE AND SUBSTANTIATED RECOMMENDATIONSSale of Bramble Cottage vs sale of the paddock:

The vast majority of candidates (even those who incorrectly calculated a capital loss on the sale of the paddock) recommended the sale of Bramble Cottage in order to preserve the APR available on the paddock at the IHT exit charge dates.

Business property relief on shares in Cresswell Garden Centres Ltd:

Most candidates concluded that the business carried on by Cresswell Garden Centres Ltd was still wholly or mainly trading, so 100% BPR would be available.

Only a handful of candidates felt that the investment side of the business exceeded the trading side and of these, the majority were candidates who had misinterpreted the 'investment property' entry on the balance sheet as representing a separate building to the garden centre.

CGT and holdover relief on the transfer of shares to Amanda and Darcy:

Overall, this part of the report was dealt with quite poorly in comparison to the land and buildings. It seems that candidates either ran out of time to deal with this aspect or went off on a tangent explaining the rule in *Crowe v Appleby* and the related CGT holdover relief implications and completely forgot to address the CGT issues relating to the shares in the company leaving the trust.

Several candidates advised that Amanda and Darcy could be made directors of the company to qualify for Business Asset Disposal Relief going forward and credit was given for this suggestion.

Consideration of the impact of the tax charges on Amanda & Darcy's inheritance and the trustees' power of advancement

Most candidates recommended that the Trustees advance Darcy's interest in the trust to her on Amanda's birthday and that holdover relief should be claimed on all the trust assets.

The majority were aware that this would result lower IHT exit charges and no other tax liability due on the cessation of trust, but very few candidates considered quantifying the balance remaining out of Amanda and Darcy's inheritance both before and after this planning suggestion. This means they would have been unable to confirm the tax saving achieved as a result of their recommendations to the client.

APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
GENERAL:		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
STRUCTURE:		
Did you use the correct report (or letter) format?		
Did you include an introduction?		
Does your executive summary contain key issues only?		
Does your executive summary read as a stand-alone document?		
Did you use headings and subheadings to help navigation?		
Does your answer flow in a logical order?		
Did you use style/language appropriate for the reader?		
Are there only a few spelling/grammatical mistakes?		
Did you include appropriate calculations in an Appendix?		
Are your calculations linked to the narrative?		
Did you avoid including irrelevant material?		
I&A:		
Did you identify all the issues? If not, go back to the Question and see where that issue was and try to work how you missed it?		
Is the technical information you provided correct? Has it been applied correctly to the scenario? Is it easy for a lay person to understand?		
Did you use the information provided in the question in appropriate way?		
RA&SR:		
Have you told the client what to do?		
Have you explained to the client why they should do what you have recommended? Did you set out the pros and cons and weigh them up? Is your advice in relation to key areas technically correct?		
Did you consider the wider implications of your advice (such as commercial considerations and legal/ethical issues)?		
Having reviewed your answer, do you think that if you were the client, you would be happy paying for this advice?		