

# Tolley® Exam Training

**CTA APPLICATION AND PROFESSIONAL  
SKILLS**

**IHT, TRUSTS AND ESTATES (IHTTE)**

**PRE REVISION QUESTION BANK**

**FA 2024 & F(No. 2)A 2024**

May and November 2025 Sitzings

PQ830

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## INTRODUCTION

This APS Pre Revision Question Bank contains 2 exam standard questions all with answers updated to Finance Act 2024 and Finance (No 2) Act 2024.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2025** 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	Adam Jones	May 2019
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 2024 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 10%...."

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

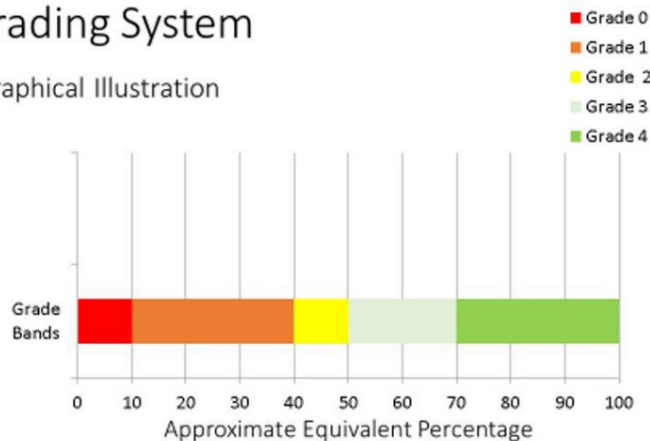
Identification and Application is assessed for competence across a number of broad topics within the answer. There will typically be four to six topics and a grade will be awarded for performance in that topic of 0,1,2,3 or 4 as follows:

<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>

Flow of answer (continued)	<p>For example, this means that:</p> <ol style="list-style-type: none"> <li>1) A tax rule should be explained first and then applied.</li> <li>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.</li> </ol>	
Appropriate Style	<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>
Grammar & spellings	<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>
Appropriate calculations	<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>

Appropriate calculations (continued)		<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>
Irrelevant material	The answer should not contain large amounts of irrelevant or duplicated material.	<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
Identification of issues	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.	20%-30%	<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>

Application of technical knowledge	<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>	50%-70%	<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>	10%-20%	<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>	20%-30%	<p><b>Key Question - “What should I do?”</b></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>

Options weighed up	The various options available to the client should be weighed up for the client so that the client is better able to make an informed decision. This should include the pros and cons. It should also include a consideration of any knock-on effects of the advice on other taxes.	30%-50%	<p><b>Key Question - “Why should I do it?”</b></p> <p>The key element of this factor is demonstration by the candidate of the ability to weigh up options, taking account of the pros and cons. In scoring this, the examiner will ask the question “Do I understand the issues and the rationale for the conclusions given?”</p> <p>1 = Little attempt to set out the pros and cons of the alternatives nor to weigh them up.</p> <p>2 = The pros and cons of each alternative have been set out but they have not been weighed up for importance and impact for the client. Recommendations and conclusions are not fully supported by the main body of the answer and knock-on effects of the advice have not been considered except in passing.</p> <p>3 = Pros and cons have been set out and they have been weighed up for importance and impact for the client. They will be supported by the main body of the report. Some attempt has been made to consider the knock on effect on other taxes, where relevant. The relative weighting of recommendations may not be entirely appropriate.</p> <p>4 = Pros and cons are set out and weighted appropriately for importance and impact. Good consideration has been given to knock-on effects on other taxes. The relative weighting of recommendations is appropriate and all recommendations are supported by the body of the answer.</p>
Recommendations and conclusions supported	Recommendations and conclusions should be supported by the main body of the answer.		
Recommendations & conclusions weighted appropriately	Recommendations and conclusions should be weighted appropriately for importance. Importance is likely to be financial, but it may be wider than this, for example risk.		
Technically correct advice and recommendations	Advice and recommendations provided to the client should be technically correct. That this is a grading of the advice and recommendations provided: the application of technical skills (for	10%	<p><b>Key Question - “Is the advice correct?”</b></p> <p>1 = There are material failings in the technical advice provided.</p> <p>2 = Whilst the advice may largely be technically correct, on key areas there are areas of</p>

Technically correct advice and recommendations (continued)	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>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>
Commercial and wider advice	<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"> <li>i. Commercial/financial outcomes</li> <li>ii. How HMRC may view the advice/transactions.</li> <li>iii. Practical/operational factors</li> <li>iv. Social/environmental/technical /funding issues</li> </ul> <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>	20% - 30%	<p><b>Key Question – “Has the candidate demonstrated a wider thought process?”</b></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 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**

	2024/25	2023/24
<b>Rates</b>	%	%
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
<b>Thresholds</b>	£	£
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	1,000
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
Standard rate band for trusts	N/A	1,000
<b>Scottish Tax Rates<sup>(1)</sup></b>	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	42
Advanced rate	45	N/A
Top rate	48	47
<b>Scottish Tax Thresholds<sup>(1)</sup></b>	£	£
Starter rate	1 – 2,306	1 – 2,162
Scottish basic rate	2,307 – 13,991	2,163 – 13,118
Intermediate rate	13,992 – 31,092	13,119 – 31,092
Higher rate	31,093 – 62,430	31,093 – 125,140
Advanced rate	62,431 – 125,140	N/A
Top rate	125,140+	125,140+

**INCOME TAX - RELIEFS**

	2024/25	2023/24
	£	£
Personal allowance <sup>(2)</sup>	12,570	12,570
Married couple's allowance <sup>(3)</sup>	11,080	10,375
– Maximum income before abatement of relief - £1 for £2	37,000	34,600
– Minimum allowance	4,280	4,010
Transferable Tax allowance for married couples and civil partners <sup>(4)</sup>	1,260	1,260
Blind person's allowance	3,070	2,870
Enterprise investment scheme relief limit <sup>(5)</sup>	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	N/A

- 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

2025

## TAX TABLES



### ISA limits

Maximum subscription:

'Adult' ISAs

Junior ISAs

2024/25

£

20,000

9,000

2023/24

£

20,000

9,000

### Pension contributions

Annual allowance<sup>(1)</sup>

£

2023/24

60,000

2024/25

60,000

Minimum pension age

55

55

Basic amount qualifying for tax relief

£3,600

Lump sum allowance

£268,275

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

### Employer Supported Childcare

Exemption – basic rate taxpayer<sup>(2)</sup>

2024/25

£55 per week

2023/24

£55 per week

**Note:** (2) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

### ITEPA mileage rates

Car or van<sup>(3)</sup>

First 10,000 business miles

45p

Additional business miles

25p

Motorcycles

24p

Bicycles

20p

Passenger payments

5p

**Note:** (3) For NIC purposes, a rate of 45p applies irrespective of mileage.

### INCOME TAX - BENEFITS

#### Car benefits – 2024/25

Emissions

Electric  
range (miles)

Car benefit %<sup>(4)</sup>

0g/km

N/A

2%

1-50g/km

>130

2%

1-50g/km

70-129

5%

1-50g/km

40-69

8%

1-50g/km

30-39

12%

1-50g/km

<30

14%

51-54g/km

15%

55-59g/km

16%

60-64g/km

17%

65-69g/km

18%

70-74g/km

19%

75g/km or more

20%

+ 1% for every additional whole 5g/km above 75g/km

160g/km or more

37%

**Note:** (4) 4% supplement for diesel cars excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

#### Fuel benefit base figure

2024/25

£

27,800

2023/24

£

27,800

# CTA EXAMINATIONS

2025

## TAX TABLES



Van benefits	2024/25	2023/24
	£	£
No CO <sub>2</sub> emissions	Nil	Nil
CO <sub>2</sub> emissions > 0g/km	3,960	3,960
Fuel benefit for vans	757	757
<b>Official rate of interest</b>	2.25%	2.25%

### INCOME TAX - CHARGES

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

### CAPITAL ALLOWANCES

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

- Notes:** (1) On first £1,000,000 of investment in plant & machinery (not cars).  
 (2) The main pool rate applies to cars with CO<sub>2</sub> emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).  
 (3) The special pool rate applies to cars with CO<sub>2</sub> 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 by a person on research and development.

New zero-emission goods vehicles (until 1 or 6 April 2025).

New cars that either emit 0g/km of CO<sub>2</sub> (50g/km prior to April 2021) or are electric (until 1 April 2025).

Electric vehicle charging points (until 1 or 6 April 2025).

### 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 <sup>(5)</sup>	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

	2024/25	2023/24
	£	£
<b>'Rent-a-room' limit</b>	7,500	7,500
<b>Property allowance/Trading allowance</b>	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

2025

## TAX TABLES



### NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	2024/25			2023/24		
	Annual	Monthly	Weekly	Annual	Monthly	Weekly
Lower earnings limit (LEL)	£6,396	£533	£123	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£12,570	£1,048	£242
Secondary threshold (ST)	£9,100	£758	£175	£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%

12%

Earnings above UEL

2%

2%

#### Class 1 secondary contribution rates

Earnings above ST <sup>(1)</sup>

13.8%

13.8%

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

	2024/25	2023/24
<b>Employment allowance</b>		
Per year, per employer	£5,000	£5,000
<b>Class 1A contributions</b>	13.8%	13.8%
<b>Class 1B contributions</b>	13.8%	13.8%
<b>Class 2 contributions</b>		
Rate	£3.45 pw	£3.45 pw
Small profits threshold (SPL) <sup>(2)</sup>	£6,725	£6,725
Lower profits limit (LPL)	N/A	£12,570

**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.

<b>Class 3 contributions</b>	£17.45 pw	£17.45 pw
<b>Class 4 contributions</b>		
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%	9%
Percentage rate above UPL	2%	2%

### OTHER PAYROLL INFORMATION

<b>Statutory maternity/adoption pay</b>	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £184.03 and 90% of AWE
<b>Statutory shared parental pay /paternity pay/parental bereavement pay</b>	For each qualifying week, the lower of 90% of AWE and £184.03
<b>Statutory sick pay</b>	£116.75 per week



# CTA EXAMINATIONS

2025

## TAX TABLES



<b>Student Loan</b>	Plan 1:	9% of earnings exceeding £24,990 per year (£2,082.50 per month/ £480.57 per week)
	Plan 2:	9% of earnings exceeding £27,295 per year (£2,274.58 per month /£524.90 per week)
	Plan 4:	9% of earnings exceeding £31,395 per year (£2,616.25 per month /£603.75 per week)
<b>Postgraduate Loan</b>		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

**National living/minimum wage** (April 2024 onwards)

Category of Worker	Rate per hour £	Category of Worker	Rate per hour £
Workers aged 21 and over	11.44	16–17 year olds	6.40
18–20 year olds	8.60	Apprentices	6.40

**Accommodation Offset** £9.99 per day

### HMRC INTEREST RATES (assumed)

Late payment interest	7.75%
Interest on underpaid corporation tax instalments	6.25%
Repayment interest	4.25%
Interest on overpaid corporation tax instalments	5.00%

### CAPITAL GAINS TAX

	2024/25	2023/24
Annual exempt amount for individuals	£3,000	£6,000

### CGT rates for individuals, trusts and estates

Gains qualifying for business asset disposal <sup>(1)</sup> /investors' relief	10%	10%
Gains for individuals falling within remaining basic rate band <sup>(2)</sup>	10%	10%
Gains for individuals exceeding basic rate band and gains for trusts and estates <sup>(3)</sup>	20%	20%

- Notes:** (1) Formerly called entrepreneurs' relief  
(2) The rate is 18% if the gain is in respect of a residential property  
(3) The rate is 24% (28% in 2023/24) if the gain is in respect of a residential property

Business Asset Disposal relief	2024/25	2023/24
Relevant gains (lifetime maximum) <sup>(4)</sup>	£1 million	£1 million

Investors' relief		
Relevant gains (lifetime maximum)	£10 million	£10 million

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

### 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		

# CTA EXAMINATIONS

2025

## TAX TABLES



### Retail Prices Index

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

### CORPORATION TAX

Financial year	2024	2023
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 <sup>(2)</sup>	Medium <sup>(2)</sup>	Extended definition for R&D expenditure
Employees <sup>(1)</sup>	< 50	< 250	<500
Turnover <sup>(1)</sup>	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets <sup>(1)</sup>	≤ €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**

<b>Financial year</b>	<b>2023</b>
Total relief for Small & medium enterprises (SMEs)	186%
R&D tax credit for SME losses	10%
Large companies – RDEC	20%
<b>Financial year</b>	<b>2024</b>
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%
RDEC (merged scheme RDEC) <sup>(1)</sup>	20%

**Note:** (1) From 1 April 2024 the merged scheme RDEC is available to all companies.

**VALUE ADDED TAX**

	<b>Standard rate</b>	<b>VAT fraction</b>
Rate	20%	1/6
<b>Limits</b>	<b>2024/25</b>	<b>2023/24</b>
	£	£
Annual registration limit	90,000	85,000
De-registration limit	88,000	83,000
<b>Thresholds</b>	<b>Cash accounting</b>	<b>Annual accounting</b>
	£	£
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 (as at 1 March 2024)**

<b>Engine size</b>	<b>Petrol</b>	<b>LPG</b>	<b>Engine size</b>	<b>Diesel</b>
1400cc or less	13p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	14p
Over 2000cc	24p	21p	Over 2000cc	19p

**Electricity rate** 9p

**OTHER INDIRECT TAXES**

	<b>2024/25</b>	<b>2023/24</b>
<b>Insurance premium tax<sup>(2)</sup></b>		
Standard rate	12%	12%
Higher rate	20%	20%

**Notes:** (2) Premium is tax inclusive (<sup>3</sup>/<sub>28</sub> for 12% rate and <sup>1</sup>/<sub>6</sub> for 20% rate).

**Landfill Tax** (pro rated for part tonnes)

Standard rate	£103.70 per tonne	£102.10 per tonne
Lower rate	£3.30 per tonne	£3.25 per tonne

<b>Landfill Communities Fund (LCF) <sup>(3)</sup></b>	5.3% x landfill tax liability	5.3% x landfill tax liability
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**Notes:** (3) Relief for 90% of qualifying contributions

<b>Aggregates Levy</b> (pro rated for part tonnes)	£2.03 per tonne	£2 per tonne
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<b>Plastic Packaging Tax (PPT)</b> (pro rated for part tonnes)	£217.85 per tonne	£210.82 per tonne
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# CTA EXAMINATIONS

2025

## TAX TABLES



### Climate Change Levy (CCL)<sup>(1)</sup>

Electricity	0.775p per kwh	0.775p per kwh
Natural gas	0.775p per kwh	0.672p per kwh
Liquified petroleum gas (LPG)	2.175p per kg	2.175p per kg
Any other taxable commodity	6.064p per kg	5.258p 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 22.11.2023	From 15.03.2023
Cigarettes	16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes <sup>(2)</sup> )	16.5% x retail price + £294.72 per thousand cigarettes (or £393.45 per thousand cigarettes <sup>(2)</sup> )
Cigars	£395.03 per kg	£367.61 per kg
Hand-rolling tobacco	£412.32 per kg	£351.03 per kg
Other smoking/chewing tobacco	£173.68 per kg	£161.62 per kg
Tobacco for heating	£325.53 per kg	£302.93 per kg

### Alcohol Duty<sup>(3)</sup>

From 1 August 2023 to 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
<b>Beer (ABV)</b>		<b>Spirits/Spirit based products (ABV)</b>	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	21.01	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
<b>Cider (not sparkling) (ABV)</b>		<b>Wine/sparkling wine (ABV)</b>	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	9.67	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
<b>Sparkling cider (ABV)</b>		<b>Other fermented products like fruit ciders (ABV)</b>	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 5.5%	9.67	3.5% to 8.4%	24.77
5.6% to 8.4%	24.77	8.5% to 22%	28.50
8.5% to 22%	28.50	Stronger than 22%	31.64
Stronger than 22%	31.64		

- Notes:** (1) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2024/25 (2023/24 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (12%), for LPG it is 23% (23%) and 11% (12%) for any other taxable commodity
- (2) The £422.80/£393.45 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)
- (3) There are reduced rates for qualifying draught products

**INHERITANCE TAX**

Death rate	40% <sup>(3)</sup>	Lifetime rate	20%
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**Note:** (3) 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 2026	£325,000

**Residence nil rate bands<sup>(4)</sup>**

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 2026	£175,000

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

**ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)**

Residential property value	From 1.4.24	From 1.4.23
>£0.5m – ≤ 1m	£4,400	£4,150
> £1m – ≤ 2m	£9,000	£8,450
> £2m – ≤ 5m	£30,550	£28,650
> £5m – ≤ 10m	£71,500	£67,050
> £10m – ≤ 20m	£143,550	£134,550
> £20m	£287,500	£269,450

**STAMP DUTY/SDRT**

<b>Stamp duty<sup>(1)</sup></b>	- On shares transferred by physical stock transfer form	0.5%
<b>Stamp duty reserve tax (SDRT)<sup>(2)</sup></b>	- On agreements to transfer shares <sup>(2)</sup>	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

**Notes:** (1) Does not apply to UK securities traded on a recognised growth market (eg AIM).

(2) 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

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

Basic Rate % <sup>(3)(4)(5)(6)</sup>	Residential <sup>(3)(4)(5)(6)</sup>	Rate %	Non-Residential
0	£0 - £250,000	0	£0 - £150,000
5	£250,001 - £925,000	2	£150,001 - £250,000
10	£925,001 - £1,500,000	5	£250,001 +
12	£1,500,001 +		

- Notes:** (3) The basic rates are increased by 3% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 3% on all purchases of residential properties, subject to Note 4 below.
- (4) Companies (and certain other entities) pay 15% on purchases of residential property valued > £500,000 (subject to exceptions).
- (5) 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 not be due on properties up to £425,000. For homes between £425,000 and £625,000, SDLT will be payable at 5% on the amount above the £425,000 threshold. Homes bought for more than £625,000 will incur the rates as per column 1 in above table.
- (6) 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 3), and the 15% rate (where applicable, in Note 4).

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

Rate (%)	Net present value of rent	
	Residential	Non-residential
0	Up to £250,000	Up to £150,000
1	Excess over £250,000	£150,001-£5m
2	N/A	Over £5m

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

Basic Rate % <sup>(1)(2)(3)</sup>	Residential	Rate % <sup>(1)</sup>	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:** (1) 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.
- (2) The 'Additional Dwelling Supplement' of 6% 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.
- (3) 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 <sup>(4)</sup>	
	Non-residential	
Zero	Up to £150,000	
1%	£150,001 to £2,000,000	
2%	£2,000,001 +	

- Note:** (4) Residential leases are generally exempt

## CASE STUDIES

1. You are a Tax Senior in a firm of Chartered Tax Advisers. Your Tax Partner, Anne Lloyd, has recently received a letter from Rose Williams, Abby Williams and Steven Jones (**EXHIBIT A**), new clients of your firm, who are Executors and beneficiaries of the estate of Adam Jones.

Adam, a widower with no children, died on 10 October 2023. He was resident and domiciled in the UK and the administration of his estate is ongoing. He held substantial assets at the date of his death including various investment properties, quoted shares and shares in the family company, Jones Pet Foods Ltd, which is an unquoted trading company with no investment assets.

Rose, Abby and Steven would like advice relating to the possible sale or transfer of some of the estate assets. Anne Lloyd has asked you to review the letter and other documents she has passed to you and to prepare a draft report to the Executors addressing the points raised.

The following Exhibits are provided to assist you:

**EXHIBIT A** Letter from Rose Williams to Anne Lloyd on behalf of the Executors of Adam Jones' Estate

**EXHIBIT B** Current valuations and disposals of estate assets

**EXHIBIT C** Pre-Seen information

**Requirement:**

**Prepare a draft Report to the Executors of Adam Jones' Estate, which provides recommendations to the Executors in relation to the sale of estate assets and the potential transfer of assets to Abby Williams.**

**Assume you are writing in May 2025.**

**EXHIBIT A**Letter from Rose Williams to Anne Lloyd on behalf of the Executors of Adam Jones' Estate

ABC Chartered Tax Advisers  
25 Croft Road  
Westville  
Hampshire  
NV1 2CD

Mrs Rose Williams  
10 Grange Avenue  
Westville  
Hampshire  
NV3 3AB

30 April 2025

Dear Anne,

Thank you for meeting with Steven, Abby and me last week. I am writing to you on behalf of all of us as we have been discussing Adam's estate and what we plan to do with his assets.

As you know, we obtained probate for the estate in April 2024 and sold Adam's holiday home, Sandy Bay Chalet, and one of his rental properties, Mulberry Lodge, in September 2024. In order to fund the first instalment of Inheritance Tax, we also sold Adam's quoted share portfolio. Blue Cottage was left to Steven in Adam's Will and he is currently looking for a long-term tenant for the property as he needs the rental income to supplement his self-employment profits.

Our biggest issue now relates to The Haven in Northville, which has been on the market since March 2024. We have only had a few viewings on the house and we have recently received a "best and final offer" of £600,000 from a cash buyer who wants to move things forward quickly.

As you know, The Haven was valued at £800,000 when Adam died in October 2023 and the estate agent is adamant that this value was correct. He has told us the reason the property market in Northville has dried up so drastically in the past year is because Westville Grammar School announced a change in policy in April 2024 which has doubled the number of school places they will offer. He says the property market in Westville is now buoyant and people are moving there to be within the catchment area for the school, but there has been corresponding downturn in Northville property prices. Had we put the house on the market at the end of 2023, we could have achieved a quick sale at the asking price of £800,000.

Steven and Abby's opinion, and that of the estate agent, is that we should accept the current offer to sell The Haven as they think we may not get another offer above £600,000 for at least two or three years. Personally, I would rather take The Haven off the market and put it back on in maybe three or four years' time with the hope that the Northville market may have picked up again by then. I would be happy if we could get an offer of (say) £650,000 after this length of time. The estate agent has indicated that The Haven is a tricky property to let, but he may be able to find us a tenant for a two to three year period if we are willing to accept a lower than market value rent. Steven and Abby are not keen to do this and are pushing for me to agree to a sale now!

Our query is whether there are any tax issues that we need to be aware of which may influence whether we sell The Haven now or retain it for a few years and are there any tax issues with the other assets that have already been sold by the estate?

The second matter I have been thinking about is Red Cottage, which Adam left to me in his Will. This property has been let to the same tenant for the past two years and is producing a good level of rental income. However, following Adam's death I have been considering my own Inheritance Tax position and I have decided that I want to reduce my estate by gifting some of my assets to Abby.



Adam and I discussed his Will before he became ill and he purposely left a large part of his estate to Abby as he knew that I already have significant assets of my own. I own three residential investment properties and The Factory (which is the manufacturing plant for Jones Pet Food Ltd and is currently worth £990,000), as well as the shares in Jones Pet Foods Ltd and a substantial quoted share portfolio. Adam, Steven and I inherited our shares in Jones Pet Foods Ltd from our father in 1994 when the value was £7,500 per share and there have been no share transfers or reorganisations since then.

There are no plans to sell the business and we want to keep the shares within the family.

I would like to make a gift to Abby on her 30<sup>th</sup> birthday in July 2025 and I would like this to be either Red Cottage or 10 shares in Jones Pet Foods Ltd. I will then think about a second gift to her in maybe five years' time when she is 35.

Red Cottage and the 10 shares are worth roughly the same amount and each asset will probably generate a similar amount of annual income in rental profits or dividend income for Abby going forward, so it does not make too much difference to me either way, unless of course one option results in adverse tax consequences for either of us.

Many thanks in advance for your assistance on these matters. I look forward to hearing from you shortly.

Yours sincerely,

Rose Williams  
On behalf of the Executors of Adam Jones

**EXHIBIT B**Current valuations and disposals of estate assetsCurrent valuations:

<u>Asset</u>	<u>Current value</u>
	£
56 ordinary £1 shares in Jones Pet Foods Ltd	2,688,000
The Haven, Northville, Hampshire (former main residence)	600,000
Red Cottage, Westville, Hampshire	480,000
Cash in bank and building society accounts	92,000

Disposals of estate assets:

<u>Asset</u>	<u>Date of sale</u>	<u>Gross sale</u>
		<u>proceeds</u>
		£
Quoted share portfolio	19 April 2024	857,200
Sandy Bay Chalet, Cornwall	10 September 2024	355,000
Mulberry Lodge, Westville	21 September 2024	280,000
Household goods and chattels*	All sold at a household goods auction on 20 November 2024	50,000

\* No single item was valued at more than £6,000 for probate purposes nor was any single item sold for more than £6,000. There were no sets of items or collections included in the estate.

**EXHIBIT C**Pre-seen informationPermanent file details: Estate of Adam Jones (deceased)

- Client background:** Adam Jones died on 10 October 2023. His wife Judith died on 25 November 2016 leaving her estate to Adam. She made no lifetime gifts. Adam and Judith had no children. Adam was the Managing Director of the family business, Jones Pet Foods Ltd.
- Adam's Will:** The following tax-free specific legacies:  
 28 shares in Jones Pet Foods Ltd and Red Cottage to his sister, Rose Williams.  
 28 shares in Jones Pet Foods Ltd and Blue Cottage to his brother, Steven Jones.  
 The remainder of his assets to be split equally between Steven Jones and his niece, Abby Williams, as they choose.  
 The Will appointed Rose, Steven and Abby as his executors.
- Other information:** Adam had made no lifetime gifts in the 7 years before his death. Rose Williams (aged 65) is divorced and has one child, Abby (aged 29). Abby Williams is married with no children. Rose is the Production Director of Jones Pet Foods Ltd and has worked in this role for many years. Abby has also worked for the company for the past five years as a Marketing Manager. Steven Jones (aged 57) is single and has no children. He has never worked for Jones Pet Foods Ltd. He recently set up an organic vegetable box delivery business as a sole-trader. Rose and Abby are additional rate taxpayers. Steven is a higher rate taxpayer. All three individuals utilise their CGT annual exempt amounts on quoted share disposals each tax year. Abby and Steven have unused capital losses of £20,000 and £35,000, respectively, carried forward from 2019/20. Rose has no capital losses carried forward.

Assets of the Estate of Adam Jones as at 10 October 2023

	<u>Probate value</u>
	£
56 ordinary £1 shares in Jones Pet Foods Ltd	2,688,000
The Haven, Northville, Hampshire (former main residence)	800,000
Sandy Bay Chalet, Cornwall	350,000
Mulberry Lodge, Westville, Hampshire	250,000
Blue Cottage, Westville, Hampshire	400,000
Red Cottage, Westville, Hampshire	400,000
Quoted share portfolio	852,000
Cash in bank and building society accounts	95,000
Household goods and chattels	<u>52,000</u>
Total	<u>5,887,000</u>

Details of the shareholdings in Jones Pet Foods Ltd as at 10 October 2023

	<u>Ordinary Shares of £1 each</u>
Adam John Jones	56
Rose Andrea Williams	28
Steven Mark Jones	<u>16</u>
	<u>100</u>

Each share is entitled to one vote in any circumstances.



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 2018. 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 2023 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 30<sup>th</sup> 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 2025.**

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

To: Alison Clarke [alison.clarke@abctax.co.uk]  
From: Richard Cresswell [richard@cgic.co.uk]  
Date: 1 May 2025  
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 2025) was due on 30 September 2023, 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 2025. 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 2025 and Tara's daughter, Darcy will be 30 years old on 21 May 2027, 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 2016.

In Summer 2023 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 who run 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 B**Valuation of assets held by the Cresswell Family Settlement

<u>Assets settled</u>	<u>Lily's acquisition price</u> £	<u>Value on 12 August 2018</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 2007)	72,000	80,000	16,000	99,000
The paddock, Oxfordshire (10 acres of land purchased by Lily in 2014)	150,000	70,000	14,000	94,000
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 2018. She acquired 500 shares for £500 on incorporation in 1977 and she inherited 500 shares from Percy. Probate value of the 500 shares on 7 May 2005 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 2018, 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.

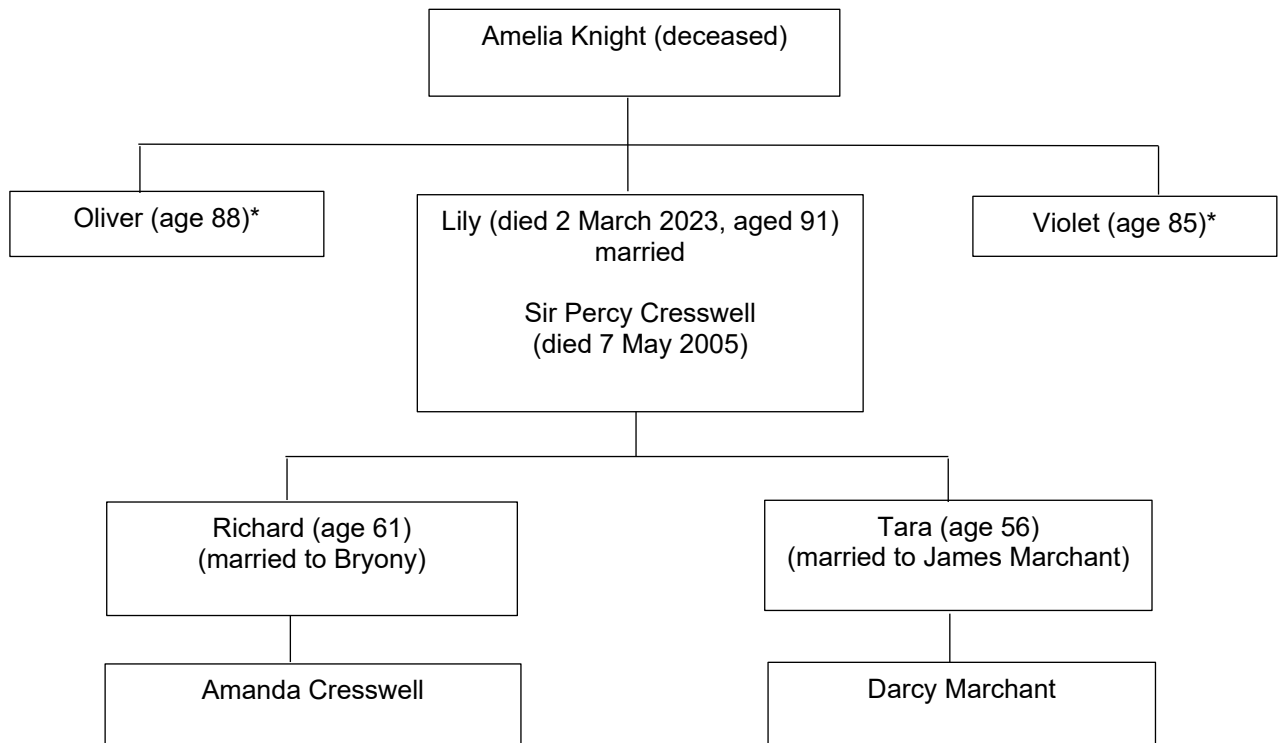


**EXHIBIT C**Financial information for Cresswell Garden Centres Ltd

<u>Balance sheet information</u>	<u>31 March 2025</u>		<u>31 March 2024</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 2025</u>		<u>Y/e 31 March 2024</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 2025</u>		<u>Y/e 31 March 2024</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 D**Pre-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 2018

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 2018 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 2025 when it was agreed that Lily's children, Richard and Tara, should take over.

All members of the family are higher rate taxpayers, resident in the UK and domiciled in England.

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 1977 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 2009) – £1,500 to Amanda and £1,500 to Darcy which utilised her Inheritance Tax annual exemption.
- 2) 5 May 2018 – gift of Sandy Villa, a holiday home, valued at £205,000 to Richard.
- 3) 10 July 2018 – gift of Highbury House, an investment property, valued at £206,000 to Tara.

Grant of Probate was issued to the executors on 1 March 2024.

#### Engagement letter

The firm's GDPR compliant engagement letter was signed by the Trustees on 20 April 2025 covering tax compliance and advisory services.

## ANSWERS TO CASE STUDIES

### 1. ADAM JONES (MAY 2019)

#### REPORT

From: ABC Chartered Tax Advisers  
To: Executors of Adam Jones (Deceased)  
Date: 9 May 2025  
Subject: ADAM JONES (DECEASED)

#### INTRODUCTION

This Report considers the tax implications of issues relating to the estate as raised in Rose Williams' letter to us dated 30 April 2025.

This Report is prepared for the Executors of Adam Jones deceased and is intended solely for use by the Executors and the beneficiaries of the estate. No liability is accepted for any reliance on this Report by other parties.

#### EXECUTIVE SUMMARY

- The Executors have made disposals during 2024/25. They are now considering either selling The Haven for £600,000 or deferring the sale for several years in the hope of achieving a higher sale price. If they proceed with the sale of The Haven and no tax planning is undertaken, Capital Gains Tax (CGT) of approximately £8,217 will become payable for 2024/25 and a potentially unusable capital loss of £201,280 will arise.
- We recommend the Executors proceed with the sale of The Haven now and that a claim for Inheritance Tax (IHT) loss relief is made. This will allow the probate values of all properties sold to be replaced by their gross sale values, resulting in a loss of £165,000 on which £66,000 IHT relief will be due. The claim will also reduce the 2024/25 CGT liability from £8,217 to nil.
- The sale of The Haven should not be deferred until after 9 October 2027. Even if a sale price of £650,000 is achieved after this date, IHT loss relief will no longer be available and the additional £50,000 proceeds will not compensate for the £66,000 IHT relief lost.
- Rose wishes to transfer either Red Cottage or 10 shares in Jones Pet Foods Ltd ('the Company') to her daughter, Abby, in July 2025. Our advice is to transfer Red Cottage to Abby instead of the shares. This is because Rose would no longer control the Company if 10 shares are transferred and 50% IHT Business Property Relief (BPR) would then be lost on the value of The Factory.
- We recommend that Red Cottage is redirected to Abby via a Deed of Variation no later than 9 October 2025. The Deed should include the appropriate CGT and IHT statements. This will avoid a £18,480 CGT liability and an IHT liability that may arise if Rose does not survive seven years from the date of the gift.

**SECTION A: SALE OF THE HAVEN AND OTHER DISPOSALS****(A1) Current position**

During 2024/25, the Executors sold Sandy Bay Chalet, Mulberry Lodge, the quoted shares and the household goods and chattels.

Any capital gains on the household goods and chattels are exempt from CGT as the proceeds were less than £6,000 per item and there were no sets or collections of items included.

The other disposals are chargeable to CGT based on the difference between sales proceeds and the probate value.

The Executors may claim a deduction of 0.16% of the probate value to represent the costs of obtaining probate on assets sold (or the actual costs incurred can be claimed instead).

The CGT annual exempt amounts for 2023/24, 2024/25 and 2025/26 are also available. Any costs of sale (such as estate agent or stockbrokers' fees) are also deductible.

The estate's 2024/25 disposals result in a taxable gain of £34,877 prior to the deduction of costs of sale, on which CGT of £8,217 is payable.

The liability will decrease slightly once the costs of sale have been taken into account. [See Appendix for calculations.]

The CGT in respect of the residential property sales is payable to HMRC no later than 60 days from the completion of the disposals. An online property return must also be submitted within that period giving details of the disposals.

The CGT in respect of the share disposals is due by 31 January 2026.

If the Executors accept the current offer of £600,000 for The Haven, a capital loss of £200,000 will arise based on the difference between the £800,000 probate value and the sale proceeds.

A deduction of £1,280 is still available for the costs of obtaining probate (0.16% x £800,000), increasing the loss to £201,280. Any costs of sale will also be deductible.

The loss may only be offset against estate gains in the current or future tax years. The loss cannot be carried back against gains made in previous tax years. As there are only a few chargeable assets left in the estate, the capital loss is likely to remain unused.

An estate capital loss cannot be transferred to the beneficiaries, but The Haven may be assented to Abby and Steven who could then sell the property personally. This will result in a £200,000 personal capital loss (£100,000 each).

This will increase slightly after accounting for any costs of sale. However, the deduction for probate costs is only available to Executors and cannot be claimed personally by Abby and Steven.

We note that Abby and Steven both have unused capital losses from earlier years.

Therefore, unless they have assets which they plan to sell at a large gain, the loss on The Haven will simply increase their existing loss total which is carried forward and may remain unused.

**(A2) Inheritance Tax Loss Relief**

Another option is for IHT post-mortem loss relief to be claimed instead of the capital loss.

IHT loss relief is available for land and buildings sold by the Executors during the administration period for less than the probate value within four years from the date of death. The relief allows the gross sales proceeds to be substituted for the probate value. This decreases the taxable value of the estate and reduces the IHT payable.

The gross proceeds of all land and buildings sold from the estate up to 9 October 2026 (three years from Adam's date of death) must be considered. Costs of sale and the 0.16% probate deduction are ignored.

Therefore, gains of £5,000 and £30,000 on the sale of Sandy Bay Chalet and Mulberry Lodge, respectively, must be offset against the £200,000 loss on the sale of The Haven. This produces a net loss of £165,000 and will result in an IHT reduction in the estate of £66,000 (£165,000 x 40%).

If the administration period of Adam's estate continues into a fourth year after his death, any property sales made at a loss between 10 October 2026 to 9 October 2027 must also be included.

The loss relief is available on submission of a claim to HMRC by the Executors. If a tax refund arises, an interest supplement will be paid from the original IHT payment date.

Once the post-mortem loss claim is made, the probate value of the respective properties will be reduced to the same value as the gross sale proceeds. This means that the loss on sale cannot also be claimed as a capital loss for CGT purposes.

A small capital loss will still arise on any allowable costs of sale incurred. This loss will be offset against the 2024/25 gain on the quoted shares and any remaining gains will be covered by the CGT annual exempt amount. As a result, no CGT will be payable by the Executors for 2024/25.

If the Executors take the property off the market and sell it after 9 October 2027, it will not be possible to claim IHT loss relief, as more than four years will have elapsed since Adam's death.

Even if the Executors obtain a sale price of £650,000 after this length of time, the additional £50,000 proceeds will not compensate for the £66,000 IHT relief lost. In addition, the 2024/25 CGT of £8,217 on the other disposals will still be payable.

The estate (or Abby and Steven if the property is assented to them) will have to accept the lower level of rental income and pay income tax on this. The Executors (or beneficiaries between them) will have a capital loss of £150,000 to offset against current / future gains, which may remain unutilised.

**(A3) Recommendation**

We recommend the Executors accept the offer of £600,000 and sell The Haven now.

A claim for IHT loss relief can then be made to obtain an IHT reduction of £66,000. No CGT will then be due for 2024/25.

**SECTION B: TRANSFERRING ASSETS TO ABBY**

Rose wishes to gift assets to Abby in July 2025, starting with a gift of either Red Cottage or 10 shares in the Company.

**(B1) Red Cottage**

There are two different ways in which Red Cottage may be transferred to Abby:

- (i) Rose can make a direct gift to Abby; or
- (ii) Rose can enter into a Deed of Variation (DOV) of Adam's Will to redirect Red Cottage to Abby from the estate.

**(a) Direct gift to Abby**

A direct gift of Red Cottage to Abby will be a disposal by Rose for CGT purposes. Parents and children are connected persons for CGT and transfers between them are treated as disposals at market value (even where no consideration passes).

Red Cottage has increased in value since Adam's death and assuming it is still valued at £480,000 in July 2025, a capital gain of £80,000 will arise on the transfer to Abby.

Rose utilises her CGT annual exempt amount against quoted share disposals. However, it would be beneficial to allocate the annual exempt amount against the gain on the transfer of Red Cottage because this is a residential property gain taxable at the higher CGT rate of 24%. This will leave a taxable gain of £77,000 on which £18,480 CGT will be due.

Red Cottage is not a business asset, so no CGT holdover relief will be available to defer the gain. The CGT is payable to HMRC within 60 days of the completion of the disposal.

The gift of Red Cottage will be a potentially exempt transfer (PET) by Rose for IHT purposes. No IHT will be payable when the gift is made and provided Rose survives at least seven years, the gift will become exempt from IHT.

If Rose does not survive the gift by seven years, the PET will become chargeable with any IHT being payable by Abby. The PET will also utilise the nil rate band in priority to Rose's estate. Taper relief is available to reduce the IHT payable if Rose survives more than three years from the date of the gift.

**(b) Using a Deed of Variation**

The alternative to a direct gift is a Deed of Variation (DOV).

DOVs allow assets to be redirected from an estate to new beneficiaries, so a DOV could be used to redirect Red Cottage from Rose to Abby. The DOV must be in writing (typically by formal Deed drafted by a solicitor) and made within two years of death. This option is therefore available until 10 October 2025.

For CGT purposes, the DOV will be treated as a disposal of Red Cottage by Rose as she has given up her entitlement to the property. However, if the DOV is made for no consideration and a specific CGT statement is made within the Deed, Rose will not be treated as making a CGT disposal and instead Abby will be treated as acquiring Red Cottage on Adam's death at its probate value.

For IHT purposes, Rose will be treated as making a PET and seven years must pass before this becomes exempt. Rose's death within seven years will therefore create an IHT charge for Abby.



However, if the DOV is made for no consideration and a specific IHT statement is included within the Deed, Red Cottage will be treated as though it has passed to Abby under the terms of Adam's Will.

This avoids the PET and removes Abby's IHT exposure.

The IHT and CGT statements are separate, but in this case it is advisable for both statements to be included. For CGT purposes, Red Cottage has increased in value, so including the CGT statement will avoid a CGT liability.

However, it does mean that Abby will acquire the property at its probate value of £400,000, not the current value of £480,000.

For IHT purposes, including the IHT statement will avoid issues that may arise if Rose does not survive seven years from the DOV.

A DOV is not retrospective for Income Tax (and no statement can be made to this effect). As Red Cottage was a specific gift to Rose in Adam's Will, any rental income arising from the property up to the date of the DOV will be taxable on Rose. Any rental income received after the DOV is in place will be taxable on Abby.

## **(B2) 10 shares in the Company**

The gift of 10 shares to Abby could also be made directly from Rose or via a DOV.

The tax issues relating to both options are explored below.

### **(a) Direct gift to Abby**

A direct gift of the shares to Abby will be a disposal by Rose at market value for CGT purposes.

Rose's current holding in the Company is 56 shares, made up of 28 shares inherited from her father and a further 28 shares from Adam's estate.

For CGT purposes, both sets of shares will be pooled together giving a CGT base cost for 56 shares as below:

	£
28 shares inherited from father (28 x £7,500)	210,000
28 shares from Adam's estate	<u>1,344,000</u>
Total base cost (56 shares)	<u>1,554,000</u>

The gain arising to Rose on a gift of 10 shares will therefore be:

	£
Market value	480,000
Less: Base cost (10/56 x 1,554,000)	<u>(277,500)</u>
Gain	<u>202,500</u>

Abby's CGT base cost for the 10 shares will be £480,000.

The Company is trading, Rose has worked for the Company and has held at least 5% of the shares for more than 24 months, so the gain will qualify for Business Asset Disposal Relief (BADR).

This means a 10% CGT rate will apply (assuming Rose has not exceeded the £1 million BADR lifetime limit), resulting in a CGT liability of £20,250.

Alternatively, as the Company is an unquoted trading company with no investment assets, a CGT holdover relief claim can be made jointly by Rose and Abby to defer the gain. The effect of a claim is that the chargeable gain is reduced to nil, but the CGT base cost of Abby's 10 shares for future share disposals will be only £277,500.

For IHT purposes, the gift of shares will be a PET, so no IHT will become payable provided Rose survives at least seven years. If Rose does not survive seven years, the PET will become chargeable but should qualify for 100% Business Property Relief (BPR) if the necessary conditions are met both at the time when the gift is made and at the date of Rose's death.

It appears that the BPR conditions are currently met. The shares are in an unquoted trading company with no investment assets and there are no contracts in place for the sale of the Company.

It is usually necessary for the donor to have owned the asset for at least two years for BPR to be available. In this case, Rose has not owned all her shares for the requisite two-year period (as Adam's death was in October 2023).

However, the two-year ownership requirement is treated as satisfied where there have been two successive transfers in a two-year period, the earlier transfer qualified for BPR and one of the transfers was made on death. In this case, the proposed transfer to Abby is being made within a two-year period from Adam's death and the transfer from Adam to Rose on his death qualified for BPR.

The Company must retain its unquoted status and Abby must retain the shares until Rose's death within seven years. If Abby has not retained the shares (or used the sales proceeds in acquiring replacement business property), no BPR will be given and the full value of the PET will be chargeable to IHT.

**(b) Using a Deed of Variation (DOV)**

Instead of a direct gift, Rose could enter into a DOV to transfer the shares to Abby. Since Adam left his shares to Rose as a specific legacy, it is not necessary for Steven to be party to the Deed.

As with Red Cottage, CGT and IHT statements are advisable.

For CGT purposes, including the statement will allow Abby to acquire the shares at probate value, giving her a base cost of £480,000 (£2,688,000 x 10/56). In addition, the CGT liability of £20,250 will be avoided by Rose and the holdover claim referred to above will not be required.

For IHT purposes, a statement will avoid issues arising if Rose does not survive seven years from the DOV (for example if BPR is not available).

**(B3) Other IHT issues**

There is a further IHT issue which needs to be highlighted as this is likely to be a deciding factor for Rose in choosing whether to transfer Red Cottage or shares in the Company to Abby.

Rose owns The Factory being the property from which the Company trades. BPR will be available on The Factory on Rose's death at a rate of 50% provided that Rose controls the Company. 'Control' means owning more than 50% of the shares.

Following the inheritance from Adam, Rose's shareholding has increased to 56 shares out of the 100 shares in issue, so she currently controls the Company. As a result, The Factory currently qualifies for 50% BPR. Given that The Factory is worth £990,000, this is a very valuable relief.

However, if Rose gifts 10 shares to Abby, she will be left with only 46% of the shares and will lose control of the Company. BPR of £495,000 will then be lost, increasing the IHT exposure on Rose's estate by £198,000 (£495,000 @ 40%).

**(B4) Recommendation**

Due to the BPR that will be lost on The Factory, we would not recommend a transfer of 10 shares to Abby (either as a direct gift or via a DOV).

As Red Cottage and 10 shares in the Company are currently valued at £480,000 and Abby will receive a similar income stream from either asset, we advise that Red Cottage is transferred to her instead.

A direct gift of Red Cottage will result in a CGT liability for Rose as well as a PET for IHT purposes. A better option will be for Rose to enter into a DOV to redirect Red Cottage to Abby, thereby avoiding these issues.

In the future, Rose may wish to consider transferring five shares in the Company to Abby. This will allow Rose to retain control of the Company ( $56 - 5 = 51\%$  holding) and thereby preserve the 50% BPR currently available on The Factory.

Abby works for the Company, so once she has held the shares for 24 months, they will qualify for BADR giving access to the 10% CGT rate on a sale. Abby's shares should also qualify for BPR after two years.

ABC Chartered Tax Advisers  
9 May 2025

## APPENDIX

2024/25 CGT Computations

<u>Sandy Bay Chalet</u>	£
Gross sale proceeds	355,000
Less: Probate value	(350,000)
Less: Deduction for probate costs (0.16% x £350,000)	(560)
Gain	<u>4,440</u>

<u>Mulberry Lodge</u>	
Gross sale proceeds	280,000
Less: Probate value	(250,000)
Less: Deduction for probate costs (0.16% x £250,000)	(400)
Gain	<u>29,600</u>

Total property gains £(4,440 + 29,600)	34,040
Less: Annual Exempt Amount	(3,000)
Taxable residential property gains	<u>31,040</u>

<u>Quoted shares</u>	
Proceeds	857,200
Less: Probate value	(852,000)
Less: Deduction for probate costs (0.16% x £852,000)	(1,363)
Gain	<u>3,837</u>

Total taxable gains £(31,040 + 3,837)	<u>34,877</u>
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CGT:		
Residential property	£31,040 @ 24%	7,450
Shares	£3,837 @ 20%	<u>767</u>
Total CGT		<u>8,217</u>

A deduction from sales proceeds will also be allowed for any costs of sale incurred (eg estate agents' fees, legal fees and brokers' charges).

**ASSESSMENT NARRATIVE FOR ADAM JONES (MAY 2019)****Structure**

A simple pass or fail will be awarded.

**Identification and Application**

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

1	15%	Identify and calculate CGT due on sale of assets already sold within the estate in 2024/25. Calculate capital loss on proposed sale of The Haven and comment on future use of the loss.
2	25%	Identify that post-mortem IHT loss relief that may be available on proposed sale of The Haven. Calculate loss (offsetting gains) and explain effect on estate's CGT position. Comment on importance of time limits for the relief.
3	15%	Identify CGT and IHT implications of a direct gift of Red Cottage to Abby and compare to CGT and IHT issues of a redirection using a Deed of Variation (DOV) instead. Consider the Income Tax implications of a DOV.
4	25%	Identify CGT and IHT implications of a direct gift of 10 shares in Jones Pet Foods Ltd to Abby (including identifying correct base cost of shares for CGT and BPR issues for IHT). Compare CGT and IHT issues if DOV is used.
5	20%	Identify that gift of 10 shares to Abby (either direct or via DOV) will result in Rose no longer controlling the company and therefore, losing 50% BPR on The Factory.

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	40%	Advice and recommendations on whether The Haven should be sold now for a lower price or retained in the hope of achieving a higher price.
2	50%	Advice and recommendations on the gift of either Red Cottage or ten shares in Jones Pet Foods Ltd to Abby.
3	10%	Advice and recommendations on whether the chosen gift to Abby should be a direct gift, or via a Deed of Variation.

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

**CANDIDATE SCRIPT FROM MAY 2019**

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-2019-past-exam-papers-scripts-suggested-answers>

Don't forget that the paper was set in May 2019 when the syllabus included tax law up to and including FA 2018 and so the candidate script answer will not be based on up to date tax law.

**Examiner's report:**

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**CHIEF EXAMINER'S COMMENTS**

This was the first session of the new 'Application & Professional Skills' (APS) paper and candidates generally performed well. Sponsoring employers require highly competent advisers who can communicate clearly and provide advice (rather than a series of factually correct statements, which leave the client no clearer as to what they should do). This creates clients who value the service provided, generates revenues for employers and demand for CTAs. The APS paper tests candidates' ability to produce a report which a client would value. It does this by focusing on three skills in which candidates must demonstrate competence:

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

Candidates are assessed on these skills across their answer as a whole rather than being marked on a broadly rigid marking scheme for mentioning various factual points.

We recognised that the first candidates would have limited resources available to them in terms of past papers and experience of what was expected of them and that this would be a challenge. We worked closely with the tutorial bodies through the final stages of designing the exam. In particular, they were involved in producing some of the pilot papers and were involved in the marking trials, which provided valuable feedback for all concerned. We were pleased that this seems to have paid off as overall performance was good.

Across all papers, the number failing on Structure was low and indeed no candidate failed on Structure alone. We have been asked what style should candidates use for their Reports? We have deliberately not specified a style because we recognise there are a number of different and valid styles that they could use. It is not necessary for candidates to number their paragraphs: it is far more important is that there is a clear and logical flow to their answer. That said, candidates may find that where there is material in their answer which is relevant to several topics, the use of numbering may make it easier to reference that material.

Other comments of general relevance are:

- The model answers for APS are now shorter. A long answer will not gain credit and candidates must ensure they resist the temptation to dive in and immediately start writing, and instead properly plan their answer. The failure to plan by some candidates manifested itself in answers with duplicated information or areas that were omitted or given insufficient weighting. This planning time will also help candidates to ensure that they make use of the information in the question.
- Candidates need to avoid the temptation to close-down options too early to arrive at a conclusion. There might not be a "correct" answer and the skills being tested include the ability to weigh-up all the options and arrive at a balanced conclusion.
- Support advice and recommendations with information provided in the question (including calculations where appropriate) drawn from that information.
- A key question which candidates should ask themselves is "Would a client be happy to pay for this and feel that it has helped them?". Clients do not value Reports with lots of technical narrative where they are left to work out what they are supposed to do.

**GENERAL COMMENTS ON APS IHTTE PAPER**

This question related to the issues arising from the sale of assets from the estate of Adam Jones and the proposed transfer of assets by his sister, Rose, to her daughter Abby.

Most candidates successfully identified the availability of IHT post-mortem relief on The Haven and covered the CGT and IHT issues on the gift by Rose to Abby of Red Cottage or the shares in Jones Pet Foods Ltd.

Many candidates let themselves down by failing to consider and explain the availability of various IHT and CGT reliefs on Rose's assets.

**STRUCTURE**

Every candidate who attempted this question produced a report in the format requested and included a suitable introduction and an executive summary.

The majority of candidates also dealt each section of the report in a logical manner.

**IDENTIFICATION AND APPLICATION**

Nearly all candidates identified that post-mortem IHT relief was available in respect of the loss on The Haven although not everyone calculated the loss correctly.

Whilst the IHT aspects were dealt with well, it was very disappointing to see that only a few candidates addressed the CGT impact of the claim on the estate's CGT disposals as well as the IHT refund.

Most candidates dealt reasonably well with the CGT computations on the sale of the properties and quoted shareholdings.

However, a surprisingly large number failed to claim a deduction for the costs of obtaining Probate, many did not allocate the CGT AEA in the most beneficial way and some candidates also applied incorrect CGT rates to the gains.

The question clearly stated that Probate had already been obtained and that the first IHT instalment had been paid.

However, some candidates wasted time producing an unnecessary IHT computation for the estate and calculated the IHT instalments. Some also went on to explain the due dates for payment and the penalties the Executors would face for not paying the IHT on time.

None of this information was required and it was not necessary for a full IHT computation to be produced to calculate the IHT repayment arising as a result of the post-mortem relief claim. In addition, some candidates allocated far too much time to explaining the Executors' duties under self-assessment, the filing deadlines and penalty regime.

Advice to Rose on the CGT and IHT implications of gifting Red Cottage to Abby was of a good standard. Most candidates addressed the use of a Deed of Variation (DoV) compared to a direct gift. In contrast, the gift of 10 shares in Jones Pet Foods by direct gift or DoV was not dealt with as well as not all candidates correctly calculated the CGT base cost of Rose's shares and some did not consider CGT gift relief.

Most identified that Rose's shareholding would qualify for CGT Business Asset Disposal Relief and IHT BPR although not all adequately explained the qualifying conditions for each of these reliefs.

**RELEVANT ADVICE AND SUBSTANTIATED RECOMMENDATIONS**

All candidates were aware of the need to provide advice and recommendations to the clients and this was dealt with well by the majority in relation to the timing of the sale of The Haven.

In relation the gift from Rose to Abby, most concluded that she should redirect Red Cottage to Abby using a DoV, but reasonings were often vague or based on the fact that BPR would always be available on the shares in Jones Pet Foods Ltd.

Only a minority of candidates identified that gifting ten shares to Abby now would result in Rose losing control of the company and as a result she would lose 50% BPR on The Factory.

Despite the question directive to the contrary, far too many candidates suggested additional gifting options for Rose and Steven to Abby on Abby's 30th and 35th birthdays at the end of their Reports. This included various gifts of other assets, the creation of a trust now via a DoV or creating a trust in five years' time.

This may have been done to pad out the Reports or to attempt to demonstrate a knowledge of other IHT areas not tested in the paper.

As a general observation, such suggestions were not fully thought through. None of these candidates considered the order in which the gifts should be made, the possible IHT issues that could arise if a PET is followed by a chargeable lifetime transfer less than seven years later or consideration of who is the settlor of a trust created via a DoV.

Candidates should refrain from this adopting this 'scatter gun' approach by throwing in undeveloped ideas at the very end of their Report as it can undermine what may otherwise be a good narrative.



## APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
<b>GENERAL:</b>		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
<b>STRUCTURE:</b>		
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?		
<b>I&amp;A:</b>		
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?		
<b>RA&amp;SR:</b>		
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 2025  
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 2025 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 2025 to facilitate payment of the outstanding IHT. Around £320 more Capital Gains Tax (CGT) is payable on selling Bramble Cottage rather 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 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 2025 and 21 May 2027 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 charges on land and property are deferred until 21 May 2027 when Darcy becomes entitled.
- In the absence of any claims, CGT of £196,040 will be payable on disposal of the Paddock and Wilton House in May 2027. 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 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 2025. This will allow 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 CGT liability of £74,970. 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 or employees/directors of the Company. This will give them access to Business Asset Disposal Relief (BADR) on a future disposal of their shares which will reduce the CGT rate on gains from 20% to 10%.

## **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 at the 24% residential property rate is payable.

The Trustees' CGT base cost is £88,000 being Lily's £72,000 acquisition price (as holdover relief was claimed) plus £16,000 of apportioned IHT 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 completion. 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 2014, but by 2018 it had decreased in value, 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 2018) plus the £14,000 apportioned IHT relating to the property.

Assuming a sale price of £94,000 is achieved, CGT of £1,600 will be payable (see Appendix 1).

This is £324 less than the CGT on Bramble Cottage.

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 2025/26 trust return with CGT payable by 31 January 2027.

It may therefore appear that selling the Paddock is the better option. However, there is an IHT issue the Trustees must also consider.

The beneficiaries will shortly become entitled to their share of the trust assets and an IHT exit charge will arise at this time.

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 2025 when Amanda is 30, the Trustees will have let the Paddock for seven years, so the ownership period will be satisfied and the Paddock will qualify for 100% APR.

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 reach their 30<sup>th</sup> birthdays and an IHT exit charge is imposed, no APR will be available.

As no IHT reliefs are available on Bramble Cottage, IHT liabilities will increase.

The calculations in Appendix 2 show that the IHT charge rate in September 2025 will be 4.2%. If Bramble Cottage is retained, Amanda's liability will increase by around £2,000.

Darcy's IHT exit charge will also increase, but as the IHT rate is higher at 5.25%, her liability will increase by around £2,500.

These potential IHT increases are higher than the small CGT saving which would be achieved on 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 30<sup>th</sup> birthdays.

Amanda is 30 on 18 September 2025 and Darcy is 30 on 21 May 2027, 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 2025 and May 2027.

The exits will fall within the first ten years of the trust, 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 2023 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 2025.

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 2025 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 2025 and 21 May 2027 are provided in Appendix 2.

Amanda's IHT liability will be £32,109 and is payable to HMRC by 31 March 2026.

Darcy's IHT liability will be £40,136, payable by 30 November 2027.

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 2018, 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 ( $300/1,000 \times £7,500,500$ ).

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, so trust gains will be taxed at 20%.

A CGT liability of £37,485 will be due by 31 January 2027 in respect of Amanda's entitlement.

CGT of £37,485 is due by 31 January 2029 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 a CGT liability of £74,970.

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 reduces the CGT rate on any gains from 20% to 10%. There is no requirement for either of them to actually work for the company.

(iii) The Paddock and Wilton House

The CGT position differs 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 2025 when Amanda becomes entitled. Recognition of the gain will instead be deferred until 21 May 2027, when Darcy also becomes absolutely entitled.

The CGT liabilities which will arise in May 2027 are £2,000 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 2029. The disposal of Wilton House would be reportable within 60 days of completion with CGT payable at the same time.

As the transfer to Darcy in May 2027 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).

In comparison, Amanda's IHT exit charge arises on 18 September 2025 but the CGT disposal of the properties does not occur until 21 May 2027, so holdover relief will not be available on her share of the gain. This leaves Amanda with a potential CGT liability of £97,840 (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 2025 (ie on Amanda's 30<sup>th</sup> birthday), the CGT disposal of the properties and the IHT exit charge will arise at the same time for both beneficiaries.

This will allow Amanda to also claim holdover relief on the land and property gains and save £97,840 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 £129,949 (£97,840 CGT plus £32,109 IHT). This will leave her with a balance of only £20,000 or so out of her £150,000 inheritance.

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 level 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 have the IHT exit charge of £32,109 each to settle by 31 March 2026, leaving them with £117,891 each out of their £150,000 inheritance.

This is a tax saving of £97,840 for Amanda and £8,027 for Darcy.

ABC Tax LLP  
5 May 2025



## APPENDIX 1

CGT computations for sale of Bramble Cottage or Paddock

	Bramble Cottage £	Paddock £
Proceeds	99,000	94,000
Less: Selling costs	<u>(1,485)</u>	<u>(500)</u>
	97,515	93,500
Less: Trustees' base cost	<u>(88,000)</u>	<u>(84,000)</u>
Gain	9,515	9,500
Less: Annual exempt amount (AEA)	<u>(1,500)</u>	<u>(1,500)</u>
	<u>8,015</u>	<u>8,000</u>
 CGT @ 24% / 20%	 <u>1,924</u>	 <u>1,600</u>
 Net cash available:		
Net proceeds	97,515	93,500
Less: Required to meet IHT	<u>(70,500)</u>	<u>(70,500)</u>
Less: CGT on sale	<u>(1,924)</u>	<u>(1,600)</u>
Available proceeds	<u>25,091</u>	<u>21,400</u>

## APPENDIX 2

Exit charges on beneficiaries becoming entitled(i) Amanda 18.9.25

	£	£
Initial values (12 August 2018):		
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: $20\% \times 30\% \times 28/40$	$12.8.18 - 18.9.25 = 28 \text{ quarters}$	<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	$\frac{1}{2} \times £(3,900 + 25,091)$	<u>14,495</u>
		<u>764,495</u>
Exit charge: $£764,495 \times 4.2\%$		<u>32,109</u>

Note: The PETs in 2018 (£205,000 + £206,000) became chargeable transfers as a result of Lily's death in 2023. As these transfers exceeded £325,000, no nil rate band is available for the trust, so the effective rate of tax is automatically 20%.

**Tutorial Note:**

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

(ii) Darcy 21.5.27

Effective rate:		<u>20%</u>
Actual rate: $20\% \times 30\% \times 35/40$	$12.8.18 - 21.5.27 = 35 \text{ quarters}$	<u>5.25%</u>
Exit charge: $£764,495 \times 5.25\%$		<u>40,136</u>

## APPENDIX 3

Cessation of trust - CGT computations(i) Appointments to Amanda 18.9.25

	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 @ 20%	<u>37,485</u>		

(ii) Appointments to Darcy 21.5.27

	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 @ 20% / 20% / 24%	<u>37,485</u>	<u>2,000</u>	<u>194,040</u>

(iii) Potential CGT payable by Amanda in 2027

	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 @ 20% / 24%	<u>1,000</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 30<sup>th</sup> 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 2023 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 30<sup>th</sup> 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 2027 when Darcy would become entitled, if Cresswell Garden Centres Ltd continue to expand the letting side of the business.

**RELEVANT ADVICE AND SUBSTANTIATED RECOMMENDATIONS**Sale 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?
<b>GENERAL:</b>		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
<b>STRUCTURE:</b>		
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?		
<b>I&amp;A:</b>		
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?		
<b>RA&amp;SR:</b>		
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?		