

# THE CHARTERED INSTITUTE OF TAXATION

## APPLICATION AND PROFESSIONAL SKILLS

### Taxation of Individuals

**May 2026**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax manager in a firm of Chartered Tax Advisers. One of your clients is Alan Baird, who is a long-term resident of the UK.

Alan has written to Sally Bainbridge, your senior manager (**EXHIBIT A**), asking for advice about relocating and changing jobs.

The following exhibits are provided to assist you:

**EXHIBIT A:** Email from Alan Baird to Sally Bainbridge

**EXHIBIT B:** Note on Properties

**EXHIBIT C:** Information from the Partnership's accountant

**EXHIBIT D:** Summary of job offers

**EXHIBIT E:** Pre-seen information

**Requirement:**

**Write a report to Alan making recommendations on which property to buy and which job offer to take up.**

Continued

## EXHIBIT A

### Email from Alan Baird to Sally Bainbridge

To: Sally Bainbridge  
From: Alan Baird  
Date: 25 April 2026  
Subject: Moving North

Dear Sally

I hope you are keeping well. I have some news on changes I need to make to my life, which I wish to share with you and ask for your advice on.

### Moving back to the North

My mum has been really struggling to cope since my dad passed away last autumn. As a result, I have been travelling up to visit her nearly every week. She still lives in the north-east of England in Berwick-upon-Tweed, close to the Scottish border. It is a six-hour drive at best and 330 miles each way. I am exhausted and I can't keep doing it, so I have decided I am going to have to move closer to her. Somewhere within 45 minutes of her house will be much more manageable. It will not be forever; Mum is 87 years old and not in good health.

The bonus is that I will also be closer to Jake. As you know he lives with his mother in the area, and I've already been seeing him much more than before. He will be going away to university in about five years' time, so I think this relocation need only be for a maximum of five years.

### Houses

I have decided to keep my home in Oxford because I hope to return there. If I sell, I may never be able to get back into the Oxford housing market as it is so expensive, so I will rent it out. I have a good friend, who is an estate agent, and she has agreed to manage the renting for me. She predicts a rental income above the monthly mortgage payments, so I think that will work. I have put down some details of the expected rental income in the attached note (**EXHIBIT B**).

I will need somewhere to live near Mum. I have seen two cottages, which I could buy. There isn't much to choose between them. Both are within easy reach of Mum and either of the new jobs (see below). Both cost the same. The difference is that one is in England and one is over the border in Scotland. Details are also in the attached note (**EXHIBIT B**). I would like to make an offer and start the buying process as soon as possible to try and complete the purchase before I move there around the start of July. I would not expect to keep this property once I return to Oxford and I don't expect it would increase much in value over the next five years.

I have spoken to the bank about a mortgage to buy the cottage. However, I am apparently a higher risk case, since I will be changing jobs. Consequently, I will need to put down at least £50,000 as a deposit and take a mortgage for a maximum of 75% of the value.

### Job offers

Clearly, I will have to exit my current partnership and I have already advised the other two partners that I will leave on 30 June 2026. Financially, the current year results seem much the same as previous ones. I don't have the final partnership return for the 2025/26 year yet, but the partnership accountant has given me some information, which he said I should share with you. I have duly attached it for you (**EXHIBIT C**).

I have been offered two new jobs and I am really undecided which one to accept. Both are within easy reach of either cottage and Mum. I have given you the proposed remuneration details in a summary (**EXHIBIT D**). I would like to know what my net income will be in a full year, so I can compare it easily to what I'm used to.

1) Senior Vet in Charge, Scottish Practice

This is an employed position, but perhaps that is simpler given I only want to stay for five years. They operate from several clinics in Scotland and I will head up one of them. I will have a reasonable amount of autonomy over the day-to-day running of that clinic, which appeals to me. It will be very similar work to what I am doing now: pets and small animals.

They are also offering a car allowance, which will be useful, since I have put a lot of mileage on my current car driving up and down to visit Mum. I will have to pay penalty charges to the lease-hire company for the extra mileage incurred this year. I cannot change my car at this time either, due to the early termination penalty clauses.

They have a private medical scheme, although I am not sure I need it. They have a pension scheme too. They are keen that I join them and they have indicated that they have an additional budget of £5,000 to provide a further benefit of my choice, if it will encourage me to accept their job offer. They have suggested a single lump sum on joining or an extra £1,000 per year for five years.

2) Junior Partner, English Practice

This is a very different role from what I'm used to. It is a large referral hospital, based in Berwick-upon-Tweed. It is arranged as a limited liability partnership. There is a veterinary supplies company involved and their representative and the senior partner manage the running of the partnership. Due to the company involvement, there is access to all the latest equipment and medicines. Consequently, many smaller veterinary practices refer complex and unusual cases because it has better technology and can carry out surgical procedures they cannot. They are creating a new level of Junior Partner for me. My role would be a new one focussed on canine and feline diagnosis and surgery. It's a great opportunity to learn new skills, but I would have little control over partnership affairs, which may take some getting used to.

There are no benefits in kind with this position, but that is the same as with my current partnership. They have pool cars, which I can use if I need to visit a patient. However, I don't expect I will need to make many home visits as I will largely be based at the hospital. I would continue to pay £10,000 into my existing pension plan each year as the partnership does not pay any pension contributions.

Cash Flow

I have some concerns over financing the relocation in the short term. I will get back my equity in the Oxford partnership on 1 August. However, it's quite likely that they won't be able to repay the loan until this time next year. Meanwhile I will need a lump sum deposit to purchase the new cottage. I will also need a lump sum to buy into the Berwick-upon-Tweed partnership, if I take up that job offer.

I have plenty of savings in ISAs, which I can use for now and then replace, when I get paid out from the Oxford partnership. I was planning on using these savings for Jake's university fees, so I don't need them for anything else right now.

You have always been fantastic at seeing things from a different angle. I would therefore very much value your advice and recommendations as to which cottage to buy and which job to take. I know that ultimately it will be my decision, but if there are some key tax aspects I should consider, I would be grateful to hear them. I have already sent a copy of the draft employment contract and the draft partnership agreement to my solicitor for his comments.

If you need any further information, then please don't hesitate to ask.

Thanks and best regards

Alan Baird

Continued

**EXHIBIT B**Note on PropertiesOxford Property

Current market value	£850,000
Outstanding mortgage	£375,000
Gross rental income	£2,500 per month
Mortgage payments	£1,700 per month: £600 per month capital repayment £1,100 per month interest
Agent fees	£120 plus vat per month
Budget for other costs	£50 per month

New Cottages in England and Scotland

Asking price	£200,000
Deposit required	£50,000
Mortgage required	£150,000
Mortgage payments	£800 per month: £300 per month capital repayment £500 per month interest
Budget for legal fees	£1,000
Budget for other purchase costs	£1,000
Budget for stamp taxes	England: £200,000 - £125,000 @ 2% = £1,500
	Scotland: £200,000 - £145,000 @ 2% = £1,100

Continued

**EXHIBIT C**Information from the Partnership's AccountantWhole Partnership Profits:

	<u>12 months to</u> <u>31 March 2025</u>	<u>12 months to</u> <u>31 March 2026</u>
	£	£
Taxable partnership profits	315,000	Estimated 320,000

Monthly Drawings by Alan

Alan draws £6,250 per month except in January and July when he draws an additional £15,000 - £16,000 to cover his tax payments.

A final balancing payment will be made after the partnership accounts for the year to 31 March 2026 have been prepared and the actual profits calculated. A similar balancing payment for the year to 31 March 2027 will be made after those accounts are finalised.

Partnership agreement provisions

The three partners share profits and capital in the ratio 1:1:1.

Since Alan is leaving by his own volition, no payment is due to Alan on departure.

Capital account (Alan):

<u>Description</u>	<u>Date</u>	<u>Amount</u>
		£
Cash	1 July 2019	30,000
Additions		0
Deductions		<u>0</u>
Current value		<u>30,000</u>

Capital of £30,000 to be repaid on 1 August 2026.

Loan account (Alan):

<u>Description</u>	<u>Date</u>	<u>Amount</u>
		£
Cash	1 October 2023	20,000
Additions		0
Deductions		<u>0</u>
Current value		<u>20,000</u>

Loan amount to be repaid no later than 1 August 2027.

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**EXHIBIT D**

Summary of job offers

Scottish Job Offer

Gross salary	£90,000 per annum
Salary after pension sacrifice*	£85,500 per annum
Maximum bonus after at least 12 months employment	5% of gross salary
Car allowance	£7,200 per annum
Private medical cover (cost to employer)	£1,000 per annum
Budget for another benefit	£5,000 total

\* They do something called a “salary sacrifice pension scheme”. Apparently, rather than we each pay 5% contributions, they reduce my salary to £85,500 and they pay £9,000 in pension contributions and I pay nothing. I have to join their pension scheme though and I can't use my existing pension scheme. Also, I usually pay £10,000 a year and this is only £9,000.

English Partnership Offer

Equity buy-in	£20,000
Guaranteed remuneration	£7,750 per month
Profit share *	£10,000 per annum maximum
Use of pool car	

\* There is a rather complicated calculation of the share of the partnership profits, which I would be entitled to. Assuming it is a good year, the maximum I could get would be £10,000. The last five years have been good enough to pay the full £10,000. The first payment would likely occur in Autumn 2027.

## EXHIBIT E

### Pre-seen information

Client name	Alan Baird
Date and place of birth	17 May 1978, Berwick-upon-Tweed, Northumberland
Nationality	British
Marital status	Single
Children	Jake (born 8 February 2013)
Occupation	Veterinary Surgeon Full equity partner in Paws & Claws Veterinary Clinic, Oxford

### Residence

Alan owns a three-bedroom house in Oxford, which he bought on 6 April 2014 for £425,000. This has always been used as his main residence.

### Partnership equity/loans

Alan became a partner in Paws & Claws Veterinary Clinic on 1 July 2019. He paid a cash sum of £30,000 on joining.

There are three partners and they share profit and capital equally.

Alan made a cash loan of £20,000 to the partnership on 1 October 2023. He receives interest on the loan at a fixed annual interest rate of 8%. The loan arrangement and interest rate were set using separate commercial terms.

### Pension

Alan opened a Self-Invested Pension Plan on 1 July 2019. He makes annual contributions of £10,000 before tax relief (relief at source). At the latest valuation on 5 April 2024, the plan was worth £324,000.

### Savings

Alan makes regular contributions to a stocks & shares ISA. He has always paid the full annual limit each year. The savings currently total approximately £115,000.

2024/25 UK Tax ReturnTax Calculation

	Total
	£
Profit from partnership	105,000
Interest	<u>1,600</u>
Total income	106,600
Personal allowance	<u>(12,570)</u>
Taxable income	94,030
Tax on earnings:	
Basic rate increased by £12,500 for pension contributions	
Basic rate £50,200 x 20%	10,040
Higher rate £42,230 x 40%	16,892
Tax on savings:	
Nil rate £500 x 0%	0
Higher rate £1,100 x 40%	<u>440</u>
	27,372
Tax credits on interest	<u>(320)</u>
Income Tax due	<u>£27,052</u>
NIC:	
Class 4 NIC	
£12,570 x 0%	0
£37,700 x 6%	2,262
£54,730 x 2%	<u>1,095</u>
NIC due	<u>£3,357</u>
Total Income Tax and NIC due for 2024/25	30,409
Payments on account made	<u>(30,000)</u>
Balancing payment for 2024/25	<u>£409</u>
Payments on account due for 2025/26 (each)	<u>£15,205</u>