Institution **CIOT - CTA**
Course **Adv Tech Taxation of Individuals**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Notice: **Exam was restarted!**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**724**	**3450**	**4476**
Section 2	**423**	**1897**	**2309**
Section 3	**605**	**2916**	**3800**
Section 4	**582**	**2411**	**3165**
Section 5	**573**	**2805**	**3705**
Section 6	**520**	**2305**	**2816**
Total	**3427**	**15784**	**20271**

Answer-to-Question-_1_

(20 marks - 40 mins)

Apple Cottage:

30/09/2001 - 31/10/2013	Main residence	12yrs 1m	145m
01/11/2013 - 31/11/2013	Empty	1m	1m
01/12/2013 - 31/03/2025	No PRR - let	11yrs 4m	136m
Total ownership 30/09/2001 - 31/03/2025		23 yrs 6m	282m

Private residence relief (PRR) is avaliable on the period Sarah and Tim owned Apple Cottage as their main residence.

On disposal, PPR exempts the gain relating to the period the property was Sarah and Tim's main residence or deemed main residence.

The period the property was let out will not be avalible for PRR.

HMRC permits 1/2 hectare as an allowable area for the property and garden for the purposes of PRR, anything in excess of this will only be allowable if it is deemed to be for the reasonable enjoyment of the property.

The disposal of Apple Cottage will give rise to a chargeable disposal subject to Capital gains tax (CGT) at 18% and 24%.

PRR will be avaliable for the preiod Apple Cottage was Tim and Sarah's main residence (30/09/2001 - 31/10/2013 = 145months) along with the final 9 months.

Proceeds £1,200,000

Disposal costs	(£18,000)	
Cost	(£745,000)	£760,000 - £15,000
Gain	£437,000	
PPR	(£238,645)	154/282 x £437,000
Taxable	£198,355	

Tims gain:	£99,178
AEA	(£3,000)
Taxable	£96,178

CGT @ 24% £23,083

Sarahs gain:	£99,177
AEA	(£3,000)
Taxable	£96,177

CGT @ 24% £23,082

Tim and Sarah will be required to report the disposal of Apple Tree Cottage seperately on UK property Capital gains tax returns which are due to HMRC within 60 days of the completion date (i.e. by 30 May 2025) along with the tax due.

The disposal will also be reportable on their 2024/25 tax returns which are due by 31 January 2026.

Pear Cottage:

The Transaction in UK land (TIUKL)anti-avoidance rules will apply when one of the coditions A - D are met with relation to UK property/land:

Condition A - profit motive,one or main purpose of acquiring land/property to realise profit or gain from disposing of land

Condition B - one or main purpose of acquiring any property deriving its value from land was to realise a profit or gain from disposing of land

Condition C - land is held as trading stock

Condition D - one or main purpose of developing land was to realise a profit or gain from disposing of land.

Sarah and Tim acquired Apple cottage with a view of it being their main residence, at this point the TIUKL did not apply. However in APril 2023 the intention changed when planning permission was granted to build a new house in part of the garden.

Condition D of the TIUKL was met at April 2023 as the main purpose of developement was to realise a profit from the land.

Therefore the gain on disposal of Pear cottage will be subject to income tax as essentionally trading income so subject to the non-savings higher rate of 40% up to total income of £125,140 and then the additional rate of 45% there after. National insurance contributions will not be due as at this point they are not trading (badges of trad will not have been met).

Tim and Sarah will get relief for the cost of building Pear Cottage as deductible enhancement expenditure along with the initial planning permission cost.

Proceeds	£475,000
Disposal cost	(£7,150)
Cost	(£15,000)
Enhancement cost	(£220,000)
Planning permission	(£15,000)
Gain	£217,850

Tims share: £108,925

Sarahs share: £108,925

The taxable date for capital gains purposes is the exchange date, it is therefore possible the disposal of Pear Cottage will fall into 2025/26 tax year if the exchange date is after 5 April 2025.

Tim and Sarah will be required to report the disposal of Pear cottage on their tax return for the relevant year (2024/25 if exchange pre-5 April 2025, and 2025/26 any date after).

Future property acquisitions

Tim and Sarah may be caught under the trading rules, badges of trade, if they continue to perchase properties with a view to sell they relatively quickly.

If Tim and Sarah were deemed to have a trading business not only would they be subject to income tax at the non-davings rate on the gains arising on the properties, they would also be subject to Class 4 NIC at 0% up to £12,570, 6% from £12,570 to £50,270, and 2% on the amounts exceeding £50,270 (individually not combined).

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

15 marks - 30 mins

Birdie Foods Ltd will qualify for Seed Enterprise Investment Scheme as it meets the following conditions:

- The company is a qualifying trading company
- The company has a UK permanent establishment
- The company has less than 25 employees
- The company has assets of less than £350,000
- The company start less than 3 years prior to the investment being made.
- The company will use the investment appropriately within the qualifying time period of receipt.

In addition, Emma will be a qualifying investor:

- Emma owns less than 30% of the ordinary share capital
- Emma is not an employee of the company nor are any of her associates, under s257BA ITA 2007 a person is not to be treated as an employee at anytime they are a director, therefore Laura and Emma would not be treated as an employee.

Laura will need to apply for Birdie Foods Ltd to issue an SEIS3 to Emma.

Laura will be able to claim SEIS income tax relief as a tax reducer based on 50% of the investment (i.e. £50,000) in the year of investment and in the prior tax year, asuming she has not maximised the £200,000 relief limit.

Emma will need to ensure the shares are full paid up in order to claim the SEIS relief.

SEIS income tax relief can only reduce Emma's income tax liability to nil, it canot create a loss.

SEIS reinvestment relief is avalible in the period of 12months prior to investment and 36months after based on the lower of the capital gains tax arising and 50% of the investment.

Providing the SEIS shares are held for at least 3 years, they will be exempt from capital gains tax.

<u>Emma's funding options:</u>

1.

Interest arising on ISA accounts is tax free, therefore it is beneficial for Emma to retain the funds in the ISA account until it matures.

2.

Income tax deductions are available for the interest paid on bank loans taken out to fund the purchase of interest in a close company, with a close company being a comapny controlled by 5 or fewer participators or controlled by any number of directors.

Emma would therefore be eligible for relief, by way of a deduction against her total income, on the interest arising on the bank loan of £60,000 taken out.

3.

Under option 3, the 30,000 shares not paid up would not be eligible SEIS, therefore Emma would not be entitlied to income tax or CGT relief on these shares.

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

1) IT/NIC of termination (7 marks - 14 mins)

As part of the £200,000 termination payment the pay relating to Mo's notice period (i.e. £12,000 x 3 = £36,000) will be Post Employment Notice Pay (PENP) subject to income tax as normal earnings, subject to income tax at 20%, 40%, and 45% along with Class 1 primary and secondary NIC.

The remianing £164,000 will be an ex-gratia payment, where the first £30,000 is tax free. The amount in excess of £30,000 being £134,000 will be subject to income tax as top slicing income (taxed last as non-savings income) on Mo while the company will be subject to Class 1A NIC at 15% being £20,100.

The company will need to report the termination on a form P11d to account for the Class 1A due.

As Mo has not yet received a P45, he will be subject to income tax inline with his tax code (no personal allowance due to adjusted net income n£144,000 + £12,000 + £14,400 = £141,600 exceeding £125,140 tapering threshold, even).

As Mo makes annual personal pension contribution of 8% of his salary out of net income, his basic rate and higher rate bands will be extended by the gross contribution

£4,342 @ 20%   £868   £37,700 + £14,400 = 52,100 / 12

£7,287 @ 40%   £2,915   £87,440 /12 = 7,287

£158,371 @ 45%   <u>£71,267</u> £134,000 + £36,000 - £4,342 - £7,287

Total income tax £75,050 payable on Mo but collected through PAYE

Class 1A NIC   £20,100   £134,000 x 15% payable by comapny

Class 1 primary

£1,048 @ 0%   -   £12,570 /12

£3,142 @ 8%   £251   £37,700 / 12

£31,810 @ 2%   £636   £36,000 - 1,048 - 3,142

£887 payable on Mo but collected through PAYE

Class 1 secondary

The total income tax due on the termination payment will be collected through the PAYE system and Mo will receive a net monthly pay amount of £

<u>2) max additional personal pension contribution (8 marks - 16 mins)</u>

The pension annual allowance in £60,000, this is tapered where Mo's threshold income (total income less GPPC) exceeds £200,000 and his adjusted net income (total income less GAYE less GPPC less Er pension contributions) exceed £260,000.

The annual allow is tapered by £1 for every £2 that exceeds the adjusted net income, with a minimum annual allowance of £10,000.

Prior to 2025/26 Mo was not utilising all of his annual allowance (see total contributions at W1 below). Mo did not exceed the £200,000 threshold 1income so he was entitled to the full pension annual allowance as his anual allowance.

Unused pension annual allowance can be carried forward up to 3 tax years, with the tax year in questions annual allowance being used first then the remaining annual allowance of the earlier years on a first in first out (FIFO) basis.

2025/26 threshold income:

Salary April - October £72,000 £12,000 x 6
BIK £6,000 £1,000 x 6
PENP £36,000
Termination payment £164,000
Total income £278,000 which exceeds £200,000
No GAYE
Treshold income £278,000

2025/26 Adjusted net income:
Total income £278,000
GPPC £12,000 x 8% x 6 =£5,760 x 100/80 = £7,200
Employer £12,000 x 10% x6 = £7,200
Net adjusted income £292,400 exceeds £260,000

Tapered annual allowance = £292,400 - £260,000 = 32,400 / 2 = 16,200

£60,000 - £16,200 = 43,800

Additional contribution for 2025/26 = £103,000 /120 x 100 = £85,833

	2022/23	2023/24	2024/25	2025/26		
Annual allowance	40,000	60,000	60,000	43,800		
GPPC	£14,400	£14,400	£14,400	£7,200		
Er conts	£14,400	£14,400	£14,400	£7,200		
Unused allowance	£11,200	£31,200	£31,200	29,400		

W1
Annual salary 144,000
Personal pension contribution £11,520 x 100/80 £14,400 (GPPC)
Employer contribution <u>£14,000</u>
Total contributions £28,400

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Under the statutory overseas tests Maisie will meet the first automatic UK test of being in the UK for at least 183 days.

Maise will also meet the second automatic UK test by having a home in the UK (London rented proeprty) where by she spends at least 91 days consecutively and at least 1 day (all in fact) fall in the relevant tax year.

Maise will meet the thrid automatic by working sufficent hours in the UK as more than 75% of the total number of days during the tax year where Maise does more than 3 hours work will be in the UK.

As Maise return to the UK during the tax year she will be eligible for split year treatment as the following cases have been met:

Case 4 - starting to have a home in the UK only - met 6 July 2024 when Maise started renting

Case 5 - starting full time work in the UK - met 24 June 2024 when Maise started her full time job in London as she was not UK resident in the previous tax year, she worked sufficent hours and had no significant breaks

2024/25 income tax:

	NOtes	£	NSI	S	D
Salary		53,817	53,817		
Loan	2	214	214		
Pension	3	652	652		
Rental income	4	4,625	4,625		
		59,308			
Personal allowance		(12,570)			
		46,738			

37,700 @ 20%		7,540			
9,038 @ 40%		3,615			
		11,155			
PAYE	1	(9,136)			
Income tax due		2,016			

Maise's income tax will be due by 31 January 2026.

1. PAYE deducted at source from UK salary:

£12,570 x 0% £0
£37,700 x 20% £7,540
£3,547 x 45% £1,596
£9,136

2. As Maise paid interest on the loan of less than HMRC's approved rate of 2.25%, the loan will be a benefical loan subject to the benefit in kind (BIK) rules. To calculate the benefit on the loan the default method is the strict method, however Maise can elect the average method.

Strict method:
£25,000 x 4/12 x 2.25% = 188
£15,000 x 1/12 x 2.25% = 28
£14,000 x 1/12 x 2.25% = 26
242
Average
£25,000 + £13,000 = £38,000 / 2 = 19,000 x 2.25% x 6/12 = 214

As the average method is slightly benefical, Maise should elect to use this. HMRC can state that the strict method has to be used if they believe the loan is being falsely represented by a repayment being made before the year end to reduce the BIK.

Maise will be subject to income tax on the benefit at the non-savings rate.

The company will need to report the benefit on a form P11d by 5 July 2026 and pay Class

1A NIC at 15% (£32) which is due by 22 October 2026.

3. The value of the overseas pension that arose while Maise was overseas will not be subject to UK tax, only the growth in the pension while she is UK resident (i.e. the growth from June 2024 to March 2025)

58,531 - 57,879 = 652

4.Maise will be subject to UK tax on the portgual for the period she is UK resident, as she can claim the split year basis this will start from 15 June 2024.

The cash basis will be automatic as turnover is less than £150,000.

Rental income	5,625	£625 x 9
Expenses:		
Insurance	-	Not deductibile as paid pre-15 June 2024
Repairs *	(0)	
Property allowance	(1,000)	
	4,625	

*The repairs are deductibile however it is more beneficial for Maise to claim the property allowance

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--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

The issue of new ordinary shares to Helen will be deemed value shifting as Linda is using her control as the sole director/shareholder to issue new shares to a connected person (daughter Helen) which in turn has reduced the value of her own shareholding.

The value shifting will give rise to a deemed part disposal on Linda, based on the value in put into Helen's shareholding not the output of Linda's shareholding value.

Value of Helen's shareholding after issue £700,000 (1,400 x 500)
Price paid by Helen for share issue (£500) (1 x 500)
Value of Helen's shareholding before issue (nil)
Deemed disposal £699,500
Less Helen's cost of Cost x A/A+B
£1,000 x 699,500/699,500+(1,000x£1,800) (£280)
Gain £699,220
AEA (£3,000)
Taxable Gain £696,220

Helen will be eligible for business asset disposal relief on the gain providing she has met the following conditions for the 2 years prior to the disposal:

- owned at least 5% of the ordinary share capital being the voting rights, assets on winding up, and distributable profits.
- an employee and/or director
- Trust Ltd is a UK trading company, menaing that the companys non-trading element cannot be substaintial (i.e. less than 20%). When considering whether Trust Ltd's non-trading element is not substaitial HMRC will consider:

Assets - Trust Ltd has assets totaling £1,300,000 of which £700,000 relates to an investment property which is not a trading asset and equates to 54% of the total assets.

Linda has not accounted for Goodwill on her balance sheet, by accounting for goodwill it will reduce the non-trading percentage of the assets down to potentially below 20%.

For example as it stands the shares are worth £2.5million after the share issue which well exceeds the asset value of the company.

Turnover - the non-trading element equates to 16% (100,000 /(100,000 + 500,000) of the companies turnover,

- Time and expenditure - From looking at the expenditure only the landlord insurance relates to the investment property so this is minimal. In addition, Linda's time spent on the investment property is very minor (3 days in total a year).

As it stands the company would not meet the trading condition of BADR but this would likely change with the enclusion of BADR.

Seperately a joint claim could be made by Linda and Helen to claim gift relief as Linda is effectively gifting Helen part of her shareholding in the company (no restriction on the amount as the company is unquoted.

The gift relief available is restricted for the consideration paid by Helen (i.e £1 x 500 = £500) along with a further restriction for the non-business assets of the company.

Gain	£699,220
Gift relief	(£320,641)
Revised Gain	£378,579
AEA	(£3,000)
Taxable gain	£375,579

Linda will pay CGT at 10% and 20% dependant on her other income and the avalibility of BADR (subject to the enclusion of goodwill on the balance sheet).

Chargeable:

consideration	£1,000	
Non-business assets	£377,579	£699,220 x 54%
	£378,579	

The gift relief is essentially deferring the gain so it would be offset against Helen's base cost of the shares.Therefore it is likley Helen will not want to accept this option.

A joint claim for gift relief must be made with 4 years of the end of the tax year the gift was made (i.e. by 5 April 2030).

Helen will be required to report the gain on her 2025/26 tax return which is due by 31 January 2027, along with the tax due.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

Gift of cash to son
The dispoal of Mr Singh's main residence will not give rise to a capital gain as it is fully covered by private residence relief.

Ordinary the rental of a property is subject to income tax based on the rental income received.

As the property is being rented to a connected person the market value will be the deemed rental proceeds. Therefore Mr Singh's sone will be subject to income tax on annual market rent of £14,400.

Mr Singh's son will not be entitled to Private residence relief for the period his father is occupying the property when he comes to dispose of it.

The gifts with reservation of benefit rules should also be considered with regards to the £300,000 as a cash gift has been made by Mr Singh to his son in which a property has been purchase for him to live rent free, thus a benefit for Mr Singh meaning the £300,000 would still fall within his IHT estate

Gift to local music charity

The cash donation was made under gift aid which means the donation will be grossed up and extend Mr Singh's basic rate and higher rate band.

However, as Mr Singh has received 2 tickets by way of a "thank you" for the donation, the value of the ticket will be first deducted from the net donation as Mr Singh has effectively paid for them by way of his original donation.

Allowable gift aid contribution = £1,000 - (2 x 60) = 880

Grossed up contribution = £880 x 100/80 = £1,100

Extention to basic rate band - £37,700 x £1,100 = £38,880
Extention to higher rate band - £125,140 + £1,100 = £126,240

Mr Singh is a higher rate tax payer with total income of £60,000 this taxable income of £47,430 (60,000 - 12,570), he will therefore receive tax relief of £220 (1,100 x 20%) on the gift aid contribution as more of his income will be taxable at the basic rate of 20% rather than 40%.

Gift of shares to charity

The gift of the share to charity will not give rise to a deemed disposal at market value as the charity is unconnected from Mr Singh.

Instead a disposal of nil proceeds will arise giving rise to a capital loss of £2,100 (£2.10 x 1,000) on Mr Singh. Ordinaryily the capital loss will be available against any capital gains arising in the current tax year, which are none, and thus the loss can be carried forward against future capital gains arising.

Alternatively, Mr Singh can claim relief by deducting the reliveable amount from his net income arising in the 2024/25 tax year.

the relievable amount is calculated by:

value of benefit to the charity + any incidential costs of making the disposal less any benefit teh individual has received by making the disposal

In this case the benefit to the charity is £4,900 (4.90 x 1,000) and there are no known incidential costs of the disposal nor a benefit to Mr Singh in making the disposal, so £4,900 can be deducted from his net income of £47,430.