The Chartered Institute of Taxation

Application and Professional Skills

Taxation of Individuals

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Suggested answer

Report to Alain Baird
Prepared 28 April 2026
by Chartered Tax Advisors

Introduction

This report considers the tax implications of your move north, the purchase of a new home there and changing jobs.

This report is intended for use by you, Alan Baird, only. No responsibility is accepted for any reliance placed on the contents of this report by third parties. It is based on tax legislation as it applies at the time of writing and any changes to the legislation may affect the conclusions of this report.

Summary of our advice and recommendations

To summarise our advice, we recommend and advise the following:

You should acquire the cottage and live in England since this will save you several thousand pounds in tax.

The process for paying your annual Income Taxes (IT) and National Insurance (NIC) will change, which may impact your current budget.

The job with the Scottish practice would leave you with around £1,500 more net pay a year largely due to the pension contribution arrangements. Unless the remuneration arrangements with the English practice are considerably altered and they are prepared to offer more than the minimum pension contribution, you would be financially worse off than with the Scottish job. We cannot, however, comment on whether the different veterinary work involved is worth the difference in earnings.

You should also take advice from an IFA about the pension scheme offered by the Scottish job and the benefit of making additional contributions and transferring the pension scheme value in the future to your SIPP.

We recommend asking the Scottish practice if they would consider paying your relocation costs as the potential additional benefit.

If you choose to take up the English job offer, you should discuss the legal employment status of this position with your solicitor.

The rental income from the Oxford property will not cover your expenses and taxes. There are also capital gains tax implications. You either need to increase the rent, reduce the mortgage payments or reconsider keeping it. Alternatively, you may decide that the cost is compensated for by potential growth in the property value. Again, this is something you should take financial advice on. [Examiner's note – candidates could discuss the impact of MTD, but this is not expected of them].

Finally, using your ISA savings to fund short-term cash flow problems will affect the level of savings you are making towards Jake's university costs. You cannot borrow the ISA funds and replace them as you are planning. You may therefore wish to delay purchasing the new cottage until you receive all the reimbursements from the Oxford partnership, or rent rather than buy, which will also save you considerable stamp taxes.

Relocating to either the North of England or Scotland.

Scotland and England have different rates of IT. Therefore, it will make a difference to your IT liability which side of the border you move to. If you are considered a resident of Scotland, you will pay Scottish rates of IT. Similarly, if you are considered a resident of England, you will pay English rates. The rates are quite different, but generally, at your level of income, Scottish rates are higher.

The determining factor for where you are resident, is where your home is. Therefore, whether you buy the cottage in Scotland or the cottage in Northumberland will make a significant difference to your IT liability. You are currently living in England, but if you move to live in Scotland around the end of June, you will reside in Scotland for the majority of the tax year and be liable to Scottish rates on your income for the whole year, including the partnership profits earned before the move.

Note that it is the location of where you live, rather than where you work, which is important.

<u>Recommendation</u>

You will pay less tax in England. Since you can live in England but still commute easily to either job, we would recommend purchasing the English cottage and living in England.

Leaving the Oxford partnership

You will be liable to IT and NIC on your share of the partnership's profits as currently, although it will be a reduced amount for the period up to 30 June 2026 only.

You will still have to make your second 2025/26 payment of £15,205 by 31 July 2026, because that relates to the 2025/26 tax year which is not affected by this change in circumstances. You will not be a partner at the time of payment, so you need to consider how you will make this payment, as you will not be able to draw additional money from the partnership as you do now (see "Cash flow concerns" section below).

Your 2026/27 payments on account will need to be adjusted to reflect the fact that your partnership income will be much reduced and you will begin paying your tax on a monthly pay as you earn (PAYE) basis (see "Your new job" section below).

Your new job

As requested, we have calculated your estimated annual tax liability for each prospective employment. These are shown in Appendix 1 and are based on our recommendation that you live in England, see above.

a) <u>Scottish job</u>

<u>The salary package</u>

Although it might at first appear that the Scottish job's salary is less, you should consider the impact of the benefits, particularly the pension arrangements. By taking up the salary sacrifice arrangement, you will get a noticeable benefit to your net take home pay.

The advantage of the salary sacrifice scheme is that you have less earnings for both tax and NIC purposes and thus pay less IT and NIC. The employer's pension contribution is not liable to either IT or NIC, so you are effectively getting a £9,000 payment towards your retirement fund tax and NIC free. You usually pay £10,000 per year yourself into your pension scheme, so this is saving you considerable net income. A £10,000 net contribution results in £12,500 added to your pension due to tax reliefs. If you look at the Appendix 1 calculations, you will see that the Scottish job is giving you more net pay, as a result of not having to pay the full £10,000 pension contribution yourself.

We appreciate the payment is into their pension scheme, and not your existing one. However, it is still saving for your retirement. Usually, you will still get a choice of investment options. It is also usually possible to transfer one pension scheme into another. Therefore, when you cease employment in 5 years' time, you could look to transfer the pension fund you have built up across to your SIPP.

You can also consider making additional pension contributions. You could make £1,000 additional contributions to maintain your usual £10,000 net figure. However, you would need to make an additional £2,800 to maintain the gross contribution of £12,500. You could pay these into your SIPP or possibly into the employer's plan. You should discuss your investment options, the transfer to your SIPP and making voluntary contributions with an independent financial adviser (IFA).

The car allowance is simply additional cash earnings, whether you use it to pay your car lease payments or not. You will therefore pay IT and NIC on it, just like your salary. The private medical cover is a taxable benefit in kind, on which you only have to pay IT. Any bonus received would be liable to IT and NIC as well.

In relation to the additional £5,000 available, you could suggest that they pay your relocation expenses. Costs incurred on qualifying relocation expenses can be paid by an employer free of IT and NIC. In your case qualifying expenses could include:

- moving your belongings,
- your fuel costs for the journey north,
- the legal and other costs of purchasing or renting the new residence, but not your deposit
- stamp duty (see Appendix 3)
- temporary housing if the purchase is not completed in time.

We can discuss the potentially qualifying costs in more detail if you decide to take up this option, but the relief allows up to £8,000 in costs tax-free. They should be paid either directly to the supplier or reimbursed to you against receipts. The cost must be incurred and reimbursed before 5 April 2028. The Scottish partnership would also save employer's NIC at 15% compared to paying you a cash amount. If you buy rather than rent (see "Rental income" section below), you are likely to have more than £5,000 in costs, in which case you could also perhaps ask them to pay more instead of the medical insurance, which you do not particularly want.

Alternatively, you could ask if they could make additional pension contributions.

<u>Paying your IT/NIC liabilities</u>

As an employee, you will become liable to PAYE and NIC deductions through the employer's payroll each time you are paid. This is quite different to how you pay these liabilities now, as a partner. The tax rates are the same, it is just a change in timing of the payments. The NIC rates for employees are a little higher at £754 more a year.

b) <u>English job</u>

<u>Disguised employment</u>

Although you are entering into a partnership agreement, the remuneration and partnership structure is such, that HMRC will treat this as a disguised employment. This is because:

i. The partnership is a limited liability partnership
ii. At least 80% of your earnings are fixed and do not vary according to the partnership profits
iii. You will not have significant influence over the running of the partnership
iv. Your capital contribution is less than 25% of your fixed earnings.

Therefore, despite the role being titled "Junior Partner", HMRC will regard you as an employee. Therefore, you must pay your IT and NIC through the payroll, like with the Scottish job. As the Partnership is creating this new role for you, they have perhaps not appreciated there is this anti-avoidance legislation in place.

We would advise you to discuss the disguised employment position with the Partnership. They may be able to revise the remuneration structure to avoid the disguised employment issue. If they offer alternative arrangements, we would be happy to comment further on the revised package. You should also bring this issue to your solicitor's attention and ask their advice on your employment status.

<u>Recommendation</u>

We cannot, of course, comment on the nature of the veterinary work involved. From a tax perspective, unless the English partnership is going to make a significant change to the remuneration proposals, we would recommend taking the Scottish job offer as this leaves you with more net take home pay. In addition, the English partnership requires a capital contribution which you cannot fund as planned (see “Cash flow concerns” section below).

Rental income

We have calculated the net rental income in Appendix 2. Although the gross rents cover your rental expenses and mortgage repayments, they would not also cover the tax payable. There are two reasons for this.

Firstly, you will be taxed on the profit after agent’s fees and other costs but before mortgage payments. Since your mortgage payments are your main cost, this is a significant problem. You do get tax relief for the mortgage payments, but it is restricted to 20% of the interest element only, given as a tax credit.

Secondly, the addition of rental income takes your adjusted net income above £100,000. This causes you to lose some of your personal allowance, making the tax due on your rental income higher than simply your 40% marginal rate of tax. Surprisingly, the tax on the rental income would be less were you to take up the English job offer, because of the additional pension contributions you will need to make personally. However, you would still have more net earnings were you to take up the Scottish job.

We are not necessarily advising you to sell the Oxford property rather than rent it, but you should bear in mind that the rental income is not fully covering the costs as you thought it would. If you cannot increase the rental amount, you may still decide to keep the property because, as you say, you want to stay in the Oxford housing market. Alternatively, you could consider making changes to your mortgage such as changing to interest only or reducing the repayments and if you would like to consider this you would need to take financial advice in relation to the change. In any case, you will need to notify your mortgage lender if you start to rent out the property and the mortgage payments may therefore change.

The growth in value of the house over the next five years may compensate for the costs in retaining it.

<u>Stamp taxes</u>

You should also note that, since you are keeping Oxford, you will be caught by the higher rates of stamp duty land tax (SDLT) applicable to second homes, when you purchase the cottage. Therefore, your budget for SDLT is considerably less than what will be required and will make the Scottish cottage less attractive. Please see Appendix 3. This will increase the amount of money you require in the short term. Since the value of the cottage is not expected to increase significantly, it may be better to rent rather than purchase the cottage and save on purchase costs and SDLT.

<u>Capital gains tax (CGT)</u>

The capital gain on the Oxford house is currently not taxable as the property is your only residence. It is therefore entirely covered by private residence relief (PRR). However, once you move out of the property and live elsewhere, it is no longer your main residence, even if the move is temporary, exposing you to some potential future CGT liability.

, You may be able to claim two other tax reliefs, provided you return to live in the Oxford house in the future. As you are required to live elsewhere due to work, up to four years absence will be covered plus you can also have three years absence for any reason. Since you plan to be away for five years, these reliefs will cover the whole period of absence.

If you buy the cottage, then you own two potential main residences and you can only have PRR relief on one. You can write to HMRC within two years of the move and elect for Oxford to continue to be your main residence. As you expect there to be a larger gain on Oxford than on either cottage, this would save you the most CGT. If you only rent the cottage, there will be no such issue.

Recommendation

We would recommend taking advice on whether you can increase the rental amount, and whether the capital growth on the house and the cottage is enough to compensate the additional tax costs. You should also consider renting rather than purchasing the cottage to save on stamp duty.

Cash flow concerns

You have raised some short-term cash flow concerns. You have to find at least £50,000 for a deposit on the new cottage and perhaps £20,000 to join the new partnership. You have £30,000 in capital to come back from the Oxford partnership in early August, but the £20,000 loan will not be repaid until 2027. Therefore, you are thinking of taking some funds from your ISA savings accounts and will then replace them into the ISA later. Unfortunately, you are limited to making ISA contributions of £20,000 each tax year. You will not be able to make your usual £20,000 current year contribution plus replace previous “borrowed” contributions. You will not effectively have the scope to repay the funds into your existing ISAs, as you have planned. You therefore need to consider how this will affect the savings you need to make towards Jake’s university fees.

In addition, there will be other concerns, you have not yet considered. As detailed above, you will have at least £10,000 additional SDLT than budgeted. You will have to make your 31 July payment on account shortly and payments on account still for 2026/27, albeit reduced ones, whilst at the same time paying PAYE on your current salary from the new job. You will no longer be able to draw extra from the Oxford partnership when these payments are due, as you do currently. We would not recommend drawing £15,205 extra before you leave the partnership because you may draw more than your share of the profits. Assuming that the profits for the year to 31 March 2027 remain the same as previous years, your share would be £26,667 (£320,000 x 3/12 months / 3 partners). You will have already drawn £18,750 in your regular monthly amounts of £6,250 each, leaving only £7,917 available. If you draw £15,205, you will have to repay the partnership.

Recommendation

You should look again at any calculations you have made regarding the budget for university fees or consider alternative ways of funding the cottage deposit and English partnership capital contribution.

Alternatively, it may be better to rent rather than buy in the north of England, at least for the first year, to avoid you having to use your ISA savings for the deposit. If you rent throughout, you will not have the stamp duty costs.

You will also incur costs relocating to your new home, which will require funding. You could offset at least some of these tax-efficiently if you take up the Scottish job and they agree to meet your relocation costs as suggested earlier in the report.

If you have any questions regarding the content of this report, please do not hesitate to ask.

Appendix 1

Calculation of Tax on Annual Earnings from the New Jobs

English Rates of Income Tax (Living in England) (Note 1)

					Scottish Job	English Job
					£	£
Monthly earnings	Note 2				85,500	93,000
Bonus/profit share					4,500	10,000
Car allowance					7,200	
Medical benefit	Note 3				1,000	
					98,200	103,000
Personal allowance	Note 4				(12,570)	(12,570)
Taxable salary					85,630	90,430
Tax:						
Basic rate band	£37,700	£37,700	@ 20%		7,540	7,540
Adjusted for pension	£3,500	£12,500	@ 20%		700	2,500
Higher rate band	£44,430	£40,230	@ 40%		17,772	16,092
Additional rate band	£0	£0	@ 45%		0	0
	£85,630	£90,430			£26,012	£26,132
Net Cash:						
Monthly earnings					85,500	93,000
Bonus/profit share					4,500	10,000
Car allowance					7,200	0
					£97,200	£103,000
Income tax					(£26,012)	(£26,132)
Pension					(£2,800)	(£10,000)
Net Cash (before NIC)					£68,388	£66,868

Notes

1) We have assumed you will live in England (see “Relocating to either the North of England or Scotland” section above).

2) We have assumed that you would take the reduced salary with employer pension contribution of £9,000, were you to accept the Scottish job offer. In addition, we have assumed you would make an additional £2,800 pension contribution such that your usual pension contribution total of £12,500 gross is made. We have assumed that you will make the full £10,000 net (£12,500 gross) pension contribution if you take up the English job offer although the partnership may be obliged to make some contribution (see “English Job” section above).

3) We have assumed that the £5,000 is taken as tax-free relocation expenses and you are maintaining the remainder of the Scottish job remuneration as originally offered.

4) Although gross earnings exceed £100,000, there is no reduction in personal allowance as adjusted net income (earnings after pension contributions) is less than £100,000.

Appendix 2

Calculation of Rental Income from Oxford Property (assuming you live in England)

		£
Annual rent	£2,500 x 12	30,000
Less		
Agent fees	£120 + vat x 12	(1,728)
Other costs	£50 x 12	(600)
Taxable profit		£27,672

	Scottish job	English job
Job offer taken up	Scottish job	English job
Tax due Note 1	£15,993	£14,703
Mortgage tax credit (£1,100 x 12 @ 20%)	(2,640)	(2,640)
Tax payable	£13,353	£12,063
Net rental income	14,319	15,609
Mortgage repayment	(20,400)	(20,400)
Effective loss	(£6,081)	(£4,791)
Net cash from employment	68,388	66,868
Net including rental loss	£62,307	£62,077

Notes

1) The addition of rental income causes the total adjusted net income to exceed £100,000 and personal allowances to be lost. The effective rate of tax on the lost personal allowance amount is 80% or 60% on the excess over £100,000.

	England tax rates	
	Scottish job	English job
Total earnings	98,200	103,000
Personal pension contribution	(1,250)	(12,500)
ANI	96,950	90,500
Net rental income	27,672	27,672
Total	124,622	118,172
Excess over £100,000	24,622	18,172
Personal allowance lost (divide by 2)	12,311	9,086
Taxed at 80%	12,311	9,086
Taxed at 40%	15,361	18,586
Total rental income	27,672	27,672
£12,311 / £9,086 @ 80%	9,849	7,269
£15,361 / £18,586 @ 40%	6,144	7,434
	15,993	14,703

Appendix 3

Calculation of Stamp Duty

	Rates	English Stamp Duty Land Tax 5% surcharge for 2nd property £	Scottish Land & Buildings Transaction Tax 8% surcharge for 2nd property £
£0- £125,000	0%	0	
£0 - £145,000	0%		0
£125,001 - £200,000	2%	1,500	
£145,001 - £200,000	2%		1,100
£200,000	5% / 8%	10,000	16,000
Total		£11,500	£17,100