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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**846**	**3712**	**4544**
Section 2	**481**	**2235**	**2711**
Section 3	**683**	**3116**	**3718**
Section 4	**828**	**3742**	**4558**
Section 5	**401**	**1756**	**2101**
Section 6	**404**	**1773**	**2089**
Total	**3643**	**16334**	**19721**

Answer-to-Question-_1_

EIS income tax relief is available on a subscription of EIS shares where the individual is not connected with the company 2 years before the subscription or three years after (this means together with associates they do not have more than 30% of the shares in the company or a director - unless they became a paid director after the subscription and remuneration is reasonable)

EIS income tax relief will be available as 30% of the lower of:
- amount subscribed in the shares
- £1 million

SEIS income tax relief will be available on a subscription of SEIS shares where you are not connected with the company (this means together with associates they do not have more than a 30% shareholding).

SEIS income tax relief will be available as 50% of the lower of:
- amount subscribed
- £200,000

As Brian has more than a 30% shareholding, he will not be eligible for EIS or SEIS income tax relief on the subscription.

Lauren's holding will be 75/225 x 100 = 33% therefore she will not be eligible for EIS

income tax relief as she is connected to the company.

However EIS reinvestment relief is available where you are investing in EIS shares from proceeds of a gain made in the period 12 months before and 3 years after the subscription.

As they are both connected with the company, they will be eligible for EIS reinvestment relief but not SEIS reinvestment relief.

EIS reinvestment relief defers the lower of:
- the gain made
- amount subscribed

To the later of:
- when you become non UK resident
- sell the shares
- gift the shares
- shares cease to be eligible

As Lauren is non UK resident in the tax year, she will not be eligible for EIS reinvestment relief.

Brian could make a claim for EIS reinvestment relief. This will defer £175,000 of his £300,000 gain until he comes to sell/ gift the shares or they cease to be eligible.

Brian:

Brian is resident in the UK - he will be subject to UK tax on his worldwide income and gains arising in the tax year

Brian will be subject to capital gains tax on 300,000 - 175,000 = 125,000. He will be able to reduce this by his £3,000 annual exempt amount. Therefore his taxable gains will be £122,000. This will be subject to capital gains tax at 24% as he is an additional rate tax payer. CGT of £29,280 will be due.

This will need to be reported on his self assessent tax return and paid by 31 January 2027.

In terms of income tax, Brian will lose entitlement to his full personal allowance as his income is in excess of £125,140.

Therefore he will be an additional rate tax payer, subject to tax on his full employment and dividend income.

Lauren:

Lauren is non UK resident from 1 Feb 2026 - therefore she will only be subject to UK income tax on her UK sourced income from this point. Generally non UK resident individuals are not subject to capital gains tax even on UK situs assets. However where the gain arises in respect of UK land or property, UK capital gains tax will apply to non UK residents.

As Lauren has disposed of UK properties during non UK resident period, she will be subject to UK capital gains tax.

As she is non UK resident, she will be eligible to rebase the cost of the residential properties to their market value at 6 April 2015. Assuming the 2015 market value is £290,000. The gain will be 350,000 - 290,000 = £60,000. She will be able to use her annual exempt amount of £3,000 against this to reduce the taxable gain to £57,000.

As she has made a material disposal of her shareholding in a personal service company (owns more than 5%) and she is an employee/ director - she will be able to claim BADR on the gain arising from the sale of shares.

Eligible for BADR as for the 24 months before disposal:
- Lauren has been an employee/ director of the company
- she has owned more than 5% of the share capital.

On the basis the disposal of the properties qualify as an associated disposal as Lauren owned them and they were used in the company and they were disposed of around the same time as the shares. Therefore the gain of £57,000 will be subject to capital gains tax

at 14% - CGT of £7,980 will be due.

Lauren will need to submit an online property return within 60 days of the completion to disclose the gain to HMRC. She will also need to pay the capital gains tax arising on the same day.

BADR has a lifetime limit of £1 million of gains.

Lauren will pay UK income tax on her worldwide income before 1 Feb 2026. After this point, she will only be subject UK income tax on her UK sourced income - e.g. dividends from Gourmet LTD/ employment income relating to UK duties with Gourmet.

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

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

Answer-to-Question-_2_

Private residence relief is available to exempt all or part of the gain arising in respect of the disposal of an individuals main residence.

Private residence relief is calculated by working out the proporion of occupation/ ownership of the property. This can then be reduced from the gain due.

Where someone has occupied their main residence for the whole of their ownership, they will get PRR to exempt the full gain.

Occupation includes actual occupation (physically present in the property) and deemed occupation, which covers the following periods:
- any length of time where you are employed abroad
- 4 years where you are working elsewhere
- 3 years for any other reason.

Deemed occupation generally has to be followed by actual occupation to be allowable.

The last 9 months of ownership are always considered occupation where the property has

been used as a main residence at some point.

Your employment in Cyprus for 5 years will be covered by deemed occupation as you recommenced living in the property after.

Therefore you will be deemed to have occupied the house for the full ownership period.

However as Fox Barn has a lot of grounds, consideration needs to be had to how much of the property is covered by PRR.

Generally HMRC consider 1/2 hectare of garden/ grounds to be covered by PRR, however more can be agreed where it is for your reasonable enjoyment. Therefore there could be an argument to say the 1/3 hectare within the wall is for your reasonable enjoyment.

HMRC could argue that as you are happy for your neighbour to use the land beyond the wall to grow vegetables, it is not for "your" reasonable enjoyment. Therefore this may not be covered by PRR. In this case, the proportion of the £201,000 that relates to the land beyond the wall would be subject to capital gains tax.

The annual exempt amount of £3,000 could be used to reduce the gain. The gain will then be subject to tax at either 18% or 24% depending on your level of income. To the extend the gain is within your basic rate band it would be taxed at 18%, anything above this would be taxed at 24%.

The disposal of the property where capital gains tax is due should have been reported to HMRC on an online property return 60 days after completion, the tax due should have been paid on the same day.

You should collate all the facts and figures relating to the disposal of the property e.g. cost of the property, cost of any renovations made, the proceeds received for the disposal. These facts should all be provided to HMRC along with your rationale as to why you believed the full gain was exempt under PRR.

This should be done as promptly as possible and you should assist HMRC as much as possible with their investigation.

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

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

Answer-to-Question-_3_

	NS	S	D
salary x 7/12	105,000		
car w1	875		
loan w2	656		
shares w3	67,000		
PILON w5	45,000		
restrictive covenant w5	20,000		
loan written off w5	30,000		
pension ER w5	-		
rent parking w6	-		
total income	268,531		
personal allowance fully abated	-		
Tax:			
37,700 x 20%	7,540		
87,440 x 40%	34,976		
143,391 x 45%	64,526		
23,600 x 45% w5	10,620		
tax liability	117,662		
class 1 NIC: w7			
salary	105,000		
PILON	45,000		
restrictive cov	20,000		
loan written off	30,000		
	200,000		

50,270 - 12,570 x 8%	3,016		
200,000 - 50,270 x 2%	2,995		
NIC due	6,011		

Macrodrive is a close company as it is UK resident with 5 or fewer shareholder participators.

w1:
company car will be a taxable benefit.

list price less capital contributions (capped at £5k) = £50,000

50,000 x 3% = 1,500 x 7/12 = 875

w2:
Loan is a taxable benefit.

Average method = 30,000 x 7/12 x 3.75% = 656

Strict method would get the same figure.

Loan is used to buy shares in Macrodrive (a close company) - therefore the interest is eligible as a deductible payment.

w3:

Restricted shares have a forefiture restriction that ceases after 6 years - therefore there will have been a charge at acquisition of the shares based on the restricted value (£30,000).

As the forefiture restriction has lifted due to redundancy, the shares will be subject to a tax charge in 2025/26 based on the unrestricted market value (£100 x 1,000) £100,000

multiplied by a percentage of the initial unrestricted market value of the shares that has been neither paid for or taxed (60/90 x 100) 67%

£100,000 x 67% = £67,000

w4:

The tax point for directors is the earlier of:
- physical recepit of payment
- legally entitled to the payment

or the earlier of:
- credited into the accounts
- end of the accounting period where agreed before the end of the period
- date agreed if after the accounting period end

Therefore the bonus is treated as received on 10 March 2025, therefore in the 2024/25 tax year.

The bonus is not taxed in the 2025/26 tax year.

w5;

Termination package - need to consider each individual element to understand the tax treatment.

Payments that are contractual/ reasonably expected are taxable. Therefore the PILON will be taxed.

The restrictive covenant will also be taxable.

Writing off the loan will be treated as earnings and taxable.

All of these elements are also subject to class 1 NIC.

PENSION:
The employer contribution to his pension scheme is an exempt payment - tax free and not

subject to NIC.

Dave is a high income individual as his threshold income is above £200,000:

268,531

Dave's adjusted income is in excess of £260,000:

268,531 + 25,000 = 293,531

Therefore his annual allowance of £60,000 will be tapered by £1 for every £2 adjusted income in excess of £260,000.

293,531 - 260,000 = 33,531/2 = 16,766

New annual allowance = 60,000 - 16,766 = 43,234

Pension input for the year is £25,000 so is covered by the annual allowance and therefore there will be no annual allowance charge.

The statutory redundancy, non contractual cash payment and retention of company car will all fall within the s.401 provisions. The first £30,000 is tax free, the additional amount will be subject to tax at marginal rate of tax. Class 1 A NIC will also be due o the excess.
Therefore (53,600 - 30,000 = 23,600) subject to tax and class 1 A NIC.

w6:
80 x 12 = 960 = rent

100 x 12 = 1,200 expenses

Elect to not have the property allowance applied to this as Dave can get a property income loss of (960-1,200) £240 to offset against future property income profits.

As the property income is a loss it is not added into the income tax comp.

w7:
Dave is a director therefore he has an annual earnings period for national insurance.

No NIC on shares as not readily convertible assets.

class 1 NIC on earnings

Benefits = car, loan, taxable termination payments class 1A NIC - not paid by Dave.

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

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

Answer-to-Question-_4_

As they are both resident in the UK in 2025/26 - they will be subject to UK tax on their worldwide income and gains arising in the tax year.

Eduardo will be subject to income tax in the UK on his employment income, and overseas interest and dividends. He will be able to get double tax relief where overseas tax is withheld on the same income. DTR will be the lower of:
- The UK tax suffered on the foreign income
- The foreign income suffered

This will need to be reported to HMRC via self assessment tax return by 31 January 2027, tax will also need to be paid on this date.

As Diana is UK resident, she will be subject to UK income tax on her employment income received, and the rent received on Chilean property. Where her expenses on the property are less than £1,000, she will be able to claim the property allowance to be used against the rent recieved. She will be subject to UK tax on the profit.

Where overseas tax is also suffered on the rental income, she will get double tax relief as explained above.

Eduardo and Diana are previous remittance basis users. Where they remit any foreign income to the UK from a period they were claiming the remittance basis, this will be subject to income tax as non savings income at their marginal rates in the tax year of remittance.

If they are higher rate tax payers, they will be subject to tax on remitted income at 40%.

If they remit foreign income to the UK from a period they were not UK resident, this income is clean capital and can be remitted without any tax charge.

There are some options they both might want to consider where they will want to remit

foreign unremitted income to the UK (ie from a period where they claimed the remittanace basis).

option 1 - temporary repatriation facility (TRF):

TRF is designed to encourage previous remittance basis users to remit foreign income to the UK at a lesser tax charge.

Instead of the 40% charge discussed above, the TRF allows unremitted income to be taxed at the following rates:

2025/26 = 12%
2026/27 = 12%
2027/28 = 15%

Where it is then remitted to the UK, it will be remitted with no further charge. It is only available for these three tax years.

Income that you wish to be subject to the TRF rates needs to be designated on the self assessment tax return.

A claim for the TRF should be made by the first anniversary of the filing deadline (i.e. 31 Jan 2028 where claim on the 2025/26 tax return).

option 2: business investment relief

Eduardo has an investment portfolio in the US, therefore he might be intersted in this option.

This allows unremitted income to be brought to the UK and invested into qualifying unquoted trading companies by way of acquisition of shares or loans made to the company. Investment needs to happen within 45 days of the remittance.

There will be no tax charge in these instances where there is no abnormal benefit received as a result.

On a potentially chargeable event (e.g. sale of the shares) you will have a grace period (45 days) to make appropriate mitigation steps before the proceeds are deemed to be remitted to the UK and face tax charge at marginal rate of tax.

appropriate mitigation steps could be:
- taking all the proceeds overseas
- investing in another UK qualifying company

This would defer having to pay the remittance charge. The TRF could also be utilised to prevent remittance charge when chargeable event occurs.

Disposal of Chile property:

As Diana is UK resident she will be subject to UK capital gains tax on her worldwide gains. Therefore if she disposes of Chilean property in period of UK residence she will be subject to CGT in the UK.

She can claim double tax relief where she is also subject to CGT in Chile, as discussed above the relief will be on the lower of:
- foreign tax suffered
- Uk tax suffered on foreign income

The gain will be calculated as proceeds less cost (probate value). However Diana satisfies the conditions of foreign asset 2017 rebasing:
- she claimed the remittance basis prior to 2025/26
- the property is situated overseas
- she owned the property in April 2017.

Therefore 2017 rebasing will apply automatically. This will substitute the cost with the April 2017 market value to calculate the gain.

On the basis the market value doesnt rise before she sells the gain will be:

410,000 - 300,000 = 110,000

She will be able to deduct annual exempt amount of £3,000 where this has not already been utilised in the tax year of disposal.

The gains will be disclosed on the tax return by 31 Jan following end of the tax year, along with paying the tax due on the same day.

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

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

Answer-to-Question-_5_

S.104 pool

	Shares	value	
subscription ordinary 1985	50,000	50,000	
preference 1985	10,000	25,000	
Rights issue 1990	10,000	20,000	
reorg 1995			
	70,000	95,000	
sale rights 2010			

Sale of rights nil paid:
Edith sold her right to acquire the shares.

The automatic treatment would have been a part disposal of the shares held.
10,000 x

For 24 months prior to disposal:
director of Small LTD
Has 5% holding

Therefore eligible for BADR on any disposal of shares - 14% CGT rate up to lifetime limit of £1 million gains.

Takeover on 4 June 2024:

Edith had 70,000 shares in Small LTD.

On takeover, for each Small share, Edith got:

- 2 BIG plc shares
- £5 cash
- 1 QCB

	market value	Base cost	
140,000 Big PLC shares (£5)	700,000	59,375	
cash (£5)	350,000	29,688	
QCB (£1)	70,000	5,938	
	1,120,000		

As BIG PLC is a quoted company. The cost is apportioned out at takeover.

The normal tax treatment on takeover:

Cash will be immediately chargeable to capital gains tax.

The QCB will be treated as cash, but the gain will be frozen until QCBs are sold, the gain will then crystalise and become chargeable.

Big Shares - the acquisition of the shares will not result in a disposal of the small shares as the new shares will take on the base cost and acquisition date of the old shares.

However as Edith will not be eligible for BADR on disposal of her shares in BIG as she is not an employee of the company. It would be advisable for her to disapply the share for share rules to take advantage of the BADR rates of 14%. Otherwise when dispose of shares they will be subject to tax likely at 24%. However the share for share and cash gains will already use the BADR limit.

Therefore the taxable gains will be:

Cash:

350,000 - 29,688 = 320,312

Shares:

700,000 - 59,375 = 640,625

QCB:

70,000 - 5,938 = 64,062

CGT due will be:
Annual exempt amount already used

320,312 + 640,625 + 64,062 = 1,024,999

£1 million will be eligible for BADR at 14% = 140,000

The remaining £24,999 will be at 24% = 5,999.76

On disposal of the shares and QCBs in 2025/26 - the CGT will be:
Annual exempt amount already used

£1 million - 700,000 = 300,000 x 24% = 72,000

75,000 - 70,000 = 5,000 x 24% = 1,200

73,200

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

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

Answer-to-Question-_6_

Benefits by a shareholder in close company are dividends.

	NS	S	D
bank int		2,312	
salary	5,815		
christmas w1	185		
birthday lunch w2	-		
dividend			500
12 y lease w3	8190		
6 y lease w3	4,500		
w4 property income	-		
interest on loan		40,000	
Total income	18,690	42,312	500
deductible payment w5		(40,000)	
net income	18,690	2,312	500
less PA	(12,570)		
taxable income	6,120		
2,827 x 19%	537		
2393 x 20%	659		
500 x 0%	0		
1812 x 20%	362		
500 x 0%	0		
	1558		

w1: the annual function exceeds the £150 per head threshold so full amount of her share taxable on Nicole.

w2: Birthday lunch meets the trivial benefit exemption as it is below £50 and not in recognition of services

w5: Interest on a loan to a close company is a deductible payment = 40,000

w4
Property income:
As gross rents recieved less than £150,000 per year - use the cash basis to calculate profit. This will take rents received less expenses paid in the tax year.

rents received	44,640		
less utility bills	(19,752)		
insurance	(1,680)		
broadband	(744)		
replacement domestic goods	(904)		
mileage	(1,573)		
	19,987		
Nicole share 20%	3,997		
less loss b/f	(3,997)		
profit	-		

As cash basis - no deduction for capital allowances. We deduct the cost of the assets when acquired instead.

mileage:
3,496 x 45p = 1,573

Mortgage interst given as a tax reducer at basic rate. On the lower of:

- interest eligible for relief
- property income less losses for the year
- adjusted income for the year

As there is no property income for the year as losses have reduced it down to nil. There will be no relief for interest so this will be carried forward and releived next year.

Lease w3:

12 year lease:

Grant of a short lease. Part of the premium is subject to income tax and part CGT.

10,500 - (10,500 x 2% x 11) = 8190

6 year lease:

5,000 - (5,000 x 2% x 5) = 4,500

Donation to charities:

Gross donation made in October 2025 will be: 550 x 100/80 = 688

Gross donation made in May 2026 can be carried back to the 2025/26 tax year where election made on self assessment in january 2027.
Gross donation will be 1,000 x 100/80 = 1,250

Combined donation will increase the Scottish basic, intermediate, higher and advanced rates = 1938

basic rate band: 12,093 + 1938 = 14,031