

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	1006	4750	5739
Section 2	792	3859	4610
Section 3	590	2908	3420
Section 4	561	2556	3031
Section 5	455	2142	2542
Section 6	551	2545	3076
Total	3955	18760	22418

Answer-to-Question-__1__

When an individual sells a residential property that has been their only or main residence for the entirety of ownership, the increase in value between purchase and sale is exempt from Capital Gains Tax ('CGT') by virtue of a relief known as Private Residence Relief('PRR').

PRR applies to periods of actual occupation, with the relief being proportionately reduced for any periods of non occupation. The final 9 months of ownership always qualifies for PRR, provided the property has been the individual's only or main residence at some point.

Within The PRR rules, periods of 'deemed' occupation exist, but these periods required occupation before and after a period of absence and, therefore, are not relevant in this scenario.

Married couples can only have one PRR between them. It is assumed that Sarah and Tim are married.

The period from purchase to the date they moved out i.e. 30/09/2001 - 31/10/2013 will qualify for PRR.

Pear Cottage Development

Anti-avoidance known as the Transactions in Land ('TIL') rules exist under s17B ITA 2007 that may apply when an individual makes a profit or gain on the sale of UK land and property.

The rules seek to tax individuals whose activities are that of property traders and developers who are not registered as such for tax purposes.

Where the rules apply, the gain is chargeable to income tax rates i.e. 20%, 40% and 45%, rather than the lower CGT rates of 18% and 24%.

The TIL rules are triggered where any of the following conditions are met

- the purpose or one of the main purposes of acquiring land was to realise a profit
- the purpose or one of the main purposes of acquiring property deriving its value from land was to realise a profit
- the land is held as stock
- where land has been developed, the purpose or one of the main purposes was to realise a profit.

It is noted that Sarah and Tim's original intentions were to retain the developed property for investment purposes to generate rental income on commercial a basis.

However, given that no rental income was generated, and their intention following completion of the property's construction was to sell, the TIL rules will apply.

The date at which the rules apply will be based on whether Sarah and Tim can substantiate that their original intention was indeed to rent the property.

This may prove difficult if no steps were undertaken for the purposes of a qualifying rental business for example. steps taken to find tenants / appoint a letting agent etc.

If Sarah and Tim are able to convince HMRC of their original intentions, the date on which intentions changed is arguably the date construction completed i.e. August 2024.

If unsuccessful, the date intentions changed would be the date on which development started, in this case, the date planning permission was obtained in April 2023.

Based on the information provided, it seems reasonable to assume that HMRC would take the date of April 2023. Accordingly, The TIL rules would treat the land as being appropriated to stock, and giving rise to a deemed market value sale of the land for CGT purposes.

Given the value of the land at the time of this appropriation was £15,000, and although the valuation of the remaining property and land is unknown, it is certainly the case that this would represent 'small' proceeds

Sarah and Tim can therefore elect to deduct this £15,000 from their original cost of the property for CGT purposes. i.e. $760,000 - 15,000 = 745,000$.

Sale of Apple Cottage

On the sale of Apple cottage, the CGT position is as follows:

	£	£	
Proceeds		1,200,000	
Less: Legal fees		(18,000)	

Net proceeds		1,182,000	

Less: base Cost	760,000 - 15,000	(745,000)	

Gain		437,000	
Less PRR (w1)	154/282 x 437,000	(238,645)	

		198,355	

Sarah and Tim will be taxed at a rate of 24% on their 50% share of the gain after Annual Exemption:

	Total	Sarah 50%	Tim 50%
	£	£	£
Gain	198,355	99,178	99,178
Less: AEA		(3,000)	(3,000)
		-----	-----
		96,178	96,178
@ 24%		23,083	23,083

UK Residents who sell UK residential property need to file a CGT return within 60 Days of completion of sale and make payment of the CGT due. Based on a disposal date of 31/03/2025, the return and payment of CGT will be due by 2 May.

However, if Sarah and Tim file their self assessment tax returns for the 2024/25 tax year before the 60-day deadline, there will be no requirement to fil a 60-day return and their CGT liability will be due at the normal self-assessment due date of 31 January 2026. It is advisable for them to do so.

(W1)PRR

			PRR (months)	non-PRR (months)
--	--	--	-----------------	---------------------

Occupation	30/09/2001 - 31/10/2013	12 years 1 month	145	
non-occupation	01/11/2013 - 31/03/2025	11 years 5 months		137
9 months			9	(9)
			-----	----
			154	128

PRR = 154/282

It is assumed that, although the garden and grounds were 'very big', they were within the permitted area of 0.5 hectares, or were of a size required for the reasonable enjoyment of the property and no restriction needs to be considered.

Sale of Pear Cottage

as noted above, the TIL rules will likely apply to the disposal, giving rise to the following income tax position:

		£	Sarah	Tim
Proceeds		475,000		
Less:	legal fees	(7,150)		

Net proceeds		467,850		
Less	Construction costs	(220,000)		

Taxable Profit		247,850	50%	50%
			123,925	123,925

the above will be taxed as profits from a trade under the TIL rules and will be subject to income tax at a rate of 40% on the portion falling within the higher rate band and 45% on any amounts above the additional rate band. Class 4 NICs will also apply.

future renovation activities

These activities will give rise to a trade and, therefore, will be subject to income tax and class 4 NICs. Sarah and Tim will need to notify HMRC of their trading activities by the 5 October following the end of the tax year and complete a tax return.

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

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

Answer-to-Question- 2

Individuals can obtain tax relief on investments made under the Seed Enterprise Investment Scheme ('SEIS').

Company conditions

Companies can use the SEIS scheme to raise funds for future growth.

For a company to qualify as a SEIS company, it must meet the following conditions:

- be an unquoted trading companies with a permanent UK establishment
- not be undertaking a disqualifying trade (such as accountancy)
- have fewer than 25 employees when shares issues
- not be under the control of another company (i.e. not be a 51% subsidiary)
- its gross assets must not exceed £350,000 before the issue of shares
- not be a partner in a partnership

Birdie Foods Ltd is a trading company that appears to carry on a manufacturing trade which, is a qualifying trade for SEIS purposes. There are fewer than 25 employees.

On the basis the company leases a premises, it is assume it's total assets prior to Emma's investment would be below £350,000.

Based on the information provided, Birdie Foods Ltd will satisfy the above conditions.

An additional condition is that the company must meet the 'risk to capital' condition which means that, the company must have the intention to grow and develop its trade over the longer term and the investment should be a risk to the investor's capital.

It is noted that £10,000 will be used for research and development of new products. this suggests a clara intention for growth and development.

Therefore, Bridie foods will be a qualifying company for the purposes of SEIS.

Following the issue of shares, compliance statement form SEIS1 will need to be issued to

HMRC. Once processed, forms SEIS3 will be issued to the company to provide to investors.

Investor conditions

The SEIS applies to investments made in small companies, where there is a risk to the investor's capital.

To be an eligible investor, the investor cannot:

- be an employee / director in the 2 years before investing
- have a substantial interest in the company (more than 30% of the ordinary shares)
- have any linked loans
- and not be for the purposes of tax avoidance.

When determining whether the investor has a substantial interest in the company, their shareholding and the shareholding of their 'associates' is aggregated.

For these purposes, associates means spouse, ancestor or lineal descendants. Therefore, As Emma is Laura's Aunt, they are not considered associates for these purposes.

Therefore, Emma's shareholding of 25% will not result in her being connected with the company and SEIS relief will apply.

The maximum amount that can be invested into a SEIS qualifying company in a year is £200,000. Therefore, Emma's full amount would qualify for relief

Emma's remuneration for her involvement will not prevent SEIS relief, provided the remuneration is commensurate to duties performed and at a market rate.

SEIS relief

SEIS relief is given as a 50% income tax reducer of the amount invested. Based on Emma's investment of £100,000, she will obtain a tax reducer of £50,000.

This can be set against her current year (2025/26) income tax liability or set against that of the prior year (2024/25), or a combination of the two.

SEIS also allows for Capital Gains Tax ('CGT') exemption for gains arising in the year of the lower of:

- the gain
- the amount invested in SEIS shares
- another amount.

claim for SEIS relief by 5th anniversary of normal filing deadline i.e. by 31/01/2031

Withdrawal of relief

a control period of 2 years from subscription exists whereby if the shares cease to be qualifying, the income tax relief is withdrawn.

additionally, if the shares are sold within 3 years, the relief is withdrawn

Proposed options

1- although option 1 results in interest penalties, this would be cleaner from an SEIS investment point of view

2 - bank loan - as the investment relates to acquiring shares in a close company, Emma will be able to claim relief for the interest paid on the loan as a deduction against her income for income tax purposes.

3 - This option would result in her receiving shares without having paid for them. This is effectively a loan. As no interest would be payable, this loan is on non-commercial terms. Accordingly, this would be treated as a linked loan for SEIS purposes (broadly a loan that was made on terms that are only available as a result of the investment or proposed investment) and relief on the unpaid amount of £30,000 and for the original subscription would not be available.

As this option would prevent SEIS relief it is not advisable.

Depending on the level of interest penalties that would arise under option 1, and Emma's desire to not use this option, Option 2 is the most sensible.

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

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

Answer-to-Question- 3

Termination payments are either fully taxable, fully exempt, or they fall within s403 ITEPA 2003 where the first £30,000 of such payment is tax free.

Termination payments that are contractual and in reward for services performed or to be performed are fully taxable. Additionally, any payments that are non-contractual, but there is a reasonable expectation that such payment will be made, for example if it is commonplace for the company to make such payments, will be fully taxable to income tax and class 1 NICs as employment income.

Certain termination payments such as pension contributions or payments towards outplacement counselling are exempt.

Genuine the first £30,000 of genuine ex-gratia payments are tax free. This threshold is also used by any statutory redundancy pay. The amounts received above this are subject to income tax and class 1A NICs

Where any amounts are after the issue of the individual's P45, a tax code of 0T is applied, which taxes the income on a week 1 / month 1 basis, giving 1/12th of the Basic rate and higher rate bands.

Mo's Termination package

On the basis the termination is not due to redundancy, and there is no reference to contractual obligations for such payment, it is assumed that the £200,000 is ex-gratia in nature and the £30,000 tax free amount will be available.

PILON

Where a payment is made in lieu of an individual's notice, a portion is known as Post Employment Notice Pay ('PENP').

PENPs are fully taxable and equate to the amount of salary the individual would have received had they have worked their notice.

Mo had a notice period of 3 months and a monthly salary of £12,000, giving a PENP of £36,000 (3x 12,000). This amount will be taxable as employment income and subject to income tax and Class 1 NICs.

	Taxable	S403	Total
	£	£	£
PENP	30,000	170,000	200,000
Less s403 allowance		(30,000)	
	-----	-----	
Taxable	30,000	140,000	170,000

Class 1 Primary NICs

Employment income:

		£	
Salary	12,000 x 6	72,000	
Benefits	1,000 x 6	6,000	
PENP		30,000	
Total		108,000	

$50,270 - 12,570 @ 8\% = 3,016$

$108,000 - 50,270 @ 2\% = 1,155$

Total Class 1 Primary NICs = 4,171

Class 1 Secondary NICs

$108,000 - 9,100 @ 13.8\% = 13,648$

Class 1A NICs on excess of s403:

$140,000 \times 13.8\% = \text{£}19,320$ - payable by company

Maximum pension contribution

		£	
Salary	12,000 x 6	72,000	
Benefits	1,000 x 6	6,000	

taxable Termination payment		170,000	

		248,000	

Pension Allowance tapering

Threshold income			
net income		248,000	
Less: pension EE	W1	(7,200)	
Threshold income		240,800	

Adjusted income			
Net income		248,000	
Add EE contributions	W1	7,200	
Add ER contributions	W2	7,200	

Adjusted income		262,400	

2025/26 Annual allowance tapering

$$60,000 - (262,400 - 260,000) / 2 = 58,800$$

B/f annual allowance

Based on his historic salary of £12,000 per month, his annual salary would be 144,000, giving total contributions of:

		Net	Gross
EE	8% x 144,000	11,528	14,400

ER	10% x 144,000		14,400
			28,800

	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>total c.f</u>
Annual allowance	40,000	60,000	60,000	
Contributions	(28,800)	(28,800)	(28,800)	
unused c/f	11,200	31,200	31,200	73,600

2025/26 contribution therefore:

C/Y Annual allowance	58,800		
B/f allowance	73,600		
in year contributions	(14,400)		

	118,000		

Mo can therefore make a further gross pension contribution of £118,000

W1 - EE Pension contributions

Employed period 06/04/2025 - 14/11/2025

EE contributions = net payment of 8% of salary i.e. 960 (8% x £12,000)

6 months = 5,760 net

Gross = 5,760 / 80% = 7,200

W2 - ER pension

ER contributiong = 10% salary = 1,200 p/m

6 months = 7,200

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

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

Answer-to-Question- _4_

	notes/ workings	NSI	SI	D
		£	£	£
Salary		53,817		
Interst free loan	W2	264		
Isle of man pension	W3	652		
Rental profit	W4	5,825		

		60,558		
Less PA		(12,570)		

Taxable		47,988		
Tax calc				
37,700 @ 20%		7,540		
10,288 @ 40%		4,115		

Tax liability		11,655		

It has not been noted, but any PAYE deducted on her salary will be deducted from the above liability, with the balance being due for payment by 31 January 2026.

Where a tax liability is more than £1000 and less than 80% is deducted at source via PAYE, payments on account towards the following year's liability are due by 31 Jan 2026 and 31 July 2026 at 50% of the total 2024/25 liability i.e. 5,827

Workings

W1 - residency status

Masie is UK Dom anbd will therefore be unable to claim the remittance basis.

Left Sept 2016 - work overseas

Masie remained overseas under November 2023

Travelled until 15 June 2024

Maisie became non UK resident in 2016/17, presumably a split year under case 1 - leaving for fulltime work overseas.

Maisie will not meet the automatic overseas tests

Masie be UK resident under the first automatic UK residency test as she has spent more than 183 days in the UK in 2024/25. She would also satisfy the second UK residency test.

Under the split year rules, the following cases will apply to Maisie

Case 4 - starting to have a home in UK

Case 5 - starting full time UK employment - dated 24 June 2024

Case 7 - the partner of someone ceasing full-time work overseas - applies on the day where they arrived in the UK to be able to continue to live together i.e. 15 June 2024

The case that gives the shortest overseas period applies. Maisie will therefore be UK resident from 15 June 2024.

W2 - Loan

			Balance
01/10/24	Advance	25,000	25,000
01/02/25	repayment	(10,000)	15,000
01/03/25	repayment	(1,000)	14,000
01/04/25	repayment	(1,000)	14,000

Balance at 05/04/25		13,000	

Average method

$$(25,000 + 13,000) / 2 \times 7/12 \times 2.25\% = \text{£}998$$

Strict method

$25,000 \times 4/12 \times 2.25\% = 187$
 $15,000 \times 1/12 \times 2.25\% = 28$
 $14,000 \times 1/12 \times 2.25\% = 25$
 $13,000 \times 1/12 \times 2.25\% = 24$

Total = £264

The taxpayer or HMRC can impose use of the strict method. in this case, it's beneficial, so Maisie will want to.

W3 - Isle of Man Pension

As contributions were made when Maisie was non-UK resident, she is only taxed on the uplift in value since April 2017

Payment received	58,531		
less: APr 2017 value	(57,879)		

taxable	652		

W4 - rental income

Became UK resident on 15 June 2024

Payments in UK resident period = 10

Rent	10x625	6,250	
Less: Insurance			
Less: Plumbing repair	425		

		(425)	

Rental profit		5,825	

Given the rental amounts being below £150,000, the cash basis will apply by default. Therefore, rent will be taxed when it is received i.e. 1st day of the month, and expenditure deductible the date it is paid.

There does not seem any benefit in making an election for the accruals basis in this scenario.

Whilst an allowable cost, the insurance payment was made during the non-residency period and, therefore, not deductible against the UK tax liability.

The plumbing costs are allowable on the basis they fall within the UK residency period and relate to repairs.

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

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

Answer-to-Question- _5_

Given the significant investment property asset value, the company's balance sheet does not support its trading nature. HMRC historically apply a 20% test i.e. if more than 20% of a company's assets are investment assets, such as rental properties, the company will not be considered a trading for various reliefs, such as BADR or gift relief purposes etc.

However, the the company's trading income far exceeds its income from investment activities, so the position isnt clear cut but more than likley that the company will be considered trading in nature.

Linda

Although Linda has not made a direct gift of shares to her daughter, Helen, as she is the sole shareholder, she has effectively used her control to do so.

The result of the issue of shares to Helen has reduced the value of Linda's shares:

		shares	%	price per share £	total £
Before	Linda	1,000	100%	2,000	2,000,000
	Helen	0	0		
	Total	1,000			
After	Linda	1,000	66.66%	1,800	1,800,000
	Helen	500	33.33%	1,400	700,000
	Total	1,500			2,500,000

This exercise of control will trigger the 'Value shifting' Anti avoidance rules under s.29 TCGA 1992 which trigger a deemed disposal for CGT purposes for Linda.

This disposal will be based on the increase in value of Helen's shares i.e. £1,400 x 500 shares:

deemed disposal proceeds	500 x 1,400	700,000	
Less: Cost	1,000 x 700,000 / 700,000 + 1,800,000	(280)	

Linda's Gain		699,720	

Gift relief

Where an individual gifts a business asset, or sells a business asset not on an arm's length basis, a joint election can be made under s165 TCGA to rollover the gain arising on the transferee into the base cost of the transferor.

Such a claim may be made within 4 years following the end of the tax year i.e. by 31 Jan 2030.

BADR

Business Asset Disposal Relief applies to the sale of shares in an unquoted trading company where for 2 years prior to disposal, the shareholder:

- owns more than 5% of the ordinary shares
- works for the company / is a director

Linda meets the above shareholding conditions, however, she has not sold shares, so BADR will not be available.

Helen

Helen is an employee of Trust Ltd, therefore, the difference between market value and price paid for the shares will be subject to tax as employment income i.e.

Market value	500 x £1,400	700,000	
Less price paid	500 x £1	(500)	

Employment income		699,500	

The company is an unquoted company and there is no evidence to suggest there is an arrangement in place to sell, so the shares will not be readily convertible assets. Therefore, the above will be taxable to income tax via Helen's tax return, not PAYE and NICs will not apply.

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

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

Answer-to-Question- 6

1 - The croft

The gift of cash to Mr Singh's son will be a potentially exempt transfer for Inheritance tax purposes and will remain in his estate for 7 years. No Capital Gains Tax implications will arise on the gift of the cash.

However, as a portion of the cash has been used to acquire a proeprty for Mr Singh to occupy, there will be retained 'benefit'.

Anti-avoidance rules known as the 'pre-owned assets' rules provide for a charge to income tax on benefits received by a former owner of property.

The rules apply to situations where, broadly, an individual continues to receive benefits from property which they previously owned, but the gift doesn't meet the definition of a Gift With Reservation of Benefit ('GWROB').

Property within the scope of these rules are Land, chattle and intangible property.

Where an individual has sold a property within the scope of these rules and used proceeds to contribute to another property which they can benefit from, they will be liable to an income tax charge.

Benefit can include occupation, or use of the asset.

Mr Sing has sold his former main residence, gifted a portion of the proceeds to his son, who has then used those proceeds to purchase a property for Mr Singh to occupy as his main residence. The pre-owned assets rules therefore apply.

The income tax charge is based on the open market rental value i.e. £14,400 per anum, less any amounts paid in rent.

in 2024/25, Mr Singh has made no rental contributions and will therefore be liable to income tax on $8/12 \times 14,400 = £9,600$. Based on Mr Singh's other earnings for the year, this will be taxed at a rate of 40%, giving rise to a tax liability of £3,840.

Alternatively, Mr Singh can make an election to treat the gift of cash as a Gift With

Reservation of Benefit. This will remove the charge to income tax, but will result in the £300,000 falling within his estate for IHT purposes.

Donations

1 - Cash donation

Where gift aid is claimed, donations are deemed to be made net of 20% tax. therefore, when an individual make a qualifying gift aid donation, their basic rate and higher rate thresholds are extended by the gross donation. Mr Singh's gross donation would be $£1,000 / 80\% = 1,250$.

Gift aid donaitons are qualifying for the above provided there are no benefits associated with the gift or, where there are benefits, the restrictions on those benefits are not breached.

Where a donation exceeds £100, the restriction is £25 plus 5% of the excess above £100.

In Mr Singh's case $£25 + (1,000 - 100) \times 5\% = £70$.

On the basis the tickets are valued at £120 (2 x £60), the restriction threshold is breached and, therefore, Mr Singh will not receive the abvoe tax benefit of the gift donation.

2 - Gift of shares

The gift of shares in a quoted company registerd on the londom stock exchange are eligible for relief.

Income tax relief is obtained by way of an deductible payment against income equal to the market value of the shares i.s. $£4.90 \times 1,000 = £4,900$.

Additionally, for Capital Gains Tax purposes, when quoted shares are gifted to UK registeed charities, the gain is exempt.

