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

Event **NA**

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Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**1067**	**4702**	**5753**
Section 2	**1026**	**4608**	**5631**
Section 3	**1565**	**6997**	**8528**
Section 4	**965**	**4185**	**5141**
Section 5	**628**	**2863**	**3474**
Section 6	**1096**	**4839**	**5888**
Total	**6347**	**28194**	**34415**

Answer-to-Question-_1_

Brian:

Brian will not be eligible for EIS or SEIS income tax relief on this acquisiton. This is by virtue of his connection to the company prior to the subscription. Ie Brian held more than 30% of the shares (ie he held 100%) in the two years before the March 2026 subscription. 30% interest is where they hold more than 30% of the
- ordinary share capital
- issued share capital
- voting power

However, as Brian made a gain and subscribed for shares in the qualifying period ie for EIS 12 months before the gain and 36 months after the gain then he would be eligible for EIS deferral relief. He is not eligible for SEIS reinvestment relief because this requires the income tax relief to be claimed in the same 12 months.
The other conditions for EIS deferral relief are: outlined in sch 5B TCGA

- the investor is UK resident atr the time accrual time when he makes the investment
- subscribed for wholly in cash
- for Bona fide commercial purposes
- the shares issues do not exceed £5 million
- the investment took place within the qualifying time
- claim is made within 5 years from the end of the year of subscription

As he meets these conditions (on the assumption it is for a bona fide commercial purpose) then EIS deferral relief will apply. This means that there would be part of the gain which would be deferred to when a qualifying event took place. Qualifying events are:

- where they become non-resident within 3 years of the subscription of shares
- the shares are not longer qualifying shares
- the disposal of shares

The qualifying deffered amount the lower of:
- the gain (£300,000)
- amount subscribed for (£175,000)

Therefore he would defer £175,000 of the gain. Meaning in the year he would have a gain of:

£300,000 less £175,000 = £125,000
Less £3000 AEA (available as he makes no other disposals in the year)
= £122,000 gain

£122,000 x 24% = £29,280

He is an additional rate taxpayer so would be charged to CGT at 24%
We cannot comment on whether investor's relief or BADR applies on the disposal he made. BADR applies where:
- they held at least 5% of the ordiary share capital of the company for 2 years ending with the date of disposal
- was an employee throughout that same 2 year period ending with the date of disposal
- it was a trading company ie didnt have substantial non-trading activities
- they havent utilised their £1m lifetime allowance

Investor's relief applies where
- subscribed for the shares

- subscribed after march 2016
- the shares were ordinary
- it was a trading company (same meaning as BADR)
- they were held for at least 3 years ending with the date of disposal.
- not exceeded their lifeitme allowance of £1 million

If IV or BADR applies then 14% CGT rate would apply

which would be a CGT liability of £17080. Both must be claimed before the anniversary of the 31st of Jan following the end of the tax year of disposal.

EIS deferral will retain the ability to have BADR when the deferred gain comes back into charge but does not retain the ability to claim investors' relief.

lauren:

Lauren is a non-resident at the time of her disposal of LAWT properties so we must consider NRCGT. This is a company which derives more than 75% of its gross value from UK land or properties (ie 235,000/290,000 = 81% in 2019) and she holds 100% of the shares (ie she has an interest over 25%) therefore even though this is a disposal whilst she is in her non-resident part of her split year she will be subject to UK tax on the disposal. As it is a NRCGT and it is the disposal of shares of a close company we must rebase this to April 2019 by default: per sch 4aa tcga 1992

Proceeds: £370,000
Less MV at April 2019: £290,000
= £80,000 gain

Alternatively she could elect for the actual cost (retospective method)
£370,000
Less (£80,000) cost in 1995
= £310,000

Meaning it is better to use the default method of calculation. Her gain is £80,000

She could look towards EIS or SEIS deferral/ reinvestment but as she is becoming non resident within 3 years, she would be subject to the CGT anyway. So it is not advantageous for her to make this claim.

She can look towards EIS or SEIS income tax relief:
- she does not have a substantial interest in the company (ie more than 30%)
- she is not an employee/ does not have any interest in becoming one
- she is not a paid director
- the question makes no comment on a loan relationship between her and the company.
- there is no residency requirement
- it is not for the avoidance of tax
- she isnt connected/ associated with Brian as they are friends.

Therefore she qualifies for both EIS and SEIS income tax relief. And the question mentions the company is a qualifying EIS and SEIS company. it is more advantageous for her to claim SEIS. This claim must be made within 5 years from the end of the tax year of subscription.

The income tax relief maximum claim for SEIS is the lower of
£200,000 and the amount invested so in her case £75,000

This would give her a tax reducer of £75,000 x 50% = £37,500. note that this can be utilised in the year of disposal or be treated as subscribed for in the previous year. This can be claimed when they receive the SEIS3 form. It cannot create a negative liability.

Her tax liability in year of subscription is 2025/26
£85,000 less £12570 = £72,430

£37,700 x 20% = £7540
£34,730 x 40% = £13,892
= £21,432
Less (£21,432) income tax relief
= £nil

Her income tax liability for the year 2024/25 is
£100,000 less £12570 = £87,430

£37,700 x 20% = £7540
£49,730 x 40% = £19,892
= £27,432
Less (£16,068) tax reducer
= £11,364

She would still be subject to tax on her UK employment income, this is by virtue of even though she is potentially non-resident when she receives this she is still subject to tax in the UK on her UK arising income and some UK gains

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

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

Answer-to-Question-_2_

What is a main residence eligible for PPR?

For Kelly's scenario we must consider that PPR does not necessarily cover the full area around the house. If we look towards TCGA 1992 s222 it tells us what is eligible for PPR, this includes the dwelling house which is genuinely used as their only or main residence and the area around the dwelling house which is used for their own occupation and enjoyment up to the permitted area.
Generally speaking the permitted area is 0.5 hectres but this can be extended to be larger than this if we can make the argument that considering the size and nature of the property, it makes up the area which is enjoyed with the property reasonably.
This means that we would look at his property to assess which areas are genuinely used with the property. if this point was not clear then we would need to consider contacting VOA (valuation officer agency) who could assess the property, considering all the factors, how much of the land is genuinely eligible for PPR.
As we are saying the land is more than 0.5 hectares, there is certainly scope that Kelly would be required to pay some CGT on this disposal. In s224 TCGA 1992 it says there would not be PPR eligible on the disposal of property or part of property which is exclusively used for something other than his main residence. If we're saying his neighbour uses this land exclusively, and there is a divider there's scope that PPR could with withdrawn by vitue of it not being used by him himself as his main residence or alternativley there could be a restriction by virtue of it not being part of the main residence. Ie it this is not ancillory to the main residence then there's scope it is not within

the definition of being a residence in itself.
The fact that the garage itself was attached to the property doesnt indicate that it is not eligible for relief. As long as it is in the specified area of 0.5 hectares, and we can say it was used by him for his own occupation and enjoyment then PPR should apply. As this is within 1/3 of a hecatre (ie 0.33) then it should be eligible for relief.
In my opinion the area within the drywall should all be eligible, the area outside is likely not to be seen to be within the same residence and therefore no PPR would apply to this.

Periods eligible for PPR

The part of the property which genuinely is part of this residence would be eligible for PPR for the periods he genuinely lived in the property as his only or main residence and the final 9 months. It also seems he may be eligible for deemed occupation. Deemed occupation is outlined in TCGA 1992 s223 and there is 5 main deemed occupation periods
- where they are away from the property for any reason for up to 3 years
- where they are away from the property for up to 4 years for working elsewhere
- where their spouse is working elsewhere for up to 4 years and they have joined the spouse
- where they are working overseas for an indefiniate amount of time
- where they are with their spouse who is working overseas for an indefinate amount of time.

This applies where the property was their only or main residence before and after the period of absence. And the property remained their main residence whilst they were away (through nomination or through facts)

There is also work related accommodation which is slightly more generous, this give

relief for an indefinate amount of time and applies until the intention to return to the property as their main residence ceases. This is in s222(8). The conditions are:
- living in work related accommodation provided by the employer
- there is an intention to reoccupy the property as their only or main residence.

Please note that for deemed occupation periods to apply, the property must be the individual's only or main residence. If they have more than one property which is a residence (Where residence is somewhere they could live in, owned or rented) then a nomination may be required to indicate to HMRC which property genuinely is to be treated as their main residence. If not this will be based on facts.

This means he would be eligible for the period he lived in work related accommodation for the full 5 years he is away.

He would also be eligible for PPR from 1999 until 2011 because he lived there as his only or main residence throughout that time. He then worked away for 5 years. He then returned to the property as his only or main residence in 2016 and lived there until OCtober 2023 when he sold it.

This tells us the only reason that he may not be eligible for the full PPR is based on the size of the property. He can write back to HMRC with evidence and pictures to demonstrate that the full property was his main residence. The VOA would also be able to comment on whether the permitted area would be eligible.

There's certainly scope that the area which relates to where the neighbour/ outside the drywall was using would not be eligible for relief in which case:

The gain which relates to this would be worked out on a just and reasonable basis.

£201,000 (gain) x 0.25/0.25+0.33 = £86,638 gain arising from this part of the property.

This would be subject to CGT which would be eligible for the annual exempt amount which in 2023/24 was £6000 and would be subject to the residential rates of CGT which at the time were 18% and 28%. Depending on his availability of basic rate band.

He would have also been required to complete a 60 day return if there was CGT payable on this disposal. This would be required within 60 days of the completion date ie December 2023.

He would need to be able to justify this was genuinely used for his own enjoyment and occupation

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

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

Answer-to-Question-_3_

Qualifying interest

income tax computation for Dave:

	NSI	**SI**	**DI**	**Top slice**		
	£	**£**	**£**	**£**		
Employment W1	£248,531					
Bonus N1	£nil					
Termination package W6	£65,000			£23,600		
Rental income W7	£nil					
Write off of loan N3			£30,000			
Qualifying loan interest W4	(656)					
Net income	£312,875		£30,000	£23,600		
W8 pension				£15,000		
Personal allowance N4	£nil					
	£312,875		£30,000	£38,600		

Income tax:
£37,700 x 20% = £7540
£87,440 x 40% = £34976
£187,735 x 45% =

£500 x 0% = £nil
£29,500 x 39.35% £11608
£38,600 x 45% = £17,370
= £71,494 income tax due
This is due 31st Jan following the end of the tax year (2027) unless she is on POA in which case
50% of her previous year's liability is due 31st Jan during the tax year (2026)
50% of her previous year's liability is due 31st July after the tax year (2026)
And balanacing payment due 31st January following the end of the tax year (2027).
POA applies if less than 80% is collected from source or they have a liability of more than £1000

NICs class 1 primary
As he is a director we need to consider the year on a accumulative basis.
He is a director who worked until Oct so the limits are apportioned to reflect this.
NICs primary only applies to earnings so £105,000 + £65,000 = £170,000
£12570 x 7/12 = £7333
£37,700 x 7/12 = £21,992

£7333 x 0% = £0
£21,922 x 8% = £1754
£140,675 x 2% = £2814
= £4568

W1 Employment
£180,000 x 7/12 = £105,000 salary
W2 £875 Car benefit
W3 £656 Interest free loan
W5 67,000 shares
= £248,531

W2 Car benefit
Where the employer provides a car, this gives rise to an employment benefit. This is reported by the employer on the P11d and is subject to income tax. This is not subject to class 1 primary national insurance (meaning Dave would not pay NICs on this) but does give rise to class 1A NICs benefit, paid by the employer .

The benefit is calculated as follows:

(List price + accessory additions more than £100 less capital contributions by employee

up to £5000) x relevant % x availability in year/12

List price is £55,000 less £5000 (contribution by employee) = £50,000
As it is fully electric it will be 3% as the relevant percentage
It was available to Dave all year (Assuming it was not unavailable for any period of more than 30 days)

Meaning his benefit is: £50,000 x 3% = £1500

£1500 x 7/12 = £875 as he leaves the job in October (ie 7 months into the tax year)

W3 Interest free loan
This is also a taxable benefit reported via the p11d. This is by virtue of it being a loan more than £10,000. This is also not subject to class 1 primary NICs but will be subject to class 1A NICs by the employer.

There are two methods of calculation for this. Usually the lower of the two is accepted by HMRC unless it gives a drastically different answer.

Average method:
(loan at the beginning of the tax year + loan at the end of the tax year)/2 x ORI

(£30,000 + £30,000)/2 x 3.75% x 7/12 = £656

The strict method also gives the same answer because none of the loan was paid during the year.

Ie it is Amount outstanding x months it is outstanding/12 x 3.75%

It is outstanding throughout the tax year.

£30,000 x 12/12 x 3.75% x 7/12 = £656

W4 Qualifying interest
This is outlined in ITA 2007 s392
This is a close company ie because it is held by 5 or fewer people. Therefore we can look towards qualifying interest relief which is available on loans taken out for the purposes of acquring any part of the share capital of the company (assuming it is not a close investment holding company and the money is wholly and exclusively used for th epurposes of
- the business of the company
- business of any associated companies which are also close but not close investment holding companies.

This applies so the notional interest will be an allowable deduction in this computation

W5 Shares

As these are shares in relation to his employment, he will be faced with an ERS charge. These are shares which have a restricted market value. As this is not a forfeiture within 5 years the default position on these shares are:

Partially taxed in the year of the acquistion
Partially taxed in the year of the lift of the forfeiture/ at the point of leaving the company

There was no election within 14 days therefore he would be forced to do the default position (as this must be made within 14 days and nothing can be done thereafter).

As he was made redundant this year, he would be deemed as an income tax liability arising in this year.

Income tax liability on these shares in 2022:
£30 x 1000 = £30,000 restricted MV
£90 x 1000 = £90,000 unrestricted

30/90 = 33%

30/90 x £90,000 = £30,000

100 less 33 = 67% remaining to be taxed in the year of leaving
£100 x 1000 = £100,000
£100,000 x 67% = £67,000 chargeable in current year.
These are not readily convertible assets (ie because they're not listed so class 1 primary NICs will not apply).

W6 Termination package
Termination packages have slightly differing tax treatment than normal income. This is on the assumption that this income has not be taxed elsewhere, we must then consider s401 ITEPA 2003.
We must work out if the PILON is the equivalent of 3 months pay. £180,000 annual salary x 3/12 = £45,000. This is taxed as normal income and subject to class 1 primary NICs paid by Dave.
Non-competitors clause payments are just seen as earnings and also subject to class 1 primary NICs and subject to IT as earnings. This is by virtue of it being contractual
Total subject to normal earnings
£45,000 + £20,000 = £65,000

Then there will be part of the termination package which is subject to partial taxation. Partial taxation means £30,000 is exempt but the excess it taxed at Dave's top slice. This includes genuine exgratia payments, which are completely uncontractual and not the norm within the company and the statutory redundancy pay he is given.

£8,600 statutory
+ £20,000 ex-gratia (uncontractual)
+ £25,000 Car N2
= £53,600
Less (£30,000) exemption amount
= £23,600

This part of the termination payment is not subject to class 1 primary NICs but would be subject to class 1A NICs (paid by the employer)

There's also amount which is completely exempt:
In this case this is pension contributions of £25,000
This is not subject to NICs

W7 Rental income
Renting of a car parking space would be eligible for property allowance
£80 x 12 = £960
The allowable expenses exceed £1000 ie £100 x 12 = £1200 therefore a property allowance claim would not be advantageous. He has a loss of £240 in his property business which he can utilise in current year or future years against the profits of the rental property business. No carry back claim is allowable.
Not NICable

W8 Pension
As he has a very high income ie £312,875 + £30,000 + £23,600 = £366,475. He may be charged to the top slice on the excess over his annual allowance for pension purposes. Where someone has threshold income which exceeds £200,000 (he has £366,475) and adjusted income over £260,000 (he has £391,475) then their annual allowance is withdrawn by £1 for ever £2 which exceed the adjusted income. This cannot go below £10,000 however.
The normal annual allowance is £60,000 and he exceeds by £131,475, which is far more than the available annual allowance (ie would be £65,738 reduction) therefore his annual allowance is £10,000.
Meaning he went over the annual allowance by £15,000. This will be subject to tax at his highest rate of tax.
Also not NICable

N1 Bonus

Where someone is a director they are assessed on income received (ie the bonus in this case) on the earlier of: (ITEPA 2003 s18)
- the time when the sums on account of the earnings are credited to the company's records
- if the amount of the earnings for a period is determined by the end of the period, the time when the period ends
- if the amount of the earnings for the period is not determined after the period ends, the time when the amount is determined

Therefore it would be assessed on David in 2024/25 because it was in the company's accounds on 31st December 2024. This is not assessed in 2025/26

N2 transfer of car
normally the transfer of an asset from employer to employee will be the lower of:
- mv at time it was available to employee less amount already charged to income tax
- mv at time of transfer

but this does not apply to cars.

N3 Write off of loan:

This is treated as a dividend in the hands of Dave, this is by virtue of him being a participator and thus having a DLA.
Also not NICable

N4 Personal allowance
There is no allowance for him as he has income of more than £100,000 the personal allowance is withdrawn by £1 for every £2 which exceed £100,000 therefore it would be completely withdrawn over £125,140

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

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

Answer-to-Question-_4_

Eduardo:

Eduardo has been a UK resident since 2010/11 therefore he is not eligible for the FIG treatment on any of his income and in 2025/26 we not longer have the availability of remittance basis. This is by virtue of FIG applying to:
- those who are within their first 4 years of residency
- after a period of at least 10 years of non-residency
- claim for FIG is made

Remittance basis is no longer available to anyone as it has been taken out of UK tax law.

This means that he would be taxed in the UK on all his worldwide income and gains as he is a UK resident. This is on an arising basis. So the income arising in 2025/26 from this investment would be taxed on Eduardo in this tax year
This means that Eduardo will be subject ot UK tax on his investment portfolio in the US. This would be eligible for double taxation relief on the assumption that this is outlined accordingly in the UK/US DTA. This would be the lowest of:
- tax suffered in the UK
- tax suffered in the US

Unless the DTA outlines something else
If he remitts any of the income from when he was claiming remittance basis, this would be subject to UK tax in the year of remittance, despite the withdrawal of remittance basis from UK tax law. This would be taxed in the UK as non-savings income.
However, he can make a claim for temporary repatriataion facility (TRF) to apply. This applies where
- someone was previously claiming remittance basis remitts income to the UK
- and a claim is made.

This would then mean he would be subject to a lower rate of tax. He would be eligible for 12% in 2025/26 and 15% in 2026/27 or 2027/28. Otherwise this income would be subject to Eduardo's normal rate of tax.
Alternatively, Eduardo may want to consider BIR. BIR applies where
- the qualifying investment is made within 45 days of remittance into the UK
- the investment is made before April 2028
- none of the amount remitted is a TRF remittance
- And condition A and B are met
- Condition A: it is a private limited company

- it carried on one or more commercial trades or is preparing to do so within the next 5 years
- carrying on commercial trades is all or substantially all of what it does
- Condition B: no relevant person has obtained or become entitled to obtain any related benefit and no relevant person expects to obtain such benefit.

If all the conditions apply then this income is not deemed as remitted and thus is not subject to income tax in the UK.

This would then mitigate the UK tax liability. If the income is coming from a mixed funds account with clean capital (ie the income which has already been taxed in the UK between 2017/18 and 2024/25 and there onwards. We would need to consider the mixed funds rules. They are deemed on a LIFO basis so 2025/26 would be deemed as exiting the account first, then 2024/25 onwards. Capital takes priority over any income types. So not all income which he remits will necessarily be subject to UK CGT.

As theses are overseas assets held overseas and he claimed remittance basis in at least one year since 2017/18 until 2024/25 he would be eligible to rebase the investments to their market value at April 2018 when he disposes of them. He does not need to make a claim for this. He would still be subject to UK tax on this, on the assumption he is a UK resident at the time of disposal.

Diana:
The default position is that Diana would be subject to UK tax on all her worldwide income and gains on an arising basis in 2025/26
But she is eligible for FIG as she is within her first 4 tax years of residency after never living in the UK previously. (a split year is considered one full year for FIG purposes).

She can claim FIG for:
2025/26
2026/27
if she wishes.

This means her income from her overseas property would not be taxed in the UK as it is qualifying overseas income. But she would not be eligible for the UK personal allowance on her income taxable in the UK/ nor would she be eligible for the AEA for any gains she makes.
Simiarly, she would be eligible to claim FIG on her disposal of the property if she disposes of it in 2025/26 or 2026/27.
She would be eligible fot claim 2017 rebasing on the property she held in Chile. This is by virtue of:
- her claiming remittance basis between 2017/18 and 2024/25
- it is an overseas asset

- disposing of it whilst UK resident
This is not a claim and applies automatically.
She would not be subject to the 2015 rebasing as this only applies to a non-resident disposing of an asset which is UK land or property (or derives it value from UK land and property).
If she sold it now out of the two options she would have:

2017 rebasing:
£410,000 current market value
(£300,000) MV at 2017
= £110,000
Less (£3000) AEA
= £107,000 gain

FIG:
£410,000
Less (£240,000) MV at date of death as she inherited the property by virtue of s58
= £170,000 gain
Less (£170,000) FIG claim
= £nil gain

A FIG claim is likely for advantageous as it is a large gain. This is on the assumption she made the disposal whilst she was still eligible for FIG.

She would also be eligible for TRF if she did want to remit her overseas income which accumulated whilst she was claiming remittance basis.

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

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

Answer-to-Question-_5_

As this is a takeover, we must consider s127. This essentially says where shares are received in consideration of a qualifying takeover, they would not trigger a CGT liability ie it is seen as the same asset. So we would only potentially see a gain on the cash (again QCBs would not give rise to a chargeable gain).

This gain would be as follows:
We must consider share matching rules on the assumption that all the shares were the same type and class
Share matching means we match disposals and acquistions in the following order
same day acquistion and disposal
acquisition within 30 days of disposals
s104 sharepooling.
It seems all the shares would go in the s104 sharepool.

Date	No	Cost	Acquisition/disposal?			
20/04/1985	50,000	£50,000	Acqusition			
12/09/1990	10,000	£20,000	Acqusition			
10/01/1995	8,000	£25,000	Acquisition			
10/03/2010	nil	W1 (£2317)	Disposal			
	68,000	£92,683				

Where the preference shares were exchanged for ordinary shares, this would not be a CGT disposal for the purposes of a gain arising. This is by virtue of s127 which essentially says as long as it is a qualifying reorganisation, it would be treated as the same asset for CGT as if it has been held for the same amount of time and with the same cost

W1 The rights issue which Edith didnt take up would have have triggered a CGT gain:

£95,000 (Cost) x £10,000/ £10,000 + £400,000 = £2317

Consideration received from takeover:
Cash received: £5 x 68,000 = £340,000
Shares received: (£5 x 2) x 68,000 = £680,000
QCB received: £1 x 68,000 = £68,000

= £1,088,000 total consideration

The gain arising from the cash is therefore:
£340,000 proceeds
Less (£92,683 x £340,000/ £1,088,000) = £28,963
= £311,037

She would be eligible for BADR on this gain because she meets the following conditions:
- it was a trading company
- she held more than 5% for the two years ending with the date of disposal
- she was an employee for two year ending with the date of disposal
- she has not utilised her lifetime allowance in relation to BADR
so on the assumption she made a claim before the anniversary of 31st Jan following the end of the tax year she would be eligible for BADR
This would mean she would be charged to tax on 14% of the gain arising in 2025/26

£311,027 x 14% = £43,545 CGT payable by 31st Jan following the end of the tax year

The shares and QCBs will not be chargeable in 2025/26 by virtue that there is no disposal as s127 applies. When the QCBs are disposed of, as they are qualifying they are exempt from CGT anyway

The base cost for the shares would be:

£92,683 x £680,000/1,088,000 = £57,927

However as the reorganisation took place in June 2024, it is possible to make a s169Q election which essentially disapplies s127. This is by virtue of:
- it is a reorganisation per s126
- s127 applies
- it is an election by an individual
- it is before the first anniversary of 31st Jan following the tax year the reorganisation takes place (ie 2026)

If this applies, then the disposal in 2024/25 would actually be:

£1,088,000 proceeds
Less (£92,683) cost
= £995,317

Which would fully be eligible for BADR and thus charged at a rate of 14%

£995,317 x 14% = £139,344

This would be paid by 31st Jan following the end of the tax year of disposal.

And her base cost for the shares would become £680,000. This is advantageous because even though it is large tax bill in the year of takeover, as she will not be an employee of the new company, she would not be eligible for BADR on the disposal of these shares in the future.

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

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

Answer-to-Question-_6_

RESIDENT IN SCOTLAND SO CONSIDER SCOTTISH RATES OF NON-SAVINGS INCOME.
Tax credit from interest
MORTGAGE interest relief

	NSI £	**SI £**	**DI £**			
Bank interest		£2312				
W1 Interest		£40,000				
Dividend			£500			
Rental income N2	£8708					
Jointly owned property W6	£3633					
Lease W7	£287					
Employment W2	£8700					
	£21,328	£42,312	£500			
PA	(£12570)					
	£8758					

£2827 x 19% = £537
£5931 x 20% = £1186
£500 x 0% = £0
£30,380 x 20% = £6076
£11,932 x 40% = £4773
£500 x 0% = £0
= £12,572
Less (10,000) W1 tax credit
Less (£296) Mortgage interest N4
= £2276

This is due 31st Jan following the end of the tax year (2027) unless she is on POA in which case
50% of her previous year's liability is due 31st Jan during the tax year (2026)
50% of her previous year's liability is due 31st July after the tax year (2026)

And balanacing payment due 31st January following the end of the tax year (2027).
POA applies if less than 80% is collected from source or they have a liability of more than £1000

W1 Interest received from loan from company
Companies withhold tax at the rate of 20% to individuals. So we need to gross this up:
£40,000 x 100/80 = £50,000
tax credit is therefore £10,000

W2 Employment
£5,815 salary
+ £nil N1 birthday lunch
+ £185 W8 christmas party
= £8700

There would be class 1 primary payable by Nicole on the earnings £5815 but this is below the threshold of £12570 so none would be due.

W3 Rental income
As they are husband and wife they would by default be assessed on jointly owned property on a 50/50 basis.
This is by virtue of:
- them being spouses who are not intending on permanently separating
- the property being in joint names.

Previously, FHLs could have their income assessed on the proportion that the couple chooses but now FHLs are no longer treated in this way. With this in mind, the default position would be that they would be asssessed on a 50/50 basis. However, they can make a form 17 claim which would be sent to HMRC and HMRC would apply this within 60 days of the declaration. This form 17 then must follow the actual beneficial ownership. This means that Liam would be assessed on 80% of the income arising from the property and Nicole 20%. This would be advantageous for them both. For this question I will assume that a form 17 was done for 2025/26 as this would benefit them as Liam is a basic rate tax payer.
Thi election can be disapplied in later year.

As this is a rental property business which has gross profits of less than £150,000 it will be on the cash basis, this means income and expenses are recognised on the basis that they are paid and received. They can make an election for the accruals basis if they wish but this would impact the property business for both of them and also apply to the property that Nicole owns solo. This essentially recognises expenses and rents on the

periods they relate to. I will assume this is not the case and cash basis will apply

W4 Mileage
Mileage is allowable on a simplified method or they can claim capital allowances (not both) this claim is irrovacable.
first 10,000 are at a simplified rate of 45p and thereafter 25p in a tax year. So in this case:
3496 x 45p = £1573

W5 Capital allowances
Capital allowances from previous FHLS can still claim WDA, this is on the assumption the assets were in the pool at the time of FHLs being taken out of legislation (5th April 2025).
Therefore on this assumption (and assuming they're in the main pool) £10,220 x 18% = £1840

W6 Jointly held property
£44,640 rents received
Less (£19,752) utility bill N2
Less (£1680) insurance N2
Less (£744) broadband N2
Less (£904) replacement of white goods N3
Less Nil Mortgage interest N4
Less £1573 mileage W4
Less (£1820) capital allowances W5
= £18,167

£18,167 x 20% = £3633 (appportioned to reflect her assessible income for the period

W7 Lease
Grant of a short sublease

£5000 premium
£5000 x 2% x 4 = £400 capital
= £4600 income

£10,500 premium
(11 x £10,500 x 2%)= £2310
= £8190 x 5/12 =
£3413

£4600 less £3413 = £1187 taxed as property income.
Less £900 rent paid to landlord of headlease

= £287 profits

There is relief so that they don't double tax the landlord of the headlease's income twice. This is where the deduction £3413 comes in.

There would also be a CGT implication on this disposal as well.

The £600 rental income is not taxed in 2025/26 because we are using cash basis

W8 Christmas party
Companies can throw a christmas party without a taxable benefit arising but only where it is £150 per head or less. This exceeded the £150 per head rule which means it is all taxable (£150 x 4 = £600).
£740/4 = £185

W9 Gift aid

£1000 x 100/80 = £1250
£550 x 100/80 = £688
This extends the scottish basic rate
£14921 + £1938 = £16,859
This also extends the basic rate for SI purposes to £39,638

the benefit is fine as long as it is not excess. this must be a commercial benefit expected by any donor.

N1 Birthday lunch
This is a trival benefit under £50 and therefore is an exempt benefit

N2 Rental expenses
Are allowable on the assumption that they are wholly and exclusively for the purposes of the property business and revenue. We can make this argument for a insurance and repairs.

I am assuming the £8708 is from a property which is just owned by Nicole and thus isnt subject to the jointly owned income rules.

N3 replacement of white goods
This is allowable on the basis it is largely the same quality of asset and not an improvement. it must:
- be available exclusively to the tenant
- the previous asset must have been used in the rental business
- it must not have had capital allowances claimed on it. (i will assume that is not true)

N4 mortgage interest
Is not an allowable deduction where it is mortgage interest for a residential property but there is relief at 20% on the lowest of:
- property income profit = £287 + £3633 + £8708 = £12,628
- Qualifying interest £7394 x 20% = £1479
- Adjusted net income

Therefore the qualifying mortgage interest relief if £1479 x 20% = £296