The Chartered Institute of Taxation

Advanced Technical

Taxation of Individuals

May 2026

Suggested answers

Answer 1

Brian

EIS relief

Brian is eligible for EIS reinvestment relief on the gain of £300,000, because he subscribes for shares in an EIS qualifying company within three years of the gain arising. There is no requirement for Brian to not be connected with Gourmet Ltd.

A claim should be made to defer £175,000 of the gain. The gain will become chargeable if there is a chargeable event, for example if Brian sells the shares in Gourmet Ltd. Brian should claim for relief by 31 January 2032.

Brian is not eligible for EIS income tax or disposal relief as he is connected to the company (>30% of the shares).

SEIS relief

Brian is not eligible for SEIS relief on the investment in Gourmet Ltd as he is connected to the company.

Lauren

Income

EIS and SEIS relief

Lauren is eligible to claim EIS or SEIS income tax relief on the subscription for new shares, provided she has a UK tax liability, which she does.

SEIS relief is preferable to EIS relief because SEIS provides a higher tax reducer (50% rather than 30%) and enables exemption of up to 50% of a gain through reinvestment relief rather than the deferral of a gain.

Lauren appears to be a qualifying investor for SEIS relief, because:

- She does not own a substantial interest (more than 30%) in Gourmet Ltd
- She is not and does not intend to be an employee
- There are no related investment arrangements
- There are no linked loans
- There does not appear to be a tax avoidance motive

She is subscribing for new ordinary shares (and the total amount raised does not exceed £250,000), consequently the total income tax relief is £37,500 (£75,000 x 50%).

To maximise income tax relief, Lauren can make two claims for income tax relief, one in 2025/26 and one in 2024/25.

		2024/25		2025/26
		£		**£**
Total income		100,000		85,000
Personal allowance		(12,570)		(12,570)
Taxable income		87,430		72,430
Income tax				
20%	£37,700	7,540	£37,700	7,540
40%	£49,730	19,892	£34,730	13,892
	£87,430	27,432	£72,430	21,432
Less SEIS 50% x investment	50% x £32,136	(16,068)	50% x £42,864	(21,432)
		11,364		0

To maximise capital gains tax reinvestment relief (see below) £42,864 (2 x £21,432 = £42,864) of the investment will be allocated to 2025/26 and the remainder, £32,136 (£75,000 - £42,864 = £32,136) will be carried back to 2024/25

Capital Gain

Lauren is currently Non UK Resident, ordinarily this would mean that she is not liable to UK Capital Gains Tax.

However LAWT Properties Ltd is a UK property rich asset because more than 75% of the gross asset value (£350k/£370k =95%) is derived from UK land and Lauren has a substantive interest in the company (at least 25%). This means that it is only the gain arising post 06/04/19 that will be liable to UK Capital Gains Tax. It is possible to use the original cost, rather than the rebased 06/04/19 value, however this would not be advantageous in this situation as the property and hence company, has increased in value.

	2025/26
2025/26	**£**
Proceeds	370,000
Rebased 06/04/19	(290,000)
Gain	80,000

SEIS relief

Lauren will be also be eligible for SEIS reinvestment relief in respect of this disposal in 2025/26. The relief is the lower of the following:

Amount specified in the claim

50% of the amount of investment applied to 2025/26 - 50% x *£42,864 = £21,432

50% of the gain - 50% x £80,000 = £40,000

*The income tax SEIS relief was claimed in 2024/25 and 2025/26, the SEIS investment for income tax relief for 2025/26 was £42,864.

With SEIS reinvestment relief the capital gains tax is calculated as follows:

		2025/26
2025/26		**£**
Gain		80,000
SEIS		(21,432)
AEA		(3,000)
		55,568
CGT	24%	13,336

Lauren must complete a Non Resident Capital Gains Tax return and pay the Capital Gains Tax within 60 days of the disposal (30 April 2026). Lauren must claim for income tax relief and reinvestment relief by 31 January 2032 for 2025/26 and 31 January 2031 for 2024/25.

Lauren is currently Non UK Resident however because she expects to be absent for a period not exceeding 60 months it is likely that she will become temporary non-resident if she returns to the UK in February 2028. Assuming Lauren returns to the UK in February 2028 the pre April 2019 gain will become chargeable at this time.

2027/28	**£**
Proceeds	370,000
Cost	(80,000)
Gain	290,000
Taxed in 2025/26	(80,000)
Gain	210,000

MARKING GUIDE

	Marks
Brian	
EIS	**2.5**
SEIS	**0.5**
Lauren	
EIS/SEIS – SEIS better	**1.0**
Qualifying investor for SEIS with .5 per reason - max 1	**1.0**
Maximum income tax relief £37,500	**0.5**
Two claims for SEIS relief	**0.5**
Maximise claim in 2025/26 to maximise CGT relief	**0.5**
Calculation of the income tax and SEIS income tax relief for 2024/25 and 2025/26	**2.0**
Non UK resident so normally no CGT	**0.5**
Property rich asset/can elect for cost	**1.0**
Calculation of rebased gain	**0.5**
Calculation of reinvestment relief in 2025/26	**1.0**
AEA and calculation of CGT after relief	**1.0**
Reporting and paying CGT within 60 days	**0.5**
Date for SEIS claims	**0.5**
Temporary Non Residence	**1.5**
Total	**15**

Answer 2

Private Residence Relief ("PRR") Is available when individuals dispose of a "dwelling house" that has been their only or main residence at some time during their period of ownership. The relief also applies to ancillary buildings, such as garages, which fall within the curtilage of the main dwelling and which are appurtenant to it.

Curtilage is defined as a small courtyard or piece of land attached to a dwelling house and forming one enclosure with it. Appurtenance describes the resulting legal relationship that the buildings within the curtilage have to the main house. Effectively the two concepts are two aspects of the same test; a building which is within the curtilage of the main house will be appurtenant to it, and a building which is appurtenant to the main house must be within the curtilage of it.

A building which is appurtenant to the main house will pass with it on conveyance without having to be specifically mentioned.

Fox Barn, the garden area and the garage are all appurtenant to the main house and therefore within the curtilage. The land that sits outside of the dry-stone wall doesn't fall within the curtilage.

The area of garden and grounds of a dwelling house that automatically qualify for PRR if the residence conditions have been met is referred to in the legislation as the "permitted area". S.222(2) TCGA 1992 states that the permitted area, which includes the site of the dwelling house is half a hectare.

The total area of Fox Barn is more than half a hectare. This would appear to be why HMRC have issued the assessment.

A larger area may qualify for PRR if HMRC can be persuaded that it is required for the reasonable enjoyment of the dwelling house, having regard to the size and character of that house. The word "required" is applied in relation to the property rather than the preferences of the owner. So, for example, an individual could not argue that they require a larger area because they want to keep chickens. The area needs to contribute to the owner's ability to use the property without inconvenience or difficulties.

Kelly allowed his neighbour to use the land outside of the wall, so it would be difficult to argue that its absence would have caused him any difficulty or inconvenience. This means there will be a proportion of the gain that is not covered by PRR.

Kelly had a period of absence from the property; however, certain periods of absence can be ignored, including a period of any length throughout which the individual has an employment that requires them to perform their duties abroad. As Kelly returned to live in the property, the period of absence will not affect the PRR claim.

HMRC are out of time to open an enquiry into Kelly's tax return. The deadline was twelve months after the date it was filed. However, they are within time to issue a discovery assessment. This deadline being 4, 6 or 20 years from the end of the tax year subject to the taxpayer's behaviour.

HMRC can only issue a discovery assessment if one of the following conditions is met:

A) the taxpayer acted carelessly or deliberately in submitting their return and this led to a loss of tax;

or

B) at the point when the enquiry window ended, HMRC could not have reasonably been expected to be aware that there was a loss of tax in the tax return.

It would not appear that Kelly's behaviour was deliberate, but HMRC might be able to argue that it was careless. Case law has established that careless behaviour is failing to act in the way that a prudent and reasonable person would act in the taxpayer's position. Kelly kept detailed notes explaining why he believed that the gain would be fully covered by PRR, but it could be argued that he has misinterpreted the guidance or that he should have also looked at HMRC's guidance or taken professional advice rather than relying on information he found online

Alternatively, HMRC could argue that on 2 November 2025, they could not have been reasonably expected to be aware that the size of the site exceeded the permitted area. Kelly did not provide this information on his return.

In conclusion, it would appear that HMRC meet the conditions to issue a discovery assessment. This is likely to be on the grounds that Kelly did not provide them with sufficient information regarding the PRR claim. Kelly or his adviser should check the assessment to ensure that the PRR amount is correct and that all the allowable deductions, such as sale costs, are included. Kelly may also wish to ask a surveyor to provide an apportionment of the sale proceeds and cost figures between the two areas to see if this agrees to HMRC's assessment.

Kelly will be able to use his Annual Exempt Amount against the gain if this has not been used against any other gains.

Kelly should cooperate with HMRC and make a full disclosure.

MARKING GUIDE

State that PRR applies to the disposal of an individual's only or main residence	½
Consider whether the gardens and garage fall within the curtilage of the property	1
Definition of permitted area	1
Discuss when a larger area may qualify	1½
Implications of exceeding the permitted area/reason for HMRC issuing the assessment	1
Period of absence does not reduce PRR claim	1
Deadline for HMRC to open an enquiry into Kelly's tax return	1
Conditions for HMRC to raise a discovery assessment	1
Deadline for HMRC to raise a discovery assessment	½
Consider whether Kelly's behaviour could be classed as deliberate or careless	2
Consider whether HMRC could have been expected to know about the size of the property	1
Conclusion	1
Advise Kelly on next steps	2
Annual Exempt Amount may be available to reduce the taxable amount	½
	15

Answer 3

Income Tax Liability

		Non-Savings Income (£)	Dividend Income (£)	S401 "Top Slice" (£)
Salary (N1)		105,000		
Company Car BIK (N2)		875		
Bonus (N4)		0		
Restricted Securities Charge (N5)		66,667		
PILON (N6)		45,000		
S401 (N7)				23,600
Restrictive Covenant (N8)		20,000		
Loan Write Off (N9)			30,000	
Total		237,542	30,000	23,600
Personal Allowance		0		
£37,700 x 20%	7,540			
£87,440 x 40%	34,976			
£112,402 x 45%	50,581			
£500 x 0%	0			
£29,500 x 39.35%	11,608			
£23,600 x 45%	10,620			
Total Income Tax Liability	115,325			

National Insurance Liability

	£
Salary	105,000
PILON	45,000
Restrictive Covenant	20,000
Loan Write Off	30,000
Total Earnings Liable to Class 1 NIC	200,000
Less Annual Director Primary NIC Threshold	(12,570)
	187,430
£37,700 x 8%	3,016
£149,730 x 2%	2,995
Total Class 1 NICs Due	6,011

Notes

N1 Salary - £180,000 x 7/12 = £105,000– earnings subject to income tax & Class 1 NIC

N2 Company Car BIK - £55,000 list price less capital contribution capped at £5,000 = £50,000

£50,000 x 3% x 7/12 = £875 – subject to income tax & Class 1A NIC

N3 Loan – the entire loan made by Macrodrive Ltd was used to purchase shares in a close company, therefore the loan is ignored and no benefit in kind arises– no income tax or NIC implications

N4 As Dave is a director, the special rules for directors at ITEPA 2003 s18 must be considered. Per "Rule 3" Dave's bonus was determined at the Board Meeting on 10 March 2025 and this will be the date of receipt for tax purposes. Dave's bonus was therefore taxable in the 2024/25 tax year and is not liable to tax or Class 1 NIC in 2025/26 when it is received.

N5 The shares issued to Dave in April 2022 were "restricted securities" as the market value of the shares has been depressed by the forfeiture clause. As Dave paid the restricted market value for the shares and did not sign a s431 election there is a charge to tax when the restriction is lifted.

The charge is calculated as:

Market value of shares immediately after restriction is lifted x % of unrestricted market value of the shares that was neither taxed nor paid for when issued

(£100 x 1,000) x (60/90) = £66,667

As the shares are not readily convertible assets there are no NIC implications.

Termination Package

N6 Contractual payments in lieu of notice (PILON) are taxed as earnings – subject to income tax and Class 1 NIC

N7 Statutory redundancy payments and non-contractual payments fall under s401 ITEPA 2003 and are exempt from tax up to £30,000 as set out at s403 ITEPA 2003. Non cash payments can also fall within s401 and so the transfer of Dave's company car as part of his termination package will also be included. The value of the benefit is the market value of the car when transferred to Dave.

The amounts falling to be taxed under s401 are therefore:

	£
Statutory redundancy pay	8,600
Non-contractual cash payment	20,000
Company car transferred	25,000
Total	53,600
Less s403 exemption	(30,000)
Taxable	23,600

NB – amounts falling to be taxed under s401 ITEPA 2003 are subject to income tax and will be taxed as an individual's "top slice" of income but only be subject to Class 1A NIC

N8 Payments as part of a restrictive covenant are taxed as earnings – subject to income tax and Class 1 NIC

N9 As Dave is a participator in a close company the loan write off will be treated as a distribution and taxed as a dividend. However, as Dave is also a director, the loan write off will be treated as earnings for National Insurance purposes and be liable to Class 1 NIC.

N10 Employer contributions to a registered pension scheme are exempt from income tax and national insurance.

However, they do still count towards an individual's annual allowance.

Dave's threshold income for 2025/26 is his total income for the year less gross personal pension contributions which have not been given basic rate tax relief at source.

Dave has not made any personal pension contributions in 2025/26 therefore his threshold income equals his total income of £291,142, which exceeds the threshold of £200,000.

Dave's adjusted net income is his threshold income plus employer pension contributions - £291,142+ £25,000 = £316,142 , which exceeds the adjusted net income threshold of £260,000

Dave has a tapered annual allowance for 2025/26 of:

£60,000 – ((£316,142 - £260,000) / 2) = £31,929

Dave's employer pension contribution therefore falls within his tapered annual allowance for the year

N11 Dave has net property income for the year of (£80 x 12) - £100 = £860. However, as the gross income for the year is less than £1,000 it is covered by the property allowance meaning the income is not subject to tax and does not need to be notified to HMRC.

MARKING GUIDE

TOPIC	MARKS
Salary – calculation, subject to income tax & Class 1 NIC	½
Company Car – calculation, subject to income tax & Class 1A NIC	1 ½
Beneficial Loan / Qualifying Loan Interest – Identify BIK & Qualifying Purpose – No income tax or NIC	1
Bonus – identify date of receipt for tax & NIC purposes	1
Income Tax Charge on Restricted Securities	2
PILON – subject to income tax & Class 1 NIC	1
S401 payment – calculation of amount subject to income tax:	
Statutory redundancy pay	½
Non-contractual cash payment	½
Company car transferred	½
Less s403 exemption	½
Taxed as top slice & subject to Class 1A NIC	½
Restrictive Covenant – subject to income tax & Class 1 NIC	1
Loan Write Off – taxed as a dividend	1
Loan Write Off – subject to Class 1 NIC	1
Pension Contribution – exempt from income tax and NIC	1/2
Pension Contribution – within tapered annual allowance	1 ½
Property income covered by property allowance	1
Income Tax Calculation	
No personal allowance	½
Calculate Income Tax Liability	2
National Insurance Calculation	
Annual Director Threshold	1/2
Calculate National Insurance Liability	1 1/2
TOTAL	**20**

Answer 4

Eduardo

For 2025/26, Eduardo will be assessed to tax on the arising basis. This is because the remittance basis was abolished from 6 April 2025 and domicile is no longer relevant.

Eduardo does not qualify for the Foreign Income and Gains (FIG) regime, as he has already been UK resident for more than 4 tax years.

He will therefore be taxed on worldwide income and gains as they arise each year.

There are two transitional reliefs to consider, which may be available to Eduardo:

- Rebasing for Capital Gains Tax (CGT)

This relief allows eligible individuals to replace the original purchase cost of personally held foreign assets with the market value at 5 April 2017 when calculating capital gains or losses on a future disposal. This means any growth in value from purchase to 5 April 2017 will be tax-free. Amongst other conditions, an individual must have claimed the remittance basis in one of the tax years between 2017/18 and 2024/25 inclusive.

As Eduardo has not done so, he does not qualify for rebasing. He should consider whether it is appropriate to amend either his 2022/23, 2023/24 or 2024/25 tax return (depending on which gives the lowest cost) to include a remittance basis claim by 5 April 2029, though he would have to pay a remittance basis charge of £30,000 as well as lose his personal allowance and annual exempt amount. He would need to compare the impact of this to the potential CGT saving under a rebasing claim to see whether it is beneficial.

- Temporary Repatriation Facility (TRF)

The TRF is available for 3 tax years (2025/26, 2026/27 and 2027/28) and allows qualifying individuals to bring foreign income and gains which arose before 6 April 2025 which have not yet been taxed in the UK (i.e. from a year in which the remittance basis applied) to the UK at a reduced tax rate (12% in the first 2 years, or 15% in the third year). To qualify for the TRF, an individual must have previously claimed the remittance basis in any year. Eduardo meets this condition, therefore he can make use of the TRF by designating foreign income or gains to which he would like the relief to apply in his Self Assessment tax return. If he does this in 2025/26, he will pay tax on the amount designated at 12%. He does not need to remit the funds in 2025/26 and so a claim for 2025/26 can still be made after the end of the tax year. The funds can be remitted at any time in the future and he will not suffer any additional tax charge. If he does not make a claim in 2025/26, he can still do so in the 2026/27 or 2027/28 though the tax rate increases to 15% in the latter year.

If he chooses not to use the TRF, or if he remits any historic income or capital gains which were subject to the remittance basis without designating them for the TRF, the remittance will trigger a tax charge at his marginal income tax rate in the year of remittance (up to 45%). This is because the remittance would constitute the historic interest and dividend income.

As Eduardo has been taxed on the arising basis for many years, it is unlikely he will need to make a TRF claim.

Diana

Diana will also lose access to the remittance basis from 6 April 2025 however, assuming she has only been in the UK for 2 tax years and non-resident for the 10 immediate years prior to arriving, she will qualify for the Foreign Income and Gains (FIG) regime for her next 2 years of residence, including 2025/26.

- FIG regime

The FIG regime means that Diana would only pay tax on her UK sourced income and UK capital gains, and she would be able to remit her 2025/26 foreign income and gains to the UK without any further tax charge or taxable remittance arising. If Diana wishes to use the FIG regime, she needs to make a claim on her 2025/26 tax return by 31 January 2028 latest. It is worth noting that the claim can be made for foreign income only, foreign gains only, to both or to particular sources on a source-by-source basis. A claim results in both the personal allowance and CGT annual exempt amount being lost, regardless of whether the claim is made only on income or gains, or on both.

If Diana has a mixed fund, i.e. if 2025/26 income or gains are in the same account as pre-April 2025 income/gains, she will need to continue to carefully monitor remittances to the UK. She should consider opening a new account to receive post-April 2025 income. If pre-April 2025 income or gains are remitted, a taxable remittance will occur and will trigger a tax charge at Diana's marginal rate.

- TRF

Diana could use the TRF as she has previously claimed the remittance basis. In 2025/26, she could designate any foreign income or gains from 2023/24 or 2024/25 and pay tax at only 12%. This would provide the benefit of remitting any funds to the UK in the future without triggering any additional tax charges.

She could designate the 2023/24 and 2024/25 rental income which is held in her Chile account. If she does so in 2025/26, she will pay tax at 12% and can then remit the funds to the UK. She will be able to remit the 2025/26 rental income to the UK without any tax charge.

- Potential sale of Chilean property (rebasing)

As Diana has claimed the remittance basis in at least one of the tax years 2017/18 to 2024/25, she also qualifies for the rebasing relief on assets which she held on 5 April 2017, provided they remained out of the UK throughout the period 6 March 2024 to 5 April 2025. If she sells the Chile property before 6 April 2027, it could be exempt from UK tax under the FIG regime if she makes a claim.

If she sells the Chile property after 6 April 2027, rebasing relief would apply, so the base cost in calculating the capital gain will be the April 2017 value. This gives a reduced capital gain of £110,000 (current value £410,000 less rebased value £300,000) less qualifying costs of disposal.

MARKING GUIDE

TOPIC	MARKS
Eduardo:	
No remittance basis available / taxed on arising basis	½
Domicile no longer relevant from 6 April 2025	½
Does not qualify for FIG regime as >4 years	½
Taxed on arising basis/worldwide income and gains	½
Pre-6 April 2025 income from years remittance basis claimed still taxable if remitted	1
Rebasing:	
Explain concept (AVAILABLE EITHER UNDER EDUARDO OR DIANA)	1
Does not meet condition of remittance basis claimed between 17/18 and 24/25	½
Consider amending 2022/23, 2023/24 or 2024/25 to make claim & need to consider impact of doing so vs CGT saving on rebasing claim	1 ½
TRF:	
Explain concept/how to claim (AVAILABLE EITHER UNDER EDUARDO OR DIANA)	3
Condition/conclude met	1
Explain impact (AVAILABLE EITHER UNDER EDUARDO OR DIANA)	1
Tax impact if no TRF designation (income tax at marginal rate in year of remittance)	1
Diana:	
No remittance basis available / taxed on arising basis	½
2025/26 rental income can be remitted, no tax charge	½
FIG regime:	
Only 2 years in UK, qualifies for regime	½
Explain concept/how to claim	2
Deadline for claim	½
Loss of PA & AEA	½
TRF:	
Identify condition met	½
Benefit for mixed fund	½
Opportunity to designate 2023/24 and 2024/25 rental income – taxed at 12%	½
Suggest setting up new account for post April 2025 income	½
Rebasing:	
Identify condition met	½
Application to Chile property – FIG regime if sold before 6 April 2027, rebasing relief otherwise	1
TOTAL	**20**

Answer 5

Assuming no election to set aside the 'paper for paper' rules

Initial workings

Ordinary shares			**Notes**	**Number of shares**	**Cost**	**Marks**
					£	
20/04/1985	Acquisition	50,000 x £1		50,000	50,000	
12/09/1990	Rights issue	50,000/5 x £2		10,000	20,000	
				60,000	70,000	
10/01/1995	Reorganisation	Preference shares	N1	8,000	25,000	
				68,000	95,000	
10/03/2010	Sale of rights	Small proceeds	N2		(10,000)	
				68,000	85,000	
04/06/2024	Takeover		N3	(68,000)	(85,000)	
				0	0	

N1

The reorganisation resulting in the conversion of preference shares to ordinary shares is not a disposal. The 8,000 new ordinary shares take on the base cost of the original 10,000 preference shares. The original cost of the preference shares was 10,000 x £2.50 = £25,000.

N2

The sale of rights nil paid is a part disposal, however if the proceeds from the sale of the rights are 'small' the small proceeds rules apply automatically.

The proceeds are greater than £3,000 but are less than 5% of the value of the shares prior to the rights issue (5% x £400,000 = £20,000) and so are considered to be small.

Consequently no part disposal takes place and the proceeds are deducted from the base cost of the shares.

N3

The disposal of shares to Big plc is classed as a takeover as more than 50% of the shares are acquired. There is mixed consideration paid by Big plc and so the base cost of the shares must be apportioned between the different elements of the consideration, using the market values at the time of the takeover.

Takeover		***Original cost**	**Market value**
04/06/2024		**£**	**£**
Shares in Big plc	68,000 x 2 x £5.00	53,125	680,000
QCB in Big plc	68,000 x £1	5,313	68,000
Cash	68,000 x £5	26,563	340,000
		85,000	1,088,000

*Workings:

680/1,088 x £85,000 = £53,125

68/1,088 x £85,000 = £5,313

340/1,088 x £85,000 = £26,563

(rounding difference of 1)

Calculation of tax liabilities arising

There was a part disposal in respect of the cash consideration at the time of the takeover i.e. in 2024/25. The gain is eligible for Business Assed Disposal Relief (BADR) because Edith is a director, owns at least 5% of the shares and has done so for at least 2 years and Small Ltd is a trading company.

Cash consideration	**2024/25**
	£
Proceeds	340,000
Cost	(26,563)
Gain	313,437
CGT 10%	31,344

There was a deferred gain in respect of the qualifying corporate bond (QCB) consideration, this crystalised when the QCB were sold on 02/04/2026. This gain is not eligible for BADR. The QCB themselves are exempt from Capital Gains Tax.

Deferred gain

QCB consideration	**2025/26**
	£
Proceeds	68,000
Cost	(5,313)
Gain	62,687
CGT 24%	15,045

There is no gain at the time of the takeover in respect of the share consideration, the base cost of the new shares is £53,125, a gain will crystalise when these new shares are sold on 02/04/2026. Edith will not qualify for BADR on this disposal as she is not employed by Big plc.

Sale of Big plc	**2025/26**
	£
Proceeds	1,000,000
Cost	(53,125)
Gain	946,875
CGT 24%	227,250

Total CGT

2024/25	**£**
Takeover	31,344
2025/26	
Deferred gain	15,045
Sale of Big plc	227,250
Total Tax	**273,639**

Assuming election to set aside the 'paper for paper' rules

Edith can elect to set aside the paper for paper rules in respect of the takeover in 2024/25.

There will be two gains, the first at the take over and the second when the Big plc shares are sold.

Edith should then elect for BADR in respect of the disposal at the take-over, the first £1 million of gains is taxed at 10%, the remaining gain will be taxed at 24%.

The anti-forestalling measures do not apply in this situation as the exchange of securities took place prior to 30 October 2024 and neither Condition A or Condition B of para 17 Schedule 2 FA 2025 apply.

	2024/25
	£
Proceeds	1,088,000
Cost	(85,000)
Gain	1,003,000
CGT 10%	100,000
CGT 24%	720
CGT	100,720

There will be a separate gain when the Big plc shares are sold, the base cost of the shares is the market value at the takeover, as before there is no gain on the QCB.

	2025/26
	£
Proceeds	1,000,000
Cost	(680,000)
Gain	320,000
CGT 24%	76,800

Total Capital Gains Tax

2024/25	**£**
Takeover	100,720
2025/26	
Sale of Big plc	76,800
Total Tax	**177,520**

Edith should elect to set aside the 'paper for paper' rules (because this will result in a tax reduction of £273,639 - £177,520 = £96,119) the deadline for the election is 31 January 2027.

MARKING GUIDE

	Marks
No election to set aside the paper for paper rules	
Small Ltd share pool up to the takeover	**1.5**
N1 reorganisation of Small Ltd share capital	**1.0**
N2 sale of rights nil paid	**1.0**
N3 mixed consideration allocation of the base cost	**1.0**
CGT on cash consideration including BADR	**2.5**
CGT on deferred gain	**1.0**
No BADR on deferred gain	**0.5**
QCB exempt	**0.5**
CGT on sale of Big plc shares	**1.0**
Election to set aside the paper for paper rules	
Identify can set aside the automatic rules	**0.5**
Anti-forestalling rules – at rate in force when claim made	**1.0**
BADR capped at £1m	**0.5**
Calculate CGT on sale of Small Ltd	**1.0**
Calculate CGT on sale of Big plc	**1.0**
Conclusion to set aside the paper for paper rules	**0.5**
Date for election	**0.5**
Total	**15**

Answer 6

	Non Savings Income £	Interest £	Dividends £
Employment Income (W1)	6,000		
Bank Interest		2,312	
Interest from Mocha Ltd (W2)		50,000	
Dividend			500
Property Income (W3)	7,015		
	13,015	52,312	500
Personal Allowance (N1)	(12,570)		
Taxable Income	445	52,312	500

Tax Due:

	£
Non-Savings Income	
£445 x 19%	85
Interest	
£4,555 x 0% (N3)	0
£500 x 0% (N4)	0
£39,138 x 20% (W7)	7,827
£8,619x 40%	3,447
Dividends	
£500 x 0%	0
Relief on Mortgage Interest (W8)	(89)
Net Liability	1,185

Note One

Nicole qualifies for a full personal allowance as her total income is less than £100,000. It is most tax efficient to deduct the full amount from Nicole's non-savings income.

Note Three

Nicole's non-savings income is less than £17,570, this means that she qualifies for the starting rate of £5,000 at 0% on her savings income. The £5,000 is reduced by the balance of her other income after deducting the personal allowance. £5,000-£445 = £4,555.

Note Four

Nicole is a higher rate taxpayer so she qualifies for a savings allowance of £500.

Working One – Employment Income

	£
Salary	5,815
Christmas party	185
Trivial benefit	0
	6,000

The Christmas party cost £185 per head. As this exceeds the tax-free threshold of £150, the full amount is subject to tax.

There is an exemption from tax for trivial benefits. To qualify as a trivial benefit, the following conditions must be met:

- The benefit must cost £50 or less
- The benefit cannot be contractual
- The benefit cannot be a reward for service

The birthday lunch meets these conditions and is not subject to tax.

Working Two - Interest paid by Mocha Ltd

	£
Net	40,000
Tax at basic rate	
£40,000 x 20/80	10,000
Gross	50,000

Working Three – Total Property Income

	£
Net rent from residential property	8,708
Net rent from holiday cottages (W4)	4,883
Income element of lease premium (W6)	405
Losses brought forward	(6,981)
	7,015

The losses can be claimed in full following the abolition of the special tax rules for furnished holiday lets.

Working Four – Net Rent from Holiday Cottages

		£
Rent received		44,640
Less:		
Utility bills	19,752	
Insurance	1,680	
Broadband	744	
Replacement of domestic items relief		
(white goods)	904	
Mileage (W5)	1,573	
Capital Allowances	10,220	
		34,873
Net Profit		9,767

From April 2025 onwards the default 50:50 position will apply to this income in the absence of a signed form 17 (which is only effective from when it is signed). Nicole’s taxable profit will be 9,767/2 = £4,883.

Working Five - Mileage

3,496 x 0.45 = £1,573

Working Six – Taxable Income Element of Lease Premium

Income element of premium received:

£5,000 x ((50-5)/50)

= £4,500

Allowance for premium paid:

Income element of premium for landlord x (length of sub-lease/length of head-lease)

Income element of premium for landlord:

£10,500 x ((50-11)/50)

= £8,190

£8,190 x (6/12) = £4,095

Taxable for Nicole: £4,500-£4,095 = £405

Working Seven – Basic Rate Band

A qualifying donation to a charity with a signed gift aid declaration will extend the donor's tax brackets.

To qualify neither the donor nor any person connected with them can receive benefits above the limit as a result of the donation.

For donations of more than £100, the limit on benefits that can be received is £25 plus 5% of the amount of the donation in excess of £100. This is subject to an overall maximum benefit of £2,500.

Nicole donated £550. The limit on benefits she can receive is therefore £25 plus ((£550-£100) x 5%) = £48. Nicole received an item with a value of £45. Therefore, she can claim tax relief on this donation.

Nicole can also bring back the donation that she made in May 2026 and claim tax relief on this for 2025/26.

Her basic rate band will be:

	£
Standard basic rate band	37,700
Wildlife charity donation £550 x 100/80	688
Children's charity donation £1,000 x 100/80	1,250
	39,638

Working Eight

The tax reducer for the mortgage interest will be 20% of the lower of:

	£
The net rents after deducting losses b/fwd	7,015; or
The amount of interest paid (7,394/2)	3,697; or
Nicole's adjusted total income (see below)	445

Therefore, the deduction will be £445 x 20% = £89

The balance of the interest can be carried forward and used in future years.

Nicole's adjusted total income is as follows:

	£
Total income	65,827
Less:	
Interest	(52,312)
Dividends	(500)
Personal Allowance	(12,570)
	445

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Calculate tax on interest & explain starting rate/saving rate	2
Calculate tax on dividends	½
Calculate gross & tax figures for the Mocha Ltd interest	½
Deduct full rental losses b/fwd	½
Calculate net rent from holiday cottages	1½
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Claim capital allowances	½
Calculate income element of lease premium	½
Calculate allowance for premium paid & deduct	1½
Consider availability of tax relief for the 2025/26 gift aid donation	1
Identify that May 2026 gift aid donation can be brought back to 2025/26	½
Calculate basic rate band	½
Calculate mortgage interest relief	\`1½
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