

Institution **CIOT - CTA**
Course **APS Taxation of Individuals**

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Answer-to-Question- _1_

Chartered Tax Advisers

[Firm Address]

Ms Jo Ferguson

[Address]

30 October 2025

Dear Jo

Tax advice in relation to your divorce and new employment opportunity

This letter considers the tax implications of the split of your assets with Dominic as a consequence of your separation, your new employment opportunity with Benekia Ltd (Benekia), and the potential gift of your Lavender Business Park property to your children.

This letter has been addressed to you and is only intended for use by you.

No responsibility is accepted for the reliance of the contents of this letter by third parties. This letter has been prepared based on the law as at 30 October 2025 and any subsequent changes to the legislation may impact the conclusions of this report.

B. Executive summary

We recommend that you take the cash consideration of £450,000 to qualify for the capital treatment in terms of the proposed share buyback. Your net gain will be taxed at a flat rate of 10% as you are eligible to claim Business Asset Disposal Relief (BADR). Taking this option will result in total tax savings of £128,538 and your personal allowance will also be preserved in full in the 2025/26 tax year.

The share buyback should take place no later than your last working day at Dashiell, i.e. 31 March 2026, in order to qualify for BADR.

To raise the sufficient funds for the cash consideration, we recommend that you liaise with Dashiell to sell the residential property and then pay the proceeds over to you. The

tax savings on the share buyback will outweigh the benefits of any future rental income.

We recommend that you liaise with Dashiell to apply for a clearance procedure with HMRC in respect of the transaction.

We recommend that you arrange with Dominic to have a formal agreement or court order issued in terms of 9 Salisbury Close. Dominic could continue to live in the property whilst you retain an interest.

We recommend that you make a Private Residence Relief (PRR) nomination to elect 9 Salisbury Close as your main residence once the formal agreement or court order is issued. The effect of the nomination is that the gain on the property will continue to be exempt due the PRR relief until you acquire a new home, saving CGT at 24%.

This is beneficial for you as you currently do not own another property that could benefit from this relief as you are living with your sister which is a suitable arrangement. Additionally, having the agreement in place will also exempt you from the 3% SDLT surcharge when you buy your new home.

In terms of your employment with Benekia Ltd (Benekia), we recommend that you take the job offer as an employee and not via a limited company. If a company is put in place, you will have to administer the off-payroll working rules yourself, by which you will be likely caught due to the strict arrangements set by Benekia.

Taking on the opportunity as an employee will save you from the additional costs and compliance burden of operating a company, for which you have no need as you are not intending to expand your business.

We recommend that you take the higher cash salary of £60,000 and no car benefit regarding your new role at Benekia. This will save tax of £153.

We recommend that you make a gift relief election on the transfer of the Lavender Business Park to your children. If you make no profit on the gift, there will be no CGT payable by you. Any profit made in excess of your original cost (should you receive some consideration from your children), will be subject to CGT at the higher rate of 20%.

The gift relief claim is a joint election and is only available if the asset issued in your personal trading company. As such, we recommend that the transfer takes place before your employment finished with Dashiell, otherwise the relief is not available.

The gift will be a potentially exempt transfer (PET) for IHT purposes. There is no immediate IHT charge. Should you not survive seven years from the date of the gift, the values transferred are likely covered by the £325,000 exemption available on your death estate. If you survive seven years from the date of the gift, the gifts will fall outside your estate and there will be no IHT consequences.

C. Selling your Dashiell shares

Dominic would like to buy back your shares in Dashiell but he has no funds personally to

buy your shares. Instead, the company itself is willing to buy your shares for either cash of £450,000 or a combination of transferring the residential property (market value at £250,000) and cash of £200,000.

Distributions from companies as a result of the company purchasing its own shares are normally treated as dividends. In this case, the distributions are taxed at the appropriate dividends tax rates (8.75%, 33.75%, and 39.35%).

However, if certain rules are met, the capital treatment will apply and any distribution will be taxed at CGT rates (10% and 20%).

Taking the cash of £450,000

If you take the cash of £450,000, you will be eligible for the capital treatment on the following basis:

- a) Dashiell is an unquoted trading company.

- b) The purpose of the share buyback is for the benefit of the trade as you are permanently separating from Dominic and so the transaction is not relating to tax avoidance.

- c) You will be UK resident at the time of the sale.

d) You will have owned the shares for at least 5 years at the time of the sale.

e) Your shareholding will reduce to nil, and so the 25% reduction test will be met.

f) After the sale, you will not be connected with the company following the sale. By default, spouses are connected for CGT purposes and so their holding is treated as one. However, this is disregarded in situations where the spouses are separated and the circumstances of the separation are likely to be permanent, which is the case for you and Dominic.

We have outlined the estimated tax cost in Appendix 1. After deducting your base cost of £70 and your annual exempt amount of £3,000, you will have a gain of £446,930.

You will be able to benefit from Business Asset Disposal Relief (BADR). This is because Dashiel is your personal trading company and you have owned the shares and worked for the company for at least two years prior to the transaction.

As you still have your lifetime allowance of £1m intact, the whole gain will be taxed at a flat rate of 10%, resulting in a CGT liability of £44,693.

The claim for BADR can be made on your 2025/26 tax return due on 31 January 2027, alongside the payment of CGT. We can assist with this when we come to prepare your tax return.

Taking the residential property and cash of £200,000

The company has sufficient profit and loss reserve to fund the share buyback, however as at 31 March 2025, there is insufficient cash held to pay you out.

If you take the combination of the residential property and the cash, you will not be eligible for the capital treatment as the consideration on the share buyback is not paid wholly in cash.

The cash received will be taxed at the normal dividend rates and the market value of the property will also be treated as dividends. As outlined in Appendix 1, you will have a total tax liability of £173,231.

Due to your high dividend income, this will also result in you losing your personal allowance in 2025/26.

Furthermore, if you take on the residential property from the company, the 3% SDLT surcharge will apply in the future when you come to buy another home. This can otherwise be avoided and it will be covered in the next section of this letter.

Conclusion

We recommend that you take the cash consideration of £450,000 to qualify for the capital

treatment on the share buyback. This will save tax of £128,538, alongside the preservation of your personal allowance.

We recommend that you liaise with Dashiell to apply for a HMRC clearance to confirm that capital treatment is available in respect of the proposed share buyback.

In order to raise the funds required to pay your consideration, we recommend that you liaise with Dashiell to sell the residential property first and then pay the cash proceeds to you. The tax savings in terms of the capital treatment outweighs the benefits of the additional rental income.

D. Marital home at 9 Salisbury Close

You and Dominic currently have a gain of £250,000 on the property.

Part of this gain on your share will be exempt on a future sale as Private Residence Relief (PRR) will be available on the basis that you have occupied the property at some point during your ownership.

You will get PRR on the portion of the gain relating to the period up to October 2024, which is 6 years and 3 months. Additionally, the last 9 months of ownership is also

deemed to be a period of occupation.

If no action is taken

We have outlined the tax consequences in Appendix 2 if you retain your interest in the property and no action is taken.

If Dominic sells in five years time when the market value is £850,000, your share of the gain will be £275,000. You will have owned the property for 12 years and 3 months at this point (October 2030) and 7 years out of this period will be exempt from CGT. The remaining portion of the gain will be taxed at 25% on the basis that you will be a higher rate taxpayer. Your CGT liability will be £26,780 and you will have £298,220 cash left after taking into account your share of the mortgage.

PRR nomination

You can normally nominate a property to be your main residence for PRR purposes when there are two or more properties that you occupy as actual homes. As you don't occupy the property at the moment, this doesn't apply to you by default.

However, if you retain your interest in the property, and Dominic remains living there pursuant to a formal agreement or court order, the above rule is disapplied and you can nominate the property as your main residence to secure PRR.

We recommend that you make a PRR election on 9 Salisbury Close. This is beneficial for you because you have no other major interest in a property, and so you would lose the impact of PRR relief relating to the period when you first moved in October 2024 up to the point when you will purchase a new residence.

If you don't buy a new residence before 9 Salisbury Close is sold, or you acquire a new residence within 9 months of selling the property, there will be no CGT as 9 Salisbury Close will be treated as your main residence for the entire period.

Additionally, when you come to buy a new property, you will not have to pay 3% SDLT surcharge due when purchasing an additional properties because Dominic is living at 9 Salisbury Close pursuant to a formal agreement or court order.

Having a formal agreement or court order in place in relation to 9 Salisbury Close will also benefit Dominic as he can continue to live there and he will agree to you receiving 50% of the proceeds on a future sale.

You can vary the nomination later at any time in the future but once you acquire a new home, you will have two years from the date of the acquisition to make a nomination on the new property.

E. Employment with Benekia

Off-payroll working arrangements

The purpose of the off-payroll working rules is to catch individuals working via limited companies even though in reality they are working as ordinary employees.

Employees are subject to income tax and Class 1 primary National Insurance Contributions (NICs) on their salaries. If a service company is put in place in between an employer and employee, the employer will not withhold tax and the employee would be able to extract funds by way of a dividend which is subject to lower income tax and no NICs. To counter this, HMRC put in place the rules so the adequate tax would be collected under such arrangements.

Benekia mentions that since they are a small company, so they have no obligations in terms of checking the rules. However, when the contracting company (employer) is small, the employee, in this case you, will be responsible to establish if the rules apply.

If you take on the employment with Benekia, you are likely to be caught by the rules on the following basis:

- a) You will be required to work at Benekaia's premises 5 days a week, just like a regular employee and have no flexibility over this.
- b) You will be under a restrictive covenant and thus won't be able to take up any other work for third parties.

c) You will not be able to send a replacement to carry out the services.

The impact of the rules as that you have to calculate yourself your deemed employment income and pay it over to HMRC.

We recommend that you do not put a limited company in place as you will be caught by the off-payroll working rules. Any income received will be subject to income tax at the non-savings rates and you will have to apply National Insurance too. This would have been the case if you were just employed by Benekia as normal.

Additionally, setting up a service company will result in further compliance requirements such as regular filings with Companies House, preparation of corporation tax returns, and making tax payments to HMRC. As you are not intending to broaden your business and work for any other third parties, setting up a company doesn't seem commercial.

Car costs with Benekia

Benekia is offering you either a salary of £60,000 or a salary of £57,000 in addition to a company car as you will be required to travel circa 5,000 business miles per annum.

As Benekia is offering you to take a lower salary in return for a provision of a benefit, such as a company car, the Optional Remuneration Agreement (OpRA) rules will apply.

The effect of the rules is that if you choose to take the lower salary and the benefit, you will be taxed on the higher of the cash foregone (£3,000) or the company car benefit

(£5,033).

We have outlined the impact of taking the cash or the company car in Appendix 3.

We assumed that the 5,000 business miles will be incurred outside of your ordinary commuting to the London offices. This means that the reimbursement will be tax-exempt as it is in line with HMRC's approved rates.

We have also assumed that the company car will have similar consumption to the car you were looking at buying yourself.

If you take the lower salary and the car benefit, you will have net cash of £43,312 after tax and NICs and including the fuel reimbursement. If you take the cash, you will have net funds of £43,465.

We recommend that you take the higher cash salary of £60,000 and no car benefit as you will save tax of £153.

F. Gift of Lavender Business Park property

You and your children are connected persons for CGT purposes and so any disposal will take place at market value, regardless the consideration.

Your gain on the business unit is currently £135,000. It is possible to defer the gain on the gift by making a Gift Holdover Relief claim (gift relief) on the basis that the property is

used as a business asset in your personal trading company.

The effect of the relief is that to the extent of any profit received, the gain is not charged to CGT at the transfer, but instead rolled into the donee's base cost. Thus, the donee will have a higher CGT liability in the future.

We recommend that you make an election for gift relief before you sell your shares back to Dashiell, otherwise gift relief is not available. The claim must be signed by you and your children.

You mention that your children would be willing to raise some funds in exchange that will enable to purchase a new home in the future. We illustrated the impact of any proceeds received in Appendix 4.

If your children pay you proceeds of £150,000, you will have made a gain of £25,000, as your original cost was £125,000.

Any proceeds received in excess of your original cost will be immediately chargeable to CGT. The remaining gain then can be deferred against the base costs for your children, who will each have a base cost of £75,000 going forward.

Even though the property has been used in your personal trading company, you will not be eligible to claim BADR on the gift because you charged the company market value rent throughout your ownership.

In terms of inheritance tax, the gift will be treated as potentially exempt transfer (PET). There will be no immediate IHT liability arising on the transfer. However, if you don't survive 7 years of from the date of gift, the gift will be chargeable to IHT.

The value of a PET can benefit from Business Property Relief (BPR) at 50% if the asset is used in a personal trading company controlled by the donor. For IHT purposes, you will be connected with Dominic until the date of your divorce. As such, your holding is aggregated and so the conditions for BPR will be met. However, BPR will not be available once the divorce is finalised and you sell your shares back to Dashiell.

In any case, the first £325,000 of your estate will be tax-exempt. This includes any failed PETs (gifts that didn't survive the seven years). You will also get to reduce the value transferred by the annual exemption of £3,000. This will be available to you on the basis that you haven't made any other gifts in the year of the gift or prior years.

To conclude, the gifts will fall outside your estate if they survive seven years from the date of your death. In any other case, the gifts will likely be covered by the £325,000 exemption, and so there will be no additional IHT arising payable by your children.

Should you have any queries in relation to the above, please do not hesitate to contact us.

Yours sincerely

Chartered Tax Advisers

Appendix 1. Share buyback

If capital treatment applies

Proceeds		450,000	
Less cost		(70)	
Gain		449,930	
Less AEA		(3,000)	
Taxable gain		446,930	
BADR @ 10%		44,693	

If income treatment applies

Proceeds		200,000	
MV of property		250,000	
		450,000	
Less base cost		(70)	
Dividend income		449,930	

68,140 @ 33.75%		22,997	
381,790 @ 39.35%		150,234	
Total tax		173,231	

Appendix 2. Sale of 9 Salisbury Close

If no action is taken

		100 %	
MV at sale		850,000	
Less cost		(300,000)	
Gain		550,000	
Your share (50%)		275,000	
Less PRR	275,000 x 7 years / 12 years	(160,417)	
Chargeable gain		114,583	
Less AEA		(3,000)	
Taxable gain		111,583	

CGT @ 24%		26,780	
Cash proceeds		425,000	
Less mortgage		(100,000)	
Less CGT		(26,780)	
Net cash left		298,220	

Appendix 3. Car costs regarding Benekia employment

		Company car		Personal car	
Salary		57,000		60,000	
Fuel reimbursement	5,000 @ 45p	2,250		2,250	
Less:					
Income tax		(12,245)		(11,432)	
NICs		(3,151)		(3,211)	
Hire contract	£300 x 12			(3,600)	
Fuel cost	5,000 / 60 x £6.50	(542)		(542)	
Net cash left		43,312		43,465	

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Appendix 4. Gifting Lavender Business Park

		Total			
MV		260,000			
Less cost		(125,000)			
Gain		135,000			
Less gift relief		(110,000)			
Chargeable gain		25,000			
Less AEA		-			
Taxable		25,000			
CGT @ 20%		5,000			
New base cost:					
50% MV		130,000			
Less 50% gift relief		(55,000)			
Revised base cost		75,000			

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