

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Gourmet Ltd commenced trading on 1 June 2025. Until 10 March 2026, Brian Miller, held all 50,000 ordinary shares of £1 each in the company and was the sole director of the company. The company has two employees.

On 10 March 2026, Brian and his friend, Lauren Tanner, subscribed for new shares in the company at £1 per share, which was their market value. Brian acquired a further 175,000 shares increasing his holding to 225,000 shares, and Lauren acquired 75,000 shares.

Lauren has never worked for the company and does not intend to do so in the future. Gourmet Ltd meets the requirements to be a qualifying company for EIS and SEIS purposes. Brian and Lauren anticipate selling their shares in Gourmet Ltd in 10 years' time.

Brian's investment was funded from a disposal of an investment that resulted in a gain of £300,000, in January 2026. Brian is UK resident and his income is in excess of £150,000 each year. He also has dividend income which utilises the dividend allowance.

Lauren's investment was funded from the £370,000 proceeds she received on the sale of her entire shareholding in LAWT Properties Ltd on 1 March 2026. Lauren had established the company on 1 October 1995 when she subscribed £80,000 for all 80,000 shares in the company. The company's only activity was a property letting business which comprised two residential properties in the UK. The value of LAWT Properties Ltd was £290,000 on 6 April 2019. The value of the properties in LAWT Properties Ltd was £235,000 on 6 April 2019 and £350,000 on 1 March 2026, with the balance of the value being cash representing retained profits.

Lauren is a British citizen, however she recently moved to Australia to commence full time employment. She was eligible for the Case 1 split year treatment and has been non-UK resident since 1 February 2026, she expects to return to the UK in February 2028. Recently Lauren's only UK income has been from her UK employment, this was £100,000 in 2024/25 and £85,000 in 2025/26.

Neither Brian nor Lauren disposed of any other assets in 2025/26.

Requirement:

Explain, with supporting calculations, the Income Tax and Capital Gains Tax implications of the above transactions. You should assume that the most beneficial claims for relief are made.

(15)

2. Kelly Jonas purchased Fox Barn in the UK in 1999 and lived there until June 2011, when he left to work in Cyprus for five years. Whilst in Cyprus he lived in accommodation provided by his employer. When Kelly returned to the UK in June 2016, he went back to live at Fox Barn and stayed there until October 2023 when he sold the property, including all grounds. He made a gain of £201,000.

Fox Barn is a six-bedroom house in a rural location with a large garden at the front and a garage to the side, which is not joined to the house. The site occupied by the house, garden and garage is one-third of a hectare and is enclosed within a dry-stone wall.

On the other side of the wall there is a further area of land that is a quarter of a hectare in size. This land is accessed through a gate in the dry-stone wall. During the period he owned the property Kelly allowed his neighbour to use this land to grow vegetables.

Kelly submitted his 2024 tax return on 3 November 2024. He completed the return himself and did not seek any professional advice. He read some guidance online about Private Residence Relief and as a result of this, he did not declare any gain on Fox Barn. The guidance was not on HMRC's website. He made detailed notes for his own records stating why he believed that the gain on the sale would be fully covered by Private Residence Relief. He put the following note in the additional information section of his return:

"In October 2023 I sold Fox Barn, which had been my main residence."

On 1 May 2026, HMRC wrote to Kelly saying that they had reviewed Land Registry records and believed that he may have underpaid Capital Gains Tax on the sale of Fox Barn.

Requirement:

Discuss the advice that should be given to Kelly regarding the letter from HMRC. (15)

You are NOT required to consider interest or penalties.

3. Dave Watson is 49 and was appointed as a director of Macrodrive Ltd in April 2017.

In 2025/26, Dave's annual salary was £180,000.

Dave has a fully electric company car. The car had a list price of £55,000 and was first made available to Dave in April 2022 when it was brand new. Dave made a capital contribution of £10,000 towards the purchase to get the model he wanted.

Macrodrive Ltd made an interest free loan of £30,000 to Dave in April 2022 to enable him to immediately subscribe for 1,000 Ordinary shares in Macrodrive Ltd, equal to 5% of the company's Ordinary share capital.

The shares were subject to a forfeiture clause in the Articles which would result in the company buying back Dave's shares for their original restricted value if Dave left the company as a "bad leaver" within six years of the share issue.

At acquisition, HMRC agreed the restricted value of the shares to be £30 per share and the unrestricted value to be £90 per share. Dave didn't sign an election under s.431 ITEPA 2003.

Macrodrive Ltd has three other shareholders, all of whom are directors.

On 31 May 2025, Dave was paid a discretionary bonus of £30,000. The bonus was agreed by the directors at a Board Meeting on 10 March 2025 based on the company's results in their accounts for the period to 31 December 2024.

Following a company restructure, Dave was made redundant on 31 October 2025.

Redundancy falls under the "good leaver" provisions in Macrodrive's Articles of Association, which allows Dave to retain his shares and results in the forfeiture clause (the only restriction) being removed. The unrestricted market value of the shares on 31 October 2025 was £100 per share.

Dave was offered a termination package which included:

- 1) Statutory redundancy pay of £8,600.
- 2) A non-contractual cash payment of £20,000.
- 3) A contractual payment in lieu of his three month notice period of £45,000.
- 4) Retention of his company car, which was worth £25,000 on 31 October 2025.
- 5) An additional payment of £20,000 in return for Dave entering an agreement preventing him from working for one of Macrodrive's three main competitors.
- 6) The writing off by the company of Dave's £30,000 loan.
- 7) An employer contribution to a registered pension scheme of £25,000.

Neither Dave nor his employer has made any further pension contributions in 2025/26 and Dave has no brought forward unused pension annual allowances.

Dave's only other taxable income in 2025/26 is from a parking space that he rents to an unconnected third party for £80 per month. Dave currently pays £100 per year in ground rent for the parking space.

Requirement:

Calculate, with explanations, Dave's Income Tax and National Insurance liability for 2025/26.
(20)

4. Eduardo has a domicile of origin in Brazil. He came to the UK in April 2010 for a job in London. He was UK resident in 2010/11 and has remained UK resident based on the Statutory Residence Test since then.

Eduardo's UK tax returns were filed on the following basis for each year:

From 2010/11 to 2016/17 – remittance basis claim made

From 2017/18 to 2024/25 – arising basis

During Eduardo's time in the UK, he has owned an investment portfolio in the US which has generated interest and dividends each year. No disposals have ever been made in the portfolio. Eduardo has never remitted any of the funds from the portfolio to the UK. He holds no other foreign assets.

Eduardo's girlfriend, Diana, moved to the UK on 1 June 2023. She has a domicile of origin in Chile. Diana was UK resident in 2023/24 under the Statutory Residence Test, and she met the conditions for split year treatment under Case 5: Starting full-time work in the UK. Diana was also UK resident in 2024/25 and 2025/26. She claimed the remittance basis on her tax returns for both 2023/24 and 2024/25.

Diana owns a residential property in Chile which she inherited on her mother's death in October 2014, when its market value was £240,000. The property was valued at £265,000 in April 2015 and at £300,000 in April 2017. Its current value is £410,000. The property has been let to a third party since Diana's arrival in the UK and the rental income is paid into Diana's Chilean account. She has not made any remittances to the UK from this account. Diana may consider selling the Chilean property in the next few years.

Requirement:

Discuss how Eduardo and Diana will each be assessed to Income Tax and Capital Gains Tax in 2025/26 and on a future sale of the Chilean property by Diana, including any beneficial elections that could be made.

(20)

5. Edith Small sold her entire holding of Big plc shares and Big plc corporate bonds on 2 April 2026 for £1,000,000 and £75,000 respectively.

Edith originally subscribed for 50,000 £1 ordinary shares and 10,000 £2.50 preference shares in Small Ltd on 20 April 1985. Edith was the majority shareholder and a director of this trading company and worked there on a full-time basis until Big plc acquired 100% of the share capital of Small Ltd on 4 June 2024. The terms of the takeover were that for every one Small Ltd share the consideration would be two Big plc shares (trading at £5 per share at the time), £5 cash, and qualifying corporate bonds in Big plc worth £1. Edith has never worked for Big plc.

Prior to the takeover the following transactions also took place:

- | | |
|------------|--|
| 12/09/1990 | 1 for 5 rights issue in respect of the ordinary shares at £2 per share, Edith took up the rights. |
| 10/01/1995 | Reorganisation of share capital, four ordinary shares were issued in exchange for five preference shares. The preference shares were subsequently cancelled. |
| 10/03/2010 | 1 for 4 rights issue in respect of the ordinary shares at £4 per share. Edith did not take up the right but sold these nil paid for £10,000. The value of her shareholding was £400,000 prior to the rights issue. Edith did not make any representations to HMRC in respect of this disposal and the automatic treatment was applied. |

Edith has never claimed business asset disposal relief but does utilise her annual exemption every year. She is not expecting to have any capital losses in the future nor to make any other disposals which may qualify for business asset disposal relief.

Requirement:

Calculate, with explanations, the Capital Gains Tax payable by Edith in respect of the above transactions. (15)

6. Nicole Lewis is resident in Scotland and is the sole director and shareholder of Mocha Ltd, a UK trading company.

During 2025/26, she received the following income/benefits:

- 1) Bank interest of £2,312.
- 2) Net interest of £40,000 from Mocha Ltd on a loan of £660,000 that she made to the company several years ago.
- 3) A salary of £5,815 from Mocha Ltd. The company has three employees in addition to Nicole. Mocha Ltd's annual Christmas party, which was attended by all four employees and paid for by the company, cost a total of £740.
- 4) A birthday lunch paid for by Mocha Ltd at a cost of £32.
- 5) A dividend of £500 from Mocha Ltd.
- 6) Net rent of £8,708 from a residential property. This amount was after deducting insurance and repairs.

Nicole and her husband Liam own three fully furnished holiday cottages as tenants in common (Scots Law – common property). Liam owns an 80% share of the properties, and Nicole owns the remaining 20%. The profits/losses from these properties have always been allocated to Nicole in full. For 2025/26, Liam is a basic rate taxpayer.

In 2025/26, rents of £44,640 were received from these three properties. The expenses incurred were:

	£
Utility bills	19,752
Insurance	1,680
Broadband	744
Replacement white goods	904
Mortgage Interest	7,394

Nicole and Liam visited the properties various times during the year, travelling 3,496 miles in total. Their car has a petrol engine.

Nicole has calculated that the 2025/26 writing down allowance for the furniture and white goods in the capital allowances pool is £10,220.

Previously losses have been made on the holiday cottages. Nicole's share of the losses brought forward at 6 April 2025 was £6,981.

Since July 2022, Nicole has been renting an apartment to live in with Liam. It includes an art studio beneath it, which she uses for her hobby of painting. She was granted a 12-year lease on the property for a premium of £10,500. The rent paid by Nicole was £900 per month. In March 2026, Nicole and Liam moved out of the apartment and Nicole granted a six-year lease to her friend Alex. Alex paid her a lease premium of £5,000 on 31 March 2026. The first rent payment of £600 was not due or paid until 10 April 2026 when Alex moved into the apartment.

In October 2025, Nicole donated £550 to a wildlife charity. She signed a gift aid declaration for this donation. The charity thanked her for the donation by sending her a limited-edition wildlife print worth £45.

In May 2026, Nicole donated £1,000 to a children's charity. She signed a gift aid declaration for this donation.

Requirement:

Calculate, with explanations, Nicole's Income Tax liability for the year ended 5 April 2026.

(15)