CIOT Knowledge Pilot Paper 2026
Income Tax and National Insurance Contributions Module
Answers

1.

	Total	Non-savings	Dividends	
	£	£	£	
Employment income:	50,625			
Salary		35,000		
Living accommodation (W)		13,250		
Use of furniture (£5,000 x 20%)		1,000		**1**
Car benefit (W)		1,500		
Fuel benefit (W)		0		
Loan benefit (£20,000 x 3.75% x 6/12)		375		**1**
Professional subscription		(500)		**0.5**
Dividend income	2,000		2,000	
Total income	52,625	50,625	2,000	
Personal allowance	(12,570)	(12,570)		**0.5**
Taxable income	40,055	38,055	2,000	
Income Tax:	£		£	
Non-savings income at basic rate (W)	38,055	20%	7,611	**0.5**
Dividend income at nil rate	500	0%	0	**0.5**
Dividend income at basic rate	1,500	8.75%	131	**0.5**
	40,055		7,742	
Less: Marriage allowance	1,260	20%	(252)	**1**
Income Tax liability			7,490	
Less: PAYE deducted			(4,486)	**0.5**
Income Tax payable			£3,004	

Workings:

1. Living accommodation		
Annual value	8,000	**0.5**
Additional yearly rent:		
(£215,000 - £75,000) x 3.75%	5,250	**1**
	13,250	
2. Car benefit		
List price	16,000	
Add; accessories	875	
	16,875	
Relevant percentage	16%	
	2,700	**1**
Less: contributions (12 x £100)	(1,200)	**0.5**
	1,500	
3. Fuel benefit		
No benefit as private fuel fully reimbursed		**0.5**
4. Extension of basic rate band		
Basic rate band	37,700	
Gift aid: £5,000 x 100/80	6,250	
	43,950	**0.5**
		10

2.

	Total	Non-savings	Savings	
	£	£	£	
Trading profits:	112,000			
Taxable trading profit (W)		90,000		
Transition profit (£50,000 x 20%)		10,000		**1**
Partnership profit (£80,000 (W) x 15%)		12,000		**1**
Interest	4,000		4,000	
	116,000	112,000	4,000	
Less: qualifying loan interest (£15,000 x 4% x 3/12)	(150)	(150)		**1**
Net income	115,850	111,850	4,000	
Personal allowance (W)	(4,645)	(4,645)		
Taxable income	111,205	107,205	4,000	

Income Tax:	£		£	
Non-savings income at basic rate	37,700	20%	7,540	
Non-savings income at higher rate	69,505	40%	27,802	**1**
Savings income at nil rate	500	0%	0	
Savings income at basic rate	3,500	40%	1,400	**1**
	111,205		36,742	

Class 4 National Insurance:		
(£50,270 - £12,570) x 6%	2,262	**1**
(£112,000 - £50,270) x 2%	1,235	**1**
	3,497	
Total Income Tax and Class 4 National Insurance	£40,239	

Workings:

1. Taxable trading profit 2025/26		
6 April 2025 to 30 June 2025		
£75,000 x 3/12	18,750	
1 July 2025 to 5 April 2026		
£95,000 x 9/12	71,250	
	90,000	**1**
2. Partnership profits		
Taxable trading profits 1 January to 31 March 2026		
£330,000 x 3/12	82,500	
Less: Salary to Jen (£10,000 x 3/12)	(2,500)	
	80,000	**1**
3. Personal allowance	12,570	
Less: ½ x (£115,850 – £100,000)	(7,925)	
Personal allowance given	4,645	**1**
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3.

1)
Phoebe can choose to deduct a proportion of actual motor expenses, or a flat rate expense for business miles travelled.

Actual motor expenses would include capital allowances at 6%, restricted to 60% (i.e. 12,000/20,000) business use. **1**

Flat rate expenses would be calculated at 45p for the first 10,000 business miles and 25p per business mile thereafter. **1**

If Phoebe chose a proportion of actual motor expenses, then 60% of the cost of fuel and car insurance would also be deductible. If she chose flat rate expenses, the cost of fuel and insurance is covered by the flat rate expense, therefore no further deduction is available. **1**

As the sofa bed is an improvement, the deduction will be restricted to the cost of a sofa of a similar standard. The deduction is also reduced by the disposal proceeds of the old sofa. Therefore, the deduction would be £800 - £75 = £725. **1**

Loan interest is only eligible for basic rate tax relief, which is given as a reduction to the Income Tax liability. Relief is available on the lowest of: **1**

- Eligible interest;
- The property income for the year less property losses brought forward; and
- Adjusted net income.

If the amount on which basic rate relief is given is less than the amount of eligible interest, the amount which doesn't receive relief can be carried forward. **1**

Eligible interest will be £8,000 x 90% = £7,200 as only 90% of the loan was used to purchase the property. **1**

2)
A landlord letting out more than one UK property has a single UK property business. Profits and losses on all properties in the year are pooled together to give an overall profit or loss. **1**

If Phoebe has an overall property business loss, it can be carried forward and set against property income from the UK property business in future tax years. It cannot be set against non-property income or carried back. **1**

In the case of a loss, the relief is restricted to the property income of nil, such that there will be no relief in 2025/26 for the interest paid. Therefore, the amount of any loan interest eligible for relief at the basic rate of tax will be carried forward. **1**

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4.

As this is untaxed income from a new source, Deborah should have notified HMRC within six months of the end of the tax year in which she became chargeable (5 October 2025).	**0.5**
As she failed to do this she will be charged a penalty equal to the relevant percentage of the potential lost revenue (i.e. the Income Tax due).	**0.5**
The maximum penalty is 30% as it was a careless error, and the minimum 0% as the disclosure was unprompted.	**1**
Deborah's tax return for 2024/25 should have been filed by 31 January 2026, so it was five months late. An initial late filing penalty of £100 will apply.	**0.5** **0.5**
Daily penalties of £10 per day may be charged for a maximum of 90 days, as the return was over three months late.	**1**
Payment was also due on 31 January 2026. A penalty of 5% of the unpaid tax will be charged as the payment was more than 30 days late.	**0.5**
Interest will also be due on the late payment of Income Tax from the due date of 31 January 2026 at a rate of 7%.	**0.5**
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5.

	First year allowances	Main pool	Special rate pool	Allowances	
		£	£	£	
Brought forward		14,800	10,000		
Additions (no AIA as bought from connected person)		1,000			**0.5**
Additions qualifying for AIA:					
Computer		60,000			*
Second hand machinery		90,000			**0.5***
Air conditioning system			40,000		**0.5**
AIA (W)		(85,000)	(40,000)	125,000	**0.5**
Additions qualifying for FYA – electric car	30,000				**0.5**
FYA @ 100% (x 50% business use)	(30,000)			15,000	**0.5**
Disposal proceeds (restricted to cost)		(1,800)			**0.5**
		79,000	10,000		
WDA @ 18%/6% x 6/12		(7,110)	(300)	7,410	**1****
Carried forward		71,890	9,700		
Maximum capital allowances				£147,410	

Working:

AIA available (£1,000,000 x 25% x 6/12) = £125,000 **0.5**

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**For computer and second-hand machinery qualifying for AIA*

**0.5 for 18% and 6% and 0.5 for pro-rating*

6.

Relief is given for 2025/26 as a reduction in Joyce's Income Tax liability for the year at a maximum of £1 million x 30%, therefore Joyce will be entitled to maximum relief of £850,000 x 30% = £255,000.	**1**
However, relief is capped at the amount of her Income Tax liability of £211,200.	**0.5**
Joyce has unused relief of £43,800 (£255,000 - £211,200) after claiming relief against her Income Tax liability for 2025/26.	**0.5**
Joyce can claim to set the full amount of unused relief against her Income Tax liability for 2024/25. Although Joyce had subscribed for £900,000 of shares in 2024/25, the limit where shares are subscribed in knowledge intensive companies is £2 million.	**1**
The tax of £211,200 paid under PAYE for 2025/26 will be repaid to Joyce. The relief of £43,800 carried back to 2024/25 is treated as if it was made in that year, and will also be repaid.	**1**
The claim should be made in the Self Assessment Tax Return for 2025/26.	**0.5**
The deadline for making a claim, in the return or if necessary directly to HMRC, is five years from 31 January following the end of the tax year in which the shares are issued: 31 January 2032.	**0.5**
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7.

With no FIG claim:	Total	Non-savings	Savings	
	£	£	£	
UK employment income	70,000	70,000		
Non-UK property income	9,000	9,000		
Non-UK savings	500		500	
Total income	79,500	79,000	500	
Personal allowance	(12,570)	(12,570)		
Net income	66,930	66,430	500	**1**
Income Tax:				
Non-savings income at basic rate	37,700	20%	7,540	
Non-savings income at higher rate	28,730	40%	11,492	**0.5**
Savings income at nil rate	500	0%	0	**0.5**
	66,930		19,032	
Less: Double tax relief				
Foreign tax suffered (£9,000 x 10%) (lower than UK tax at 40%)			(900)	**1**
			£18,132	
With FIG claim:				
UK employment income	70,000	70,000		
Personal allowance	0	0		**1**
Net income	70,000	70,000		
Income Tax:				
Non-savings income at basic rate	37,700	20%	7,540	
Non-savings income at higher rate	32,300	40%	12,920	**0.5**
	70,000		£20,460	

It is not beneficial for Rohan to make a FIG claim due to the loss of personal allowance.	**0.5**
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8.

Class 1 National Insurance:		
Primary contributions payable by Delma		
£nil as below Primary threshold of £242 per week	£nil	**0.5***
Primary contributions payable by Darren:	£	
(£50,270 - £12,570) x 8%	3,016	**0.5**
(£60,000 - £50,270) x 2%	195	**0.5**
	£3,211	
Secondary contributions payable by Delt Ltd:	£	
In respect of Delma: £nil as below Secondary threshold of £96 per week	Nil	*
In respect of Darren: (£60,000 - £5,000) x 15%	8,250	**0.5**
	£8,250	
Class 1A National Insurance:		
Medical benefit £1,400 x 15%	£210	**1**

Delt Ltd is not eligible for the employment allowance for 2025/26 as:

- Secondary Class 1 National Insurance contributions are payable in respect of one employee only, and **0.5**
- That employee is a director of the company. **0.5**

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***0.5 mark awarded where £nil in both instances**

Based on N23 Q44

9.

	£	
Salary	68,000	
Bank interest	500	
Dividends from ISA - exempt	-	
Net income	68,500	**0.5**
Less: gross pension contributions (£100 x 12 x 100/80)	(1,500)	**1**
Adjusted net income	67,000	
Less: High Income Child Benefit Charge threshold	(60,000)	**0.5**
Excess	7,000	
7,000/200 x 1%	35%	**0.5**
£2,252 x 35%	£788	**0.5**
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10.

2022/23: Ilya has unused annual allowance of £15,000 to carry forward (£40,000 - £25,000).	**0.5**
2023/24: He has £12,000 to carry forward (£60,000 - £48,000).	**0.5**
2024/25: Ilya's contributions of £78,000 exceed the £60,000 annual allowance by £18,000. This is covered by £15,000 brought forward from 2022/23, and £3,000 brought forward from 2023/24.	**0.5**
2025/26: Contributions exceed the available annual allowance by £16,000 (£85,000 - £60,000 - £9,000), as Ilya has £9,000 carried forward from 2023/24.	**0.5**
Therefore, Ilya will have an annual allowance charge of £16,000 x 40% = £6,400, as he is a higher rate taxpayer after his pension contributions have extended his tax bands.	**1**
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