

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	354	1543	2212
Section 2	460	1950	2477
Section 3	817	3532	4633
Section 4	331	1381	1775
Section 5	349	1613	2230
Section 6	646	2806	4019
Total	2957	12825	17346

Answer-to-Question- _1_

Mark Johnson

As the Austin and Rushworth shares have been held for more than three years none on the income tax reducer will be clawed back.

Any loss on the sale of the shares will be the proceeds less cost and restricted for the income tax reducer not repaid.

Any capital losses on EIS shares on which tax relief has been claimed can be offset against income using s131.

1 Austin Ltd

Proceeds	6373
Less cost	
40175 * 522/1491	14065
Income tax reducer not repaid	
40175 * 522/1491 * 30%	(4220)
	(9845)
Loss	(3472)

2 Rushworth Ltd

Proceeds	13447
Less cost	11715
Income tax reducer not repaid	
11715 * 30%	(3515)

	(8200)
Profit	5247

3 Collins Ltd

As subscription shares Mark can claim a tax reducer of $\text{£}54080 * 30\% = \text{£}16224$, or the amount claimed.

However, as Collins is likely to be liquidated within three years this will be clawed back in full.

Mark has the choice of making a negligible loss claim, where the shares will be deemed sold for their market value and purchased again or he can wait until the shares are sold to realise the loss.

As Mark will not receive any distributions when the company is liquidated they are worth nothing and so a claim should be made.

He can then claim to set the loss against this taxable income but it will be restricted the higher of:

1 $\text{£}50000$ or

2 25 % of his adjusted taxable income

4 Dashwood Ltd

As the directors have not submitted the paperwork Mark will be unable to make a claim for EIS relief.

5 Property

Assuming that Mark claim EIS reinvestment relief against the gain made on the property the gain will come into charge when the 522 Austin shares and Rushworth shares are sold.

The amount that will come into charge is:

$$\begin{array}{r} 40175 * 522/1491 \quad 14065 \\ 11715 \quad \underline{11715} \\ 25780 \end{array}$$

As Mark is a higher rate tax payer, the capital gains will be £5156 (25780 * 20%) and will be payable by the 31 January following the tax year it came back into charge ie 31 January 2026.

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

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

Answer-to-Question- _2_

As Fred is coming to work in the UK following a three year consecutive period of being non resident he will be able to claim overseas working relief for first three tax years he's resident in the UK.

This means that he will only be taxed on his overseas employment income to the extent it is remitted in the UK. He will need to nominate a bank account and it can only contain employment income and interest received.

As Fred is coming to work in the UK for three years he will be resident in the UK as he is working full time in the UK as long as he meets the conditions which are
1 75% of his work days are in the UK, Fred meets this as he spends 187/240 ie 77.9% in the UK.

Fred's employer has reimbursed his travel and accomodation for his workdays in other countries, these will be exempt.

The bonus of £46000 was based on the performance of the company's financial year ended 31 March 2024, as Fred was non resident when he earned the bonus it will not be taxed in the UK.

The bonus of £12000 was in respect of the year ended 31 March 2025, as Fred is employed by a New Zealand company the bonus will be pro rated for the workdays spent

in the UK. The amount taxable in the UK will be $\text{£}12000 * 187/240 = \text{£}9350$

In respect of the Foreign investment income, as Fred is resident for 2024/25 he is taxable on his UK income and gains together with his worldwide income and gains. However if he claims the remittance basis he will only be taxable on his investment income to the extent it is remitted. If he keeps it in an offshore account it will be sheltered from UK tax. As this is Fred's first year claiming the remittance basis there will be no remittance basis charge.

As Fred has claimed the remittance basis and he is not EEA resident he will not get a personal allowance.

Workings

1

Salary $110000 * 187/240 = 85708$

2 Remittance

As Fred has elected for a new bank account and nominated it for the mixed fund rules, the first monies remitted will be taxed UK income.

Fred transferred £56400 to the UK, his UK taxed earnings are £85708 so he will not have remitted any overseas employment income.

		NSI	SI	DI
		£	£	£

Employment income	w1	85708		
Bonus		9350		
Taxable income		95058		

Tax liability

37700 @ 20% 7540
 57358 @ 40% 22943
 30483

Due to the reciprocal social security agreement with New Zealand Fred will be liable to UK national insurance as follows.

(50270 - 12570) * 8% 3016
 (95058 - 50270) * 2% 896
 3912

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

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

Answer-to-Question- _3_

Jason Parkes

		NSI	SI	DI
		£	£	£
Employment		75000		
Benefit in kind	w1	1038		
UK property income	w2	79371		
EEA property income	w3	7205		
Treasury gilt interest	w4		11667	
Dividends	w5			17250
VCT dividends	w6			2444
	193975	162614	11667	19694
Less PA		0		
Taxable income		162614	11667	19694

Tax liability
 53700 @ 20% 10740
 87440 @ 40% 34976
 21474 @ 45% 9663

 11667 @ 45% 5250

 500 @ 0% 0
 19194 @ 39.35% 7553
 68182

Less
Tax reducer
 $(6500 + 6030) @ 20\%$ (2506)
VCT tax relief
 $150000 * 30\%$ (45000)

Less
PAYE (13442)
Trust 1818 * 45% (818)

Tax liability 6416

Less POA 31.1.25 (18520)

Tax repayable (12104)

1st POA 31.1.26 3208

Workings
1 Benefit in kind
Zero emission car list price $51900 * 2\% = £1038$

There is no benefit for electric provided

2 Property portfolio

UK and EEA properties are pooled separately.

As both the UK and EEA total rents received are less than £150000 the property income will be taxed on the cash basis.

UK Properties

The mortgage interest will be a tax reducer for the residential properties at basic rate on the lower of the rents received less any losses brought forward, the mortgage interest paid and the adjusted NSI less any losses brought forward and personal allowance

Lower of

- 1 $6500 + 6030 = 12530$
- 2 79371
- 3 162614

The mortgage interest re the commercial property is deductible in full.

As taxed on the cash basis the rents received 15 April 2025 in respect of the arrears will be taxed in 2025/26 when received. Taxable in 2024/25 will be the £14000 received

Repairs on a like for like basis are allowable as wholly and exclusively for the letting business.

		£	£
Rents	10 Bond St		19000
	27 Ford Dr		14000
	Bridgeford House		97250
			130250
Less Expenses			
Repairs	$7355 + 17304 + 10964$	35623	
Management charges	$2650 + 2606 + 0$	5256	
Mortgage interest	Commercial	10000	
			(50879)
Net UK Rental			79371

3

Casa Blanca Holiday

The property will qualify as furnished holiday lettings (FHL) if it meets the following conditions:

- 1 It is available for 210 days
- 2 It is actually let for 105 days
- 3 It is let on a commercial basis
- 4 It has sufficient furniture to be let as an FHL
- 5 The total of any lets of more than 31 days do not make up more than 155 days of the days let.

The property was available for 351 days (365 - 14 days used by Jason, it was actually let for 168 days (24 weeks * 7))

As such the property qualifies as an FHL.

As Jason spent two weeks out of the year at the premises the repairs will need to be apportioned for private use.

The management charges will not need apportioned as they are solely re the holiday letting.

Rents	25879
Less	
Repairs $13982 * 50/52$	(13444)
Management charges	<u>(5230)</u>
EEA property income	7205

4 Treasury Gilts

Gains on gilts are exempt from capital gains tax.

The interest on the gilts is as follows:

30.6.24	$250000 * 4\% * 6/12$	5000
31.12.24	$250000 * 4\% * 6/12$	<u>5000</u>
		10000
Accrued interest	<u>1667</u>	
		11667

The accrued interest will be for the period 1.1.25 - 28.2.25 ie $5000 * 1/3 = 1667$

5 Parkes Training Ltd

As Jason is not an employee or director of Parkes Training Ltd and he owns 15% of the shares the benefit on the interest free loan will be taxed as a dividend.

$100000 * 2.25\%$	= 2250
Annual dividend	<u>15000</u>
Total dividends	17250

6 VCT

Dividends received on the first £200000 of investment are exempt from tax, as Jason has invested £225000 (75000 + 100000 + 50000) the excess will be taxable

Dividends taxable $22000 * 25000/225000 = 2444$

As Jason has subscribed for the Force VCT and Wonderways VCT he will receive a tax

reducer of 30% of the amount invested or the amount in the claim up to a maximum £200000.

As the shares in the Greenways VCT are not newly issued he will not receive a tax reducer.

7 Income received from a discretionary trust will be received net of 45% tax and will be taxed as non savings income. A tax credit will be given for the tax deducted.

$$1000 * 100/55 = 1818$$

8 Personal pension contributions
 $12000/0.8 = 15000$

Relief is given by grossing up the basic rate and higher rate tax bands.

9 Gift aid
 $800/0.8 = 1000$

Relief is given by grossing up the basic rate and higher rate tax bands

10 Tax bands
BRB $37700 + 15000 + 1000 = 53700$
HRB $125140 + 15000 + 1000 = 141140$

11 Personal allowance due to the level of income the personal allowance will be reduced to nil.

$$12570 - ((193975 - 15000 - 1000) - 100000)/2 = \text{nil}$$

12 As Jason is an additional rate tax payer he will have no savings nil rate band

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

Annual value 221

The benefit will be £10200

The provision of the furniture will be a benefit of the cost at the official rate of interest ie
 $£1235 * 2.25\% = £28$.

Star Events Class 1a will be $13.8\% * £10421 = £1438$ which is payable by 22 July 2025.
The P11d must be filed by 6 July 2025 and a copy must be given to Gina and Eddie .

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

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

Answer-to-Question- 5

As Adrian and Luisa became UK resident from 6 April 2023 and claimed the remittance basis in 2023/24 and 2024/25 they will be taxed in the UK on all income and gains arising in the UK and on any remittances.

Remittance include anything brought and enjoyed in the UK, however there are some exemptions including assets that you wear eg clothing and jewellery and assets that cost less than £1000. As such the clothing, jewellery and personal laptop will be exempt.

Legislation includes stict rules for the order in which funds are to be allocated as remitted from mixed funds.

As they have made a remittance claim the bank interest, dividend and capital gains in the foreign bank account will not be taxed in the UK as long as they are not remitted.

However the following will be treated as remittances as the money has been "enjoyed" in the UK, the painting of £74000 which is remitted on 1 January 2025, the transfer to Adrian's UK bank account of £25000 on 31 October 2024 and the payment of Luisa's UK credit card bill of £3400 on 16 December 2024.

The overseas bank account is summarised into tax years and types of income in order to allocate the source of income to the remittance:

2024/25

UK employment	nil	
O/s employment not taxed	nil	
o/s income not taxed	13600	(interest & dividends)
O/s income not taxed	15000	
O/s capital	48000	63000 - 15000

76600

2023/24

o/s income not taxed	10200	(interest & dividends)
O/s income not taxed	33000	
O/s capital	64000	97000 - 33000

107200

2022/23

o/s employment income 39000

O/s inheritance 45000

84000

267800

The total remittances in 2024/25 are £28400 ($25000 + 3400$), this will be deemed £13600 from overseas interest and dividends £14800 of capital gains.

As Adam is a higher rate tax payer the tax due will be £5440 ($13600 * 40\%$) on the remitted interest and dividends and £2960 ($14800 * 20\%$) on the remitted gains.

As the money from Luisa's parents are a gift to an adult they will not be deemed as a remittance.

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

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

Answer-to-Question- _6_

1

The ordinary shares in PRCSN Ltd will be deemed a share for share exchange. The new shares will take on the cost and history of the existing shares and any gain will crystallise when the new shares are sold.

Both Grant and Sarah can elect for the this not to apply as they may not qualify for business asset disposal relief (BADR) when they sell the new shares in PRCSN Ltd and be able to get Business Asset disposal relief on the sale of the Focus Ltd shares if the conditions are met.

The proceeds relating to the cash will be taxable immediately.

The proceeds relating to the loan stock will be frozen until the loan stock is sold. Again Grant and Sarah can elect for the gain to be taxed at the date of sale so as to avail of any BADR available.

The total consideration will be

	Number	Market Value	Grant	Sarah
Ordinary shares	1 for every 20	5500	825000	562500
Cash	£20 * 110000		2200000	1500000
Loan stock	1 * £10		1100000	750000
		4125000	2812500	1312500

2)

As Grant was retained as a director he may be able to qualify for BADR on his new shares in PRCSN if he is still a director in the two years up to the point of sale and subject to having some of the £1000000 limit available.

Grant will receive 3750 shares (75000/20) which will be 6.8% (3750/55500) of PRCSN's shares.

The conditions for BADR are

a he is employed by the company

b he holds 5% or more of the company shares

c the company is a trading company (PRCSN is a rival manufacturing company)

and that Grant would meet these conditions for two years up to the date of sale

3)

When Phil died on 1 April 2019 his £50000 shares had a probate value of £10 per share. 25000 of which were left to his wife, Julie. As Julie redirected her entire legacy under a deed of variation to Sarah, Sarah will be treated as receiving those shares at their probate value.

Sarah capital gains base cost will be

	Number	£	
1.4.15	10000	50000	£5 per share (NB £30000 gain deferred)
1.4.19	25000	250000	£10 per share probate value
	35000	300000	

For the two years up to the date of sale Sarah was a director of Focus Ltd, she held 31.8% and Focus Ltd was a trading company, Sarah will qualify for business asset disposal relief (BADR) at 10% on her capital gain from the sale of her Focus Ltd shares up to the lifetime limit of £1000000, any gains above this limit will be taxed at 20%. Sarah has not made any previous BADR claim so the full £1000000 limit is available.

As Sarah has not been retained as a director of PRCSN Ltd and is not an employee she should elect to tax her shares at 1 May 2024 as she will not be able to utilise BADR on the future disposal of the PRCSN Ltd shares as she will not be an employee.

If Sarah elects to tax the gain on her shares, cash and loan stock now her capital gains liability will be as follows

Proceeds

Shares	262500
Cash	700000
Loan stock	350000
	1312500

Less Cost

300000 * 262500/1312500	60000
300000 * 700000/1312500	160000
300000 * 350000/1312500	80000
	(300000)
	1012500

Less Annual exemption	(3000)
Chargeable gain	1009500

CGT liability

1000000 @10%	100000
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9500 @20% 1900
101900

The capital gain will be payable by 31 January 2026.

The election to tax the proceeds at the date of sale must be made by the anniversary of 31 January following the tax year ie by 31 January 202

When she sells her loan stock in the future any gain will be exempt as it's a Qualifying corporate bond, expressed in sterling and not convertible to any other currency.

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