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

Event **NA**

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Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**1264**	**6069**	**7301**
Section 2	**974**	**4750**	**5610**
Section 3	**1872**	**8168**	**9997**
Section 4	**844**	**4233**	**5043**
Section 5	**699**	**3263**	**3901**
Section 6	**1026**	**4802**	**5746**
Total	**6679**	**31285**	**37598**

Answer-to-Question-_1_

The various routes discussed to fund the purchase of Matt's shares have different tax implications.

Purchase of Matt's Shares- Dividend Route

The additional dividends taken out by Jess and Kym to fund the purchase are taxable on the individuals as dividends.

Jess and Kym are both basic rate taxpayers. Their taxable income is less than the personal allowance, so they currently do not pay any tax.

Jess and Kym could withdraw another £2,680 in dividends each tax free, in order to fully utilise the personal allowance. They could then also draw down another £1,000 in dividends each tax free, as the dividend allowance is available (£1000 of dividends taxed at 0%).

However, this does not nearly cover the £80,000 price to be paid to Matt.

Each individual could take a dividend of £36,600 each which would be taxed only at 8.75% (a tax liability of £3,203 each).

This would provide sufficient funds to meet the sale price to Matt.

These dividends drawn need to be reported on Jess and Kym's self assessment tax return. The tax due would be payable to HMRC by 31 January following the tax year the dividend is paid out.

Purchase of Matt's Shares - Bank Loan

Cherry Tree Ltd is a close company, because it is controlled by five or fewer shareholders.

A bank loan to purchase additional shares in the company is therefore a qualifying loan. This is because the individuals are taking out a loan to purchase shares in a close company, and are already employees and shareholders of the company.

However, the interest on this qualifying loan currently has little relevance to Jess and Kym, because their net income is below the personal allowance so they currently pay no tax. Therefore, the deduction available on the interest paid from net income does not provide tax benefits.

Under both this route and the dividend route, Matt will be treated as having made a capital disposal of his shareholding in the company.

Matt is Jess and Kym's brother, so is a connected person to Jess and Kym. The disposal will be deemed to take place at market value, regardless of the actual proceeds changing hands.

Assuming £80,000 is the market value of the shares, Matt's gain would be:

Proceeds	80,000		
Less cost	(6)		
Chargeable Gain	79,994		
Less AEA	(6,000)		
Taxable gain	73,994		

Matt's taxable income after personal allowances is £19,430, meaning he has £18,270 of basic rate band remaining.

Matt is eligible for the annual exempt amount (deducted above).

£18,270 of the gain would be taxed at 10%, with the remaining £55,724 taxed at 20%. The total CGT liability would be £12,972.

Matt is not eligible for BADR on the disposal, because although he owns more than 5% of the shareholding in Cherry Tree Ltd, he is not an employee or director of the company.

Jess and Kym's base cost of the shares moving forward would be Matt's proceeds of the sale (i.e. £40,000 each).

Company Purchase of Own Shares
Alternatively, Jess and Kym could choose to use the company's distributable profits to purchase the shares from Matt.

There would be no income tax/capital gains tax implications for Jess and Kym if the company purchased its own shares.

There are two possible tax treatments for Matt on the company purchase of own shares.

Most company purchase of own shares receive income treatment. The payment is treated as a dividend, taxable at dividend rates and eligible for the dividend allowance as usual.

The dividend is calculated as:

Sale proceeds	80,000		
Less original subscription price	(6)		
Dividend received	79,994		

As Matt is the original subscriber for the shares, no capital loss would arise on the share disposal.

Matt has £18,270 of remaining basic rate band. £1,000 of that dividend will be taxed at 0% on account of the dividend allowance. The remaining £17,270 will be taxed at 8.75% (£1511).

The additional £61,724 would be taxable at 33.75% (£20,832). The total liability is

£22,343.

Alternatively, in limited circumstances capital treatment could apply. If this was the case, the capital gain is calculated as above, and the liability would also be as discussed above.

Capital treatment will only apply if the following conditions are met.

The purchase must not take place as part of a scheme or arrangement, the main purpose (or one of the main purporses) of which is to enable the owner to participate in the profits of the company without receiving a dividend, or the avoidance of tax. This appears to have been met as tax avoidance is not the purpose of the proposal.

The seller (Matt) must be resident in the UK at the time of disposal. This appears to have been met.

The company must be a trading company. Cherry Tree Ltd satisfies this condition as it is a UK registered trading company.

The seller's interest in the company must be substantially reduced as part of the share buy back (i.e. reducing their shareholding by at least 25%). This applies to both the nominal value of the seller's shares, and their entitlement to profits. Matt will retain no shareholding after the share buy back, so this condition will be met.

The seller must not immediately after the share buy back be connected with the company making the purchase, or any other company which is a member of the same group. This condition will be met as Matt and his associates will own less than 30% of the shareholding of the company.

However, the shares must have been owned by the seller throughout the 5 years ending with the date of purchase. In order to meet this condition, the disposal would have to take place in October 2025 as the company was only incorporated in October 2021. Given that the sale will take place in 2024/25, this condition will not be met.

Similarly, capital treatment will only apply if the payment of own shares is made with the purpose of wholly or mainly benefitting the trade. HMRC are strict in their application of what constitutes wholly or mainly benefitting the trade.

Given that Matt is not retiring, nor has he specifically fallen out with the other shareholders to the point that the disagreement is hindering the trade, it is likely that HMRC would not accept that this disposal is for the benefit of the trade. Instead, it seems more to be to prevent Jess and Kym having to pay a shareholder a dividend, which is not a qualifying reason for this purpose.

Therefore, income treatment will likely apply and if the company purchase the shares, Matt would be treated as having received a dividend as discussed above.

Matt could apply for clearance prior to the disposal to request HMRC provide clarification on whether the capital treatment will apply - however, it seems highly unlikely that it will given not all the conditions have been satisfied.

For tax purposes, the shares bought back from the company would be treated as cancelled.

Therefore from Matt's perspective, it would be more beneficial for him to Jess and Kym to purchase the shares as his total tax liability on the capital gain is significantly lower than if the dividend is taken.

However, for Kym and Jess, it would be more beneficial for the company to purchase the shares, as they will not have to incur interest costs on a bank loan or pay an income tax liability on the dividends received.

All income/gains must be reported on a self assessment tax return due 31 January following the tax year. Any income tax or CGT payable must also be paid by this date.

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

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

Answer-to-Question-_2_

Natalia is UK resident but non-domiciled, so is eligible to claim the remittance basis of taxation.

Natalia's foreign income and gains is greater than £2,000 so a claim will need to be made to be assessed on the remittance basis.

The impact of claiming the remittance basis is that Natalia will be taxable in the UK only on her UK sources of income and gains plus foreign income or gains rmeitted to the UK.

Natalia has been resident for at least 7 of the 9 prior tax years. Therefore, a claim for the remittance basis means that a £30,000 remittance basis charge will be levied against Natalia. This is a flat rate charge. Naatalia needs to nominate income to be assessed against this charge.

Natalia will also lose entitlement to her personal allowance and annual exempt amount.

Per the calculations below, Natalia should not claim the remittance basis of taxation on account of the £30,000 remittance basis charge, as the income tax payable for 2023/24 under the remittance basis is higher.

The income tax payable is due to HMRC by 31 January 2025 (date for submission of Natalia's 2023/24 income tax return).

<u>Remittance basis:</u>

	NSI	**SI**	**DI**	
Hedge fund employment income	41,260			
UK bank interest (W4)		75		
Remitted foreign dividend income	18,000			

(W2)				
Remitted relevant debt (W3)	119,500			
Net income	178,760	75		
Less PA (not available if claiming remittance basis)	-			
Taxable income	178,760	75		

37,700 @ 20% = 7,540
87,440 @ 40% = 34,976
53,620 @ 45% = 24,129
75 (W7) @ 45%= 34

IT liablity = 66,679

Add HICBC (W5) = 1,885

Add remittance basis charge = £30,000

Revised IT liability = 98,564

Less tax deducted at source

PAYE = (10,279)

IT payable = 88,285

<u>Arising Basis:</u>

	NSI	**SI**	**DI**	
Hedge fund employment income	41,260			
Overseas Rental profits (W1)	39,250			
UK bank interest (W4)		75		

Previous year remitted income (W3)	100,000			
Foreign interest		15,500		
Foreign dividends			22,000	
Net income	180,510	15,575	22,000	
Less PA (fully tapered to nil as adjusted net income exceeds £125,140)	-			
Taxable income	180,510	15,575	22,000	

37,700 @ 20% = 7,540
87,440 @ 40% = 34,976
55,370 @ 45% = 24,917
15,575 (W7) @ 45% = 7,009
1,000 @ 0% = 0
21,000 @ 39.35% = 8,264

IT liability = 82,706

Add HICBC (W5) = 1885

Revised IT liability = 84,951

Less tax deducted at source

PAYE = (10,279)

IT payable = 74,312

(W1) Property income:

Property income arising in relation to various properties in a non UK property business is pooled.

	Rental profits			

Property 1	18,450			
Property 2	20,800			
Total profits	39,250			

It is assumed that this property income has been kept offshore because no mention has been made of any remittances.

Therefore as the property income is foreign income that has not been remitted to the UK, if Natalia claims the remittance basis it is not taxable in the UK.

(W2) Individuals are eligible to deposit up to £9,000 per tax year into a junior ISA for their children tax free. So if Natalia is taxed on the arising basis, there are no further tax implications of the transfer.

If Natalia claims the remittance basis, this is a remittance of foreign dividend income.

Remittance of foreign dividend income: £18,000.

(W3) The offshore loan from a bank in Switzerland is a 'relevant debt' because it is enjoyed in the UK (i.e. purchasing a holiday home in the UK).It is a debt secured partly on unremitted foreign income and gains, and interest payments have been made partly from this unremitted foreign income and gains.

Therefore, the amount of the collateral that is secured on unremitted foreign income and gains is deemed to be remitted, as are the annual interest charges.

The bank account is a mixed fund. As it already contained unremitted foreign income and gains, the statutory ordering rules will apply to assess what is remitted.

The account contains no UK employment income.

Remittances are deemed to be made from current year foreign income and gains first.

Total amount remitted in 2023/24: 7,600 + 190,000 = 197,600

Foreign income and gains remitted:

	2023/24		Loan remittances	
Foreign interest	15,500		(15,500)	
Foreign dividends (less 18,000 already remitted)	4000		(4,000)	
Total	19,500			
	2022/23			
Unremitted foreign income	100,000		(100,000)	
		Total	119,500	

The remainder of the income remitted is clean capital as there is no more unremitted income or gains in the account. There is no tax charge on clean capital brought to the UK.

All unremitted income is taxed at non savings rates.

If the remittance basis is not claimed, the maximum unremitted foreign income and gains in the account (£100,000) is deemed to be remitted.

No foreign tax credit is available as no foreign tax has been paid.

(W4) The UK bank interest is UK sourced so Natalia is assessed to UK tax on it regardless of whether she claims the remittance basis or not.

(W5) Natalia's adjusted net income (being net income less gross personal pension contributions less gross gift aid contributions) is well above £60,000.

Therefore the full child benefit given to Natalia is clawed back. As Natalia lives alone, the clawback is assessed on her.

21.80 x 52 = 1,134
14.45 x 52 = 751

Total child benefit = 1,885

This is clawed back regardless of whether Natalia claims the remittance basis or arising basis.

(W6) An offshore bond is a non qualifying life insurance policy. 5% of the nominal value (being £1,200,000 - the amount invested) can be withdrawn each tax year tax free.

Therefore Natalia is permitted to withdraw £60,000 tax free each year.

This is exempt income for UK taxpayers, so it is not taxable even upon remittance by Natalie (regardless of whether she claims the remittance or arising basis of taxation).

(W7) Personal savings allowance:

Higher tax taxpayer: £500
Additional rate taxpayer: £0

Dividend allowance of £1,000 is available always regardless of income.

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

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

Answer-to-Question-_3_

Tom's residence position will be defined by reference to the Statutory Residence Test (SRT) in Finance Act 2013.

The SRT considers the following tests, in chronological order:

1) The automatic overseas tests
2) The automatic UK tests
3) The sufficient ties test

Once an individual has met one of the tests, the later tests do not need to be applied.

A non-resident of the UK is taxable only on UK sources of income, and gains on UK land and property (or gains on UK assets used in a UK trade or branch). By contrast, a UK resident, UK domiciled individual is taxable on their worldwide sources of income and gains.

For the purposes of the SRT analysis, a 'day' is one in which the individual is present in the UK at midnight. A 'workday' is one on which an individual performs more than 3 hours of work physically in the UK.

<u>2024/25</u>
Tom will not be automatically non-resident for 2024/25.

Tom does not meet the first automatic overseas test, which is that for an individual who was resident in one of the three prior tax years will not be resident for the year if they spend less than 16 days in the UK. Tom has clearly spent more than 16 days in the UK in 2024/25.

Tom is not eligible for the second automatic overseas test as he has been UK resident in one of the three prior tax years.

Tom will not meet the third automatic overseas test, which is working full time abroad. This is because Tom spent more than 91 days in the UK during 2024/25, and worked for more than 30 workdays in the UK during 2024/25.

We then move onto the automatic UK tests.

Tom will meet the first automatic UK test, by virtue of being present in the UK for more than 183 days in the tax year.

Tom is initially therefore UK resident. However, we can consider split year treatment to split the tax year into a UK part and an overseas part.

Tom is leaving the UK so we consider the following cases:

1) Case 1 - starting full time work overseas
2) Case 2 - the partner of someone starting full time work overseas
3) Case 3 - ceasing to have a home in the UK

Case 2 is not relevant because Tom's wife is remaining in the UK. Case 3 is not relevant as his son and wife will be living in the family home.

Tom is eligible to split the tax year out under case 1. This is because he is UK resident for 2024/25, was UK resident for 2023/24, will be non-resident in 2025/26 by virtue of meeting the full time work overseas criteria, and satisifes the overseas work criteria whilst overseas. This means that he works sufficient hours overseas (i.e. full time), he has no significant break from work in the period of work overseas (no period of more than 31 days of unpaid leave). He also is not planning to spend more than 7 workdays and 22 days back in the UK in 2024/25 after his departure up until the end of the 2024/25 tax year.

The overseas part of the tax year starts on the date Tom commences full time work overseas. Therefore, the UK part of the tax year (where Tom is UK tax resident) runs from 6 April 2024 to 5 January 2025. The overseas part of the tax year (where Tom is non-resident) runs from 6 January 2025 to 5 April 2025.

Split year treatment applies automatically - no formal claim needs to be made, and it cannot be opted out from.

<u>2025/26</u>
Tom plans to spend 21 days in the UK during 2025/26. These days are for holiday so are not workdays.

He does not meet the first automatic overseas test, because he has been resident in one of the three prior tax years but will spend more than 16 days in the UK during 2025/26.

He is not eligible for the second automatic overseas test, because he has been Uk resident in one of the three prior tax years.

Tom meets the criteria to be non-resident under the third automatic overseas test (the full time work overseas test). This is because Tom will spend less than 91 days in the UK during 2025/26, will work in the UK for less than 31 days, and he plans to have no significant break in his overseas work. A significant break is where at least 31 days go by and an individual has not had a workday overseas (and not one of those is a day on which you would have worked if not for annual leave/sick leave/parental leave). Tom also works sufficient hours overseas (i.e. full time).

Therefore, Tom is UK non-resident for the full 2025/26 tax year, regard;ess of his vacation back in the UK.

2026/27
Tom will return to the UK on 4 May 2026.

He does not meet the first automatic overseas test, because he has been resident in one of the three prior tax years but will spend more than 16 days in the UK during 2026/27.

He is not eligible for the second automatic overseas test, because he has been Uk resident in one of the three prior tax years.

Tom also does not meet the third automatic overseas test. This is because he will work back in the UK full time from May 2026, so therefore will spend more than 91 days in the UK during 2026/27 and will have more than 31 workdays in the UK in the tax year.

Tom is automatically UK resident under the first automatic UK test for 2026/27. This is becuse when as he returns in May 2026, he will have significantly more days in the UK than 183 days.

We therefore need to consider whether Tom can split the tax year in 2026/27.

Tom will be arriving back in the UK rather than leaving, so the cases to be considered are:

Case 4: starting to have an only home in the UK
Case 5: starting full time work in the UK
Case 6: ceasing full time work overseas
Case 7: the partner of someone ceasing full time work overseas
Case 8: starting to have an only home in the UK

Case 4 and case 8 are not relevant because Tom retains a UK home throughout his period of non-residency. Case 7 is not relevant because Tom's wife remained in the UK.

Tom is eligible to split the tax year under Case 5 because he was non-resident for the prior tax year. He does not meet the sufficient ties test prior to his return to the UK because he spends only 2 days in the UK before he re-commences full time work in the UK.

Tom is also eligible to split the tax year under case 6 because he is returning from a qualifying period of full time work overseas, because he was non-resident in 2025/26 under the third automatic overseas test, but he has been UK resident in one of the 5 years before 2026/27. He satisfied the overseas work criteria whilst abroad and expects to be UK resident in the next tax year.

When both case 5 and case 6 apply, the case that gives the earliest UK part of the year start date takes priority. Under Case 5, the UK part of the year starts on 4 May 2026. Under case 6, the UK part of the tax year starts the day after Tom's final workday in the US.

Therefore, case 6 will take priority and Tom will be UK resident from the day after he ceases full time work overseas.

2)

Tom will be UK non-resident in December 2025. Typically, non UK residents are not chargeable to UK CGT on their assets.

However, disposals of UK land and property by non residents is chargeable to UK CGT. Specifically, disposals of UK residential properties has been chargeable to UK CGT since 6 April 2015.

Only the post 5 April 2015 element of the gain would be chargeable in December 2025.

The UK taxable gain is automatically calculated via the default method. Under this method, the value of the property is re-based at the 5 April 2015 value. The chargeable gain is calculated as the actual sale proceeds, less the value at 5 April 2015.

Or, Tom could elect to calculate the gain under the time apportionment method. This method calculates the gain as the actual sale proceeds, less the original cost of the property in 2002. The resulting figure is then time apportioned to account for only the element of the gain arising from 6 April 2015 onwards.

The retrospective method, which uses the actual sale proceeds less the original cost of the property, would not be relevant as the property will be sold at a gain.

Tom would need to report the disposal on an online property return within 60 days of the completion of the sale, and make a payment on account of the CGT due within 60 days of completion. The payment on account is a best estimate of the taxes due, and can factor in the annual exempt amount.

Tom had occupied the property as his main residence at some point, so an element of Private Residence Relief would apply. Tom would not have re-occupied the property after returning from New York, so the period he is working full time overseas would be a period of absence and could not be treated as deemed occupation.

However, as Tom has occupied the property as his main residence at some point, he would still be eligible for PRR on the final 9 months of ownership in the property. Therefore, providing this is Tom's only period of absence from the property, only 6 January 2025 until March 2025 would be subject to UK CGT.

However, Tom is returning to the UK on 4 May 2026. He is therefore treated as a temporary non resident.

This is because he was UK resident immediately prior to his departure, and he had been UK resident for 4 of the 7 prior tax years at the point of his departure from the UK. The period in which he is non-resident of the UK is less than 5 years.

The temporary non-residence rules are an anti-avoidance measure, which bring any gains made on assets held before the period of temporary non-residence and disposed of during the period of temporary non-residence within the charge to CGT.

Therefore, the gain made on the UK property would be chargeable to UK CGT in the year Tom resumes residence (2026/27).

Tom has already paid tax on the disposal under the NRCGT rules. Therefore, the gain in 2026/27 would be calculated using the regular CGT principles (actual sale proceeds, less the original cost of the property), with PRR exempting most of the gain as above. The tax liability on this disposal is then calculated.

The tax already paid on the NRCGT disposal is then deducted from the tax liability on the temporary non-residence gain, to avoid double payment of tax.

Tom would not get the benefit of the annual exempt amounts not utilised whilst he was overseas.

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

--------------ANSWER-4-BELOW--------------

Answer-to-Question-_4_

Property income is taxable as non-savings income. Profits and losses from all UK property income are pooled and constitute one singular UK property business.

The UK property business covers all income received from any UK land, so covers rental income received for land used as a car park.

The basis on which an individual's property income is calculated depends on their gross property income. If an individual's gross property income is above £150,000 in a tax year, the accruals basis applies automatically.

If an individual's gross property income is below £150,000 in a tax year, the cash basis applies automatically (although an election can be made to calculate taxes on the accruals basis).

Gross property income is property income (rents) as calculated on the cash basis.

Ellen's gross property income for 2023/24 is:

Office block	100,000		
Retail property (W1)	30,400		
Land used as a car park (24,000 x 10/12) + (26,400 x 2/12)	24,400		
Total property income	154,800		

(W1)Ellen has granted a short lease from a freehold. The premium will be split between property income and a capital gain.

Premium	20,000		

Less capital element (20,000 x 2% x (5-1)	(1,600)		
Property income	18,400		
Add rents	12,000		
Total property income	30,400		

Therefore the accruals basis applies automatically. Under the accruals basis, property profits are calculated as property income payable in relation to the tax year, less expenses payable in relation to the tax year.

By contrast, under the cash basis, profits are calculated as property income actually received in the tax year, less expenses actually paid in the tax year.

In general, revenue expenses incurred in the property business are allowable deductions from property income as long as they are incurred wholly and exclusively for the purpose of the business.

Capital expenses are not an allowable deduction from property income. Capital expenditure is one which substantially improves or makes an addition to the asset.

Office Block

The property income is £100,000 (i.e. the annual rent), less the annual buildings insurance of £3,800.

The annual buildings insurance is an allowable expense because it is incurred wholly and exclusively for the purposes of the business.

Any amounts necessarily incurred by the tenant in repairing the property as part of the lease are added to the proceeds of an eventual capital disposal of the building.

Land used as a car park
The property income is the rent payable in relation to the tax year. This calculation is the same as under the cash basis (as above) - i.e. increased rent from 1 March 2024 onwards.

Revenue expenditure by Ellen is an allowable deduction from property profits. Repairs are revenue expenditure. Filling the potholes and resurfacing the car park are revenue expenditure, as they are simply a repair of the existing asset.

However, the addition of marked parking bays and the landscaping to improve the look and feel of the car park is capital expenditure. This is because it is substantially improving the asset, and adding items to the asset that were not included before. This is not an allowable deduction from property income for the tax year.

The £20,000 expenditure needs to be apportioned between the element relating to the repairs, and the element relating to capital expenditure.

The revenue element can be deducted from the rental income. The repairs were completed in 2023/24 so the full amount of the element of the £20,000 cost relating to the repairs is an allowable deduction in 2023/24, regardless of when the payment was settled.

<u>Retail Property</u>
The property income element of the premium (calculated above) will be spread across the 5 tax years the lease covers. This is because Ellen is on the accruals basis, so she is taxable on income due in relation to the year not the rents actually received.

The £12,000 yearly income needs to be apportioned to account for the element relating to 2023/24. As the tenancy began mid year, only £6,000 of the yearly income will be taxable in 2023/24.

As Ellen is on the accruals basis, she is taxable on the income due - therefore, regardless of the fact that Ray has refused to pay some of his rent, she is still taxable on the full £12,000 due (as opposed to the £9,000 actually received).

The £9,000 however is not taxable in 2023/24, because it is in relation to 1 October 2024 - 30 September 2025 - it will actually be taxable in 2024/25.

The utilities paid and letting agent fees are allowable even though the property was vacant, because it was required to continue the property business.

However, the repairs to make the property eligible for letting are not allowable revenue expenses - they are capital expenditure so are not deductible from property income. This includes the replacement of kitchen units and the redecoration in September 2023.

The buildings insurance needs to be apportioned to account for amount actually relating to 2023/24 - however given the payment year is aligned with the tax year, no apportionment actually needs to be done in this case.

Ellen can claim a deduction for the excess o

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

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

Answer-to-Question-_5_

Sam is subject to NIC on her NICable earnings. Cash earnings are subject to class 1 primary NIC (i.e. salaries, bonuses).

The earnings subject to Class 1 NIC are:

	NICable earnings		
Annual salary	50,000		
Cash bonus	2,500		
Shopping voucher (W1)	500		
Reimbursement of business expenses (W2)	-		
Payrolled benefit (W3)	-		
Total NICable earnings in employment	**53,000**		
Annual salary	25,000		
Bonus (W4)	5,000		
Prize (W5)	-		
Mileage payments (W6)	100		
Credit card bill (W7)	1,500		
Childcare vouchers (W8)	-		
Interest free loan (W9)	-		
Total NICable earnings in employment 2	**31,600**		

(W1) Vouchers given to employees, whether cash or non-cash vouchers, are always subject to Class 1 NIC (with the exception of exempt childcare vouchers).

(W2) The reimbursement of genuine business expenses is not subject to Class 1 NIC.

(W3) The private medical insurance is paid for and arranged by the employer, so the employee is not subject to Class 1 NIC on this benefit (the employer is subject to Class 1A instead). It does not matter that the benefit is payrolled - this does not change the NIC position.

(W4) Shares listed on the London Stock Exchange are readily convertible assets. Earnings by employees in the form of readily convertible assets are subject to Class 1 NIC, based on the market value of the readily convertible asset.

(W5) The prize won in the raffle is not earnings from employment, as it is not related to Sam's service. Instead, it represents 'winnings' which are exempt.

(W6) Employers are permitted to reimburse employees up to 45p per genuine buisness mile for NIC purposes. The 10,000 business mile limit (at which point the allowable rate is 25p) does not apply for NIC purposes.

Any excess over the 45p limit is earnings for Class 1 NIC purposes.

2,000 x 50p = £1,000
2,000 x 45p = (£900)
Excess = £100

(W7) Payment of an employee's credit card bill is settling a pecuniary liability. As it is not arranged for by the employer (just settled by), the payment is subject to Class 1 NIC.

(W8) Childcard vouchers that are exempt from tax are also exempt from NIC.

The permitted amount employers can provide tax free is dependent on whether the individual is a basic rate, higher rate or additional rate taxpayer.

£25 is the minimum eligibility (for additional rate taxpayers) so the full amount of the vouchers is exempt from NIC.

as early in TY as possible to allow HMRC to process it, will accept the forms up until end of TY but may not be time to get in place.

(W9) The interest loan is paid for and arranged by the employer. There is no charge to Class 1 NICs - just Class 1A for the employer.

Annual Maxima Calculation

Step One:

53 x (967 - 242) = £38,425

Step Two:

£38,425 x 12% = £4,611

Step Three:

Employment One: £50,270 - £12,570 = £37,700

Employment Two: £31,600 - £12,570 = £19,030

Sum: £56,730

Step Four:

£56,730 - £38,425 = £18,305

Step Five:

£18,305 x 2% = £366

Step Six:

Employment One: £53,000 - £50,270 = £2,730

Step Seven:

£2,730 x 2% = £55

Step 8:

£55 + £366 + £4611 = £5,032

Annual maxima = £5,032

NICs paid:

Employment One: £50,270 - £12,570 = 37,700 @ 12% = £4,524
£53,000 - 50,270 = £2,730 @ 2% = £55

Employment Two: £31,600 - 12,570 = £19,030 @ 12% = £2284

Total paid: £6,863
Refund due: £6,863 - £5,032 = £1,831

Sam could make an application to defer Class 1 National Insurance by way of submission of form CA7A to HMRC's National Insurance Contributions Office (NICO). This form requests that NICs are levied at 2% only on earnings above the primary threshold, on one of an individual's multiple employments.

The individual can not decide which employment the deferment applies to - HMRC will decide themselves.

This form should be submitted by HMRC as early as possible in the tax year to ensure the deferment can be implemented. However, HMRC will accept applications up until the end of the tax year.

Once submitted and HMRC have processed the form, the deferment of NICs will apply until the individual terminates one of the 2 employments.

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

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

Answer-to-Question-_6_

Shares in Green Bow plc are readily convertible assets, because Green Bow plc is a quoted company. Therefore if there is any charge to employment income on shares in Green Bow plc, there will be an associated charge to Class 1 primary and Class 1 secondary NIC.

There is no income tax charge on the allocation of the shares (nor is there therefore a national insurance charge, or a capital gains tax charge).

Whether there is an income tax charge/NIC charge on the withdrawal of the shares from the plan is dependent upon how long the shares have been held in the plan.

As the shares are readily convertible assets, any income tax on employment income arising on the withdrawal of the shares from the plan will be collected via PAYE. The Class 1 NICs due will also be collected via payroll.

Sarah withdrew all shares from the plan on 1 March 2024, on the date of leaving.

Free shares are allocated by the employer at no cost to the employee.

Employees are permitted to acquire partnership shares using their salary, up to the value of £1,800 or 10% of gross salary before PAYE is deducted - whatever is lower.

<u>Shares acquired 1 December 2017</u>
All shares acquired on 1 December 2017 where held in the plan for more than 5 years (6 years). Therefore, there is no income tax charge on the withdrawal of the 250 free shares, 1,800 partnership shares, or 3,600 matching shares from the plan.

Therefore there is also no charge to Class 1 primary NICs, or Class 1 secondary NICs on the withdrawal.

The only tax charge will be to capital gains tax on the eventual disposal of the shares.

The matching shares have been held for more than 3 years so are not forfeited.

<u>Shares acquired 1 December 2019</u>

The shares acquired on 1 December 2019 were held in the plan for 4 years and 4 months. Therefore, they were held within the plan for between 3 and 5 years.

We can assume that the shares did not change greatly in market value between the date of leaving and 2 March 2024.

The amount of employment income (on which both income tax and national insurance will be levied) are as follows:

Free shares and matching shares:

The employment income will be on the lower of the market value of the shares at allocation, or the market value of the shares at withdrawal.

The matching shares have been held for more than 3 years so are not forfeited.

The market value at allocation was lower, because the shares have increased in price.

Therefore the employment income is:

Free shares:			
Market value at allocation (100 x 1.00)	100		
Less price paid	-		
Employment income	100		
Matching shares:			
Market value at allocation (1.00 x 2,000)	2,000		
Less price paid	-		
Employment income	2,000		

Partnership shares:

The employment income arising on the partnership shares is the lower of the difference between the market value of the shares at withdrawal and the amount paid for the shares or the amount paid for the shares.

Partnership shares:			
Market value at allocation (1000 x 3.5)	3,500		
Less amount paid	(1,000)		
Employment income	£2,500		
OR			
Amount paid for shares (1000 x 1)	£1,000		

Therefore the employment income arising on the partnership shares is £1,000.

Therefore the total amount of employment income across all types of shares acquired on 1 December 2019 is subject to PAYE (income tax) and Class 1 NICs on withdrawal in 2023/24.

<u>Shares acquired 1 December 2021</u>
The shares acquired 1 December 2021 have been held in the plan for less than 3 years (2 years and 4 months).

The matching shares are therefore forfeited. There is no employment income arising on the forfeiture, as Sarah never had the benefit of withdrawing the shares from the plan so there can be no associated charge. Therefore there is no income tax/NIC due on the forfeiture of the matching shares.

The employment income arising on the free shares is the market value at withdrawal.

Market value at withdrawal (150 x 3.50)	525		
Less price paid	-		
Employment income	525		

The employment income arising on the patnership shares is also the market value of the shares at withdrawal less the price paid for the shares.

Market value at withdrawal (1,800 x 3.50)	6,300		
Less price paid	(1,000)		
Employment income	5,300		

All amounts charged to employment income are subject to income tax (via PAYE) and Class 1 NICs.

<u>Disposal of shares</u>
Sarah disposed of some of her shareholding.

The shares sold on 2 March 2024 is a disposal.

Her husband and minor child are connected persons for CGT purposes. Therefore there is a deemed disposal upon the gifting, deemed to take place at the market value of the shares.

The shares sold on 1 October 2024 is also a disposal.

The s.104 ITA 2007 share matching rules dictate the base cost of the shares disposed.

Shares are matched with:

1) Shares acquired on the same day
2) Shares acquired in the following 30 days
3) Entered into the s.104 share pool

All shares will therefore enter the s.104 share pool.

The 'cost' column represents any amounts actually paid for the shares plus any employment income arising on the shares.

	Qty	**Cost**	
1 December 2017	5,650	-	
1 December 2019	3,100	4,100	
1 December 2021	1,950	6,825	
	10,700	10,925	
2 March 2024(W1)	(2,500)		

(W1)

Proceeds (2,500 x 3.5)	8,750		
Less base cost	(2553)		
Gain	6,197		

Gift relief is not available because the shares are quoted.

Gains must be reported on Sarah's self assessment tax return. CGT will be payable on the amount of gains above the annual exempt amount (£6,000 of CGT free income), assuming this has not already been utilised.

As the shares were disposed of across two tax years, the £6,000 AEA is available for both 2023/24 and 2024/25.

The CGT must be paid to HMRC by 31 January following the tax year of disposal.

The annual dividend of £0.12 will be taxable on Sarah. The amount will be charged to dividend tax rates. The dividend allowance of £1,000 (taxed at 0%) is available (if not already utilised).