THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

November 2025

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 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. On 30 September 2001, Sarah and Tim Brown bought Apple Cottage in London for £760,000, inclusive of acquisition costs. They moved into the house straight away and it remained their main residence until 31 October 2013, when they relocated to Manchester. They let Apple Cottage from 1 December 2013 and have reported the rental profits on their Self Assessment returns each year.

As the garden of Apple Cottage was very big, they decided to separate part of the garden and build a second house on it. A valuer estimated that the value of the separated land on acquisition would have been £15,000. Planning permission was obtained in April 2023 and the new house, Pear Cottage, was completed in August 2024 at a cost of £220,000. At first, Sarah and Tim planned to let Pear Cottage commercially but on completion of the build, they decided to sell it instead. The property has never been occupied. Accordingly, they put both properties on the market.

On 31 March 2025, Apple Cottage was sold for £1,200,000. They incurred legal fees of £18,000 on the sale.

On 31 March 2025, Sarah and Tim also received and accepted an offer for Pear Cottage, which will give them £475,000. There have been delays but they expect the sale to proceed shortly and expect to incur fees of £7,150 on the sale of the property.

Sarah and Tim are thinking of using some of the proceeds from the two disposals to buy another property, which they hope to renovate and sell on for a profit.

Sarah and Tim are higher rate taxpayers and have always owned the properties in equal shares. They did not dispose of any other assets in 2024/25 and do not expect to make any other disposals in 2025/26.

Requirement:

Explain the tax implications, including reporting obligations, for Sarah and Tim of the above transactions and calculate their Capital Gains Tax liabilities, assuming all beneficial reliefs and elections are claimed or made. (20)

2. Laura incorporated Birdie Foods Ltd on 1 March 2022 when she subscribed £15,000 for 150,000 ordinary shares. The company commenced its trade on 10 March 2022. The company is small with just 10 employees, and currently operates from leased premises in the North of England.

The initial range of products has proved popular, although Laura recognises that the development of new products is vital if the business is to continue to grow. She has therefore asked her aunt, Emma, to invest £100,000 in the company. The investment will be used as follows:

1) £40,000 to replace some existing equipment, which will ensure production can continue at current levels.

2) £50,000 to be invested in some additional plant and machinery to increase production levels.

3) £10,000 in research and development of new products.

Emma will subscribe a total of £100,000 for 50,000 ordinary shares, which will all be issued on 1 December 2025. An independent valuation has confirmed that this is market value for a 25% shareholding.

She will subscribe for 20,000 of the shares using cash in her current account. Birdie Foods Ltd will immediately use the cash of £40,000 to replace some of the existing equipment.

In relation to the remaining 30,000 shares, Emma will use a cash ISA which matures on 1 March 2026. She has three options to fund her subscription:

1) Withdraw the funds early to invest on 1 December but she would lose six months' interest as a penalty for early withdrawal. She would prefer to avoid this if possible.

2) Arrange a bank loan for £60,000 on 1 December and repay this when the ISA matures. She does not know yet if the bank is willing to offer loan finance for this purpose.

3) The 30,000 shares would be issued nil paid and Emma would pay up the shares when the ISA matures.

Emma will become a non-executive director on 1 December 2025 to have some involvement in the business decisions. Her fees for this will be at a market rate.

Requirement:

Explain whether Emma's proposed investment in Birdie Foods Ltd will qualify for any Income Tax or Capital Gains Tax relief and explain which option she should choose to fund the balance of the cost of the shares. (15)

3. Mo Ahmed has been employed by Northern Bake plc since 2017. He has received a basic monthly salary of £12,000 and various taxable benefits worth £1,000 per month since 6 April 2022. Mo makes a monthly net payment of 8% of his basic salary into his personal pension. In addition, Northern Bake plc contributes 10% of Mo's basic salary each month into Mo's personal pension. Mo does not have any other sources of income.

Mo's employment contract will be terminated on 14 November 2025 and he has been offered a single gross termination payment of £200,000 and his contractual three month notice period will be waived. The termination was not due to redundancy.

Mo would like to use the after-tax proceeds of the termination package to make the maximum possible additional payment into his personal pension in 2025/26.

Mo will not seek a new job until May 2026.

Requirement:

Explain, with supporting calculations:

1) **The Income Tax and National Insurance contributions payable in respect of the termination package.** (7)

2) **The maximum tax efficient additional payment that Mo can make to his personal pension in respect of 2025/26.** (8)

Total (15)

4. Maisie is UK domiciled. She left the UK with her civil partner Lily in September 2016 to work full time overseas. Lily returned to work full time in the UK in April 2023 and stayed in a friends spare room. Maisie remained in her overseas employment until she resigned in November 2023. She spent the next few months travelling overseas, before returning to the UK on 15 June 2024. Maisie and Lily now intend to remain in the UK permanently.

Maisie and Lily stayed in a hotel in the UK from 15 June 2024, before moving into rented property in London on 6 July 2024.

Maisie started a new office-based job in London on 24 June 2024 working 36 hours per week. Her P60 for the year ended 5 April 2025 showed gross income of £53,817.

Maisie's employer loaned her £25,000 on 1 October 2024. She repaid £10,000 on 1 February 2025 and then made further repayments of £1,000 per month starting on 1 March 2025. Maisie did not pay any interest on the loan.

While Maisie was working abroad, she paid into a pension scheme held in the Isle of Man. In April 2017, the value of her pension fund lump sum rights was £6,765. In June 2024, the value was £57,879. In March 2025 she fully cashed in this pension, receiving a payment of £58,531 on 24 March 2025.

Maisie owns a villa in Portugal. She received rent of £625 per month for this property during 2024/25. The rent was paid in advance on the first day of each month. Maisie incurred the following expenses for the villa:

		£
1 May 2024	Insurance	360
6 August 2024	Plumbing repair	425

Requirement:

Calculate, with explanations, Maisie's Income Tax liability for 2024/25 after making any beneficial elections. (20)

5. Linda Jones incorporated Trust Ltd in 2005, subscribing for 1,000 £1 Ordinary shares at their nominal value. Linda has been the sole shareholder and director since incorporation. Trust Ltd provides management consultancy services.

Trust Ltd acquired the freehold to a factory from a local manufacturing business. It then let the factory to a third party on a 20 year full repairing lease.

Linda spends one business day per year on administration relating to the factory and she also has a half-day meeting with the leaseholder each quarter. No employees of Trust Ltd are involved in the management of the factory.

As at the end of the company's accounting period of 28 February 2025, Trust Ltd's balance sheet was as follows:

	£	£
Investment Property (Factory – market value)		700,000
Other Fixed Assets (Company Premises – market value)		500,000
Current Assets:		
Cash	110,000	
Trade Debtors	190,000	
Current Liabilities	(100,000)	
		200,000
Shareholders' Funds		1,400,000
Represented by:		
Share Capital		1,000
Profit & Loss Account		1,399,000
		1,400,000

An extract from the company's profit & loss account for the accounting period ending 28 February 2025 was as follows:

	£	£
Turnover		500,000
Rents from investment property		100,000
Director's salary	(12,570)	
Wages	(220,000)	
Business Travel	(60,000)	
Utilities	(25,000)	
Landlord Insurance	(4,000)	
Profit	278,430	

Linda would eventually like to hand over Trust Ltd to her only child, Helen. Helen is an employee of Trust Ltd. To start that process she has arranged for Trust Ltd to issue Helen with 500 new £1 Ordinary shares in the company, which Helen subscribed for at par on 20 March 2025. Before the share issue, Linda's shares were valued at £2,000 per share. Following the issue of shares to Helen, Linda's shares were valued at £1,800 per share as part of a majority holding. Helen's shares were valued at £1,400 per share as part of a minority holding.

Linda has not previously made a claim for business asset disposal relief and has no brought forward capital losses.

Requirement:

Explain the tax implications of the issue of shares in Trust Ltd to Helen and any relevant claims that can be made. (20)

6. Mr Singh is UK resident and domiciled and lives in Wales.

In 2024/25, Mr Singh's taxable income comprised pension income from his former employer of £50,000 and net property income of £10,000. He also had the following transactions:

1) On 1 July 2024 Mr Singh sold his main residence, The Lodge, for £600,000. He gave his son £400,000 from the sale proceeds. His son purchased The Croft on 6 August 2024 for £300,000 for his father to occupy rent free in his retirement. Mr Singh moved in on this date. The estate agent handling the sale stated that if the property was let on the open market, the rent would be £14,400 per annum.

On 1 August 2024 Mr Singh made the following gifts to UK registered charities:

1) A cash donation of £1,000 under Gift Aid to a local music charity. As a thank you for the donation, the charity gave Mr Singh two tickets to a performance by a national orchestra. The tickets were on sale to the general public at that time at £60 per ticket.

2) A gift of 1,000 shares in ABC plc. The share price on the London Stock Exchange on 1 August 2024 was £4.90 per share. Mr Singh acquired the shares on 1 January 2008 for £2.10 per share.

Requirement:

Explain the Income Tax and Capital Gains Tax implications of the above gifts. You are NOT required to consider the tax arising on the sale of The Lodge. (10)