The Chartered Institute of Taxation

Advanced Technical

Taxation of Individuals

May 2025

Suggested answers

Answer 1

Austin Ltd

The sale of the shares in Austin Ltd will give rise to a loss of £3,473. This is calculated as follows:

	£	£
Proceeds		6,373
Cost (522/1491) x 40,175 14,065 x 30% (Note One)	 14,065 (4,219)	
		(9,846)
		(3,473)

Note One: The Income Tax Relief is not withdrawn as the shares have been held for longer than three years.

As Mark obtained EIS relief for his subscription, he can make a claim under s.131 ITA 2007 to offset this loss against his taxable income for 2024/25. This will generate relief at a higher rate than if he used the loss against his other capital gains for the year. It will also reduce his income to below £100,000, meaning that he will qualify for a full personal allowance.

Under s.131 ITA 2007 the loss could be carried back to 2023/24 instead, but this would result in a smaller tax saving as he would not have lost any of his personal allowance for that year.

The claim must be made by the first anniversary of the self assessment filing deadline. So by 31 January 2027 in this case.

Mark would have made a claim for reinvestment relief against the gain on the sale of the property in 2017/18. This would have resulted in £40,175 of the gain becoming frozen due to his Austin Ltd investment. The frozen gain crystallises on the earliest of:

a) the date the EIS shares are sold

b) the date the claimant becomes a non-UK resident (if this happens within 3 years from the date the shares were issued). This does not apply if the claimant leaves the UK to take up employment overseas and returns to live in the UK within 3 years having retained the shares.

c) the date the shares cease to be eligible EIS shares

The shares cost £26.95 each. Therefore (522 x £26.95) £14,065 of the frozen gain will crystallise in 2024/25 due to the sale of the shares in Austin Ltd.

Rushworth Ltd

The sale of the shares in Rushworth Ltd will give rise to a gain of £1,732. This is calculated as follows:

	£
Proceeds	13,447
Cost	(11,715)
	1,732

This gain will not be exempt from Capital Gains Tax because Mark would not have met the conditions to qualify for Income Tax relief on the original subscription. One of the conditions for an EIS investor to qualify for Income Tax relief is that they cannot be connected to the company. An individual will be connected for this purpose if they own more than 30% of the issued share capital. When determining whether an individual is connected under this condition, the shareholdings of their associates are taken into account.

As Mark's daughter Jade owns 45% of the company's ordinary share capital, Mark would not have qualified for Income Tax relief.

There is no connection condition to consider for EIS reinvestment relief so Mark would have been able to use the investment into Rushworth Ltd to defer £11,715 of his gain on the property, this will crystallise in 2024/25.

<u>Collins Ltd</u>

Mark can make a negligible value claim under s.24(2)(a) TCGA 1992 in respect of these shares. The result of the claim is that he is treated as having disposed of the shares at the value specified in the claim, which would be zero, and immediately reacquired them at the same value.

This will generate a capital loss of £54,080.

The amount of the loss does not need to be restricted as no Income Tax relief has been claimed.

Mark can make a further claim under s.131 ITA 2007 to offset this loss against his income. This is because Mark subscribed for the shares and the company was a qualifying trading company.

However, the amount of this loss that can be offset against income is restricted to the higher of £50,000 or 25% of his adjusted total income for the year. In this case Mark can claim £50,000.

Mark could carry the balance of £4,080 back to 2023/24 or offset it against his capital gains for 2024/25.He would achieve a higher tax saving by carrying the loss back to offset against his income for 2023/24.

<u>Dashwood Ltd</u>

The sale of the shares in Dashwood Ltd will give rise to a gain of £14,722. This is calculated as follows:

	£
Proceeds	21,054
Cost	(6,332)
	14,722

This gain will not be exempt from Capital Gains Tax because Mark has sold the shares within three years of the date they were issued.

The sale within three years also means that the Income Tax relief will be clawed back. This will amount to £1,900 (£6,332 x 30%). HMRC will raise an assessment for this amount and interest will accrue from 31 January 2025.

Mark can claim the annual exempt amount of £3,000 against the gains arising in 2024/25. The balance of the gains will be taxed at 20%. The tax will be due by 31 January 2026.

MARKING GUIDE

TOPIC	**MARKS**
Calculate the loss arising on the Austin Ltd shares	1
Reason why a s.131 claim would be beneficial	1
Can carry loss back under s.131, but would not be beneficial due to income levels	½
Deadline for s.131 claim	½
Explain reinvestment relief and the impact of the sale of the shares in Austin Ltd	1½
Calculate the gain arising on the Rushworth Ltd shares	½
Explain why the Rushworth Ltd gain is not exempt	1
Explain the reinvestment relief position for the shares in Rushworth Ltd	1
Mark can make a claim for negligible value relief in respect of the Collins Ltd shares	½
Explain the impact of the claim	½
State the loss arising as a result of the negligible value claim & explain why there is no restriction	1
Explain why this loss will also qualify to be claimed under s.131	1
Loss that can be offset against income is restricted to £50,000	½
Suggest uses for remaining loss	1
Calculate the gain arising on the Dashwood Ltd shares	½
Explain why this gain is not exempt from CGT	½
Explain the Income Tax implications of the sale of the Dashwood Ltd shares	1
State that Mark can use his annual exempt amount against the gains	½
State the tax rate	½
State the due date for the tax	½
TOTAL	**15**

Answer 2

As a UK resident in 2024/25, Fred is subject to UK tax on his worldwide income and gains by default. However, as he is non-UK domiciled, he could claim the remittance basis under s.809B ITA 2007. As a result, only his UK source income and gains would be taxable in the UK. His foreign income and gains would only be taxable if remitted to the UK.

Fred would not be subject to a remittance basis charge as he has not been resident for 7 of the 9 previous tax years, but he would lose his personal allowance and annual exempt amount. A remittance basis claim is clearly the most beneficial option here, as Fred's worldwide income in 2024/25 was greater than £125,140, therefore his personal allowance would be abated to nil anyway, and he did not remit any of his overseas earnings or foreign investment income to the UK.

Overseas workday relief

In 2024/25, Fred's employment income relates partly to duties performed in the UK and partly to overseas duties.

Fred would be entitled to claim overseas workday relief as he has been non-UK resident for the 3 tax years before 2024/25 (2021/22, 2022/23 & 2023/24), as long as he claims the remittance basis for 2024/25.

He could also claim overseas workday relief for 2025/26 and 2026/27, provided he claims the remittance basis in those years too.

To calculate the relief, his earnings would be apportioned based on his workdays in the UK and workdays performed overseas.

£110,000 x [53/240] = £24,291 relates to overseas duties. This will not be subject to UK tax as long as it remains outside the UK. As Fred nominated his New Zealand bank account, he can benefit from the special mixed fund rules instead of the usual mixed fund rules (s.809Q ITA 2007). While the statutory ordering of remittances is the same as under s.809Q, the special mixed fund rules mean that he can total up all of the remittances he has made to the UK and treat that as one remittance made at the end of the tax year, as opposed to analysing his remittances on a transaction-by-transaction basis. As Fred remitted less than the UK proportion of his salary to the UK, he will receive overseas workday relief in full on the overseas part of his income.

Bonuses

His first bonus of £46,000 relates wholly to a previous year in which he was non-UK resident and in which all duties were performed overseas. The £46,000 bonus is therefore not taxable in the UK.

His second bonus of £12,000 relates to his secondment year, in which his duties were partly performed in the UK and partly overseas. Overseas workday relief would apply in the same proportion as calculated above in relation to his salary, i.e. £12,000 x [53/240] = £2,650.

Benefits

The reimbursement of travel expenses does not give rise to any taxable benefit as they are for genuine business expenses.

National Insurance Contributions

There is an SSA in place between the UK and New Zealand to protect the rights of the employee in their home country when they are sent to another country to work. It also ensures that a liability to social security only arises in one country.

The SSA determines in which country social security contributions are payable and which country will provide benefits based on the contributions.

As the SSA between the UK and New Zealand applies UK domestic legislation, Fred's income will be subject to Class 1 National Insurance Contributions on his entire salary for the duration of his time in the UK.

Tax liabilities

Fred is subject to income tax on the total UK portion of his salary £95,059 (85,709 + 9,350). This is also subject to Class 1 National Insurance contributions as explained above.

His employer should deduct both PAYE and NIC at source and pay this directly to HMRC. The employer can agree the proportion to be taxed with HMRC in advance however in practice, it is possible that the PAYE deducted at source will not be accurate.

Fred will likely have a balance of tax payable or repayable when submitting his tax return. Both the tax return and any tax payment will be due by 31 January 2026.

Tax liabilities:

Income tax:	£
£37,700 @ 20%	7,540
£57,359 @ 40%	22,943
Total income tax	**30,483**
(No personal allowance given as RB claim made to qualify for OWR)	
National insurance:	£
£12,584 (242 x 52 weeks) @ 0% £37,700 (967-242 x 52 weeks) @ 8%	- 3,016
£44,775 @ 2%	895
Total NIC	**3,911**
Total liability	**34,394**

MARKING GUIDE

TOPIC	MARKS
Tax treatment of earnings	
Taxed on arising basis as a UK resident by default Can claim remittance basis on foreign income/gains as non-UK domiciled Would lose access to personal allowance/annual exemption No RB charge as he has not been resident 7 of previous 9 tax years	0.5 0.5 0.5 0.5
Employment income partly UK earnings, partly foreign earnings	0.5
Overseas workday relief: conditions NR for 3 tax years prior Claim remittance basis for 2024/25 Can claim for 2025/26 and 2026/27 too	1.5
Earnings apportioned £110,000 x (53 o/s days / 240 total) = £24,291 foreign income	 1
First bonus £46,000 all foreign income, relates to previous year	0.5
Second bonus £12,000 relates to secondment year, should be apportioned £12,000 x (53/240) = £2,650	1
UK portion £95,059 subject to income tax and NIC SSA agreement to determine NIC treatment Class 1 NIC applies because SSA defers to UK legislation Explain how tax/NIC is collected by employer	0.5 0.5 0.5 0.5
Special mixed fund rules apply – explained why No tax on foreign portion as long as kept overseas Remittance was less than UK portion, so no taxable remittance	1 0.5 0.5
Reimbursement travel expenses not taxable	0.5
Calculation of income tax liability	2
Calculation of NIC liability	2
TOTAL	**15**

Answer 3

Income tax computation 2024/25

Reference			NSI	SI	DI
			£	**£**	**£**
W1	Employment income		76,038		
W2	UK Property income		79,371		
	Spanish Property income		7,203		
W3	Interest			10,000	
W4	Close company distribution				17,250
W5	VCT dividend				2,000
W6	Settlor interested trust income				4,600
	Total income		162,612	10,000	23,850
W7	Personal allowance		0		
	Taxable income		**162,612**	**10,000**	**23,850**
	Income tax				
	Non savings income				
W8	53,700	20%	10,740		
	53,700 (£37,700 + £16,000)				
	87,440	40%	34,976		
	141,140 (£125,140 + £16,000)				
	21,472	45%	9,662		
	162,612				
	Savings income				
	10,000	45%	4,500		
	Dividend income				
	500	0%	0		
	23,350	39.35%	9,188		
	23,850				
			69,066		
	Less tax reducers				
W2	Mortgage interest		(2,506)		
W5	VCT subscription		(45,000)		
			21,560		
	Less tax paid				
	PAYE		(13,442)		
	Settlor interested trust		(1,810)		
	POA 31 January 2025		(18,520)		
	POA 31 July 2025 (not yet due)		(18,520)		
	Tax repayable		**(30,732**		

Conclusion

Assuming Jason makes his second POA in July 2025 he will be due a refund of £30,732.

If Jason does not make the second POA on 31 July 2025 there would be no penalty or interest for late payment of a POA.

Further as Jason is due a repayment in respect of tax already paid, if would be beneficial to submit the tax return as soon as possible to accelerate the repayment that is due.

Workings

W1
Employment income

		£
Salary		75,000
Company car benefit	2% x £51,900	1,038
		76,038

W2
Property income

Cash basis
Jason has two separate property businesses: UK and Spanish. To determine if Jason must use the accruals basis the two businesses should be considered separately. Neither business has gross receipts exceeding £150,000 so both will automatically be assessed on the cash basis.
Jason could elect for the accruals basis however this would result in higher taxable income in 2024/25 and so the election should not be made.

Spanish property income
The repair and maintenance expenses for Casa Blanca must be reduced to take into account the private element of the expense. 14/365 x £13,982 = £536 must be added back to the profit.

UK property income
The mortgage interest paid on the residential properties is not an allowable deduction when calculating the property income. Instead, the interest is relieved as a tax reducer at 20%.

The loss made in respect of Ford Drive is relieved against the other UK property income.

The replacement of the bathroom is on a 'like for like' basis and so would be an allowable deduction when calculating the property income.

The property income is as follows:

UK property income	**10 Bond Avenue**	**27 Ford Drive**	**Bridgeford House**	**UK Property income**
	£	**£**	**£**	**£**
Rents received	19,000	14,000	97,250	130,250
Repairs and maintenance	(7,355)	(17,304)	(10,964)	(35,623)
Management charges	(2,650)	(2,606)	0	(5,256)
Interest			(10,000)	(10,000)
UK property income	**8,995**	**(5,910)**	**76,286**	**79,371**
Tax reducer				
Interest	6,500	6,030		12,530
At 20%				**2,506**

Spanish property income	**Casa Blanca**
Rents received	25,879
Repairs and maintenance	(13,982)
Management charges	(5,230)
Private use adjustment	536
Spanish property income	**7,203**

W3
Treasury Gilts

The Treasury Gilts were sold cum interest and so the accrued income up to the date of sale needs to be calculated.

The annual interest is 4% x £250,000 = £10,000, with £5,000 paid on 31 December and £5,000 paid on 30 June.

When the Treasury Gilts are sold there would have been 60 days of accrued interest (31 + 28 + 1) and this would have been reflected in the sale price for the bonds.

The interest for the six months ended 30 June 2025 would be for 181 days (31 + 28 + 31 + 30 + 31 + 30).

The accrued interest is therefore 60/181 x £5,000 = £1,657 (or 2/6 x £5,000 = £1,667).

The accrued income arises in the year in which the next interest payment date falls and so will be taxed in 2025/26.

The interest taxed in 2024/25 is therefore the actual interest received of £10,000.

W4
Parkes Training Ltd

Jason is a participator in a close company and so the benefit relating to the interest free loan will be treated as a distribution.

		£
Loan value x official rate	£100,000 x 2.25%	2,250
Interest paid by Jason		0
Benefit and deemed distribution		2,500
Actual dividend		15,000
Dividend		**17,250**

W5
VCT
Dividends on the first £200,000 invested in VCT will be tax free for Jason, consequently the taxable dividend is just half of the Wonderways VCT i.e. ½ x £4,000 = **£2,000.**

There will also be a tax reducer on the subscription to new VCT shares during the year.

The tax reducer will be £150,000 x 30% = **£45,000**

W6
Jason Parkes 2020 Discretionary Trust

As Jason is the sole beneficiary of a settlor interested trust, all the trust income received by the trust is taxed on Jason as if it were received by him. The trust will have paid income tax at 39.35% and Jason can use this tax credit to reduce his own liability.

In this case Jason is an additional rate taxpayer and so the full credit can be offset against his liability. If Jason were not an additional rate taxpayer any repayment relating to the trust tax credit would be repaid to the trust and not to Jason.

W7
Personal allowance
As Jason's adjusted net income exceeds £125,140, (£162,612 + £10,000 + £23,850 – (£12,000 x 100/80) – (£800 x 100/80) = £180,462), he is not entitled to receive any personal allowance.

W8
Payments

The personal pension payment and gift aid payment are made net of basic rate tax. The gross payment in respect of these is

(£800 + £12,000) x 100/80 = £16,000

The basic rate and higher rate bands are increased by this amount.

The personal pension payment does not exceed the annual allowance.

MARKING GUIDE

TOPIC	MARKS
Income tax computation	
Total income	1.0
Income tax	
NSI	1.0
SI	0.5
DI	1.0
Tax reducers	
Interest	0.5
VCT	0.5
Tax paid	
PAYE/DT/POA	0.5
Conclusion	
IT repayable	0.5
If second POA not made	0.5
Submit tax return asap to obtain refund	0.5
W1 Employment income	0.5
W2	
Cash basis as separate businesses/possible election	1.0
Private adjustment	1.0
Mortgage interest on residential property	0.5
Bathroom	0.5
UK property income	0.5
Spanish property income	1.0
W3 Treasury bonds	2.5
W4	
Close company	0.5
Loan benefit	1.0
W5 VCT	
Tax free dividends	1.0
Tax reducer	1.0
W6 Settlor interested trust	1.0
W7 Personal allowance	0.5
W8 increase to BRB and HRB and pension annual allowance	1.0
TOTAL	**20.0**

Answer 4

The provision of living accommodation by an employer to their employee will give rise to a taxable benefit unless the accommodation is “job-related”.

s.100 ITEPA 2003 states that accommodation will be job-related for this purpose if it is provided due to a threat to an employee’s physical security, which does not appear to be the case here.

s. 99(1) ITEPA 2003, states that accommodation will also be job-related if it is necessary for the proper performance of the duties of an individual’s employment. To meet this test, the accommodation provided must be essential to the proper performance of the duties, this would cover jobs such as certain farm workers or lock keepers.

The test is strict. The case of Langley and Others V Appleby established that to meet this test it must be established that in order to perform their role, the employee must occupy the property provided and no other.

In Gina’s case the location of her home will make it easier for her to work late but the location is not actually contributing to the performance of her duties. Her accommodation will not be classed as job related under this test.

Where a director is provided with living accommodation, they cannot have this classed as job-related if they have a material interest in the company. As Eddie owns more than 5% of the shares in Star Events Ltd, he does have a material interest. HMRC may also consider that the accommodation has a duality of purpose in that it relates to Eddie’s role as a director as well as his role as a caretaker.

The final test to consider when deciding if Gina’s accommodation will be job-related is whether the provision of accommodation is both customary and for the better performance of the duties as outlined at s.99(2) ITEPA 2003.

HMRC’s view of when the provision of accommodation is customary is also very strict. In the case of Vertigan v Brady, the court outlined a number of factors that should be considered as follows:

Is the practice of providing accommodation a common one that occurs in the employer’s industry?

Does the practice of providing accommodation occur in at least 50% of the cases in this industry?

Is the practice of providing accommodation widely accepted by employers within this industry?

In Gina’s case the answer to these questions is likely to be no.

Even if the customary part of the test was met, the provision of the accommodation must also be for the better performance of the duties. There is nothing to suggest that Gina can perform her role better because of where she lives.

Gina and Eddie will both have taxable benefits in kind.

Gina’s accommodation benefit will be £3,092 (W1). Star Events Ltd will have a Class 1A National Insurance liability of £426 (£3,092 x 13.8%). This will be due for payment by 22 July 2025, or 19 July if they do not pay electronically.

Eddie will have three benefits in kind as follows:

	£
Living accommodation (W2)	7,650
Household bills (335 x 9)	3,015
Use of asset	
1,235 x 20% x (9/12)	185

Star Events Ltd will be liable to Class 1A National Insurance on the living accommodation and use of asset benefits, which will be £1,081 ((£7,650 + £185) x 13.8%).

As the household bills that Star Events Ltd have paid for Eddie are in his personal name, the amounts should have been subject to Class 1 National Insurance through the company's payroll when they were paid.

The National Insurance due will have been as follows:

	£
Eddie (W3)	75
Star Events Ltd	
3,015 x 13.8%	416

Working 1
Gina's Benefit in Kind on Elm Tree Cottage

	£
Annual value	167
Deemed rent	
(205,000-75,000) x 2.25%	2,925
	3,092

As Gina moved into the property more than six years after Star Events Ltd acquired it, the market value figure at the date she moved in is used to calculate the deemed rent rather than the original cost.

Working 2
Eddie's Benefit in Kind on Birch Cottage

The benefit in kind will be the higher of:

The annual value of the property, which will be the rateable value of £165 (221*9/12); or the rents paid by Star Events Ltd, which will be £7,650 as calculated below.

	£
Rent	
(4,200/12) x 9	3,150
Lease premium treated as rent	
(30,000/5) x (9/12)	4,500
	7,650

Working 3
Class 1 National Insurance on Eddie's Household Bills

	£
(50,270-50,000) = £270 x 8%	21
(3,015-270) = £2,745 x 2%	54
	75

MARKING GUIDE

TOPIC	MARKS
Provision of accommodation gives rise to a benefit in kind unless it is job-related	½
Can be job-related if threat to employee's physical security but not applicable in this case	½
Explain test for proper performance of the duties	1½
Apply the proper performance of the duties test to Gina	1
Explain the customary and better performance test	1½
Apply the customary and better performance test to Gina	1
Calculate Gina's benefit in kind	1½
Calculate the Class 1A National Insurance liability & state the due dates	1
Explain when directors can have their accommodation classed as job-related	½
Apply the material interest test to Eddie	½
Calculate Eddie's benefit in kind on the accommodation	1½
Calculate Eddie's benefit in kind for the household bills	½
Calculate Eddie's benefit in kind for the use of the sofa	½
Calculate the Class 1A National Insurance liability	½
Due date for Class 1A	½
Explain & calculate the Class 1 National Insurance liabilities	2
TOTAL	**15**

Answer 5

Adrian and Luisa have made the following remittances:

1) Cash transfer to Adrian's UK bank account
2) Payment of Luisa's UK credit card bill
3) Transfer of antique painting to the UK

The transfer on 11 April 2023 to purchase their new home is not taxable as the funds were earned and inherited before UK residence.

The £1,500 Luisa receives monthly from her parents is not taxable as it has not been remitted. When amounts are remitted later, they are still not taxable as they are sourced from gifts from non-relevant persons are which are clean capital for the recipient.

The belongings brought to the UK for personal use, including clothing and jewellery are exempt remittances. The laptops are exempt since the values are less than £1,000.

Mixed fund account

The overseas bank account is a mixed fund because it:

- is a joint account and has individual income/gains of both holders,
- has more than one type of income/gains/clean capital, and
- has income/gains or capital of more than one tax year.

The statutory ordering rules need to be applied to determine the tax implications of remittances. However, income and gains firstly need to be split between Adrian and Luisa and separated by tax year.

Date	Narrative	Adrian	Luisa
2023/24		£	£
6 April 2023	Balance b/f	144,500	189,500
11 April 2023	Transfer to UK for purchase of new home	(125,000)	(125,000)
30 June 2023	Bank interest	2,100	2,100
15 August 2023	Dividend on shares held by Luisa	-	6,000
28 October 2023	Capital proceeds on sale of a flat in Spain, held solely by Adrian	97,000	-
10 November 2023	Joint purchase of antique painting from French auction.	(37,000)	(37,000)
5 April 2024	Balance c/f	81,600	35,600
2024/25			
30 June 2024	Bank interest	3,800	3,800
15 August 2024	Dividend on shares held by Luisa	-	6,000
31 October 2024	Transfer to Adrian's UK bank account	(12,500)	(12,500)
1 November 2024	Capital proceeds on sale of Luisa's shares.		63,000
16 December 2024	Payment of Luisa's UK credit card bill	-	(3,400)
5 April 2025	Balance c/f	72,900	92,500

A remittance comes from current year income and gains first, then previous years in reverse-chronological order. The statutory ordering rules dictate that a remittance would come from funds in the following order:

1. UK employment income
2. Foreign income (not taxed in another country)
3. Foreign chargeable gains (not taxed in another country)
4. Foreign income (taxed in another country)
5. Foreign chargeable gains (taxed in another country)
6. Any other income or capital

Antique painting

A taxable remittance arises on 1 January 2025 when the painting is brought to the UK. The amounts used to purchase the painting become taxable if they represent untaxed income or capital gains.

The nature of funds used to originally buy the painting are calculated as a proportionate amount of each category of income, gains and capital held in the account the day before the purchase.

Purchase cost = £74,000, divided between Adrian and Luisa = £37,000 each.

The day before the purchase was made, the account held:

	Total (£)	Adrian (£)	Luisa (£)
Total balance	191,200	118,600	72,600
Income	10,200	2,100	8,100
Capital gains	33,000	33,000	-
Capital	148,000	83,500	64,500

Adrian's share:
- Income £655 (37,000 * 2,100/118,600) = 2%
- Capital gains £10,295 (37,000 * 33,000/118,600) = 28%
- Capital £26,050 (37,000 * 83,50000/118,600) = 70%

Luisa's share:
- Income £4,128 (37,000 * 8,100/72,600) = 11%
- Capital gains £0
- Capital £32,872 (37,000 * 64,500/72,600) = 89%

Transfer of £25,000 to UK

6/4/24 to 31/10/24

Adrian: income of £3,800

Luisa: income of £9,800

6/4/23 to 5/4/24

Adrian: income of £1,445 (£2,100 less £655 used to purchase painting) & capital gain of £7,255

Luisa: income of £2,700

Credit card bill

6/4/24 to 16/12/24

Luisa: capital gain of £3,400

Adrian – 2024/25 tax liabilities

Remitted income £5,900 (3,800 + 1,445 + 655) taxable at 40% = £2,360

Remitted capital gain £16,895 (10,295 + 7,255) taxable at 24% = £4,212

Total tax payable = £6,572

Luisa – 2024/25 tax liabilities

Remitted income £16,628 (9,800 + 2,700 + 4,128) – taxable at 20% = £3,326

Remitted capital gain £3,400 – taxable at 10% = £340

Total tax payable = £3,666

When remitted, income loses its underlying nature and is taxable at non-savings income tax rates.

Reporting obligations

These taxable remittances should be reported on Adrian and Luisa's 2024/25 UK tax returns by 31 January 2026.

Their tax liabilities must also be paid by 31 January 2026.

MARKING GUIDE

TOPIC	MARKS
Identify 3 potentially taxable remittances ● The transfer to Adrian's UK bank account ● The payment of Luisa's UK credit card bill ● Transfer of antique painting to the UK	1
Identify account becomes a mixed fund and why	1
Divide income/proceeds between couple	2
Apply statutory ordering rules to funds in the account in reverse order by tax year: 2024/25 income 2023/24 income 2023/24 gains	3
Calculate Adrian's taxable remittances on ● The transfer to Adrian's UK bank account Transfer of antique painting to UK	2
Calculate Luisa's taxable remittances ● The transfer to Adrian's UK bank account ● The payment of the UK credit card bill ● Transfer of antique painting to UK	3
Calculate tax liabilities/apply correct tax rates: ● Adrian ● Luisa	2
Tax return filing and payment dates	1
TOTAL	**15**

<u>Answer 6</u>

1)

Consideration

The consideration for Grant & Sarah's shares in Focus Ltd is made up of three elements and the capital gains tax (CGT) implications of each must be considered separately.

The Ordinary shares issued constitute a "share for share exchange". Under s127 TCGA 1992 there is no disposal for CGT purposes where shares are exchanged for bona fide commercial purposes and as such, no gain arises on the element of the disposal settled in newly issued shares. This applies automatically and no formal claim is required.

The cash element of the consideration will give rise to a chargeable gain for CGT purposes.

The loan stock is classified as a "qualifying corporate bond (QCB)" under s117 TCGA 1992 because it is issued after March 1984, expressed in sterling and cannot be converted into any other currency. QCBs are exempt assets for CGT purposes. A capital gain is calculated on the receipt of a QCB as though the recipient has received cash equal to the value of the QCBs received. However, the capital gain is not taxed immediately and is instead "frozen" and becomes chargeable on a future disposal of the QCBs.

2)

Business Asset Disposal Relief (BADR)

The sale of Grant & Sarah's shares will constitute a material disposal of business assets for the purposes of s169I TCGA 1992 as Grant & Sarah have both met the conditions in s169I (6) TCGA 1992, being that for at least two years prior to the disposal the company has been Grant & Sarah's personal trading company and they have both been office holders.

A claim for BADR will entitle Grant & Sarah to a CGT rate of 10% on the first £1,000,000 of qualifying lifetime BADR gains. A claim for BADR must be made by the first anniversary of the 31 January following the end of the tax year of disposal, which for Grant & Sarah will be 31 January 2027.

Elections

At present, a chargeable gain will only arise on the cash element of the consideration, against which Grant & Sarah can each make a claim for BADR.

On a future disposal of their shares in PRCSN Ltd a capital gain may arise where the disposal proceeds exceed the inherited base cost attributable from their Focus Ltd shares.

Similarly, the frozen gain on the QCBs will be charged to tax when they are disposed of in the future.

In both instances, a claim for BADR on each future disposal could only be made if the qualifying conditions under s169I (6) TCGA 1992 at the time of each disposal.

Sarah will cease to be a company director and will only be issued 1,750 Ordinary shares – equal to 3.18% of PRCSN Ltd's Ordinary share capital (1,750 / 55,000). Sarah will therefore lose the ability to claim BADR on a future disposal and may be liable to the higher rates of CGT at the rates in force at that time.

Sarah may therefore consider making elections to disapply the automatic treatment that applies to the share for share exchange and QCB element of the consideration to create a taxable disposal that will be eligible for BADR.

The elections Sarah could make fall under s169Q for the consideration satisfied in Ordinary Shares and s169R for the QCBs.

On a future disposal of the shares, the base cost would be the market value of the shares used to calculate Sarah's capital gain. QCBs are exempt assets for CGT purposes so neither a gain nor a loss would arise on a future disposal.

Grant will receive cash consideration of 75,000 x £20 = £1,500,000.

Grant subscribed for 50,000 £1 shares at par and inherited 25,000 shares from Phil at a probate value of £10 per share. The total base cost of Grant's shares is therefore £300,000 which means Grant will exhaust his lifetime BADR limit when making a claim against the cash consideration received.

s169Q or s169R elections will therefore not be relevant to Grant.

3)

Sarah – CGT Computation

Focus Ltd Base Cost

	Shares	Cost per share (£)	Total (£)
EIS Subscription	10,000	5	50,000
Phil probate value	25,000	10	250,000
Total	35,000		300,000

NB – Phil & Sarah were connected persons when she made her EIS subscription so EIS income tax relief would not be available, meaning her EIS shares are not exempt from CGT.

The effect of a s62(6) TCGA 1992 election is that, for CGT purposes, Sarah is treated as inheriting the shares via Phil's Will at their date of death value.

Focus Ltd Disposal

	Ordinary Shares – (35,000 / 20) x £150	Cash – 35,000 x £20	Loan Stock – 35,000 x £10	Total (£)
Proceeds	262,500	700,000	350,000	1,312,500
Base Cost	60,000	160,000	80,000	300,000
Gain	202,500	540,000	270,000	1,012,500

CGT Computation

	BADR Gains (£)	Non BADR Gains (£)
Focus Ltd – Ordinary Shares	202,500	
Focus Ltd – Cash	540,000	
Focus Ltd – Loan Stock	270,000	
Revived EIS Gain		30,000
Less Annual Exempt Amount		(3,000)
Taxable Gains	1,012,500	27,000

CGT due:

	£
£1,000,000 x 10%	100,000
£12,500 x 20%	2,500
£27,000 x 24%	6,480
Total CGT due 31 January 2026	**108,980**

NB:

BADR gains use up basic rate band for CGT purposes ahead of non BADR gains.

Revived EIS gain on residential property taxable at residential property rates.

Annual exempt amount allocated in most tax efficient manner against gains taxable at highest rate.

MARKING GUIDE

TOPIC	MARKS
Consideration:	
Share for share exchange – no gain arises	1
Cash – chargeable	1
Identify QCBs	1
QCBs – gain frozen	1
Business Asset Disposal Relief:	
BADR conditions & eligibility	2
Effect of BADR claim	½
BADR claim deadline	½
Elections:	
Future BADR eligibility for Sarah:	
Employee / Office Holder	½
Shareholding	½
Conclusion	½
s169Q election and implications	2
s169R election and implications	2
Grant:	
Calculate cash consideration	½
Calculate base cost	½
Identify elections not relevant	½
Sarah CGT Computation:	
Calculate base cost	2
Identify Phil & Sarah connected so no EIS income tax relief	1
Allocate consideration across base cost	1
Revived EIS gain	½
Allocate annual exemption to non BADR gain	½
Appropriate CGT rates – non BADR gains use basic rate band in priority	½
Calculation of CGT	½
TOTAL	**20**