

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>665</b>	<b>2981</b>	<b>3633</b>
Section 2	<b>314</b>	<b>1477</b>	<b>1716</b>
Section 3	<b>772</b>	<b>3330</b>	<b>4094</b>
Section 4	<b>421</b>	<b>2010</b>	<b>2401</b>
Section 5	<b>388</b>	<b>1622</b>	<b>1929</b>
Section 6	<b>606</b>	<b>2678</b>	<b>3215</b>
Total	<b>3166</b>	<b>14098</b>	<b>16988</b>

Answer-to-Question- 1

Matt

A purchase by Cherry Tree Ltd

A purchase by the company would be a company purchase of own shares.

The default method of taxation is the income treatment, which would mean that any sums paid to Matt would be taxed on Matt as dividends at the rates of 0%, 8.75%, 33.75% and 39.35%.

A deduction for the cost of the shares of £6 would be deducted from the deemed dividend received.

There are circumstances where the company purchase of own shares will be a capital distribution and chargeable to capital gains tax.

The conditions for capital distribution are

- Must be a UK trading company
- where it is for the benefit of the trade
- is not done as part of any tax avoidance arrangement
- on a formal winding up of the company
- shares must have been held for 5 years
- seller must be a UK resident
- Matt would need to reduce his interest by at least 75%
- Matt cannot be connected with the company following the sale

The company is not winding up and so the other conditions will need to be considered.

Matt is a UK resident, would be sufficiently reducing his interest.

There is disagreement between the shareholders and it could therefore be argued that a company purchase of its own shares is therefore for the benefit of the trade.

However, the shares have not been held for 5 years and therefore the capital treatment will not be available.

If Matt receives the capital treatment, his disposal will be a chargeable gain and subject to capital gains tax at 10% and 20%.

There would be no income tax or CGT consequences for Jess and Kym.

#### Sale of shares to Jess and Kym

If Cherry Tree Ltd declares a dividend to enable Jess and Kym to purchase the shares from Matt, Matt would be legally entitled to the dividend also. There is anti-avoidance legislation in place to

Jess, Kym and Matt would all have to pay income tax on the dividends.

The transfer of the shares triggers a chargeable disposal for CGT purposes. Matt will be treated as disposing of his 6 shares, and Jess and Kym would each be purchasing 3 shares each.

As they are all connected, it would need to be determined whether £80,000 for 6 shares is the true market value of the shares. For Matt, the deemed proceeds will be the market value of the shares on the date of disposal, and the real proceeds will be ignored.

If Jess and Kym instead obtain a bank loan to obtain the shares, then they would both have a qualifying loan for income tax purposes, a loan to purchase shares in a close company.

This would mean that the interest paid on this loan would be deductible from income when arriving at net income and would reduce each of their tax liabilities.

The loan itself would not be taxable for Jess and Kym.

If the shares are purchased by way of dividends declared, Kym and Jess will each pay income tax on the dividends, reducing the amount available to purchase the shares.

Consideration should be given as to whether the company has sufficient distributable reserves.

His disposal will be calculated as proceeds of £80,000, less his cost of £6. He can use his annual exempt allowance of £6,000 to reduce the gain.

He will not be entitled to Business Asset Disposal Relief as he was not an employee of the company.

He may be entitled to Investors relief, which is available where shares in a personal

trading company are disposed of. As Matt holds 6% of the shares, he would qualify and the gain would be taxable at 10%.

Investors relief is available where

- shares are held in a personal trading company (UK)

The shares have been held for

Jess and Kym would acquire an additional 3 shares each with a base cost of £40,000 each.

These would be added to their existing pools.

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-----ANSWER-1-ABOVE-----  
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 -----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

Income tax for 2023/24

	workings/no tes	Non savings	Interest	Dividends
		£	£	£
Salary		41,260		
Overseas rental income	w1	39,250		
UK Bank interest			75	
Overseas interest			15,500	
Overseas dividend				22,000
Offshore bond	w5	0		
Total		80,510	15,575	22,000
Less PA		(12,570)		
		67,940	15,575	22,000
37,700 @ 20%		7,540		
30,240 @ 40%		12,096		
500 @ 0%		0		
15,075 @ 40%		6,030		
1,000 @ 0%		0		

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21,000 x 33.75%		7,088		
		32,754		
Plus HICB charge	w6	1,885		
Less PAYE		(10,279)		
Tax due		24,360		
1st POA		12,180		
2nd POA		12,180		

### Notes

Resident since March 2014/15 and therefore has been resident for 9 out of the previous 12 years and therefore if remittance basis is claimed, the remittance basis charge of £60,000 will be applied.

Due to the level of income remitted and with the addition of £60,000 Remittance basis charge, Natalia would be better off being taxed on the arising basis for the year. And will keep her personal allowance and annual exempt amount.

Therefore she will be taxed on her worldwide income and gains in 2023/24.

As the funds from

Tax is payable by 31 January 2025 and self assessment tax return needs to be submitted by same date.

1st payment on account is due by 31 January 2025.

2nd payment on account payable by 31 July 2025.

### workings

w1

Foreign rental income

$$£18,450 + £20,800 = £39,250$$

w2

Foreign interest

£15,500

foreign dividends

£22,000

w3

Total remittances

£18,000 of foreign dividends brought into UK

£7,600 interest for loan to buy UK property

£60,000 foreing income gain

Total = £85,600

Plus RBC £60,000

Cost of claiming remittance basis = ££146,600

w4

No tax impact of opening JISA for each child

w5

Offshore bond

5% annually is allowable tax free

$0.05 * 1,200,000 = £60,000$  is therefore not subject to income tax.

w6

Due to level of income, child benefit will be clawed back in full

$52 \times (21.80 + 14.45) =$

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

1. Explain residency position for 24/25, 25/26, 26/27

Tom's residency position will be determined by the Statutory residency Test (SRT) which contains the various tests used to dermine an individuals residency in any given tax year.

The SRT consists of

- The automatic overseas test
- The automatic UK test
- The sufficient ties test

EACH test is considered in order and if the conditions for one test are met then there is no need to consider further tests.

where a person is UK resident for the year, consideration should be given as to whether the year qualifies for split year treatment which would split the year for a UK resident part of the year, and a non UK resident part of the year for UK tax purposes.

2024/25

In 24/25 Tom will be present in the UK for more than 183 days in the 24/25 tax year, automatically making him Uk resident for the year.

However, as Tom is leaving the UK to begin overseas employment, it may be possible to split the year into a resident and non resident part.

To determine this we look at cases 1-3, which are for leavers of the UK. CAse 1 is given priority over case 2 and so on.

Case 1 is used where an individual begins work overseas (full time), will be non Uk resident the following year and was UK resident the previous year.

In this case, Tom would be able to split the year as UK resident until 5 January 2025, and non UK resident from 6 January 2025 until 5 April 2025.

Case 2 does not apply as he is not the partner of someone starting overseas work

Case 3 does not apply as Tom does not cease to have a home in the UK.

This means that Tom will be taxable on his worldwide income and gains for the UK resident part of the year and only on his UK source income for the overseas part of the year.

2025/26

Tom will meet the 3rd automatic overseas tests in 2025/26 and will therefore not be UK resident and therefore only be taxable on his UK source income. This is because he is working full time overseas and spends less than 91 days in the UK and does not take a significant break from work.

2026/27

Tom will return to the UK on May 2026 and will therefore be present in the UK for more than 183 days. He will therefore be UK resident for 2026/27.

In looking at whether this year can be split, we look at cases 4 - 8.

2.

Normally Only UK residents are subject to CGT on their disposals. Tom is non resident in 2025/26.

However, there is an exception for UK residential property disposals and therefore despite being non resident, Tom will still have a chargeable disposal, and CGT will be due on the disposal.

Tom is temporarily non resident in 2025/26 and therefore will not be able to rebase the property.

The disposal will be calculated as the proceeds received, less the cost of the property.

Private Residence relief would be available for any period where Tom resided in the property and it was his main residence. This would be apportioned on a time basis.

Tom will need to report the gain on this property to HMRC within 60 days using HMRCs

real time reporting system. All capital gains tax will be payable by this date.

The disposal will also need to be submitted on Tom's self assessment tax return for the 2025/26 tax year, and Tom will receive a credit for the CGT already paid.

Tom will still be entitled to his annual exempt amount for CGT purposes and this can be used against the gain arising.

The gain will be taxed at 18% and 28% depending on the level of his other income.

If the property is jointly owned with his wife then he would be only taxable on 50% of the gain.

If the property is not jointly owned then Tom should consider transferring 50% of the property to his wife, as spousal transfers take place at no gain no loss. This would mean that Tom and his wife could utilise both their annual exempt amounts in the year, and more of the gain would be taxable at 18% rather than 28% since the gain is likely to be substantial.

If this happens, Tom and his wife will both need to report the gain and pay the CGT due as above, but declare their 50% shares. This does not trigger any tax avoidance legislation and is common tax planning.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

Property income

Overview

All UK property income will be pooled together for the purposes of calculating the income tax due.

Even though Elle's gross rents for the year do not exceed £150,000, she should opt for the accruals basis to apply as this would be more beneficial for her in the year.

This means that Ellen will be taxable on rents receivable and expenses payable in the tax year.

As the accruals basis is being used, capital allowances can be claimed.

Office block

The rent receivable annually of £100,000 will be gross rental income. A deduction will be allowed for the buildings insurance of £3,800.

Retail property

	£		
Rent receivable	7,000		
Lease premium	1,600		
Less expenses			
Insurance	1,200		
Rectification costs	1,500		
Utilities	550		
repairs	2500		
Redecoration	2,000		
Net profit	850		

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Part of the lease premium received will be taxable as this is a short term lease.

The part of the lease premium taxable will be

premium x 2% n-1

therefore 20,000 x 2% (5-1)

This means that £1,600 will be taxable as income for Ellen and charged to income tax.

The annual rent, paid in advance, relating to the period from 1 Oct 2023 to 5 April 2024 is taxable, therefore £7,000. This will be treated as rental income for the period.

On 1 March, Ellen became responsible for the rectification costs, and therefore the May 24 insurance proceeds and subsequent expenses will all relate to the 2023/24 tax year.

The rectification costs over and above the insurance payout, being £1,500 will be an allowable expense for the year.

The building insurance paid in 6 April 23 is allowable as a deduction and will be the full £1,200 as this relates to the 23/24 tax year.

The Building insurance paid on 31 March 24 will not be deductible as this relates to 24/25.

The Utilities paid for the vacant period will be an allowable deduction.

The letting agent payment will be deductible from rental income.

The replacement kitchen units are allowable as a 100% deduction from the rental profits by way of replacement domestic items relief.

The redecoration cost is also fully allowable.

Land used as a car park

The repairs to the potholes will be an allowable deduction from the ren received, as this is merely a repair to the land.

However the cost relating to the improvement of the land, ie adding parking bays, is engancement expendite and the costs of this will not be allowable.

The annual rent for the land is

$$11/12 \times £24,000 \text{ plus } 1/12 \times £26,400 = £4,200$$

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-----ANSWER-4-ABOVE-----  
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 -----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

Employment 1

Taxable employment income

	£	£	£
Salary	50,000		
Cash bonus	2,500		
Shopping voucher	500		
PMI	5,000		
<b>Total</b>	<b>58,000</b>		

Employment 2

	£	£	
Salary	25,000		
RCA Shares	5,000		
TV prize	450		
Mileage (w1)	100		
Personal credit car bill paid	1,500		
Childcare vouchers (w2)	0		
Interest free loan (w3)	281		
<b>Total taxable employment income</b>	<b>32,331</b>		

w1

45p per mile per business mile is allowable  
 $2,000 \times 0.45p = 900$   
 Therefore  $\pounds 1,000 - \pounds 900 = \pounds 100$  is taxable

w2

Childcare vouchers of up to  $\pounds 25$  per week are exempt, so no tax charge

w3

Taxable on the loan benefit amount.

Loan benefit is

$\pounds 12,500 \times \text{ORI}(2.25\%) = \pounds 281$

This is vased on the average method, but strict method would give same result.

W4

Class 1 NICS paid

Calculation of annual maxima

			£
Step 1	Calculate 53 x (UEL - PT)	$53 \times (967 - 242)$	38,425
Step 2	Multiply step 1 by 12%	$38,425 \times 12\%$	4,611
Step 3	Add together earnings in each employment that exceed PT but do not exceed UEL		
	Employment 1	37,700	57,461
	Employment 2	19,761	
Step 4	Subtract step 1 from step 3	$(57,461 - 38,425)$	19,036
Step 5	Multiply step 4 by 2%	$19,036 \times 2\%$	381
Step 6	Add together all earning exceeding UEL		



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	employment 1	(58,000-50270)	7,730	
	employment 2	0		
Step 7	Multiply sum of step 6 by 2%	7,730 x 2%	155	
Step 8	Add steps 2,5,7		5,147	

The annual maximum for class 1 NICs is £5,136  
The class 1 NICs paid is

Employment 1 =

£58,000  
37,700 @ 12% = 4,524  
7,730 @ 2% = 155  
Total = 4,679

Employment 2

£32,331

19,761 @ 12% = £2,371

Total class 1 paid = £7,050

Therefore refund of class 1 due of (£7,050 - 5,136) = £1,914.

For Sam to claim a deferrment in future years, he should contact HMRC at the beginning of the tax year. HMRC will assess his annual income on an expected basis and will not deduct Class 1 from one of his employments, likely his second employment.

At the end of the tax year, HMRC will calculate the Class 1 due and should there be a shortfall in Class 1 paid then this will be payable by Sam along with Sam's self assessment tax payment, due by 31 January following the end of the tax year.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- 6

There is no charge to income tax or national insurance on being awarded shares in a SIP.

As some of the shares have been forfeited, the share pool will need to be recalculated.

Date Acquired	Shares		
1 December 17	250 free shares		
	1,800 partnership shares		
	3,600 matching shares		
1 Dec 19	100 free shares		
	1000 partnership shares		
	2,000 matching shares		
1 Dec 21	150 free shares		
	1,800 partnership shares		
	3,600 matching shares		

when Sarah left the business on 1 March 24, the matching shares awarded on 1 dec 21 were forfeited.

Therefore Sarah's shares total 14,150.

where shares have been held in a SIP for 5 years, there is no charge to income tax on withdrawl.

There will be no income tax or NIC consequences relating to the 1 december 2017 or 1 december 2019shares.

where the shares are withdrawn within 3 years, there is an income tax charge based on market value of the shares on leaving the plan. NO shares were withdrawn within 3 years

of award.

where the shares are withdrawn between 3 and 5 years of award, there is a charge to income tax based on the lower of

- the market value of the shares at award, and
- the market value of the shares at exit date

The market value of the shares at award is £1 and at exit is £3.50. This can be determined by the sale of the shares to a third party on 2 March 24.

The shares awarded on 1 December 2021 will therefore be subject to income tax as follows

Partnership shares - 1,800  
Matching shares - 3,600  
Total shares = 5,400

$5,400 \text{ shares} \times \text{£}1 = \text{£}5,400$

As the shares are readily convertible assets, the £5,400 will also be subject to Class 1 NICs. This should be collected via PAYE due to being readily convertible assets but as Sarah has left employment, she will need to declare the income on her self assessment tax return.

For capital gains tax purposes, the amount subject to income tax will increase the base cost of the shares.

The shares now have a cost of £5,400.

The transfer of 1,000 shares to her husband will take place at no gain no loss as it is a spousal transfer.

The gift to minor son will take place at market value, and Sarah will be taxable on the deemed proceeds of  $\text{£}4.20 \times 100 = \text{£}420$ .

By way of the parental settlement rules, the dividends received on the shares of 1,000 shares  $\times \text{£}0.12 = \text{£}120$  will be taxable on Sarah as the amount is over £100. Sarah will need to declare this on her self assessment tax return by 31 January 2025.

The share sales will be calculated as follows

	Shares	Cost	
Pool	14,150	5,400	
Sale	(2,500)	(954)	
Gift	(1,000)	(382)	
Gift to son	(1,000)	(382)	
Sale	(9,650)	(3,683)	

**Calculation of Capital Gains on sale**

		2023/24 Gains	2024/24 gains
Total gains	w1	7796	39,965
Less AEA		(6,000)	(6,000)
Taxable gain		1,796	33,965

The chargeable gain will be taxable at 10% and 20% depending on the level of Sarah's income.

The disposals will not qualify for Business Asset Disposal Relief or Investprs relief.

The share disposals should be declared on Sarahs 2023/24 and 2024/25 tax returns.

**w1**

**2023/24 Disposals**

Gain on sale of 2500 shares

Proceeds on sale of £2,500 = £8,750

Less cost of £954

Gain = 7,796

**2024/25 disposals**

Deemed proceeds of gift to son

£3.50 x 1000 = 3,500

less cost = (382)

Gain = 3,118

Sale of 9,650 shares

Proceeds (£4.20 x 9,650) = 40,530

Less cost = 3,683

Gain = 36,847

Total gains = £47,761