THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

November 2024

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 indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 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. Cherry Tree Ltd is a UK registered trading company that was incorporated in October 2021. Cherry Tree Ltd has two directors, Jess and Kym, who are sisters.

On incorporation, the following shares were issued to the subscribers at par:

Jess	47 Ordinary £1 shares
Kym	47 Ordinary £1 shares
Matt (Jess' and Kym's brother)	6 Ordinary £1 shares

Each year Jess and Kym receive salaries of £9,000 each from the company.

Matt works full time for an unconnected employer, on an annual salary of £32,000.

A dividend of £890 per share is paid in May each year.

As Matt does not contribute to the day to day running of the business, Jess and Kym resent having to pay him dividends and they have asked him to dispose of his shares. They have agreed on a price of £80,000, with any sale to take place in 2024/25.

The options that have been identified for Matt to dispose of his shares are:

1) A purchase of the shares by Cherry Tree Ltd.
2) Jess and Kym each buy three of Matt's shares.

If Jess and Kym buy the shares, this would be funded by either additional dividends or bank loans. If the dividend option is chosen, Matt has agreed to transfer his shares to Jess and Kym before the additional dividend is voted and paid so that he is not entitled to this.

None of the shareholders have any other sources of income.

Requirement:

Discuss the Capital Gains Tax and Income Tax implications for Matt, Jess and Kym of the two options. (20)

2. Natalia Yu is non-UK domiciled. She moved to the UK in March 2014 with her husband and has been UK resident since 2014/15. Natalia and her husband separated in August 2018 and the decree absolute was issued in January 2019. Natalia has two children, aged seven and nine, who have lived with her since the divorce.

In 2023/24:

1) Natalia worked part time for a hedge fund in the UK. Her P60 for 2023/24 shows total pay of £41,260 and tax deducted of £10,279.

2) She received rental income for two non-UK residential properties which are let out on short term tenancies. The profit after expenses for 2023/24 was £18,450 for property 1 and £20,800 for property 2.

3) Natalia received foreign interest of £15,500 and foreign dividends of £22,000 from her investment portfolio. No foreign taxes were withheld at source. The portfolio is custodied in Switzerland and all of its assets are non-UK situs.

4) On 1 April 2024, she opened a Junior ISA for each of her children and transferred £9,000 of the foreign dividend income to each one.

5) Natalia bought a holiday home on the south coast of England for £250,000. She funded this partly by a loan of £190,000 from a bank in Switzerland. The loan is secured on her Swiss investment portfolio at a fixed rate of 4% per annum. The portfolio has a value of £750,000 and at 5 April 2023 contained £100,000 of unremitted income. Natalia pays the annual loan interest charges, of £7,600 per annum, from the income generated by the Swiss investment portfolio. The first payment of £7,600 was paid on 31 March 2024.

6) Five years ago, Natalia's father gifted an offshore bond to her. The premium originally invested by her father was £1,200,000 and the bond worth £1,650,000 on 6 April 2023. Natalia has withdrawn £60,000 from the bond each year since she received it. The balance of the holiday home purchase price was funded by the £60,000 withdrawal made in 2023/24.

7) Natalia received child benefit for her two children throughout 2023/24 at a rate of £21.80 per week for the first child and £14.45 per week for the second child.

8) She also received bank interest of £75 on her UK savings account.

Requirement:

Calculate, with explanations, Natalia's 2023/24 Income Tax payable/repayable assuming that all beneficial claims are made. (15)

3. Tom Douglas is a senior executive in the Leeds office of AT plc. He is resident and domiciled in the UK. He has been asked to oversee the set-up of AT plc's new office in New York. He will commence full time work in New York on 6 January 2025 and he will return to the UK on 2 May 2026 and recommence full time work in the Leeds office on 4 May 2026.

He will live and work in New York during the period of secondment but plans to return to the UK for a three week holiday in December 2025. His wife and son will continue to live in their family home in the UK while he works away. Tom will stay in a hotel while he is in New York.

Tom is considering disposing of one of his UK residential rental properties in December 2025. The property was acquired in 2002 and would generate a substantial gain when sold.

Requirement:

1) **Explain Tom's UK tax residence position for 2024/25, 2025/26 and 2026/27.** (14)

2) **Discuss the Capital Gains Tax implications if Tom disposes of his residential rental property in December 2025.** (6)

Total (20)

4. Ellen Woods is a higher rate taxpayer, resident and domiciled in England. She owns three investment properties in the Northeast of England comprising of an office block, a retail property, and land which is currently used as a car park. Information relating to each of the properties is shown below.

Office Block

This is currently let on a tenant repairing lease with annual rent of £100,000 paid quarterly in advance. The only expense for the property is the annual buildings insurance of £3,800.

Retail Property

Ellen had struggled to let this property and, after being empty for over a year, a new tenancy commenced on 1 October 2023. A £20,000 premium was received for the five year lease, with annual rent of £12,000. The tenant, Ray Smith, paid a year's rent in advance at the beginning of the tenancy.

Ray used the premises for his fish and chip business and unfortunately on 1 March 2024 a kitchen fire caused substantial structural damage to the property. Under the terms of the lease Ellen was responsible for the rectification costs. Ellen received £25,000 insurance proceeds in May 2024 when the repair work was completed, at a cost of £26,500.

The fire was caused by faulty electrics and Ray has refused to pay rent for the three month period when he was forced to close, while the restoration work took place. Ellen has not agreed to a rent reduction because there is still disagreement over the culpability of the electrical fault. Ray has recently paid £9,000 in respect of rent for the year to 30 September 2025.

Ellen incurred the following expenses during the 2023/24 tax year in respect of this property:

	£
Buildings insurance for the 12 months to 31 March 2024 (paid 6 April 2023)	1,200
Buildings insurance for the 12 months to 31 March 2025 (paid 31 March 2024)	1,500
Utilities (paid during vacant period)	550
Letting agent (paid October 2023)	800
Property repairs:	
Replacement of kitchen units (paid September 2023)	2,500
Redecoration (paid September 2023)	2,000

Land used as a Car Park

The annual rent for the car park is £24,000, paid monthly in advance. There had been a lot of complaints about potholes. Ellen agreed to fill the potholes and in addition resurface the whole car park. She took the opportunity to add marked parking bays and a small amount of landscaping to improve the look and feel of the car park. The total cost incurred for this work in February 2024, was £20,000. The tenant agreed to increase the annual rent to £26,400 from 1 March 2024 as the improved surface was expected to lead to an increase in sales.

Requirement:

Explain how Ellen's property income will be calculated for 2023/24. (15)

5. Sam is aged 45 and has two employments.

In Sam's first employment, Sam works full time and receives the following:

	£
Annual salary	50,000
Cash bonus	2,500
Reimbursement of genuine business expenses	1,000
Shopping voucher	500
Payrolled benefit – Private Medical Insurance	5,000

In Sam's second employment, Sam works part time and receives the following:

	£
Annual salary	25,000
A bonus in the form of shares in the company which are listed on the London Stock Exchange	5,000
A prize won in a workplace raffle of a television	450
Mileage payments for business travel, 50p per mile x 2,000 miles	1,000
Payment of personal credit card bill	1,500
Childcare vouchers of £25 per week	1,300
Interest free loan	12,500

Sam has not made an application for deferment of Class 1 primary National Insurance Contributions for these employments.

Requirement:

Calculate the Class 1 National Insurance refund Sam is due for the 2023/24 tax year and explain the process for Sam to claim a deferment of Class 1 National Insurance to prevent overpayments in future years. (15)

6. Sarah White is UK resident and domiciled. She has been an employee of Green Bow plc, a quoted UK company, for 10 years. Green Bow plc has a Share Incentive Plan which is registered with HMRC. All employees are invited to participate in the scheme.

On 6 April 2023, Sarah held 14,300 shares in the Share Incentive Plan. The shares were all valued at £1.00 when issued.

Date acquired	Shares
1 December 2017	250 free shares 1,800 partnership shares 3,600 matching shares
1 December 2019	100 free shares 1,000 partnership shares 2,000 matching shares
1 December 2021	150 free shares 1,800 partnership shares 3,600 matching shares

On 1 December 2023, Sarah handed in her notice. She left the business on 1 March 2024. The terms of the Share Incentive Plan state that on leaving employment:

1) any matching shares held by an employee for less than three years are forfeited.

2) the employee must withdraw all other shares from the plan on the date of leaving. They may choose to retain or sell the shares.

On 2 March 2024, Sarah sold 2,500 shares at their market value of £3.50 each.

On 1 October 2024 she gifted 1,000 shares to her husband and 1,000 shares to her 15 year old son. She also sold the balance of her shares to a third party at the market value for the shares of £4.20.

Green Bow plc paid an annual dividend of £0.12 per share on 31 October 2024.

Requirement:

Explain, with calculations, how Sarah's shares will be subject to Income Tax, National Insurance and Capital Gains Tax. (15)