The Chartered Institute of Taxation

Advanced Technical

Taxation of Individuals

November 2024

Suggested answers

ANSWER 1

Company Purchase of Own Shares (CPOS)

There are no Income Tax or Capital Gains Tax implications for Jess and Kym. The base cost of their shareholdings would be unchanged.

The sale proceeds can be treated as a Capital Gain for Matt if certain conditions are met. One of the conditions is that the vendor must have owned the shares for at least five years. As Matt has only held his shares since October 2021, this condition will not be met. This means that the proceeds will be treated as an income distribution. The taxable amount would be £80,000 less the original subscription price of the shares, £6. The distribution would be taxed at dividend rates.

Matt's remaining basic rate will be (32,000+5,340) – (3,903 (W1) +37,700) = £4,263.

Based on this, the tax payable would be:

	£
4,263 x 8.75%	373
75,731 x 33.75%	25,229
	25,932

Matt would need to declare the distribution on his tax return for the year of sale. The tax would be payable by 31 January following the end of the tax year.

A Capital Gain also arises, which is calculated as the original subscription price minus the actual cost of the shares. In Matt's case, this will mean that the gain is nil.

Purchase by Jess and Kym

A cash purchase by Jess and Kym would give rise to a Capital Gain for Matt.

A disposal of assets to a connected party is always deemed to take place at Market Value for Capital Gains Tax purposes. If HMRC believe that the market value of the shares is higher than £80,000, they will substitute the higher valuation in place of the actual proceeds figure.

It would be possible for Matt to submit a CG34 Post Transaction Valuation check form to HMRC to obtain confirmation that HMRC agree with the valuation.

Assuming HMRC agree the valuation, Matt's gain would be the same amount as the distribution under the CPOS option, i.e., £80,000 less the original subscription price of the shares.

If Matt has any capital losses brought forward, he can offset these against the gain. He can also offset his Annual Exempt Amount of £3,000 against the gain, assuming he does not make any other gains in the same tax year.

If Matt has his full Annual Exempt Amount available, but no losses, the taxable gain would be as follows:

	£
Net gain	79,994
Annual Exempt Amount	(6,000)
	73,994

Matt's available basic rate band would be (12,570+37,700-32,000-5,340) £12,930. Therefore, the tax payable would be:

	£
12,930 x 10%	1,293
61,064 x 20%	12,212
	13,505

Matt would need to declare the gain on his tax return for the year of sale. The tax would be payable by 31 January following the end of the tax year.

There are two reliefs available that could reduce the rate of tax payable on the whole of Matt's gain to 10%. These reliefs are Business Asset Disposal Relief and Investors' Relief.

Matt would not qualify for Business Asset Disposal Relief as he will not have been an officer or employee of the company during the period of 24 months ending with the date of sale.

Matt will not qualify for Investors Relief as one of the conditions for the relief is that neither the vendor nor any person connected with them is an employee of the company (or of a company connected with it.) Matt is connected to his two sisters for this purpose.

Despite not qualifying for any reliefs, Matt will still be better off under this option as the rate of tax payable is lower.

Jess and Kym will each acquire 3 shares with a base cost of £40,000, again subject to HMRC's agreement with the valuation as above.

If the purchase is funded by way of additional dividends, these would be subject to tax at 33.75% as Jess and Kym's regular dividends use up their basic rate bands.

It would make sense for the dividends to be grossed up to leave Jess and Kym with sufficient funds to make the purchase. This would require them to have dividends of 40,000 x 100/66.25 = £60,377 each. Combined with their salary and dividends, this will cause them both to lose part of their personal allowance meaning that a higher dividend would be required to leave them with additional net income of £40,000.

They may wish to consider asking Matt if the purchase price can be paid in instalments over two tax years. This would prevent the loss of their personal allowances. If Matt accepts, he should be aware that his Capital Gains Tax will still be calculated as if he has received the full proceeds on the date of sale.

If Jess and Kym take out loans to fund their purchase of the shares, they will qualify for Income Tax relief for the interest paid. This relief is given under s392 ITA 2007, which provides relief for interest paid on a loan applied in acquiring any part of the ordinary share capital of a close company where the individual owns more than 5% of the ordinary share capital, which is the case for Jess and Kym.

Cherry Tree Ltd is a close company as it is under the control of five or fewer participators.

The relief would be given by way of a deduction from their net income.

Consideration would also need to be given to how the loan repayments are funded. This could be from Jess and Kym's existing income or additional dividends, which would be taxed at 33.75% as above.

This option gives rise to a much lower tax liability for Matt, but the cost to the company would be at least £60,377 x 2, or more if the amount is adjusted to take into account the loss of Kym and Jess' personal allowances or to cover the interest on their loans.

The tax cost of the CPOS for Matt is much higher but the cost to the company is only £80,000.

Jess and Kym might wish to agree a slightly higher sale price with Matt to persuade him to agree to the CPOS option so that the cost to the company is less overall.

Working One
Matt's Personal Allowance

	£
Salary	32,000
Dividend	5,340
Distribution	79,994
	117,334

(117,334-100,000)/2 = £8,667

Personal allowance 12,570-8,667 = £3,903

MARKING GUIDES

TOPIC	**MARKS**
No implications for Jess & Kym of CPOS	1
Conditions for proceeds to be treated as capital not met and reason why	1
Implications of conditions not being met	½
Taxable amount	½
Calculate Matt's reduced personal allowance	½
Calculate remaining basic rate band	½
Calculate Income Tax due	½
Declare on tax return & state due date for tax	1
Calculation of capital gain and gain for Matt is nil	½
Cash purchase gives rise to capital gain	½
Discuss market value implications	1
Identify potential availability of holdover relief it proceeds are less than the market value	½
Gain is £79,994	½
Can use losses/annual exempt amount	1
Calculate CGT due	1
Explain why Matt does not qualify for BADR	1
Explain why Matt does not qualify for Investors' Relief	1
Matt is still better off if Jess & Kym buy the shares	1
Base cost for Jess & Kym	½
Tax implications of extra dividends	½
Suggest grossing up and calculate dividend required	1
Identify potential loss of personal allowance	1
Suggestions to mitigate Jess and Kym's liability on the additional dividends and implications for Matt	½
Tax relief on loan interest	1½
Consideration of how loan repayments would be funded	½
Discuss preferred option & overall implications	1
TOTAL	**20**

ANSWER 2

If remittance basis is claimed:

	Workings	Non-savings income	Interest income	Dividend income
UK employment income		41,260		
UK bank interest			75	
Remittance of loan	1	7,600		
Remittance due to security over foreign income	2	111,900		
Remittance of dividend income	3	18,000		
Net income		178,760	75	-
Less: personal allowance	4	-	-	-
Taxable income		178,760	75	-
Income tax:				
Tax on non-savings income:				
Basic rate band £37,700 at 20%				7,540
Higher rate band £87,440 at 40%				34,976
Additional rate band £53,620 at 45%				24,129
Tax on savings income:				
£75 at 45% (no savings allowance)	5			33
Plus: HICBC	6			1,885
Plus: Remittance basis charge	7			30,000
Income tax liability				98,563
Less: tax deducted at source				(10,279)
Income tax liability (2023/24)				88,284

If remittance basis is not claimed:

	Workings	Non-savings income	Interest income	Dividend income
UK employment income		41,260		
UK bank interest			75	
Remittance due to security over foreign income		100,000		
Foreign rental income: property 1		18,450		
Foreign rental income: property 2		20,800		
Foreign interest			15,500	
Foreign dividends				22,000
Net income		180,510	15,575	22,000
Less: personal allowance	8	-	-	-
Taxable income		180,510	15,575	22,000
Income tax:				
Tax on non-savings income:				
Basic rate band £37,700 at 20%				7,540
Higher rate band £87,440 at 40%				34,976
Additional rate band £55,370 at 45%				24,916
Tax on savings income:				
No savings allowance				
Additional rate band £15,575 at 45%				7,008
Tax on dividend income:				
Dividend allowance £1,000 at 0%				0
Additional rate band £21,000 at 39.35%				8,263
Plus: HICBC				1,885
Income tax liability				84,588
Less: tax deducted at source				(10,279)
Income tax liability (2023/24)				74,309

It would be most beneficial for Natalia to be assessed on the arising basis for 2023/24.

Workings:

1. Remittance triggered by loan payments (the capital is security for the loan, not income or gains), therefore the amount is the payments made from non-UK income.

2. A second remittance is triggered by the loan secured on the portfolio since it contains untaxed foreign income. This is limited to the amount of untaxed foreign income: .

Untaxed amount at 5 April 2023	£100,000
2023/24 interest/dividends not remitted	£11,900
Total remittance by virtue of untaxed income	£111,900

3. Remittance of dividend income. Transfer to children's accounts is a taxable remittance because they are relevant persons. Taxed at non-savings rates.

4. Not entitled to a personal allowance because remittance basis is claimed

5. No savings allowance available as she is an additional rate taxpayer.

6. High income child benefit charge applicable as income is over £50,000. Full amount clawed back. Natalia's children live with her and she was divorced during 2023/24 so the HICBC charge falls on her.

7. Remittance basis charge of £30,000 because Natalia has been UK resident for at least 7 of the 9 prior tax years (but not more than 12 of the last 14).

8. Personal allowance is abated to nil because of the level of her income

9. Offshore income bond withdrawal – not greater than 5% of capital invested so not taxable.

MARKING GUIDE

TOPIC	MARKS
Calculation of tax liability on remittance basis	
Employment income and PAYE deduction	1
Remittance of loan payments – identify taxable amount	1
Remittance due to security of loan over portfolio containing historic untaxed income	1
Remittance of dividend income – relevant person	1
No personal allowance on remittance basis	0.5
Taxable income	1
Savings allowance	0.5
High income child benefit charge	1
Remittance basis charge	0.5
Calculation of income tax liability	1.5
Withdrawal of offshore income bond not taxable	1
Calculation of tax liability on arising basis	
Foreign rental income, interest & dividends included	1.5
Personal allowance restricted	1
Calculation of income tax liability	2
Natalia should be assessed on the arising basis	0.5
TOTAL	**15**

ANSWER 3

a)

The following statutory residence tests (FA 2013, Sch 45) must be applied to each tax year to determine residence status:

1. Automatic overseas
2. Automatic UK
3. Sufficient ties

Note:

The sufficient ties test is not applicable to Tom as he satisfies either the automatic overseas or automatic UK rules for the years in question.

Split year treatment

The tests are applied for a whole tax year, however if an individual arrives or leaves the UK during the tax year it may be possible to split a resident tax year such that residence is only for part of the tax year.

2024/25

Departure 6 January

Automatic overseas

Tom does not satisfy either of the automatic overseas tests because:

1. He spends more than 16 days in the UK.

2. Full-time overseas work will not be for the whole tax year.

Automatic UK

Tom will continue to be UK resident because he will satisfy at least one of the following:

1. Present in the UK from 6 April 2024 through to 5 January 2025 which is more than 183 days.

2. Have a UK home.

3. Full time UK work will be for a period of at least 365 days and part of it will have fallen in the tax year.

Split year

Tom's secondment dates satisfy all the conditions for Case 1, starting full time work overseas because:

1. Resident in 2024/25, the year of departure

2. Resident in the previous year, 2023/24

3. Not UK resident in 2025/26 due to the automatic overseas test

4. Satisfies the overseas work criteria 6 January 2025 to 5 April 2025 because Tom does not plan to be in the UK for any of this period.

Conclusion – Not resident from 6/1/25

<u>2025/26</u>

Automatic overseas

Tom does not satisfy the first automatic overseas tests because:

1. Spends more than 16 days in the UK when he returns for three weeks in December 2025.

Tom **is not UK resident** because:

2. Full time overseas work will be for the whole tax year and his return days to the UK (21 days) are below the de minimis limits (of 91 days), and there are no work days as he is on holiday.

Conclusion – Not resident for all of 2025/26

<u>2026/27</u>

Return 2 May

Automatic overseas

Tom will not satisfy either of the automatic overseas tests because:

1. Spends more than 16 days in the UK.

2. Full time overseas work will not be for the whole tax year.

Automatic UK

Tom will **resume his UK residence** because he satisfies at least one of the following:

1. Present in the UK from 2 May 2026 to 5 April 2027, so more than 183 days.

2. Has a UK home.

3. Full time UK work will be at least 365 days and part of it will have fallen in the tax year.

Split year

Tom's dates satisfy all the conditions for Case 6, ceasing full time work overseas because:

1. Resident in the current year 2026/27

2. Not UK resident in 2025/26 due to the automatic overseas test

3. Resident in the UK for at least one year in the four years prior to 2025/26

4. Resident in 2027/28

5. Satisfies the overseas work criteria 6 April 2026 to 1 May 2026 as not planning to spend any time in the UK in this period.

Note Tom also satisfies the criteria for Case 5, starting to work in the UK, however Case 6 takes priority over Case 5.

b)

Disposal

Disposals of UK residential property by non-UK residents will result in chargeable gains from 6 April 2015 (or later if the property was purchased after this date).

The gain is automatically calculated with a rebased cost of the market value at 6 April 2015.

Tom could elect to use the original cost (useful if the value fell between the date of purchase and 6 April 2015).

He could elect that the gain is time apportioned such that only the post 6 April 2015 gain is subject to UK tax.

Tom should ascertain the market value at 6 April 2015 before a final decision is made.

As Tom is non-UK resident, he will need to report and pay the CGT within 60 days of completion.

Return to the UK

Tom is temporarily non-resident because he has been resident in the UK for at least four of the previous seven prior to departure, and he is non-resident for less than five years.

The balance of the gain (pre 6 April 2015 proportion) becomes chargeable in 2026/27 when Tom becomes UK resident again.

Tom will need to submit a self-assessment CGT return.

Payment is then due 31 January 2028..

The disposal leads to gains arising in 2025/26 and 2026/27, Tom will be able to use two annual exempt amount assuming still available.

MARKING GUIDE

TOPIC	**MARKS**
General rule – the statutory residence tests	½
Residence for a full year – but split year treatment may apply	1
2024/25 Automatic overseas residence tests	1
2024/25 Automatic UK residence tests	½
2024/25 Considers split year treatment	½
2024/25 Case 1 conditions	2½
2024/25 Conclusion	½
2025/26 Automatic overseas residence tests and conclusion	1½
2026/27 Automatic overseas residence tests	1
2026/27 Automatic UK residence tests	½
2026/27 Considers split year treatment	½
2026/27 Case 6 conditions	3½
2026/27 Conclusion	½
Disposal of residential property in 2025/26	3
Temporary non resident	1½
Return to the UK in 2026/27	1½
TOTAL	**20**

ANSWER 4

Basis of reporting property income

Taxable profits are normally prepared in accordance with generally accepted accounting principles (GAAP) however the default basis for most individual property businesses is to report profits under the cash basis.

This is possible if the gross receipts for the tax year are £150,000 or less.

In 2023/24 Ellen's cash receipts exceed this limit (see W1 below) and so she must calculate her property profit on an accrual's basis.

It is not clear whether 2022/23 property income was prepared on a cash or accruals basis.

It is likely that gross rents in 2022/23 were below £150,000 however it is possible that Ellen may have elected for the accruals basis.

If this is Ellen's first year under the accruals basis an adjustment would be made to ensure that there was no duplication or omission due to the change in basis.

W1

Gross property income

	Cash basis	**Accruals basis**
Office block	£	£
Annual rent	100,000	100,000
Retail property		
Lease premium (W2)	18,400	18,400
Rent		
£12,000	12,000	
£12,000 x 6/12		6,000
(1/10/23 – 6/4/24)		
Car park		
10 x £2,000 + 2 x £2,200 =	24,400	
11 x £2,000 + £2,200 =		24,200
Total gross property income	154,800	148,600

The lease premium taxed as property income is calculated as follows:

W2

Lease premium	£
Premium received	20,000
Less	
2% x (5 – 1) x 20,000	(1,600)
	18,400

Insurance proceeds

Ordinarily a sum received under an insurance policy to protect against damage to a fixed asset would be a capital receipt. However if the insurance proceeds are used to repair the asset, as is the case here, then the repair costs are an allowable deduction and the capital sum, up to the value of the deduction, is included as a receipt in calculating the property income.

The repair costs exceeds the insurance receipt by £26,500 - £25,000 = £1,500 and so there is a net deduction of £1,500 in 2024/25 when the repair work is carried out.

Property expenses

General relief for expenses

Expenses are deductible if they are wholly and exclusively for the business of letting.

Whilst the retail property was not let throughout the year the property was available for let and so full relief is available.

Insurance, agent's fees, and utilities

Ellen would be able to reduce her property income as follows:

	£
Insurance (£3,800 + £1,200)	5,000
Utilities	550
Letting agent fees	800

Repair costs

Repair costs are an example of a revenue expense and so are an allowable deduction when calculating property income.

If there is an element of improvement within the repair, then the cost should be apportioned on a reasonable basis and the improvement element, being capital in nature, would not be allowed as a deduction.

The September repair costs of £4,500 (£2,000 + £2,500) for the redecoration and replacement of kitchen units are allowable deductions.

Note however that a significant change in the materials would result in part of the cost being treated as a capital expense and no deduction would be allowed in respect of this. For example, If the kitchen worktops were originally laminate and have been replaced with granite.

The repair costs for the car park should be apportioned. Filling potholes is a genuine repair, and this expense can be deducted.

The ability to increase the rent following the resurfacing work is indicative that the expenditure has resulted in an enduring benefit and so is capital in nature, this cost would not be deductible.

Bad debt

There is a potential bad debt in respect of 3 months' rent owed by Ray Smith. The debt relates to income for the 2024/25 tax year and so there is no relief available in 2023/24**.**

MARKING GUIDE

TOPIC	MARKS
Cash basis is the default	½
Unless exceed the £150k limit	½
Ellen exceeds the limit	½
Consideration of the 2022/23 basis and potential adjustment	1½
Calculation of rental income on an accruals basis	1½
W1 Comparison of gross property income accruals vs cash basis	1
W2 Calculation of lease premium included in gross property income	1½
Insurance proceeds excess expense deducted in 2024/25	1½
General relief for property expenses	1
Insurance, agent's fees, and utilities	2
Repair revenue expense vs capital expense	½
Repair costs – redecoration and kitchen	1½
Repair costs – potholes and resurfacing	1
Bad debt – no relief in 2023/24	½
TOTAL	**15**

ANSWER 5

Employment 1

Annual salary	£50,000	
Cash bonus	£2,500	
Reimbursement of genuine business expenses	£0	Disregard, not earnings for Class 1
Shopping voucher	£500	
Payrolled benefit – Private Medical Insurance	£0	Disregard, not earnings for Class 1
Total Earnings for Class 1	**£53,000**	

Employment 2

Annual salary	£25,000	
A bonus in the form of shares in the company listed on the London Stock Exchange	£5,000	
A prize of a television won in a workplace raffle	£0	Disregard, not earnings for Class 1
Mileage payments for genuine business travel, 50p per mile x 2,000 miles	£100	Disregard element below 45p per mile, not earnings for Class 1
Payment of personal credit card bill	£1,500	
Childcare vouchers of £25 per week	£0	Disregard, not earnings for Class 1
Interest free loan	£0	Disregard, not earnings for Class 1
Total Earnings for Class 1	**£31,600**	

National Insurance due on Employment 1 on a standalone basis

Total Earnings for Class 1		53,000
Earnings between PT and UEL (50,270 – 12,570)	@12%	4,524
Earnings above UEL (53,000 – 50,271)	@2%	55
		4,579

National Insurance due on Employment 2 on a standalone basis

Total Earnings for Class 1		31,600
Earnings between PT and UEL (31,600 – 12,570)	@12%	2,284
Earnings above UEL (0)	@2%	-
		2,284

Total national insurance contributions paid across both employments	**6,863**

Annual Maxima Calculation

					£
Step 1:	Calculate 53 × (UEL − PT)				38,425
		UEL		967	
		PT		242	
Step 2:	Multiply the result of Step 1 by 12%				4,611
		UEL	**PT**		
Step 3:	For each of the employments,	50,270	12,570		37,700
	calculate the amount by which earnings exceed				19,030
	the primary threshold but				**56,730**
	do not exceed the upper earnings limit				
Step 4:	Figure found by Step 3				
	Less: Figure found by Step 1				18,305
Step 5:	Step 4 figure × 2%.				366

Step 6:	For each of the employments,	
	calculate the amount by which earnings	2,730
	exceed the upper earnings limit	0
Step 7:	Step 6 figure × 2%	55
Step 8:	Figure found by Step 2	4,611
	Figure found by Step 5	366
	Figure found by Step 7	55
	ANNUAL MAXIMUM	**£5,032**

Total national insurance contributions paid across both employments	**6,863**
Less annual maxima	(5,032)
Refund due	**1,830**

Sam can apply for a deferment of Class 1 National Insurance as they can demonstrate Sam will be due a refund due to having more than one employment.

Sam should make an application to the National Insurance Contributions Office ("NICO") by completing an application form. The form will detail Sam's main employer plus additional employments they are requesting deferment from. Sam must also provide information on estimated annual earnings of each employment.

The application should be made as soon as possible before the start of the relevant tax year, although an application should still be accepted until the end of the year (if there is sufficient time for the NICO and the employer to process it). NICO will determine for which of the employments deferment will be granted. In those employments where Class 1 deferment is granted, Sam will continue to pay Class 1 NICs at 2% on earnings in excess of the primary threshold.

An NICs assessment will be raised if a deferment was given which was not due. This could happen, if Sam left an employment part way through the year and did not notify HMRC. Therefore, Sam should notify HMRC as soon as possible if there is a change in employment circumstances. If there is underpaid Class 1 National Insurance, NICO will raise the appropriate assessment and collect the underpayment directly from Sam rather than his employer.

MARKING GUIDE

TOPIC	MARKS
Employment 1 – calculation of relevant earnings for Class 1 National Insurance:	
Cash bonus	0.5
Disregard reimbursement of genuine business expenses	0.5
Include shopping voucher	0.5
Disregard payrolled benefit – private medical insurance	0.5
Calculation of Class 1 National Insurance contributions due on Employment 1 on a standalone basis	1.0
Employment 2 – calculation of relevant earnings for Class 1 National Insurance:	
A bonus in the form of shares in the company listed on the London Stock Exchange	0.5
Disregard a prize won in a workplace raffle of a television	0.5
Mileage payments - Disregard element below 45p per mile, not earnings for Class 1	1.0
Include payment of personal credit card bill	0.5
Disregard childcare vouchers as within limits	0.5
Disregard interest free loan	0.5
Calculation of Class 1 National Insurance contributions due on Employment 2 on a standalone basis	1.0
Calculation of Step 1	0.5
Calculation of Step 2	0.5
Calculation of Step 3	1.0
Calculation of Step 4	0.5
Calculation of Step 5	0.5
Calculation of Step 6	0.5
Calculation of Step 7	0.5
Calculation of Step 8	0.5
Calculation of refund due	1.0

Explanation of deferment of Class 1 National Insurance	
Form and relevant information	0.5
Timeline for submission	0.5
Requirement to notify HMRC of any changes	0.5
Any underpayment collected directly from taxpayer	0.5
TOTAL	**15**

ANSWER 6

Sarah held the 5,650 shares acquired on 1 December 2017 for more than 5 years, therefore there was no income tax or NIC charge on their withdrawal from the SIP.

Sarah held the 3,100 shares acquired on 1 December 2019 for more than 3 years but less than 5 years on 1 March 2024. There was an income tax charge on the lower of:

- market value at withdrawal – 3,100 x £3.50 = £10,850
- market value at initial allocation – 3,100 x £1.00 = £3,100

Therefore, Sarah had an income tax charge on £3,100 in 2023/24. The tax due would have been collected at source by Green Bow PLC via Pay As You Earn (PAYE) and paid over to HMRC.

As for the 5,550 shares acquired on 1 December 2021, 3,600 of these were forfeited because they were matching shares and had not been held for 3 years yet by 1 March 2024. The balance of 1,950 shares were subject to an income tax charge on their value at the date of withdrawal.

Income tax was charged on 1,950 x £3.50 = £6,825. As above, this would have been collected and paid to HMRC via PAYE.

The shares in Green Bow PLC were readily convertible since they could be sold on the stock exchange. The two amounts of £3,100 and £6,825 were therefore also subject to Class 1 NIC. This would have also been deducted at source from the proceeds via PAYE.

Sarah was able to sell the shares after they had been withdrawn from the plan. A disposal was subject to Capital Gains Tax. The capital gain or loss is calculated as the share value on the date of disposal less the share value on the date of withdrawal from the plan.

2 March 2024: sale of 2,500 shares

Because she sold the first 2,500 shares immediately after withdrawal, there was no capital gain as there was no change in value between the withdrawal date and the sale date.

Proceeds (2,500 x £3.50)	£8,750
Cost (2,500 x MV at withdrawal)	(£8,750)
Gain/loss	Nil

1 October 2024: gift of 1,000 shares to husband

A transfer of shares between spouses takes place on a no gain/no loss basis. Her husband was deemed to take on her base cost, therefore he acquired her base cost of £3.50 per share.

1 October 2024: gift of 1,000 shares to minor son

Mother and son are connected persons, so the transfer is deemed to have taken place at market value. Sarah realised a capital gain on the gift as follows:

Deemed proceeds (1,000 x £4.20)	£4,200
Cost (1,000 x £3.50)	(£3,500)
Capital gain	700

The £120 dividend her son would have received on 31 October on his shares will be assessed to income tax on Sarah in 2024/25 under s629 ITTOIA 2005 settlements legislation.

Remainder of shares (6,200) sold on 1 October 2024

There was also a capital gain on this disposal as shown below:

Proceeds (6,200 * £4.20)	26,040
Less cost (6,200 * £3.50)	(21,700)
Gain	4,340
Total 2024/25 gains	5,040
Less AE	(3,000)
Taxable gain	2,040

CGT will be charged at 10% (if any basic rate band is left available) or at 20% otherwise. These gains are reportable on Sarah's 2024/25 tax return by 31 January 2026, and the tax will be payable also by 31 January 2026.

MARKING GUIDE

TOPIC	MARKS
2017 shares – more than 5 years = no income tax & no NIC	1
2019 shares – between 3 and 5 years = income tax charge Lower of MV at withdrawal and MV at initial allocation Income tax charge on £3,100	1 1 1
2021 shares – less than 3 years = 3,600 matching shares forfeited 1,950 shares subject to income tax on MV at withdrawal Income tax charge on £6,825	1 1
Readily convertible assets = Class 1 NIC charge £3,100 and £6,825 subject to Class 1 NIC	1 1
Income tax and NIC both collected by PAYE	0.5
2 March 2024 sale of 2,500 shares Calculation of gain/loss	 1
1 October 2024 gift to husband No gain/no loss as spouse transfer	 1
1 October 2024 gift to son MV sale as connected persons, calculation of gain	 1
Son's dividend subject to income tax on Sarah S629 ITTOIA 2005 settlements legislation applies	1
1 October 2024 sale remaining shares Calculation of gain	1
Annual exempt amount, CGT rate applicable reporting & payment date	1 0.5
TOTAL	**15**