

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Individuals

May 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Mark Johnson is UK resident and domiciled. In 2017/18 he subscribed for the following shares, which all met the conditions for the Enterprise Investment Scheme (EIS):

<u>Company Name</u>	<u>Number of Shares</u>	<u>Total Subscription Amount</u>	<u>Ownership Percentage</u>
		£	
Austin Ltd	1,491	40,175	2.8%
Rushworth Ltd	1,650	11,715	1.6%

Mark’s daughter Jade is one of the Directors of Rushworth Ltd. She subscribed for 70% of the company’s share capital on incorporation. Her shareholding was diluted to 45% when the company issued additional shares to the individuals who accepted the company’s offer to subscribe for shares in 2017/18.

In 2017/18, Mark sold a property, realising a capital gain of £782,000. Mark’s income for 2017/18 was in excess of £500,000.

Mark correctly claimed all of the available reliefs for the EIS share subscriptions.

In 2023/24, Mark subscribed for the following shares:

<u>Company Name</u>	<u>Number of Shares</u>	<u>Total Subscription Amount</u>	<u>Ownership Percentage</u>
		£	
Collins Ltd	1,065	54,080	4.0%
Dashwood Ltd	5,800	6,332	0.9%

Collins Ltd met all the qualifying conditions for the EIS but unfortunately the directors failed to include Mark’s name on their compliance statement, meaning that he never received the EIS3 certificate to enable him to make a claim for Income Tax relief.

Mark was able to make a claim for Income Tax relief for the Dashwood Ltd subscription.

In August 2024, Mark sold the following shares:

- 1) 522 shares in Austin Ltd for £6,373.
- 2) All his shares in Rushworth Ltd for £13,447.
- 3) All his shares in Dashwood Ltd for £21,054.

In January 2025, Mark was notified that Collins Ltd is likely to be liquidated. The company has continued to meet all the conditions to qualify for the EIS, but unfortunately it is not profitable and has incurred debts that it cannot afford to repay. The shareholders will not receive any distributions when the company is liquidated.

Mark’s only income source is his salary which was £101,765 in 2024/25 and £82,325 in 2023/24.

Explain the tax implications of the four events that took place in 2024/25. (15)

2. In August 2016, Fred began working for an international drinks manufacturing company. His role at that time was permanently based in New Zealand, where he is domiciled.

On 1 April 2024 he moved to the UK and commenced a three year secondment to expand the business in the UK and Europe. Fred had not previously been to the UK. Fred’s employment contract remains with the New Zealand company. His annual salary of £110,000 is paid by the New Zealand entity.

During 2024/25, Fred worked for a total of 240 days. Of this, 14 workdays were in France, 12 in Spain, three in Belgium, two in Austria and 22 were in New Zealand. Fred’s employer reimbursed his travel and accommodation expenses on all of these work trips.

Fred was UK tax resident under the Statutory Residence Test for 2024/25 but he was non-UK resident for 2023/24.

On 1 September 2024, Fred received a £46,000 bonus, which was based on his performance in the company’s financial year ended 31 March 2024. He received a further bonus of £12,000 on 1 April 2025 in relation to his performance on the secondment during the year ended 31 March 2025.

Whilst working in the UK, Fred’s salary and bonus payments were received into a new bank account in New Zealand, which he had opened specially to receive this income. Fred nominated this account on 30 April 2025 as his qualifying account for the purpose of the special mixed fund rules. During 2024/25, Fred transferred a total of £56,400 to the UK from this account.

During 2024/25, Fred received £58,000 of foreign investment income on his New Zealand portfolio. No remittances have been made to the UK from this portfolio.

The UK has a reciprocal Social Security Agreement with New Zealand. The terms of the agreement with New Zealand are that UK domestic legislation should be applied in Fred’s circumstances.

Requirement:

Explain the UK taxation of Fred’s earnings and calculate his Income Tax and National Insurance contributions for 2024/25. (15)

3. Jason Parkes had the following income in 2024/25.

Employment

Jason is a director for Brays Travel plc and received a salary of £75,000, from which PAYE of £13,442 was deducted. He also had the use of a zero emission, electric company car with a list price of £51,900.

Property

Jason’s property portfolio comprises:

<u>2024/25</u>	<u>10 Bond Avenue</u>	<u>27 Ford Drive</u>	<u>Bridgeford House</u>	<u>Casa Blanca</u>
Type of let	Residential	Residential	Commercial	Holiday
<u>Income</u>	£	£	£	£
Rents due	19,000	16,000	97,250	25,879
<u>Expenditure</u>				
Repairs	7,355	17,304	10,964	13,982
Management charges due and paid	2,650	2,606	0	5,230
Mortgage interest due and paid	6,500	6,030	10,000	0

Notes

1) Income

The previous tenant for Ford Drive did not pay rent in the final month before leaving the property, such that the actual receipts in 2024/25 were £14,000 and not £16,000. Jason recovered the outstanding month’s rent of £2,000 on 15 April 2025. All other property income was paid when due.

2) Repairs

All repairs related to 2024/25 and were paid for in 2024/25.

Before reletting Ford Drive, a new ‘like for like’ bathroom was fitted at a cost of £15,000 hence the unusually large repairs expense for the year.

3) Casa Blanca

Casa Blanca is a villa in Spain that Jason inherited from his grandmother. Jason spent 14 days at the villa in June 2024, apart from which the property has been available to let as a holiday let. The property was actually let for 24 weeks during the year. The management charges relate solely to the holiday letting and the repairs relate to the general upkeep of the property.

Treasury Gilts

Jason sold £250,000 4% 2063 Treasury Gilts on 1 March 2025. Interest on the Treasury Gilts is paid six monthly on 30 June and 31 December, the Treasury Gilts were sold cum interest.

Parkes Training Ltd

Jason owns 15% of the shares of Parkes Training Ltd. The remaining shares are owned by Jason’s brother, who runs the company. Jason has never worked for the company. During the year Parkes Training Ltd paid the usual annual dividend, and Jason received a dividend of £15,000.

In January 2024 the company made an interest free loan to Jason of £100,000. The loan has not been repaid.

VCT

Jason invested in VCT shares during the year as follows:

	<u>Date acquired</u>	£	<u>Dividend paid in 2024/25</u>
Greenways VCT	June 2024	75,000	6,000
Force VCT	September 2024	100,000	12,000
Wonderways VCT	January 2025	50,000	4,000

Note

Jason subscribed for new shares in Force VCT and Wonderways VCT. The Greenways VCT shares were not newly issued.

Jason Parkes 2020 Discretionary Trust

An income payment of £1,000 was made to Jason from the discretionary trust that he settled funds into in 2020. The trust assets comprise a portfolio of shares on which the trust received £4,600 of dividend income in 2024/25. Jason is the sole beneficiary of the trust.

Continued

Continuation

Payments

Jason made the following relevant payments:

		£
Payment on account (2024/25)	First payment on account paid 31 January 2025	18,520
Personal pension contributions	By direct debit £1,000 per month	12,000
Gift aid	Donation paid to Children in Need November 2024	800

Requirement:

Calculate, with explanations, the Income Tax payable/repayable by Jason for 2024/25. (20)

4. Star Events Ltd owns Hazel Manor. The property is used by Star Events Ltd to host events such as weddings and awards ceremonies.

Star Events Ltd also owns a residential property, Elm Tree Cottage, which is close to Hazel Manor. The property cost £148,000 in November 2011. The market value of the property in April 2024 was £205,000. The property has a rateable value of £167.

Gina Davenport is employed by Star Events Ltd as an events manager. She is required to be present at the venue for each event that she is managing and remain until all the guests have departed. Gina has occupied Elm Tree Cottage rent-free since 1 April 2024. Gina pays all the utility bills and provided all of her own furniture.

Gina is not a director or shareholder of Star Events Ltd.

Star Events Ltd has a five-year lease over Birch Cottage, which is next door to Hazel Manor. The company paid a lease premium of £30,000 and the annual rent is £4,200. The market value of this property is £183,000. The property has a rateable value of £221.

Eddie Marsh is a director of Star Events Ltd and owns 25% of the company’s shares. He works full-time and receives an annual salary of £50,000. As the company is small, in addition to his duties as a director, his duties include being the caretaker at Hazel Manor and as such, he is required to be on call outside of his normal working hours. Eddie has occupied Birch Cottage rent-free since 6 July 2024. Star Events Ltd pay his utility bills of £335 per month. The bills are in Eddie’s personal name. When Eddie moved in, Star Events Ltd provided a sofa for the property at a cost of £1,235. Eddie provided the rest of the furniture himself.

Requirement:

Explain any benefits in kind and National Insurance liabilities arising as a result of the provision of accommodation to Gina and Eddie in 2024/25. (15)

5. Adrian and Luisa are married and are both non-UK domiciled. On 11 April 2023, they moved to England for Adrian to take up a new job. They brought all of their personal belongings with them, which consisted of clothing and jewellery worth approximately £5,000 and their personal laptops worth £500 each.

On the same date, they also transferred £250,000 of savings from their joint overseas account to the UK to purchase their new home (see table below). The funds transferred were from savings they had accumulated jointly since 2017 from their employment income, plus a £45,000 inheritance from Luisa’s father received in 2021.

Adrian and Luisa both became UK resident under the Statutory Residence Test from 6 April 2023. They both claimed the remittance basis on their tax returns in 2023/24 and will do so again for 2024/25.

Adrian set up a new UK bank account to receive his salary. His annual salary is £75,000.

Luisa has not worked since arriving in the UK but is looking for a job. Her parents gift her £1,500 each month and will continue to do so until she finds a job. This is paid to a separate Spanish account, held in Luisa’s sole name. This Spanish account does not pay any interest. Luisa transfers funds from her Spanish account to Adrian’s UK bank account as needed to contribute to day-to-day living expenses.

Their joint overseas savings account received their foreign income and proceeds from the sale of any foreign assets as set out below.

Joint overseas bank account:

<u>Date</u>	<u>Narrative</u>	<u>Credit/(debit)</u> £	<u>Balance</u> £
6 April 2023	Balance b/f		334,000
11 April 2023	Transfer to UK for purchase of new home	(250,000)	84,000
30 June 2023	Bank interest	4,200	88,200
15 August 2023	Dividend on shares held by Luisa	6,000	94,200
28 October 2023	Capital proceeds on sale of a flat in Spain, which was held solely by Adrian. The gain was £33,000.	97,000	191,200
10 November 2023	Joint purchase of antique painting at an auction in France. The painting was transferred to the UK on 1 January 2025.	(74,000)	117,200
30 June 2024	Bank interest	7,600	124,800
15 August 2024	Dividend on shares held by Luisa	6,000	130,800
31 October 2024	Transfer to Adrian’s UK bank account to pay for their joint living expenses	(25,000)	105,800
1 November 2024	Capital proceeds on sale of Luisa’s shares. The gain was £15,000.	63,000	168,800
16 December 2024	Payment of Luisa’s UK credit card bill	(3,400)	165,400

No foreign tax was deducted from any of the income or sales proceeds received in this account.

Requirement:

Explain, with calculations, any Income Tax or Capital Gains Tax implications for Adrian and Luisa in 2024/25 of the above transactions, given their claims for the remittance basis.

You are NOT required to discuss whether a remittance basis claim is beneficial. (15)

6. Focus Ltd is a manufacturing company which was incorporated on 1 April 2012 by brothers Phil and Grant Smith. They each subscribed for 50,000 £1 Ordinary shares at par and were appointed as directors. All shares rank equally for votes, dividends and rights on a winding up or sale.

On 1 April 2015 Sarah, Phil’s daughter, subscribed for 10,000 newly issued £1 Ordinary shares for £5 per share in order to fund the company’s expansion. The shares were issued under the EIS scheme to enable Sarah to defer in full a £30,000 gain she had realised on the sale of a residential investment property.

Phil died on 1 April 2019. At the date of Phil’s death, his 50,000 shares in Focus Ltd were valued at £10 per share. In his Will, Phil left 25,000 shares to Grant and 25,000 shares to his wife, Julie.

Sarah became a director of Focus Ltd on 1 April 2020.

On 1 March 2021, when the shares were worth £11 per share, Julie redirected her entire legacy of 25,000 shares to Sarah under a deed of variation. An election was made under s.62(6) TCGA 1992.

On 1 May 2024 all shares in the company were sold to PRCSN Ltd, a rival manufacturing company. At this time the issued share capital of Focus Ltd was:

	<u>£1 Ordinary Shares</u>
Grant Smith (founder)	75,000
Sarah Smith (Grant’s niece)	35,000
Total	110,000

The consideration payable for each Focus Ltd share was:

- 1) 1 Ordinary Share in PRCSN Ltd for every 20 shares held in Focus Ltd (1 Ordinary Share valued at £150 per share).
- 2) £20 cash.
- 3) 1 x £10 unit of newly issued loan stock in PRCSN Ltd.

The loan stock is expressed in Sterling and cannot be converted into any other currency.

Following PRCSN Ltd’s issue of new Ordinary shares on the acquisition of the shares in Focus Ltd, it has 55,500 Ordinary shares in issue. The shares all rank equally for votes, dividends and rights on a winding up or sale.

Grant was retained as a director of PRCSN Ltd and received a salary in 2024/25 of £150,000. Grant had no other sources of income.

Sarah resigned as a director on 1 May 2024. Sarah’s only income in 2024/25 was her director’s salary from Focus Ltd of £12,570, which was paid in April before she left the company.

The first interest payment on the PRCSN Ltd loan notes was paid on 1 May 2025.

Neither Grant nor Sarah realised any other capital gains in 2024/25 and neither of them had any capital losses brought forward from tax years prior to 2024/25.

No claims for Business Asset Disposal Relief have previously been made by either shareholder.

Requirement:

- 1) **Explain the Capital Gains Tax implications for Grant and Sarah of the consideration received for their shares in Focus Ltd.** (4)
 - 2) **Explain any reliefs that could be claimed or elections that could be made by Grant and Sarah and the impact they would have on both their current and future tax position.** (10)
 - 3) **Calculate the Capital Gains Tax payable by Sarah, assuming all beneficial claims and elections are made.** (6)
- Total (20)