

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Individuals

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax manager in a small firm of Chartered Tax Advisers. You have recently met with an existing client, Jo Ferguson. The firm has prepared her personal tax returns for many years.

Jo is currently a director and shareholder of Dashiell Consulting Ltd, a company which she co-owns with her husband.

Jo and her husband have separated with the intention of getting divorced. It has been agreed that she will dispose of her shares and her interest in the marital home to her husband. She also owns the property from which the company currently trades. She will also cease to be a director of the company and has received a job offer from Benekia Ltd.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Jo

EXHIBIT B: Email from Nicki Sorenson at Benekia Ltd

EXHIBIT C: Balance sheet for Dashiell Consulting Ltd at 31 March 2025

EXHIBIT D: Pre-seen information

Requirement:

Write a letter to Jo advising her on the transactions in connection with her divorce and on the potential remuneration package for her new job, including recommendations for any actions that she should take.

EXHIBIT A

Email from Jo

From: Jo Ferguson
To: Tax Manager
Date: 28 October 2025
Subject: Divorce and New Job

Hello

I am emailing you as I need some advice regarding transactions around my divorce from Dominic. It is all reasonably amicable at the moment, but I am anxious to make sure that my position is protected and, in particular, that I am not going to have a large tax bill.

As you are aware, Dominic and I separated in October 2024 when I moved out of the marital home.

Shares in Dashiell Consulting Ltd

Dominic will retain Dashiell Consulting Ltd and accordingly, I will sell my shares to him. However, Dominic does not have the funds to buy the shares personally, so it has been agreed that the company will purchase my shares for £450,000, which is the open market value. The company is willing to pay me in full in cash.

The company owns a commercial property, which is currently worth £250,000. It was purchased as an investment and the company rents it to a long-term tenant at £7,800 per year. The company would like to get rid of it. I wonder if this could be transferred to me as part of the deal for the shares, with the balance being paid in cash, as I would happily take the rental income?

The company accounting date is 31 March. It has been agreed that I will resign my directorship on 31 March 2026 and not receive any salary or dividends after that date. Salary and dividends for 2025/26 will be the same as the 2024/25 figures, which you already have. I am attaching the most recent balance sheet for the company (**EXHIBIT C**).

Property used by Dashiell Consulting Ltd

I own the property at Lavender Business Park from which the company trades and I am thinking of gifting it to my children.

It is currently worth £260,000. My initial thoughts were to gift the property outright but I may need funds in the near future if I decide to buy a house so they have suggested they could pay something for the property by raising a mortgage but would not be able to afford full market value.

Marital Home

Dominic and his children still live there and he does not want them to have to move. However, he does not have the funds to buy me out of the property, which is currently worth £650,000 and has a joint, interest only, mortgage on it of £200,000. He could increase the mortgage to buy me out but he has suggested that I keep my interest in the property instead. He plans to sell the house once his children have left home, which is likely to be in around five years' time. If I agree to delay selling my share, he has agreed that I will get half of the net proceeds at the time it is sold. If he decides not to sell, he is hopeful that he will have raised enough money to buy me out at that point for half the market value at that time. I will not continue to contribute to the mortgage if I remain as a joint owner. If I do get the money now, I would probably use it to buy another property for myself. I am currently living with my sister. This arrangement is working well so it is not essential that I have funds to buy a house now.

Continued

Continuation

New Job

Finally, I am starting work on 1 April 2026 with Benekia Ltd, a client of Dashiell Consulting Ltd. I am attaching the email they sent me setting out the details (**EXHIBIT B**). Should I be an employee or operate through a limited company? Also, you will see that they are referring to a car. I'm wondering if I would be better off leasing the same car using personal funds. I have found a personal hire contract deal which would work for me at £300 per month which includes servicing and insurance. The car does around 60 miles per gallon and fuel locally is around £6.50 per gallon.

Other issues

I don't need a detailed Inheritance Tax review at this time, but please let me know if there are any particular issues linked to this advice.

I look forward to hearing from you.

Regards

Jo

Continued

EXHIBIT B

Email from Nicki Sorenson at Benekia Ltd

From: Nicki Sorenson, Benekia Ltd
To: Jo Ferguson
Date: 25 October 2025
Subject: New Job

Jo

It was lovely to see you last week and I am so pleased that you are coming to join us. I would like to summarise what we agreed in our meeting just so everything is clear.

We agreed that you would be working five days a week at our offices in central London. You will head our new team of researchers developing a new software system for our business. You will report directly to me.

From a legal perspective, we would want a restrictive covenant so that you cannot work for anyone else and any intellectual property developed would be owned by us.

We are happy to take you on as an employee and we would offer a salary of £60,000 per annum. You could participate in our salary sacrifice scheme to have a company car. This would reduce your annual salary to £57,000. The car benefit cost of this would be £5,033 and we would reimburse you for the cost of fuel used for business journeys.

If you do not take up the offer of a company car, you will be expected to have a vehicle available to use for business as we would envisage that you will need to do some travel as part of the job (probably around 5,000 miles per annum). The company reimburses any miles travelled on business at the HMRC approved rates. We use an app to track business mileage to support any claims.

Alternatively, you can work through your own limited company. We are a small company so have no compliance obligations in relation to IR35. We would pay a monthly fee of £5,000.

I am looking forward to working with you.

Best wishes

Nicki

Director, Benekia Ltd

EXHIBIT C

Balance sheet for Dashiell Consulting Ltd at 31 March 2025

	£
<u>Fixed assets</u>	
Tangible assets	261,237
Investment property – cost and market value	<u>260,000</u>
	<u>521,237</u>
<u>Current assets</u>	
Debtors	172,913
Cash at bank and in hand	252,001
Creditors: amounts falling within one year	<u>(42,856)</u>
Net current assets	<u>382,058</u>
	<u>903,295</u>
 <u>Capital and reserves</u>	
Called up share capital	200
Profit and loss account	<u>903,095</u>
	<u>903,295</u>

Continued

EXHIBIT D

Pre-seen information

Client name	Joanne (Jo) Ferguson
Date and place of birth	4 July 1968, UK
Residence	England
Marital status	Married to Dominic Ferguson, who is Jo's second husband. They separated on 1 October 2024.
Date of marriage	15 August 2018
Children	From Jo's first marriage: Jonathan (aged 28) Lucy (aged 26)
Step children	From Dominic's first marriage: Ben (aged 14) Harry (aged 13)

Assets

Main residence: 9 Salisbury Close, London

Jointly owned with Dominic. It was purchased in July 2018 for £300,000 and immediately became their main residence.

Shares in Dashiell Consulting Ltd

An unquoted trading company providing market research services.

Jo owns 35% of the shares and Dominic owns 65% of the shares and are both directors. Jo's shares were gifted to her by Dominic for no consideration in 2018. The original base cost of her shares was £70.

Commercial Property: Unit 1, Lavender Business Park

This was purchased in 2019 for £125,000.

This property is, and has always been, used for the business of Dashiell Consulting Ltd.

The current rent is £2,000 per month. This is considered to be the market rate and was reviewed in 2024. The company have always paid market rent for the use of the property. There is no option to tax on this property so no VAT is charged on the rent.

Savings

Jo has £56,000 in a cash ISA.

SA302 for Jo for 2024/25

	£
Profit from employment	9,000
Profit from UK land and property	24,000
Dividends from UK companies	<u>24,000</u>
Total income received	57,000
Less personal allowance	<u>(12,570)</u>
Total income on which tax is due	<u>£44,430</u>

	<u>Amount</u>	<u>Percentage</u>	<u>Total</u>
	£		£
<u>Pay, pensions, profit etc.</u>			
Basic rate	20,430	20%	4,086
<u>Dividends</u>			
Basic rate band at 0%	500	0%	Nil
Basic rate band	16,770	8.75%	1,467
Higher rate band	6,730	33.75%	<u>2,271</u>
Income Tax due			<u>£7,824</u>