

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>631</b>	<b>2978</b>	<b>3567</b>
Section 2	<b>579</b>	<b>2601</b>	<b>3168</b>
Section 3	<b>747</b>	<b>3543</b>	<b>4148</b>
Section 4	<b>399</b>	<b>1879</b>	<b>2254</b>
Section 5	<b>591</b>	<b>2794</b>	<b>3284</b>
Section 6	<b>857</b>	<b>3999</b>	<b>4778</b>
Total	<b>3804</b>	<b>17794</b>	<b>21199</b>

## Answer-to-Question- \_1\_

### Austin Ltd

He qualifised for EIS income tax relief and held the shares for 3 years.

On the sale of the 522 shares of Austin Ltd for £6,373 he has realised a loss.

The loss is restricted by the Income tax reducer he claimed

Proceeds		6,373	
less cost	14,065		40,175 x 522/1491
less income tax reducer claimed	(4,220)		14,065 x 30%
		(9,845)	
loss		(3,472)	
Residential gain thaw		4,220	
less AE		(3,000)	
		1,220	
@24%		293	

This loss can be elected to be treated against income instead of capital giving him a tax saving of  $[3,472 \times 40\%] = £1,389$

The held over residential gain will thaw in that propotion and become chargeable. Since it is the hgiest rate 24% AE should be deducted from it in prioirty. This loss should be recognised in the 2023/24 tax year for emidiate repayment.

### Rushworth

There is a requirement that the investor not be connect to the issuing company for any period withing the 2 years rpior to issuance or before the EIS investents qualiffy after being held for 3 years.

An idvidual is deemed to be associated if they or a connected individual meet any of the below provisions:

- . employee
- . Person with substantial control
- . Person subscribing for shares under certain arrangements

Conencted invididuals include spouses and clineal decentants and ancestors so is Jade is deemed associated with the company so is Mark.

S.168 provides specific conditions for exemption from connection for directors provided the remuneration the director receives is proportional and normal for the role. Under this provision the fact that Jade is a director is not necessarily a problem.

However, she did own 70% which is more than 30% of the share imediately before the issuance of Mark's shares. For this reason he will have been blocked from receiving EIS income tax reducer on the investment as he is associated through Jade. However, dispite being denied the income tax reducer he could have still claimed the EIS gain holover relief which the question infers he did.

Since he did not qualify for ITR relief on investment he does not get the gain relief on disposal

proceeds		13,447			
less cost		(11,175)			
chargeable gain		4,302			
residential property thaw		3,515			11,715 x 30%

Taxable @ 20%	4,302				
Taxable at 24%	3,515				

### Dashwood

He disposed of the shares in Dashwood within 3 years of making the subscriptpn. Not only is it chargeable to CGT but the income tax reducer is clawed back in proportion to the proceeds. The £1,900 of income will be clawed back in the year of investment. This will be 2023/24.

proceeds		21,054		
less cost	6,332			
less ITR claimed and not recharged	(0)			
		14,722		
EIS claw back				
lower of base cost and proceeds	proceeds higher than base costso all clawed back			
Income tax charge on clawabck		1,900		6,332 x 30%

### Collins Ltd

Since the company is likely to be liquidated Mark could consider a negligible value calim. These can be recognised in the prior two tax years to the year of event provided the shares were of negligible value then.

This being the case Mark could elect to carry it back to 2023/24 to reduce his income and but if he relieves it in 2024/5 he will return more of his personal allowance by reducing his income and undoing the taper.

A negligible value claim is a notional disposal and reacquisition of shares which have 0 or negligible value. Since Mark never claimed ITR relief on the investment there is no clawback.

Since the shares qualified for EIS by being an unlisted trading company the loss can be treated as an income reducer instead of remaining as a capital loss.

proceeds	0			
cost	(54,080)			
loss	54,080			
1,765 @ 60%	1,059			
52,315 @ 40%	20,926			

This will give him a total tax reducer of £21,985.

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

As Fred moved to the UK on a secondment from a non UK company, the standard treatment where there is no reciprocal Social security agreement is that Fred would get a 52 day holiday where NIC would not be chargeable on his UK earnings. However New Zealand has a reciprocal social security agreement so this treatment is overridden and Fred will be taxed to NIC as if he were a UK domiciled individual.

Because Fred meets the following conditions:

- . He is a UK resident but non domiciled individual
- . He has been non resident for the last 3 consecutive tax years
- . He is working in the UK for a non UK company
- . He is eligible to claim the remittance basis

He is eligible for Overseas workday relief.

This means that instead of being taxable on his worldwide earnings on an arising basis he will be taxable on his UK earnings on an arising basis and his Non UK earnings on a remittance basis.

Fred's Bonus of £46,000 is in relation to his work during the company's financial year ended 31 March 2024. Since it relates to a period where he was not resident, it is not taxable in the UK even though he received it on September 2024.

His £12,000 bonus in relation to the financial year ended 31 March 2025 will be taxable in the UK under the same fair and reasonable apportionment as the rest of his earnings under the OWR. This basis will most likely be worked out on % of days worked.

Fred has created a distinct overseas nominated account which only receives his earned income. This allows for him to remit up to the amount of income taxable in the UK under the OWR without a remittance charge. Any additional remittance will be chargeable under the normal rules.

Since he is not a director his NIC does not need to be calculated on an annual basis and can be calculated on the monthly basis.

The NIC should be deducted by PAYE and if not payable by 31 January 2026 for the 2024/25 tax year. The same as for his income tax liability.

His unremitted forign income is not taxable in the uk as he will and should make the remittance basis election. If he makes the elction he will surrenderhis personal allowance but if he does not it will be fully tapered awar regardless due to having income over 125,140.

NIC 3,907  
IT 30,482

Salary	110,000				
travel and expenses	(exempt)				Whoilly and exclusively for businss
septemb er bonus	(exempt)				relates to work period of non residency
april bonus	12,000				
foreign income			non chargeable		Remittance basis claimed
less OWR: W1	(26,942)				
no remittance: W2					
	95,058				
no PA					remittance basis claimed
no RBC					as not resdient in at least 7 of prior 9 tax years

37,700 @ 20%	7,540				
57,358 @ 40%	22,943				
total income	30,483				

tax					

W1:				
Uk workdays	187		240 (14) (12) (3) (2) (22)	
OWR percentage	77.92%		187/240	
total salary	122,000			

Taxable in UK	95,058		77.92% x 122,000	
			122,000 - 95,058	

W2:				
Remittances				
taxable UK income		95,058		
remittad from elected account		(56,400)		
unremittted clean earnings		38,658		



NIC calculated on monthly basis				
normal income x 11 months	7,143		$110,000 \times 77.92\% / 12$	
		251	$[4,189 - 1,048] \times 8\%$	
		59	$[7,143 - 4,189] \times 2\%$	
		310		
x 11 moths		3,410		
1 bonus month	7,143 9,350		$+ 12,000 \times 77.92\%$	
		251	$[4,189 - 1,048] \times 8\%$	
		246	$[16,493 - 4,189] \times 2\%$	
		497		
total NIC due		3,907		

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 -----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----

Answer-to-Question- \_3\_

salary	75,000			
Car benefit: W1	1,038			
Rental residential: W2	3,085			
commercial rental: W2	76,286			
FHL rental: W3	7,205			
Treasury Gilts: W4		11,667		
Parks dividend			15,000	
parks loan: W5			100,000	
VCT investments: W6			2,000	
discretionary trust N7	1,818		4,600	
	164,432	11,667	121,600	
no PA tapered away income too high				
BRB: W7	10,740			
53,700 x 20%				
87,440 x 40%	34,976			
39,292 @ 45%	17,681			
no Savings allowance				
11,667 @ 45%		4,667		
500 @ 0%			-	
121,100 @ 39.35%			47,653	

	115,717			
less pOA	(18,520)			
leaa tax credit from trust N7	(818)			
Less VCT ITR: W6	(37,500)			
less interest releif: W2	(617)			
less PAYE	(13,442)			
	44,820			

£44,820 of balacing payment. Interest will be chargeable for the second payment on accouttn enver made.

Additional POAs of 115,717/2 will be payable towards 2025/26 tax years. However, Jason should appeal to reduce these as they will be artificially high due ot the loan chargeable as a dividend.

W1: Car benefit			
list price	51,900		
emmisions rating	2%	0g/km = 2%	
benefit		1,038	
electricity is not 'fuel' so no fuel benefit can be charged			

W2; non FHL rental	resi	comercial	

income	19,000 14,000	97,250	N1
	33,000	97,250	
less repair costs	(7,355) (17,304)	(10,964)	N2
management	(2,650) (2,606)		
interest		(10,000)	N3
	3,085	76,286	

The base treatment for rental income is the cash basis, although the combined total of all his rental income exceeds £150,000 that is split across multiple asset groups and so Jason is not subject to the accruals basis unless he wishes to elect for it.

N1: Under the cash basis the outstanding rent being recovered in the 25/26 tax year means it will not be chargeable within the 24/25 tax year.

N2: although a refurbishment of a bathroom would normally be considered a capital expense and disallowed for rental purposes. As it was a like for like repair it is allowable.

N3: Interest on mortgage for residential properties is given as a tax reducer at 20% subject to caps. On commercial and FHL properties it is allowable against income. as the income is £3,085 this will restrict income tax reducer to  $3,085 \times 20\% = £617$

W3: FHL rental			
rental income	25,879		
less repairs	(13,444)		13,982 x 50/52 N4:
less management	(5,230)		
	7,205		

to qualify as an FHL must meet:

- . available for atleast 210 days - avalaibel all but 14 days
- . acutally let for 105 days. -  $24 \times 7 = 168$  days
- . no more than 155 days form long term lets

Qualifies as an FHL - any interest would be fully allowable.

N4: The 14 days of use must be apportioned against repairs for private use

Whether the property qualifies as FHL is not material for this year's income tax computation

W4: Accrued income scheme N5			
sold with interest			
he received			
june 24		5,000	
December 24		5,000	
sold with dividend		1,667	$2/6 \times 5,000$
total income		11,667	

N5: since the treasury stock was sold with the right to the enxt dividend it's rice will have been inflated. This notional income sold to the buyer needs to be taxed on Jason.

The sale of the Gilt if exempt for CGT.

W5 & N6			
income deemed to be distribution	100,000		

N6 unusual benfits given to non employee shareholders are deemed to be and treated as dividend distribtuions.

W6: VCT N7			
		allowable 200,000	
Greenways	75,000	(75,000)	not new shares
		125,000	
Force	100,000	(100,000)	
		25,000	
Wonderways	50,000	(25,000)	
	25,000		
non q Greenways shares & dividends	75,000		still gets dividend relief
non q Wondersay shares and dividends	25,000	2,000	25,000/50,000 x 4,000
ITR	37,500		125,000 x 30%

The first £200,000 of investment qualifies for VCT relief which means A 30% itr ON INVESTMENT, Exempt dividends and exempt of CGT on sale, also means any loss is not allowable.

To qualify for VCT ITR they must be subscription of new shares to get the ITR other reliefs still available.

N7: As the trust is self settled he is taxable in the income of the trust as it arises since it is settlor interested. It keeps it charecter as a dividend.

The income payment would be grossed up to £1,818. He receives a credit for the tax paid by the trust at this point.

	grosed up		
Gift aid	1,000		800 x 100/80
pension	15,000		12,000 x 100/80
BRB	37,700		

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amended BRB	53,700		

BRB and HRB extended by Gift aid and pension contributions grossed up. No pension charge as income far above £12,000

Threshold income	164,432 11,667 121,600 20,000		
	287,699		
annual allowance		60,000	
less taper		(13,850)	
		46,150	no charge

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 -----ANSWER-3-ABOVE-----  
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 -----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

The provision of accommodation to staff as a starting point is chargeable to earnings on the employee and is subject to Class 1A NIC on the employer. An employer should provide an employee with a P11D by 6 July in advance of each tax year so the employee can ensure the benefit is included within their self assessment tax returns.

However, there is a specific exemption if the use of the property is necessary for the role or accommodation is traditionally provided such as in farming. There is an additional exemption if there are security and safety concerns caused in relation to the employment. This final provision will not be relevant here.

Gina

Having paid for the property's bills and furniture herself there is no taxable benefit here. However, it is unclear how 'close' Elm Tree cottage is and it is potentially unlikely HMRC will accept that participant's accommodation is required for her role. It could be a more reasonable adjustment if Star Events Ltd pays for a hotel if the requirement to stay until late is relatively rare.

They should have sought clearance from HMRC in advance to confirm they agree, failing that she may have a taxable benefit on the provision of accommodation.

Since the Elm Tree cottage was bought more than 6 years before it was occupied, the value at occupation is used instead of the value at purchase.

value at occupation	205,000		
rateable value		167	
additional relevant value	2,925		[205,000 - 75,000] x 2.25%
total taxable benefit - taxable on		3,092	



Gina at her marginal rate			
NIC Class 1 A charge - payable by company		427	3,092 x 13.8%

### Eddie

Although as care taker Eddie has a role widely recognised as requiring onshire accomodation and therefore the provision of accomodation should be tax free, he is a director and directors are specifically excluded from these tax free provisions to prevent abuse.

However, he is clearly a full time working director and does devote a large amount of his time to the dya to day running of the company.

lease apportionment	6,000		30,000 / 5
annual rent	4,200		
	10,200		
market value	183,000		
		221	
	2,430		[183,000 - 75,000] x 2.25%
cost to company to provide	10,200		
apportionment	7,650		9/12

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payment of bills	3,015		335 x 9
use of sofa	185		1,235 x 20% x 9/12
total benefit	10,850		
NIC Class 1A	1,497		10,850 x 13.8%

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

The starting point for a UK resident tax payer is to be subject to UK income tax and CGT on all worldwide income and gains. However, as non domiciled individuals Adrian and Luisa are able to elect for the remittance basis. This means they are taxed on an arising basis on the UK income and Gains but only on their overseas income and gains when remitted to the UK.

The remittance basis means the taxpayer gives up their Personal allowance and Annual exempt amount. Since they have been resident for fewer than 7 of the prior 9 tax years there is no remittance basis charge.

The remittance of personal clothing items such as clothing, jewellery, and watches are deemed not to be remittance provided they are for personal use or use by a spouse of minor child. If these assets cease to qualify as 'non-remitted' at any point in the future they will be deemed to be remitted at that point and a potential CGT exposure may also occur. The same is true for the laptops as they are personal technological minor goods of under £1,000.

The gifts from Luisa's parents are clean capital as they are neither foreign income or gains. As such when remitted into Adrian's UK account there is no remittance.

	foreign income	clean capital	foreign gain	
balance april 23		334,000		
		(250,000)		
		84,000		84,000

bank interest	4,200			88,200
dividends	6,000			94,200
sale of Spanish flat		64,000	33,000	191,200
painting expense explained below	(3,948)	(57,280)	(12,772)	
interest	7,600			
dividends	6,000			
	23,800	148,000	33,000	130,800
remittance "25,000 cash	(4,549)	(28,287)	(6,307)	
sale of shares		48,000	15,000	
	19,251		41,693	168,800
payment of credit card bill - £3,400	(390)	(2,170)	(840)	
Jan 25 Remittance of Painting				

The purchase of the antique in France is subject to the chattel basis for remittance, meaning it is dependent on where the asset is. There was no remittance until the painting was brought to the UK on 1 January 2025.

At this point it was deemed to be purchased in equal proportions of income, gains, and clean capital as is in the account.

If they had incurred errors the remittance of the mixed fund would be taxed on the 'worst first' basis - where the order of remittance is deemed to be

- . untaxed foreign income
- . tax foreign income
- . Untaxed foreign gains
- , taxed foreign gains
- . clean capital

and then repeat for the prior year.

This remittance in 1 January 2025 would be deemed to consist of:

paving expense				
	10,200/191,200 x 74,000	148,000/191,200 x 74,000	33,000/191,200 x 74,000	
74,000	3,948	57,280	12,772	
	taxable in UK		Taxable in UK	when remitted
25,000 remittance	23,800 / 130,800 x 25,000			

The payment of a liability that emerges in the UK is chargeable as a remittance. The settlement of Luisa's credit card bill from overseas funds is deemed to be a remittance as Luisa is 'enjoying' the money in the UK.

	Adrian		Luisa	
Uk income	75,000		-	
foreign income	6,523		2,364	Paving - 3,948/2 Adrian's bank account - 4,549 Luisa's credit card bill - 390
clothing & Jewellery	exempt		exempt	as explained above
gifts from parents			exempt	

	81,523		2,364	
no PA				surrendered through Remittance basis claim
2,364 @ 20%			473	
37,700 @ 20%	7,540			
43,823 @ 40%	17,529			
Gains				
Uk Gains	-		-	
remitted foreign gains	12,693		7,226	12,772 / 2 6,307 on adrian bank account Luisa's credit card bill - 840
no AE	-		-	
@10%			723	
@20%	2,539			

Mixed fund -  
 Remittance of Foreign income first,

then foreign gains,

Then clean capital .

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

### 1. Grant Sarah

Grant's base cost for the shares he is deemed to have disposed will be £300,000 as the shares he inherits he will take on their basecost at probate value.

Upon disposal this base cost will be split between the proportions of the monetary value of the proceeds they received on sale.

Because Cash was received there will be some amount due to CGT. The share for share and QCB exchange is not automatically subject to CGT as these later shares will take on the base cost of the shares they are deemed to replace.

Upon sale of the shares this will then be a large gain subject to Capital gains tax in the future.

The loan stock is expressed in sterling, cannot be converting into any other currency and was issued within the 2024/25 tax year, after the threshold. This makes the loan stock a QCB. There is no immediate charge to CGT on the QCB as it receives share for share treatment but it itself is exempt of CGT. Upon disposal the frozen gain will become chargeable.

Upon notional disposal of the EIS shares, as it is unlikely the shares of PRCSN will qualify for EIS reinvestment relief, the £30,000 gain Sarah had held over would also become chargeable to CGT. If the gains qualified for BADR when EIS holdover was claimed, they would still be eligible for BADR when the gain thaws and becomes chargeable. As it was a residential property this will not apply and the £30,000 will be chargeable to CGT at the higher 18%/24% as opposed to the usual 10%/20% rate.

Because Sarah subscribed for EIS shares, claimed the EIS income tax reducer relief and has met the qualifying conditions for 3 years, the EIS proportion of her gain will not be chargeable to CGT.

### . Reliefs and elections



As the sale of Focus limited is the sale of an unlisted trading company of which they were both employees or directors and held at least 5% of the share capital which was held which included rights to dividends, voting, and capital on wind up for the two years before sale, Both potentially qualify for Business Asset Disposal relief. BADR.

BADR offers a £1m lifetime maximum of gains which can be charged to CGT at 10% instead of 20%. these gains are charged in priority to other gains.

This is available to both Sarah and Grant, and must be claimed before the 31 January following the tax year of disposal - 31 January 2026. Since Sarah has resigned from her role. Any gains that are not chargeable now, upon realisation in the future will not be eligible for BADR as she is not an employee of PRCSN.

She can elect for the share for share relief to be disapplied and allow for a notional disposal for the shares of Focus to be chargeable to CGT instead. On this treatment she will be able to claim BADR on the share price apportionable to the shares in PRCSN received. This is a cashflow disadvantage but will reduce her overall tax liability as her base cost for the PRCSN shares will be market value on acquisition.

Grant has 3,750/55,500 6.76% shareholding and is still an employee so should qualify for BADR on any future disposal of PRCSN shares up to his BADR lifetime limit of £1million.

Since the QCBs themselves are exempt from CGT, any future loss will be disallowable. When the QCB is disposed of, the frozen gain on acquisition becomes taxable. This can be undone by Election to treat the sale as a true disposal. Otherwise the % of the gain will be held with the QCB and will become chargeable as and when the QCB is disposed of. This could lead to a large CGT bill when there are no proceeds if disposed of at a loss.

#### Grant's ownership

		shares		cost	
1 April 12		50,000		50,000	

[illegible]

## Sarah's CGT

### Sarah's Ownership

	EIS shares	shares	EIS cost	cost	
April 2015 EIS qualifying	10,000		50,000		
March 2021 Deed of variation		25,000		250,000	As the shares are deemed to come from the estate directly the shares will be acquired at probate value so £10 per share
pool	10,000	25,000		250,000	
proceeds					
PRCS N shares	500 shares value £75,000	1,000 shares Value £150,000			
cash	200,000	500,000			
loan stock	100,000	250,000			
	375,000	900,000			
Elect to make all chargeable					

Gains on EIS		Exempt			
EIS thawed Residential gain			30,000		
dispos al proceeds	900,000				
less cost	(214,286)				300,000 x 25/35
	685,714		30,000		
less AE			(3,000)		
	685,714		27,000		
BADR @10%	68,571				Sarah's whole BRB was available but BADR is used in priority.
@24%			6,480		
total CGT	75,051				

Sarah became director after the 3 year qualifying period - The qualification for Income tax reducer and gain hold over is unaffected.

Sarah held over a gain under EIS which means upon disposal the £30,000 gain will become chargeable to CGT.

N1:

