

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>728</b>	<b>3340</b>	<b>3997</b>
Section 2	<b>591</b>	<b>2614</b>	<b>3152</b>
Section 3	<b>817</b>	<b>3866</b>	<b>4558</b>
Section 4	<b>465</b>	<b>2120</b>	<b>2568</b>
Section 5	<b>532</b>	<b>2504</b>	<b>2961</b>
Section 6	<b>995</b>	<b>4420</b>	<b>5344</b>
Total	<b>4128</b>	<b>18864</b>	<b>22580</b>

Answer-to-Question- \_1\_

### **Income tax implications**

	£ NSI 24/25	£ NSI 23/24	
Income	101,765	82,325	
s.131 claim Austin		(3,472)	
s.131 claim Collins	(54,080)		
PA	(12,570)	(12,570)	
Taxable income	31,643	66,283	
IT @ 20%	6,329	7,548	
IT @ 40%		11,433	
Total IT	6,329	18,981	
<b>IT saving</b>	<b>21,985</b>	<b>1,389</b>	

### **Sale of Austin shares**

Mark originally acquired his shares in Austin over three years ago and claimed income tax relief on this subscription of  $\text{£}40,175 \times 0.3 = \text{£}12,053$ .

He sold 522 of these shares making a loss of the following:

Proceeds	6,373		
Cost	(14,065)		
Loss	(7,692)		

Where an individual makes a loss on EIS shares, they are able to make a s131 claim to offset this against their income rather than gains. Since Mark is a higher rate tax payer with a tapered annual allowance, this will give relief at a higher rate.

The loss will be restricted by the income tax relief retained on the shares of  $12,053 \times (522/1,491) = \text{£}4,220$ .

Therefore Mark should make a s131 claim to offset  $\text{£}3,472$  against his income. This will allow him a full personal allowance. He could also make this claim to offset the loss against his prior year income.

Since Mark made a capital gain in the year of subscription, he will have deferred part of this equal to the EIS investment made in the year.

This will come back into charge when Mark sells part of the EIS holding. He will therefore also have a gain equal to  $522/1,491 * 40,175 = £14,065$  which will be taxed at the residential property rate of 24%.

Mark will have a **CGT charge of £3,376**.

### **Sale of Rushworth shares**

Where an individual sells shares that they claimed EIS income tax relief on and held these for three years, the gain is exempt.

An individual cannot claim income tax relief for an investment into an EIS company if they or their associates are connected to the company. Since Mark's daughter is a director of Rushworth, she is an associate for EIS purposes and he would not have been able to claim income tax relief on investment.

Therefore, when Mark sells the shares, the gain will be taxable. Additionally, income tax relief is not required to defer a gain when an investment is made. Therefore Mark will have been able to claim deferral relief equal to his initial investment of £11,715 which will also come back into charge at the sale of the shares.

This will be taxed at the residential property rate and therefore Mark should use his annual exempt amount against this gain.

	Rushworth shares £	Deferred gain £	
Proceeds	13,447		
Cost	(11,715)		
Gain	1,732	11,715	
AEA		(3,000)	
Taxable gain	1,732	8,715	
<b>CGT @ 20% / 24%</b>	<b>346</b>	<b>2,092</b>	

### **Sale of Dashwood shares**

The sale of Dashwood shares is within 3 years of Mark's original investment. Therefore income tax relief given on his investment will be clawed back.

Since he made a gain on sale, the full amount of  $6,332 \times 0.3 = 1,900$  will be clawed back by HMRC through an assessment into his 2023/24 tax return.

The gain on sale will also be subject to CGT

	£		
Proceeds	21,054		
Cost	(6,332)		
Gain	14,722		
<b>CGT @ 20%</b>	<b>2,944</b>		

### **Collins liquidation**

When Collins is liquidated or Mark disposes of his shares, a loss will arise. Alternatively, since the shares are of negligible value, Mark can make a negligible value claim by 31 January 2026 in relation to the shares.

The negligible value claim can be backdated into the previous tax year if the shares were deemed worthless at that point.

Mark will be deemed to dispose of the shares at their current market value (£Nil) and reacquire them at this value. A loss will therefore arise of £54,080.

Although Mark had not claimed IT relief on the subscription of the shares, since he subscribed for the shares in an EIS qualifying company, he will be able to make a s131 claim to offset the gain against income in the current or previous tax year.

The effect of this is to reduce Mark's taxable income by £54,080 so that his total income is taxed at the basic rate.

Since this loss relief alone reduces Mark's taxable income to the basic rate tax band, Mark should elect to offset his loss from the sale of Austin shares against his prior year income for a larger tax saving (40% rather than 20%).

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

As a UK tax resident, Fred will be subject to UK tax on his worldwide income and gains as they arise.

As Fred is non-UK domiciled, he will be able to claim the remittance basis of taxation for 2024/25. Since this is his first year of claiming the remittance basis, he will not have any remittance basis charge to do so (he has not been resident for 7 of the previous 9 tax years).

As a remittance basis user, he will only be subject to UK tax on his foreign income and gains to the extent that these are remitted to the UK.

As he was non-resident for the previous three tax years, and is UK tax resident in the current tax year, he will be able to claim overseas workday relief and be taxed in the UK only on his UK employment income as it arises.

This will be apportioned on a just and reasonable basis (o his proportion of UK workdays). He will be able to claim this for his first three years of UK tax residence (throughout his secondment).

His earnings have been paid into a qualifying account and remittances from this account are therefore treated in accordance with special rules that determine all remittances throughout the year to be made as one remittance at the end.

UK employment income will be deemed to be remitted in priority to overseas employment income.

	<b>UK workdays</b>	<b>Overseas workdays</b>	
proportion	187/240	53/240	
annual salary	85,708	24,292	Split with OWR proportion
bonus (sept)		46,000	N1
bonus (April)	9,350	2,650	

<b>Total</b>	<b>95,058</b>	<b>72,942</b>	
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N1 - Fred's bonus relates entirely to his employment whilst he was not UK tax resident therefore this is not subject to UK tax. The bonus for the year ended 31 March 2025 is taxed in accordance with his UK and overseas workday split.

The total that Fred remitted to the UK is deemed to be purely his UK employment income since the £56,400 is below his taxable UK income.

	NSI £	SI £	DI £
Employment income	95,058		
PA (no PA since RB user)	0		
Taxable	95,058		
BRB @ 20%	7,540		
HRB @ 40%	22,943		
<b>Total tax</b>	<b>30,483</b>		

Fred will not be subject to tax on his foreign investment gain since the proceeds have been retained offshore and not remitted to the UK.

The tax will be collected via PAYE if the NZ company has a UK tax presence. If this is not the case, Fred will need to register for self assessment by 5 October and pay the tax due by 31 January 2026.

### **Travel costs**

Travel costs will be fully allowable for Fred for his employment as these are to a temporary place of work.

### **NIC contributions**

Fred is coming to the UK from NZ, a country which has a reciprocal SSA with the UK.

The general rule is that an employee will need to pay UK social security contributions, however, most agreements contain exceptions to this rule where an employee is on a temporary work secondment. This is not the case with NZ and Fred will be subject to UK NICs.

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NIC contributions consider the daily earnings of an employee. For Fred this is  $110,000/240 = £458$ .

It then considers any days that the worker is exempt from social security contributions, for Fred this is his overseas work days (53).

He will therefore be subject to NICs on 187 days at £458 giving £85,646 subject to class 1 primary NICs. This is calculated as:

$$(50,270 - 12,570) * 0.08 + (85,646 - 50,270) * 0.02 = £3,724.$$

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

**Jason's IT**

	<b>NSI £</b>	<b>SI £</b>	<b>DI £</b>	<b>Top Slice £</b>
Employment Income (Appendix 1)	76,038			
Rental Income (Appendix 1)	86,038			
SI and DI (A1)		11,667	22,162	
<b>Total income</b>	<b>162,076</b>	<b>11,667</b>	<b>22,162</b>	
PA (N1)	0			
<b>Taxable</b>	<b>162,076</b>	<b>11,667</b>	<b>22,162</b>	
BRB 53,600 @ 20%	10,720			
HRB 87,540 @ 40%	35,016			
ARB @ 45%	9,421	5,250		
DA £500 @ 0%			0	
ARB @ 39.35%			8,524	
Total tax payable	68,931			
VCT IT reducer	(60,000)			
Mortgage interest	(617)			
POA paid	(18,520)			
Less: PAYE deducted	(13,442)			
POA due	0			
Total repayable	(23,648)	TR due 31 January 2026, repayment will be made		



		once return is submitted. Interest on Jason's overpaid POA will also be due.		
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### **N1 - Personal allowance and tax bands**

Jason's PA tapering and tax bands will be extended by his gross gift aid and personal pension contributions totalling £16,000.

Since his income exceeds £141,140, no PA will be available.

His BRB and HRB will be extended to 53,600 and 141,140 respectively.

His threshold income is £195,903 therefore his pension annual allowance is not tapered and there is no annual allowance charge on his £15,000 pension contributions since they are below £60,000.

Jason is an additional rate tax payer so no savings allowance is available.

### **Appendix 1**

<b>Income</b>	<b>£</b>	<b>Taxable</b>	<b>Notes</b>
Salary	75,000	75,000	
Car	51,900	1,038	N1
<b>Employment income</b>		<b>76,038</b>	
Property rent	156,129	156,129	N2
Repairs	49,605	(49,605)	Allowable (N3)
Management charges	(10,486)	(10,486)	
Mortgage interest		(10,000)	N4
<b>Rental income</b>		<b>86,038</b>	
<b>Treasury gilts</b>	<b>10,000</b>	<b>11,667</b>	<b>N5</b>

Dividend	15,000	15,000	
Loan		562	N6
VCT divs	22,000	2,000	N7
Trust dividends	4,600	4,600	N8
<b>Total dividend income</b>		<b>22,162</b>	

**N1** - A car is a benefit in kind that will be taxable on Jason in accordance with the list price and HMRC's benefit % based on its emissions.

Jason's car is zero emissions and is therefore taxed at  $2\% * 51,900 = 1,038$  per annum.

**N2** - Jason's gross property income is considered for his UK property business (all properties except Casa Blanca) and his overseas property business separately.

The amounts received in the year were £130,250 and £25,879. These do not exceed £150,000 and therefore Jason can be taxed on the cash basis for the year - where expenses and rent is actually paid or elect for the accruals basis - when rent and expenditure relates to rather than when paid.

Since some rental income was received in a later tax year, it is beneficial for him to be taxed on a cash basis.

**N3** - The 'like for like' bathroom is an allowable cost as it is replacement expenditure (revenue) rather than enhancement.

Casa Blanca will qualify as a furnished holiday let provided it is furnished since it is available for more than 210 days in the year, let for more than 105 and situated in the EEA.

**N4** - mortgage interest on a commercial property is deductible in full. Mortgage interest on a UK letting business of residential properties is allowable as a 20% income tax reducer.

This is restricted to the lower of the mortgage interest of 12,530; the net rental profit of the UK residential property letting business of £3,085 or the total NSI of Jason.

This is therefore restricted to  $£3,085 * 0.2 = £617$ .

**N5** - The treasury gilts are taxed on the accrued income scheme. Jason will have received

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£10,000 of income in the year.

He also will have earned  $£250,000 \times 0.04 \times 2/12 = £1,667$  in the year before selling the gilts.

His income is therefore £11,667 for the year.

The next payment period is after the tax year end and he sold the gilts cum interest, therefore he will have an adjustment in the following tax year of (1,667).

**N6** - An interest free loan made to a director of a close company is a taxable benefit at HMRC's official rate of interest.

This is either calculated as  $£100,000 \times 0.0225 = 2,250$  or using the strict method  $£100,000 \times 0.0225 \times 3/12 = £562$ .

The benefit using the strict method is significantly lower, therefore Jason should report this figure.

This will be taxed as dividend income for the year.

**N7**- An individual can obtain tax relief from investments into £200,000 of VCTs in a tax year. Tax relief is at 30% and dividends from such VCTs are tax exempt. The shares do not need to be newly subscribed for.

Since Jason invested into £225,000, £25,000 of the Wonderways investment will not be eligible for such tax relief and 50% of the dividends will be taxable.

Jason's income tax relief is  $£200,000 \times 0.3 = £60,000$ .

**N8** - on the assumption that the Trust is not an offshore trust, it is settlor interested for income tax purposes and Jason will be subject to tax on the income as it arises to the Trust. The distribution retains its character as dividend income.

There are therefore no income tax consequences of the distribution to Jason as the income will have already been subject to tax.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

Generally, when job related accommodation is provided to an employee, this is a benefit in kind subject to income tax and class 1A NICs payable by the employer.

**Gina**

The value of a benefit in kind for a residential property is valued at the rateable value of the property plus the value in excess of £75,000 \* HMRC's official rate of interest.

For Elm Tree Cottage, this would be the value when provided since Star Events purchased the cottage more than 6 years previously.

The benefit in kind value is therefore  $(205,000 - 75,000) \times 0.0225 = £2,925$  plus £167 = £3,092.

Gina provides her own furniture and pays her own bills, therefore there is no taxable benefit or reduction in relation to that.

However, where an employee is provided accommodation for the purpose of their employment where it is necessary for the proper performance of their duties this may not be a benefit in kind.

In order for this not to be, the accommodation must be:

- a) provided for better performance of the duties of employment; and
- b) it to be customary for the employer to provide living accommodation to such an employee.

Since Gina is needed to stay on site for events until they finish - likely to be late at night, it may be reasonably considered better for the performance of her duties to be provided job related accommodation.

Therefore, there would be no benefit in kind or NIC consequences for Gina.

**Eddie Marsh**

For a leased property, the annual BIK value is the higher of the rateable value plus the

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charge for high value properties and the annual rent for the property. The annual rent is  $\pounds 4,200 + \pounds 30,000 / 5 = \pounds 10,200$  which is higher than the rateable value of  $\pounds 221 +$  and would therefore be the BIK value for Birch Cottage.

Similar to for Gina, being a caretaker with job related accommodation would not usually be a taxable benefit in kind since it is for the better performance of a caretaker's duties for out of hours work and this is customary.

However, for Eddie, as he is a director additional rules apply. Since he has a material interest in the company (25%), this exemption is not available to him.

Therefore, Eddie will have a taxable benefit in kind on the value of  $\pounds 10,200$  pro rated for 9m =  $\pounds 7,650$  as well as for his utility bills of  $\pounds 335$  per month giving 3,015 and the annual use of the furniture of  $\pounds 1,235 * 0.2 * 9/12 = \pounds 185$

Eddie's total amount subjectr to income tax is therefore  $\pounds 10,850$ .

The use of the property and furniture will be subject to class 1A NICs, however since the utility bills are in Eddie's own name, he will be subject to class 1 primary NICs on this benefit.

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-----ANSWER-4-ABOVE-----  
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 -----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

**Adrian - IT**

	NSI £	SI £	DI £
UK salary	75,000		
Remittance	5,900		
Total	80,900		
PA (RB user so none)	0		
Taxable	80,900		
BRB @ 20%	7,540		
HRB @ 40%	29,344		
Total tax	36,884		

**Luisa - IT**

	NSI £		
Remittance	17,900		
PA	0		
Taxable	17,900		
BRB	3,540		

**CGT**

	Adrian	Luisa	
Taxable remittance	8,969	12,369	
CGT @ 10%		1,237	
CGT @ 20%	1,794		

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Individuals taxed on the remittance basis are only subject to UK tax on their foreign income and gains to the extent these are remitted to the UK. Remittances will lose their character - income will all be taxed as non-savings income.

Where an individual holds an overseas account that is a 'mixed account', remittances to the UK will be subject to the statutory remittance ordering rules.

This considers the funds received into the account each tax year, starting with the year up to the point of transfer and then the year before, and so on.

Funds within the year are deemed to be remitted in the order:

- employment income;
- relevant foreign earnings;
- foreign specific employment income;
- relevant foreign income;
- foreign chargeable gains;
- employment income subject to foreign tax;
- relevant foreign income subject to foreign tax;
- foreign chargeable gains subject to foreign tax;
- other.

### **Remittances from account**

The first remittance to the UK in the tax year was on 31 October 2024 where a 25,000 transfer was made to Adrian's bank.

As Luisa and Adrian are both relevant persons to each other - the remittance will depend on who the income arose to rather than who remitted it from the joint account.

This will comprise £7,600 of foreign bank interest in 2024/25 and £6,000 of a dividend held by Luisa. Next we look at the prior tax year. The balance of the tax year will need to be considered after the purchase of the painting.

The painting is an offshore purchase and is deemed to be comprised proportionally from the income within the account.

This is therefore:

	£		
Interest	1,627		
Dividend	2,325		
Gain	12,785		
Clean	57,340		
<b>Total</b>	<b>74,000</b>		

The remaining balance of £11,400 remittance in October will be comprised £2,573 of prior year bank interest; £3,675 of Luisa's dividend and £5,152 of the gain on the Spanish flat.

The next remittance is to pay Luisa's UK credit card bill. This is a remittance since offshore funds are transferred to the UK for the benefit of Luisa. A UK credit card company payment is a remittance to the UK.

This will be comprised of the capital gain on sale of her shares.

Finally, the antique painting was remitted to the UK on 1 January 2025 when it was brought to the UK. This is a remittance of the funds used to acquire the painting. As set out above, meaning that the entire PY gain and dividend have been remitted.

This is therefore taxed as:

<b>Remittance</b>	<b>£</b>	<b>Adrian</b>	<b>Luisa</b>
Interest	11,800	5,900	5,900
Dividends	12,000		12,000
Spanish gain	17,937	8,969	8,969
Share gain	3,400		3,400

The gifts paid from Luisa to Adrian are not taxable remittances since although they are transferred to a relevant person, the gifts from her fether are not taxable in the UK and therefore are not remittance basis protected.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_

(1)

Sarah and Grant will receive consideration in the form of shares, cash and loan stock. The base cost of Sarah and Grant's shares will be apportioned in respect of the total consideration received and each component will be treated separately.

The gain on Sarah's 10,000 EIS shares will be exempt since she has held these for more than three years and became an employee of the company after 3 years of her original investment.

The ordinary shares will not give rise to an immediate tax charge. Instead share for share treatment will apply and the base cost of the PRCSN shares will be the base cost of Sarah / Grant's original shareholding that is apportioned to the shares  $(7.5/37.5) \times$  the original base cost. This will be £40 per PRCSN share.

The cash will give rise to a capital gain. The proceeds will be the cash received and the base cost will be  $20/37.5 \times$  Sarah or Grant's base cost for their shares.

The loan stock will not give rise to a capital gain at take over. Instead, the gain will be frozen and will crystallise when the loan stock is sold. This will be calculated as  $10/37.5 \times$  Sarah or Grant's base cost.

As Sarah is selling all of her shares, she will also have a chargeable gain on the deferred WIS gain when she originally invested into the company. This will be £30,000 at her marginal rate of CGT.

As Grant and Sarah both work for Focus Ltd as directors, it is a trading company and they have each held at least 5% of the shareholding for at least 2 years, Business Asset Disposal Relief (BADR) would be available on the sale of their Ford shares.

This is subject to their lifetime limit of £1m of gains. Such gains would be taxed at 10% rather than 20% but would use any basic rate remaining in priority for Sarah and Grant.

(2)

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### **PRCSN shares**

Sarah and Grant could each elect for the share for share treatment to be disappplied on the acquisition of their shares.

This would mean that the gain at takeover would be subject to CGT in 2024/25 rather than being deferred until the shares are ultimately sold by virtue of reducing their base cost.

As Grant and Sarah both work for Focus Ltd as directors, it is a trading company and they have each held at least 5% of the shareholding for at least 2 years, Business Asset Disposal Relief (BADR) would be available on the sale of their Ford shares.

This is subject to their lifetime limit of £1m of gains. Such gains would be taxed at 10% rather than 20% but would use any basic rate remaining in priority for Sarah and Grant.

They would need to elect for BADR to apply by 31 January 2027.

Sarah will not be an employee or a director of PRCSN and therefore BADR will not be available on the subsequent sale of the shares if she does not diselect for the treatment to apply. This is therefore advantageous for her to elect for it not to apply provided she has sufficient cash flow to do so as she will suffer only 10% CGT on this portion of the gain rather than 20%.

If she does make the election, the base cost of the PRCSN shares will be the market value at acquisition of £150 per share rather than £40 per share and a lower future CGT liability will arise on sale of the shares.

Grant will continue to be a director of PRCSN. He will hold 3,750 of the 55,500 shares (6.8%). Therefore, where he holds these shares for at least 2 years, BADR will be available on the future gain of these shares as well.

There is therefore no advantage of Grant electing for the S4S treatment not to apply - this would only lead to a cash flow disadvantage, provided he intends to remain an employee for two years.

Grant will have a gain on the cash element of the sale of his shares which exceeds his £1m lifetime limit. Therefore, there is no advantage of diselecting for S4S treatment to apply since he already will have used his lifetime limit.

### **Loan stock**

Sarah and Grant can also elect to be taxed on the gain attributable to the acquisition of the

loan stock. This would also be eligible for BADR if the election is made now.

The future sale of the loan stock will not be chargeable to CGT and the crystallised gain will not be eligible for BADR for Sarah or Grant.

It is therefore advantageous for Sarah to be taxed on the gain at takeover to make use of the BADR available. As outlined above, since Grant will have already used his lifetime limit for BADR on the cash element of the takeover, there is no advantage for him to elect for this to disapply.

(3)

CGT position for Sarah:

The proceeds on sale of the 10,000 EIS shares are tax exempt, this calculation therefore considers the gain on her remaining 25,000 shares on the basis that she diselects for share for share treatment to apply and is subject to tax on the full gain on the shares in 2024/25 to make use of BADR.

	<b>Cash £</b>	<b>Loan £</b>	<b>Shares £</b>	<b>Deferred gain</b>
Proceeds	500,000	250,000	187,500	
Cost ( <b>N1</b> )	(133,333)	(66,667)	(50,000)	
Gain	366,667	193,333	137,500	30,000
AEA				(3,000)
Taxable	366,667	193,333	137,500	27,000
BADR @ 10%	36,667	19,333	13,750	
CGT @ 24%				6,480
Total CGT	76,230	Payable by 31 Jan 2026		

**N1** - Base cost for each component. Total base cost is the probate value of £250,000 since Julie varied her husband's Will.

	<b>Cash</b>	<b>Loan</b>	<b>Shares</b>
Calc	500/937.5 * 250,000	250/937.5 * 250,000	187.5/937.5 * 250,000
Base cost	133,333	66,667	50,000

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BADR will use Sarah's basic rate band before the deferred gain. The AEA should therefore be allocated against this to achieve the most tax efficient relief.