THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

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.
- A maximum of two marks will be awarded for the quality of presentation of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Your client, Riya, is aged 70 and married. She has provided the following information for you to prepare her 2024/25 tax return:

1) Riya received UK state pension income of £11,500 and income from a private pension of £48,300 from which PAYE of £13,200 was deducted.

2) Riya received income from an interest in possession trust. The R185 showed a net amount of dividend income of £5,100. She also received income of £1,500 from a discretionary trust.

3) In June 2024 Riya received interest of £400 in respect of a loan note from a UK company. In July 2024 she received an interest distribution of £1,800 from her holding in a unit trust. In addition, she has a joint bank account with her husband, on which interest of £2,600 was received during the year.

4) In December 2024 Riya won £12,000 on the National Lottery.

5) Riya made two donations to UK charities in 2024/25. The first was £2,000 in August 2024 and the second was £500 in January 2025. Riya ticked the box to confirm that the first donation was made under the gift aid scheme, but forgot to tick the box on the second donation.

6) In August 2024 Riya subscribed for 100 shares (a 10% holding) in a qualifying Seed Enterprise Investment Scheme (SEIS) company. The 100 shares cost £1,000. She is an unpaid director of the company and these are the only shares she owns in this company.

7) In February 2025 Riya sold her small shareholding in an Enterprise Investment Scheme (EIS) company for £100. The shares cost £750 in 2019 and she received Income Tax relief of £225 in the year of purchase.

Requirement:

Calculate Riya's Income Tax payable or repayable for 2024/25, clearly showing your treatment of each item. (18)

2. Your client, Gareth, is an additional rate taxpayer.

In June 2024 Gareth sold a house which had always been let out to tenants. The net sales proceeds were £800,000 and the capital gain arising was £150,000.

In July 2024 Gareth used £40,000 of the proceeds from the sale of the house to subscribe for 20,000 ordinary shares in ABC Ltd, a qualifying Enterprise Investment Scheme (EIS) company. The company has issued share capital of 50,000 ordinary shares.

In August 2024 Gareth sold his 5% of his shareholding in XYZ Ltd, a qualifying EIS company, realising a gain of £50,000. He had subscribed for the shares in December 2021 and obtained full Income Tax relief in 2021/22.

In September 2024 Gareth sold his 10,000 shares in QualVCT1 plc, a qualifying Venture Capital Trust company, for £45,000. He had purchased the shares in May 2023 for £25,000 and obtained full Income Tax relief in 2023/24.

None of the shares qualify for Business Asset Disposal Relief or Investors' Relief.

Requirements:

1) Explain the Capital Gains Tax consequences for Gareth for each of his transactions in 2024/25 and calculate his Capital Gains Tax liability. Assume all available reliefs are claimed. (12)

2) Explain the Capital Gains Tax consequences for Gareth if, in 2025/26, he either sold the ABC Ltd shares to a third party or gifted them to his wife. Assume the shares will have increased in value. Calculations are NOT required. (3)

Total (15)

3. Your client, Adam, is UK resident. You prepared his 2023/24 tax return and sent it to him for approval in December 2024.

His tax return shows a total tax liability of £98,000, which included Capital Gains Tax of £30,000 on the disposal of some shares. £25,000 of Income Tax was paid at source. His payments on account for 2023/24 were £12,000 each, of which he only paid one on 30 January 2024.

Continued

Continuation

You have emailed Adam several times to remind him to approve his 2023/24 tax return and pay the necessary tax.

Today is 29 April 2025. Adam has contacted you to apologise for the delay and to explain that he has been busy selling his holiday home in Cornwall, the sale of which completed last week and on which he made a substantial capital gain. He is going overseas on 1 May 2025 on a four-month holiday and has told you that he will deal with his tax obligations when he gets back.

Requirements:

1) **Explain, with calculations, Adam's obligations for 2023/24 and 2024/25 with regard to his tax compliance and the payment of any tax due**. (7)

2) **Explain, with calculations, the penalties that Adam has already incurred in relation to the above tax obligations and the date on which these penalties would have arisen.** (3)

3) **Explain how the penalties may increase if he deals with these tax obligations in the first week after his return from holiday. Calculations are NOT required.** (5)

Total (15)

4. Eve is UK tax resident. During 2024/25 she made the following asset disposals:

Asset	Acquisition details	Sale details	Additional details
£100,000 8% Loan Stock in Cain plc	Acquired cum div for £98,750 on 26 June 2022.	Loan stock was redeemed at par by Cain plc.	Loan stock was issued at par and was convertible into US$. Interest was paid six-monthly on 26 March and 26 September.
Diamond ring	Inherited from her mother in 2004 when valued at £4,000.	Sold on an auction website for £7,000.	The auction website charged a fee of 12% of the sale proceeds.
Watch	Bought for £18,000.	Sold for £32,000.	
Painting 1	Bought for £15,000.	Gifted to her UK tax resident son on his 21st birthday when valued at £2,000.	
Painting 2	Given to her by her aunt when valued at US$9,000.	Sold to her cousin for US$10,500.	Between acquisition and sale the US$ depreciated against Sterling, with the exchange rate moving from 1.286 to 1.555.
Land at Abel Pastures	Bought 120 acres of land at Abel Pastures for £600,000.	Six acres were sold to a neighbour for £75,000 when the remaining acres were worth £12,000 each. Costs of sale were £2,500.	Soon after acquisition, Eve spent £25,000 on legal fees defending her title to the land.

Eve holds 50,000 £1 ordinary shares, a holding of less than 5%, in Job Ltd, an unquoted company. The company is mainly trading in nature, but it has a significant investment activity in the form of a portfolio of rental properties. Eve is considering gifting these shares either to her son or to a UK discretionary trust solely for the benefit of her son. Eve has never worked for the company.

Requirements:

1) **Calculate the net capital gain arising in 2024/25 on Eve's asset disposals.** (13)

2) **Explain the Capital Gains Tax implications of the two options Eve is considering in relation to her shares in Job Ltd.** (5)

Total (18)

5. Mariglen had been employed by Intone Ltd for several years before he resigned on 31 May 2024. For 2024/25 his salary was £5,500 per month. His contractual notice period was three months, but Intone Ltd required him to take 'garden leave'.

When he left, Mariglen received a bonus of £12,000 for his performance during the year, a contractual restraint of trade payment of £9,000 prohibiting him from working for a competitor in the area for two months, and a voluntary termination payment of £80,000.

Intone Ltd also paid an extra £5,000 into Mariglen's personal pension scheme as a thank you for his hard work over the years he had worked for the company.

On 1 October 2024 Mariglen decided to make a career change and started employment with Delream Ltd. He received a 'golden hello' lump sum of £3,000 on joining the company.

His gross annual salary was £75,000 and Delream Ltd also provided him with the following benefits from 1 October 2024:

1) The use of a new hybrid car which has CO_2 emissions of 43 g/km and an electric range of 66 miles. The car's list price was £36,000 and Mariglen contributed £4,500 towards the purchase price of the car.

   Mariglen used the car partly for business and partly for private use. Delream Ltd provided all petrol and an electric charging point at the place of work which was available to all employees.

2) Private medical insurance for Mariglen and his family which cost Delream Ltd £980.

Mariglen contributed £7,600 into his personal pension scheme, and both Intone Ltd and Delream Ltd paid 15% of his salary into the same scheme.

His only other source of income in 2024/25 was dividends received of £2,400 from UK companies.

Requirements:

1) Calculate Mariglen's taxable income for 2024/25, clearly showing your treatment of each item. (10)

2) Calculate the Income Tax payable on the termination payment. (3)

3) State the class of National Insurance Contributions payable and who bears the cost of the contributions on Mariglen's taxable remuneration and termination package from Intone Ltd, and his golden hello and taxable benefits received from Delream Ltd. Calculations are NOT required. (3)

Total (16)

6. Dominika is aged 60 and a client of your firm. You have been involved in advising her in relation to her share options.

She is a full-time employee of Weyho plc. Weyho plc is a quoted trading company with an issued share capital of 500,000 ordinary shares. It is not a close company.

During 2024, Dominika told her manager that she was thinking of leaving the company and working for a competitor for her remaining seven years before reaching state retirement age.

Although the company does not offer share options to all staff, Weyho plc were keen to retain Dominika's services. So, on 1 February 2025, Weyho plc granted her the option to buy 13,500 ordinary shares in the company in the future.

The terms of the share options were that she must pay £1.90 for each share when the option is exercised, which is the market value of the shares on 1 February 2025, the day the options were granted. She can exercise the options at any time up to 1 February 2032.

Dominika took up the offer and plans to exercise her options on 31 August 2028 when the shares are predicted to be worth £4.25 each. She then intends to sell the shares on 31 January 2029 when she hopes they will be worth £5.50 each. The share option scheme does not satisfy the conditions of being tax advantaged.

You can assume that throughout the period 2024/25 to 2028/29, Dominika will be a higher rate taxpayer, and she will use her Capital Gains Tax annual exempt amount each year.

In addition to advising Dominika, you have been approached by Weyho plc to present a seminar to all eligible employees of the company on the benefits of joining this company share option scheme in an attempt to persuade them to join.

Continued

Requirements:

1) **Explain the tax implications for Dominika on the exercise of her options and sale of shares, and calculate any tax payable by Dominika.** (4)

2) **Explain the difference it would make to Dominika if she delays exercising her options until 31 January 2029 and then immediately sells the shares.** (2)

3) **Explain whether the terms of the scheme could satisfy the conditions of a qualifying company share option plan (CSOP).** (3)

4) **Explain the difference it would make to Dominika's tax position if the scheme was a qualifying CSOP scheme, she exercised her options at some point between 1 February 2025 and 31 August 2028 and then sold the shares on 31 January 2029.** (4)

5) **Explain why you may have a problem presenting the seminar for Weyho plc, and what the Professional Rules and Practice Guidelines (PRPG) recommend you should do.** (3)

Total (16)