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# **May 2025 Examination**

## **PAPER 1**

### **PERSONAL TAXATION**

**Suggested Answers**

*Candidates will be given credit for relevant points not on the mark scheme.*

**1.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Non-savings |  | Interest |  | Dividends |  |
|  |  | £ |  | £ |  | £ |  |
| State Pension |  | 11,500 |  |  |  |  | **(1/2)** |
| Private pension |  | 48,300 |  |  |  |  | **(1/2)** |
| IIP Trust dividends (W1) |  |  |  |  |  | 5,589 | **(1/2)** |
| Discretionary Trust income (W2) |  | 2,727 |  |  |  |  | **(1/2)** |
| Loan Note interest (W3) |  |  |  | 500 |  |  | **(1/2)** |
| Unit trust distribution (N1) |  |  |  | 1,800 |  |  | **(1/2)** |
| Bank interest (W4) |  |  |  | 1,300 |  |  | **(1/2)** |
|  |  |  |  |  |  |  |  |
| Total income |  | 62,527 |  | 3,600 |  | 5,589 |  |
| Less: |  |  |  |  |  |  |  |
| S.131 loss (W5) |  | (425) |  |  |  |  | **(1/2)** |
| Personal allowance |  | (12,570) |  |  |  |  | **(1/2)** |
|  |  |  |  |  |  |  |  |
| Taxable income |  | 49,532 |  | 3,600 |  | 5,589 |  |
|  |  |  |  |  |  |  |  |
| Income tax: |  |  |  |  |  |  |  |
|  |  | £ |  |  |  | £ |  |
| Non-savings income (W6) |  | 40,200 |  | x 20% |  | 8,040 | **(1/2)** |
| Non-savings income |  | 9,332 |  | x 40% |  | 3,733 | **(1/2)** |
| Savings income |  | 500 |  | x 0% |  | 0 | **(1/2)** |
| Savings income |  | 3,100 |  | x 40% |  | 1,240 | **(1/2)** |
| Dividend income |  | 500 |  | x 0% |  | 0 | **(1/2)** |
| Dividend income |  | 5,089 |  | x 33.75% |  | 1,717 | **(1/2)** |
|  |  |  |  |  |  | 14,730 |  |
| Less: Tax reducers |  |  |  |  |  |  |  |
| SEIS relief (N2) |  | 1,000 |  | x 50% |  | (500) | **(1/2)** |
|  |  |  |  |  |  | 14,230 |  |
| Less: Tax deducted at source: |  |  |  |  |  |  |  |
| PAYE |  |  |  |  |  | (13,200) | **(1/2)** |
| Tax on trust income (1,227 + 489) |  |  |  |  |  | (1,716) | **(1/2)** |
| Tax on interest |  |  |  |  |  | (100) | **(1/2)** |
|  |  |  |  |  |  |  |  |
| **Income tax payable/(repayable)** |  |  |  |  |  | **(786)** | **(1/2)** |

*Workings*

*(W1) Interest in Possession (IIP) Trust income*

The R185 shows a net dividend amount of £5,100, which is net of 8.75% income tax paid by the trustees.

The gross amount is therefore: £5,100 x 100/91.25 = £5,589 **(1/2)**

The income retains its nature in Riya’s hands and so is taxed on her as dividend income. **(1/2)**

*(W2) Discretionary Trust income*

The £1,500 is received net of a 45% tax credit.

The gross amount is therefore: £1,500 x 100/55 = £2,727 **(1/2)**

Income from a discretionary trust is always treated as non-savings income. **(1/2)**

*(W3) Loan note interest*

Interest from company loan notes is received net of basic rate tax.

The gross amount is therefore: £400 x 100/80 = £500 **(1/2)**

*(W4) Bank interest*

By default, 50% of this is taxed on Riya as the bank account is held jointly with her husband.

£2,600 x 50% = £1,300 **(1/2)**

*(W5) Disposal of EIS shares – qualifying loss against income*

As the EIS shares were held for more than 3 years, the Income Tax relief is not withdrawn but it is deducted from the cost of the shares when calculating the allowable capital loss. **(1/2)**

£

Proceeds 100

Less:

Cost (750-225) (525)

Allowable loss (425) **(1/2)**

As Riya is a higher rate taxpayer, it is more tax efficient to claim this qualifying loss (s.131 ITA 2007) against her income for 2024/25. **(1/2)**

*(W6) Gift aid donation*

The gross gift aid donation is £2,000 x 100/80 = £2,500 **(1/2)**

This extends the basic rate band to £(37,700 + £2,500) = £40,200

The second donation was not donated under the gift aid scheme, so the charity cannot reclaim the basic rate tax, nor can it be used to extend the basic rate band. **(1/2)**

*Notes*

*(N1) Unit trust*

The interest distribution from the unit trust is received gross **(1/2)** and is taxed as interest income.

*(N2) SEIS relief*

As Riya has subscribed for the SEIS shares, she is entitled to a 50% income tax reducer in 2024/25.

Income tax reducer = £1,000 x 50% = £500 **(1/2)**

As an unpaid director, Riya is not treated as an employee **(1/2)** and so is not connected to the company. **(1/2)**

*(N3) National Lottery Winnings*

The winnings are exempt from income tax. **(1/2)**

**18 marks**

**2.**

**1)**

**Sale of the investment property and EIS reinvestment relief**

Gareth has made a gain of £150,000 on the sale of the house.

As he invested in shares in a qualifying EIS company within the qualifying time period, being from 12 months before to 36 months after the disposal of the house, **(1/2)** he can claim EIS reinvestment relief. **(1/2)**

He can claim relief on a maximum of the £40,000 invested in ABC Ltd, **(1/2)** because the amount reinvested is lower than the gain. **(1/2)**. As his total gains in the year exceed the annual exempt amount, **(1/2)** the full £40,000 should be claimed.

This deferred gain of £40,000 is frozen **(1/2)** rather than reducing the base cost of the ABC Ltd shares. **(1/2)**

Gareth owns 20,000/50,000 = 40% **(1/2)** of the ordinary shares in ABC Ltd. As this is more than 30% he is deemed to be ‘connected’ to ABC Ltd. **(1/2)** However, for EIS reinvestment relief for CGT deferral, it does not matter that Gareth is connected to ABC Ltd. **(1)**

**Sale of shares in XYZ Ltd**

As Gareth sold the shares within three years **(1/2)** from the date of subscription, the gain is not exempt **(1/2)** and the full £50,000 is subject to CGT.

**QualVCT1 plc**

The shares have been sold at a gain. However the capital gain from the sale of the first £200,000 **(1/2)** of qualifying VCT shares bought in a tax year is exempt from CGT. **(1/2)** Unlike EIS shares, the ownership period is irrelevant. **(1/2)**

Gain at 24% Gain at 20%

£ £

Gain on house 150,000

Gain XYZ Ltd shares 50,000 **(1/2)**

Less: EIS reinvestment relief (40,000) **(1/2)**

Chargeable gain 110,000

Less: Annual exempt amount (N1) (3,000) **(1/2)** \_\_\_\_\_\_

Taxable gains 107,000 50,000

CGT @ 24% (N2) 25,680 **(1/2)**

CGT @ 20% (N3) 10,000 **(1/2)**

Total gain 35,680

*Notes*

*(N1)*

The taxpayer is allowed to offset the annual exempt amount against the gain with the higher rate of CGT. **(1/2)**

*(N2)*

The gain on the sale of the house, being residential property is subject to a higher CGT rate of 24%. **(1/2)**

*(N3)*

As an additional rate taxpayer, the gain on the XYZ Ltd shares is subject to the CGT rate of 20%, **(1/2)** as he does not have any basic rate band available.

**12 marks**

2)

If Gareth sold the ABC Ltd shares in 2025/26 at a profit, a chargeable gain will arise. **(1/2)** This is because he was connected to ABC Ltd (owns more than 30% of the shares) **(1/2)** / he sold them within 3 years of subscription **(1/2)** and so the gain is not exempt from CGT. **(1/2)**

In addition, the sale is a ‘chargeable event’ **(1/2)** which means the £40,000 frozen gain under EIS reinvestment relief will crystallise. **(1/2)**

If Gareth instead gifted the ABC Ltd shares to his wife, this is not a ‘chargeable event’ as gifts to spouses take place on a no-gain-no-loss basis for CGT purposes. **(1/2)** Therefore no chargeable gain would arise nor would the frozen gain of £40,000 crystallise. **(1/2)**

**Max 3 marks**

3.

(1)

**2023/24 tax obligations:**

* File the tax return **(1/2)**
* Pay balance of 2023/24 tax liability **(1/2)** of £61,000:

|  |  |  |
| --- | --- | --- |
|  | **£** |  |
| 2023/24 Tax liability | 98,000 | **(1/2)** |
| Tax paid at source | (25,000) | **(1/2)** |
| One PoA paid | (12,000) | **(1/2)** |
| Balance due | 61,000 |  |

**2024/25 tax obligations:**

* Pay 1st 2024/25 PoA **(1/2)** of £21,500

|  |  |  |  |
| --- | --- | --- | --- |
|  | **£** | **£** |  |
| 2023/24 Tax liability | 98,000 |  |  |
| Less: CGT liability | (30,000) |  | **(1/2)** |
| 2023/24 Income Tax liability |  | 68,000 |  |
| Tax paid at source |  | (25,000) | **(1/2)** |
| Balance due |  | 43,000 |  |

Income Tax balance due is more than 20% of the Income Tax liability for the year **(1/2)**, so Payments on Account are due for 2024/25 of 50% of £43,000 = £21,500 **(1/2)**

* File an online property return re the sale of his holiday home **(1/2)** and pay an estimate of the CGT due **(1/2)**. The deadline for the filing of this Return and payment of the tax is 60 days **(1/2)** after completion **(1/2)** of the sale.

**7 marks**

(2)

**Penalties**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **£** |  |
| Late filing of 2023/24 tax return | 1 February 2025 **(1/2)** | 100 | **(1/2)** |
|  |  |  |  |
| Late payment of balancing payment of £61,000 | 5% **(1/2)** of unpaid tax on 3 March 2025 **(1/2)** | 3,050 | **(1/2)** |
| **(1/2**) for drawing the distinction between penalties for late filing and late payment | | | |

**3 marks**

(3)

Further late filing penalties may be incurred as follows:

* On 1 May 2025 **(1/2)** the return is more than 3 months late **(1/2)** and additional penalties will be charged of £10 per day **(1/2)** up to a maximum of 90 days **(1/2)**
* On 31 July 2025 **(1/2)** the return is more than 6 months late **(1/2)** and an additional penalty is charged of 5% of the 2023/24 liability **(1/2)** which is clearly higher than the minimum of £300. **(1/2)**

On 31 July 2025, a further late payment penalty of 5% of the unpaid tax for 2023/24 **(1/2)**.

A late filing penalty of £100 will be due in relation to the online property return **(1/2)**

**5 marks**

**Total: 15 marks**

4.(1)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | | | **£** | | | **£** | **£** |  |
| £100,000 8% Loan Stock in Cain plc | | | |  | | |  |  |  |
|  |  | | |  | | |  |  |  |
| Proceeds |  | | |  | | | 100,000 |  | **(1/2)** |
| Cost |  | | | 98,750 | | |  |  | **(1/2)** |
| Less: Accrued income **(1/2)** | 3/12 x 8% x £100,000 **(11/2)** | | | (2,000) | | |  |  |  |
|  |  | | |  | | | (96,750) |  |  |
| Gain |  | | |  | | |  | 3,250 |  |
|  |  | | |  | | |  |  |  |
| Diamond ring |  | | |  | | |  |  |  |
|  |  | | |  | | |  |  |  |
| Proceeds |  | | | 7,000 | | |  |  | **(1/2)** |
| Costs of sale: 12% x £7,000 | | | | (840) | | |  |  | **(1/2)** |
|  |  | | |  | | | 6,160 |  |  |
| Cost |  | | |  | | | (4,000) |  | **(1/2)** |
|  |  | | |  | | | 2,160 |  |  |
| Gain restricted by the 5/3 rule **(1/2)** | | | |  | | |  |  |  |
| 5/3 x (7,000 – 6,000) **(1/2)** | | | | | | | 1,667 | 1,667 | **(1/2)** |
|  |  | | |  | | |  |  |  |
| Watch |  | | |  | | |  |  |  |
|  |  | | |  | | |  |  |  |
| A wasting asset, not subject to CGT | | | | | | |  | - | **(1/2)** |
|  |  | | |  | | |  |  |  |
| Painting 1 |  | | |  | | |  |  |  |
|  |  | | |  | | |  |  |  |
| Proceeds - deemed | | | |  | | | 6,000 |  | **(1/2)** |
| Cost |  | | |  | | | (15,000) |  | **(1/2)** |
| Clogged loss |  | | |  | | | (9,000) | - | **(1/2)** |
|  |  | | |  | | |  |  |  |
| Painting 2 |  | | |  | | |  |  |  |
|  |  | | |  | | |  |  |  |
| Proceeds - $10,500 / 1.555 | | |  | | | 6,752 | | - | **(1/2)** |
| Cost - $9,000 / 1.286 | |  | | | (6,998) | | |  | **(1/2)** |
|  |  | | |  | | |  | (246) |  |
| Land at Abel Pastures | | | |  | | |  |  |  |
|  |  | | |  | | |  |  |  |
| Proceeds |  | | |  | | | 75,000 |  | **(1/2)** |
| Costs of sale |  | | |  | | | (2,500) |  | **(1/2)** |
|  | £ | | |  | | | 72,500 |  |  |
| Cost | 600,000 | | |  | | |  |  | **(1/2)** |
| Defend title | 25,000 | | |  | | |  |  | **(1/2)** |
|  | 625,000 | | |  | | |  |  |  |
|  | x A/(A+B) | | |  | | |  |  | **(1/2)** |
| A = 75,000 |  | | |  | | |  |  | **(1/2)** |
| B = 114 x £12,000 = 1,368,000 | | | |  | | |  |  | **(1/2)** |
|  |  | | |  | | |  |  |  |
| So, 625,000 x 75,000 / (75,000 + 1,368,000) | | | | | | | (32,484) |  | **(1/2)** |
| Gain |  | | |  | | |  | 40,016 |  |
|  |  | | |  | | |  |  |  |
| Net gains |  | | |  | | |  | 44,687 |  |
|  |  | | |  | | |  |  |  |

1**3 marks**

(2)

In the absence of any claim for relief, the disposal of the shares will give rise to a chargeable gain equal to their market value on disposal less their acquisition cost **(1/2).**

Gift to her son

* If the company’s investment activity is less than 20% of its total activity **(1/2)**, it would be possible to make a CGT holdover election **(1/2)**.
* If holdover relief were available, the amount of relief would be restricted **(1/2)** to the extent that the company’s chargeable assets were not used in the company’s business **(1/2).**
* The holdover election has to be made by both Eve and her son **(1/2)**.
* The loss realised on Painting 1 could be relieved against any element of the gain that was not held over **(1/2)**.

Gift to trust

* It would be possible to make a CGT holdover election **(1/2)** without restriction **(1/2)** if the trust is not settlor-interested **(1/2).**
* The holdover election only has to be made by Eve **(1/2).**

A holdover relief claim would reduce the gain on disposal **(1/2)** and equally reduce the base cost of the shareholding in the recipient’s hands **(1/2)**.

**Max 5 marks**

**Total: 18 marks**

1. **Mariglen**

**(1) Taxable income computation – 2024/25**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Total | Non-savings | Dividends | Termination payment |  |
|  | £ | £ | £ | £ |  |
| Normal earnings (W1) | 92,352 | 92,352 |  |  | **See W** |
| Termination (s401) payment  (£80,000 – £30,000) | 50,000 |  |  | 50,000 | **1** |
|  | –––––––– |  |  |  |  |
| Employment income | 142,352 |  |  |  |  |
| Dividends | 2,400 |  | 2,400 |  | **½** |
|  | –––––––– | –––––––– | –––––––– | –––––––– |  |
| Total income = Net income | 144,752 | 92,352 | 2,400 | 50,000 |  |
| Personal allowance (W3) | (Nil) | (Nil) |  |  | **See W** |
|  | –––––––– | –––––––– | –––––––– | –––––––– |  |
| Taxable income | 144,752 | 92,352 | 2,400 | 50,000 |  |
|  | ======== | ======== | ======== | ======== |  |

**Workings:**

**(W1) Normal employment income**

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| **Intone Ltd** |  |  |
| Salary (£5,500 x 2 months) | 11,000 | **½** |
| Garden leave (£5,500 x 3 months) (fully taxable) | 16,500 | **½** |
| Bonus | 12,000 | **½** |
| Restraint of trade | 9,000 | **½** |
| Employer’s contribution into PPS | Exempt | **½** |
|  |  |  |
| **Delream Ltd** |  |  |
| Salary (£75,000 x 6/12) | 37,500 | **½** |
| Golden hello | 3,000 | **½** |
| Car benefit (W2) | 1,260 | **See W** |
| Fuel benefit (W2) | 1,112 | **See W** |
| Electric charging point | Exempt | **½** |
| Private medical insurance | 980 | **½** |
|  | ––––––– |  |
| Normal earnings | 92,352 |  |
|  | ======= |  |

**(W2) Car and fuel benefit**

CO2 emissions = 43 g/km, electric range = 66 miles, available for 6 months of tax year

Appropriate percentage = 8% **(½)**

**Car benefit**

(£36,000 – £4,500 employee contribution) x 8% x 6/12 = £1,260 **(1½)**

**Fuel benefit**

(£27,800 x 8% x 6/12) = £1,112 **(1)**

**(W3) Reduced PA**

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ | £ |  |
| PA |  | 12,570 |  |
| Net income | 144,752 |  |  |
| Less: Gross PPCs (£7,600 x 100/80) | (9,500) |  | **1** |
| Adjusted net income | 135,252 |  |  |

ANI > £125,140: therefore no PA available **10 marks**

**(2) Income Tax payable on the taxable termination payment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | £ |  |  | £ |  |
| Falling into ARB  (£144,752 – £134,640 (W4)) | 10,112 | x 45% |  | 4,550 | **½**  **½** |
| Falling into HRB |  |  |  |  |  |
| (£50,000 – £10,112) | 39,888 | x 40% |  | 15,955 | **½**  **½** |
|  | ––––––– |  |  |  |  |
|  | 50,000 |  |  |  |  |
|  | ======= |  |  | ––––––– |  |
|  |  |  |  | 20,505 |  |
|  |  |  |  | ======= |  |

**(W4) Extended BRB and HRB**

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ | £ |  |
| Bands | 37,700 | 125,140 |  |
| Add: Gross PPCs (W3) | 9,500 | 9,500 |  |
|  | –––––––– | –––––––– |  |
|  | 47,200 | 134,640 | **1** |
|  | ======== | ======== |  |

The taxable termination payment falls partly in Mariglen’s HRB and partly in his ARB.

**3 marks**

**(3) National Insurance Contributions**

|  |  |  |
| --- | --- | --- |
|  | **NICs payable** |  |
| **Intone Ltd** |  |  |
| Salary and Bonus | Class 1 primary (Mariglen)  Class 1 secondary (Intone Ltd) | **½**  **½** |
|  |
| Garden leave |
| Restraint of trade |
|  |  |  |
| Taxable s401 termination payment | Class 1A (Intone Ltd) | **½** |
|  |  |  |
| **Delream Ltd** |  |  |
| Golden hello | Class 1 primary (Mariglen)  Class 1 secondary (Delream Ltd) | **½**  **½** |
| Car benefit (W2) | Class 1A (Delream Ltd) |  |
| Fuel benefit (W2) | **½** |
| Private medical insurance |  |
|  |  |  |

**3 marks**

**Total: 16 marks**

1. **Dominika**
2. **Tax implications of the exercise and sale of shares**

On the exercise of the share options, taxable employment income arises.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | £ |  | |  |
| **Exercise of options on 31 August 2028** |  |  | |  |
| MV at exercise (13,500 x £4.25) | 57,375 |  | | **½** |
| Cost of shares (13,500 x £1.90) | (25,650) |  | | **½** |
|  | ––––––– |  | |  |
| Employment income | 31,725 |  | |  |
|  | ======= |  | |  |
| Liable to Income Tax @ 40% (as HRT) |  | £12,690 | | **½** |
|  |  | ======= | |  |
| Liable to Class 1 primary contributions @ 2% (as HRT) *(See Note)* | | | £634 | **½** |
|  |  | ======= | |  |

On the sale of shares, a chargeable gain arises.

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ |  |  |
| **Sale of shares on 31 January 2029** |  |  |  | |
| Sale proceeds (13,500 x £5.50) | 74,250 |  | **½** | |
| MV at exercise (13,500 x £4.25) | (57,375) |  | **½** | |
|  | ––––––– |  |  | |
| Chargeable gain | 16,875 |  |  | |
|  | ======= |  |  | |

The shares do not qualify for Business Asset Disposal Relief (BADR) **(½)** as although Weyho plc is a trading company and Dominika is an employee of the company, she will own less than a 5% interest, **(½)** and she will not have owned the shares for at least 2 years. **(½)**

|  |  |  |
| --- | --- | --- |
| Liable to Capital Gains Tax @ 20%  (20% as no AEA left, shares do not qualify for BADR, and Dominika is a HRT) | £3,375  ======= | **½** |

*Note:*

*As the shares are readily marketable, Class 1 primary NICs is paid by the employee and Class 1 Secondary NICs is paid by the employer. The question only asks for tax payable by Dominika, not Weyho pc, therefore the Class 1 Secondary NICs have not been calculated.*

*Total amount which is subject to tax is £48,600 (£31,725 + £16,875).*

*Tax payable by Dominika is £16,699 (£12,690 + £634 + £3,375).*

*Note that there are no tax consequences on the granting of a share option, but this was not asked for in the question.*

**Max 4 marks**

1. **If Dominika exercises her options and sells her shares on 31 January 2029**

If Dominika exercises her options and sells her shares on the same day, taxable employment income of £48,600 (£31,725 + £16,875) arises. **(½)** *(See Note)*

However, no capital gain arises **(½)** as the shares are sold for the equivalent of the deemed acquisition cost (i.e. the MV at exercise date, £5.50 each). **(½)**

Dominika would therefore pay Income Tax and Class 1 Primary NICs of £20,412 (£48,600 x 42%) **(½)** which represents additional tax payable of £3,712 (£16,875 x 22%). **(½)** *(See Note)*

**Max 2 marks**

*Note:*

*Alternative calculation: Exercise of options*

*£*

|  |  |
| --- | --- |
| *MV at exercise (13,500 x £5.50)* | *74,250* |
| *Cost of shares (13,500 x £1.90)* | *(25,650)* |
|  | *–––––––* |
| *Employment income* | *48,600* |
|  | *=======* |

*If the disposal is on the same date as the exercise date, the total amount which is subject to tax remains the same (£48,600) but the amount is subject to different taxes.*

*Effectively the capital gain becomes employment income.*

*In this scenario, the total taxable amount is liable to Income Tax of 40% and Class 1 Primary NICs of 2% only (i.e. no CGT) which totals £20,412 (£48,600 x 42%).*

*Compare this with total tax payable in part (a) of £16,699 (£12,690 + £634 + £3,375), when there was a gap between the exercise date and the sale date.*

*Additional tax payable is £3,713 (£20,412 – £16,699). The difference of £1 compared with the answer of £3,712 above relates to minor rounding of the NIC liability in part (a).*

*It is quicker to calculate the answer recognising the effect ‘at the margin’ as shown in the answer. Effectively, the £16,875 capital gain is now being treated as employment income and is taxed at 42% compared with the CGT rate of 20%, representing an increase in tax of 22%.*

1. **Assessing whether the CSOP conditions are satisfied**

The scheme could be a qualifying CSOP scheme as the following key conditions are satisfied:

* Weyho plc gives their employees the right to buy shares in the company at a fixed price **(½)** within a specified period of time. **(½)**
* Dominika’s purchase price on exercising the options is the market value of the shares at the time the option is granted (i.e. not discounted). **(½)**
* Dominika is acquiring ordinary shares of Weyho plc, **(½)** a quoted company.**(½)**
* Dominika is an employee. **(½)**
* The value of Dominika’s shares over she holds options is £25,650 (i.e. less than £60,000). **(½)**

To be a qualifying scheme, it must be registered with HMRC. **(½)**

**Max 3 marks**

*Note:*

*Weyho plc is not a close company, therefore the condition that the employee must not have a ‘material interest’ (i.e. a holding more than 30% of the ordinary share capital in the company) is not applicable to Dominika.*

*From the question she clearly has an interest of less than 30%, but mentioning this condition is not mark worthy as it is not applicable to the scenario.*

*It is not a requirement for the company to be quoted, however most CSOP schemes are set up for quoted companies.*

*Options can be granted to qualifying employees (full-time or part-time employees who are not directors), and/or full-time directors.*

**4) Consequences for Dominika of the scheme being a qualifying CSOP**

* Provided Dominika exercises the options on or after 1 February 2028, and before   
  31 January 2035 (i.e. between three and ten years from the date the option is granted), **(½)** there is no Income Tax or NICs payable when an option exercised. **(½)**
* Similarly, there will be no charge to Income Tax or NIC if the option is exercised before   
  1 February 2028 provided: **(½)**
* Dominika ceases to be a qualifying employee due to injury, disability, redundancy or retirement, **(½)** and
* the option is exercised within six months of her leaving the company.**(½)**
* Assuming Dominika does not trigger a tax charge on the exercise of the options, only Capital Gains Tax will be chargeable when she sells her shares. **(½)**

The gain arising would be £48,600 (£31,725 + £16,875). **(½)** *(See Note)*

Dominika would therefore pay Capital Gains Tax of £9,720 (£48,600 x 20%) **(½)** which represents a tax saving of £6,979 (£31,725 x 22%). **(½)** *(See Note)*

**Max 4 marks**

*Note:*

*Alternative calculation: Sale of shares*

*£*

|  |  |
| --- | --- |
| *Sale proceeds (13,500 x £5.50)* | *74,250* |
| *Cost of shares (13,500 x £1.90)* | *(25,650)* |
|  | *–––––––* |
| *Chargeable gain* | *48,600* |
|  | *=======* |

*If the scheme is tax-advantaged, the total amount which is subject to tax remains the same (£48,600) but the amount is just subject to Capital Gains Tax.*

*Effectively the employment income becomes a capital gain.*

*In this scenario, the total taxable amount is liable to CGT only which totals £9,720 (£48,600 x 20%).*

*Compare this with total tax payable in part (a) of £16,699 when the scheme was not tax-advantaged.*

*The tax saving is £6,979 (£16,699 – £9,720).*

*It is quicker to calculate the answer recognising the effect ‘at the margin’ as shown in the answer. Effectively, the £31,725 employment income is now being treated as a capital gain and is taxed at 20% instead of 42% (Income Tax and NICs), representing a tax saving of 22%.*

1. **Professional Rules and Practice Guidelines (PRPG)**

The PRPG requires tax advisors to maintain objectivity and independence. **(½)**

Presenting the seminar explaining and extolling the benefits of Weyho plc’s share option scheme to the employees of the company, at the request of Weyho plc, could pose a threat to your independence/ objectivity, or perceived independence, **(½)** and possibly present you with a conflict of interest. **(½)**

You must ensure that in the opinion of the employees and any third parties, your objectivity can not be called into question. **(½)**

You are being paid by Weyho plc to present the seminar to its employees may also be perceived as a financial incentive which may impair your ability to act objectively. **(½)**

You should ideally:

* inform Weyho plc that there could be a perceived conflict of interest, **(½)**
* decline the invitation to deliver the seminar, **(½)**
* confirm in writing **(½)** and retain copies of the correspondence on file. **(½)**

You could possibly suggest the use of another independent tax adviser. **(½)**

**Alternatively it is possible to present the seminar provided:**

* disclosure is made to the employees of Weyho plc and the company of your potential conflict of interest, **(½)**
* both sides are given the opportunity to consider whether they would prefer an alternative seminar provider, **(½)**
* written permission is obtained from both the employees and the company that your firm can present the seminar, **(½)** and
* if they all agree, safeguards should be put in place (such as a separate team of the firm is used to present to the employees advising in their best interests) to ensure no preference is shown in advising one side against the other. **(½)**

**Max 3 marks**

**Total: 16 marks**