

Paper 1: Personal Taxation

Examiners' report

General comments

Overall, there was not enough application of knowledge to the scenarios outlined in the questions. In the open-book world, it is not always enough to simply knowledge dump in response to a question that is clearly focussed on a specific issue. The better candidates look to apply that knowledge to the specific scenario outlined in the question.

It is essential to appreciate the level of application required in professional exams to be successful, and that a deep understanding of the topics is required. Working as many practical application questions as possible in the revision period is a fundamental part of productive and effective learning for this examination.

Answers to numerical questions continue to disappoint where candidates believe that just providing a list of numbers with no words/labelling of the work performed is acceptable. It is not professional and does not earn credit.

Question 1

A lot of candidates did very well on this question. As is always the case with calculation questions, even if a mistake is made early in the computation, you can still score very well with follow through marks.

The treatment of the Gift aid was inconsistent across the cohort. Whilst a lot did identify that only one counted for Gift aid purposes, a significant number of candidates then simply deducted the other donation from income.

The best candidates both identified that a s.131 loss claim could be made, as it was beneficial to claim the EIS loss against income, whilst also identifying that the income tax relief wasn't clawed back but reduced the allowable loss. The top candidates also put the loss in the correct place, deducting it from the income, rather than alongside tax paid at source, such as the PAYE.

It continues to be surprising that quite a few candidates did not even treat the NSI pensions correctly, with some deducting the PAYE from the income itself.

As is typical, a fair number of candidates missed off easy marks, such as grossing up the trust income at the correct rates or missing the fact that the bank interest needed to be split 50:50.

A reminder to always read the question carefully, as the explanations of the treatment of a lot of sources were lacking - either entirely, or were too vague. Saying "treated as normal savings interest" is not sufficient to get any marks, which is what a lot of candidates wrote for the unit trust income.

Question 2

As has happened before, a massive number of candidates wrote about the income tax implications, despite the question making clear that it was only the CGT consequences that were being examined. It seems an awful lot of candidates know a lot more about the income tax treatment of EIS and VCT investments than they do about the CGT implications.

A reminder that no matter how correct these candidates were with their explanations on what the income tax issues were, there were no marks available for doing so. If candidates feel there is time pressure in an exam, this might be why.

As is often the case, a few candidates got the wrong annual exempt amount. Double check the tax tables for this sort of basic information. It does not take long and might just be the difference between passing and failing.

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A lot of candidates did well with the reinvestment relief. The very best candidates were able to both identify, and then explain, why reinvestment relief was available, even though the individual was connected with the company.

It was split more like 50/50 those who correctly spotted that the VCT investment was exempt, compared to those who thought because it was sold within 5 years, the gain was taxable.

The inability to know how the CGT annual exempt amounts works from quite a few candidates is always concerning, with that losing a very easy mark.

For the second part of the question, it seemed that a lot of candidates were guessing what the treatment would be. Quite a number were only able to correctly state that if transferred to his wife, this would be at no gain no loss. A lot struggled with the treatment of the frozen gain, with lots clearly guessing what would happen.

Question 3

Part 1

Generally, not well answered. Many candidates reverted to effectively repeating back the scenario as set out in the question. Also, a tendency for candidates to simply write down everything they know about the self-assessment process in general, without applying it to the specific circumstances with which the taxpayer was faced on 29 April 2025.

Part 2

Reasonably well answered but see comments re. part 3 below.

Part 3

I would have welcomed more structure/clarity in many of the answers – drawing a clearer distinction between the late filing and late payment penalties. A significant minority made no distinction between their answers to part 2 and part 3 – again just regurgitating what they know about penalties and not applying it to the specific question asked in each part. Penalties refer to HMRC charges for the late filing of a tax return and the late payment of tax, not to the interest charged for the late payment of tax.

Question 4

Part 1

Reasonably well answered. Only a handful candidates calculated the gain on the loan stock correctly. The other most repeated errors were (1) not applying deemed proceeds of £6,000 re. Painting 1 and (2) not including the £25k costs of defending title in the A/A+B calculation for Abel Pastures.

Part 2

Poorly answered. While many candidates identified the availability of holdover relief, very few recognised the differences between its application in the two scenarios. In fact, the trust element of the question was often completely ignored and, where it was attempted, candidates often reverted to comments about the IHT implications of a gift to trust and/or the taxation of trust distributions.

As stated before, unfortunately answers to written questions continue to be too short, generic, lack depth, miss the key point, and do not attempt to apply knowledge to the scenario given. Attempts made to apply the knowledge by many candidates then demonstrate that the topic was not understood.

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Question 5

Many candidates answered Part (1) of this question quite well, however the following were some very common errors made:

- Wasting time
 - explaining (sometimes at length) how the various elements of the remuneration package are taxed to income tax, but the requirement is simply to calculate the amount of the individual's taxable income
 - calculating the income tax payable by the individual, but the requirement is to stop at the 'taxable income' point
 - calculating the total of gross employee and employer pension contributions to decide whether an annual allowance (AA) charge is needed, but the requirement is to calculate 'taxable income' not income tax payable
- Not taxing the garden leave payment, and/or restraint of trade payment, and/or golden hello payment
- Not stating that the employer's pension contributions and/or the provision of the electric charging point are exempt benefits
- Incorrect treatment of s401 voluntary termination payment
 - deducting the restraint of trade payment and/or garden leave payment from the £80,000 voluntary payment before deducting the £30,000 exempt amount to calculate the taxable s401 amount
 - including the s401 payment with the rest of the termination package and treating as normal employment income, not recognising that the s401 element is taxed separately as the top slice of income and is separate from normal employment income
- Choosing the wrong percentage for the car benefit, and incorrectly treating the employee contribution towards the capital cost of the car
- Failing to
 - calculate a fuel benefit
 - time apportion both the car and fuel benefit, as only available for six months in the tax year
 - calculate the 'adjusted net income' (ANI) to determine whether a personal allowance (PA) is available
 - include the dividends received in the calculation of taxable income
- Deducting the full PA, or a reduced PA, when the level of ANI is above £125,140

Part (2) of this question was answered poorly.

The requirement is to calculate the income tax payable on the s401 taxable termination payment only, which is taxed as the top slice of income. The question does not require the calculation of the income tax payable on all taxable income.

Common errors were:

- Not calculating the revised basic rate and higher rate bands (due to the personal pension contributions made), to determine the appropriate rate of tax to apply to the top slice
- Taxing the termination payment as 'normal employment income' rather than the top slice
- Calculating the tax on the s401 payment at one rate, whereas part of the payment falls into the higher rate band and part in the additional rate band

Answers to Part (3) of this question were mixed.

Many did not read the requirement carefully enough.

The requirement is specifically to:

- State (not discuss, explain or calculate)

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- Two things (the class of NICs payable and who bears the cost) for
- Four forms of remuneration
(the taxable remuneration from Instone Ltd, the termination package from Instone Ltd, the golden hello from Delream Ltd, and the taxable benefits from Delream Ltd).

The technical content of the answers given was usually good, but they fell short as the main mistake made was not breaking the requirement down and therefore not addressing all the mark worthy points.

Question 6

On the whole, the answers to this question were disappointing, and surprisingly, not good.

As the last question on the paper, there were signs of poor exam technique and a significant proportion of candidates did not attempt the question at all.

Many answered just a couple of parts of the question (usually Parts (3) and (5)).

Others answered all of the question, but very briefly with just one or two sentences for each part, taking no account of the mark allocations given to each part.

Of those that answered Part (1), attempts were acceptable, but very few scored full marks.

Common errors were:

- Not reading the question carefully and consequently attempts incorrectly
 - give the rules for a tax advantaged scheme, sometimes at great length, but the question stated clearly that the scheme was not tax advantaged
 - calculated the income tax at 20%, despite the question stating that the individual is a higher rate taxpayer
- Not mentioning the NIC consequences on the exercise of the option at all, or mentioning NICs were payable but not quantifying, or not calculating the primary contributions at 2% for a higher rate taxpayer
- Incorrectly deducting the annual exempt amount from the chargeable gain on the sale of shares
- Not assessing/stating that Business Asset Disposal Relief is not available and not explaining why

Part (2) was not attempted by a large proportion of candidates.

The key point of this part is that if the scheme is not tax advantaged, and the sale of the shares happens on the same day as the exercise of the options:

- no capital gains tax (CGT) is payable
- correspondingly more income tax (IT) and national insurance contributions (NIC) is payable, and
- this is not a good idea given the relative rates of tax.

For those that attempted it, the key point was missed by most.

This part was also not attempted by a large proportion of candidates suggesting that those candidates similarly did not understand how share option schemes work.

Common errors were:

- Stating that there would be
 - no difference if the shares are sold on the exercise date
 - no income tax and NICs payable, but more CGT payable
 - no CGT, but not explaining why
- Not quantifying the additional tax payable compared to Part (1)

If any part of this question was attempted, Part (3) was the most popular part.

However, it was not answered particularly well by many.

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The main problems were:

- Only mentioning a couple of conditions required to make the scheme tax advantaged
- Mentioning the 30% rule applicable to close companies, which is not relevant as the question states that the company is not a close company
- Giving generic answers listing rules, but not applying to the scenario in the question

Part (4) was not attempted by a significant number of candidates.

The key point of this part is that if the scheme is tax advantaged:

- There would be no difference if the option was exercised outside the 3-to-10-year period
- If exercised within the 3-to-10-year period:
 - no IT and NICs payable
 - correspondingly more CGT payable, and
 - this is a good idea given the relative rates of tax.

For those that attempted it, the key point was missed by many.

This part was also not attempted by a significant number of candidates suggesting that those candidates similarly did not understand how share option schemes work.

Common errors were:

- Repeating the answer given to Part (1) and saying there is no difference
- Correctly mentioned the 3-to-10-year rule, but either did not apply it to the scenario, or applied it incorrectly
- Some considered only the consequences if exercised within the 3-to-10-year period, and did not mention the consequences if exercised outside that period (or vice versa)
- Very few quantified the tax saving

Part (5) was the second most popular part of this question, but answers were not specific enough.

The key points to mention and apply are the threats to objectivity, independence and conflicts of interest.

Many answers were too generic and not applied well to the scenario.

Common errors were:

- Mentioning all five professional codes of ethics in the hope that one of them is relevant
- Dwelling on one code of ethics only, but not the code/key points relevant to the scenario
- Mentioning just one point only but several times in different ways
- Not addressing the requirement to "recommend what you (as the tax accountant) should do" about the problem identified