

Institution **CIOT - ATT**
Course **ATT Paper 1 Personal Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word(s)	Char (s)	Char (s) (WS)
Section 1	944	4539	5371
Section 2	617	2907	3466
Section 3	959	4002	4933
Section 4	469	2347	2771
Section 5	956	4264	5135
Section 6	1055	5345	6346
Total	5000	23404	28022

QUESTION 1.1)

I have covered off the calculation of each of Amrita's sources of income and have then calculated her income tax liability for 2024/25.

Salary

Gross salary = £54,000

Occupational pension contributions paid by Amrita = £54,000 x 8% = £4,320

Net taxable salary = £54,000 - 4,320 = **£49,680**

Benefit in kind - Company Car

The provision of a company car is a taxable benefit in kind for UK income tax purposes. Amrita's capital contribution for the car is restricted to £5,000, as she contributed more than this amount. Furthermore, as she was only provided the car until 31/08/2024, the benefit is time apportioned to account for this.

List price = £38,650 - 5,000 = £33,650

Emissions percentage = 5%

Taxable benefit in kind (company car) = £33,650 x 5% x (5/12) = **£701**

Benefit in kind - Fuel For Private Miles For Company Car

The provision of private fuel for a company car is another taxable benefit in kind for UK income tax purposes. The fuel benefit base figure of £27,800 (24/25) is used to calculate the taxable benefit in kind. Furthermore, as she was only provided the car until 31/08/2024, the benefit is time apportioned to account for this.

Taxable benefit in kind (private fuel for company car) = £27,800 x 5% x (5/12) = **£579**

Benefit in kind - Reimbursement of Other Car-Related Expenses

Amberton Ltd reimbursed £4,220 of Amrita's expenses for 24/25. £2,950 of these expenses relate to the cost of providing private fuel for the company car and so, this has been dealt with in the benefit in kind figure for the provision of private fuel for a company car. The balance of the expenses (£4,220 - 2,950 = £1,270) is taxed as a separate benefit in kind.

Taxable benefit in kind (reimbursement of expenses) = **£1,270**

Benefit in kind - Mileage Allowance

The miles that Amrita drove in her own car are apportioned between business and private miles as follows:

- Business miles = 16,940 x 60% = 10,164 miles
- Private miles = 16,940 x 40% = 6,776 miles

The reimbursement of fuel costs in relation to business miles for a private car is a taxable benefit in kind in Amrita's hands. The taxable amount is calculated as follows:

Taxable benefit in kind (reimbursement of business miles) = $(10,164 \times £0.45) - (10,000 \times £0.45) - (164 \times £0.25) = \underline{£33}$

The reimbursement of fuel costs in relation to private miles for a private car is a taxable benefit in kind:

Taxable benefit in kind (reimbursement of private miles) = $6,776 \times £0.45 = \underline{£3,049}$

Total taxable benefit in kind (private car fuel reimbursement) = $33 + 3,049 = \underline{£3,082}$

Benefit in kind - Provision of Living Accommodation

The provision of living accommodation classed as non-job related accommodation is a taxable benefit in kind for UK income tax purposes. The costs that Amrita incurs in relation to the provision of furniture and bills do not get brought into the benefit in kind calculation as she incurs them personally and they are not reimbursed by her employer.

Although more than 6 years have passed since the company first purchased the property, Amrita first moved into the house in 2020 (which is within 6 years of when her employer first purchased the property). As a result, the cost of the house to the employer, plus the cost of building the conservatory incurred in 2019, is brought into the calculation of the taxable benefit in kind in relation to the provision of living accommodation.

Taxable benefit in kind (provision of accommodation) = $£8,580 + [((460,500 + 28,750) - 75,000) \times 2.25\%] = \underline{£17,901}$

Benefit in Kind - Pension Contributions

The provision of employer pension contributions is an exempt benefit in kind for UK income tax purposes and is therefore excluded from the calculation.

Other Income

Taxable interest = **£1,320**

Gift-Aid Donations

Gross Gift-Aid Donations Made = £1,000 / 0.8 = £1,250 gross

Basic rate band = £37,700 + 1,250 = £38,950

Higher rate band = £125,140 + 1,250 = £126,390

Personal Allowance Calculation

Amrita's total income in 2024/25 = £74,533

As her Adjusted Net Income (ANI) is below £100,000, she has the full £12,570 personal allowance available to her in 2024/25.

Calculation of Income Tax Liability

Amrita's income tax liability for 2024/25 is as follows:

Income	Non-Savings (£)	Savings (£)	Dividends (£)	Total (£)
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-----ANSWER-2-BELOW-----

QUESTION 2.1)

Mrs Hubert has given her niece cash to buy an asset which Mrs Hubert can then enjoy. As this is not classed as a gift with reservation of benefit, a Pre-Owned Asset Tax (POAT) income tax charge is charged annually, with Mrs Hubert being liable to pay this liability. The value of the asset in 2024/25 (£175,000) is multiplied by HMRC's official rate of interest (2.25%).

Taxable income (POAT charge) = £175,000 x 2.25% = **£3,938**

QUESTION 2.2)

I have broken this question down into the calculation of each capital gain that Mrs Hubert realised in 2024/25, followed by the calculation of her CGT liability for 2024/25.

Gains Realised on Takeover

Mrs Hubert sells her shares in ABC Ltd and receives a combination of cash and loan stock.

The cash sale proceeds are immediately subject to CGT, with the gain being calculated by deducting the base cost of her ABC Ltd shares (apportioned in line with the part disposal rules) from the sale proceeds received.

As the loan stock received is classed as a qualifying corporate bond (QCB), there is a capital gain realised (with the gain being calculated by deducting the apportioned base cost of the ABC Ltd shares attributable to the loan notes from the market value of the loan notes on takeover) however, this gain is frozen to when the loan notes are either redeemed or sold.

As Mrs Hubert sells half the loan notes in 2024/25, half of the deferred gain ultimately becomes chargeable. No taxable capital gain is realised on sale of the loan notes themselves as they are QCBs (which are exempt assets for CGT purposes).

The calculation of the sales proceeds received is as follows.

Consideration	Sale Proceeds (£)	Base Cost (£)	Gain (£)
Cash Proceeds	85,000	£20,000 x (85,000/103,000	85,000 - 16,505 = 68,495

		= <u>16,505</u>	
Loan Notes	18,000	£20,000 x (18,000/103,000 = <u>3,495</u>	Gain realised on receipt of QCBs deferred to when QCBs sold. Deferred gain = 18,000 - 3,495 = <u>14,505</u> As half of QCBs sold in tax year, half of deferred gain taxable in 2024/25. Taxable gain = 14,505 / 2 = £7,253 No taxable gain on sale of QCB themselves.
Total	103,000	20,000	75,748

Mrs Hubert is not eligible to claim BADR on either gain outlined above as she did not work in the business, the business was not trading and it was not her personal service company in the 2 years prior to disposal. Furthermore, she is not eligible to claim Investor's Relief on either gain as she did not subscribe for the shares and the business is not trading.

As a result, the net gains after her CGT annual exemption of £3,000 and brought forward losses of £16,000 are taken into account are subject to CGT at 10% (to the extent the gains fall in her unused basic rate tax bracket) and 20% on gains above her basic rate tax bracket.

Mrs Hubert's taxable income (24/25) = (3,938 + 45,000) - 12,570 = £36,368

Unused basic rate tax bracket = 37,700 - 36,368 = £1,332

Calculation of CGT Liability

Mrs Hubert's CGT Liability For 2024/25 is calculated as follows:

Capital Gain	Standard Rate Gains (£)	Residential Property Gains (£)	Total Gains (£)
Gain on Cash Proceeds	68,495		68,493
Deferred Gain on QCBs Sold Brought Into Charge	7,253		7,253
Total Capital Gains	75,748		75,748
CGT Annual Exemption	3,000		3,000
Taxable Gains Before Brought Forward Losses	72,748		72,748
Brought Forward Losses	16,000		16,000
Taxable Gains	56,748		56,748
CGT at 10% on Standard Rate Gains in BRT	1,332 x 10% 133		133
CGT at 20% on Standard Rate Gains Above BRT	(56,748 - 1,332) x 20% 11,083		11,083
Total CGT Liability (24/25)	11,216		11,216

 -----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

QUESTION 3.1)

In this answer, I have covered off whether Marta has each tie as outlined in the sufficient ties test outlined in the Statutory Residency Test below.

As Marta has been UK tax resident in 1 of the last 3 tax years, I have considered all 5 ties.

Family Tie

One has a family tie to the UK in a particular tax year if their partner or minor children are UK tax resident in the tax year in question.

Marta's daughter, Louisa, was UK tax resident in 2024/25 and so, **Martha has the family tie in 2024/25** by virtue of her daughter's UK tax residency in 2024/25.

Accommodation Tie

One has an accommodation tie to the UK in a particular tax year if they have a place to live in the UK for a continuous period of 91 days in the tax year in question.

As Marta has the Bristol flat available to her for the entirety of the 2024/25 tax year and she has spent at least one night in the Bristol flat during 2024/25, **she has the accommodation tie in 2024/25.**

UK Work Tie

One has the UK work tie in a particular tax year if they spend more than 40 days working in the UK in a particular tax year, with more than 3 hours being worked on each of those UK workdays.

Marta works in the UK for 52 days in the UK (i.e., every Wednesday in the tax year) for 6 hours a day. **As such, she has the UK work tie in 2024/25.**

UK Presence Tie (90 Day Tie)

One has the 90 day tie to the UK for a particular tax year if they spend more than 90 days in the UK in either or both of the previous two tax years (i.e., 2022/23 and 2023/24).

Marta was automatically UK tax resident in the 2023/24 tax year as she met the 182+ day

test (Test 1 of the automatic resident tests) in that year. As the 2023/24 tax year is the tax year prior to the 2024/25 tax year, **she therefore has the 90 day tie in 2024/25.**

Country Tie

One has the country tie to the UK for a particular tax year if they spend more days in the UK than in any other single country in the tax year in question.

Martha has spent 150 days in the UK in 2024/25, 108 days in Ruritania and 107 days in Utopia. As such, she has spent more time in the UK in 2024/25 than any other country and so, **she therefore has the country tie in 2024/25.**

Conclusion

Marta therefore has all 5 ties to the UK in 2024/25.

QUESTION 3.2)

If Marta was UK tax resident in 2024/25 and she did not elect to be taxed in line with the remittance basis in 2024/25:

- Marta would be subject to Ruritanian and Utopia tax on the income deriving from the Ruritanian property and Utopian bank account respectively. If Marta was UK tax resident in 2024/25, by default she would be subject to UK income tax on her worldwide income on an arising basis. As such, the Ruritanian rental income and Utopian interest would be subject to UK income tax at her highest marginal rate.

- As the UK taxes rental income and bank interest and her overseas income has been taxed in each of those jurisdictions, she will be able to make a claim for Unilateral Relief (UR) in 2024/25, with the lower of the UK tax liability on each source of income and the overseas tax on each source income being able to be deducted from her gross income tax liability.

- The rental income from the UK property would be subject to UK income tax on an arising basis, regardless of whether she is UK tax resident or not in the tax year, as the UK property is a UK situs asset as it is located in the UK. Accordingly, the capital gain realised on sale of the property in November 2024 will also be subject to UK CGT, regardless of whether she is UK tax resident or not.

- The dividends generated by the shares in the UK resident company Marta holds would be subject to UK income tax on an arising basis, regardless of whether she is UK tax resident or not in the tax year, as the UK resident company has been incorporated in the UK and so, it is a UK situs asset.

If Marta was non-UK tax resident in 2024/25 and she did not elect to be taxed in line with the remittance basis in 2024/25:

- The Ruritanian rental income and Utopian bank interest would not be subject to UK income tax on an arising basis, as that is overseas income.
- The position in relation to UK source income (i.e., the rental income from the UK commercial property and the dividends from the UK shares) is unchanged. Marta will be subject to UK income tax on an arising basis on these sources of income as the income is UK source income.
- Marta will be subject to UK CGT on the sale of the commercial property however, if she was non-UK tax resident in the 2024/25 tax year, the disposal will be a non-UK resident disposal for CGT purposes. As such, when calculating the gain, the default calculation method is for the base cost for the property to be the value of the property as of 05/04/2019 (if she bought the property after 2019 however, the actual cost paid will be the base cost). Alternatively, Marta could elect for the actual cost of the property to be used to calculate the gain if there will be a loss on disposal.

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

QUESTION 4.1)

I have covered off the calculation of the taxable rental profits in two sections. I have covered off the taxable profits from the rent of the house, followed by the taxable profits from Amal's grant of the sub lease to Lara.

Calculation of Taxable Rental Profits On Letting of House

As Amal's gross rental receipts are below £150,000 for 2024/25, the cash basis is used to calculate his taxable rental profits in 2024/25. As a result, the missed rental income in respect of January and February 2025 are not brought into the calculation of his rental profits in 2024/25.

Gross rental income received (house) = £1,800 x 10 = £18,000

Amal's allowable expenditure in respect of the renting of the house is as follows:

Expense	Allowable	Rationale	Allowable Amount (£)
Bath replacement	Yes	Replacement of bathroom at similar cost deductible	500
New Garage Build	No	Expenditure incurred to improve property and is therefore capital expenditure	--
Council Tax Bill	Yes	Costs of running property are deductible. As the property rented throughout the tax year, the full amount is deductible	2,000
Total Allowable Expenditure			2,500

Taxable rental profits (house) = 18,000 - 2,500 = **£15,500**

Calculation of Taxable Rental Profits On Grant of Sub Lease

Amal has granted a short sub-lease to Lara (as the term of the sub-lease is less than 50 years) from a short lease that he holds. Amal is allowed a deduction of 5/25ths of the taxable income realised by the person who originally granted the 25 year head lease to Amal.

The calculation of Amal's gross property income from granting the sublease is as follows:

$$\text{Gross taxable income (grant of sublease)} = £14,000 \times [(50-(5-1))/50] = \underline{£12,880}$$

Amal's deduction from the gross taxable income is calculated as follows:

$$\text{Amal's deduction on grant of sublease} = £65,000 \times [(50-(25-1))/50] \times (5/25) = \underline{£6,760}$$

$$\text{Gross rental receipts (grant of sublease)} = £12,880 - 6,760 = \underline{£6,120}$$

To the gross rental receipts in respect of the grant of the sublease, we then add the cash rent paid by Lara to Amal between October 2024 and April 2025. As no allowable expenditure in respect of the granting of the sub lease has been incurred, this is Amal's taxable rental profits in respect of the sub-lease.

$$\text{Total rental profits} = £6,120 + (250 \times 6) = \underline{£7,620}$$

Calculation of Amal's Taxable Rental Profits For 2024/25

Amal's taxable rental profits in 2024/25 are therefore calculated as follows:

Income	Taxable Amount (£)		
Rental Profits (House)	15,500		
Rental Profits (Commercial Property)	7,620		
Taxable Rental Profits (24/25)	23,120		

Amal's taxable rental profits in 24/25 is therefore **£23,120**.

QUESTION 4.2)

The adviser should draft a telephone file note outlining what was discussed in the call and then follow up with confirmation of the advice provided to Amal in writing as soon as possible.

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

QUESTION 5)

I have broken down my answer to this question by firstly, looking at the number of shares held by each shareholder pre-sale, then looking at Thomas' and Alice's CGT liabilities for 2024/25.

Shares Held By Each Shareholder

Prior to the sale of the company, the shareholders of the business hold the following shares in Moonth Ltd.

Shareholder	Shares Held Pre-Sale	Base Cost (£)	Value of Shares at Sale (£)	Percentage of Shares Held Pre Sale
Thomas	5,500	5,500 x £2 = £11,000	144 x 5,500 = £792,000	4.4%
Alice	7,000	7,000 x £3 = £21,000	144 x 7,000 = £1,008,000	5.6%
Charles	87,500			70%
Kathy	25,000			20%
Total	125,000			100%

The shares in Moonth Ltd were sold for £144 per share in September 2024 (£18,000,000 / 125,000).

Thomas' CGT Liability

The gross capital gain on Thomas selling his shares in Moonth Ltd is calculated as follows:

Gross gain (Thomas - sale of Moonth Ltd shares) = £792,000 - 11,000 = £781,000

Thomas has to date, used £600,000 of his allowance for BADR and so, he has £400,000 of his £1 million lifetime limit left.

Prior to May 2023 when Kathy subscribed for shares in the business, Thomas met the

criteria for the capital gain on the sale of his shareholding to qualify for BADR. This is because for the 2 years prior to the issue of shares to Kathy, Thomas held over 5% of the shares in the business, the business was trading and he worked in the business. Once Kathy subscribed for her shares however, his shareholding was reduced to 4.4% of the total shares issued. As such, he lost his entitlement to BADR in respect of the gains realised on the Moonth Ltd shares.

The default position therefore is that Thomas does not get BADR in respect of the gains he realises on sale however, Thomas could consider claiming for a deemed disposal of the shares to take place just before Kathy subscribes for her shares to take place. Thomas could then make a second election to defer when the deemed disposal takes place to when the shares are actually sold. This would allow Thomas to lock in BADR on the gains realised between when he purchased the shares and the point just before Kathy subscribed for her shares. Any gains realised between the deemed disposal and the actual sale of the shares (after deduction of his CGT annual exemption) would then be subject to CGT at 20% as he is a higher rate taxpayer.

Thomas' capital gains in respect of the above are as follows:

- Deemed gain eligible for BADR = $(£100 \times 5,500) - 11,000 = \underline{£539,000}$ (**£400,000 of this gain would be eligible for BADR as he only has £400,000 of his £1m lifetime limit left**).

- Gain on sale of shares not eligible for BADR = $£792,000 - (100 \times 5,500) + (539,000 - 400,000) = \underline{£381,000}$

CGT at 10% on gains eligible for BADR = $£400,000 \times 10\% = \underline{£40,000}$

CGT at 20% on gains not eligible for BADR = $(£381,000 - 3,000) \times 20\% = \underline{£75,600}$

Thomas' CGT liability (24/25) = $£75,600 + 40,000 = \underline{£115,600}$

Alice's CGT Liability

Prior to May 2023 when Kathy subscribed for shares in the business, Alice met the criteria for the capital gain on the sale of her shareholding to qualify for BADR. This is because for the 2 years prior to the issue of shares to Kathy, Alice held over 5% of the shares in the business, the business was trading and he worked in the business. Once Kathy subscribed for her shares however, Alice's shareholding was not reduced below 5% of the ordinary shares and so, she can claim BADR in full on the sale of the shares.

Gain eligible for BADR (Alice) = $£1,008,000 - 21,000 = \underline{£987,000}$ (this falls within Alice's £1m lifetime limit for BADR and so, the full amount of this gain will attract CGT

at 10%).

With respect to the sale of the painting, as the painting is a non-wasting chattel and she sold it for less than £6,000, the loss on the sale of the painting is calculated by assuming the gross disposal proceeds was £6,000.

$$\text{Loss (sale of painting)} = £6,000 - 20,000 = \mathbf{£14,000 \text{ loss}}$$

With respect to the grant of the lease, this is a disposal for CGT purposes. As the lease is a long lease (i.e., a lease with more than 50 years to run), the gain is calculated using the part disposal rules.

$$\text{Gain (grant of lease)} = (£225,000 - 2,000) - [(£145,000 + 15,000) \times (225,000 / (225,000 + 25,000))] = \mathbf{£79,000}$$

The gain on the grant of the long lease in excess of her CGT annual exemption of £3,000 is subject to CGT at 20% as Alice is a higher rate taxpayer. As the CGT rate on the gain on grant of the lease is higher than that charged on the gain on sale of her Mooth Ltd shares, she should offset the loss on sale of the painting and her CGT annual exemption against the gain on grant of the lease.

Alice's CGT Liability for 2024/25 is therefore as follows:

Capital Gain	Gain Eligible For BADR (£)	Standard Rate Gains (£)	Total Gains (£)
Gain on sale of Mooth Ltd Shares	987,000		987,000
Gain on Grant of Lease		79,000	79,000
Total Gains	987,000	79,000	1,066,000
Loss on Sale of Painting		14,000	14,000
CGT Annual Exemption		3,000	3,000
Total Taxable Gains	987,000	62,000	1,049,000
CGT at 10% on Gains Eligible For BADR	987,000 x 10%		98,700
	98,700		
CGT at 20% on Standard Rate		62,000 x 20%	12,400

Gains Above BRT		12,400	
Total CGT Liability	98,700	12,400	111,100

Alice's total CGT liability in 2024/25 is therefore **£111,100**.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

QUESTION 6.1)

The amount of Rowland's annual allowance tax charge is dependent on Rowland's annual allowance for the current tax year (2024/25), Rowland's unused annual allowances for the previous three tax years (2021/22, 2022/23 and 2023/24) and how much he has contributed into his pension in this tax year.

Calculation of Rowland's Annual Allowance For 2024/25

The annual allowance for 2024/25 is £60,000 however, it is tapered if Rowland's threshold income is over £200,000 and his adjusted income is over £260,000. The amount of the annual allowance taper is £1 for every £2 of adjusted income over £260,000, with the minimum annual allowance that can arise as a result of the tapering calculation being £10,000.

Adjusted income is calculated by taking gross net income and adding the amount of all employer contributions made, whereas the threshold income is calculated by taking gross net income and deducting all personal pension contributions made via the relief at source method.

The calculation of Rowland's threshold and adjusted income for 2024/25 is as follows:

Item	Threshold Income (£)	Adjusted Income (£)	
Net Income	256,000	256,000	
Employer Pension Contributions	--	55,000	
Relief at Source Pension Contributions	4,375 (3,500 / 0.8)	--	
Total	251,625	311,000	

As both the threshold income and adjusted income are over their respective limits (£200,000 and £260,000 respectively), Rowland's annual allowance is calculated as follows:

Annual allowance taper = $(311,000 - 260,000) / 2 = \underline{\pounds 25,500}$

Rowland's annual allowance (24/25) = $\pounds 60,000 - 25,500 = \pounds 34,500$

Calculation of Rowland's Unused Annual Allowance For 2024/25

As things stand, Rowland has made excess pension contributions of $\pounds 24,875$ ($\pounds 34,500 - 59,375$) into his pension in the 2024/25 tax year.

Rowland can however, carry forward all unused annual allowances from the previous three tax years (2021/22, 2022/23 and 2023/24) to cover any annual allowance breach in 2024/25.

On the basis however, that Rowland has been making pension contributions of $\pounds 59,375$ in the last three tax years however, he is unlikely to have any unused annual allowances to carry forward to cover his annual allowance breach in 2024/25.

Calculation of Rowland's Annual Allowance Tax Charge For 2024/25

Rowland therefore has an annual allowance breach of $\pounds 24,875$ which will be taxed as the top part of his income at 45% income tax (as he is an additional rate taxpayer). This is the annual allowance tax charge.

As his employment income for 2024/25 takes him well into the additional rates of income tax, Rowland will be subject to a 45% annual allowance tax charge on the full annual allowance excess in 2024/25.

Annual allowance tax charge (2024/25) = $24,875 \times 45\% = \pounds 11,194$

QUESTION 6.2)

In 2024/25, Rowland will be subject to income tax on his employment income and the annual allowance breach of $\pounds 24,875$ (calculated in Question 6.1).

Rowland's income tax liability in 2024/25 will be calculated as follows:

Step 1 - Add up all gross sources of taxable income

Firstly, all gross taxable sources of non-savings income (this being employment income, profits from self-employment, rental income etc), savings income (interest etc) and dividend income must be added together to arrive at "total income".

For Rowland, his sources of taxable income he has in 2024/25 is his salary from

employment of £256,000 and the annual allowance breach of £24,875. Rowland's total income for 2024/25 is £280,875. As Rowland is not making any occupational pension contributions into a workplace pension scheme, no deduction from Rowland's gross salary is made.

Step 2 - Deduct all Deductible Payments

Any Step 2 Deductible Payments that can be deducted from total income to arrive at net income can be deducted. Rowland however, does not have deductible payments to deduct, so his net income is also £280,875.

Step 3 - Calculate Total Taxable Income

Rowland's total taxable income is then calculated. This is done by deducting his Personal Allowance from his net income.

Rowland's Adjusted Net Income (ANI) however, comes to £276,500 (this being calculated by taking his net income and deducting the gross amount of personal pension contributions made via the relief at source method). This is well over the £100,000 limit for Rowland's personal allowance to start tapering.

Rowland's ANI will taper by £1 for every £2 of ANI over £100,000; his personal allowance will be tapered to nil if his ANI reaches £125,140. As Rowland's ANI is well over £125,140, his personal allowance is fully tapered to nil in 2024/25 and so, Rowland's taxable income in 2024/25 is £280,875 (i.e., the same as his net income).

Step 4 - Calculate Income Tax Liability

As all of Rowland's taxable income is classed as non-savings income, the portion of his taxable income that falls within his basic rate tax bracket is subject to income tax 20%, the portion falling in his higher rate tax bracket is subject to income tax at 40% and all taxable income over the higher rate tax bracket is subject to 45% income tax.

In calculating the amount of Rowland's basic and higher rate tax brackets, the gross amount of all personal pension contributions made via the relief at source method and Gift-Aid donations are added to his basic and higher rate tax brackets, thereby extending the basic and higher rate bands. This results in more of Rowland's taxable income being taxed at 20% and 40%, providing additional income tax relief of 25% (45% - 20% claimed at source by the pension provider) on the contributions.

Rowland's basic rate tax bracket = $£37,700 + (3,500 / 0.8) = £42,075$

Rowland's higher rate tax bracket = $£125,140 + (3,500 / 0.8) = £129,515$

As Rowland's annual allowance excess is added to his total taxable income, Rowland's annual allowance tax charge will be collected as it will be taxed as the top part of his income.

The sum of the income tax charged on the income in each tax bracket is taken and this will provide Rowland's gross income tax liability for 2024/25.

Step 5 - Deduct Income Tax Deducted At Source

All income tax deducted at source (for Rowland, this will be the income tax deducted via PAYE by his employer) is then deducted to arrive at his income tax payable for 2024/25.

On the basis that Rowland's only source of income is his salary from employment, Rowland's income tax payable will effectively be the annual allowance tax charge that he is liable to pay.