

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

MAY 2026

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.

Important Information – Please read carefully

- An Excel spreadsheet is provided with each question. You do not have to use this, but where the requirements include calculations and workings, you may find it a useful tool. However, please note that all Excel calculations and workings that you wish to include as part of your answer **must** be copied into the word processor answer box, otherwise they will not be marked.

1. Your client, Edouard, is UK tax resident but non-UK domiciled under general law. He became UK tax resident for the first time in 2022/23. Since arriving in the UK, he has claimed the remittance basis for all years up to and including 2024/25. Edouard has no trust interests.

You have just received an email from Edouard, including the following:

“I understand that there have been some changes to the rules relating to how I, as a UK resident but non-UK domiciled individual, am subject to tax in the UK on my overseas income and gains. Could you please explain what these rule changes are and how they impact my exposure to UK tax for the tax years 2025/26 and 2026/27?”

I plan to buy a UK property in the next two or three years. To pay for the property, I will need to sell a holding of shares in a non-UK company that I inherited from my father in 2010. I am slightly concerned about whether a UK tax liability will arise on that disposal. In addition, I will need to bring some of my other overseas funds to the UK to help with the property purchase; these are funds that I have accumulated from unremitted income and gains since 2023, and I would appreciate your advice in relation to that.”

Requirement:

Draft an email to Edouard dealing with the issues he has raised. Include an explanation of the basis under which he can benefit from any transitional rules. (11)

2. Christine is an employee of Flambert Ltd. In 2025/26 her salary was £56,000 from which PAYE of £17,000 was deducted.

On 6 July 2025, Flambert Ltd made a loan to Christine of £200,000 at an interest rate of 1% p.a. Christine paid all interest payments as they fell due. In early 2026 she received an inheritance from her aunt and was able to repay the loan in full on 5 February 2026.

Since 2023, Flambert Ltd has allowed Christine to have exclusive use of the company’s yacht from 1 May to 31 August each year. The yacht had originally been bought by Flambert Ltd for £250,000 but by 2023 it had depreciated in value to £60,000. No other employee had been allowed to use it before Christine. In March 2026, when it was valued at £30,000, Flambert Ltd sold the yacht to Christine for £25,000.

During 2025/26, Christine also received:

- a) £6,500 UK dividend income;
- b) £7,250 UK bank interest; and
- c) £6,600 foreign bank interest; this was received after deduction of £5,400 of overseas tax.

Christine has let out a furnished residential property for several years at a rent of £1,500 per month.

During 2025/26 her tenants paid the rent on time on the last day of each month, and they also paid a lump sum equal to three months’ rent as they had fallen into arrears during the previous tax year. During the year, Christine made the following payments in relation to the property:

- a) £750 for a tumble dryer – the property had not previously had one.
- b) £1,540 buildings insurance for the 2026 calendar year; this was a 10% increase on the premium for the previous calendar year.
- c) £350 to a plumber to fix a leak in the bathroom.
- d) £800 to her accountant to prepare her 2024/25 UK tax return. Half of the cost related to calculating and reporting her property income.
- e) £16,000 mortgage interest.

Christine has never made, and does not intend to make, any election in relation to her property income.

Requirements:

- 1) **Calculate Christine’s Income Tax payable for 2025/26.** (19)
- 2) **State which classes of National Insurance Contributions are payable in relation to each element of Christine’s remuneration from Flambert Ltd, and by whom they are payable. Calculations are NOT required.** (3)

Total (22)

3. Your client, Jackson, has asked you for advice in relation to his pension contributions and has provided you with the following information regarding his financial affairs for 2025/26:

He received a gross salary of £208,000 from his employer. His only taxable benefit was private medical insurance which cost his employer £3,000 to provide.

Jackson's employer contributed £52,000 into his personal pension scheme and Jackson contributed £5,000.

Jackson's only other taxable income for 2025/26 was £5,500 received from a discretionary trust.

Jackson has been a member of a pension scheme for many years and has always ensured that the maximum amount has been contributed in order to avoid an annual allowance charge, but fears that this year the limit may have been exceeded.

Jackson is thinking of moving to another part of England and has mentioned to you that, if he does, he intends to find a new, local tax adviser. He is not dissatisfied with the service you provide, but he wants to be able to easily visit his accountant's office to discuss his affairs.

Requirements:

- 1) Calculate, with supporting explanations, Jackson's annual allowance charge for 2025/26. (14)
- 2) State four things that you should address in your final letter to Jackson when you cease to act for him. (4)

Total (18)

4. Bella inherited several assets from her grandmother who died in 2022. Bella disposed of some of these assets at an auction in July 2025 and has provided you with the details below:

<u>Asset</u>	<u>Probate Value</u>	<u>Proceeds of sale</u>	<u>Auctioneer costs</u>
	£	£	£
An antique vase	6,800	3,500	400
A diamond ring	5,250	5,000	200
An antique necklace	2,500	9,000	675

The only other disposal that Bella made in 2025/26 was of a gold and emerald bracelet which she sold to her friend in December 2025 for its market value of £12,500. The bracelet was part of a set which included matching earrings. The probate value of the set was £14,625 and the earrings were valued at £10,000 in December 2025.

Bella's only source of income in 2025/26 was employment income of £49,000, and she paid £1,200 into her personal pension. She usually pays all of her tax through the PAYE system.

Requirements:

- 1) Calculate, with supporting explanations, Bella's Capital Gains Tax payable for 2025/26. (13)
- 2) Explain the two options available to Bella to report her chargeable gains to HMRC, and state the due date for payment of the Capital Gains Tax. (2)

Total (15)

5. Kerry, an additional rate taxpayer, has always been resident in the UK.

During 2025/26 she made the following capital disposals:

<u>Date</u>	<u>Disposal</u>	<u>Sale proceeds</u>	<u>Notes</u>
		£	
1 June 2025	Assigned a 20-year lease on a commercial property.	126,500	(1)
1 July 2025	Sold 5,000 ordinary shares in Skylarke Ltd to her son. The shares had a market value of £66,000.	37,600	(2)
1 October 2025	Sold 20,000 ordinary shares in Robine plc and £18,000 8% loan stock in Robine plc.	96,250	(3)
		<u>23,400</u>	
		<u>283,750</u>	

Continued

Continuation

Notes

- (1) The commercial property lease was previously assigned to Kerry on 1 June 2012 for £87,000 and was acquired for its investment potential.
- (2) The 5,000 ordinary shares in Skylarke Ltd were acquired by Kerry in November 2018 for £24,500. Skylarke Ltd is an unquoted trading company with an issued share capital of 250,000 £1 ordinary shares.
- (3) The ordinary shares and loan stock in Robine plc were acquired on the takeover of Thrushe plc by Robine plc.

Kerry purchased 12,000 shares in Thrushe plc for £58,500 on 1 October 2020.

On 1 February 2023, Robine plc acquired all the ordinary share capital of Thrushe plc.

In exchange for her shares in Thrushe plc Kerry received the following:

	<u>Market value at</u> <u>1 February 2023</u>
	£
35,000 £1 ordinary shares in Robine plc	94,000
£18,000 8% Robine plc non-convertible loan stock	<u>18,700</u>
	<u>112,700</u>

HMRC has agreed that the takeover was for bona fide commercial reasons and was not for the avoidance of tax, and that the Robine plc loan stock is a qualifying corporate bond.

On 1 March 2026 Kerry subscribed for £210,000 worth of shares in Starlinge Ltd, a qualifying Seed Enterprise Investment Scheme (SEIS) company.

Kerry has never worked for Thrushe plc, Skylarke Ltd, Robine plc or Starlinge Ltd.

Requirements:

- 1) **Explain why gift relief is available on the sale of the shares in Skylarke Ltd, but Business Asset Disposal Relief is not available.** (2)
- 2) **Calculate the net after tax sale proceeds received by Kerry from her capital disposals in 2025/26, assuming gift relief and the maximum amount of SEIS reinvestment relief is claimed.**

Your answer should clearly quantify the amount of gift relief and SEIS reinvestment relief claimed. (14)
- 3) **State the Income Tax and Capital Gains Tax implications of Kerry selling all her shares in Starlinge Ltd at a profit in an arm's length transaction in the next two to four years.** (2)

Total (18)

6. Lauren has always been resident in the UK.

She has worked for Dobosz plc, a trading company, for the last six years.

Dobosz plc has invited Lauren to join its newly proposed Save-As-You-Earn (SAYE) share option scheme.

The terms of the scheme are as follows:

- a) The scheme will be open to all employees and directors provided they have worked full time for the company for at least four years and are at least 25 years old.
- b) The scheme will permit employees to invest a monthly amount of between £10 and £600 for a fixed period of five years.
- c) At the end of the five-year period, Dobosz plc will add a bonus into the scheme of 5% of the amount each employee has invested.
- d) Employees will be able to buy the shares for £3.44 each at the end of the five-year period.

Continued

Continuation

Lauren plans to take up the offer and predicts that:

- a) The share options will be granted to her on 1 July 2026.
- b) She will invest £325 per month into the scheme for the full five-year period.
- c) She will use the amount she has invested, and the bonus put into the scheme by Dobosz plc, to exercise the share options on 30 June 2031.
- d) Each share will be worth £4.15 on 1 July 2026 and £5.41 on 30 June 2031.
- e) She will also sell the shares immediately on 30 June 2031.

Lauren's shareholding in Dobosz plc will represent an interest of less than 2%.

Requirements:

- 1) **Explain whether each of HMRC's conditions to be a 'tax-advantaged' share option scheme align with the proposed rules for Dobosz plc's SAYE scheme and conclude whether the scheme is tax-advantaged.** (4)
- 2) **Calculate the number of shares that Lauren will be able to buy at the end of the five-year period.** (2)
- 3) **Explain, with supporting calculations, the Income Tax and National Insurance Contribution (NIC) consequences for Lauren when she exercises her options, and the Capital Gains Tax consequences when she sells the shares assuming the scheme is:**
 - a) not tax-advantaged, or
 - b) tax-advantaged.

State how Lauren's tax liabilities and NICs are collected. (8)

Assume that the 2025/26 rules, tax rates and allowances apply throughout.

Total (14)