ATT May 2026

Paper 1: Personal Taxation

Examiners' report

Question 1

Most candidates wrote about the cessation of the remittance basis from 6 April 2025, the new FIG regime and the TRF, but very few picked up on the availability of rebasing to 5 April 2017.

In relation to the TRF, only a few candidates made the point that the preferential rates of tax are payable on the <u>designation</u>, rather than the <u>remittance</u>, of income and gains.

Question 2

<u>Part 1</u>

Generally, reasonably well answered. Surprisingly, candidates struggled with the calculation of the benefit of the preferential loan and generally did better in calculating the benefit of the yacht use/transfer.

From an exam technique perspective, too many candidates did calculations purely <u>within</u> the cells of the excel spreadsheet – they need to include some narrative in their answer to indicate what they are doing.

Understandably, very few candidates recalculated the tax liability without the overseas interest to identify the lower DTR available.

<u>Part 2</u>

Generally well answered and many candidates picked up full marks here.

Question 3

Part 1 of this question was, on the whole, really well attempted by candidates. The question asked candidates to calculate, with supporting explanations an annual allowance charge. Most candidates had a good understanding of how to calculate the annual allowance charge, including tapering the annual allowance when both threshold and adjusted income limits were exceeded. The majority of answers included a good level of explanations.

Whether the pension contributions from the question needed to be grossed up or not seemed to cause a lot of confusion. Despite the question stating that both Jackson and his employer had contributed into his personal pension scheme some candidates discussed occupational pension schemes. Many candidates either grossed up both employer and individual contributions in the scheme or left both without grossing up, clearly not understanding when a pension contribution should be grossed up. Some answers commented that the question wasn't clear if the contributions were net or gross, well prepared candidates were able to correctly take the information given and understand which needed grossing up.

Other common mistakes included not correctly grossing up the discretionary trust income, not knowing which pension to deduct or add in the threshold or adjusted income workings and only working out the reduced annual allowance rather than the annual allowance charge.

Some candidates wasted time completing a whole income tax computation as well as working out the annual charge, this was not required.

Part 2 of the question was very disappointing. Many candidates had clearly not learnt their ethics. The question specifically asked about what to address in the final letter to Jackson when you ceased to act. Most candidates listed things that the firm should do in the process of ceasing to act rather than what to put in the final letter. Some candidates wrote the letter which again would have wasted time in both layout and pleasantries. There were too many answer's pointing out Jackson didn't need to move as technological advances meant relationships could work remotely, offering to reduce fees or offering to help to look for and vet the new advisors. Whilst ethics remains a small part of this paper it should be an easy way to pick up marks in the exam for a well prepared candidate.

Question 4

This question tested candidates' knowledge of Capital Gains Tax and in particular the non-wasting chattels and part disposal rules. Also, the administration of taxes.

The first part of the question required candidates to identify the rules applying to different scenarios and apply these in computing the gain/loss in each case, the interaction of these gains/losses and the total Capital Gains Tax payable after applying any reliefs taking into account sources of income and income tax thresholds.

The question requirement was to calculate with supporting explanations.

A high number of candidates lost easy marks for not explaining what they were calculating and why.

Those that took a methodical approach with full supporting explanation to each part scored highly on this question.

Silly mistakes were made in adding up or subtracting lost marks (although follow through marks were awarded).

A number of candidates struggled with the part disposal rules, mixing up costs and proceeds and failing to apply the a/(a+b) formula correctly.

Many candidates used a shortcut to an assumption of higher rate liability without working this out and lost marks as a result.

The definition of gross proceeds also seemed to have escaped a number of candidates who consistently applied the proceeds net of auctioneer costs to the 5/3 rule.

Despite this a high number of candidates scored 75% or more on this part of the question.

The second part of the question involved the methods of reporting the gain and due date for payment of the tax.

The dates in particular seemed to cause some candidate's trouble and easy marks were again lost.

That said almost half of the candidates were able to score full marks on this part of the question and a high number scored at least half marks.

There were some non-attempts with some candidates passing on one or other part of the question or on both.

Question 5

Many candidates answered Part (1) of this question quite well.
However, some answers:

- were too brief
  (missed out one of the reliefs, or missed the key reasons, or did not adequately explain why), or
- were too long
  (gave all the rules of both reliefs but did not then apply the knowledge to the scenario to answer the specific question), or
- tried to argue the opposite

(the question said gift relief was available, but business asset disposal relief (BADR) was not available, but some answers explained why gift relief was not available and why BADR was!)

- were under the misapprehension that for gift relief at least a 5% interest in the company is required, and that BADR is only available for quoted shares.

Part (2) of this question was answered poorly.

The requirement is to calculate the net after tax sale proceeds – many forgot this and just tried to calculate the capital gains tax payable.

Common errors were:

- Dealing with SEIS reinvestment relief incorrectly and not appreciating that:
  - the relief is 50% of the lower of three things
  - there is a maximum amount of relief (50% x £200,000), and
  - all the other gains could be considered for the relief

    Many just took 50% of one of the other gains and most picking the largest of those gains.
  - the relief is deducted from the total chargeable gains before the annual exempt amount

    Many deducted in the wrong place including deducting from the tax payable rather than deducting to calculate the taxable amount.
- Some incorrectly believed investors relief was available and calculated some of the tax at 14%.
- The gain on the assignment of a short lease was disappointing.
  - Many did not attempt this part
  - Of those that did, many incorrectly applied the rules for the grant of a short lease out of freehold or the grant of a short lease out of a short lease rules.
  - Some claimed that they were not told the length of the lease that was acquired and so they could not do that part … but the length of the lease at the acquisition date could be calculated from the information given in the question.
- The sale at undervalue attempts were varied.
  - Many did the calculations very well; others were clearly confused.
  - A considerable number of students gave full gift relief, even though it was not an outright gift.
  - Most students correctly calculated the base cost of the shares for the son, but this was not required to answer the question asked and therefore earned no marks and wasted time.
- The takeover was answered well by quite a few, started and abandoned halfway through the thought process by some and not attempted at all by others.
  - Many attempted to apportion the original cost of the shares to the new consideration received (with differing degrees of success).

    However, they then incorrectly took the whole apportioned cost relating to the 35,000 shares acquired on the takeover to calculate the gain arising on the 20,000 shares sold.
  - Many said that the gain on the loan stock was exempt as it was a Qualifying Corporate Bond but then incorrectly:
    - exempted the whole gain, including the frozen gain, or
    - taxed the whole gain, including the gain accruing after the takeover.
  - Some did not mention that the gain on the QCBs was exempt.

Part (3) of this question was answered well, although some answers were too brief.

There were four things to consider:

- If sold within three years of purchase – both capital gains tax and Income tax
- If sold after three years of purchase – both capital gains tax and Income tax.

The weaker answers just considered two of the four, either ignoring one of the taxes or ignoring the importance of the date of disposal compared with the acquisition date.

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Question 6

Overall, the answers to this question were disappointing.

As the last question on the paper, there were signs of poor exam technique and fatigue– but there were a lot of relatively easy marks available on this question.

Of those who answered the question, too many answers were very brief and clearly no account was taken of the mark allocations given to each part.

Answers to Part (1) were varied.

Common errors were:

- Giving a generic answer quoting all the HMRC conditions but making no attempt to apply them to the given scenario.
- Missing out vital conditions which influenced the decision in this scenario.
- Incorrectly thinking that:
  - the £5 minimum contribution meant that it was not allowed
  - as Lauren only planned to contribute £325, the scheme was tax advantaged

    (i.e. indicating that the fact the scheme said contributions could be £600 was irrelevant and the scheme would be tax advantaged for Lauren, but not for others who contributed more than £500)
  - excluding part time employees is allowed.
- Many briefly mentioned the 80/20 discount rule
  - but did not expand or apply to the scenario to conclude whether the rule was satisfied in this case.
- A large proportion either:
  - did not conclude whether they thought the scheme was tax advantaged or not, or
  - concluded it was tax advantaged as it satisfied 'the majority of the conditions'

    (i.e. not understanding that all the conditions must be satisfied).

Part (2) was answered well by most candidates.

Common error:

- forgetting to add the 5% bonus to the amount saved in the scheme up to the exercise date
- calculating the number of shares incorrectly using the market value of £4.15 on the exercise date or the market value of £5.41 on the sale of shares date rather than the agreed exercise price of £3.44.

Part (3) was attempted by a significant number of candidates, but low scores were obtained.

The key point of this part was to test candidate's explanation skills (with supporting calculations) and to consider if the scheme were, or were not, deemed to be tax advantaged and to state how the tax liabilities (income tax and capital gains tax) and NICs are collected:

- Many ignored the collection of the tax liabilities and NICs, thereby losing easy marks.
- Several just gave a few calculations which were not worth many marks, and they gave very few (or no) explanations which is where most of the marks lay.
- Of those that tried to explain, most attempts were too brief and very few stated obvious things which were mark worthy, such as:
  - For a scheme which is not tax-advantaged, on exercise:
    - additional employment income arises
    - subject to income tax (non-savings income) and Class 1 NICs
    - taxed in 2031/32
    - we don't know the level of Lauren's income then, so income tax rate could be 20%/40%/45% and NICs could be 0%/8%/2% (if current rates of tax are unchanged).
  - For a tax-advantaged scheme, on sale of shares:
    - chargeable gain arises in 2031/32
    - may be an annual exempt amount available
    - rate of tax depends on level of taxable income in 2031/32
    - could be 18% or 24% but not 14% as BADR not available (and explain why).
- Many mistakenly believed that the employment income or chargeable gain arose in 2026/27 or 2027/28.
- Others wasted time talking about (and in some cases calculating) employer's NICs which was not required, earned no marks and wasted time.