

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 1 PERSONAL TAXATION

JULY 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.

1. Leo and Layla were married on 28 September 2013 and had a daughter, Sarah, in 2015.

They are both higher rate taxpayers.

Before the marriage, Leo lived in a flat which he bought in 2011 for £340,000 and Layla lived with her parents. On 1 October 2013, they both moved into a house which they bought together for £815,000 including associated acquisition costs.

As a wedding present, on 1 October 2013, Leo transferred a half share in the flat to Layla. They rented out the flat to tenants for nine years from 1 November 2013.

On 1 January 2023, Leo and Layla decided to separate. Leo moved out of the house and back into the flat.

Initially, the couple started to sort out their financial affairs informally between themselves and made the following transfers to each other:

- (a) On 1 February 2025, Leo gave an antique vase to Layla which was worth £7,500. Leo bought the vase in 2009 for £2,500.
- (b) On 1 August 2025, Layla gave a painting to Leo which was worth £7,500. Layla bought the painting in 2023 for £6,300.

For Layla's 40th birthday, on 31 July 2026 (before they were legally divorced), Leo gave Layla a diamond necklace worth £8,000. Leo inherited the necklace from his mother on her death in September 2025 when it was worth £4,000. His mother had bought the necklace for £2,000 in June 2013.

On 1 September 2026 Leo and Layla were legally divorced, and with legal advice they reached a financial divorce settlement which included the following:

- (a) Leo transferred his half ownership of the house to Layla. Under a deferred sale agreement, Leo will be entitled to 35% of Layla's profit over and above the original cost of the house. The house was worth £1,050,000 on 1 September 2026.
- (b) Layla transferred her half ownership of the flat to Leo outright. The flat was worth £425,000 on 1 September 2026.
- (c) Layla forfeited her rights to some joint bank and building society accounts and balances of £90,000 in total were transferred into Leo's sole name.
- (d) Leo agreed to pay spousal and child maintenance of £2,500 per month to Layla.

On 1 October 2026 Leo bought himself a new home and decided to rent out his flat again.

Layla plans to sell the former marital home and hopes to complete the sale on 1 October 2027. She anticipates that she will be able to sell it for £1,175,000 after deducting associated costs of sale.

Requirements:

- 1) **Explain, with supporting calculations, the Capital Gains Tax implications of:**

- a) **Leo's wedding present to Layla on 1 October 2013;**
- b) **The couple's separation on 1 January 2023;**
- c) **The capital transactions in 2025;**
- d) **Leo's birthday present to Layla on 31 July 2026 and;**
- e) **The couple's financial divorce settlement on 1 September 2026.**

Do not consider private residence relief in this part of the question.

(10)

- 2) **Assuming Layla sells the marital home as planned on 1 October 2027, explain the Capital Gains Tax implications for both Layla and Leo.**

(6)

- 3) **Explain, with reasons, the Income Tax consequences of:**

- a) **Renting the flat;**
- b) **The transfer of bank and building society accounts to Leo and;**
- c) **The maintenance payments paid by Leo.**

(2)

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

Total (18)

2. Hilary is a longstanding client of your firm and a higher rate taxpayer due to the level of her employment income.

She has been employed by Niche plc for many years until she retired and left the company on 27 February 2026.

Hilary has supplied you with the following information in relation to her retirement:

Retirement payments

- (a) On 1 February 2026, her 66th birthday, Hilary started to receive her state pension of £230 per week.
- (b) Niche plc put a £10,000 lump sum payment into her occupational pension scheme on 20 March 2026. This amount is in addition to its usual monthly contribution.
- (c) Niche plc gave Hilary a non-contractual payment of £56,000, half of which was received in her final monthly pay on 20 March 2026. The remaining half was paid six months into her retirement.
- (d) Hilary was provided with the use of a company car throughout 2025/26 until her retirement. At her leaving party, on 28 February 2026, she was given the company car, worth £12,250, as a thank you present from the company.
- (e) Niche plc issued Hilary's P45 on 20 March 2026.

Sale of shares

- (a) On 15 January 2026 to raise some cash for her retirement, Hilary sold her entire holding of 6,000 shares in Niche plc for £5.20 per share.

Hilary acquired the shares thorough the company's non-tax advantaged share option scheme.

On 6 July 2016 she was granted the option to buy the shares when the shares were worth £1.60 per share. To demonstrate her commitment to the scheme, she was required to pay 5p per share for the option.

On 6 November 2021, when the shares were worth £3.80, she exercised the option and acquired her 6,000 shares for the market value at the date of the grant.
- (b) To pay for the shares, Hilary had taken out an interest free loan with Niche plc equal to the cost of the shares.

A condition of the loan agreement was for the loan to be repaid on the earlier of the date she sells the shares, or the date she leaves the company.
- (c) Niche plc is a trading company with an issued share capital of £2 million.
- (d) Hilary has made other capital disposals that have used her annual exempt amount for 2025/26.

Requirements:

- 1) **Explain how Hilary will be taxed on her retirement payments, including;**
 - a) **Quantifying the amounts which will be assessed;**
 - b) **When they will be assessed;**
 - c) **Explanation of the method of assessment and;**
 - d) **Explanation of how the tax is collected.**

(7)
- 2) **Calculate Hilary's overall net cash impact of selling her shares in Niche plc, after taking account of associated costs and tax liabilities, and explain:**
 - a) **The tax charges arising for Hilary;**
 - b) **The timing of those charges;**
 - c) **Whether Business Asset Disposal Relief is available and;**
 - d) **The tax treatment of the loan for Hilary.**

(9)

Total (16)

3. Peter has been UK tax resident since birth. However, from April 2025 he has spent much of his time outside the UK, and it is unclear if he was UK tax resident for the 2025/26 tax year.

During 2025/26 he made the following asset disposals:

- (a) 15 May 2025 – he exchanged contracts for the sale of Foxglove Cottage. He had bought this UK residential property in 2013 and had always rented it out to tenants. The sale, on which he realised a significant gain, completed on 26 June 2025.
- (b) 10 June 2025 – he sold his shareholding in Landgrab Ltd, a UK property investment company. He had inherited these shares in 2017, but their value had declined steadily since then and he made a capital loss on the disposal.
- (c) 20 December 2025 – he sold some artwork for £30,000 which had been kept at his UK home. He had originally bought the artwork for £50,000.

Peter is within the self-assessment system and HMRC have issued him with a 2025/26 tax return.

Requirements:

Write an email to Peter to explain:

- 1) **How his chargeable gains for 2025/26 will be calculated depending on his UK tax resident status for that year.** (10)
- 2) **The reporting obligations, including the contents of the report, in relation to the sale of Foxglove Cottage, if Peter is UK tax resident for 2025/26.** (4)

You do not need to consider the rules relating to temporary non-UK residence.

Total (14)

4. Rory is one of your clients for whom you provide both compliance and advisory services. He works for Masters Ltd as a structural engineer. He received the following benefits/reimbursements and incurred the following costs during the 2025/26 tax year.

- (a) He was provided with sole use of a petrol car with a list price of £35,000 and CO₂ emissions of 148 g/km. At Rory's request, Masters Ltd paid an additional £1,750 for alloy wheels before the car was first made available to him on 5 December 2025. Rory pays a £100 monthly contribution to Masters Ltd for his private use of the car. In February 2026, Master Ltd agreed to pay £90 for the installation of LED headlight bulbs. Rory pays all his fuel costs in relation to this vehicle.
- (b) Before taking delivery of the car, Rory drove 11,400 business miles in his own car. The fuel cost of these journeys was £1,600 and Masters Ltd reimbursed him at 44p per mile.
- (c) During 2025, Rory undertook some significant renovations on his home which made it uninhabitable for October and November. For those two months, his employer allowed him and his family to stay rent free in a house owned by the company. The property had been acquired in January 2020 for £250,000 and £35,000 had been spent adding a conservatory in May 2022, with a further £10,000 being spent in May 2025 to add a hot tub. The property was valued at £475,000 in October 2025. The annual value of the property is £2,000. This was not job-related accommodation.
- (d) Rory and his wife are each provided with a mobile phone at an annual cost to Masters Ltd of £720 per phone. Rory's wife does not work for Masters Ltd.
- (e) Rory pays annual subscriptions in relation to his two professional qualifications; as a member of the Institution of Structural Engineers and as a member of the Royal College of Psychiatrists. Both subscriptions, costing £750 and £675 respectively, are reimbursed by his employer.
- (f) Masters Ltd held a Christmas party for all employees and their spouses which Rory attended together with his wife. The £175 cost per head of the party was covered by a PAYE Settlement Agreement.
- (g) Masters Ltd pays for Rory's membership of the local golf club. The membership usually costs £5,000 but Masters Ltd was able to get it for £4,000.

Recently, you provided Rory with some advice relating to his tax residence status, concluding that he was, and always has been, resident in the UK. Rory has asked you to share this information with a third party.

Continued

Requirements:

- 1) **Calculate Rory's taxable benefits for 2025/26, with explanations of any amounts in (a) and (c) that are excluded from your calculations.** (14)
- 2) **Explain what classes of National Insurance Contributions are payable on these benefits, who is liable to pay, and the date by which they should be paid. No calculations are required.** (2)
- 3) **State what actions you should consider taking, to manage the risk associated with a client asking you to share your advice with a third party.** (3)

Total (19)

5. Your client, Jack, is married to Diane. He has provided you with the following information relating to 2025/26:

- (a) His gross annual salary from Cougar Ltd was £61,000 from which Income Tax of £12,500 was deducted under PAYE. His only employment benefit was private medical insurance for his family which cost Cougar Ltd £1,450.
- (b) In May 2025, he received a dividend of £960 from a UK Real Estate Investment Trust (REIT) which was paid out of the REIT's tax-exempt property income and gains.
- (c) In December 2025, he received a dividend of £350 from Small Ltd, a qualifying Enterprise Investment Scheme (EIS) company. Jack had subscribed for 15,000 £1 shares in Small Ltd in 2022/23 and received full Income Tax relief.
- (d) In January 2026, Jack received a dividend of £245 from his shares in a qualifying Venture Capital Trust (VCT). He had subscribed for 10,000 £1 shares in 2020/21 and this was his only investment that year.
- (e) Jack and Diane rent out a spare bedroom in their jointly-owned house. The total rent received during the year was £10,200 and related expenses were £2,500.
- (f) Jack has a bank account on which interest of £400 was received during the year.
- (g) In March 2026, Jack made a donation of £500 to a registered charity under the gift aid scheme.

In addition to her share of the rental income and interest, in 2025/26 Diane had employment income of £6,000 from her part-time job and child benefit in respect of the couples' three children.

Requirements:

- 1) **Calculate Jack's Income Tax payable for 2025/26. Showing your treatment of each item and assume that any beneficial election is made.** (16)
- 2) **State the due date of payment of Jack's Income Tax payable and calculate the interest that will be charged by HMRC if payment is two months late.** (2)

Total (18)

6. In April 2018, Salim purchased 1,000 shares in ABC Ltd for £10,000.

In June 2020, ABC Ltd was taken over by LargerCo plc. Salim received 2,000 shares in LargerCo plc.

In May 2024, BiggerCo plc took over LargerCo plc. For each LargerCo plc share held, Salim received the following:

- (a) Four BiggerCo plc ordinary shares – market value £5 per share.
- (b) One BiggerCo plc preference share - market value £8 per share.
- (c) £1 of non-convertible loan stock in BiggerCo Ltd – market value £4 per £1 unit.

Continued

Continuation

The loan stock was issued in sterling in June 1995.

On 1 February 2026, Salim sold 1,500 BiggerCo plc preference shares for £30,000 and the entire loan stock for £7,800.

Salim has never worked for any of the companies and none of the companies is a trading company.

Requirements:

- 1) **Explain the Capital Gains Tax treatment of each of the above events and calculate Salim's chargeable gains for 2025/26.** (10)
- 2) **Explain how Salim's chargeable gains would differ if the loan stock received on the takeover of LargerCo plc by BiggerCo plc was convertible into Euros.** (3)

Total (13)