ATT Paper 1 Personal Taxation

ATT Paper 1 Personal Taxation May 2026

0/98

Question 1 /11

Cover Page

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.

Marks available per question:

Question 1: 11 marks

Question 2: 22 marks

Question 3: 18 marks

Question 4: 15 marks

Question 5: 18 marks

Question 6: 14 marks

A maximum of two marks will be awarded for the quality of presentation of the answers.

Total: 100 marks

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.

When you have pasted calculations from Excel into the answer box, you might only see gridlines where there is an entry in the cell. You do not need to spend time adding extra gridlines manually. Please **do not** expand the width of tables in the answer box once pasted in from Excel. Column widths have been deliberately limited in the Excel spreadsheet to facilitate marking.

Question 1 0/11

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)

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Part 1

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Response

Part 2

This is your answer box for Question 1. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

To: Edouard

From: Tax Technician

Date: Today

Subject: Responses to tax queries in relation to Overseas Remittance

Hi Edouard,

Hope you're well and thanks for reaching out with your queries in relation to overseas remittance. Please find below our detailed responses to the questions raised.

As the you were the former remittance basis user in all the years upto and including 2024/25 before becoming UK tax resident, you were able to claim to exclude any income and gains arising outside of the UK from the tax on the basis that the funds were not brought into the UK.

The remittance basis of taxation is no longer available after April 2025 and you would be taxed on all the incomes and gains on an arising basis and hence you won't be able to claim relief under FIG regime as well.

On the sale of shares, the UK tax liability will arise and will constitute as remittance. The remitted gain will be subject to tax in the year of remittance (assuming it would be 2025/26 for you and must be included on your tax return.

Also, the funds accumulated from unremitted income and gains since 2023 would be taxed in the year of remittance.

However, you being a former remittance basis user, may make a designation election for the tax year 2025/26 for the amount of unremitted foreign gains and income to be subject to the 'Temporary Repatriation Facility' The TRF is a transitional arrangement to incentivise tax payers to bring their unremitted gains and income in the UK by taking gain at lower rate. The applicable tax rate for the TRF in respect of 2025/26 & 2026/27 is 12%. You would need to make an election to use the TRF by first anniversary of 31 January after the end of the tax year (i.e. 31 January 2028 for TRF elections for 2025/26).

Do let us know if any further questions or clarifications needed.

Thanks & regards

Tax Technician,

Question 2 /22

Question 1 0/22

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)

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Part 1

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Response

1-part1-ATTP1M26_Q2.xlsx

Part 2

This is your answer box for Question 2. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Part 1				
1) Calculate Christine's Income Tax Payable for 2025/26				
	Non Saving Income	**Saving Income**	**Dividends**	**Total**
Employement Income - W1	86,021			
Property Income - W5	20,315			
UK Dividend Income			6,500	
UK Bank Interest		7,250		
Foreign Bank Interest - gross (6,600+5,400)		12,000		
Net Income	106,336	19,250	6,500	132,086
Less: Personal Allowance - W6	-			
Taxable Income	**106,336**	**19,250**	**6,500**	
Tax on Taxable Income				
37700*20%	7540			
68636*40%	27454.4			
18804*40%	7521.6			
446*45%	200.7			
6500*39.35%	2557.75			
	45,274			
Less: Tax Reducer				
Mortgage Interest - 16000*20%	-3,200			
	42,074			
Less: Tax Deducted at Source				
Paye	-17,000			
Less: WHT on Foreign Interest - Lower of: 12000*40% = 4800 Overseas Tax = 5400	-4,800			
Further Income Tax Payable	**20,274**			
W1 - Employement Income				
Cash Earnings		56,000		

Add: Taxable Benefit				
Loan - W2	1,021			
Use of Asset - W3	3,000			
Transfer of Asset - W4	26,000	30,021		
Employement Income		**86,021**		
<u>W2 - Loan</u>				
Average Method				
6 July 2025-5 February 2026				
(200000+0)/2 * 3.75%*7/12	2187.5			
Less: Interest Paid				
200000*1%*7/12	-1,167			
Taxable Benefit	**1,021**			
<u>W3 - Use of Asset</u>				
Market Value When First Provided By Employer	60,000			
Taxable Benefit				
60000*20%*3/12	**3,000**			
W4 - Transfer of Asset				
Benefit is higher of;				
Market Value given; or	30,000			
Market Value When Originally provided less amounts already charged for use of asset				
Market Value When Given	60,000			
Less: 2023/24	-3,000			
Less: 2024/25	-3,000			
Less: 2025/26	-3,000			
	51,000			
Less: Amount Paid	-25,000			
Taxable Benefit	**26,000**			
W5 - Property Income				
Cash Basis				
Rental Income				
1500*12	18,000			
Arrears Rents				
1500*3	4,500			

	22,500			
Less: Allowable Expenses				
Tumble Dryer - Capital expenditure	-			
Building Insurance				
April 2025 - December 2025	-1,050			
1540*100/110*9/12				
January 2026 - March 2026	-385			
1540*3/12				
Plumber Repairs	-350			
Accountant - 800*50%	-400			
Mortgage Interest	-			
Net Rental Income	**20,315**			
W6 - Revised Personal allowance				
Total Net Income	132,086			
Less: threshold	-100,000			
Excess	32,086			
Personal Allowance	12,570			
Less: Excess/2	-16,043			
Revised Personal Allowance	**-**			

Part 2

2) Classes of National Insurance Contribution payable are as follows:

Class 1 Primary - Is paid by Christine on the salary received. (Cash Earnings - 56000)

Class 1 Secondary - Is payable by Flambert Limited on the salary paid to Christine (Cash Earnings - 56000)

Class 1A - Is payable by Flambert Limited on the cash equivalent taxable benefit (Benefial Loan, Use of Asset etc)

Question 3 /18

Question 1 0/18

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)

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Part 1

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Response

1-part1-ATTP1M26_Q3.xlsx

Part 2

This is your answer box for Question 3. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Part 1

1) Calculate, with supporting explanations, Jackson's annual allowance charge for 2025/26.

The default annual allowance for the year 2025/26 is GBP 60,000. The annual allowance for the current years is increased by any unused annual allowance from the previous three years. However, from the information provided we understand that there is unused annual allowance carried forward.

The annual allowance is also tapered for high income individuals.

An individual is a high income individual where 'threshold income' exceeds GBP 200,000 and 'adjusted income' exceed GBP 260,000 but cannot be reduced to below GBP 10,000.

Hence, for Jackson the threshold income and adjusted income is as under:

Threshold Income = Net Income less the gross amount of personal pension contributions

Net Income

Salary	208,000
Medical Insurance	3,000
Discretionary Trust Income - gross 5500*100/55	10,000
Net Income	**221,000**

Gross Personal Pension = 5000*100/80 = 6250

Threshold Income = 221000+6250 = 227,250

Adjusted Income = Net Income plus occupational pension contribution plus employer contribution

Adjusted Income = 221000+0+52000 = 273,000

Since both the threshold income and adjusted income is more than the threshold, the annual allowance is reduced by GBP 1 for every GBP 2 of the adjusted income in excess of GBP 260,000.

Hence Revised Annual Allowance for 2025/26

Adjusted Income	273,000
Less: Threshold	-260,000
Excess	13,000
Allowance Reduced by - 13000/2	6,500

Therefore the revised allowance is 60,000-6500 = 53,500.

Part 2

Four things that you should address in dis-engagement letter to Jackson

- To provide information on the tax services on-going on the tax years and those which are already completed. Also, providing information on any tax which is due to be paid and relevant due dates for making such payments.
- To provide summary of the tax services which we would not be responsible going forward and after disengagement of services.
- To provide information on any professional fees which are due for the current years or for any previous years.
- To mention about disclosure to HMRC, that we have cease to act for the client.
- Also, to provide assurance to provide all relevant documents from the previous years to the new adviser with the confirmation to do so from Jackson.

Question 4 /15

Question 1 0/15

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:

Asset	Probate Value	Proceeds of sale	Auctioneer costs
	£	£	£
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)

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Part 1

This is your Excel spreadsheet for Question 4. It is only for your workings: the spreadsheet itself **will not be marked**.

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Response

Part 2

This is your answer box for Question 4. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Part 1

1) Calculate, with supporting explanations, Bella's Capital Gains Tax payable for 2025/26.

	Gains eligible for BADR/IR	Gains not eligible for BADR/IR
Sale of antique vase - W1	0	-1,200
Sale of Diamond ring - W2	0	0
Sale of Antique Necklace - W3	0	5,000
Sale of Gold and Emerald Bracelet - W4	0	4,375
Gain arising in 2025/26		8,175
Less: AEA		-3,000
Taxable Gains		**5,175**

Capital Gains Tax

Bella's Income = 49,000 - 12570= 36,430

Revised Basic Rate = 37700+(1200*100/80) = 39,200

Therefore Capital Gains Tax

2770*18% = 499

2405*24%= 577

Total Capital Gains Tax = 1,076

W1 - Sale of antique vase

Since the sale of antique vase is sale of Chattels where the proceeds are less than GBP 6000 and cost more than GBP 6000, the loss is restricted by deeming gross proceeds to be GBP 6000.

Proceeds	6,000
Less: Cost of Disposal	-400
Net Proceeds	5,600
Less: cost	-6800
Loss	**1200**

W2 - Sale of Diamond ring

Since the sale of diamond ring is sale of Chattels where the proceeds and cost are both less than 6,000. The Gain/loss on sale of asset is exempt.

W3 - Sale of Antique Necklace

Since the sale of Antique Necklace is sale of Chattels where the proceed is more than 6000 and the cost is less than 6000, hence, the gain is restricted to 5/3 x (gross proceeds - 6000)

Proceeds	9,000	
Less: Cost of Disposal	-675	
Net Proceeds	8,325	
Less: cost	-2500	
Gain	5825	
Revised Gain **5/3*(9000-6000)**	**5,000**	

W4 - Sale of Gold and emerald bracelet

Proceeds	12500

Less: Cost Part Disposal - Cost* A/(A+B) 14625*12500(12500+10000)	-8,125
Gains	**4,375**

Part 2

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.

- For disposals of assets other than UK residential property, Bella can report the capital gains via her self-assessment tax return.
- If Bella do not file self -assessment returns, then she can report gains by a 'real-time' return due no later than 31 December following the tax year. i.e. 31 December 2026 for 2025/26 tax year.

- CGT on gains other than on disposal of UK residential property is due no later than 31 January following the tax year. i.e. by 31 January 2027. There are no payments on account.

Question 5 /18

Question 1 0/18

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

During 2025/26 she made the following capital disposals:

Date	Disposal	Sale proceeds	Notes
		£	
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 23,400	(3)
		283,750	

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:

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

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)

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Part 1

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Response

Part 2

This is your answer box for Question 5. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Part 1

1) Explain why gift relief is available on the sale of the shares in Skylarke Ltd, but Business Asset Disposal Relief is not available.

Gift relief is available on business asset as follows:

- Shares in an unquoted trading company (Skylarke is an unquoted trading company)

Also, since the shares are gifted to Kerry's son at lower of market value. It would be eligible for Gift Relief.

For Business Asset Disposal relief one of the conditions is that the seller of the shares should be a Director/employee in the company. Since Kerry, is not a Director/Employee of Skylarke Limited, Business Asset Disposal Relief is not available.

Part 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.

Sale of Short Lease - W1	84,161
Gift of Shares in Skylarke Limited - W2	13,100
Sale of Shares in Robine Plc - W3	81,910
Gain on loan stock at takeover - W4	8,993
Gain arising in 2025/26	188,164
Less: SEIS Investment Relief - W5	-94082
Less AEA	-3000
Net Chargeable Gains	91,082
CGT @ 24%	**21,860**

Net After Tax Sale Proeeds

Total Sale Proceeds Less Tax = 283750-21860 = 261,890

W1 - Sale of Short lease

Proceeds	126,500
Less: Cost Cost * % no.years left on sale/% no.years left on purchase 87000*%7 years/% 20 years 87000*35.414/72.770	-42,339
Gain	**84,161**

W2 - Gift Of Shares in Skylarke Limited

Proceeds (MV)	66,000
Less: Cost	-24,500
Gain before relief	41,500
Less: Gift Relief (Balancing Figure)	28,400
Gains (Actual Sales Proceeds Received - Original Cost) (37600-24500)	**13,100**

Base Cost

Market Value	66000
Less: Gift Relief	-28,400

Revised Base Cost	**37,600**

W3 - Sale of Shares in Robine Plc

Proceeds	96,250
Less: Cost 35000/48793 = 0.717 20000*0.717	-14,340
Gains	**81,910**

Since it was a Share to Share exchange during takeover from Thrushe Plc, the new shares are simply treated as if they were brought at same time and for same price as the old shares.

Base Cost

		Base Cost
35000, Ordinary Shares	94000	48,793
18000, loan Stock	18700	9,707
	112700	58500

W4 - Sale of Loan Stock

Since loan stocks are QCB received as part of a takeover, a gain is calculated exactly the same was as cash received. However, the gain is not charged at the time of takeover but instead frozen and crystallises when QCB is sold.

As the QCB itself is an exempt asset, the sale of the QCB will not give rise to a chargeable gain or an allowable loss, so the proceeds figures is irrelevant.

Hence, Gain on Loan Stock At Takeover

Proceeds	18,700
Less: Cost	-9,707
Gains	**8,993**

W5 - SEIS Investment Relief

The gain relived is 50% of the available SEIS expendture.

Available SEIS Expenditure is the lowest of:

- Gain - 188164
- Amount Invested - 200000 (max relief)

Hence the SEIS Relief is 188,164 * 50% = 94,082

Part 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.

<u>Income Tax</u>

- If the SEIS shares are sold within. 3 years, there would be withdrawal of income tax reducer
- Clawback is the lowest of:

Original income tax reducer

50% x sale proceeds received (only applicable if sold for loss

- Income tax reducer will be clawed back by an assessment for the tax year in which relief given.
- There will be no withdrawal of income tax reducer is sold after three years

<u>Capital Gains Tax</u>

If the SEIS shares are sold within 3 years, the relieved gain becomes chargeable and is charged to tax in the tax year the shares were issued.

Question 6 /14

Question 1 0/14

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.

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)

ATTP1M26_Q1-Question 1 pdf copy

ATTP1M26_Q1-Tolley ATT Paper 1 Income Tax Manual

ATTP1M26_Q1-Tolley ATT Paper 1 Memory Joggers

ATTP1M26_Q1-Tolley ATT Paper 1 CGT Manual

ATTP1M26_Q1-ATT Tax Tables

Part 1

This is your Excel spreadsheet for Question 6. It is only for your workings: the spreadsheet itself **will not be marked**.

When you have completed your calculations and workings, you **must** copy and paste them into the answer box to be marked.

- ATTP1M26_Q1-Question 1 pdf copy
- ATTP1M26_Q1-Tolley ATT Paper 1 Income Tax Manual
- ATTP1M26_Q1-Tolley ATT Paper 1 Memory Joggers
- ATTP1M26_Q1-Tolley ATT Paper 1 CGT Manual
- ATTP1M26_Q1-ATT Tax Tables

Response

Part 2

This is your answer box for Question 6. If you use the Excel spreadsheet, you **must** copy and paste any calculations and workings that accompany your answer into this box

Response

Part 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.

The HMRC's Conditions are as follows:

- Employees should save GBP 5- GBP 500 per month (Dobosz Plc provides an option to save between GBP 10 - GBP 600 per month which is more that the HMRC threshold)
- The contract should be for a period of 3-5 years (Dobosz Plc contract is for a period of 5 years)
- Price of the share must be atleast 80% of the original market value at grant.(The OMV at grant is 4.15 per share and the employee will be able to buy the share at 3.44. Hence the price is more than 80% of OMV which is 3.32)

Since all the conditions are being satisfied, the Dobosz Plc SAYE scheme is a tax-advantaged scheme.

Part 2

Calculate the number of shares that Lauren will be able to buy at the end of the five-year period.

Investment By Lauren = 325*12*5 = 19,500

Add: Contribution by Dobosz Plc = 19500*1.05 = 20,475

Total Investment = 39,975

Number of shares at 3.44 each = 39975/3.44 = 11,620 Shares

Part 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.

<u>a) Not Tax -Advantaged Scheme</u>

There is always an income tax charge on exercise which is as follows:

Assuming the shares brought are 11,620 per previous calculation.

Market Value at exercise 11620*5.41	62,864
Less: Amount paid for the shares 11620*3.44	-39,975
Amount charged to income tax (1.97 per share)	**22,889**

If the shares are readily convertible assets, eg listed shares, Class 1 NIC will be due.

Award of shares which are not readily convertible assets do not attract Class 1 or 1A NICs, but they will be subject to income tax on the value of the shares.

Since, Dobosz Plc shares are listed shares, Class 1 NIC will be due.

A Capital gain will arise if the shares are sold for proceeds in excess of the market value of the share at exercise.

Market Value at exercise 11620*5.41	62,864
Less: Amount paid for the shares 11620*3.44	-39,975
Less: Amount Charged to Income Tax on Exercise	-22,889

Gain	**0**

b) Tax-Advantaged Scheme

There will be no income tax or NICs implication at either grant or exercise of the share options.

There will, however, be a capital gain on sale equal to the difference between cost and the sales proceeds

Sales Proceeds 11620*5.41	62,864
Less: Amount Paid for the shares 11620*3.44	-39,975
Gain	**22,889**