R03 Personal Taxation

2024-2025 Exam Year

Mid-Year Study Guide update

V1.0

R03 Personal Taxation

2024-2025 Study Guide – Mid-Year content update as of 1 March 2025

Please note the following updates to your copy of the R03 Study Guide (amendments in **bold**):

CGT rates / SDLT rates

As announced in the October 2024 Budget

- The Non and Basic rates of CGT have been increased from 10% to 18%.
- The Higher and Additional rates of CGT have been increased from 20% to 24%.
- Changes to the Stamp Duty Land Tax rates

Also included are various miscellaneous updates as summarised below.

Chapter 3.5.1, page 102

The taxable gain is added to the taxable income and taxed at the following rates:

- **18%** for any part of the taxable gain that falls up to the higher rate threshold (so, non and basic rate taxpayers)
- **24%** for any part of the taxable gain that falls within the income tax higher rate band or above (so, higher rate and additional rate taxpayers)

In the picture above:

- Capital Gain 1 will all be taxed at **18%**
- Capital Gain 2 would be part taxed at **18%,** part at **24%**
- Capital Gain 3 would be all taxed at **24%**

So, an individual with a small amount of income and a large gain could pay CGT at **18%** and **24%.**

The following paragraph has been removed from the Study Guide as it is no longer applicable:

There is a potential 8% 'surcharge' on the lower rate for non and basic rate taxpayers, and a rate of 24% for higher and additional rate tax payers, if the asset is residential property (i.e. second homes [not the principle private residence] buy to lets, holiday homes etc) or 'carried interest'.

The CGT rate for gains on assets of this nature is:

- *18% for gains that fall in the no tax or BRT band*
- *24% for gains that fall in the higher rate band or above.*

Chapter 3.5.1, page 103

Cara has income after applying her Personal Allowance of £36,700.

She has recently sold some shares realising a profit of £9,000. After utilising her £3,000 CGT exemption, this has resulted in a chargeable gain of £6,000.

The £6,000 chargeable gain is added to her taxable income as the final part of her income.

This takes her from £36,700 of taxable income (a basic rate taxpayer) to £42,700 of 'taxable income' (a higher rate taxpayer).

The gain is allocated to the basic and higher bands, determining how much tax she will pay;

- £1,000 of the gain falls within the basic rate band, so is charged at **18%**: £1,000 x **18%** = **£180**
- The remaining £5,000 falls within the higher rate, so is charged at **24%**: £5,000 x **24%** = **£1,200**

Her total CGT liability will be **£180 + £1,200 = £1,380**.

Abhijat

- As Abhijat has no taxable gain, he obviously has no CGT liability
- Based on his income of £50,000, and the fact he sold shares, if he had generated a taxable gain, **it could have been taxed at 18% or 24%**
- The use of his previous loss has helped him avoid this liability

For personal CGT liabilities, the taxable gain is added to the individual's taxable income to determine the rate of CGT that is due.

The rate could be all at 18%, all at 24% , or a combination of both rates if the gain straddles the individual's basic rate band.

CGT due is generally payable by the 31st January following the end of the tax year when the gain was made.

However, for gains made on non-exempt UK residential property, the CGT needs to be reported and paid within 60 days of the completion date.

Chapter 3.6.1, page 105

Example 3.7

Edith, a higher rate taxpayer, helped start up an internet fashion design company 2 years ago, investing £10,000 in the project. It has been highly successful, and she has recently sold her shares to a competitor for £72,300, She spent £1,000 on costs helping to start the business and £2,000 on costs selling her shares

- Step 1: Disposal proceeds of £72,300
- Step 2: Less acquisition cost of £10,000 = £62,300
- Step 3: Less associated costs of £3,000 = £59,300
- Step 4: No losses to take into account
- Step 5: Less her annual exempt amount of £3,000 = £56,300 (taxable gain)
- Step 6: Gain is based on the disposal of a qualifying asset, so tax rate is reduced from **24%** to 10%

Her CGT liability is therefore £5,630 (£56,300 x 10%)

Chapter 3.6.5, page 108

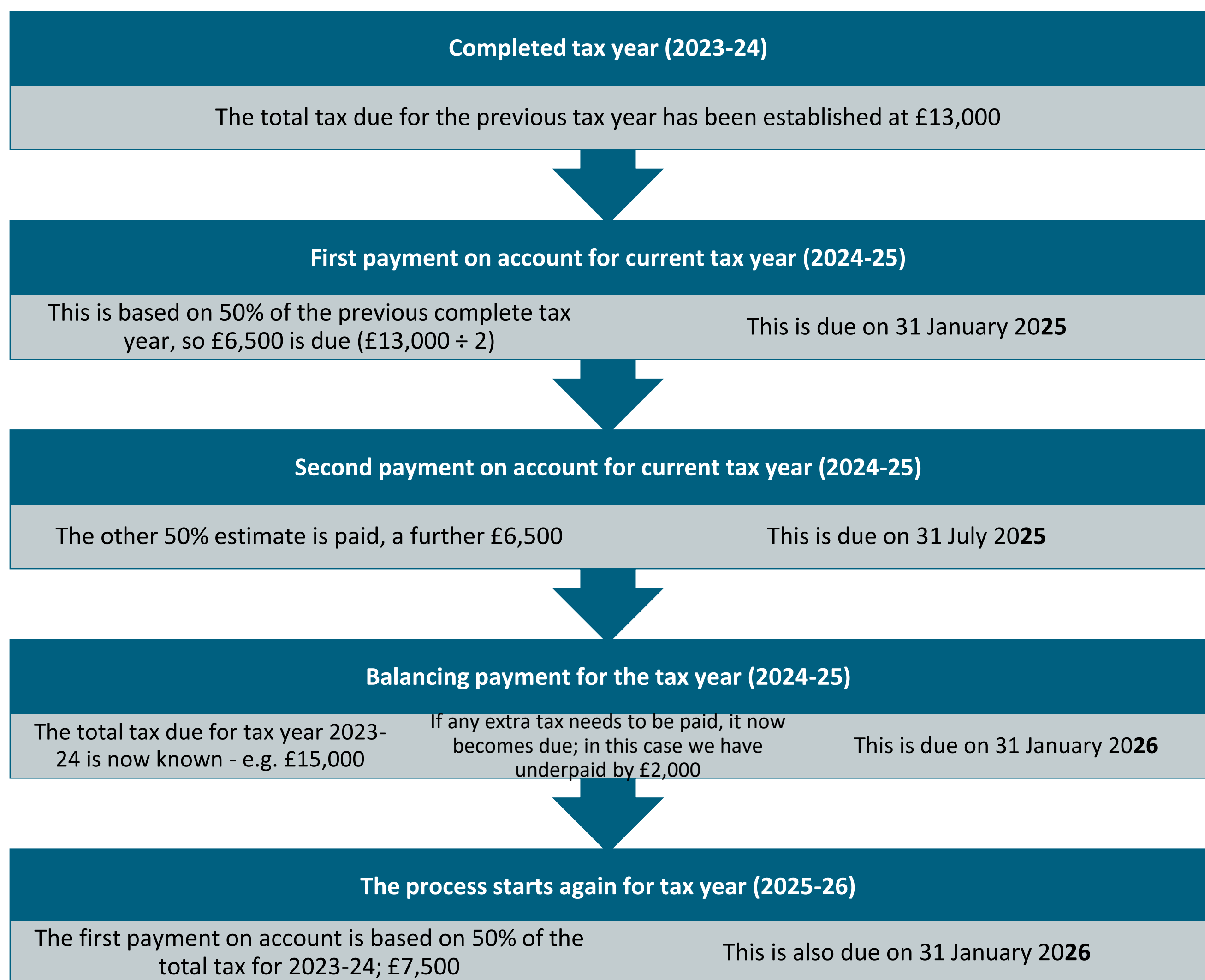
- Jennifer sells her Barclays shares and generates a gain after exemption of £50,000. She is a higher rate taxpayer.
- Ordinarily, CGT would be due on this disposal at a rate of **24%, £50,000 x 24% = £12,000** to be precise. This would be payable on 31st January following the end of the tax year the gain was made.
- However, she has now decided to invest £50,000 into an EIS. She can elect for reinvestment relief, stating that the £50,000 from Barclays has been reinvested into the EIS.
- This means that the CGT bill of **£12,000** is now not due in January. It is deferred until the EIS shares are sold, which could be years in the future.
- If Jenny is able to dispose of the EIS shares in tranches, she may be able to avoid CGT altogether by keeping gains from each tranche within her annual CGT exemption.

- Jennifer sells her Barclays shares and generates a gain after exemption of £50,000. She is a higher rate taxpayer.
- Ordinarily, CGT would be due on this disposal at a rate of **24%, £50,000 x 24% = £12,000** to be precise. This would be payable on 31st January following the end of the tax year the gain was made.
- However, she has now decided to invest £50,000 into an SEIS. She can elect for reinvestment relief, stating that the £50,000 from Barclays has been reinvested into the SEIS.
- 50% of the gain will now be exempt from CGT completely, this element is simply wiped out.
- The other 50% is chargeable to CGT, with the tax due by 31st January of the tax year following the tax year the gain was made.

Chapter 3 Knowledge check, page 112

2	Brad is a higher rate taxpayer and disposes of a personal share-holding in a Public Ltd company for £40,000 in the current tax year. The portfolio was transferred to him in 5 years ago by his wife when it was valued at £15,000. They were purchased 13 years ago for a total cost of £20,000. The stockbroker fees were £150 and the commission for selling the shares is £500. He has no other capital gains or losses in the tax year (or carried forward). Calculate what CGT would be due as a result of the disposal. **A. £7,200** ***B. £3,924*** **C. £2,943** **D. £1,410**
	The proceeds amount to £40,000. The acquisition cost is the one applying to Brad's wife, so £20,000. The purchase and sale costs amount to £650, making a net gain of £19,350. The annual exempt amount is still available to Brad. That is a further £3,000 deduction = £16,350. The £16,350 taxable gain is then all taxed at 24%, as Brad is a high rate taxpayer, resulting in a CGT liability of £3,924.

Chapter 6.2.2, page 186



Chapter 7.1.1, page 195

Also since April 2016, any second home or buy-to-let purchased for £40,000 or more is liable to pay an **extra 5%** SDLT on top of the usual rates (inc. the first bands, which are normally SDLT free).

Chapter 7.1.1, page 109

Higher rates for additional properties

If an additional residential property is purchased for £40,000 or more, there is a surcharge added to the standard rates. It is applied as an additional **5%** on top of the standard rates:

Purchase price	Standard rates	Rates for additional properties over £40,000
Up to £205,000	0%	**5%**
£250,001 - £925,000	5%	**10%**
£925,001 - £1,500,000	10%	**15%**
Over £1,500,000	12%	**17%**

Purchases by ‘non-natural persons’ (such as certain companies and trusts)

An anti-avoidance rate of **17%** is charged where companies and collective investment schemes buy residential property with a value over £500,000. This is also on your tax table. It is not tiered.

Chapter 9.2, page 221

- In the table which includes the ‘Letting Whole Properties’ and Letting furnished holiday lettings’ fields, we have **removed** the wording (at an increased rate of 24%) from the CGT column.

Chapter 9.2.2, page 223

Disposing of let property is liable to CGT ~~with an 8% ‘surcharge’ for non and basic rate tax payers, and an increase to 24% for higher and additional rate tax payers. This means the rate of CGT remains~~ **at the standard rates of 18% and / or 24% depending on the taxable income of the individual.**

Chapter 10.4.1, page 262

<table>
<tr><th></th><th colspan="2">Offshore Collectives</th></tr>
<tr><th></th><th>Reporting funds</th><th>Non-Reporting funds</th></tr>
<tr><td>Income tax</td><td>UK investors subject to IT whether income is distributed or not
Funds can distribute equity distributions (ED), or interest distributions (ID) gross:
Non-taxpayers have no further liability
Starting-rate taxpayers receiving IDs can benefit from the Starting Rate Band (up to £5,000)
BRT have liabilities; @ 20% for IDs and @ 8.75% for EDs
HRT have liabilities; @ 40% for IDs and @ 33.75% on EDs
ART have liabilities; @ 45% for IDs and @ 39.35% for EDs
Both the Savings and the Dividend Allowances can be used to help mitigate these income tax liabilities</td><td>Income is not taxed as it arises, only on disposal of units / shares
The ‘offshore income gain’ is calculated on accumulated income using standard CGT principles
But not including the use of the CGT annual exempt amount
And is also calculated on death
The gain is liable to income tax:
Non-taxpayers have no further liability
BRT have a 20% liability
HRT have a 40% liability
ATR have a 45% liability</td></tr>
<tr><td>CGT</td><td>Gains on disposal are always liable to CGT, using standard CGT procedure
Gains taxed at either 18% or 24%</td><td>As gains are taxed as income, there is no CGT due</td></tr>
<tr><td>IHT</td><td colspan="2">These products are normally not written in trust (although they can be) and so normally form part of an individual’s estate on their death</td></tr>
</table>

Chapter 10.11, page 293

<table>
<tr><th></th><th>Income Tax</th><th>Capital Gains Tax</th><th>Inheritance Tax</th></tr>
<tr><td>Overseas collective reporting funds</td><td>• UK investors subject to IT whether income is distributed or not
• Funds can distribute equity distributions (ED), or interest distributions (ID) gross:
○ Non-taxpayers have no further liability
○ Starter-rate taxpayers receiving IDs can benefit from the Starter Rate Band (up to £5,000)
○ BRT have liabilities; @ 20% for IDs and @ 8.75% for EDs
○ HRT have liabilities; @ 40% for IDs and @ 33.75% on EDs
○ ART have liabilities; @ 45% for IDs and @ 39.35% for EDs
• Note that both the Savings and the Dividend Allowances can be used to help mitigate these income tax liabilities</td><td>• Gains on disposal are always liable to CGT, using standard CGT procedure
• Gains taxed at either 18% or 24%</td><td>These products are not normally written in trust (although they can be) and so normally form part of an individual's estate on their death</td></tr>
<tr><td>Overseas collectives non-reporting funds</td><td>• Income is not taxed as it arises, only on disposal of units / shares
• The 'offshore income gain' is calculated on accumulated income using standard CGT principles
○ But not including the use of the CGT annual exempt amount
○ And is also calculated on death
• The gain is liable to income tax:
○ Non-taxpayers have no further liability
○ BRT have a 20% liability
○ HRT have a 40% liability
○ ART have a 45% liability</td><td>• As gains are taxed as income, there is no CGT due</td><td>These products are not normally written in trust (although they can be) and so normally form part of an individual's estate on their death</td></tr>
</table>

Chapter 10 Knowledge check, page 305

3	Lipsi is resident in the UK but is non-UK domicile. She has invested in an offshore fund that has received reporting status. She should be aware that… (Choose more than 1 answer) *A. Once reporting status has been granted, the fund will retain this status as long as it complies with the reporting fund rules* *B. UK investors are subject to income tax on their share of the fund's income, whether it is distributed or not* *C. Any profit on the eventual encashment is subject to CGT at either **18% or 24%*** D. The annual CGT exemption cannot be set against a gain on an offshore reporting fund E. Any equity distributions are taxed at 20%, 40% or 45%
	Effectively, offshore reporting funds are taxed in the same way as UK collectives for UK resident investors

Chapter 11.3, page 318

	Capital Gains Tax (CGT)

Bare trusts	• The assets are treated as if the beneficiary holds the trust assets in their own name and they are liable for CGT as if they owned the asset directly.
	  ○ However, they have their full annual exempt amount of £3,000 to set against the gain (if they have not used it previously)
	  ○ Any chargeable gain is added to the beneficiary's taxable income and taxed accordingly at **18%, 24%** or a **mixture** of both rates.

Interest in possession trusts	• The trustees are liable to CGT on disposal of an asset within the trust
	  ○ The current rate of trust CGT is **24%**
	• The trust has an annual exempt amount it can set against a gain made on disposal
	  ○ The trust annual exempt amount is a currently a **maximum** amount of £1,500 per tax year
	  ○ This amount can be reduced if the settlor sets up a number of non-Bare trusts. If they do, the annual exempt amounts per trust are:
	    ▪ £750 per trust for 2 trusts
	    ▪ £500 per trust for 3 trusts
	    ▪ £375 per trust for 4 trusts
	    ▪ £300 per trust for 5 **or more** trusts

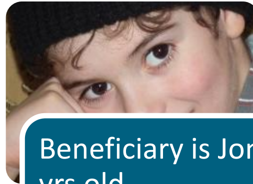
Discretionary trusts	• The trustees are liable to CGT on disposal of an asset within the trust
	  ○ The current rate of trust CGT is **24%**
	• The trust has an annual exempt amount it can set against a gain made on disposal
	  ○ The trust annual exempt amount is a currently a **maximum** amount of £1,500 per tax year
	  ○ This amount can be reduced if the settlor sets up a number of non-Bare trusts. If they do, the annual exempt amounts per trust are:
	    ▪ £750 per trust for 2 trusts
	    ▪ £500 per trust for 3 trusts
	    ▪ £375 per trust for 4 trusts
	    ▪ £300 per trust for 5 **or more** trusts

Trusts for vulnerable beneficiaries	• If a successful election is made, the CGT treatment of these is the same as for Bare Trusts, i.e. as if the beneficiary owned the assets ○ The tax rates are therefore **18%** or **24%** with a full annual exempt amount available

Chapter 11.3.2, page 325

Trust disposes of an asset (shares)

Gain realised is £20,000



Beneficiary is Jon, 11 yrs old

Non-taxpayer, no taxable income

No other gains in tax

Gain treated as belonging to him

Can offset his annual exemption

Liable to CGT at **18%**

Chapter 11.5, page 325

Interest in possession trusts

Income Tax	Capital Gains Tax	Inheritance Tax
• The beneficiary is liable for income tax on income received by the trust, and must include it on their tax return • The beneficiary is responsible for any tax • But it may be actually paid by the trustees on behalf of the beneficiary • The exception to this is where the settlor is a parent and the income produced in the trust exceeds £100, in which case it is levied on the parent	• The assets are treated as if the beneficiary holds the trust assets in their own name and they are liable for CGT as if they owned the asset directly: However, they have their full annual exempt amount of £3,000 to set against the gain (if they have not used it previously) • Any chargeable gain is added to the beneficiary's taxable income and taxed accordingly at **18% / 24%** or a mixture of both rates	• Transfers by a settlor into a Bare Trust are Potentially Exempt Transfers (PETs): • There is no tax to pay at the time of the transfer • The transfer becomes a Chargeable Transfer if the settlor dies within 7 years of making it • Taper relief can reduce an IHT liability (see chapter 4) • The beneficiary of the trust is responsible for any tax due

Discretionary Trusts

<table>
<tr>
<td>• Trustees are responsible for declaring and paying income tax on income received by the trust
• Income is taxed at ‘special trust rates’
   ○ If the trust income does not exceed £500 in the tax year then it will be tax free.</td>
<td>• The trustees are liable to CGT on disposal of an asset within the trust
   ○ The current rate of trust CGT is 24%
• The trust has an annual exempt amount it can set against a gain made on disposal
• The trust annual exempt amount is a currently a maximum amount of £1,500 per tax year</td>
<td>• Regarded as being ‘relevant property trusts’ and therefore transfers into them are categorised as Chargeable Lifetime Transfers (CLTs)
• Being a CLT, the transfer is charged to IHT at the point of transfer:
   ○ Amounts up to the Nil</td>
</tr>
</table>

Chapter 11 Knowledge check, page 332

<table>
<tr>
<td rowspan="2">4</td>
<td>Belinda is the trustee of a bare trust, Isabel the trustee of an Interest in Possession Trust and Dawn the trustee of a discretionary trust. All the trusts have disposed of assets in this tax year that have created liabilities to Capital Gains Tax. It is true to say that, in their role as trustees

A. Belinda’s trust will always be responsible for more CGT than either Isabel’s or Dawn’s
B. Isabel’s trust will have the largest annual exempt amount available
C. The tax rate that applies to Isabel and Dawn’s trusts will be the same
D. The three trusts will be subject to exactly the same CGT treatment</td>
</tr>
<tr>
<td>The CGT treatment of Interest in Possession and Discretionary Trusts is the same – paid at a rate of 24% with a maximum annual exempt amount of (currently) £1,500 a year and a minimum of (currently) £300 a year.</td>
</tr>
</table>

Chapter 13.3, page 360

With gains on disposal of assets being potentially taxed at 0% (if within the annual exempt amount), **18% or 24%,** ~~(or 18% & 24% if the asset being disposed of is a non-exempt residential property)~~ there are also planning considerations when it comes to CGT, such as:

Use the annual exempt amount

- It is a 'use it or lose' exemption
- Even if over the exempt amount, other assets could be sold at a loss to ensure net gains fall within the limit

Consider inter-spouse transfers

- One partner may be taxed **at 24%** on any further disposal, where the other may be taxed at 18% and/or have their annual exempt amount unused
- Transfers, although on a 'no gain no loss' basis, can ensure the most tax-efficient outcome
- However, it should be remembered that transfers are outright and unconditional

Using losses effectively

- Losses must be offset fully against gains made in the same tax year
- Thereafter, only the portion of the loss needed to bring a net gain to £0 need be used
- Careful consideration of when to crystallise and use losses is therefore prudent
- Interspouse transfers should also be considered if one partner has unused losses to offset

Avoid unnecessary costs

- It is not worth disposing of assets to use the annual exempt amount (or even be taxed at 10%) if the costs involved with those disposals outweigh the tax savings

Link disposals to the income tax position

- Because the CGT rates are so closely linked to income tax rates, there may be a bigger argument for disposing of assets in a 'low income' year
- This could appeal to a sole trader who has had a bad year, or a director who has more control over their income

Consider CGT exempt investments

- If appropriate, there are a number of investments that offer CGT benefits
- ISAs are CGT free, for example
- EISs, SEISs & VCTs offer CGT benefits, but at the expense of the products being higher risk themselves

Business asset disposal relief should also be claimed if it is available:

- This reduces the CGT liability on qualifying assets (owned for a minimum of only 2 years) to 10% as opposed to (in all likelihood) ~~20% or~~ **24%**

Chapter 13.4.1, page 368

Non-taxpayers

- Can't reclaim the tax paid within the fund
- Likely to lose out against other possible collective investments

Basic rate taxpayers

- Pay tax within the fund at basic rate
- Have no control over paying CGT in the fund
- Can benefit from top-slicing following a chargeable event to stay in the BRT band (or, at least, limit the amount in the HRT band) or if the non-sliced gain would result in income in excess of £100,000 and a loss of the Personal Allowance

Higher rate taxpayers

- **Liable to additional 20% of the gain on encashment**
- However, would have paid CGT in the fund with no option to use own annual exempt amount
- Can delay creating a chargeable event until a time that is more tax advantageous to them; e.g. becoming a basic rate taxpayer following retirement
- Can benefit from top-slicing following a chargeable event if they have some or all of their PSA remaining or if the non-sliced gain would result in income in excess of £100,000 and a loss of the Personal Allowance

Additional rate taxpayers

- Same as for higher rate taxpayers except that they are liable to additional 25% of the gain

Chapter 13.4.1, page 370

Non-taxpayers

- Can't reclaim any witholding tax paid within the fund
- Similar to other collective investments

Basic rate taxpayers

- Have to pay 20% on a chargeable gain following a chargeable event
- This compares to **18%** CGT liability on disposal of a UK collective (such as a unit trust or OEIC)
- **Top slicing might help keep this tax rate at 20% if the taxable gain took income into the HRT band**
- Can benefit from top-slicing following a chargeable event if they have some or all of their PSA remaining or if the non-sliced gain would result in income in excess of £100,000 and a loss of the Personal Allowance

Higher rate taxpayers

- Have to pay 40% on a chargeable gain following a chargeable event
- This compares to **24%** CGT liability on disposal of a UK collective (such as a unit trust or OEIC)
- Can delay creating a chargeable event until a time that is more tax advantageous to them; e.g. becoming a basic rate taxpayer following retirement
- Can benefit from top-slicing following a chargeable event if they have some or all of their PSA remaining or if the non-sliced gain would result in income in excess of £100,000 and a loss of the Personal Allowance

Additional rate taxpayers

- Same as for higher rate taxpayers except that they are liable to additional 45% of the gain

Specimen paper, question 9

9. Granville bought a jug at a car boot sale in 2007 for £300. He has just sold it via auction for £15,000 incurring costs of £1,200. Assuming chattels relief is not applied, what is his capital gains tax liability in the current tax year? Assume that there have been no other disposals and he has income after applying his personal allowance of £37,000.

a) £0
b) £1,180
c) £2,478
d) £2,520

9	C	£15,000 disposal - £300 purchase price - £1,200 costs = £13,500 profit. £13,500 - £3,000 (CGT exemption) = £10,500 taxable gain. Taxable income is £37,000 so £700 of the BRB remains. £700 x 18% = £126. The remainder of the gain, £9,800, is charged at 24%. £9,800 x 24% = £2,352. Added together, these make £2,478.

Specimen paper, question 17

17. Wilma has encashed a reporting offshore collective fund, making a gain of £15,000. If Wilma is a Higher Rate taxpayer, and this is her only gain in the tax year, what will be her tax liability on encashment?

a) £2,160
b) £2,880
c) £3,600
d) £4,800

17	B	An offshore reporting collective fund, like its onshore counterpart, is subject to CGT on its gains. The CGT exemption of £3,000 is available. So, £15,000 - £3,000 = £12,000 x 24% = £2,880

If you have any queries regarding these updates or any other regulation changes, or if you require any more information about BTS and the services we provide, please contact us at:

Email: enquiries@bespoketrainingsolutions.com

Telephone: 01748822777

Website: https://www.bespoketrainingsolutions.com/