

## **27 YACON LTD AND DAIKON (ADAPTED)**

You should assume that today's date is 1 December 2025.

Daikon, the managing director of Yacon Ltd, has requested advice on:

- the tax implications of Yacon Ltd setting up a tax advantaged share incentive scheme for its employees,
- the capital gains tax relief(s) available on the sale of his house, and
- the potential inheritance tax liability arising on the gift of an apartment.

**Yacon Ltd:**

- Is a UK resident, unquoted, trading company which is not part of a group.
- Is considering setting up either a company share option plan (CSOP), or a share incentive plan (SIP), both of which would be offered to selected employees.

**Yacon Ltd – criteria for its tax advantaged share incentive scheme:**

- Employees will be selected to join the scheme dependent on their period of employment with the company.
- If the scheme is a CSOP, each employee will be offered options to purchase shares worth up to £3,000 each year.
- Employees will exercise the options five years after being granted them.
- If the scheme is a SIP, each employee will be given free shares worth up to £3,000 each year.
- Employees will remove the shares from the plan after five years.

**Daikon:**

- Was gifted an apartment by his aunt, Jicama, on 5 June 2023.
- Has never lived in this apartment.
- Will sell the house he currently lives in and move into this apartment on 31 December 2025.

**Daikon – sale of his current house:**

- Daikon purchased this house on 1 July 2017, when he was employed overseas.
- Daikon did not own any other property between 1 July 2017 and 4 June 2023.
- The sale of the house on 31 December 2025 will give rise to a chargeable gain of £145,000, before any reliefs.

**Daikon – occupation of his current house:**

- Daikon moved into the house on 1 January 2018, on his return to the UK.
- Daikon has occupied the house since 1 January 2018, apart from the period from 1 July 2019 to 31 December 2020, when he was, once again, employed overseas.
- Daikon resumed exclusive occupation of the house on 1 January 2021.

- Since 1 April 2021, Daikon has let the basement of the house (which comprises 25% of the property) for residential use, retaining exclusive occupation of the remaining 75% for himself.

**Gift of the apartment by Jicama:**

- When Jicama gifted the apartment to Daikon on 5 June 2023, it was on condition of her continuing to live in the property for the foreseeable future.
- On 12 March 2025, Jicama began living with her sister, and she removed the condition she had previously imposed on the gift from that date.

**Required:**

**You should assume that today's date is 1 December 2025**

- (a) Explain whether (1) a company share option scheme (CSOP) and (2) a share incentive plan (SIP) will satisfy Yacon Ltd's criteria for a tax advantaged share incentive scheme, and the income tax implications for the employees of acquiring the shares in each case. (8 marks)
- (b) Calculate, with brief explanations, the private residence relief (PRR), and letting relief), which are available to reduce the chargeable gain on Daikon's sale of his house. (7 marks)
- (c) Explain the inheritance tax implications of Jicama's gift of the apartment to Daikon on 5 June 2023, if Jicama were to die in December 2028. (5 marks)

**Professional marks will be awarded for the demonstration of skill in analysis and evaluation and commercial acumen in your answer. (5 marks)**

**(Total: 25 marks)**

## **Answers to Yacon: Q27 YACON LTD AND DAIKON**

### **(a) Company share option plan (CSOP)**

#### **Ability to select employees**

In a CSOP, Yacon Ltd would be free to select employees as it wishes to participate in the scheme.

#### **Value of options granted**

Yacon Ltd can choose to award options to purchase a different number of shares to each member of a CSOP.

There is no annual maximum amount, but an employee can only be granted options over shares up to a total value of £60,000, as at the date of the grant. As Yacon Ltd only proposes to grant options over shares worth up to £3,000 per year for each employee, this is well within the limits.

#### **Holding period required and tax implications for employees**

There are no tax implications for employees on the grant of the options, or on their exercise after five years as the exercise will be between three and ten years of being granted.

### **Share incentive plan (SIP)**

#### **Ability to select employees**

Under the rules for a SIP, all employees must be offered the opportunity to participate in the plan. Yacon Ltd can specify a minimum period of employment in order to qualify, but this cannot exceed 18 months.

#### **Value of free shares given**

Yacon Ltd can give each employee free shares up to the value of £3,600 each tax year, such that the proposal to offer shares with a value of up to £3,000 to each employee each year will be acceptable. The free shares must be offered on similar terms to all employees, such that different amounts of shares can be offered to different employees, depending on their meeting certain objective criteria, such as length of service or performance targets.

#### **Holding period required and tax implications for employees**

There are no tax implications for employees when the free shares are put into the plan. As the free shares will be held in the plan for five years, there will also be no income tax liability when they are withdrawn from the plan.

**(b) Daikon – reliefs available on the sale of his house**

**Private residence relief (PRR):**

	Exempt Years	Chargeable years
1 July 2017 to 31 December 2017 Absent – no prior occupation		0.5
1 January 2018 to 30 June 2019 Occupied	1.5	
1 July 2019 to 31 December 2020 Absent but deemed occupation as employed overseas	1.5	
1 January 2021 to 31 March 2021 Occupied	0.25	
1 April 2021 to 31 March 2025 Occupied (4 years × 75%)	3	1
1 April 2025 to 31 December 2025 Last 9 months treated as 100% occupation	0.75	
<b>Totals</b>	<b>7</b>	<b>1.5</b>

PRR is £119,412 ( $£145,000 \times 7/8.5$ )

**Letting relief**

Letting relief is available to claim where part of an individual's private residence is let out and so a proportion does not qualify for PRR. The property must be occupied by both the tenant and the owner during the let period to qualify for the relief.

The additional amount of the gain which will be exempt under letting relief is the lowest of:

1. The amount of the gain which is exempt under the PRR exemption (£119,412).
2. The gain attributable to the letting £17,059 ( $£145,000 \times 1/8.5$ ).
3. £40,000.

Letting relief is therefore £17,059.

**(c) Inheritance tax implications of Jicama's gift of the apartment**

The gift of the apartment on 5 June 2023 was a potentially exempt transfer (PET), valued at the market value of the apartment on that date. The gift was also a gift with reservation of benefit, due to the condition imposed by Jicama that she would continue to live there.

However, the reservation of benefit was lifted on 12 March 2025, when Jicama went to live with her sister. This created a further PET, which would be valued at the market value of the apartment on that date.

**Implication if Jicama dies in December 2028**

If Jicama dies in December 2028, this is within seven years of the date of the original gift, so both the original PET and the later deemed PET become chargeable. Taper relief would be available to reduce the liability to inheritance tax in both cases. To avoid a double tax charge, only the PET which results in a higher tax charge overall will actually be chargeable