

The Chartered Institute of Taxation

AWARENESS

May 2026

TIME ALLOWED – 3 HOURS 15 MINUTES

- All five Awareness Modules are contained in this document.
- You must only answer the modules you have already entered for, no other module answers will be marked. You cannot change your mind on the day of the exam.
- Type your answers between the correct question dividers and against the correct question number. Questions are numbered 1 – 60. **Do NOT delete any of the question dividers.**
- If you are answering Module A VAT including Stamp Taxes you may, where appropriate, answer by reference to Stamp Duty Land Tax or Land and Buildings Transaction Tax.
- Each module consists of 12 questions and each question carries 5 marks. To pass the exam you need to obtain a minimum of 21 marks (35%) out of the 60 available per module and achieve an overall pass mark of at least 50%.
- You should answer all the questions in each of the three modules.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You should make all calculations to the nearest month and pound unless stated otherwise.
- For Module B Inheritance Tax, Trusts & Estates, Module D Taxation of Individuals and Module E Taxation of Unincorporated Businesses please note that unless otherwise required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

Module A: VAT including Stamp Taxes

If you have entered for Module A you must answer Questions 1 – 12 and type your answers between the question dividers 1 – 12.

1. Pavel started trading on 1 November 2025 making wholly taxable supplies. His VAT exclusive taxable turnover for the first month was £64,000 and on 1 December 2025 Pavel estimated that his VAT exclusive taxable turnover for December 2025 would be £92,000, which included the sale of a capital asset for £20,000.

Explain, with reference to both the future and the historic tests, the date by which Pavel should have notified HMRC of his liability to register for VAT and the effective date of registration.

2. Miriam is a VAT registered trader making only standard rated supplies. The following information is available for the quarter ended 31 January 2026:

	£
Sales (VAT exclusive)	26,500
Purchases and expenses (VAT inclusive)	66,000

Note – purchases and expenses include the following:

- 1) 20 pens costing £72 each, which are engraved with the website address of the business and were given as Christmas presents to Miriam's best customers.
- 2) A car costing £52,800, which is used 75% for business and 25% privately by an employee.

Calculate the VAT payable for the quarter ended 31 January 2026, clearly showing your treatment of each item.

3. Norman is a partially exempt trader. The following information is available for the year ended 30 April 2026:

<u>VAT exclusive sales</u>	£
Standard rated	25,000
Zero rated	17,000
Exempt	<u>7,000</u>
	<u>£49,000</u>

<u>Input VAT</u>	
Wholly attributable to standard rated supplies	4,900
Wholly attributable to zero rated supplies	900
Wholly attributable to exempt supplies	1,300
Unattributable	<u>2,400</u>
	<u>£9,500</u>

Input VAT recovered during the year was £7,740.

It has already been established that Simplified Test One has been failed on the annual basis.

Calculate Norman's annual adjustment for the year ended 30 April 2026.

4. On 1 December 2015, Chadde Ltd bought a new freehold commercial building for £3 million plus VAT of £600,000.

Chadde Ltd used the building in its trade making 70% taxable supplies and 30% exempt supplies until the building was sold on 28 February 2026 for £3.5 million. The company had not exercised the option to tax.

Explain the VAT treatment of the building over its period of ownership by Chadde Ltd.

5. Rita has just started to trade and makes only exempt supplies.

Sue has been trading for six months and makes only zero rated supplies.

Brian has been trading for several years and makes only standard rated supplies to the public.

The turnover of all three traders is currently under the VAT registration threshold.

- 1) **Explain whether Rita, Sue and Brian could voluntarily register for VAT.**
- 2) **State two advantages and one disadvantage for Brian of voluntary registration.**

6. Treee Ltd owns 60% of Branche Ltd and 45% of Arbol SL.

Treee Ltd and Branche Ltd are UK resident manufacturing companies. Arbol SL is a manufacturing company resident in Spain, although it does have a fixed establishment in the UK.

The following information is available for the quarter ended 31 March 2026:

	<u>Treee Ltd</u>	<u>Branche Ltd</u>	<u>Arbol SL</u>
	£	£	£
Sales to third parties	19,000	15,000	58,000
Sales to Treee Ltd	Nil	9,000	16,000
Purchases from third parties	7,500	2,800	22,000
Purchases from Branche Ltd	9,000	Nil	Nil
Purchases from Arbol SL	16,000	Nil	Nil

All sales and purchases are of standard rated goods and the figures are stated VAT exclusive.

Treee Ltd and Branche Ltd are in a VAT group. The group uses Postponed VAT Accounting.

- 1) **Explain why Arbol SL cannot be part of the VAT group with Treee Ltd and Branche Ltd.**
- 2) **Calculate the VAT payable by the group for the quarter ended 31 March 2026, clearly showing your treatment of each item.**

7. Vivienne is not VAT registered. She has been running a café for several years and her taxable turnover has been £7,400 per month. After a change of menu, from 1 September 2025 her taxable turnover increased to £9,600 per month and she therefore exceeded the VAT registration threshold on 30 September 2025, but she carelessly did not notify HMRC until 1 March 2026.

Explain:

- 1) **The consequences of Vivienne's late notification of her liability to register for VAT including the maximum penalty that could be imposed.**
- 2) **Whether Vivienne can reclaim any input VAT on goods purchased and services supplied to the business prior to registration.**

8. Saiqa is a self-employed architect. She has been VAT registered for many years and joined the flat rate scheme in 2022.

Her VAT inclusive turnover for the quarter ended 28 February 2026 was £30,000 and her expenses were as follows:

	<u>Net</u> £	<u>VAT</u> £	<u>Total</u> £
Gas and electricity for the office	300	15	315
Stationery and office supplies (Note)	2,650	530	3,180

Note – The office supplies include a printer which cost £2,500 excluding VAT.

- 1) **Explain why Saiqa is a limited cost trader.**
- 2) **Calculate the VAT payable by Saiqa for the quarter ended 28 February 2026.**

9. Kathy runs a shop selling second-hand ladies' clothing and footwear. She buys most of her items from the public on internet auction websites. Kathy uses the second-hand goods margin scheme.

During the quarter ended 30 April 2026, her sales included the following:

	<u>Sold for</u> £	<u>Cost</u> £
Coat	800	880
Dress	1,200	300
Shoes (Note)	450	108

Note – the shoes were bought from a VAT registered business for £90 plus VAT.

During the quarter, Kathy incurred repair costs of £50 plus VAT.

None of Kathy's customers required a sales invoice.

Calculate the VAT effect of each of the above transactions.

10. Anthony submits his VAT returns quarterly and has a VAT year end of 31 March. He had always submitted his VAT returns on time, but during 2025 his first three returns were late and he was issued with a penalty point each time.

He hasn't yet submitted his VAT return for the quarters ended 31 December 2025 and 31 March 2026.

Explain:

- 1) **The consequences of Anthony's failure to submit his VAT returns for the quarters ended 31 December 2025 and 31 March 2026.**
- 2) **The conditions that must be satisfied in order to reset his penalty points to zero.**

11. In 2025/26, Akash bought the following properties:

- 1) A new freehold commercial building for £350,000 for use in his trade.
- 2) A newly built house for £230,000, which he will let out to tenants.

Both prices are exclusive of any applicable VAT.

Akash already owns a house in which he lives with his family.

Calculate the Stamp Duty Land Tax [Scots law – Land and Buildings Transaction Tax] payable on each of the two properties.

12. Until 31 January 2026, Bill owned 5,000 shares in Flowerpott Ltd, valued at £1.20 per share.

- 1) On 1 February 2026, he gave 800 shares to his friend Ben, along with £240 in cash, in order to discharge a debt of £1,200 that Bill owed to Ben.
- 2) On 28 February 2026, Bill sold the remaining 4,200 shares at a discount of 5% to his friend Primrose.

Calculate the Stamp Duty payable on each of Bill's transactions and state the due date(s) for payment.

Module B: Inheritance Tax, Trusts & Estates

If you have entered for Module B you must answer Questions 13 – 24 and type your answers between the question dividers 13 – 24.

13. Theresa died on 28 February 2026. Her estate comprised the following assets and liabilities:

Assets

	£
House	350,000
Cash and personal chattels	150,000
1,000 units in a unit trust	(see Note)

Liabilities

Mortgage secured on her house	100,000
Credit card bills	4,000
Income Tax and Capital Gains Tax	7,500

Note – the units in the unit trust were quoted at £30 - £38 on 28 February 2026.

A week before her death, Theresa had verbally promised to pay £1,000 for the repairs needed on her friend's car.

Theresa had never married and had made no lifetime gifts. Her Will stated that after a charitable legacy of £1,500, her estate was to be split equally between her two sisters.

Calculate the Inheritance Tax payable on Theresa's death.

14. On 31 March 2020 Charlotte gave cash of £200,000 to her daughter, Bree.

On 10 January 2023, Charlotte gave cash of £500,000 to a discretionary trust. Charlotte paid the Inheritance Tax due.

Charlotte uses her annual exempt amount on 6 April every year by making annual gifts out of capital to her grandchildren totalling £3,000.

Charlotte died on 1 December 2025.

Calculate the Inheritance Tax due on the gift to the discretionary trust as a result of Charlotte's death.

15. John has had an annual income of £150,000 since 2020, which is in excess of his needs. He has recently made various gifts to friends and family as follows:

20 December 2025	£5,000 to his nephew on his marriage
31 March 2026	£2,500 to his friend, Ameer
10 April 2026	£200 to each of his three grandchildren

John's only other gifts are paying £2,000 on 6 April each year into his daughter's personal pension scheme.

Explain any available exemptions for Inheritance Tax purposes in relation to John's gifts.

16. In 2025/26 the Beurdy Discretionary Trust received property income of £24,000 and dividend income of £5,000. The trustees incurred management expenses of £1,800, which were met from income.

On 30 June 2025 income distributions totalling £18,000 were made to the beneficiaries.

The balance brought forward on the tax pool at 6 April 2025 was £1,500.

Calculate the Income Tax payable by the trustees for 2025/26.

17. Laurent died on 31 January 2022. Included in his death estate was a cottage in France valued at £300,000, which he left to his sister Eloise. UK Inheritance Tax of £40,000 was paid by Eloise in respect of the cottage.

Eloise died on 1 March 2026, leaving a death estate valued at £940,000 which included the cottage she inherited from Laurent, which was then valued at £340,000.

Eloise made no lifetime transfers and her entire estate was left to her nephew.

Calculate the Inheritance Tax payable on Eloise's death estate.

18. On 1 April 2024, Jasmine sold shares in Kreken Ltd for £90,000. She had purchased the shares on 1 April 2023.

On 5 April 2024, Jasmine reinvested all of the proceeds in buying shares in Toonkin Ltd for £100,000.

The shares in Kreken Ltd and Toonkin Ltd are relevant business property and qualify for Business Property Relief at 100% if other conditions are met.

On 30 June 2025, Jasmine gave her shares in Toonkin Ltd to a discretionary trust when they were worth £110,000.

Explain whether Business Property Relief is available on the gift of the Toonkin Ltd shares, and any restrictions that may apply.

19. Zichen made the following lifetime gifts:

15 March 2021	£100,000 cash gift to his daughter
1 March 2023	£500,000 cash to the Dales Discretionary Trust

Zichen paid any Inheritance Tax arising as a result of these gifts.

On 1 April 2026, the Dales Discretionary Trust made a capital distribution of £50,000 to one of the beneficiaries.

Calculate the actual tax rate to be used by the trustees in calculating the exit charge for the capital distributions on 1 April 2026. Ignore annual exemptions.

20. The total share capital of Aniant Ltd is 10,000 ordinary shares. Anaya holds 4,000 shares (a 40% holding) and the remaining shares are held as follows:

Maya (Anaya's civil partner)	4,000
Farah (Anaya's sister)	2,000

On 1 April 2026, Anaya gifted 1,000 shares to her daughter when the shares in Aniant Ltd were valued as follows:

<u>% shareholding</u>	<u>Value per share</u>
	£
100%	150
80%	110
70%	90
40%	45
30%	35
10%	10

Calculate the Inheritance Tax transfer value of Anaya's gift to her daughter.

21. Lewis is terminally ill and not expected to live for more than 12 months. He is concerned about the welfare of his 10 year old son, Bren, and wishes to create a trust for Bren's benefit.

Explain the main features and advantages of a trust for a bereaved minor.

22. In 2021, Monica created an Interest in Possession trust for the benefit of her daughter, Alana. This is the second trust created by Monica in the last 10 years.

Since 2013, Alana has worked for Labada Ltd, an unquoted trading company. She has a 96% shareholding in the company, with the remaining 4% being owned by the trust created by her mother.

In 2025/26, the trustees made the following disposals:

- 1) The sale of a residential property, realising a gain of £20,000.
- 2) The sale of the 4% shareholding in Labada Ltd, realising a gain of £30,000.

- 1) Explain why the disposal of shares in Labada Ltd qualifies for Business Asset Disposal Relief.**
- 2) Calculate the Capital Gains Tax payable by the trustees for 2025/26.**

23. Duncan died on 30 April 2024, leaving his entire estate to his wife, Mariam. During the period of administration his personal representatives had the following income and expenses:

	£
Interest income	22,000
Dividend income	5,000
Estate expenses met from income	(650)

The personal representatives made an interim payment of £10,000 to Mariam on 1 January 2025.

The administration of Duncan's estate was completed by 6 April 2025 and a final payment was made to Mariam on 12 April 2025.

Calculate:

- 1) The estate income available for distribution in 2024/25.**
- 2) The estate income taxable on Mariam in 2024/25 and 2025/26.**

24. Donald died on 10 January 2024. The executors did not deliver the return by the due date of 31 January 2025 and instead filed it on 5 April 2026.

Explain the maximum penalties that could be imposed for the late filing of the Inheritance Tax return.

Module C: Corporation Tax

If you have entered for Module C you must answer Questions 25 – 36 and type your answers between the question dividers 25 – 36.

25. Cllaww Ltd owns 100% of Tooth Ltd and 30% of Naail Ltd. For the year ended 31 March 2026 it had the following:

	£
Tax adjusted trading income	80,000
Dividends from Tooth Ltd	100,000
Dividends from Naail Ltd	20,000

Calculate the Corporation Tax payable by Cllaww Ltd and explain whether each company is associated with Cllaww Ltd.

26. Peencil Ltd had capital allowances tax written down values at 1 November 2025 of £100,000 on the main pool and £40,000 on the special rate pool. In its six month accounting period to 30 April 2026, it had the following transactions:

12 December 2025	Bought air ventilation systems for £1,200,000
1 January 2026	Sold a van for £30,000 that had originally cost £37,500
31 March 2026	Sold a machine for £75,000 that had cost £200,000 in March 2022 and on which 130% capital allowances were claimed

Calculate the maximum capital allowances that Peencil Ltd can claim for the period ended 30 April 2026.

27. Tia Jones owns 100% of Stubron Ltd, which prepares accounts to 31 December each year. Stubron Ltd lent Tia £400,000 on 10 April 2025 at a commercial rate of interest. Tia will repay £30,000 of the loan on 25 August 2026 with the remaining £370,000 to be repaid on 1 January 2027.

Explain the Corporation Tax consequences for Stubron Ltd of this loan and why the loan gives rise to those consequences.

28. Drawka Ltd had a tax adjusted trading profit of £700,000 for the year ended 31 March 2026 before any adjustment for the following qualifying research and development expenditure:

	£
Staff costs	60,000
Consumables	10,000
New and unused computer hardware	30,000

Calculate the Corporation Tax liability for Drawka Ltd for the year ended 31 March 2026 and state when it is due.

29. Runuer Ltd made three disposals in the year ended 28 February 2026.

On 1 June 2025, Runuer Ltd sold a building for £400,000. The building had cost £270,000 in May 2004 plus solicitor's fees of £2,000.

On 30 September 2025, Runuer Ltd sold shares in Joeger Ltd for £320,000. Joeger Ltd is a property investment company and the shares cost Runuer Ltd £200,000 in December 2022.

On 1 February 2026, Runuer Ltd sold an antique, mahogany board room table for £5,000 which had cost £1,200.

Calculate the chargeable gains of Runuer Ltd for the year ended 28 February 2026 showing your treatment of each disposal.

30. U GmbH is a controlled foreign company resident in the country of Xiopa. It is owned as follows:

Vito Deeney	UK resident individual	30%
Partner Ltd	UK resident company	20%
Bbreak Ltd	UK resident company	50%

U GmbH has chargeable profits that pass through one of the gateways of £12 million and pays no foreign tax.

- 1) For each of U GmbH's three shareholders, explain the impact of the controlled foreign companies legislation applying to them.
- 2) State one exemption from the controlled foreign companies charge that can apply.

31. Caameraa Ltd has prepared accounts for the 16 months to 30 April 2026. Its results for the 16-month period include:

	£
Tax adjusted trading income	1,600,000
Income from letting building A – £1,000 monthly paid on the first day of each month	13,000
Gain on sale of building A on 31 January 2026	200,000
Donation to a national charity paid on 1 April 2026	40,000
Dividends received from a UK company on 31 December 2025	30,000

- 1) Calculate the taxable total profits of Caameraa Ltd for each accounting period.
- 2) State the deadline for submitting the Corporation Tax returns for each of those periods.

32. Heeart Ltd is a large company which pays its Corporation Tax by instalments. Heeart Ltd's taxable total profits for the nine months ended 30 September 2026 are expected to be £2,160,000.

State the due dates and amount of each instalment, assuming the profits for the nine month period ended 30 September 2026 have been correctly estimated.

33. Jaackpot Ltd's profit and loss account for the year ended 31 March 2026 shows the following items:

	£
Gross profit	7,000,000
Customer entertaining	(40,000)
Legal fees on the renewal of a 12-year lease	(20,000)
Legal fees on the purchase of the freehold of a 20-year old building	(5,000)
Other allowable expenses	<u>(4,200,000)</u>
Profit before tax	<u>2,735,000</u>

Jaackpot Ltd acquired a business from an unrelated party on 1 April 2026. Jaackpot Ltd paid £200,000 for the goodwill and £40,000 for qualifying intellectual property.

- 1) Calculate Jaackpot Ltd's trading profits for the year ended 31 March 2026, showing your treatment of each of these items.
- 2) Explain the annual deduction that Jaackpot Ltd will receive for the goodwill acquired on 1 April 2026.

34. Prrize Ltd owns 100% of both Moouse Ltd and Aaddeer Ltd. Their results for the year ended 31 March 2026 were as follows:

	<u>Prrize Ltd</u>	<u>Moouse Ltd</u>	<u>Aaddeer Ltd</u>
	£	£	£
Trading income	190,000	Nil	10,000
Trading loss	Nil	25,000	Nil
Chargeable gains	35,000	Nil	Nil

Aaddeer Ltd also has a property loss brought forward from 31 March 2025 of £8,000.

The companies want to minimise the total group Corporation Tax liability for the year.

Calculate the taxable total profits of each of these three companies and any Corporation Tax liabilities.

35. Highligght Ltd received two loans in the year ended 31 December 2025.

The first was a 10-year loan to buy shares in a trading company on 1 January 2025. The arrangement fees for this loan were £50,000 and the interest on this loan for the accounting period was £15,000.

The second was a loan to buy a building on 1 July 2025. The interest for the first 12 months of £480,000 will be paid on 30 June 2026. Highligght Ltd rented one third of the building to an unconnected tenant.

Prior to making these acquisitions, Highligght Ltd had money in a bank deposit account in respect of which it received interest of £300,000 during the year ended 31 December 2025.

Calculate Highligght Ltd's non-trading loan relationship income for the year ended 31 December 2025.

36. Drrawing Ltd owns 90% of the ordinary share capital of each of Skketch Ltd and Paiinting Ltd.

Paiinting Ltd owns 90% of the ordinary share capital of Biigin Ltd and 74% of the ordinary shares of Kenlid Ltd.

Explain which companies are in a chargeable gains group and state one advantage of being in such a group.

Module D: Taxation of Individuals

If you have entered for Module D you must answer Questions 37 – 48 and type your answers between the question dividers 37 – 48.

37. For 2025/26, Rebecca had a salary of £112,000, interest income of £4,000 and dividend income of £2,000.

Calculate Rebecca's Income Tax liability for 2025/26.

38. Jonathon lets out a furnished residential property to a long-term tenant. The monthly rent is payable in advance on the 1st of the month. From 1 January 2025 the rent was £1,600 per month. From 1 January 2026 the rent increased to £1,850. The tenant normally paid on time but was two weeks late paying for April 2026.

Jonathon had the following expenses:

	£
Mortgage interest	6,000
Buildings insurance	540
Repairing a broken window	450
New bed (sold old bed for £50)	900
Fridge freezer	600

The fridge freezer replaced a fridge at the property. If Jonathon had replaced it with a fridge (rather than a fridge freezer) it would have cost £500.

Calculate Jonathon's property income for 2025/26, clearly showing the treatment of each item.

39. For 2025/26, Max had employment income of £115,000. On 1 January 2026, he paid £10,000 (net) into a personal pension scheme, which is given relief at source.

Explain how much extra Income Tax relief Max is given in respect of his pension contribution, and how this contribution impacts his personal allowance.

40. Lucy's employer provided her with the use of a camera on 6 April 2024. The camera was purchased new by her employer and had cost £2,000.

On 30 September 2025, the employer sold the camera to Lucy for £200, when its market value was £500.

Lucy's employer also paid £1,000 for a season ticket at a public car park close to work.

Calculate Lucy's taxable benefits for 2025/26.

41. Jamil, aged 50, is a director of Jaamma Ltd. For 2025/26, he received a salary of £8,000 per month and a bonus of £10,000 paid in March 2026. The company also provided him with private medical insurance costing £1,500.

Jaamma Ltd is not entitled to the employment allowance as Jamil is the only employee.

Calculate the National Insurance Contributions payable by Jamil and Jaamma Ltd, identifying the relevant classes of National Insurance Contributions.

42. Beellsy Ltd is a family-controlled company. On 1 June 2025, the company awarded a key employee, Tina, 15,000 £1 Ordinary shares at nominal value. The market value of the shares at the time was significantly higher. The intention is for Tina to keep the shares for a number of years as part of her increased involvement in the management of the company.

Explain how Tina's Income Tax liability in respect of the award will be calculated and paid over to HMRC and whether there are any reporting obligations for Beellsy Ltd.

43. Mario has been employed by Blusom Ltd for many years. On 1 July 2024, Blusom Ltd provided Mario with an interest free loan of £20,000. Mario repaid £3,000 of the loan on 5 July 2025 and another £5,000 on 5 January 2026.

The taxable benefit in kind using the average method would be £600.

- 1) **Calculate the taxable benefit in kind for Mario for 2025/26 using the strict method.**
- 2) **Explain whether Mario should make an election to use the strict method, and whether HMRC would be likely to insist on using the strict method.**

44. Camila is an employee with salary and benefits totalling £400,000 in 2025/26. Her employer deducted £162,000 under PAYE.

In March 2026, she subscribed for £1.1 million of shares in a qualifying EIS company (not a knowledge intensive company). Camila is not connected with the EIS company.

Calculate Camila's tax reducer for 2025/26 and state the latest date the claim for EIS relief can be made.

45. On 1 May 2023, Diego subscribed for £50,000 of newly issued shares in Loos Ltd, a qualifying Seed Enterprise Investment company, and claimed Income Tax relief of £25,000.

On 10 April 2025, Diego sold his shares in Loos Ltd for £20,000, incurring selling costs of £300.

- 1) **Calculate the Income Tax relief withdrawn and the capital loss on the disposal of the shares.**
- 2) **State one way in which Diego could use the capital loss.**

46. On 1 October 2016, Lydia bought 20,000 £1 Ordinary shares in Lacce Ltd for £60,000.

On 31 January 2023, Lacce Ltd was taken over by Baagg Ltd. For each ordinary share in Lacce Ltd, Lydia received two ordinary shares in Baagg Ltd and £1.50 cash. The shares in Baagg Ltd were valued at £2 each on 31 January 2023.

On 1 April 2026, Lydia sold all of her shares in Baagg Ltd for £150,000.

Calculate Lydia's chargeable gains for 2022/23 and 2025/26.

47. On 31 October 2025, Amir made a gain on a residential property of £46,000. On 31 March 2026, he made a loss on the sale of shares of £15,000.

Amir's taxable income in 2025/26 was £27,700. He also has a capital loss brought forward of £28,000.

Calculate Amir's payment on account of his Capital Gains Tax liability for 2025/26.

48. Jana received a notice to file a tax return for 2024/25 on 31 December 2025. On 31 July 2026, she filed the 2024/25 return online and made her balancing payment of Income Tax for the year.

Explain the penalties and interest payable by Jana for the late submission of her tax return and the late payment of her Income Tax liability.

Module E: Taxation of Unincorporated Businesses

If you have entered for Module E you must answer Questions 49 – 60 and type your answers between the question dividers 49 – 60.

49. Bob lives in England and is a sole trader. For 2025/26, he had the following income:

	£
Trading profit	65,000
Property income	15,000

The trading profit is before any adjustment for a patent royalty of £400 paid by Bob on 4 January 2026.

Calculate Bob's Income Tax liability for 2025/26.

50. Max started to trade on 1 November 2024, having previously been an employee. On 17 September 2025, he notified HMRC that he had started to trade and was sent a notice to file a tax return on 1 December 2025. On 30 April 2026, he filed his 2024/25 tax return online and paid the amount due as follows:

	£
Income Tax liability	17,850
Less tax deducted at source	<u>(2,234)</u>
Income Tax payable	15,616
Class 4 National Insurance	<u>3,680</u>
	19,296
Capital Gains Tax liability	3,352
First payment on account for 2026/27	<u>9,648</u>
Amount due	<u>£32,296</u>

- 1) **State the date by which Max should have filed his 2024/25 tax return and paid the Income Tax due.**
- 2) **Calculate the penalties that HMRC may impose on Max for late filing and payment and any interest due on the late payment.**

51. Juanita prepares accounts on the accruals basis. During the 10 month period ended 31 March 2026, she incurred the following expenditure on a workshop for use in her trade:

	£
Land	130,000
Levelling of land	55,000
Construction of workshop	145,000
Fixtures and fittings	75,000

The workshop was completed on 15 January 2026 and first used on 1 February 2026.

Calculate the structures and buildings allowance available to Juanita for the 10 month period ended 31 March 2026, clearly showing your treatment of each item.

52. Shafila has been trading for many years making up accounts to 30 June. She ceased to trade on 31 January 2026. Her recent trading profits were as follows:

	£
Year ended 30 June 2024	15,000
Year ended 30 June 2025	10,000
Period ended 31 January 2026	6,000

Transitional profits of £4,000 arose in 2023/24 and no elections were made to accelerate the amount of transitional profits charged to Income Tax.

Calculate Shafila's trading profit assessments for 2024/25 and 2025/26, clearly showing the basis periods and your treatment of the transitional profits.

53. Laurence has been trading for many years making up accounts to 31 March. For 2024/25, he prepared accounts using the cash basis for the first time, but for 2025/26 he elected to use the accruals basis.

At 1 April 2025, he had opening stock of £8,700, opening debtors of £2,800 and opening creditors of £4,300.

Calculate the adjustment income arising on the change from the cash basis to the accruals basis and explain how this is treated in the absence of any election.

54. On 1 July 2024, Helen bought a building for £450,000 including legal fees of £10,000. The building had a retail shop on the ground floor and a residential flat on the second floor.

The roof of the building had been damaged in a storm in March 2024 and the purchase price of the building reflected this. Helen spent £25,000 during July 2024 to repair the roof before the building could be used.

On 1 August 2025 Helen spent £5,000 on stock for the shop.

She moved into the flat on 15 August 2025 and started trading in the shop on 1 September 2025, making up her first accounts to 31 March 2026.

Explain:

- 1) The rules for the deduction of pre-trading expenditure.**
 - 2) Whether any of Helen's pre-trading expenditure is deductible from her trading profits for the period ended 31 March 2026.**
55. Philip's draft trading profit for the year ended 31 March 2026 was £96,250. No entries have been made in the accounts in respect of the following:

- 1) Philip signed a hire purchase agreement for a delivery van. The cash price of the van was £22,500 and the monthly payments, payable on the 1st of the month starting on 1 September 2025, were £600 for four years. The van is used wholly for business journeys.
- 2) On 1 December 2025, Philip bought a car for £56,000 which has CO₂ emissions of 74g/km. From 1 December 2025 to 31 March 2026, Philip drove 6,000 miles of which 2,000 were for private journeys.
- 3) Philip worked from home for 55 hours per month during 2025/26.
- 4) During 2025/26, Philip took goods from the business for personal use. The goods had a cost of £800 but had a selling price of £1,200.

Philip will claim flat rate expenses in respect of the business use of his home but not in respect of the car.

Calculate Philip's taxable trading profit for the year ended 31 March 2026.

56. Steve, Michelle and Noah have been in partnership for many years, sharing profits and losses equally after an annual salary to Steve of £10,000. For the year ended 30 April 2026, the partnership made a loss of £110,000.

Steve's share of the partnership profit for the year ended 30 April 2025, including his salary, was £24,000.

Calculate Steve's allowable trading loss for 2025/26.

57. Katie's recent trading profits and losses are as follows:

	£
Year ended 5 April 2025: Trading loss	(44,000)
Year ended 5 April 2026: Trading profit	106,000

Katie's only other income is rental income of £28,000 per year. A claim was made under s.64 ITA 2007 to relieve the trading loss of 2024/25 against her total income of that year.

Explain the effect of the trading loss on Katie's Class 4 National Insurance Contributions for 2025/26 and calculate the amount due.

58. On 22 September 2025, Adam sold six acres of land for £65,000. He had originally bought 20 acres of the land for use in his trade in May 2006 for £50,000. The value of the remaining 14 acres at 22 September 2025 was £260,000.

On 5 March 2026, Adam bought a workshop for £80,000 which was immediately brought into use in his trade.

Adam always makes any beneficial elections.

1) Calculate the chargeable gain arising on the sale of the land and the base cost of the workshop.

2) State the date by which any relevant election must be made.

59. Simon has been a sole trader for many years. He is considering incorporating his business by transferring all the assets of the business to a newly-formed limited company, in which he would own all of the 10,000 £1 ordinary shares. The relevant values are as follows:

	<u>Market</u> <u>Value</u>	<u>Gain</u>
	£	£
Retail shop	850,000	225,000
Warehouse	100,000	25,000
Net current assets	<u>40,000</u>	N/A
	<u>£990,000</u>	

He has heard that incorporation relief would automatically apply to defer the gains arising on the transfer of the chargeable assets of the business, but as an alternative he could elect to disapply incorporation relief and instead he and the company could make a joint claim for gift relief.

Explain how the gains on the transfer of the chargeable assets to the company would be deferred and any effect on the base costs of the shares and/or assets if:

1) Incorporation relief applies.

2) Gift relief applies.

60. On 28 February 2026, Rafi sold his shares in Louleiu Ltd to Saffy, along with an office building which Rafi had personally owned but had used in Louleiu Ltd's trade.

Louleiu Ltd is a trading company and Rafi had owned 100% of the shares and had worked full-time for the company since 2009. The gain on the disposal of the shares was £795,000 and qualified for business asset disposal relief.

The gain on the disposal of the office building (which qualifies as an associated disposal) was £250,000.

Rafi had not previously made any disposals of business assets.

Calculate Rafi's Capital Gains Tax liability for 2025/26, assuming a claim for business asset disposal relief is made.