# SAMPLE CTA FOUNDATION PAPER

The Foundation examination paper consists of 50 Objective Test Questions to be completed in 90 minutes. The paper is divided into two sections (A and B), with Part A consisting of 45 questions not requiring calculations and Part B consisting of five calculation questions.

There are 48 sample Part A questions in this document and 12 sample calculation questions in this document to provide an indication of the types of questions that will be included within the Foundation paper.

## PART A: KNOWLEDGE QUESTIONS

| Tag | Description (Foundation-appropriate) |
|---|---|
| **Low** | Direct recall or single-rule recognition |
| **Medium** | Requires selection of the correct rule from context (single fact pattern) |
| **High** | Requires **interpretation**, exclusion of distractors, or sequencing of rules (but still straightforward, not Knowledge-level complexity) |

Target mix for a strong Foundation paper (Part A)

- Low: ~30%
- Medium: ~45%
- High: ~25%

### Income Tax & NIC (Q1–Q16)

**Q1 – [High]**
Priya began trading as a self-employed consultant on 1 August 2025. For the tax year 2025/26, her income tax payable is £3,200. Which statement best describes what payments on account need to be paid for 2026/27?

A. No payments on account will arise because 2025/26 was her first year of trading
B. Two payments on account will be required because the 2025/26 balancing payment exceeded £1,000
C. One payment on account will be required on 31 January 2027 only
D. Two payments on account will be required because 2026/27 is the second year of trading.

**Answer: B**

**Q2 – [Medium]**
Which of the following receipts would normally be treated as taxable employment income for income tax purposes?

A. An employer-provided mobile phone used for both work and private calls
B. Mileage payments of 40p per mile for 8,000 business miles
C. A cash allowance of £36 per month to compensate for working from home.
D. An employer contribution to a registered pension scheme

**Answer: C**

**Q3 – [Low]**
Under the PAYE system, income tax on employment income is normally deducted and accounted for by:

A. The employee via self-assessment
B. HMRC following year-end reconciliation
C. The employer through payroll

**Answer: C**

**Q4 – [High]**
When considering whether an activity constitutes a trade for income tax purposes, which factor is most persuasive under the badges of trade?

A. The existence of a written business plan
B. The repeated nature and frequency of similar transactions
C. Whether profits are reinvested
D. Whether the activity is conducted through a company

**Answer: B**

**Q5 – [Medium]**
A sole trader has elected to use the cash basis of accounting. Which of the following correctly reflects the tax treatment of income under this basis?

A. Income is recognised when an invoice is issued
B. Income is recognised when cash is received
C. Income is recognised when work is completed
D. Income is recognised only at the year end

**Answer: B**

**Q6 – [Low]**
Which of the following would normally be treated as exempt income for income tax purposes?

A. Interest arising on a building society account
B. Dividends received from a UK-resident company
C. A gratuitous cash gift received from a parent
D. Net trading profits from self-employment

**Answer: C**

**Q7 – [Low]**
Which class of National Insurance Contributions applies to earnings from employment?

A. Class 1
B. Class 2
C. Class 3
D. Class 4

**Answer: A**

**Q8 – [Low]**
Which category of taxpayer is potentially liable to Class 4 National Insurance Contributions?

A. Directors receiving dividends
B. Employers
C. Individuals carrying on a trade
D. Employees earning over the upper earnings limit

**Answer: C**

**Q9 – [Medium]**
Under the Payroll Giving scheme, which of the following occurs?

A. Employers only deduct basic rate tax from charitable donations made by employees via payroll
B. Employees donate gross pay directly to a registered UK charity via payroll
C. Registered UK charities reclaim income tax on donated amounts given by employees
D. Employers obtain corporation tax relief on amounts donated to registered UK charities

**Answer: B**

**Q10 – [Medium]**
In calculating taxable trading profits, which of the following categories of expenditure is generally deductible?

A. Capital repayments of a bank loan
B. Fines incurred for regulatory breaches
C. Entertaining employees at the annual staff party
D. Private household expenditure

**Answer: C**

**Q11 – [Low]**
Which of the following is taxable savings income for income tax purposes?

A. Rental receipts from UK property paid into a current account
B. Bank interest paid into a current account
C. Building society interest paid into an individual savings account (ISA)
D. Interest income from National Savings Certificates

**Answer: B**

**Q12 – [High]**
A general partnership (not an LLP) carries on a trade. Which statement correctly reflects the income tax treatment of trading profits?

A. The partnership pays income tax on the profits
B. The profits are apportioned and taxed on the individual partners
C. The profits are subject to corporation tax
D. Only partners actively involved in the trade are taxed

**Answer: B**

**Q13 – [Medium]**
For income tax purposes, **Gift Aid donations** are treated as:

A. Amounts taken directly from gross pay
B. Net payments with no tax adjustment
C. Donations made net of basic rate tax
D. Capital expenditure by the donor

**Answer: C**

**Q14 – [Medium]**
Which of the following is a taxable benefit?

A. Employer-provided bicycle under an approved scheme
B. Workplace nursery provision
C. Employer-funded private medical insurance
D. A single employer-provided mobile phone

**Answer: C**

**Q15 – [High]**

A sole trader writes off stock in an accounting period. This adjustment may affect:

A. The calculation of capital allowances
B. National Insurance contribution thresholds
C. The amount of trading profit or loss
D. VAT registration status

**Answer: C**

**Capital Gains Tax (Q17–Q24)**

**Q16 – [Low]**
Capital Gains Tax is broadly charged when an individual:

A. Receives income
B. Disposes of a chargeable asset
C. Inherits property
D. Realises accounting profit

**Answer: B**

**Q17 – [Low]**
Which of the following transactions is a chargeable disposal for Capital Gains Tax purposes?

A. Transfer of cash to a spouse
B. Gift of quoted shares to a friend
C. Gift of an antique painting to a charity
D. Bequest of a building on death

**Answer: B**

**Q18 – [Low]**
The annual exempt amount applies when calculating:

A. Income tax
B. Corporation tax
C. Capital Gains Tax
D. Inheritance Tax

**Answer: C**

**Q19 – [High]**
An individual realises capital losses in the current tax year. How may these losses be relieved?

A. Carried forwards against future total income
B. Set only against employment income
C. Offset against current year gains with any surplus carried forward against future capital gains
D. Offset only against current year gains

**Answer: C**

**Q20 – [Low]**
For Capital Gains Tax purposes, disposals between connected persons are deemed to take place at:

A. Original cost
B. Net proceeds received
C. Market value
D. Indexed value

**Answer: C**

**Q21 – [Low]**
Which relief is potentially available to reduce the rate of Capital Gains Tax on a qualifying disposal?

A. Rollover relief
B. Business Asset Disposal Relief
C. Principal Private Residence Relief
D. Gift Relief

**Answer: B**

**Q22 – [High]**
What is the Capital Gains Tax consequence of the death of an individual?

A. All assets are treated as disposed of at market value
B. Capital Gains Tax is deferred until the assets are sold
C. Capital Gains Tax does not arise on death
D. Gains are taxed at higher rates

**Answer: C**

**Q23 – [Medium]**
A lifetime transfer of an asset between spouses who are living together is treated for Capital Gains Tax purposes as:

A. A chargeable disposal at market value
B. A tax neutral disposal
C. A disposal giving rise to a held-over gain
D. A disposal taxed at reduced rates

**Answer: B**

**Corporation Tax & Capital Allowances (Q25–Q34)**

**Q24 – [Low]**
Corporation tax is charged on the profits of:

A. Sole traders
B. Partnerships
C. Companies

**Answer: C**

**Q25 – [Low]**
A company's corporation tax liability is calculated by reference to its:

A. Tax year
B. Calendar year
C. Accounting period
D. Period of account

**Answer: C**

**Q26 – [Low]**
Which of the following would normally form part of a company's taxable total profits?

A. Receipt for share capital issued
B. Receipt for a director's loan introduced
C. Trading profit for the period
D. Dividends received

**Answer: C**

**Q27 – [Medium]**
Qualifying charitable donations made by a company are generally:

A. Non-deductible in computing taxable total profits
B. Deductible in computing taxable total profits
C. Deductible in computing trading profits
D. Carried forward as if they were an unused loss

**Answer: B**

**Q28 – [Low]**
Capital allowances provide tax relief for:

A. Revenue expenditure
B. Loan interest
C. Qualifying capital expenditure
D. Dividend payments

**Answer: C**

**Q29 – [Medium]**
The Annual Investment Allowance allows a business to claim:

A. Relief for qualifying capital expenditure over several years
B. Full relief for qualifying capital expenditure up to an annual limit
C. Relief annually for expenditure on buildings (not land)
D. 40% relief for new qualifying capital expenditure

**Answer: B**

**Q30 – [Medium]**
Which of the following assets would normally qualify for plant and machinery allowances?

A. Freehold land
B. Office desks and furniture
C. Trading stock
D. Goodwill

**Answer: B**

**Q31 – [High]**
For corporation tax purposes, company distributions are generally:

A. Deductible trading expenses
B. Tax-neutral items
C. Not deductible in computing taxable total profits
D. Subject to National Insurance

**Answer: C**

**Q32 – [High]**

A company with taxable total profits of £40,000 is subject to corporation tax:

A. At a single flat rate only
B. At a variety of rates depending on the level of its ABGH dividends
C. Only on distributed profits
D. Only once profits exceed £250,000

**Answer: B**

**Q33 – [Low]**
The loan relationships rules apply primarily to:

A. Individuals
B. Companies
D. Partnerships

**Answer: B**

## Inheritance Tax (Q35–Q41)

**Q34 – [Low]**
Inheritance Tax is primarily charged on:

A. Income received by individuals
B. Capital gains
C. Transfers of value
D. Trading profits

**Answer: C**

**Q35 – [Medium]**
A Potentially Exempt Transfer becomes chargeable to Inheritance Tax if the donor dies within:

A. 3 years
B. 5 years
C. 7 years
D. 10 years

**Answer: C**

**Q36 – [Medium]**
A donor makes their first lifetime transfer of £250,000. For this gift to be fully exempt from Inheritance Tax, which of the following would it have to be?

A. A gift to an adult child
B. A gift to their spouse
C. A gift to a discretionary trust
D. A gift to a sibling

**Answer: B**

**Q37 – [High]**
Business Property Relief at 100% may apply to which of the following assets, assuming other conditions are met?

A. Quoted investment shares
B. Shares in an unquoted trading company
C. Buy-to-let residential property
D. Bank deposits

**Answer: B**

**Q38 – [High]**
For Inheritance Tax purposes, the Nil Rate Band is applied by reference to:

A. Each individual asset transferred
B. Each gift made in isolation
C. The cumulative value of chargeable transfers
D. Total transfers made in a tax year.

**Answer: C**

**Q39 – [Medium]**
For Inheritance Tax purposes, taper relief operates by:

A. Reducing the value of the transfer
B. Reducing the amount of Inheritance Tax payable
C. Eliminating all Inheritance Tax after three years
D. Applying only to transfers to lifetime trusts

**Answer: B**

**Q40 – [Medium]**
For Inheritance Tax purposes, in calculating the value of an estate on death, which of the following is normally deductible?

A. Expected future income
B. Funeral expenses
C. Excluded property
D. Trust property held for others

**Answer: B**

## Stamp Taxes & VAT (Q42–Q50)

**Q41 – [Low]**
Stamp Duty is charged on:

A. Transfers of land
B. Transfers of shares using a stock transfer form
C. Transfers of cash
D. Transfers of shares via the CREST system

**Answer: B**

**Q42 – [Medium]**
Stamp Duty Land Tax is generally payable on the:

A. Grant of all leases only
B. Purchase of freehold land
C. Land situated overseas
D. Land for residential use only

**Answer: B**

**Q43 – [Medium]**
A supply will be charged at the standard rate of VAT unless it is:

A. Taxable or zero-rated
B. Zero-rated, reduced-rated or exempt
C. Subject to input tax
D. Outside the scope of VAT

**Answer: B**

**Q44 – [Medium]**
A person is required to register for VAT when:

A. Their profits exceed the VAT registration threshold
B. Their taxable turnover exceeds the VAT registration threshold
C. They make their first taxable supply
D. They commence any trade

**Answer: B**

**Q45 – [High]**
A Transfer of a Going Concern (TOGC) is normally treated for VAT purposes as:

A. A zero-rated supply
B. A non-supply
C. An exempt supply
D. Outside the scope

**Answer: B**

**Q46 – [High]**

The VAT Flat Rate Scheme primarily affects a trader's ability to:

A. Charge output tax
B. Recover input tax
C. Register for VAT
D. Apply the correct VAT rate

**Answer: B**

**Q47 – [Low]**
Under the standard VAT regime, VAT returns are normally submitted:

A. Annually
B. Monthly
C. Quarterly
D. Biennially

**Answer: C**

## PART B: SAMPLE CALCULATION QUESTIONS

There will be 5 questions in this section.

**Q1 – Income Tax - Trading Income**

In the 2026/27 tax year, Maria has trading receipts of £1,300 and deductible expenses of £750. She makes all beneficial claims and elections.

What is Maria's trading income assessment for 2026/27?

A. £550
B. £250
C. £300
D. £1,000

**Answer: C**

Debrief:

When receipts are > £1,000 the taxpayer may use the normal rules for calculating their tax-adjusted profits (£1,300 – £750 = £550). Alternatively, they may elect to treat the trading allowance as one single allowable deduction which makes Maria's taxable trading profit £300 (ie, £1,300 – £1,000).

**Q2 – Income Tax - Employment Income**

Saskia is employed throughout the tax year 2026/27 earning an annual salary of £55,000. During the tax year she makes a charitable donation of £750 via her employer's payroll giving scheme and she receives private medical insurance which cost her employer £600. She also made a Gift Aid donation to charity of £200.

What is Saskia's employment income for 2026/27?

A. £54,650
B. £55,600
C. £54,250
D. £54,850

**Answer: D**

Debrief:

The charitable donation made via payroll giving is deducted gross from the salary and the cost of the medical insurance to the employer is a taxable benefit for Saskia. The Gift Aid donation will be grossed up for basic rate tax, and it will extend her tax bands for income tax purposes, it does not form part of her employment income.  Saskia's taxable employment income is therefore £54,850 (£55,000 - £750 + £600).

**Q3 – Income Tax - Basis of Assessment**

Gareth began trading on 1 July 2026, preparing his first accounts to 31 December 2026. The adjusted trading profits for the first two periods were:

| | **£** |
|---|---|
| 6 months ended 31 December 2026 | 60,000 |
| 12 months ended 31 December 2027 (estimated) | 100,000 |

What is Gareth's taxable trading income for 2026/27?

A. £60,000
B. £85,000
C. £160,000
D. £25,000

**Answer: B**

Debrief:

**First tax year (2026/27)**

1 July 2026 to 5 April 2027 = £60,000 + (3/12 × £100,000) = £85,000

**Q4 – National Insurance**

Andre has been trading for many years. His adjusted trading profits for 2026/27 are £20,000.

What are Andre's total National Insurance Contributions payable for 2026/27?

A. £446
B. £594
C. £900
D. £1,200

**Answer: A**

Debrief:

**Class 4 national insurance:**

6% × (£20,000 – £12,570) = £446

**Q5 – Capital Gains Tax**

In August 2026 Jenna sold her business which she operated as a sole trader for the last five years. All assets qualify for business asset disposal relief (BADR), realising gains of £15,000. In November 2026 she sold shares held as an investment, that do not qualify for BADR, realising gains of £31,500. Jenna has taxable income of £55,000.

What is Jenna's Capital Gains Tax liability for 2026/27?

A. £7,830
B. £9,720
C. £9,540
D. £10,440

**Answer: C**

Debrief:

| | **BADR gains**<br>**£** | **Non-BADR gains**<br>**£** |
|---|---|---|
| Gains on disposal of sole trader business | 15,000 | |
| Gains on disposal of investment shares | | 31,500 |
| Annual exempt amount | | (3,000) |
| **Taxable gains** | **15,000** | **28,500** |
| | | |
| **CGT:** | | **£** |
| £15,000 x 18% | | 2,700 |
| £28,500 x 24% | | 6,840 |
| CGT liability | | 9,540 |

**Q6 – Chargeable Gains for Companies**

A Ltd bought an asset on 3 March 2021 for £19,560. In addition, A Ltd paid stamp duty of £100 on the purchase. A Ltd sold the asset on 15 September 2026 for £42,300 and paid legal costs of £450 on sale.

What is A Ltd's chargeable gain?

A. £22,740
B. £22,290
C. £22,640
D. £22,190

**Answer: D**

Debrief:

| | **£** | **£** |
|---|---|---|
| Gross sale proceeds | 42,300 | |
| Less legal fees | (450) | |
| Net disposal consideration | | 41,850 |
| Less acquisition cost & stamp duty (19,560 + 100) | | (19,660) |
| Chargeable gain | | 22,190 |

**Q7 – Corporation Tax - Computation of Liability**

J Ltd has taxable total profits of £160,000 for the year ended 31 December 2026. J Ltd received dividends from unconnected companies of £25,000. It has no associated companies.

What is J Ltd's Corporation Tax liability for the year ended 31 December 2026?

A. £40,000
B. £39,157
C. £30,400
D. £46,250

**Answer: B**

Debrief:

| **J Ltd Corporation Tax Computation Y/E 31 December 2026** | **£** |
|---|---|
| Taxable total profits | 160,000 |
| Exempt ABGH distribution | 25,000 |
| Augmented profits | 185,000 |
| **Corporation tax liability:** | |
| £160,000 x 25% | 40,000 |
| Less marginal relief: | |
| 3/200 x (£250,000 - £185,000) x £160,000/£185,000 | (843) |
| CT due | 39,157 |

**Q8 – Inheritance Tax - Calculation of Lifetime Tax**

On 1 October 2026, Adrienne created a discretionary trust and gave £420,000 in cash to the trustees. This was the first transfer of value that Adrienne had made in her lifetime. The trustees agreed to pay the Inheritance Tax due on the transfer.

What is the lifetime Inheritance Tax payable on the gift to the trust?

A. £35,600
B. £22,250
C. £17,800
D. £82,800

**Answer: C**

Debrief:

| | **£** |
|---|---|
| Cash gift to trust | 420,000 |
| Less AE 2026/27 | (3,000) |
| Less AE 2025/26 b/f | (3,000) |
| Chargeable transfer | 414,000 |
| Less NRB (no prior gifts <7 years) | (325,000) |
| Taxable transfer | 89,000 |
| | |
| IHT @ 20% | 17,800 |

**Q9 – Inheritance Tax - Calculation of Death Tax on Lifetime Transfer**

William died on 1 December 2026. William made one lifetime transfer on 1 March 2022 which was a gift to a relevant property trust. The gross chargeable transfer value was £360,000. Lifetime inheritance tax of £7,000 was paid.

What is the Inheritance Tax due as a result of William's death in respect of his gift to the relevant property trust in March 2022?

A. £7,000
B. £8,400
C. £0
D. £1,400

**Answer: D**

Debrief:

| | **£** |
|---|---|
| Gross chargeable transfer | 360,000 |
| Less NRB @ death | (325,000) |
| Taxable | 35,000 |
| **IHT:** | |
| £35,000 x 40% | 14,000 |
| Less taper relief (4-5 years) 60% chargeable | 8,400 |
| Less lifetime tax | (7,000) |
| Death tax due | 1,400 |

**Q10 – Stamp Duty - Calculation of Liability**

Owen sold 3,000 shares in F Ltd for £52,652 to G plc using a stock transfer form.

What is the Stamp Duty payable by G plc?

A. £263
B. £2,633
C. £265
D. £2,635

**Answer: C**

Debrief: £52,652 x 0.5% = £265 rounded up to the nearest £5

**Q11 – Stamp Duty Land Tax - Calculation of Liability**

Sanjay sells his house to Sunita for £658,000 on 10 April 2026. Sunita does not own any other properties, and she is not a first time buyer.

What is the Stamp Duty Land Tax payable by Sunita?

A. £49,550
B. £22,900
C. £10,660
D. £22,400

**Answer: B**

Debrief:

| | **£** |
|---|---|
| £125,000 x 0% | 0 |
| (£250,000 - £125,000) x 2% | 2,500 |
| (£658,000 - £250,000) x 5% | 20,400 |
| SDLT payable | 22,900 |

**Q12 – VAT - Charge to Tax**

G plc made the following two standard-rated supplies:

Clothes (exclusive of VAT) = £400
Material (inclusive of VAT) = £514

What is the total amount of output VAT collected?

A. £169.47
B. £165.67
C. £182.80
D. £152.33

**Answer: B**

Debrief:

VAT collected = (£400 × 20%) + (£514 × 1/6) = £165.67