

Section A

Question 1

Soraya, who never married, died on 20 September 2026. She left her entire estate to her daughter, Helena. Soraya's assets were valued as shown in the table below:

	£
Home in England	400,000
10,000 shares in Griffing plc (less than 1% holding)	See below
Personal possessions	103,000

On 20 September 2026 shares in Griffing plc, a quoted company, were valued at 240p – 246p with marked bargains of 241p, 243p and 247p.

Soraya's debts and funeral expenses were £19,000.

Soraya's only lifetime gifts were:

- a gross chargeable transfer of £250,000 in June 2017, and
- a gift of a painting worth £130,000 to Helena in October 2023. The painting had increased in value since Soraya bought it in 1995.

Inheritance tax is to be paid in instalments wherever possible.

Requirements

- 1.1 Calculate the total inheritance tax payable on Soraya's death. **(6 marks)**
- 1.2 Explain whether Soraya should have paid capital gains tax on the gift of the painting to Helena in October 2023. **(2 marks)**

Total 8 marks

Requirement 1.1 is taken from ICAEW's March 2025 Tax Compliance Exam, reproduced with permission of ICAEW.

Question 2

Dom is a sole trader who has traded as 'TopJob', an online recruitment business, for many years. His tax-adjusted trading profits for the year ended 31 March 2026 are £112,308.

In addition to the profits from his trade Dom's other income in 2025/26 is:

- Dividend income of £3,100, of which £100 is from shares held in an ISA and £3,000 is from shares held in his uncle's company.
- Interest of £600 on a loan made to his friend.

In February 2026 Dom paid £4,800 into his personal pension scheme.

New employee – Bec

From 1 April 2027 Dom will employ Bec, a new member of staff, who will work from home. She will be expected to travel to Dom's house once a month for a management meeting. Bec will have the following employment package:

- Salary of £28,000 pa.
- Private healthcare costing Dom £420. The same package would cost Bec £495.
- Pension contributions at 6% of salary. Bec will be required to pay 4% of her salary into the scheme. The pension scheme operates net pay arrangements.
- Cost of train travel of £240 per month for the first four months to travel to Dom's house for management meetings.
- From August 2026 Bec will travel to Dom's house for the monthly management meeting in her own car. This is a round trip of 440 miles. Dom will pay Bec 50p per business mile.

Requirements

- 2.1 Calculate Dom's:
- (a) income tax liability for 2025/26 **(9 marks)**
 - (b) self-employed national insurance contributions for 2025/26. **(2 marks)**
- 2.2 Calculate Bec's employment income for 2027/28. Show your treatment of each item. **(4 marks)**

Note: Ignore VAT

Total 15 marks

Requirements 2.1 and 2.2 are taken from ICAEW's March 2024 Tax Compliance Exam, reproduced with permission of ICAEW.

Question 3

Apricot plc owns 90% of the shares in Banana Ltd and Cherry Ltd. In turn Banana Ltd owns 85% of the shares in Damson Ltd and 75% of the shares in Elder Ltd.

All members of the group have a year end of 31 March apart from Elder Ltd, which has a year end of 30 June.

Cherry Ltd has the following results for its year ended 31 March 2026:

	£
Tax-adjusted trading loss	(1,500,000)
Non-trading loan relationship deficit	(65,000)
Property income	75,000
Taxable gain	25,000
Qualifying charitable donations (QCDs)	(28,000)

Elder Ltd has a tax adjusted trading loss for its year ended 30 June 2026 of £1,000,000.

Damson Ltd has the following results for its year ended 31 March 2026:

	£
Tax-adjusted trading profit	826,000
Property income	75,000
Qualifying charitable donations (QCDs)	(5,000)

Cherry Ltd is considering the following purchases before 31 March 2027:

- A warehouse owned by Damson Ltd, for £250,000. The warehouse was built in December 2025.
- A factory owned by Elder Ltd, for £380,000. The factory was built in January 2025.
- A storage unit owned by an unrelated company, for £160,000. The storage unit was built in 2015.

Building purchase costs are stated exclusive of any VAT. No option to tax has been made. No VAT group election has been made.

Requirements

- 3.1 Explain why Cherry Ltd could surrender its capital losses but no other losses to Elder Ltd. **(3 marks)**
- 3.2 Calculate, with supporting explanations, the maximum amounts Cherry Ltd could surrender to members of its loss relief group. **(3 marks)**
- 3.3 Calculate, with supporting explanations, the maximum amount of Elder Ltd's loss Damson Ltd could claim in its year ended 31 March 2026. **(4 marks)**
- 3.4 Explain, with supporting calculations, the stamp duty land tax implications of the purchase of each building. **(5 marks)**

Total 15 marks

Requirement 3.4 is based on ICAEW's September 2022 Tax Compliance Exam, reproduced with permission of ICAEW.

Question 4

Lane Ltd, a UK-resident company, has changed its accounting date by preparing its accounts for the 19 months ended 31 July 2026 and annually thereafter.

On 1 January 2025, the tax written down values were £245,061 on the main pool, and £49,681 on the special rate pool.

In January 2026 Lane Ltd purchased a car, with emissions of 53g/km and costing £52,000, for use by the managing director. He used the car 40% for business purposes.

In May 2026, Lane Ltd purchased a new printing machine for £605,000. It is expected to be used in the business for the next 30 years.

Requirement

Calculate the maximum capital allowances Lane Ltd could claim for the 19 months ended 31 July 2026. Explain your treatment of the printing machine. **(7 marks)**

Total 7 marks

Question 5

Requirement

In relation to the tax gap in the UK:

- explain what is meant by the term “the tax gap” and why it is measured, and
- explain what is meant by “digital links” and how HMRC aims to reduce the tax gap by requiring the use of digital links by taxpayers in Making Tax Digital submissions.

(5 marks)

Total 5 marks

Section B – Question 6

Assume today's date is 29 October 2026.

You are a tax associate in a firm of Chartered Tax Advisers. Your client is PL87 Ltd along with its owners Peter and Louise Darke. Anti-Money Laundering checks are in place for all three parties.

PL87 Ltd is a private limited company that is owned in equal shares by husband and wife, Peter and Louise Darke. It was incorporated six years ago and has never had a VAT visit from HMRC. It has always submitted VAT returns on time and has not received any penalties.

PL87 Ltd is in the process of compiling information in order to submit its VAT return for the quarter ended 31 October 2026. It has provided you with the latest figures it has, which can be taken to be accurate as of today, along with some explanatory notes, which are attached in Exhibit 1.

Your manager has asked you to review the information provided by PL87 Ltd in the draft VAT return in the Pre-seen and Exhibit 1 below and produce an amended VAT return for submission to HMRC. You should provide explanations for the adjustments that you have made.

Your manager will be meeting with PL87 Ltd in a week's time to discuss the other issues on which the company requires advice, and would like you to prepare some notes to assist her in that meeting.

Exhibit 2 contains more information on the liability insurance issue.

Exhibit 3 contains more information about Louise's new business venture.

Requirements

- 6.1 For PL87 Ltd for the quarter ended 31 October 2026 and based on the information provided in the Pre-seen information and Exhibit 1 only:
- Produce an amended VAT return
 - Clearly explain your treatment of each item in the notes in Exhibit 1
 - Explain how the return should be submitted to HMRC, and when payment should be made
 - Identify how any errors that PL87 Ltd has made on past returns should be corrected
 - Explain the corporation tax consequences of the gifts of wine, champagne and the watch.
- (25 marks)**
- 6.2 Prepare notes on the insurance liability issue identified in Exhibit 2. **(5 marks)**
- 6.3 Prepare notes about Louise's new business venture detailed in Exhibit 3 explaining the VAT implications of being a sole trader as opposed to operating Louise's business through PL87 Ltd. **(10 marks)**

- 6.4 Explain the environmental tax implications of the removal of the material for the new extension, and the VAT and direct tax implications of the rental income. **(10 marks)**

Skills marks available **(20 marks)**

Total 70 marks

Exhibit 1 – Notes to draft VAT return

Notes

1. Included in box 1 is VAT which relates to the following:
 - £60 of VAT recovered in relation to entertaining a UK client last quarter. The £60 was recovered as input tax on the July 2026 VAT return.
 - Gifts to customers and staff:
 - 10 customers will receive a gift of wine. These are given once a year at Christmas, and will be distributed to the customers during the first week of December. The cost of each bottle to PL87 Ltd was £35 (excluding VAT) on 28 August 2026. The market value of each bottle is £55. PL87 Ltd has recovered the VAT on these bottles, which is included in the box 4 figure. £70 of VAT has been included in box 1. No other gifts have been given to these customers in the preceding 12 months.
 - One customer received a bottle of champagne that cost PL87 Ltd £60 (excluding VAT). The market value of the champagne is £100. This was for their third anniversary of ordering from PL87 Ltd. It was bought on 15 September 2026 and given to the customer one week later. VAT recovery on this gift is included in the box 4 figure. £12 of VAT has been included in box 1.
 - Jenna, the administration manager, received a watch on 12 August 2026, which cost PL87 Ltd £450 (including VAT) on 1 August 2026. It was given on the occasion of her 15 year anniversary as an employee of PL87 Ltd. VAT recovery on this gift has not yet been claimed by PL87 Ltd. £75 of VAT has been included in box 1.
2. During the quarter various purchases were made. The box 4 figure in the draft VAT return includes VAT recovered in relation to the following:
 - £2,500 of VAT was recovered on the purchase of a delivery van. The van was collected by PL87 Ltd on 27 October 2026. A deposit of £3,000 was paid on order, and a VAT invoice for the deposit was issued on this date. The order was made on 2 October 2026. The invoice for the balance of £12,000 (including VAT) will be dated 5 November 2026, and PL87 Ltd will pay it on 12 November 2027 by bank transfer.
 - £100 of VAT on leasing a car for three days, while the sales director's personal car was off the road. The car is used for both business and private purposes.

3. The managing director uses his own car and is repaid by PL87 Ltd for fuel, provided that he provides receipts. In this quarter he provided receipts totalling £960 and was reimbursed for this. PL87 Ltd has not yet recovered the VAT on the fuel. The car has CO₂ emissions of 207g/km.
4. PL87 Ltd has been having trouble collecting payments from one of its customers, Cozeetoes Ltd. Credit terms are given to Cozeetoes Ltd of 30 days from the date on the invoice. The following shows invoices that have been raised:

Invoice no	Date	Net	VAT	Gross
		£	£	£
Coz00326	15.1.26	3,250	650	3,900
Coz00327	22.4.26	4,175	835	5,010
Coz00328	11.6.26	1,750	350	2,100

Cozeetoes Ltd has paid the latest invoice in full, and £1,000 towards the other two invoices outstanding. No further payments have been received. Invoices are raised within 14 days of supplying the goods.

5. PL87 Ltd re-vamped its website last month. The service was provided by an individual living in Spain, who is in business there and VAT registered in Spain. The invoice received is dated 17 September 2026, with an amount shown of £2,000. There is no VAT on the invoice and PL87 Ltd has not reflected this invoice in its draft VAT return.

The following fuel scale charges extract has been taken from HMRC guidance and apply for the quarter:

Description of vehicle: vehicle's CO ₂ emissions figure	VAT inclusive consideration for a 12 month prescribed accounting period (£)	VAT inclusive consideration for a 3 month prescribed accounting period (£)	VAT inclusive consideration for a 1 month prescribed accounting period (£)
195	1,917	479	159
200	1,985	496	164
205	2,049	512	170
210	2,118	528	175
215	2,182	545	181

Exhibit 2 – PL87 Ltd – insurance policy

PL87 Ltd took out a business liability insurance for faulty components on toys, and the invoice dated 16 October 2026 showed a payment made up of the following:

Description of services	Amount
	£
Insurance for business liability	2,500
Commission	100
Administration fee	25
IPT at 12%	315
Total amount due	2,940

This invoice is not reflected in the VAT return, as PL87 Ltd was not sure how to account for it.

Exhibit 3 – Louise’s new venture

Louise anticipates the following costs and revenue for the next two years for her business venture:

Year 1

Income £30,000

£5,000 from selling on Etsy to private customers and £25,000 selling to PL87 Ltd

Amounts paid to knitters £5,000

Other costs (materials, stationery, consumables, heat and light etc) £7,000, (VAT included of £1,050)

Year 2

Income £45,000

£8,000 from selling on Etsy to private customers and £37,000 selling to PL87 Ltd

Amounts paid to knitters £7,500

Other costs (materials, stationery, consumables, heat and light etc) £9,000 (VAT included of £1,350)

She is unsure whether to keep her business as a sole trader, or whether it might be beneficial to trade through PL87 Ltd. She is primarily concerned with the VAT implications of the business, rather than direct tax.