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 £130,000 cash to Helena in October 2023.

Inheritance tax is to be paid in instalments wherever possible.

Helena intends to gift the house inherited from Soraya to her son, Jack (ie to Soraya's grandson), in January 2027. The house is likely to be worth £403,000 in January 2027.

Requirements

1.1 Calculate the total inheritance tax payable on Soraya's death. **(6 marks)**

1.2 Calculate the amount of inheritance tax due on 31 March 2027. **(2 marks)**

1.3 Explain how Helena could transfer the house to Jack in the most tax efficient way possible. **(4 marks)**

Total 12 marks

Requirements 1.1 and 1.2 are taken from ICAEW's March 2025 Tax Compliance Exam, reproduced with permission of ICAEW.

Question 2

You are a newly qualified ICAEW Chartered Accountant, seconded by your firm to the Attas Ltd group to help its finance team with tax compliance.

Attas Ltd has a 100% shareholding in Birnel GmbH and a 95% shareholding in Capshaw Ltd. Capshaw Ltd also has a 90% shareholding in Deilu Ltd. All companies operate in Great Britain (GB) except for Birnel GmbH which is resident in and usually operates entirely within Germany.

All companies operate in the textile manufacturing sector, making supplies that are standard rated if made in the UK. Supplies are made to individuals and businesses.

The Attas Ltd group recently introduced new software for quarterly data transfer that is used to prepare VAT returns. The software digitally transfers all sales and purchase information, including names, addresses and bank details from group companies to Attas Ltd. This software is being used for the first time to produce the VAT return for the quarter ended 30 September 2026.

The following table shows the draft VAT liability produced by the new software for the quarter ended 30 September 2026:

	Attas Ltd	**Birnel GmbH**	**Capshaw Ltd**	**Deilu Ltd**	**Total**
Output tax at 20%	**£**	**£**	**£**	**£**	**£**
On sales to third parties	26,040	18,600	29,040	65,500	139,180
On sales to Capshaw Ltd	1,000	800[1]	0	0	1,800
Total	27,040	19,400	29,040	65,500	140,980
Input tax at 20%					
On goods and services from UK third parties	11,380	0	15,740	44,200	71,320
On goods and services from German third parties	0	13,228	0	0	13,228
On goods from Attas Ltd	0	0	1,000	0	1,000
On goods from Birnel GmbH	0	0	800[1]	0	800
On services from a third-party Canadian company	2,000[2]	0	0	0	2,000
	13,380	13,228	17,540	44,200	88,348
VAT liability					52,632

Notes:

1. In July 2026, when there was a shortage of some goods, Birnel GmbH made a one-off sale to Capshaw Ltd of goods totalling £4,000. The Attas Ltd group operates postponed VAT accounting.
2. The services received by Attas Ltd from a third-party Canadian company relate to consultancy about a range of products that may be developed in the future.

You have some concerns about the VAT information generated by the software, as you recall from your studies that not all goods and services between group companies or with overseas companies will be subject to VAT at the standard rate. Therefore, you need to produce a revised calculation of the VAT liability, so that the figures can be digitally linked to the VAT return.

Requirements

2.1 Explain whether each company can be in the Attas Ltd VAT group. **(3 marks)**

2.2 Calculate, with supporting explanations, the revised VAT liability for the Attas Ltd group for the quarter ended 30 September 2026. Assume all eligible companies join the VAT group. Use the same layout as the table above for your answer. **(8 marks)**

Total 11 marks

Requirements 2.1 and 2.2 are taken from ICAEW's March 2025 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.

Lane Ltd is planning to purchase some blending machinery on 1 February 2027 with a useful life of five years. Lane Ltd is debating whether to purchase it outright or use hire purchase to spread the cost over three years. If purchasing outright Lane Ltd will be required to pay an initial deposit of 10% and the balance six months later (ie on 1 August 2027). If using hire purchase it will spread the cost over 36 equal monthly payments and also pay an amount of interest each month.

Requirements

4.1 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)**

4.2 Explain how tax relief will be given for the purchase costs of the blending machinery. **(5 marks)**

Total 12 marks

Section B – Question 5

Assume today's date is 29 October 2026.

You are a tax associate in a firm of Chartered Tax Advisers. Your clients are XYZ Ltd and Shaun and Arthur, its shareholders. They have been clients for many years.

Shaun and Arthur are directors and employees of XYZ Ltd. Shaun owns 10% of the shares and Arthur owns the other 90%. In addition, Arthur owns 100% of the shares in Gamma Ltd.

Your manager has arranged a meeting with Shaun and Arthur for next week to confirm the upcoming corporation tax payment(s) for XYZ Ltd, discuss their 2025/26 tax liabilities, discuss Arthur's need for cash and advise Shaun on how to respond to HMRC's recent letter to him.

Your manager has asked you to review the client file and recent correspondence with Shaun and Arthur in order to help her prepare for the meeting. Due to her current work schedule, your manager may not have time to meet with you to discuss your notes before the client meeting. She may subsequently use the notes as the basis for her report to Shaun and Arthur after the meeting.

Exhibit 1 has the additional information requested about the financial statements for XYZ Ltd for the year ended 30 June 2026.

Exhibit 2 is information from Shaun with details of his income and capital disposals.

Exhibit 3 is an email from Arthur requesting a one-off payment to him for £50,000.

Requirements

Your notes for your manager should include:

1. For XYZ Ltd for the year ended 30 June 2026 (Exhibit 1 and Pre-seen):
   - A calculation of XYZ Ltd's corporation tax liability, clearly showing your treatment of each of the administration expenses
   - The effective corporation tax rate
   - The corporation tax payment date(s)
   - The balance of losses carried forward and a brief explanation regarding the use of the losses.

   (13 marks)

2. A statement itemising the amount of tax Shaun should pay on 31 January 2027. Clearly show your treatment of his income and gains. (Exhibit 2) **(15 marks)**

3. An explanation of the tax implications of Arthur's suggested ways to extract cash from XYZ Ltd. Include in your answer any points requiring further clarification. (Exhibit 3) **(12 marks)**

4. An explanation of how Shaun should respond to the letter received from HMRC. Calculations of any gains or tax liabilities for years before 2025/26 is not required. (Exhibit 2 and Pre-seen) **(10 marks)**

Skills marks available **(20 marks)**

Total 70 marks

Exhibit 1 – XYZ Ltd financial information

The accounting profit before tax is confirmed as £462,000 as per the previous draft financial statements sent to us for the year ended 30 June 2026. In addition, the following information has now been provided:

Administration expenses

Administration expenses in the income statement includes:

	Note	£
Depreciation costs		126,000
Qualifying research and development expenditure		95,000
Staff pension costs for the year (accrued at the year end)	1	67,000
Payment of school fees for Arthur's children		60,000
Finance lease costs	2	50,000
Other costs – all allowable for corporation tax		325,000
		723,000

Notes

1. The staff pension costs of £82,000 for the year ended 30 June 2025 were paid on 1 September 2025.
2. The finance lease costs relate to the lease of a machine. The finance lease interest is £10,000 and the finance lease depreciation is £40,000.

Other information:

- Distribution costs include a loss on disposal of a warehouse of £350,000. The warehouse was originally purchased as a newly constructed building for £900,000 on 1 January 2020. It was sold for £437,500 on 31 December 2025. As at 30 June 2025 a total of £121,875 had been claimed in Structures and Buildings Allowances (SBAs) since the warehouse was acquired. The qualifying cost for SBAs is £750,000.
- Included in other operating income is £3,000 in interest received by XYZ Ltd from Arthur in relation to his director loan account.
- On 30 June 2026 XYZ Ltd paid Shaun £9,000 of gross interest for the year on his director loan account. The same amount was also paid the previous year.
- All interest paid related to loan financing used for trade purposes.
- XYZ Ltd has a brought forward trading loss from the previous year of £250,000.
- Gamma Ltd has a trading loss of £120,000 for its year ended 31 March 2026.
- XYZ Ltd has never been required to pay corporation tax by instalments.

Fixed assets:

- The tax written down values on 1 July 2025 were £555,000 for the main pool and £275,000 for the special rate pool.
- There were no acquisitions or disposals of fixed assets other than the disposal of the warehouse.

Exhibit 2 – Income and capital gains information from Shaun

2025/26

Shaun works part-time for XYZ Ltd and received a salary of £30,000 for 2025/26.

In addition, for 2025/26 Shaun received dividends from XYZ Ltd of £15,000 and interest from a savings account of £2,500.

Shaun also works as an employee for Alpha Ltd, an unrelated company. The following information relates to his employment at Alpha Ltd as the Marketing Director:

- Salary of £65,000
- Employer contribution to an occupational pension scheme of 5% of his salary, Shaun also contributes 3% of his salary.
- Shaun incurred £1,200 in train fares travelling from the office to meet clients for business purposes. Alpha Ltd reimbursed Shaun the full £1,200.
- Shaun personally paid his subscription to the Chartered Institute of Marketing for £750. This was not reimbursed.

In addition Shaun paid £5,000 into his personal pension scheme in 2025/26.

In total Shaun had income tax deducted at source of £29,800.

On 6 April 2026 Shaun sold a debenture issued by Bee plc. Shaun paid £100,000 for the debenture in 2005 and sold it for £110,000.

In May 2025 Shaun gave his holding of shares in REAL plc to a UK registered charity. The holding had a market value in May 2025 of £2,500. Shaun paid £385 for the shares in November 2009. REAL plc shares are listed on the FTSE 100.

In July 2025 Shaun sold his entire holding of bitcoin for £865,000. He purchased his holding in April 2023 for £234,800.

In January 2026 Shaun sold a residential property he had used as a holiday home. Shaun paid £75,000 for the house in 1984 and sold it for net proceeds of £915,000. Shaun paid stamp duty of £750 on the purchase. In 2020 Shaun spent £10,000 installing a tennis court in the garden. In 2023 he replaced the tennis court with a swimming pool at a cost of £20,000. He had not previously mentioned the sale to us but on the advice of his conveyancer paid £147,600 in capital gains tax to HMRC and submitted the UK property disposals return on 1 March 2026. This disposal does not qualify for private residence relief.

Years before 2025/26

Shaun’s first cryptoasset transaction was in April 2021 when he was paid a bonus at a previous employer of 16 ether (ETH) worth £25,000. The value today would be £48,200.

In May 2023 Shaun used 5 of the ETH to pay in full for a holiday instead of paying the £15,000 cost in sterling.

In December 2023 Shaun gave the remaining 11 ETH to his son.

Shaun used a UK based cryptoasset exchange to maintain his digital wallet and carry out his transactions.

Exhibit 3 – Email from Arthur

From: Arthur <arthur@XYZLTD.co.uk>
Sent: 1 October 2026
To: Adviser@taxadvice.co.uk
Subject: Cash required

Sam

I am in need of some cash to pay some bills due in January. I'd like a gross payment of £50,000 on 6 January 2027. I'd ask for more but I'm not sure XYZ Ltd can pay more. So the less tax I have to pay on it the better.

I know in the past you've recommended taking a loan from the company but I'm not sure whether Shaun is going to agree to me having yet another loan. So I'd like to compare the effect of a loan versus a bonus payment in my January salary.

Perhaps if we make it a loan I can persuade Shaun to agree to it being written off in say two years' time, ie on 6 January 2029.

As normal I'll pay interest on the loan at 4%. If I don't Shaun will be apoplectic.

Thanks

Arthur