

Suggested solution

Section A

1 Lower limit - £16,667

Upper limit - £83,333

The 51% group companies are Total Ltd, Rod Inc and Saw Ltd, so the limits are divided by 3.

Lower limit $£50,000/3 = 16,667$

Upper limit $£250,000/3 = £83,333$

Total Ltd has 51% interest in Rod Inc and Saw Ltd but not in Tod Ltd. The fact that the shareholding in Saw Ltd was not acquired until 1 December 2025 is irrelevant for determining the rate of tax.

Tutorial note: it is a relevant factor however, in determining the thresholds for quarterly instalment payments, where there would only be two 51% group companies at the end of the immediately preceding accounting period (the year ended 31 March 2025).

2 A

$(£265,000 - (£325,000 - £122,000))$ at 40% = £24,800

The nil rate band available on Melissa's death is £325,000 less gross chargeable transfers made in the seven years before the date of her death, 20 January 2026. Therefore, it is only the transfer of £122,000 made during July 2021 which reduces the nil rate band. The remainder of her chargeable death estate is subject to IHT at 40%.

3 1 - HMRC

2 – First Tier Tribunal

3 – Upper Tribunal

4 – Court of Appeal

The taxpayer must first appeal in writing to HMRC, stating the grounds for disagreement. If the taxpayer is unhappy with the outcome of the HMRC review, they can appeal to the First Tier Tribunal (FTT). If the taxpayer is still unhappy with the decision by the FTT, they can then appeal to the Upper Tribunal but only on a point of law. A decision of the Upper Tribunal may then be appealed to the Court of Appeal.

4 A

The return is due by 31 January 2027 and is therefore six months late. The penalty is the standard penalty for late submission (£100) plus the further penalty for the return being more than three months late $100 + (10 \times 90 \text{ days}) = £1,000$

5 £13,375

$(£12,300 \times 3/12) + £8,100 + £2,200 = £13,375$

In the tax year 2025-26, Archie will be taxed on his trading profits of the ten-month period 1 April 2025 to 31 January 2026, the date he ceased trading, and any untaxed transition profits at the date of cessation. He will therefore be taxed on 3/12ths of the trading profit of the year ended 30 June 2025, the £8,100 trading profit of the seven-month period ended 31 January 2026 and his untaxed transition profits of £2,200.

6 2024-25 – Not UK resident**2025-26 – UK resident**

Madeline is not resident in 2024/25 but is resident in 2025/26. As Madeline has not previously been resident in the UK then she will need to have four UK ties to be UK resident in 2024/25 and will need two UK ties to be UK resident in 2025/26.

Madeline has two UK ties, substantive work in the UK (she works full-time) and available accommodation in the UK (she lives with a family) and is therefore UK resident in 2025/26 but not 2024/25.

7 £404

Dorothy's adjusted net income is £63,590: $£81,090 - £17,500 (£14,000 \times 100/80) = £63,590$.

The tax charge is calculated at 1% for every £200 in excess of £60,000 = 18%.

18% of the child benefit received of £2,252 is £404

8 B

The correct answer is £2,417 being the class 4 NICs on Toby's trading income only $((£50,270 - £12,570) \times 6\%) + ((£58,000 - £50,270) \times 2\%)$

The property income would not be included.

9 Taxable gain – £27,000**Taxed at 18% - £10,700****Taxed at 24% – £16,300**

The *chargeable* gain (i.e. before annual exempt amount (AEA)) is £30,000 against which the AEA of £3,000 can be deducted leaving a *taxable* gain of £27,000.

Veta has taxable income (i.e. total income after personal allowance) of £29,500. The BRB is £37,700 but this is extended by the gross pension contribution of £2,500 ($£2,000 \times 100/80$) to £40,200. Her taxable income therefore uses up £29,500 of this £40,200 leaving £10,700 BRB to be taxed at 18%.

The remainder of the taxable gain of £16,300 is taxable at 24% .

10 A and D

Statement A is true because all the conditions for gift holdover relief have been satisfied in respect of the disposal of Lewis's partnership interest (i.e. sale of an interest in a trading partnership at less than market value)

Statement D is true because the shareholding in Jango Ltd is not a qualifying asset for gift holdover relief purposes since Jango Ltd is not a trading company.

Statement B is incorrect because the Jango Ltd shares do not meet the definition of a qualifying asset (since it is not a trading company)

Statement C is incorrect because the partnership interest is a qualifying asset for gift holdover relief purposes.

Statements E and F are incorrect because the time limit for making a claim for gift holdover relief is 4 years not 2 or 3 years.

11 Income tax – Direct/Progressive**Value added tax (VAT) – Indirect/NOT Progressive**

Income tax is a **direct tax and progressive**

VAT is an **indirect tax and NOT progressive**

12 NRB - £325,000**Taper relief - £8,480**

The full NRB is available £325,000 since on death, only the PET on 10 August 2021 has failed ($(£378,000 \text{ less } £325,000) \times 40\% = £21,200$). This was made more than 4 but less than 5 years before death, therefore taper relief is available at 40% ($£21,200 \times 40\% = £8,480$).

13 Transaction 1 – Non-trading**Transaction 2 – Non-trading****Transaction 3 – Trading****Transaction 4 – Non-trading**

Loan interest receivable and received will always be non-trade interest unless the company is in the trade of money lending.

From this figure the non-trade loan interest payable will be deducted. The loan to purchase the computer system is for trade purposes therefore the amount of £10,000 will be deducted from the trading profits. However, the loan to buy shares in another company is an investment and is not for trading purposes and so this amount will be deducted from the £40,000.

14 C

Companies are UK resident if they are incorporated in the UK or if they are centrally managed and controlled in the UK.

Austen Inc is managed and controlled in the UK. Orwell Ltd is incorporated in the UK.

Charles Inc is neither incorporated in the UK nor managed and controlled from the UK.

15 B

Total sales including VAT are £123,100 ($£88,000 \times 120/100$ plus £17,500).

Flat rate percentage of 11% \times £123,100 = £13,541.

Section B

16 Drop-down list 1 - £68,809

Drop-down list 2 - £12,300

The cost of the land originally purchased was for six hectares but only four hectares are sold. The original cost must be apportioned proportionate to the current market value. The current market value is £235,000, being £165,000 (for the four hectares sold) plus £70,000 (for the two hectares not sold). Laura is also allowed to deduct any capital costs relating to the sale of this land; being £12,300 for clearing and levelling those four hectares.

The correct answers are £68,809 and £12,300, being the proportion of the original cost, $£98,000 \times (\frac{£165,000}{£235,000}) = £68,809$ plus the cost of clearing and levelling of £12,300.

17 Period 1 – Deemed occupation

Period 2 – Deemed part-occupation

Period 3 – Deemed part-occupation

The deemed occupation must be preceded and succeeded by periods of occupation so the first period of 36 months, when living with elderly parents, is covered as absence for any reason (up to three years) and the second period of working elsewhere in the UK is covered for 48 months. The final period of travelling is not covered as deemed occupation since there was no actual occupation afterwards. However, nine months of the final period of ownership are covered as deemed occupation, even if not actually occupied.

18 £22,235

The copyright is a wasting asset; a useful life of 50 years or less, and the original value will depreciate over time.

To arrive at the cost figure to be used in the computation, the original cost of £27,000 needs to be adjusted for the remaining life of the copyright:

$$£27,000 \times (14/17) = £22,235$$

19 A

The correct answer is £10,434, being proceeds of £16,700 cash, less apportioned cost of £6,266.

The cash received on the takeover is treated as a part disposal and the original cost is apportioned according to current market value of £16,700 cash plus £60,000 (24,000 shares at £2.50) = £76,700. Applying this to the original cost of £28,780 gives £6,266 ($£28,780 \times £16,700 / £76,700$).

20 D

The correct answer is £31,300, being £6,748 + £24,552.

Craig has no taxable income for the year 2025-26 therefore his £37,700 basic rate band is available. The chargeable gains (rather than taxable gains) are given and so the annual exempt amount (AEA) is also available of £3,000. It is more beneficial to set off the AEA against the residential gain since residential property is subject to higher rates of tax than the gain qualifying for the business property relief (BADR). However, the gain qualifying for BADR will use up the full basic rate band.

So, the gain qualifying for BADR will be £48,200 which will be taxed at 14% = £6,748.

The residential gain will be £105,300 less AEA of £3,000 = £102,300 which will be taxed at 24% = £24,552.

21 £29,280

Each gift made by Adele's father within 7 years of his death on 14 September 2025 is reviewed again and so both the gift on 4 May 2020 and 10 June 2020 need to be taken into account. The gift on 4 May 2020 will use £88,000 of the available nil rate band (NRB) leaving only £237,000 to reduce the gift on 10 June 2020.

Thus, the amount chargeable is £183,000 (being £420,000 – £237,000) chargeable at 40% giving a liability of £73,200. This is further reduced by taper relief of 60%, because the gift in June 2020 was made more than 5 but less than 6 years before death. The answer is £73,200 less 60% = £29,280.

22 C

Adele's father's NRB has been used up by the potentially exempt transfers (PETs) within seven years of his death and his spouse (her mother) had used all of her NRB. The residence nil rate band (RNRB) is available as the main residence is left to Adele (direct descendant) and so is the RNRB from her mother (since this had not been used).

However, the total RNRB is restricted to the value of the property which is £300,000.

Thus, the answer is $(1,061,000 - 300,000 \text{ (RNRBs restricted)}) \times 40\% = £304,400$.

23 B and C

B and C will have been permitted.

The promise to pay the friend's legal fees is not legally enforceable, and the electricity bill was paid before the date of death, so will not have been permitted.

24 Lifetime cash gift of £420,000 – 31 March 2026**Chargeable death estate of £1,061,000 – 31 March 2026**

The correct answer is 31 March 2026 for both the lifetime gift and the chargeable estate, both falling due six months after the end of the month in which the father died.

25 A

On the date of the gift Adele has used up £59,000 (£65,000 less £6,000 being two AE amounts for 25/26 and 24/25) of her NRB in respect of the chargeable lifetime transfer (CLT) to the trust on 10 June 2025; the PET does not use any NRB since this will only happen if Adele dies within seven years of making the PET to her sister.

This gives a chargeable amount of £284,000 (£550,000 – £266,000 (£325,000 – £59,000)) and because Adele is paying the tax on this gift to the trust the tax must be grossed up ($£284,000 \times 20/80 = £71,000$).

26 D

The payment of the deposit on 25 September would have been included in the quarterly return to 30 September 2025. The delivery of the equipment on 22 December 2025 is the basic tax point but because the invoice was raised within 14 days of this, the invoice date becomes the tax point, being 2 January 2026. This will be reported in the quarterly return to 31 March 2026 and not in the return to December 2025.

27 B

Since the claim for the impairment loss is made more than six months after the due date for payment of 20 June 2020, this output VAT can be reclaimed. The payment due dates for the other two invoices are not outstanding for more than six months as at 31 December 2025.

28 Quarter ended 31 March 2025 – 3%**Quarter ended 30 June 2026 – 6% plus 10% p.a. daily**

The correct answer is that a 3% of penalty will be charged for quarter ended 31 March 2025 because the VAT was paid within 25 days (between 16 and 30 days). For the quarter ended 30 June 2025, which was 42 days late (more than 30 days), the penalty is 6% is charged plus a 10%p.a daily penalty.

29 Statement 1 – False**Statement 2 – False****Statement 3 – False****Statement 4 – True**

Statement 1: this statement is false as it is the cash accounting scheme which gives automatic relief for impairment losses.

Statement 2: this statement is false since the same amount is paid but in nine monthly instalments and a balance paid with the annual return.

Statement 3: this statement is false as there are instalment payments and a balancing payment.

Statement 4: this statement is true, only one VAT return is submitted for the year.

30 Input VAT – £1,200**Output VAT – £1,200**

The services are deemed to be supplied where received, that is the UK VAT will be accounted under the reverse charge process with 20% of £6,000 entered as output VAT (i.e. £1,200) and 20% of £6,000 (£1,200) entered as input VAT.

Section C

31

(a) Self-assessment payments on account

Payments on account for each tax year will be determined based on Adam's income tax and class 4 national insurance contributions for the previous tax year.

One payment of 50% of this amount will be due on 31 January in the year of assessment, with the other 50% due on 31 July following the end of the year of assessment.

[Note: the figures are shown on an annual basis for clarity. This layout is not essential as the requirement is for total life-cycle cost and profit only.]

(b) Trading profit for the year ended 31 March 2026 using the cash basis

	£
Trading income	185,200
Receivables at 31 March 2026	(10,900)
Purchases (£114,850 – £6,800)	(108,050)
Loan interest (£3,900 – £300)	(3,600)
Car expenses ((£3,710 + £1,950 + 0) x 60%)	(3,396)
Capital allowances (£30,800 x 6% x 60%)	(1,109)
Entertaining	0
Trading profit	58,145

Tutorial note: Adam's car has CO₂ emissions of over 50g/km, so therefore qualifies for 6% writing down allowance.

(c) Adam – Income tax computation 2025-26

	Non-savings income	Dividend income	Total
	£	£	£
Trading profit	58,145		
Employment income	18,500		
Pension contributions – Adam	(750)		
Pension contributions – Employer	(0)		
Property income (£10,400 – £7,500)	2,900		
Dividend income		340	
	78,795	340	79,135
Personal allowance	(12,570)		(12,570)
Taxable income	66,225	340	66,565

Income tax

	£
£37,700 at 20%	7,540
£600 at 20%	120
£27,925 (£66,225 – £37,700 – £600) at 40%	11,170
£340 at 0%	0
Income tax liability	18,830

Tutorial note: Property income is higher ($10,400 - 1,580 = £8,820$) if rent-a-room relief is not claimed.

(d) Adam – Capital gains tax liability 2025-26

	£
Disposal proceeds	35,000
Deemed cost	(20,000)
Chargeable gain	15,000
Annual exempt amount	(3,000)
Taxable gain	12,000
Capital gains tax (£12,000 at 24%)	2,880

Comparison of tax implications of postponing the date of sale to 10 April 2026

If Adam sells the antique painting on 2 April 2026, the capital gains tax liability of £2,880 would be payable by 31 January 2027.

If Adam postpones the dates of sale to 10 April 2026, the due date for payment of the capital gains tax liability will be delayed by one year to 31 January 2028.

The capital gains tax liability will be the same regardless of the disposal date.

32**(a)****Above Ltd – Taxable total profits for the year ended 31 March 2026**

	£
Trading profit	998,400
Legal fees:	
Purchase of office buildings	0
Repayment of loan notes	(5,240)
Drafting of new contracts	(2,580)
Issue of ordinary shares	0
Political donations	0
Qualifying charitable donations	0
Capital allowances (Working 1)	(41,700)
Structures and buildings allowance ((£395,000 – £86,000) x 3% x 6/12)	(4,635)
Interest payable (£3,600 – £1,200)	(2,400)
Revised trading profit	941,845
Chargeable gain (Working 2)	66,241
Total profits	1,008,086
Qualifying charitable donations	(4,700)
Group relief – Top Ltd	(33,700)
Group relief – Side Ltd	0
Taxable total profits	969,686

Tutorial note: Above Ltd does not have an effective 75% group relationship with Side Ltd (80% x 80% = 64%), so no group relief claim is possible.

Working 1 – Capital allowances**Annual investment allowance (AIA) can be claimed:**

	£
Building cost	0
Land	0
Heating system	25,800
Ventilation system	15,900
Total allowances (£41,700 x 100% AIA)	41,700

Working 2 – Chargeable gain

	£
Disposal proceeds	151,800
Cost	(49,500)
Indexation allowance (£49,500 x 0.082)	(4,059)
	98,241
Capital losses transferred – Top Ltd	(23,100)
Capital losses transferred – Side Ltd	(8,900)
Chargeable gain	66,241

Tutorial note: For a chargeable gains group, there must (1) be a 75% shareholding at each level, and (2) the parent company must have an effective interest of over 50% in the subsidiary company. Both Top Ltd and Side Ltd are therefore included in a chargeable gains group with Above Ltd because both tests are met for each company.

(b) Tax treatment on disposal of the office building in 2027**For Above Ltd**

There will be no balancing charge or balancing allowance when the building is sold.

On disposal, the structures and buildings allowances (SBAs) claimed will be clawed back by adding them to the sales proceeds in order to determine the chargeable gain on the disposal.

For purchaser

The purchaser will continue to claim the 3% annual allowance for the remainder of the 33 $\frac{1}{3}$ year period.

The price paid by the purchaser will be ignored, with SBAs still claimed on the original cost.

(c) VAT group

Above Ltd can form a VAT group with Top Ltd and Side Ltd, because Above Ltd has more than a 50% shareholding in both of these companies.

Only one VAT return will need to be submitted for the whole group for each VAT period, resulting in reduced administration costs.

In addition, goods and services supplied by one group company to another are disregarded for VAT purposes.

Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Questions 16 – 30 (all questions worth two marks)

Maximum 30 marks

Section C

Question 31

a	Determination each tax year	1
	When payments are due	1
Maximum 2 marks		
b	Trading profit for the year ended 31 March 2026 using the cash basis:	3
	- Trading income	0.5
	- Receivables at 31 March 2026	0.5
	- Purchases	1
	- Loan interest	1
	- Car expenses	2
	- Capital allowances	1.5
	- Entertaining	0.5
Maximum 7 marks		
c	Adam – Income tax computation 2025-26:	
	- Trading profit	0.5
	- Employment income	0.5
	- Pension contributions – Adam	0.5
	- Pension contributions – Employer	0.5
	- Property income	1
	- Dividend income	0.5
	- Personal allowance	0.5
	- Each element of income tax liability (0.5 each)	2
Maximum 6 marks		
d	Adam – Capital gains tax liability 2025-26:	
	- Disposal proceeds	0.5
	- Deemed cost	0.5
	- Annual exempt amount	0.5
	- Capital gains tax	0.5
	- Tax implications	3
Maximum 5 marks		

Total 20 marks

Question 32

a	Above Ltd – Taxable total profits for the year ended 31 March 2026:	
	- Legal fees (0.5 each)	2
	- Political donations	0.5
	- Qualifying charitable donations	0.5
	- Capital allowances (W1 – see below)	
	- Structures and buildings allowance	2.5
	- Interest payable	1
	- Chargeable gain (W2 – see below)	
	- Qualifying charitable donations	0.5
	- Group relief – Top Ltd	0.5
	- Group relief – Side Ltd	1
	(W1) Capital allowances	
	- Building cost	0.5
	- Land	0.5
	- Heating system	0.5
	- Ventilation system	0.5
	- Total allowances	0.5
(W2) Chargeable gain		
- Disposal proceeds	0.5	
- Cost	0.5	
- Indexation allowance	1	
- Capital losses transferred – Top Ltd	1	
- Capital losses transferred – Side Ltd	1	
Maximum 15 marks		
b	For Above Ltd	1
	For purchaser	1
Maximum 2 marks		
c	VAT group	1
	Implications	2
Maximum 3 marks		
Total 20 marks		