

Specimen Exam 1

Exam Name: Taxation (E1 UK)

Time Allowed: 3 hours

Pass Mark: 50%

This exam contains 3 sections:

Section A:

15 questions, each worth 2 marks

30 marks in total

Section B:

3 questions, each worth 10 marks

30 marks in total

Section C:

2 questions, each worth 20 marks

40 marks in total

Note: This specimen examination has been prepared based on FA25 (to be updated).

Section A

Question 1

Total Ltd has the following holding of ordinary shares in other companies:

100% of Rod Inc, company which is resident overseas
80% of Saw Ltd, a UK resident company
40% of Tod Ltd, a UK resident company

Total Ltd has held the shares in Rod Inc and Tod Ltd for many years but only acquired its shareholding in Saw Ltd on 1 December 2025.

Total Ltd had taxable total profits for the year ended 31 March 2026 of £12,000.

Match the correct limits to show the upper and lower limits which will be used to determine the corporation tax rate which will apply to Total Ltd for the year ended 31 March 2026.

Limits	Lower limit	Upper limit
£12,500		
£16,667		
£25,000		
£62,500		
£83,333		
£125,000		

Question 2

Melissa died on 20 January 2026 leaving a chargeable death estate valued at £265,000. The estate does not include a main residence. Melissa had made gross chargeable lifetime transfers of £87,500 during September 2017 and £122,000 during July 2021.

What is the inheritance tax payable in respect of Melissa’s chargeable death estate?

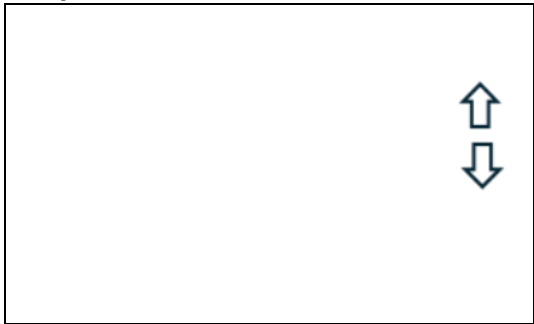
- A £24,800
- B £12,400
- C £59,800
- D £29,900

Question 3

HM Revenue and Customs (HMRC) has completed a compliance check enquiry and amended a self-assessment tax return for the tax year 2025-26.

The taxpayer wishes to appeal against HMRC's amendment to the tax return.

Move the appeal bodies into the correct order in which the taxpayer must make an appeal, with the first at the top and the last at the bottom.

Item	Response area
First Tier Tribunal	
Upper Tribunal	
Court of Appeal	
HMRC	

Question 4

Jolly filed her self-assessment tax return for the tax year 2025-26 online on 20 July 2027.

What is the maximum penalty Jolly will have to pay to HM Revenue and Customs (HMRC)?

- A £1,000
- B £100
- C £0
- D £200

Question 5

Archie ceased trading on 31 January 2026. His recent trading profits were as follows:

	£
Year ended 30 June 2025	12,300
Seven-month period ended 31 January 2026	8,100

Archie has transition profits of £2,200 which have not yet been taxed.

Calculate the trading profit on which Archie will be assessed for the tax year 2025-26.

£

Question 6

Madeline is a graphic designer who arrived in the UK to take up full-time work with a UK company on 1 February 2025. She had never previously visited the UK.

Madeline lived with a family friend until 31 August 2025.

On 1 September 2025 Madeline left the UK to further her studies at a university in another country.

Madeline therefore stayed in the UK for 65 days during the tax year 2024-25 and 148 days during the tax year 2025-26. For these two tax years, Madeline was neither automatically not resident in the UK nor automatically resident in the UK.

Select whether Madeline is UK resident or not UK resident for each of the tax years 2024-25 and 2025-26.

		UK resident	Not UK resident
1.	2024-25		
2.	2025-26		

Question 7

Child benefit of £2,252 was received by Dorothy and Hamish, a married couple, in respect of their children for the tax year 2025-26.

Dorothy had employment income of £81,090 for the tax year 2025-26, and she made net contributions to a personal pension scheme of £14,000 during the year.

Hamish has no income.

Calculate Dorothy's child benefit income tax charge for the tax year 2025-26.

£

Question 8

Toby is self-employed and his trading profit for the tax year 2025-26 is £58,000. In 2025-26 Toby also had property income of £6,500 from a property he rents out.

What are Toby’s class 4 national insurance contributions for the tax year 2025-26?

- A £3,301
- B £2,417
- C £3,171
- D £2,547

Question 9

Veta realised a chargeable gain of £30,000 in the tax year 2025-26. The gain related to the disposal of a residential property held for investment purposes and did not qualify for business asset disposal relief.

In the tax year 2025-26, Veta had taxable income of £29,500 and she contributed £2,000 (net) into her personal pension scheme.

Match the correct amounts show to Veta’s taxable gain and which will be taxed at 18% and at 24% for the year 2025-26.

Amounts
£30,000
£27,000
£21,800
£16,300
£10,700
£8,200

Taxable gain	Taxed at 18%	Taxed at 24%

Question 10

Lewis has had a 30% share in a manufacturing partnership since 2022. He intends to dispose of his entire interest in the partnership in the tax year 2025-26 by selling it to his son for less than its market value.

Lewis has also been a director and 10% shareholder in Jango Ltd, an unquoted investment (non-trading) company since 2022. He has decided to gift his shares to his daughter in the tax year 2025-26.

Which TWO of the following statements regarding the conditions applying to gift holdover relief are true?

- A All conditions are satisfied in respect of the disposal of Lewis' interest in the partnership
- B All conditions are satisfied in respect of the disposal of the shares in Jango Ltd
- C The interest in the partnership is not a qualifying asset for gift holdover relief purposes
- D The shareholding in Jango Ltd is not a qualifying asset for gift holdover relief purposes
- E Any claim must be made within two years of the end of the year in which the gift was made
- F Any claim must be made within three years of the end of the year in which the gift was made

Question 11

Select whether each of the following taxes is a direct or indirect tax and whether it is progressive or NOT progressive.

		Direct	Indirect	Progressive	NOT progressive
1.	Income tax				
2.	Value added tax (VAT)				

Question 12

Julian died on 15 September 2025.

During his lifetime, Julian had made the following potentially exempt transfers, after all available exemptions:

		£
12 May 2017	Cash to his daughter	250,000
10 August 2021	An antique table to his son	378,000

Match the correct amounts to show the nil rate band (NRB) and taper relief available in calculating the inheritance tax due on the gift of the antique table, as a result of Julian’s death.

NRB
£0
£75,000
£325,000
Taper relief
£8,480
£12,720
£56,480

NRB	Taper relief

Question 13

Troubador Ltd is a trading company. Its results for the year ended 31 March 2026 include the following items relating to interest received and paid in the year:

	£
Loan interest receivable:	
Received in the year	35,000
Accrued at 31 March 2026	5,000
Loan interest payable:	
On loan to upgrade the production computer system	(10,000)
On loan to buy shares in an unrelated company	(8,000)

Select whether each transaction will be categorised as trading or non-trading under the loan relationship rules in the corporation tax computation of Troubador Ltd for the year ended 31 March 2026.

		Trading	Non-trading
1.	Loan interest received £35,000		
2.	Loan interest accrued £5,000		
3.	Interest on loan for computer system (£10,000)		
4.	Interest on loan for shares (£8,000)		

Question 14

Each of the following companies has a factory and sales office in the UK:

- (1) Austen Inc, which is incorporated overseas and holds its board meetings in the UK
- (2) Orwell Ltd, which is incorporated in the UK and holds its board meetings overseas
- (3) Charles Inc, which is incorporated overseas and holds its board meetings overseas

Which of the above companies will be treated as resident in the UK for corporation tax purposes?

- A 1 only
- B 2 only
- C 1 and 2 only
- D 1, 2 and 3

Question 15

Lee is registered for value added tax (VAT) and calculates his VAT liability using the flat rate scheme.

For the year ended 31 March 2026, Lee's sales (net of VAT) of standard rated goods were £88,000, with a further £17,500 of zero rated sales. The amount of standard rated purchases (net of VAT) was £12,500.

The relevant flat rate scheme percentage for Lee's business is 11%.

What was Lee's VAT liability for the year ended 31 March 2026?

- A £11,605
- B £13,541
- C £11,891
- D £11,616

Section B

The following scenario relates to questions 16 to 20.

Laura disposed of various assets during the tax year 2025-26, resulting in chargeable gains.

Laura's disposals included the following:

Four hectares of land sold on 12 August 2025

Laura had originally purchased six hectares of land on 30 May 2013 for £98,000. The four hectares of land were sold for £165,000, and the market value of the unsold two hectares of land at the time of sale was £70,000. Prior to the disposal, Laura spent £12,300 clearing and levelling the four hectares of land which were sold.

Main residence sold on 31 December 2025

The house had been purchased on 1 January 2012, and throughout the 186 months of ownership had been occupied by Laura as follows (periods shown chronologically):

	Months
Occupied	35
Unoccupied – living with elderly parents	36
Unoccupied – required to work elsewhere in the UK	60
Occupied	30
Unoccupied – travelling overseas	25
	186

Throughout the period 1 January 2012 to 31 December 2025, Laura did not have any other main residence.

A copyright sold on 30 June 2025

The copyright had been purchased on 1 July 2022 for £27,000 when it had an unexpired life of 17 years.

Cash received following the takeover of Book plc by Pen plc on 22 February 2026

Laura had originally purchased her £1 ordinary shares in Book plc on 18 July 2016 for £28,780. Under the terms of the takeover, Laura received total cash of £16,700 and 24,000 £1 ordinary shares in Pen plc. Immediately after the takeover, Pen plc's £1 ordinary shares were quoted at £2.50.

Craig – Laura's brother

Craig, Laura's brother, has chargeable gains for the year 2025-26 of £48,200 which qualify for business asset disposal relief and £105,300 of chargeable gains relating to the disposal of a residential property. The residential property is not Craig's main residence.

Craig does not have any taxable income for the tax year 2025-26.

Question 16

Select the correct option from each drop-down list to complete the sentence.

In calculating Laura’s chargeable gain on the sale of the four hectares of land, the deductible cost of the land will be

Select... ▼
£65,333
£68,809
£98,000

and the costs of levelling will be

Select... ▼
£8,200
£8,636
£12,300

Question 17

Select whether each of the following periods will be treated as deemed occupation, deemed part-occupation or non-occupation for Laura.

		Deemed occupation	Deemed part-occupation	Non-occupation
1.	36 months living with elderly parents			
2.	60 months required to work elsewhere in the UK			
3.	25 months travelling overseas			

Question 18

Calculate the cost figure which will have been used in the computation of the chargeable gain on the disposal of Laura's copyright.

£

Question 19

What is Laura's chargeable gain in respect of the cash received following the takeover of Book plc by Pen plc?

- A £10,434
- B £4,891
- C £16,700
- D £8,690

Question 20

What is Craig's capital gains tax liability for the tax year 2025-26?

- A £32,020
- B £29,038
- C £31,600
- D £31,300

The following scenario relates to questions 21 to 25.

Adele’s father died on 14 September 2025. Adele's mother had died on 28 May 2021.

Cash gifts received from father

Adele received a cash gift of £88,000 from her father on 4 May 2020, with a further cash gift of £420,000 received on 10 June 2020.

These gifts are stated after taking account of any available exemptions.

Adele’s father did not make any other lifetime gifts.

Father’s chargeable death estate

For inheritance tax (IHT) purposes, the chargeable death estate of Adele’s father is valued at £1,061,000. This is calculated as follows:

	£
Property (main residence)	620,000
Mortgage	(320,000)
	300,000
Other assets	830,000
Debts and funeral expenses	(69,000)
Chargeable death estate	1,061,000

The father’s estate has been left entirely to Adele.

When Adele’s mother died, her estate was also left to Adele. The value of the estate was sufficient to fully utilise all of the mother’s nil rate band. The estate did not include a main residence.

Gift made by Adele

On 1 March 2026, Adele made a chargeable lifetime transfer of £550,000 to a trust for the benefit of her children. She will pay the IHT arising from this gift.

Prior to this gift, Adele made two lifetime gifts on 10 June 2025:

- a chargeable lifetime transfer of £65,000 to a trust for the benefit of her nieces, and
- a potentially exempt transfer of £28,000 to her sister.

Adele has not made any other lifetime gifts.

Question 21

Calculate the amount of inheritance tax which Adele will have to pay, as a result of her father’s death, in respect of the cash gift of £420,000 received on 10 June 2020.

£

Question 22

What is the inheritance tax which will be payable in respect of the chargeable death estate of Adele’s father valued at £1,061,000?

- A £284,400
- B £424,400
- C £304,400
- D £354,400

Question 23

Which TWO of the following deductions will have been permitted in calculating the debts and funeral expenses figure of £69,000 in the chargeable death estate of Adele’s father?

- A The legal fees of a friend which Adele’s father had verbally promised to pay
- B Capital gains tax payable in respect of the tax year 2024-25
- C Credit card debts
- D An electricity bill which Adele’s father paid on 5 September 2025

Question 24

Match the correct due dates for the payment of inheritance tax (IHT) on the lifetime cash gift of £420,000 received by Adele on 10 June 2020, and on her father’s chargeable death estate valued at £1,061,000.

Note: the date tokens may be used more than once.

Due dates	Lifetime cash gift of £420,000	Chargeable death estate of £1,061,000
14 March 2026		
31 March 2026		
30 April 2026		
31 December 2026		

Question 25

What is the amount of lifetime inheritance tax payable by Adele in respect of the chargeable lifetime transfer of £550,000 which she made to a trust on 1 March 2026?

- A £71,000
- B £78,000
- C £56,800
- D £56,250

The following scenario relates to questions 26 to 30.

You should assume that today's date is 22 February 2026.

Lilo has been registered for value added tax (VAT) for a number of years and does not use any of the special VAT schemes. All of Lilo's supplies are standard rated for VAT purposes.

Lilo has completed and submitted her VAT return for the quarter ended 31 December 2025.

Computer equipment

On 25 September 2025, Lilo signed a contract to purchase standard rated computer equipment. On that date, she paid a deposit of £2,600.

The computer equipment was delivered on 22 December 2025. However, an invoice for the balance of £7,800 was not raised until 2 January 2026. Lilo paid the invoice 18 January 2026.

Both of the above figures are exclusive of VAT.

Impairment losses

On 31 December 2025, Lilo wrote off three impairment losses:

Invoice date	Payment due date	Output VAT originally paid
20 May 2025	20 June 2025	£450
25 June 2025	25 July 2025	£270
2 August 2025	2 September 2025	£320

Submission of VAT returns

Unfortunately, Lilo was late in submitting her VAT returns for the quarters ended 31 March 2025 and 30 June 2025. She was also 25 days late in paying her related VAT liability for the quarter ended 31 March 2025 and 42 days late for the quarter ended 30 June 2025. All of her other VAT returns and related VAT liabilities have been submitted and paid on time.

Services acquired from overseas

During the quarter ended 31 March 2026, Lilo will purchase services from an overseas supplier at a cost of £6,000, exclusive of VAT. The rate of VAT in the supplier's country is 18%.

Question 26

What is the input value added tax (VAT) which Lilo should have claimed on her VAT return for the quarter ended 31 December 2025 in respect of the computer equipment?

- A £2,080
- B £520
- C £1,560
- D £0

Question 27

What is the amount of input value added tax (VAT) which Lilo should have included on her VAT return for the quarter ended 31 December 2025 in respect of the three impairment losses?

- A £0
- B £450
- C £720
- D £1,040

Question 28

Match the correct late payment penalty which will apply to each quarter ended 31 March 2025 and 30 June 2025.

Note: the penalty tokens may be used more than once.

Late payment penalty
None
3%
6% plus 10% p.a. daily

Quarter ended 31 March 2025	Quarter ended 30 June 2025

Question 29

Assuming Lilo uses the annual accounting scheme, select whether each of the following statements are true or false.

		True	False
1.	There would be automatic relief for impairment losses		
2.	Value added tax (VAT) payable would be less		
3.	Only a single payment of VAT will be required		
4.	Only a single VAT return is submitted for the year		

Question 30

Select the correct option from each drop-down list to complete the sentence.

In her value added tax (VAT) return for the quarter ended 31 March 2026, in respect of the purchase of services from overseas,

Lilo will have to make an entry for input VAT of

Select... ▼
£0
£1,080
£1,200

and an entry for output VAT of

Select... ▼
£0
£1,080
£1,200

Section C

Question 31

The following scenario relates to four requirements.

You should assume that the date is 1 April 2026.

Adam commenced self-employment on 1 April 2025. He has prepared his first set of accounts to 31 March 2026 using the accruals basis.

The following information is available regarding Adam's statement of profit or loss for the year ended 31 March 2026:

	Notes	£
Trading income	1	185,200
Purchases	2	(114,850)
Gross profit		70,350
Expenses:		
Loan interest	3	(3,900)
Car expenses	4	(5,860)
Entertaining	5	(250)
Net profit		60,340

Notes:

- The trading income figure of £185,200 included amounts which were owed as receivables at 31 March 2026 of £10,900.
- The purchases figure of £114,850 include amounts which were owed as payables at 31 March 2026 of £6,800.
- The loan interest of £3,900 is in respect of a bank loan of £45,000 which Adam took out on 1 April 2025 to provide working capital for the business. The loan interest is payable at the end of every month, and the figure of £3,900 includes an accrual of £300 for March 2026.
- The car expenses relate to Adam's own car, which is used 60% for business purposes and 40% for private purposes. The figure of £5,860 (which includes both business and private use) is made up as follows:

	£
Car running costs	3,710
Fuel	1,950
Parking fines (incurred when Adam was visiting new clients)	200
Net profit	5,860

Adam purchased his car on 1 April 2025 for £30,800. The car was purchased new and has CO₂ emissions of 65g/km.

Whether Adam uses the accruals basis or the cash basis to calculate his trading profit, he will not use HM Revenue and Customs (HMRC) approved mileage allowances. He will instead claim actual running costs and capital allowances.

5. The entertaining expenses of £250 (which were paid on 17 April 2025) were incurred in respect of a new client. Adam believes that this cost should be allowable as it relates to winning new business.

Additional information

In addition to Adam's self-employed business, the following information is also available for the tax year 2025-26:

6. Adam is employed part-time. His gross annual salary was £18,500 for the tax year 2025-26. During the tax year, Adam contributed £750 into his employer's occupational pension scheme, with Adam's employer contributing £890.
7. Adam lets out a furnished spare room in his house. For the tax year 2025-26, he received rental income of £10,400 and incurred additional allowable expenditure of £1,580 as a result of the letting. Adam always uses the most favourable basis as regards the tax treatment of the furnished room.
8. During the tax year 2025-26, Adam received dividend income of £340.
9. On 1 March 2026, Adam made a charitable gift aid donation of £600 (gross).

Antique painting

Adam inherited an antique painting on the death of his aunt on 12 May 2021. The probate value of the painting on that date was £20,000. He is thinking of selling the painting and has been advised that the painting is currently worth £35,000.

Requirements:

Adam understands that in future years he will be required to make self-assessment payments on account.

(a) Analyse how the amounts of Adam’s self-assessment payments on account will be determined each tax year and when these payments will be due.

Note: No calculations are required for this part of the question.

(2 marks)

(b) Calculate Adam’s trading profit for the year ended 31 March 2026 if he decided to use the cash basis to calculate his trading profit instead of electing to use the accruals basis.

Note: Your computation should list the items referred to in notes (1) to (5), indicating by the use of zero (0) any items which do not impact on your computation.

(7 marks)

(c) Calculate Adam’s total income tax liability for the tax year 2025-26.

Note: Your computation should list the items in the additional information section (notes (6) to (9)), indicating by the use of zero (0) any items which are not taxable or deductible.

(6 marks)

(d) Calculate Adam’s capital gains tax liability for the tax year 2025-26 if he sells the antique painting on 2 April 2026 and compare the tax implications if he were to delay the sale to 10 April 2026.

Note: You should assume that Adam’s income for the tax year 2026-27 is the same as it is for the tax year 2025-26, and that rates and allowances for the tax year 2025-26 continue to apply.

(5 marks)

(20 marks)

Question 32

The following scenario relates to three requirements.

You should assume that today's date is 30 June 2026.

The following information is available in respect of Above Ltd for the year ended 31 March 2026:

Trading profit

The information from the draft financial statements shows a trading profit for the year ended 31 March 2026 of £998,400.

This figure is **before** making any deductions for the following expenditure detailed in notes (1) to (6):

1. Legal fees for the year totalling £32,500. The legal fees are in connection with:

	£
Purchase of two freehold buildings (see notes (4) and (5))	17,580
Repayment of loan notes (see note (6))	5,240
Drafting of new contracts	2,580
Issue of £1 ordinary shares	7,100
Total legal fees incurred	32,500

2. Political donations of £750 were paid on 1 May 2025.
3. Qualifying charitable donations of £4,700 were paid on 23 June 2025.

Capital allowances

The tax written down value of Above Ltd's main pool and special rate pool as at 1 April 2025 is £0 in both cases.

4. Above Ltd purchased a second-hand freehold warehouse on 1 September 2025, which was originally constructed 15 years ago (no structures and buildings allowance is available). The total purchase cost of £289,100 is allocated as follows:

	£
Cost of warehouse	174,400
Cost of land	73,000
Heating system	25,800
Ventilation system	15,900
Total purchase cost	289,100

A joint election was made to allocate the total purchase cost of £289,100, as detailed above, between the vendor of the warehouse and Above Ltd.

- Above Ltd purchased a newly constructed office building directly from a builder for £395,000 on 1 June 2025. The purchase price of £395,000 included the cost of land which was valued at £86,000. The office building was brought into use on 1 October 2025 and will be used for the purposes of Above Ltd's trade. Above Ltd will claim structures and buildings allowance in respect of this purchase.

Loan notes

- Loan notes of £288,000 were repaid on 31 May 2025 together with interest of £3,600 for the three-month period 1 March to 31 May 2025. An accrual of £1,200 was brought forward at 1 April 2025. The loan notes were issued in order to finance Above Ltd's trading activities.

Chargeable gain

On 21 March 2026, Above Ltd sold its entire shareholding (a 3% shareholding) of £1 ordinary shares in KLQ plc, an unconnected company, for £151,800. Above Ltd had originally purchased the shares in KLQ plc on 1 August 2014 for £49,500. The indexation factor from August 2014 to December 2017 is 0.082.

Subsidiary companies

Above Ltd has an 80% subsidiary company, Top Ltd. Top Ltd in turn has an 80% subsidiary company, Side Ltd. The group structure, showing the percentage holding of ordinary share capital, is therefore as follows:



Both shareholdings have been held for several years. For the year ended 31 March 2026, Top Ltd and Side Ltd have made the following trading losses and capital losses:

Subsidiary	Trading loss	Capital loss
	£	£
Top Ltd	(33,700)	(23,100)
Side Ltd	(26,300)	(8,900)

Neither company has any other income or outgoings.

Future disposal of newly constructed office building

Above Ltd is considering selling its newly constructed office building (note 5 above) in 2027, with the building being sold at a gain. However, the company is unsure as to how the structures and buildings allowance claimed in respect of this building will be treated on a disposal.

Requirements:

(a) On the basis that all available claims and elections are made, calculate Above Ltd's taxable total profits for the year ended 31 March 2026.

Note: Your computation should commence with the draft trading profit figure of £998,400, indicating by the use of zero (0) any items which do not require adjustment or are not to be included.

(15 marks)

(b) Analyse the tax treatment of the disposal of the newly constructed office building in 2027 for both Above Ltd and the potential purchaser.

(2 marks)

(c) Analyse whether Above Ltd, Top Ltd and Side Ltd are eligible to form a value added tax (VAT) group and the implications of doing so.

(3 marks)

(20 marks)