

Specimen Exam 1

Exam Name: Taxation Advisory Professional (STA UK)

Time Allowed: 3 hours 15 minutes

Pass Mark: 50%

This examination contains 2 sections:

Section A:

1 question, worth 50 marks

Section B:

2 questions, each worth 25 marks

Total 100 marks

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

Section A

Question 1

You should assume that today's date is 1 August 2026.

You are an ACCA student working for a firm of accountants. Your manager has asked you to carry out some work in respect of two new clients: Bridie and her husband, Adam.

The following **exhibits** provide information relevant to the question:

1. Bridie and Adam – memorandum from manager detailing background information about Bridie and Adam and information related to their residence status
2. Bridie: chargeable gains – letter from Bridie regarding chargeable gains realised while she was overseas
3. Bridie: employment income – email from Bridie regarding her employment benefits and participation in a company share option plan (CSOP)
4. Adam: unincorporated business – email from Adam regarding voluntary registration for value added tax (VAT) and tax allowable trading expenses
5. Work to be carried out – email from manager

1 Bridie and Adam

Extract from a memorandum from your manager (dated 1 August 2026)

This memorandum records the matters discussed in a conference call with Bridie and Adam. They have been married for many years and are new clients of our firm.

Bridie and Adam will attend meetings with us together and will each have access to all the advice we provide. As such, any working notes can refer to both clients and there is no need for you to consider any possible confidentiality issues between them.

Residence

Bridie and Adam had always been UK tax resident until, on 1 July 2024, they left the UK to go travelling. They have been travelling overseas continually since that date.

On 1 November 2026, they will return to the UK and become UK resident again. They will stay in the UK for the remainder of the tax year 2026/27, such that they will spend 156 days in the UK in this tax year.

In the tax year 2026/27, neither of them will have satisfied any of the UK ties prior to 1 November 2026.

I can confirm that Bridie does NOT satisfy any of the automatic non-UK tax residence tests, or the automatic UK tax residence test in relation to her only home being in the UK.

Bridie and Adam do not own a house in the UK. From 1 November 2026, they will either rent a property or live in a house which will be provided to Bridie by her new employer Pacoe Ltd.

Bridie

On 1 November 2026, Bridie will commence employment with Pacoe Ltd (Exhibit 3). Pacoe Ltd manufactures smart watches and fitness trackers and is an existing client of our firm.

Please note, Bridie will be a basic rate taxpayer in the tax year 2026/27 and a higher rate taxpayer in the tax year 2027/28.

Adam

On 1 December 2026, Adam will begin trading as a sole trader. I have received an email from Adam setting out his plans (Exhibit 4).

2 Bridie: chargeable gains

Extract from a letter from Bridie (dated 1 August 2026)

I set out below the information you requested.

Paintings

On 1 October 2025, I purchased two paintings: a portrait for £26,000 and a landscape for £24,000. I sold the portrait on 1 June 2026 for £45,000.

I could sell the landscape now (i.e. 1 August 2026) for £39,000 or wait until 1 May 2027, when I would expect to be able to sell it for £51,000 at a major auction in the UK. I wish to dispose of the landscape on the date which maximises my post-tax proceeds.

Car

On 1 July 2026, I sold a vintage car for £89,000. I purchased this car for £54,000 on 1 February 2024 and we used it on our travels.

3 Bridie: employment income

Extract from an email from Bridie (dated 1 August 2026)

Following on from my letter, please find below the further information you requested.

Employment contract with Pacoe Ltd

1. My full-time employment contract with Pacoe Ltd is for an initial period of three years on a salary of £78,000 per year. This employment will be my only source of income. You have already confirmed that the tax deducted at source via PAYE on my salary will be £18,632.

2. For the initial three-year period of my employment contract, I can choose whether Pacoe Ltd will provide EITHER two cars (one for me and one for Adam) OR the use of an unfurnished house.

The cars

Pacoe Ltd has informed me that the annual taxable employment benefits in respect of the two cars would be: my car £10,400, Adam's car £7,800.

If these cars are not provided to me by Pacoe Ltd, I will lease two cars privately at a total cost of £9,500 per year.

The unfurnished house

Pacoe Ltd purchased this house on 1 December 2022 for £690,000. Pacoe Ltd informed me that the house has an annual value of £10,000 and will have a market value of £900,000 on 1 November 2026. Pacoe Ltd would charge me rent of £200 per month.

If this house is not provided to me by Pacoe Ltd, I will rent a house on the open market at a cost of £14,000 per year.

3. On 1 May 2027, I will become a member of Pacoe Ltd's tax advantaged company share option plan (CSOP). I will be granted an option to purchase 1,400 ordinary shares (a holding of less than 1% of the company) at the current market value of £17 per share. It is expected that the value of the shares in Pacoe Ltd will increase over time.

You have already confirmed that the acquisition of the company share option plan (CSOP) shares will not result in a tax liability.

I will exercise my option on 1 June 2030. I believe that a sale of the shares on the same day will NOT give rise to a chargeable gain. Can you please confirm this?

4 Adam: unincorporated business

Extract from an email from Adam (dated 1 August 2026)

As you know, I will begin trading as a sole trader on 1 December 2026 manufacturing and selling robotic vacuum cleaners.

I set out below the information you requested.

Value added tax (VAT) registration

My maximum annual turnover is budgeted to be £60,000 and I will prepare accounts to 31 March each year. I will not be accounting for VAT using the flat rate scheme.

I will have some non-business customers but most of my sales will be to small businesses. You have already informed me that all of my sales will be standard rated for the purposes of VAT.

You should perhaps also be aware that I expect to purchase equipment and to incur other costs during November 2026.

Calculation of taxable trading profit

Sales brochures

I first designed the robotic vacuum cleaner which I am about to start manufacturing in September 2021, nearly five years ago. At that time, I paid a fee of £5,500 to a design company for creating sales brochures. Although I did not go ahead with production at the time, the sales brochures are still up to date, and I intend to use them in the business once I commence trading.

Business promotion

In December 2026, I will travel by train to visit six potential retail customers in the UK. I will explain my product to them, take them out for lunch, and give each of them a high-quality chef's knife, worth £35 each, which carries a large engraving of my business logo on the blade. The knives are not items which will be sold by me as part of my trade.

I estimate that the total costs of both of the promotional activities will be £1,800.

5 Work to be carried out

Extract from an email from your manager (dated 1 August 2026)

Please prepare a memorandum for the client files of Bridie and Adam, in preparation for a meeting with them, which addresses the following:

(a) (i) In relation to Bridie's personal tax affairs – tax residence and chargeable gains:

- **Justify why Bridie will be treated as UK tax resident from 1 November 2026.**
- **Advise whether the gains made by Bridie on the sale of the portrait painting and the vintage car will be subject to UK capital gains tax.**
- **Recommend, with supporting calculations, which is the most tax efficient disposal date for the landscape painting.**

Note: When advising on the sale of the capital assets, you should ignore the possibility of Bridie's gains being subject to tax overseas.

(12 marks)

(ii) In relation to Bridie's personal tax affairs - employment contract :

- **Recommend which of the two alternative benefits Bridie should choose, by reference to detailed calculations of the financial cost to her of each benefit for a complete tax year.**

Note: You should ignore national insurance contributions (NICs).

- **Advise Bridie on the capital gains tax implications of selling the shares in Pacoe Ltd.**
- **Evaluate the ethical considerations relevant to our firm when we started acting for both Bridie and her employer, Pacoe Ltd.**

(16 marks)

(b) In relation to Adam’s unincorporated business:

- **Evaluate the implications of voluntarily registering for value added tax (VAT) for Adam.**

When carrying out this task, you are NOT required to refer to the cost of the sales brochures or the business promotion costs.

- **Assess whether the sales brochures costs and the business promotion costs will be allowable when calculating Adam’s taxable trading profit.**

(12 marks)

Requirements:

You should assume that today's date is 1 August 2026.

Prepare a memorandum which addresses the instructions in the email from your manager.

Note: the split of the mark allocation is shown in Exhibit 5 – Work to be carried out.

(40 marks)

Professional marks will be awarded for the demonstration of skill in communication, analysis and evaluation, scepticism, and commercial acumen in your answer.

(10 marks)

(50 marks)

Section B

Question 2

You should assume that today's date is 1 March 2026.

The finance director of Mtucs Ltd has requested some corporation tax advice.

The following **exhibit** provide information relevant to the question:

1. Mtucs Ltd – notes from manager about the sale of a warehouse, some shares, and commencing trade overseas

1 Mtucs Ltd

Background

Mtucs Ltd is a wholesaler of sustainable clothing and footwear which prepares accounts to the 31 March each year.

Mtucs Ltd has forecast taxable total profits from its UK operations as follows:

- £130,000 in the year ending 31 March 2026, before taking account of the sale of the warehouse and the shares in Werj Ltd (see below); and
- £145,000 in the year ending 31 March 2027, before taking account of the planned overseas expansion (see below).

Mtucs Ltd acquired 80% of the ordinary shares in Werj Ltd on 1 January 2021. Both Mtucs Ltd and Werj Ltd are UK tax resident trading companies and Mtucs Ltd has no other associated companies.

Acquisition and sale of a warehouse

On 31 March 2026, Mtucs Ltd will sell a warehouse to an unconnected person. Mtucs Ltd acquired this warehouse from Werj Ltd on 1 April 2025 for its market value on that date. Werj Ltd had purchased the newly constructed warehouse from an unconnected person on 1 April 2021 and began claiming structures and buildings allowances (SBA) immediately.

The following information is available in relation to the warehouse:

	Total	Building	Land
	£	£	£
1 April 2021 Cost to Werj Ltd	192,000	102,000	90,000
1 April 2025 Market Value	234,000	148,000	86,000
31 March 2026 Sale proceeds	255,000	165,000	90,000

Werj Ltd and Mtucs Ltd have used the warehouse wholly in their respective businesses since 1 April 2021.

Rollover relief will not be claimed in respect of the gain arising on this sale.

Acquisition and sale of the shares in Werj Ltd

Mtucs Ltd acquired its 80% shareholding in Werj Ltd for £440,000 on 1 January 2021. It will sell this entire shareholding to an unconnected company for £510,000 on 31 March 2026.

Mtucs Ltd – trading overseas

On 1 April 2026, Mtucs Ltd will commence trading in the country of Daylia either:

- (1) Through a permanent establishment (PE) in Daylia, or
- (2) By incorporating a wholly owned subsidiary company.

The overseas operation will have forecast taxable profits of £30,000, after all relevant deductions, for the year ending 31 March 2027 and is expected to remain profitable for the foreseeable future. The overseas operation will not require any expenditure on plant and machinery.

(1) Operating in Daylia through a PE

Mtucs Ltd would operate through a PE in Daylia which would be its only PE located in an overseas country.

Mtucs Ltd will NOT make an election to exempt the profits of overseas PEs from UK taxation.

(2) Operating in Daylia through a wholly owned subsidiary company which:

Mtucs Ltd would incorporate a wholly owned subsidiary in Daylia. The subsidiary would pay an annual dividend to Mtucs Ltd.

There would not be a controlled foreign company (CFC) charge.

The tax system in Daylia

The rate of tax on profits in Daylia is 22% and there is no double tax treaty between the UK and Daylia.

Requirements:

You should assume that today's date is 1 March 2026

(a) Assess, with supporting calculations, the impact on Mtucs Ltd's corporation tax liability for the year ending 31 March 2026 as a result of selling the warehouse and the shares in Werj Ltd, as proposed.

(9 marks)

(b) Advise on the tax consequences for Mtucs Ltd of setting up the overseas operation as either (1) a permanent establishment (PE) in the country of Daylia or (2) an overseas subsidiary incorporated in Daylia.

Note: You should provide supporting calculations for the PE.

(11 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, and commercial acumen in your answer.

(5 marks)

(25 marks)

Question 3

You should assume that today's date is 1 April 2026.

Kyle and Libby have requested some personal tax advice.

The following **exhibit** provide information relevant to the question:

1. Kyle and Libby – notes from manager about potential gifts between an unmarried couple, and the capital gains tax and inheritance tax thereon

1 Kyle and Libby

Kyle and Libby are not married but have lived together for many years. They are, and have always been, UK tax resident.

Kyle

Kyle will have total income in the tax year 2026/27 (prior to making any gift to Libby) as follows:

	£
Trading income	55,000
Rental income from a UK investment property	15,000
Dividend income from Greeb Ltd	12,000
Dividend income from other UK companies	8,000
	90,000

Kyle will gift either his UK investment property or his entire shareholding in Greeb Ltd to Libby on 6 April 2026. He has made one previous lifetime gift, to his daughter, on 1 July 2023, which resulted in a transfer of £108,000, after all exemptions.

Libby

Libby will have income from employment of £14,000 in the tax year 2026/27 which will be her only source of taxable income in this year. She will retire from this employment on 1 March 2028.

Libby will sell the asset received from Kyle on 1 March 2028, when it is anticipated to have increased in value.

Kyle's shareholding in Greeb Ltd:

Kyle acquired 10,000 ordinary shares (a 12% shareholding) in Greeb Ltd on 1 March 2024 for £386,000. The market value of these 10,000 shares on 6 April 2026 will be £404,000.

Kyle would like to understand whether or not business property relief will be available on a gift of these shares.

Greeb Ltd

Greeb Ltd is a UK tax resident unquoted trading company which owns assets which will have a total value of £4.5m on 6 April 2026.

These assets comprise trading assets valued at £4.1m (of which £3.8m will represent chargeable assets for CGT purposes); and shares in a quoted company valued at £0.4m, held as a long-term investment.

Requirements:

You should assume that today's date is 1 April 2026.

(a) Recommend, with supporting calculations, which of the two potential gifts from Kyle to Libby will produce the greater net annual income tax saving for the couple.

(5 marks)

(b) On the assumption that Kyle gifts his shares in Greeb Ltd, advise whether or not a claim for gift holdover relief can be made for capital gains tax purposes and the impact of making this claim on the chargeable gains realised by both Kyle and Libby.

(6 marks)

(c) On the assumption that Kyle dies before 6 April, evaluate the specific circumstances in which the maximum inheritance tax liability would arise in respect of the gift of shares in Greeb Ltd, and advise on the amount of this liability.

(9 marks)

Professional marks will be awarded for the demonstration of skill in analysis and evaluation, and commercial acumen in your answer.

(5 marks)

(25 marks)