

Tolley[®] Exam Training

ATT PAPER 2

BUSINESS TAXATION

PRE REVISION QUESTION BANK

FA 2025

May and November 2026 Sittings

PQ162

Tolley[®]

Tax intelligence
from LexisNexis[®]

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INTRODUCTION

This Pre Revision Question Bank contains exam standard questions all with answers updated to Finance Act 2025. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2026** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written **questions** carrying from 10 to 25 marks each, usually split into shorter subsections with marks allocated to each subsection, with no question choice. There are **98 marks for technical content and 2 marks for presentation skills** available.

Presentation Skills Marks

The presentation skills marks on this paper will be awarded as follows:

2 marks - Presentation is very good. Full sentences are used where appropriate throughout. Answers flow well and are in a logical order. Explanations clearly relate to the question scenario.

1 mark - Broadly the presentation is acceptable. Full sentences are used where appropriate, although some minor lapses are acceptable. Answers generally flow well and in a logical order. Explanations contain a reasonable reference to the question scenario.

0 marks - There is little effort to use full sentences where they would be expected. The answers do not flow well, with ideas not presented in a logical order. Explanations are mainly regurgitation of legislation/ learning materials with limited reference to the question scenario.

There are likely to be email/letter style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying "yes I know that point, yes I understand that advice given" - the test is would you have actually put those points in your answer? You won't find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up "proper" answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocated to that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

ETHICS

ATT Papers 1 to 6 are each expected to each contain questions that have parts testing Ethics topics for between 3 and 7 marks in total across the paper.

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (6th edition) that are included in the Papers 1 to 6 syllabuses are:

Chapter 4	New clients and engagements
Chapter 5	Client service
Chapter 6	Objectivity (including conflicts of interest)
Chapter 7	Other client handling issues
Chapter 8	Charging for services
Chapter 9	Complaints
Chapter 10	Ceasing to act
Chapter 19	The Fundamental Principles
Chapter 20	The Standards for Tax Planning
Chapter 21	Help sheet A: Submission of tax information and 'tax filings'
Chapter 22	Help sheet B: Tax advice
Chapter 23	Help sheet C: Dealing with errors
Chapter 24	Help sheet C2: Dealing with errors – Members in business
Chapter 25	Help sheet D: Requests for data by HMRC
Chapter 26	Help sheet E: Members' personal tax affairs

The required depth of knowledge is “Principles” ie candidates are expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There are also some short questions for Ethics at the back of this bank. Attempting these questions will be good preparation for the exams.

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ATT TAX TABLES 2026

QUESTIONS FOR PAPER 2

No	Name	Topic	Marks
1	Derek Nightlark	Sole trader – trade profits, Income Tax & NIC, due dates	20
2	Thomas Harrow	Sole trader – trade profits, Income Tax & NIC	15
3	Mr Field	Sole trader – loss reliefs in opening years of trade, cash basis v accruals basis for hire purchase asset	15
4	Edward Jones	Sole trader – loss reliefs in closing years of trade, capital gains tax, ethics, VAT	20
5	The Popple Partnership	Partnership – trade profits, Income Tax & NIC for one partner, admin	21
6	Ruth, Ella & Hari	Partnership – partnership allocations, Income Tax & NIC for one partner, capital gains tax & reliefs	19
7	Sadiq, Anya & John	Partnership – partnership allocations for a loss, available loss reliefs for one partner, ethics & admin	15
8	Shania	Letter to individual re capital gains and reliefs	15
9	Poppy	Letter to individual re flat rate expenses, goods for own use, NIC, tax relief for acquiring a new vehicle	17
10	Kangaroo Blue Ltd	Corporation tax computation for a short accounting period, admin	16
11	Marvellous Ltd	Corporation tax computation for a year end, tax relief for purchase of shop and tax consequences on sale, trade loss relief	25
12	Trashmagic Ltd	Corporation tax computation for a long period of accounts & NIC	18
13	Chelmer Developments Ltd	Corporation tax computation for a long period of accounts & due dates for payment	20
14	Royston Ltd	Capital allowances for a company – written & calculations	15
15	Luke Pritchard	Letter to individual re sole trader v company and VAT	15

ETHICS FOR ATT PAPER 1-6

No	Name	Topic
1-20	n/a	Various short Ethics questions

ATT EXAMINATIONS
2026
TAX TABLES

INCOME TAX

	2025/26
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35
 Thresholds	 £
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	500
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
 Scottish Tax Rates and Thresholds (Note 2)	
£	%
1 – 2,827	19
2,828 – 14,921	20
14,922 – 31,092	21
31,093 – 62,430	42
62,431 – 125,140	45
125,140+	48
 Reliefs	 £
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	3,130
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000
De minimis trusts amount	500

- Notes:** (1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not Scottish) taxpayers.
- (2) Scottish taxpayers pay Scottish income tax on non-savings income.
- (3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
- (4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
- (5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	Maximum subscription
	£
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS
2026
TAX TABLES

Pension contributions

Basic amount qualifying for tax relief		£3,600
	Annual allowance (Note 1) £	Minimum pension age
2025/26	60,000	55
Lump sum allowance		£268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles

Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2025/26

	Electric range (miles)	Car benefit %	
Emissions			
0g/km	N/A	3%	
1-50g/km	≥130	3%	
1-50g/km	70-129	6%	
1-50g/km	40-69	9%	
1-50g/km	30-39	13%	
1-50g/km	<30	15%	
51-54g/km		16%	
55-59g/km		17%	
60-64g/km		18%	
65-69g/km		19%	
70-74g/km		20%	
75g/km or more		21%	+ 1% for every additional whole 5g/km above 75g/km
155g/km or more		37%	

Fuel benefit base figure £28,200

Taxable benefits for vans – 2025/26

Van benefit – No CO ₂ emissions	£ Nil
Van benefit – CO ₂ emissions > 0g/km	4,020
Fuel benefit	769

Official rate of interest – from 6 April 2025 (assumed) 3.75%

ATT EXAMINATIONS 2026 TAX TABLES

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£2,172 per month	£2,372 per month	£2,728 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold £1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay

Average weekly gross earnings	£125.00 or more	Weekly rate £118.75
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Statutory maternity/adoption pay

First 6 weeks @ 90% of AWE
Next 33 weeks @ the lower of £187.18 and 90% of AWE

Statutory shared parental pay/ paternity pay/parental bereavement pay/neonatal care pay

For each qualifying week, the lower of 90% of AWE
and £187.18

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2026	£19,690 per year	£415 per week	£495 per week

CHILD BENEFIT

Year to 5 April 2026

Rates	Weekly rate
	£
First child	26.05
Each subsequent child	17.25

Child benefit charge

Adjusted net income >£60,000
Adjusted net income >£80,000

Withdrawal rate

1% of benefit per £200 of income between £60,000 and £80,000
Full child benefit amount assessable in that tax year

HMRC INTEREST RATES (assumed)

Late payment interest	7.00%
Interest on underpaid corporation tax instalments	5.50%
Repayment interest	3.50%
Interest on overpaid corporation tax instalments	4.25%

ATT EXAMINATIONS
2026
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

2025/26

Class 1 limits

	Annual £	Monthly £	Weekly £
Lower earnings limit (LEL)	6,500	542	125
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	5,000	417	96
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

2025/26

Employment allowance

Per year, per employer £10,500

Class 1 primary contribution rates

Earnings between PT and UEL 8%
Earnings above UEL 2%

Class 1 secondary contribution rates

Earnings above ST (Notes 1 & 2) 15%

Notes:

- (1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.
- (2) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions 15%
Class 1B contributions 15%

Class 2 contributions

Rate £3.50 pw
Small profits threshold (Note 3) £6,845 pa

Note: (3) Self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

Class 3 contributions

£17.75 pw

Class 4 contributions

Annual lower profits limit (LPL) £12,570
Annual upper profits limit (UPL) £50,270
Percentage rate between LPL and UPL 6%
Percentage rate above UPL 2%

SIMPLIFICATION MEASURES

'Rent-a-room' limit £7,500
Property allowance/Trading allowance £1,000

ATT EXAMINATIONS

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TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses			
Car or van	First 10,000 business miles		45p per mile
	Additional business mile		25p per mile
Motorcycles			24p per mile
Business use of home	25 – 50 hours use		£10 per month
	51 – 100 hours use		£18 per month
	101+ hours use		£26 per month
Private use of business premises	No of persons living there:	1	£350 per month
		2	£500 per month
		3+	£650 per month

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

- Notes:** (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars).
 (2) The main pool rate applies to cars with CO₂ emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
 (3) The special pool rate applies to cars with CO₂ emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses

Capital expenditure incurred by a person on research and development.

New cars if the car either emits 0g/km of CO₂ or it is electrically propelled (until 31 March 2026/5 April 2026).

Electric vehicle charging points expenditure (until 31 March 2026/5 April 2026).

Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards.

FYA for assets in main pool 100% (130% for expenditure 1 April 2021 to 31 March 2023)

FYA for assets in special rate pool 50% (from 1 April 2021)

VALUE ADDED TAX

Standard rate 20% VAT fraction 1/6

Limits

Annual registration limit	£90,000
De-registration limit	£88,000

Thresholds

	Cash accounting	Annual accounting
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (from 1 March 2025)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	12p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	13p
Over 2000cc	23p	21p	Over 2000cc	17p

Electricity rate 7p

**ATT EXAMINATIONS
 2026
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CORPORATION TAX

Financial year	2025	2024
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%

Research and development expenditure

Financial year	2025
RDEC	20%
Alternative relief for loss making R&D intensive SMEs (Note 1):	
Enhanced R&D Intensive Support (ERIS) - total relief	186%
R&D tax credit for R&D intensive SME losses	14.5%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m or assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	Lifetime rate	20%
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Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2030	£325,000

Residence nil rate bands (Note 4)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2030	£175,000

Note: (4) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption	£3,000
Small gifts	£250
Wedding gifts – Child	£5,000
– Grandchild or remoter issue or other party to marriage	£2,500
– Other	£1,000

ATT EXAMINATIONS
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TAX TABLES

CAPITAL GAINS TAX

	2025/26
Annual exempt amount	£3,000
CGT rates for individuals (Notes 1 & 2)	
Gains qualifying for business asset disposal relief/investors' relief (Note 3)	14%
Gains falling within remaining basic rate band (Note 4)	18%
Gains exceeding basic rate band	24%
CGT rates for trusts	
Gains qualifying for business asset disposal relief/investors' relief	14%
Other gains	24%
CGT Rate for personal representatives (PRs)	
All gains	24%
Business Asset Disposal relief (BADR)	
Relevant gains (lifetime maximum) (Note 5)	£1 million
Investors' relief (IR)	
Relevant gains (lifetime maximum) (Note 6)	£1 million

- Notes:**
- (1) For individuals, gains are taxed as if they are the top slice of income.
 - (2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
 - (3) From 6 April 2026 the rate will be 18%
 - (4) The remaining basic rate band is calculated as £37,700 (2025/26) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
 - (5) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million
 - (6) For qualifying disposals made before 30 October 2024 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

ATT EXAMINATIONS 2026 TAX TABLES

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	—	—	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

**PAPER 2
QUESTIONS**

1. Derek Nightlark owns a racehorse and two ponies and runs a racing stable in the grounds surrounding his house. He provides stabling for seven horses, charging livery fees for accommodation and training of the horses. His wife works for the business and gives riding lessons on the ponies. Derek has been trading for many years and has asked you to prepare the computation of the taxable trade profits for the year ended 31 March 2026.

Derek has elected to be taxed on the accruals basis and has prepared the following income and expenditure account:

	£	£
Income		
Livery (stabling fees)	300,000	
Prize money (races)	50,000	
Gambling wins	7,500	
Riding lessons	75,000	
Gift	<u>10,000</u>	442,500
Expenses		
Feedstuffs	100,000	
Vet's bills	25,000	
Rent	9,000	
Heat & light	3,500	
Rates	4,500	
Total Stabling costs	<u>142,000</u>	
Insurance	5,500	
Depreciation	3,250	
Legal fees	6,500	
Staff costs	35,000	
Motor vehicle leasing	7,500	
General office costs	5,000	
Motor expenses	4,000	
Bets placed	<u>6,500</u>	<u>(215,250)</u>
Excess income		<u>227,250</u>

You have been provided with the following information in connection with the accounts:

- 1) The prize money was won by Derek's race horse which came first in several races.
- 2) Derek places a bet on each race a horse from his stable is entered in. The costs of these bets totalled £6,500 and the resulting winnings totalled £7,500.
- 3) One of the horses trained by Derek won a major race. In gratitude, the horse's owner gave Derek a cheque for £10,000. There was no contractual obligation on the owner to make this gift.
- 4) Legal fees were in respect of £4,000 for a new 10 year lease of extra land surrounding the property. A further sum of £2,500 was paid in connection with legal costs of recovering a bad debt.
- 5) Staff costs includes £7,500 paid to his wife who gives riding lessons, and £2,500 to his daughter who does not work in the business.

- 6) The vehicle leasing payments were in respect of a car for Derek's private and business use. The lease was entered into on 1 May 2024 and it is agreed that 50% is private motoring. The car has CO₂ emissions of 98g/km. Derek does not wish to claim flat rate expenses in respect of the car.
- 7) General office costs include £2,275 for the cost on 1 July 2025 of laying a stone footpath from the office to the stables across ground which was previously unmade.
- 8) The motor expenses relate to the car leased by Derek.
- 9) At 1 April 2025, the capital allowances general pool was £5,000. In June 2025, new computer equipment costing £5,000 was purchased and in August 2025, a new horsebox costing £20,000 was purchased. 10% of the stabling costs and horsebox capital allowances relates to private use for Derek's race horse.
- 10) Derek's Income Tax and Class 4 National Insurance liabilities for 2024/25 totalled £66,400.

Requirement:

- 1) Calculate the taxable trade profits for the year ended 31 March 2026. (12)
 - 2) Calculate Derek's Income Tax and Class 4 National Insurance liabilities for 2025/26 and state the amounts due for 2025/26 on each payment date. (8)
- Total (20)

2. Thomas Harrow commenced trading on 1 January 2017, keeping his records to 31 December each year. The following information is relevant for the year ended 31 December 2025.

	Notes	£
Sales invoices sent to customers		232,000
Amounts received from customers		205,000
Purchase invoices from suppliers		(18,200)
Amounts paid to suppliers		(19,100)
Motor expenses paid	(a)	(4,600)
Entertaining costs	(b)	(3,500)
Legal and professional fees paid	(c)	(4,500)
New computers and server	(d)	(5,000)
Payroll costs		(65,000)
Property overheads		(24,000)
Sundry expenses paid	(e)	(11,000)

You have been provided with the following further information.

- Motor expenses are in respect of the full running costs of the cars used by Thomas (see (f) below). 50% of the mileage driven in each car was wholly and exclusively for business purposes.
- Entertaining costs includes a staff Christmas meal which cost £750 for Thomas, his wife and his four members of staff who each brought their partners.
- Legal and professional fees include accountancy fees of £1,000 in respect of dealing with a PAYE enquiry during 2025 which resulted in a payment of £4,000 to HM Revenue & Customs included under payroll costs. This payment was in respect of underpaid PAYE of £3,275 and penalties of £775.
- Three additional computers and a server to upgrade the existing system were purchased in December 2025 which cost £5,000. The old computers and servers were scrapped.
- Included in sundry expenses is £3,000 that Thomas discovered had been stolen by a former employee during the year who has since been convicted of theft. The remaining sundry expenses are all allowable.
- The capital allowances pool balance at 1 January 2025 was £1,500 on a Golf car with CO₂ emissions of 68g/km which was used by Thomas. The Golf car was part-exchanged in September 2025 for a new BMW car with CO₂ emissions of 85g/km. Thomas paid £16,000 for the BMW in addition to receiving a part-exchange allowance of £6,000 for the Golf. Thomas does not wish to claim flat rate expenses in respect of the new BMW car.
- Thomas estimates his taxable trade profits for the year ended 31 December 2026 to be £62,000. Total transition profits arising in 2023/24 were £8,000.

Requirement:

- Calculate the taxable trade profits for the year ended 31 December 2025. Your answer should clearly show your treatment of items (a) to (f).** (10)
 - Calculate Thomas' total liability to Income Tax and Class 4 National Insurance for 2025/26.** (5)
- Total (15)

3. Your manager has just met with a client, Mr Field, who was made redundant from his employment in November 2024 and decided to set up his own business. He began trading on 1 May 2025 and has prepared his business records to 5 April 2026 which show a draft trading loss of £65,000.

You are provided with the following additional information:

- a) In February 2025, Mr Field incurred advertising expenses of £1,500 in relation to the business that he was about to commence. This expense is not included in the draft trading loss.
- b) Mr Field had the following income and gains in recent tax years:

<u>Tax year</u>	<u>Employment income</u>	<u>Bank interest</u>	<u>Capital gains, before annual exempt amount</u>
	£	£	£
2022/23	64,400	250	0
2023/24	66,800	300	0
2024/25	38,200	160	4,600
2025/26	-	80	28,000

The gains relate to various disposals of shares.

- c) Mr Field took out a hire purchase contract on 6 April 2026 to purchase a van that he will use solely in the business. The cash cost of the van was £30,200. He paid a deposit of £6,200 and is paying 24 monthly instalments of £1,150 of which £150 relates to interest each month. Mr Field is not sure how tax relief will be given for this hire purchase contract in the year to 5 April 2027.
- d) Mr Field is considering making an election for taxable trade profits/(allowable losses) to be calculated using the accruals basis for 2026/27. He does not wish to claim any flat rate expenses.

Requirement:

- 1) Calculate the trading loss of 2025/26. (1)
- 2) Briefly explain all the loss relief options available to Mr Field for using the trading loss incurred in 2025/26. (5)
- 3) Assuming that Mr Field would like to save the most tax, show Mr Field's taxable income and, where relevant, taxable gains after loss relief for the tax years 2022/23, 2023/24, 2024/25 and 2025/26.
- Assume that 2025/26 rates and allowances apply throughout. (5)
- 4) Explain how tax relief will be given on the van acquired via hire purchase if, for the year ended 5 April 2027:
- Mr Field does not elect to use the accruals basis of accounting, or
 - Mr Field does elect to use the accruals basis of accounting. (3)
- 5) Briefly explain the tax consequences if Mr Field moves to the accruals basis for 2026/27. (1)
- Total (15)

4. Edward Jones has been trading for many years making up accounts to 31 December each year until 30 September 2025 when he ceased trading. The business was VAT registered. All amounts stated below are exclusive of VAT.

Edward's taxable trade profits for the year ended 31 December 2024 were £15,000 and he has made a trade loss of £30,000 for the period ended 30 September 2025.

His taxable trading income (excluding transition profits) of recent years is as follows:

	£
2022/23	18,750
2023/24	12,000

Edward's total transition profits arising in 2023/24 were £1,400. Since 2017, Edward has been receiving a pension of £10,000 per annum from his former employer.

In October 2025 Edward sold the workshop which he had used in his trade for sale proceeds of £120,000. He had bought the workshop in 2015 for £84,000 and it has always been used in his trade. This was Edward's only chargeable disposal during 2025/26.

Edward's trading problems arose after a dispute with a major customer in October 2024. The customer owes £20,000 and Edward has taken court action to recover this amount. A court hearing is due later this year. It is unlikely that any sum will be received until sometime in 2027, but Edward is anticipating recovering the amount in full.

During the course of preparing Edward's accounts, you discover that he has been receiving rents from a rental property since 6 April 2023. The taxable rental income is around £4,000 per annum and has not been disclosed on Edward's tax return. You have mentioned this to Edward but he appears to take the view that nothing should be done about it.

Requirement:

- 1) Calculate Edward's allowable trade profits/losses for 2024/25 to 2025/26. (2)
 - 2) Calculate Edward's capital gains tax liability for 2025/26 assuming no loss relief claims are made against gains but any other beneficial claims are made. (2)
 - 3) Calculate the amount of Edward's terminal loss and show his net income for 2022/23 to 2025/26 if terminal loss relief was claimed. (5)
 - 4) Explain the other options available to Edward for relieving his trade loss of 2025/26. (3)
 - 5) Explain the treatment for taxation purposes of any receipt following the court's action to recover the debt. (2)
 - 6) Explain the course of action you should take regarding the discovery of the rental income. (3)
 - 7) Explain why Edward must deregister for VAT and what he needs to do to deregister. (3)
- Total (20)

5. Alan, Brenda and Simon Popple have been trading as The Popple Partnership for 12 years as wholesale butchers processing meat for the restaurant trade. The partnership accounts are prepared to 31 August each year and an election has been made for taxable trade profits to be calculated on the accruals basis. The results for the year ended 31 August 2025 are as follows:

	£
Turnover	2,450,000
Direct costs of sale	<u>(1,700,000)</u>
	750,000
Administration expenses	(208,266)
Overhead expenses	<u>(290,450)</u>
Net profit	<u>251,284</u>

The partnership agreement states that profits should be shared between the partners as follows:

	Alan	Brenda	Simon
Salaries	£40,000	£30,000	£30,000
Profit sharing ratio	40%	22.5%	37.5%

The partners took meat with a cost of £100 and a retail value of £300 from the business during the year for their own use.

Included in overhead expenses are the following items:

- i) Entertaining of £19,158. Of this £10,000 relates to a corporate golf day attended by clients and a few staff. The staff element relates to approximately 20% of the total cost. The remaining £9,158 is purely client entertaining.
- ii) Depreciation of plant and machinery of £10,550.

Included in administration expenses are the following items:

- i) The finance leasing charges of a motor car used by Alan as follows:

	£
Finance lease interest expense	1,500
Finance lease depreciation	3,500

The car has CO₂ emissions of 95g/km and it is used 60% for business. The lease was entered into by the partnership on 1 January 2024.

- ii) Petrol of £850 relating to Alan's car.
- iii) £5,000 being a fine imposed by the local authority environmental health department for a breach of health regulations.
- iv) Computer software of £1,800 relating to a programme purchased with a new computer system. Estimated life of the software is three years.

Capital expenditure in the period has been as follows:

	£
Car for employee, used 80% for business, CO ₂ emissions 88g/km (2.3.25)	10,665
New computer system (19.5.25)	7,800
Mincing machine (17.8.25)	8,000

The tax written down value of the main pool at 1 September 2024 was £95,280.

The partnership purchased a new factory from a developer on 31 December 2022 for £400,000 including the cost of the land which was agreed at £50,000.

The Pople Partnership does not wish to claim any flat rate expenses in respect of allowable expenses.

Alan

Alan's share of the partnership's taxable trade profits for the year ended 31 August 2026 is expected to be £72,000. Alan's total transition profits arising in 2023/24 were £38,000.

Alan filed his 2024/25 tax return online on 1 June 2026. His total liability to Income Tax and Class 4 National Insurance for 2024/25 was £24,700, of which £18,500 was paid by 31 January 2026. He paid the balance of £6,200 on 1 June 2026 when he submitted his tax return.

Partnership return

Brenda is the nominated partner who is responsible for completing the partnership return. Brenda submitted the 2024/25 partnership return online on 10 February 2026.

Requirement:

- 1) **Calculate the taxable trade profits for the partnership for the year ended 31 August 2025.** (11)
 - 2) **Allocate the taxable trade profits for the year ended 31 August 2025 between the partners.** (1)
 - 3) **Calculate Alan's total liability to Income Tax and Class 4 National Insurance for 2025/26.** (5)
 - 4) **Calculate the maximum late filing and late payment penalties that Alan may be charged with respect to his 2024/25 self-assessment tax return.** (2)
 - 5) **State the due date for the filing of the partnership return for 2024/25 and the consequences of Brenda filing the partnership return on 10 February 2026.** (2)
- Total (21)

6. Ruth, Ella and Hari

Ruth, Ella and Hari have been trading together in partnership for many years drawing up accounts to 31 March each year. The taxable trade profits for the year ended 31 March 2026 were £340,800.

Profits were shared 30% to Ruth, 30% to Ella and 40% to Hari after allowing for interest on capital accounts at 5% per annum. Ruth and Ella each contributed £50,000 of capital and Hari contributed £70,000 of capital.

Hari celebrated his 60th birthday on 10 January 2026 and decided to give up work and take early retirement. Hari retired from the partnership on 31 January 2026.

Following Hari's retirement profits are shared equally between Ruth and Ella after allocating annual salaries of £40,000 to Ruth and £30,000 to Ella.

Hari owned the property from which the partnership traded. No rent was ever paid to him by the partnership for the use of this property. On his retirement, Hari sold the property to his son for £200,000 when its market value was £420,000. Hari had bought the property in January 2019 for £110,000 and it has always been used by the partnership.

Hari had no other income and made no other disposals during 2025/26.

Nihal

Ella's son, Nihal, is employed by the partnership in the sales department. Nihal is 28 years old and works full-time for the business earning a salary of £30,000 a year. Nihal is paid monthly. In May 2025, Nihal was paid a bonus of £2,000 for exceeding his sales targets for the previous year.

Requirement:

- | | | |
|----|---|------|
| 1) | Calculate the taxable trade profits for each partner for the year ended 31 March 2026. | (5) |
| 2) | Calculate Hari's liability to Income Tax and National Insurance for 2025/26. | (5) |
| 3) | Calculate the Capital Gains Tax payable by Hari and state the base cost of the property for his son assuming all possible Capital Gains Tax reliefs are claimed. State the time limits for claiming the CGT reliefs and who must claim them. | (6) |
| 4) | Calculate the class 1 Primary and Secondary National Insurance contributions payable with respect to Nihal for 2025/26. Ignore the employment allowance. | (3) |
| | Total | (19) |

7. Sadiq, Anya and John have been trading in partnership as planning consultants for many years preparing accounts to 31 December each year.

Profits and losses were shared 50:30:20 (Sadiq, Anya, John) after allowing interest of 8% per annum on capital of £245,000 contributed by Sadiq.

From 1 April 2025, no further interest is provided on capital accounts. Profits and losses are shared 50:40:10 (Sadiq, Anya, John) after allowing for a salary of £50,000 per annum for John.

The partnership normally makes a profit. However, due to problems with a large contract there was an allowable trade loss for the year ended 31 December 2025 of £85,000. The partnership expects a return to profit for the year ended 31 December 2026. Sadiq's share of the profit for the year ended 31 December 2026 is expected to be £18,000.

Sadiq has other income each year from property and dividends.

In November 2025, the partners had a meeting to discuss the potential loss for the year. They disagreed about the strategy to follow going forward. Sadiq wanted to invest in staff and resources to expand the business, but John wanted to make no changes. At the end of December, Sadiq recruited a new employee Tina. John was unaware of the appointment and is unhappy with this and other decisions taken by Sadiq. Sadiq has concerns about John's abilities as a partner. They have both approached your firm for advice.

Anya submitted her 2023/24 self-assessment tax return on 15 March 2025. HMRC opened an enquiry into this return on 1 April 2026. HMRC issued an amendment to the tax return on 1 May 2026 and require her to pay an additional £6,000 of Income Tax. Anya believes that the enquiry was opened after the deadline for doing so had passed, and that the amount of the amendment is incorrect.

Requirement:

- 1) Calculate the allocation of the loss for the year ended 31 December 2025 to the three partners. (5)
 - 2) Calculate Sadiq's trade loss for 2025/26. (1)
 - 3) Explain the loss relief claims available to Sadiq. Calculations are not required. (3)
 - 4) Explain the options available to your firm to advise John and Sadiq in accordance with the Professional Rules and Practice Guidelines of the ATT. (4)
 - 5) Briefly explain if the enquiry was opened within the correct time limit and how Anya should make an appeal against the amendment. (2)
- Total (15)

8. Shania has owned a property since April 2018 which is used by a company, Ace Care Ltd, as a care home. Shania owns 60% of the shares in Ace Care Ltd with the remaining shares being owned 20% each by Max and Arelia, two unconnected individuals.

Shania and Max each subscribed for their shares directly from Ace Care Ltd in April 2018 whereas Arelia bought her shares from Max in January 2021. Shania is the managing director of Ace Care Ltd but neither Max nor Arelia work for the company.

Shania has received an offer to sell part of the site to a developer who wants to convert it into flats. Shania will continue to own the remainder of the property, which will continue to be used as a care home by Ace Care Ltd.

Shania has also decided to retire from the business and sell her Ace Care Ltd shares to an investor. The investor is also going to buy the remaining shares in Ace Care Ltd from Max and Arelia on the same date.

Shania has approached you to ask for advice on her position with respect to Capital Gains Tax and the positions of both Max and Arelia.

Assume that you are writing to Shania in January 2027 and that the above disposals will take place in March 2027.

Requirement:

Draft a letter to Shania explaining:

- 1) **How her chargeable gains will be calculated on the sale of the property and the sale of her shares;** (3)
- 2) **How her capital gains tax liability will be calculated assuming that no reliefs are claimed;** (2)
- 3) **Any reliefs available to Shania on the sale of the property and the sale of her shares and any conditions attaching to the relief;** (5)
- 4) **Any reliefs available to Max or Arelia on the sale of their shares and the conditions that must be met for the relief to be claimed.** (5)

Assume 2025/26 rates and allowances continue to apply in future years.

Total (15)

9. Poppy has run a business selling Thermomix kitchen appliances from her home for several years. Poppy is also employed part-time working three days a week.

Year ended 31 March 2026

Poppy's business receipts from the Thermomix business are between £30,000 and £40,000 per annum.

Poppy currently has a car which she uses to drive to the homes of her customers to carry out demonstrations of the Thermomix. She uses the car 70% of the time for business purposes, being 4,300 business miles in the year ended 31 March 2026. The car was acquired in June 2024 and has CO₂ emissions of 125g/km. The tax written down value of the car at 1 April 2025 was £5,400. Poppy would like to claim flat rate expenses in respect of the business use of the car for 2025/26 if possible.

Poppy performs some of her Thermomix demonstrations online and she also provides ongoing support and advice for customers from home. Poppy is unsure whether she would like to claim a flat rate expense in respect of the business use element of her household running expenses.

Poppy took a Thermomix out of her business during the year for her own personal use. The Thermomix cost £900 and had a retail price of £1,300.

Poppy expects her combined earnings from employment and self-employment in 2025/26 to exceed the upper limit for National Insurance Contributions.

New Vehicle

Poppy would like to buy a new vehicle which is more suitable for use in her business and is currently looking at two alternative vehicles:

- A '4 x 4' car costing £20,000 with CO₂ emissions of 85g/km. The car would have 30% private use and total running costs per annum would amount to £1,900.
- A van costing £15,000. The van would be used 100% for business purposes. Total running costs per annum would amount to £1,500.

Her business mileage is likely to be 5,000 miles per annum.

She has asked you to explain the options for obtaining relief in respect of these vehicles. The vehicle will be acquired on 1 April 2027.

Requirement:**Draft a letter to Poppy:**

- 1) Explaining whether or not she can claim a flat rate expense in respect of the car for 2025/26 and how relief will be obtained if the flat rate expense cannot be claimed. Calculations are not required. (2)
- 2) Describing the flat rate expenses available for the business use of her home; (3)
- 3) Explaining the adjustment required (if any) to her taxable trading profits for the Thermomix taken out of the business for her personal use. (2)
- 4) Stating the classes of National Insurance Contributions (NIC) payable by Poppy in 2025/26 and briefly explain the rules which limit the amount of NIC she pays. (2)
- 5) Setting out the two alternatives for relief under the cash basis for the business use of the new vehicle if:
 - a) the car is acquired; or
 - b) the van is acquired.

Your answer should include calculations for the year ended 31 March 2028, assuming 2025/26 rates and allowances continue to apply. (8)

Total (17)

10. Kangaroo Blue Ltd is a new company which was incorporated on 1 January 2025. The company had no source of income until it commenced trading on 1 April 2025 and made its first accounts up to 31 December 2025. The draft profit and loss account for the nine months to 31 December 2025 was as follows:

<u>Income</u>		£	£
Sales revenue			620,000
<u>Expenses</u>			
Depreciation	10,250		
Staff costs	235,000		
Legal fees	2,500		
Travel and entertaining	6,250		
General office costs	9,000		
Rent, rates and insurance	22,350		
Sundry	<u>3,650</u>		
			<u>(289,000)</u>
Net profit			<u>331,000</u>

You have been provided with the following information in connection with the accounts:

- 1) At 31 December 2025, there were sales of £25,000 which had been completed but were not invoiced until January 2026.
- 2) Staff costs include a provision for a bonus of £10,000 to be paid to the sales director in May 2026 and £5,000 for staff pension contributions which were not paid until January 2026.
- 3) Legal fees include £1,250 in respect of the cost of company formation.
- 4) Travel and entertaining includes £282 for client entertaining and £1,000 in respect of one of the director's golf club membership fees. He meets business clients at the club and secured three business contracts as a result of his meetings.
- 5) General office costs include £1,200 in respect of health insurance for the directors.
- 6) The company incurred rental expenses in connection with the lease of its offices which commenced on 1 January 2025. As the offices were not occupied until 1 April 2025, rent of £5,000 for the period 1 January 2025 to 31 March 2025 has not been included under the heading rent, rates and insurance but treated as the cost of the lease in the balance sheet.
- 7) No provision for Class 1A NICs has been included in the accounts.
- 8) In April 2025, the company purchased office furniture and equipment for £75,000.

Kangaroo Blue Ltd has not yet notified HMRC of the fact that the company has been trading.

The company will prepare future accounts to 31 December each year.

Requirement:

- 1) **State and briefly explain Kangaroo Ltd's first two accounting periods for tax purposes.** (2)
 - 2) **Calculate the Corporation Tax payable for the period to 31 December 2025 and state when it is due for payment. Your answer should clearly show your treatment of items 1) to 7).** (9)
 - 3) **Explain the rules regarding the submission of the Corporation Tax return and amendments being made to the submitted Corporation Tax return either by Kangaroo Blue Ltd or by HMRC.** (3)
 - 4) **State the date by which the company should have notified HMRC of its chargeability to tax to avoid a late notification penalty. Briefly explain the maximum penalty that may be applied if notification is late and the failure is due to carelessness.** (2)
- Total (16)

11. Marvellous Ltd sells photographic prints, which are printed onto various materials using high quality computerised printing equipment. It has been trading for many years from rented premises and makes up its accounts to 30 June each year.

Year ended 30 June 2025

For the year ended 30 June 2025, the draft accounts showed a profit for the year of £217,000. You are provided with the following information.

- a) The accounts include depreciation of plant and equipment and motor vehicles of £17,000 and a loss on disposal of an old laminator of £8,000.
- b) The printing equipment needs to be refurbished every five years. A provision is included in repairs of £4,000 in respect of the costs that are expected to be incurred the next time that the work is carried out.
- c) Legal costs include £1,500 for the renewal of the lease on the company's premises for a further 10 years and £2,000 for costs incurred on the abortive purchase of a property.
- d) The accounts include entertainment costs of £5,000 for a race day for customers and £3,000 for a similar day which was to reward staff.
- e) The company incurred a penalty for late paid VAT of £1,350. The company prepares its VAT returns every three months to 30 September, 31 December, 31 March and 30 June each year.
- f) A car with CO₂ emissions of 80g/km was leased during the year with annual lease costs of £2,400. The lease was entered into in July 2024.
- g) The written down value on the main pool of plant and machinery at 1 July 2024 was £14,000. In March 2025, a new laminator was purchased for £25,500, replacing the old laminator (purchased in January 2022, on which 130% FYA claimed) which was sold for £3,000. In June 2025, a new car with CO₂ emissions of 90g/km was purchased at a cost of £35,000 for use by the sales director. The sales director uses the car 60% for business purposes.
- h) Marvellous Ltd earned £1,000 of interest income during the year and paid a qualifying charitable donation of £200 on 1 September 2024.

Year ended 30 June 2026

Marvellous Ltd decided to buy their own premises to trade from. The shop they bought from a developer was built during the first six months of 2025. The purchase price was £530,000 which includes £200,000 for the cost of the land and £60,000 for the cost of the air conditioning and electric lighting.

The company started trading from the shop on 1 August 2025. The managing director believes that the shop will appreciate over time and hopes to make a capital gain when the company sells the shop in the future.

During April 2026, a major customer went bankrupt owing Marvellous Ltd a significant amount of money. Consequently, the directors anticipate making a trading loss of £400,000 in the year ended 30 June 2026 but they are confident that the company will return to making trading profits and estimate trade profits of £150,000 for the year ended 30 June 2027.

The company continues to earn £1,000 of interest income each year and to pay a qualifying charitable donation of £200 on 1 September each year.

Requirement:

- 1) Calculate the Corporation Tax liability for the year ended 30 June 2025 and state when it is due for payment. Clearly show your treatment of items a) to f). (13)
 - 2) State the deadline for submitting VAT returns and paying the VAT due to avoid penalties with reference to the return for the quarter ended 30 June 2026. (2)
 - 3) Explain how Marvellous Ltd will obtain tax relief on the purchase of the shop in the year ended 30 June 2026. (3)
 - 4) Explain the tax consequences of Marvellous Ltd selling the shop in the future for both Marvellous Ltd and the purchaser. (3)
 - 5) Calculate the taxable total profits for the years ended 30 June 2025, 2026 and 2027 assuming Marvellous Ltd claims loss relief as soon as possible for the anticipated trading loss of the year ended 30 June 2026. (4)
- Total (25)

12. Trashmagic Ltd is a waste management company which has been trading for a number of years preparing accounts to 30 April each year. In 2025, for commercial reasons, the company decided to extend its accounting period to 30 September 2025.

According to the accounts, the profit before tax for the 17 months ended 30 September 2025 was £380,000.

You have been provided with the following information relating to income and expenditure included in the profit and loss account:

- 1) Depreciation for the period was £44,900 (including finance lease depreciation of £3,440). There was also a profit of £1,200 on the sale of a scrap baling machine for proceeds of £30,000 on 1 May 2025. It had originally cost £48,000 in June 2019.
- 2) The company started renting out part of the site on 1 January 2025. The annual rent is £15,000, which is included in the accounts on an accruals basis.
- 3) Dividends of £5,000 were received in May 2024.
- 4) Two donations were made to environmental charities: £4,750 cash was given on 30 September 2024 and quoted shares which had cost £2,000 and had a market value of £4,000 when the shares were transferred to the charity in August 2025. The gift of shares was recorded in the accounts at cost.
- 5) Several key employees were given store vouchers totalling £1,500 in December 2024.
- 6) The company purchased golf club memberships of £2,400 for the use of directors.

The following items have not been included in the calculation of the profits before tax:

- 7) A waste picking machine, which has a useful life of 30 years, was purchased on 15 April 2025 for £250,000.
- 8) A new electric car with a cost of £24,000 was purchased on 1 July 2025.
- 9) The balances brought forward at 1 May 2024 on the main pool and the special rate pool were £16,000 and £28,000 respectively.

Requirement:

- 1) **Calculate the Corporation Tax payable by Trashmagic Ltd for the period ended 30 September 2025. Explain your reasons where profits are not adjusted for any item.** (16)
 - 2) **Explain the National Insurance implications of the items in 5) and 6) above.** (2)
- Total (18)

13. Chelmer Developments Ltd is a property development company that has been trading for many years.

The company prepares accounts to 30 September each year. In 2025, for commercial reasons, the company decided to extend its accounting period to 31 December. For the period ended 31 December 2025, you are given the following information:

The company received rental income of £300,000 per annum from renting out a number of unfurnished houses. In addition, on 1 May 2025 the company received a lease premium of £9,000 for granting a 5 year lease to a tenant. The chargeable gain on the grant of this lease was £Nil. These rental properties were built with the aid of a loan on which interest of £9,300 per annum was paid.

A property was sold on 30 October 2025 for £158,000, which the company had purchased in June 2014 at a cost of £65,000. £34,000 had been spent on improvements in August 2018. The property had been used as office accommodation by the company throughout its period of ownership.

The company had a draft trading profit for the period of £1,860,000, after deduction of the following costs and before deducting capital allowances:

	£
Legal costs for the sale of office	2,300
Cash donation to charity paid 1 June 2025	4,000

The tax written down values at 1 October 2024 stood at £30,000 on the main pool for plant and machinery and at £978 on the special rate pool. No additions or disposals occurred during the period.

The company also had bank interest receivable of £10,200 for the period and received interest of £800 on 1 November 2025 on a Corporation Tax refund.

The company had a brought forward capital loss at 1 October 2024 of £15,000.

Requirement:

Calculate the company's Corporation Tax liability for the period ended 31 December 2025 and state the due date(s) for payment. (20)

14. Royston Ltd has been trading for many years making up accounts to 31 March in each year.

For the year ended 31 March 2026, it has made the following purchases:

- 1) On 31 August 2025, a contract was signed for the purchase of a new heating system costing £1,250,000. The installation took place over several months and payments under the contract were made as each part of the contract was certified completed as follows:
 - 40% on 30 September 2025,
 - 40% on 31 December 2025, and
 - 20% on 31 May 2026.
- 2) In September 2025, a new car with CO₂ emissions of 65g/km was acquired under a three year finance lease for payments of £1,000 per month. The list price of the car is £27,000.
- 3) New vans were purchased on 25 October 2025 for £140,000.
- 4) In November 2025, an electric car was purchased for £16,000. The car was six months old having previously belonged to the managing director.
- 5) On 1 January 2026, a new office building was bought from a builder for £360,000. The cost included £80,000 for the land and £40,000 for integral features. Royston Ltd started using the building for its trade straight away.

The tax written down value carried forward as at 31 March 2025 on the main pool was £279,000.

Requirement:

Explain the capital allowance implications of the above purchases and calculate the maximum capital allowances which may be claimed for the year ended 31 March 2026. (15)

15. Luke Pritchard currently works for Kook Kitchens Ltd as a kitchen fitter and carpenter, but after several years of working for someone else he has decided to 'go it alone' and start his own business.

Luke will start trading on 1 July 2026 and will prepare his first business accounts for the period ended 31 March 2027 and annually thereafter. He would like some tax advice on this venture.

Luke is undecided whether to set the business up as a sole trader business or as a company, and he would like to understand the key tax considerations relating to this.

His business plan estimates a monthly turnover in the region of £17,500, with annual taxable profits around £120,000.

Luke plans to take £4,000 a month out of the business to live on.

Requirement:

Write a letter to Luke to:

- 1) **Outline the key differences in the taxation of his business venture as a company and as a sole trader, including:**
- **how Luke may extract funds from the business and the tax consequences of each option,**
 - **the rates of tax payable, and**
 - **the due dates for submission of the tax returns and payment of the tax.**
- You are not required to discuss the calculation of the taxable trade profits.** (10)
- 2) **Explain when the business will be required to register for VAT and the effects of being VAT registered.** (5)
- Total (15)

Assume the VAT registration limit at 1 April 2025 continues to apply in future years.

ANSWERS TO QUESTIONS

1. DEREK NIGHTLARK

1)

		£	
Profit per accounts (= Excess income)		227,250	
Less:			
Prize money (exempt income)	(50,000)		[½]
Gambling wins (exempt income)	(7,500)		[½]
Gift from client (non-contractual)	<u>(10,000)</u>		[½]
		(67,500)	
Add:			
Depreciation	3,250		[½]
Bets placed (relates to exempt income)	6,500		[½]
Legal fees – new lease	4,000		[½]
Daughter's wages	2,500		[½]
Vehicle lease (W3)	4,312		[½]
New footpath	2,275		[½]
Motor expenses (4,000 × 50%)	2,000		[½]
Private use stabling (142,000 × 10%)	<u>14,200</u>		[½]
		<u>39,037</u>	
		198,787	
Capital allowances (W1)		(23,900)	[½]
SBA (W2)		<u>(51)</u>	[½]
Taxable trade profit for y/e 31 March 2026		<u>174,836</u>	[½]

WorkingsW1) Capital allowances on P&M

<u>Y/e 31 March 2026</u>	AIA @ 100%	General Pool	CAAs
	£	£	£
Tax wdv b/f		5,000	
<u>Additions:</u>			
Computer equipment	5,000		[½]
AIA @ 100%	(5,000)		5,000 [½]
Horsebox	20,000		[½]
AIA @ 100%	(20,000)		x 90% business use 18,000 [½]
WDA @ 18%		<u>(900)</u>	900 [½]
Tax wdv c/f		<u>4,100</u>	<u>23,900</u>

W2) SBA

$$£2,275 \times 3\% \times 9/12 = £51 \quad [1]$$

W3) Vehicle leasing

Allowable: 7,500 × 85% × 50% business use	= 3,188	[½][½]
Add back = 7,500 – 3,188	= <u>4,312</u>	[½]

Total 12

2)

Derek – IT & NIC 2025/26

	Non-savings £	
Trading income	174,836	[½]
Less: Personal allowance (fully abated)	-	[½]
Taxable income	<u>174,836</u>	[½]
Prize money, winnings & gift are exempt income		[½]
Tax:		
37,700 x 20%	7,540	[½]
<u>87,440</u> x 40%	34,976	[½]
125,140		
<u>49,696</u> x 45%	22,363	[½]
174,836		
IT liability	<u>64,879</u>	
	£	
Class 4 NIC:		
(50,270 – 12,570) x 6%	2,262	[½]
(174,836 – 50,270) x 2%	<u>2,491</u>	[½]
	<u>4,753</u>	
Amounts due on each payment date for payment of 2025/26 liabilities:		
1 st payment on account – £33,200 due by 31 January 2026		[½][½]
2 nd payment on account – £33,200 due by 31 July 2026		[½]
Each payment on account is 50% × £66,400 (2024/25 IT & Class 4 NIC)		
Balancing payment:		
Total IT & Class 4 NIC liabilities (64,879 + 4,753)	69,632	[½]
Less: payments on account	<u>(66,400)</u>	[½]
Balancing payment	<u>3,232</u>	[½]
Due by 31 January 2027		[½]

Total 8**Tutorial Note:**

There are no transition profits to consider because Derek prepares his accounts to 31 March.

The footpath is eligible for the SBA from the date the expenditure is incurred.

Total for question 20

2. THOMAS HARROW

1)

Taxable trade profits y/e 31 December 2025

	£	£	
Amounts received from customers		205,000	[½]
Less:			
Amounts paid to suppliers	(19,100)		[½]
Motor expenses paid (50% x 4,600)	(2,300)		[½]
Staff entertaining (allow £750 x 8/10) [Tutorial note]	(600)		[½][½]
Legal & professional fees allowable (4,500 – 1,000)	(3,500)		[½]
New computers and server	(5,000)		[½]
Payroll costs (65,000 – 775 penalty)	(64,225)		[½]
Property overheads	(24,000)		[½]
Sundry expenses (staff theft allowable)	(11,000)		[½]
		<u>(129,725)</u>	
		75,275	
Add:			
Net balancing charge (W1)		<u>1,590</u>	[½]
Taxable trade profit y/e 31 December 2025		<u>76,865</u>	[½]

Tutorial Note:

In practice the definition of 'employees' re entertaining is extended to include their partners therefore only the expenses of the Christmas meal relating to Thomas and his wife are disallowed.

Four members of staff plus their partners plus Thomas and his wife makes 10 people, allow 8/10 x £750 = £600

W1) Capital allowances

	Golf car £	BMW car £		CAs £	
<u>Y/e 31 December 2025</u>					
Tax wdv b/f	1,500				
<u>Additions:</u>					
BMW car (16,000 + 6,000)		22,000			[½][½]
<u>Disposals:</u>					
Golf car	<u>(6,000)</u>				[½]
	<u>(4,500)</u>				
WDA @ 6%		<u>(1,320)</u>	x 50%	(2,250)	[½][½]
			x 50%	660	[½][½]
	-	<u>20,680</u>			
Net balancing charge				<u>(1,590)</u>	[½]

Total 10

2)

IT & NIC 2025/26

	Non-Savings £	
Taxable trade profits (W1)	73,149	
Transition profits (8,000 x 20%)	<u>1,600</u>	[1]
Trading income	74,749	
Less: Personal allowance	<u>(12,570)</u>	[½]
Taxable income	<u>62,179</u>	
Tax:		
37,700 x 20%	7,540	[½]
<u>24,479</u> x 40%	9,792	[½]
62,179		
IT liability	<u>17,332</u>	
Class 4 NIC:		
(50,270 – 12,570) x 6%	2,262	[½]
(74,749 – 50,270) x 2%	<u>490</u>	[½]
NIC	<u>2,752</u>	
W1) <u>Taxable trade profits 2025/26</u>		
6 April 2025 – 31 December 2025 (9/12 × 76,865)	57,649	[½]
1 January 2026 – 5 April 2026 (3/12 × 62,000)	<u>15,500</u>	[½]
Taxable trade profits	<u>73,149</u>	[½]

Total 5**Tutorial Note:**

'Profits' for Class 4 NIC purposes include transition profits.

Total for question 15

3. MR FIELD

1) Calculations for manager – Calculation and allocation of loss

	£	
Loss per accounts to 5 April 2026	(65,000)	
Add: pre-trading expenditure (increases the loss)	<u>(1,500)</u>	[½]
Adjusted loss to 5 April 2026	<u>(66,500)</u>	

2025/26

1 May 2025 – 5 April 2026 (Tax year basis)	<u>(66,500)</u>	[½]
--	-----------------	-----

Total 12) Loss relief options

The loss may be set against the net income of 2025/26 [½] or 2024/25 [½] or both tax years, and can be made in any order. [½]

The loss claim is an all or nothing claim and so his personal allowances may be wasted. [½]

After a net income claim has been made in either 2025/26 or 2024/25, [½] the remaining loss may be set against the chargeable gains of the same tax year. [½]

As the loss was incurred in one of the first four tax years of trading [½], it may be carried back against the net income [½] of the three tax years before the year of loss [½] starting with the earliest year first, ie 2022/23, then 2023/24 and then 2024/25. [½]

The maximum loss that may be set against net income which is not trading income is restricted [½] to the higher of £50,000 [½] and 25% of his adjusted total income. [½]

The loss may be carried forward [½] and set against the first available trade profits of the same trade. [½]

Max 53) Taxable income & gains after loss relief

To save the most tax Mr Field should claim to set the trading loss against the net income of the previous three tax years. [½]

	2022/23	2023/24	2024/25	2025/26	
	£	£	£	£	
Employment income	64,400	66,800	38,200	Nil	
Bank interest	<u>250</u>	<u>300</u>	<u>160</u>	<u>80</u>	
Total income	64,650	67,100	38,360	80	[1]
2025/26 loss:					
– used in 2022/23 (restricted)	(50,000)				[1]
– used in 2023/24		(16,500)			[½]
Net income	<u>14,650</u>	<u>50,600</u>	<u>38,360</u>	<u>80</u>	[½]
Personal allowance	<u>(12,570)</u>	<u>(12,570)</u>	<u>(12,570)</u>	<u>(80)</u>	[½]
Taxable income	<u>2,080</u>	<u>38,030</u>	<u>25,790</u>	<u>Nil</u>	[½]
			2024/25	2025/26	
			£	£	
Chargeable gains			4,600	28,000	
Annual exempt amount			<u>(3,000)</u>	<u>(3,000)</u>	[½]
Taxable gains			<u>1,600</u>	<u>25,000</u>	[½]

	£
2025/26 trading loss	(66,500)
Used in 2022/23 against net income (restricted)	50,000
Used in 2023/24 against net income	<u>16,500</u>
	<u>Nil</u>

Max 5**Tutorial Note:**

Setting the loss against the net income of 2022/23 and 2023/24 saves tax at 40% in the higher rate band in both tax years and some at 20% in the basic rate band in 2022/23. This saves more tax than the alternative options.

A claim could have been made to convert some of the remaining trading loss into a current year capital loss in 2025/26 and/or 2024/25 after a net income claim has been made in that tax year but this would not be beneficial as Mr Field would only save capital gains tax at 18%.

4) Tax Relief For Van Acquired On Hire PurchaseCash Basis

If Mr Field does not make an election to use the accruals basis, then the cash basis continues to apply and tax relief is available for the amounts paid on the hire purchase contract for the van during the year ended 5 April 2027. [½]

Therefore, tax relief will be given for the deposit paid of £6,200 [½] and for the instalments paid during the year of £13,800 (being 12 monthly instalments of £1,150 each). [½]

Max 1 for cash basisElect To Use Accruals Basis

If Mr Field does make an election to use the accruals basis, then tax relief is given on the 'cash price' of the van via capital allowances [½] and on the interest expense incurred on the hire purchase agreement in the accounting period. [½]

The cash price of the van is the amount that would have paid if Mr Field had bought the van outright for cash which is £30,200. [½] A 100% annual investment allowance is available which means that the whole £30,200 cash price will be given tax relief in the year ended 5 April 2027. [½]

The interest expense incurred during the year ended 5 April 2027 will be £1,800 (being £150 × 12 months). [½]

Max 2 for accruals basis**Total 3**5) Tax Consequences Of Electing To Use Accruals Basis

The cash basis automatically applies unless an accruals basis election is made so Mr Field will be moving from the cash basis to the accruals basis. [½]

Adjustments may be required to ensure that all income is taxed [½] and all expenses are relieved only once. [½]

For example, income earned in the period to 5 April 2026 but not received until the year ended 5 April 2027 will not be taxed under the cash basis in 2025/26 or under the accruals basis in 2026/27. [½] This income will be part of the adjustment. [½]

Marks available for other relevant comments
Max 1

Total for question 15

4. EDWARD JONES

1) Allowable trade profits/ losses 2024/25 to 2025/26

<u>2024/25</u>		
6 April 2024 – 31 December 2024 (9/12 x £15,000)	11,250	[½]
1 January 2025 – 5 April 2025 (3/9 x (30,000))	<u>(10,000)</u>	[½]
	1,250	
<u>2025/26</u>		
6 April 2025 – 30 September 2025 (6/9 x (30,000))	<u>(20,000)</u>	[1]
		Total 2

2) CGT liability 2025/26

<u>Sale of workshop</u>	£	
Sale proceeds	120,000	[½]
Less: Cost	<u>(84,000)</u>	[½]
Chargeable gain	36,000	
Less: AEA	<u>(3,000)</u>	[½]
Taxable gain	<u>33,000</u>	
CGT liability @ 14% (BADR claimed)	<u>£4,620</u>	[½]
		Total 2

3) Terminal loss

Edward ceased to trade on 30 September 2025, in the tax year 2025/26. He made a taxable trade profit in 2024/25, his penultimate tax year of trade, therefore, his terminal loss will be equal to his loss of (£20,000) for 2025/26. [1]

The terminal loss is set against the trading income (including transition profits) of the tax year of cessation and of the three previous tax years on a last in first out basis.

	2022/23	2023/24	2024/25	2025/26	
	£	£	£	£	
Trading income (excluding transition profits)	18,750	12,000	1,250	Nil	
Transition profits					
– £1,400 × 20%		280	280		[1]
– Balance (1,400–280–280)				<u>840</u>	[1]
Trading income	<u>18,750</u>	<u>12,280</u>	<u>1,530</u>	840	
Terminal loss relief	<u>(5,350)</u>	<u>(12,280)</u>	<u>(1,530)</u>	<u>(840)</u>	[1]
	13,400	Nil	Nil	Nil	
Pension income	10,000	10,000	10,000	10,000	[½]
Rental income		<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	[½]
Net income	<u>23,400</u>	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	
				£	
2025/26 trading loss				(20,000)	
Terminal loss relief against trading income:					
– 2025/26				840	
– 2024/25				1,530	
– 2023/24				12,280	
– 2022/23				<u>5,350</u>	
				<u>Nil</u>	
					Total 5

4) Other Loss Relief Options for Loss of 2025/26

Edward could claim to set the loss against his net income of £14,840 in 2025/26, and use the remaining £5,160 of loss against his net income of 2024/25. [1]

Alternatively, he could make a claim against his net income of £15,530 in 2024/25, and use the remaining loss of £4,470 against his net income of 2025/26. [1]

After a net income claim is made in 2025/26 with £14,840 of the loss, Edward could instead convert the remaining £5,160 of loss into a current year capital loss to set against his chargeable gain of 2025/26. [1]

Total 3

5) Taxation of Post Cessation Receipts

Any amount received after cessation of trade in settlement of the debt is a post-cessation receipt. [½]

Income tax is charged on post-cessation receipts in the tax year in which they are received. [½]

An election can be made to have the post cessation receipt treated as trading income of the tax year of cessation, [½] provided the amount is received in a tax year beginning no later than six years after the trade permanently ceased. [½]

This election must be made no later than the first anniversary of 31 January following the tax year of actual receipt, [½] ie by 31 January 2029 for a receipt in 2026/27. [½]

Although the additional tax is calculated by reference to the tax position of the earlier tax year, [½] it is treated as tax payable for the later tax year (for interest and penalty purposes). [½]

Max 2

6) Ethics re Discovery of Rental Income

You should write to Edward advising him to disclose the omission of rental income to HMRC. [½]

You should explain to him that if he refuses you must cease to act for him. [½]

You can only notify HMRC of the omission with his permission. [½]

If he refuses, you must cease to act, and write to HMRC informing them that you have ceased to act but give no reason. [½]

You should consider if you need to advise HMRC that any accounts or statements carrying a report signed by you can no longer be relied upon. [½]

If a new accountant asks for professional clearance, you cannot tell them but should refer them to your correspondence with your client. [½]

You should consider making a report under the money laundering regulations. [½]

Max 3

[Professional Responsibilities & Ethics for Tax Practitioners Text (6th edition) - Chapter 23 'Dealing with errors']

Tutorial Note:

All valid points from Chapter 23 of the above-mentioned Ethics text will gain credit.

7) VAT deregistration

Edward must deregister for VAT because he is no longer making taxable supplies. [½]

The deregistration date will be 30 September 2025, [½] the date he ceased trading as a sole trader. [½]

He has 30 days to notify HMRC of his deregistration. [½]

He must prepare a final VAT return [½] and include any output VAT on any business assets on hand at the date of deregistration [½] unless the total VAT due on all of these assets would not be more than £1,000. [½]

Max 3

Total for question 20

5. THE POPPLE PARTNERSHIP

1) Taxable Trade Profits for year ended 31 August 2025

	£	
Net profit per accounts	251,284	
Add:		
Goods for own use	300	[½]
Entertaining (W1)	19,158	[½]
Depreciation	10,550	[½]
Leasing costs (W2)	2,450	[½]
Petrol – Alan (£850 x 40% private use)	340	[½]
Fine	5,000	[½]
Computer software (capital, useful life > 2 years)	1,800	[½]
Less:		
Capital allowances on P&M (W3)	(35,390)	[½]
SBA (W4)	(10,500)	[½]
Taxable trade profits for y/e 31 August 2025	<u>244,992</u>	[½]

Tutorial Note:

The selling price of the meat taken out of the business by the partners is added back because the partnership uses the accruals basis to calculate taxable trade profits.

Workings

W1) As the greater % of golf day relates to client entertaining, total cost disallowed.

W2)

	£	
Finance lease interest expense	1,500	
Finance lease depreciation	<u>3,500</u>	
Total P&L Charge	<u>5,000</u>	
Allowable £5,000 x 85% (re CO ₂) x 60% (business use)	<u>2,550</u>	[½][½]
Therefore, add back (£5,000 – £2,550)	<u>2,450</u>	[½]

W3) Capital allowances

<u>Y/e 31 August 2025</u>	AIA @ 100% £	Main pool £	Special rate pool £	CAs £	
Tax wdv b/f		95,280			
<u>Additions:</u>					
Car for employee – CO ₂ > 50g/km (ignore private use)			10,665		[½]
New computer	7,800				[½]
Computer software	1,800				[½]
Mincing machine	<u>8,000</u>				[½]
	17,600	<u>95,280</u>	<u>10,665</u>		
AIA @ 100%	(17,600)			17,600	[½]
WDA @ 18%		(17,150)		17,150	[½]
WDA @ 6%			<u>(640)</u>	<u>640</u>	[½]
Tax wdv c/f	<u>Nil</u>	<u>78,130</u>	<u>10,025</u>	<u>35,390</u>	

W4) SBA

Qualifying expenditure = £400,000 - £50,000 = £350,000 [½]

SBA = £350,000 x 3% = 10,500 [½]**Total 11**2) Allocation of profit for year ended 31 August 2025

<u>Y/e 31 August 2025</u>	Total £	Alan £	Brenda £	Simon £	
Taxable trade profits	244,992				
Less: salaries	<u>(100,000)</u>	40,000	30,000	30,000	[½]
	144,992				
PSR: 40%: 22.5%: 37.5%	<u>(144,992)</u>	<u>57,997</u>	<u>32,623</u>	<u>54,372</u>	[½]
	<u>Nil</u>	<u>97,997</u>	<u>62,623</u>	<u>84,372</u>	

Total 13) IT & NIC for 2025/26

	Non-Savings £	
Taxable trade profits (W1)	82,832	
Transition profits (38,000 x 20%)	<u>7,600</u>	[1]
Trading income	90,432	
Less: Personal allowance	<u>(12,570)</u>	[½]
Taxable income	<u>77,862</u>	
Tax:		
37,700 x 20%	7,540	[½]
<u>40,162</u> x 40%	16,065	[½]
77,862		
IT liability	<u>23,605</u>	
Class 4 NIC:		
(50,270 - 12,570) x 6%	2,262	[½]
(90,432 - 50,270) x 2%	<u>803</u>	[½]
NIC	<u>3,065</u>	
W1) Taxable trade profits:		
6 April 2025 - 31 August 2025 (5/12 x 97,997)	40,832	[½]
1 September 2025 - 5 April 2026 (7/12 x 72,000)	<u>42,000</u>	[½]
	<u>82,832</u>	[½]

Total 5**Tutorial Note:**

'Profits' for Class 4 NIC purposes include transition profits.

4) Late filing date & payment penalties

Alan should have filed his 2024/25 self-assessment tax return online by 31 January 2026.

Maximum late filing penalty

	£	
Initial penalty	100	[½]
Return > 3 months late		
1 May 2025 – 1 June 2025 = 31 days late × £10 per day	<u>310</u>	[½]
	<u>410</u>	

Tax of £6,200 is outstanding more than 30 days after the due date of 31 January 2026.

Maximum late payment penalty

	£	
£6,200 × 5%	<u>310</u>	[½][½]
		Total 2

5) Due filing date & penalties – partnership return

Brenda, as the nominated partner, should have filed the partnership return for 2024/25 by 31 January 2026. [1]

As Brenda filed the partnership return late on 10 February 2026, each partner (ie Alan, Brenda and Simon) will be liable to a £100 late filing penalty. [1]

Total 2

Tutorial Note:

The partnership return for a tax year contains details of the partnership profit or loss for the period of account ending in that tax year as well as showing each partner's share of the profits and losses on the partnership statement. The year ended 31 August 2024 ends in the tax year 2024/25.

The partnership return must be filed by the nominated partner by 31 January following the end of the tax year – therefore the partnership return for 2024/25 must be filed by 31 January 2026.

If the nominated partner fails to file the partnership return on time, every partner who was a partner during the period of account is liable to a late filing penalty.

Total for question 21

6. RUTH, ELLA AND HARI

1) Partnership allocations

	Total £	Ruth £	Ella £	Hari £	
<u>Y/e 31 March 2026</u>	<u>340,800</u>				
10 m/e 31 January 2026 (10/12 x 340,800)	284,000				[1/2]
Less: Interest on capital (10/12 x 5% x 50,000/50,000/70,000)	<u>(7,083)</u>	2,083	2,083	2,917	[1]
	276,917				
PSR 30%: 30%: 40%	<u>(276,917)</u>	83,075	83,075	<u>110,767</u>	[1/2]
	Nil			<u>113,684</u>	[1/2]
2 m/e 31 March 2026 (2/12 x 340,800)	56,800				[1/2]
Less: Salaries 2/12 x 40,000/30,000	<u>(11,667)</u>	6,667	5,000		[1]
	45,133				
PSR 50%: 50%	<u>(45,133)</u>	<u>22,566</u>	<u>22,567</u>		[1/2]
	Nil	<u>114,391</u>	<u>112,725</u>		[1/2]

Total 52) Hari's Income tax & NIC liability for 2025/26

Trading income (Tax year basis = 10 m/e 31 January 2026)	£ 113,684	[1/2]
Personal allowance (W)	<u>(5,728)</u>	[1/2]
Taxable income	<u>107,956</u>	
W)		
Personal allowance	12,570	[1/2]
Less: 1/2 x (113,684 – 100,000)	<u>(6,842)</u>	[1]
	<u>5,728</u>	[1/2]
<u>Income tax liability:</u>		
37,700 x 20%	7,540	[1/2]
<u>70,256 x 40%</u>	<u>28,102</u>	[1/2]
<u>107,956</u>		
Income tax liability	<u>35,642</u>	
Class 4 NIC (on trading income for 2025/26):		
(50,270 – 12,570) x 6%	2,262	[1/2]
(113,684 – 50,270) x 2%	<u>1,268</u>	[1/2]
Class 4 NIC payable	<u>3,530</u>	

Total 5

3) Capital Gains TaxHari

	£	
Market value = sale proceeds	420,000	[½]
Less: cost	<u>(110,000)</u>	[½]
Gain before reliefs	310,000	[½]
Less: Gift relief (balancing figure)	<u>(220,000)</u>	
Chargeable gain (Actual SP rec'd £200,000 – cost £110,000)	90,000	[1½]
Less: Annual exempt amount	<u>(3,000)</u>	[½]
Taxable gain	<u>87,000</u>	
CGT payable @ 14% (business asset disposal relief)	<u>12,180</u>	[½]

Son

Market value	420,000	[½]
Less: Gift relief	<u>(220,000)</u>	[½]
Base Cost to son	<u>200,000</u>	

Gift relief requires a joint claim by Hari and his son [½] to be made within 4 years of the end of the tax year in which the gift takes place, ie 5 April 2030. [½]

Hari must claim business asset disposal relief by the first anniversary of the 31 January following the tax year in which the disposal is made, ie 31 January 2028. [½]

Max 6**Tutorial Note:**

Hari could claim business asset disposal relief on the remaining chargeable gain because it is an associated disposal – as part of his withdrawal from the partnership Hari is disposing of a building which had been used in the partnership's trade, the building has been used by the partnership for the two years prior to the disposal and Hari has owned the building for three years.

4) NIC

£30,000/12 = £2,500 per month for 11 months

For May 2025 = £2,500 + £2,000 = £4,500

<u>Class 1 Primary NICs:</u>	£	
For 11 months on salary only:		
(2,500 – 1,048) x 8% x 11 months	1,278	[1]
For May 2025:		
(4,189 – 1,048) × 8%	251	[½]
(4,500 – 4,189) × 2%	<u>6</u>	[½]
	<u>1,535</u>	

Class 1 Secondary NICs:

Annual earnings £32,000

(32,000 – 5,000) × 15% 4,050 [1]

Tutorial Note:

Employers can claim a deduction for the NIC employment allowance of £10,500 against their Class 1 secondary NIC liability for 2025/26. However, this is set against the **total** Class 1 secondary NIC due rather than against the liability for a specific individual.

Total 3
Total for question 19

7. SADIQ, ANYA AND JOHN

1) <u>Allocation of loss</u>	Total £	Sadiq £	Anya £	John £	
<u>Y/e 31 December 2025</u>	<u>(85,000)</u>				
<u>1 January 2025 – 31 March 2025</u>					
Loss for period (3/12 × (85,000))	(21,250)				[½]
Interest on capital (245,000 × 8% × 3/12)	<u>(4,900)</u>	4,900			[1]
Balance 50: 30: 20	<u>(26,150)</u>				
	<u>26,150</u>	(13,075)	(7,845)	(5,230)	[½]
	<u>Nil</u>				
<u>1 April 2025 – 31 December 2025</u>					
Loss for period (9/12 × (85,000))	(63,750)				[½]
Salary (50,000 × 9/12)	<u>(37,500)</u>			37,500	[1]
	<u>(101,250)</u>				
Balance 50: 40: 10	<u>101,250</u>	<u>(50,625)</u>	<u>(40,500)</u>	<u>(10,125)</u>	[½]
	<u>Nil</u>	(58,800)	(48,345)	22,145	
				Notional profit	
<u>Reallocate notional profit</u>					
	<u>(58,800)</u>	× 22,145	12,153	(12,153)	[½]
	<u>(58,800) + (48,345)</u>				
	<u>(48,345)</u>	× 22,145	9,992	(9,992)	[½]
	<u>(58,800) + (48,345)</u>				
Loss per partner for y/e 31 December 2025		<u>(46,647)</u>	<u>(38,353)</u>	<u>Nil</u>	
					Total 5

2) <u>Sadiq's Trade loss for 2025/26</u>					
6 April 2025 – 31 December 2025 (9/12 × (46,647))				(34,985)	[½]
1 January 2026 – 5 April 2026 (3/12 × 18,000)				<u>4,500</u>	[½]
Trade loss 2025/26				<u>(30,485)</u>	
					Total 1

3) Loss relief available to Sadiq

Sadiq can claim relief for his 2025/26 trade loss of £30,485 against his net income for the tax year 2025/26 [½] and/or 2024/25. [½]

The claims are independent [½] and can be made in any order [½]. The loss claim is an all or nothing claim and so his personal allowances may be wasted. [½]

The loss may be carried forward [½] and set against the first available trade profits of the same trade. [½]

Max 3

4) Partnership dispute

You can act for either John or Sadiq [½], normally whichever has approached you first [½]. You should then inform the other person of your decision [½].

You could act for John and Sadiq [½], provided:

- All the facts are disclosed [½] and they are told that they can seek independent advice [½].
- Ethical safeguards are put into place, such as separate teams [½].
- Both clients agree in writing [½].
- No preference is given to either John or Sadiq [½].

You can advise both that you can't act for either party [½].

[‘Professional Responsibilities & Ethics for Tax Practitioners’ (6th edition) Chapter 6, para 6.4.2]

Max 4

5) Enquiry & Appeal

As Anya submitted her 2023/24 tax return late (after 31 January 2025), the deadline for HMRC to raise an enquiry is extended to 30 April 2026. [½] This means the enquiry is within the time limit. [½]

Anya must give notice of appeal in writing [½] by 31 May 2026 [½] and should state the grounds for the appeal. [½]

Max 2

Total for question 15

8. SHANIA

Our address

Your address

Date

Dear Shania,

Further to our meeting, I am writing to answer your queries re the disposal of part of the property and the shares in Ace Care Ltd.

Sale of property & your shares

Your disposal of the property will be treated as a part disposal [½]. The gain is calculated as the sales proceeds less the cost of the part being sold [½].

To calculate the cost of the part being sold, the original cost will be apportioned using the formula $\text{Cost} \times A/(A + B)$ [1], with A being the market value of the part disposed of [½] and B being the market value of the part retained. [½]

The gain on the sale of the shares will also be calculated on the basis of the sales proceeds for the shares less the cost of the shares [½].

Max 3Calculation of capital gains tax liability

The gains on the sale of the property and the sale of the shares will be added together [½] or, if there is a capital loss, it will be netted against any gain [½].

The annual exempt amount is deducted from the net gain [½] and any capital loss brought forward is then deducted. [½]

The taxable gain will be taxed at 18% up to the basic rate band and 24% thereafter. [1] The amount taxable at the basic rate depends on how much of the band remains after your income has been taxed. [½]

Max 2Business asset disposal relief

To qualify for business asset disposal relief (BADR) on the sale of the shares, for the two years prior to the disposal [½] you need to have:

- owned shares in a trading company [½], and
- worked for the company [½] and
- owned at least 5% of the share capital [½] which gives you the right to exercise at least 5% of the voting rights. [½]

BADR is available on the sale of your shares as the above criteria are met. [½]

As you are disposing of part of the property as well as the shares, then the sale of part of the property may qualify for BADR as an associated disposal [1]. To qualify, the property needs to have been used by the company for the two years prior to the disposal, [½] and the property must have been owned by you for at least three years. [½]

If rent has been charged to Ace Care Ltd for the use of the property this will restrict the availability of BADR. [½]

The lifetime limit on gains qualifying for BADR is £1 million. [½] The gains eligible for BADR will be taxed at 14%. [½]

BADR must be claimed by 31 January 2029 (within one year from 31 January following the end of 2026/27, the tax year of disposal). [½]

Max 5

Investors' relief

Since neither Max nor Arelia work for Ace Care Ltd they cannot claim BADR, instead they may be able to claim investors' relief. [½]

To qualify for investors' relief, the shares being disposed of must have been issued on or after 17 March 2016, [½] been held continuously for at least three years, [½] be ordinary shares [½] and have been subscribed for cash. [½]

In addition, the shares must be in a trading company [½] and the company must have been unlisted when the shares were issued. [½]

The individual selling the shares must also not be an employee of the company or be connected with an employee. [½]

There is a lifetime limit of £1 million for investors' relief. [½]

It appears that Max meets all of the above criteria and so he should be able to claim investors relief on the disposal of his shares in Ace Care Ltd. [½] As investors' relief is available then Max's gain will be taxed at 14%. [½]

A claim must be made by 31 January 2029 (within one year from 31 January following the end of 2026/27, the tax year in which the shares are sold). [½]

Arelia will not be eligible to claim investors' relief on the sale of her shares because she did not subscribe for the shares directly from Ace Care Ltd, instead she bought them second hand from Max. [½]

Max 5

If you have any queries on the information provided, then please do not hesitate to contact me.

Yours sincerely,

Tax Adviser

Total for question 15

9. POPPY

Our address

Your address

Date

Dear Poppy

I have set out below my response to your recent queries.

1) Flat rate expense for current car

You are not able to claim a flat rate expense for 2025/26 in respect of your current car because you have already claimed capital allowances on this car. [½] A flat rate expense cannot be claimed where capital allowances have been claimed in respect of a vehicle. [½]

You must therefore continue to claim capital allowances on the tax written down value of this car [½] along with the business element of the car's running costs. [½]

Total 22) Flat rate expenses for the business use of your home

Where a sole trader uses their home for business purposes, a monthly flat rate expense can be claimed [½] in respect of household running costs for utilities such as gas and electricity instead of claiming the actual business proportion of these expenses. [½]

Claiming this flat rate expense does not prevent a separate deduction being available for fixed costs [½] such as council tax, insurance and mortgage interest and for telephone and broadband or internet costs where an identifiable proportion can be attributed to business use. [½]

The amount of the flat rate expense depends on the number of hours worked in the home each month. [½] If the number of working hours in the home varies each month, then the amount of the expense which can be claimed will vary for each month of the accounting period. [½]

The flat rate expense can only be claimed for months where at least 25 hours are worked at home during the month. The monthly expense is £10 where 25 – 50 hours are worked, rising to £18 for 51 – 100 hours and £26 for more than 100 hours. [1]

Max 33) Adjustments required re Thermomix for own use

Goods taken from stock are disallowed for tax purposes. [½]

If the Thermomix was bought in the year ended 31 March 2026 then cost will simply not be an allowable expense. [½]

If relief has already been claimed for the £900 cost of the Thermomix in an earlier period of account, then the £900 cost needs to be added back in calculating the taxable trade profits of the year ended 31 March 2026. [1]

Tutorial Note:

It is the cost of £900 rather than the retail price of £1,300 which is adjusted for under the cash basis for goods taken out of the business for own use.

Total 2

4) NIC

As an employee you pay Class 1 (primary) National Insurance Contributions (NIC) [½] and as a sole trader you pay Class 4 NIC. [½]

There is an annual maximum of NIC payable where an individual has both an employment and self-employment. [½]

This is not a set amount. HMRC will calculate the annual maximum [½] which determines the Class 4 NIC payable. [½]

Max 2

5) Relief for new vehicle under the cash basisCar

If the car is acquired, you will not be able to deduct the initial capital cost of the car under the cash basis. [½] Instead you can choose to either claim relief via:

- flat rate expenses, [½] or
- capital allowances, along with the business use proportion of the car's running costs. [½]

If flat rate expenses are claimed, you will not obtain any specific relief for the initial capital cost of the car. Instead, you will obtain relief for all costs related to the car through the flat rate expense. [½]

The amount of the flat rate expense is based on the business mileage driven during the period of account. [½] The first 10,000 miles obtain relief at a rate of 45p per mile and any additional miles obtain relief at a rate of 25p per mile. [½]

Based on business mileage of 5,000 miles per annum you would be able to claim a flat rate expense each year of £2,250 (5,000 x 45p). [½]

If flat rate expenses are not claimed, you can claim capital allowances in respect of the car. [½] As the car has CO₂ emissions of more than 50g/km, the rate of writing down allowance available would be 6%, with relief restricted in respect of private use. [½]

The amount available to deduct from profits in the year ended 31 March 2028 would be £20,000 × 6% = £1,200 × 70% business use = £840. [½]

In addition, you would be able to claim a deduction for 70% of the running costs of the car being £1,330 (£1,900 x 70%). [½]

Van

If the van is acquired, you can choose to claim relief under the cash basis via:

- flat rate expenses, [½] or
- deducting the initial capital cost of the van in full, along with the total running costs incurred each year. [½]

If flat rate expenses are claimed, the relief available each year would be £2,250 being 5,000 business miles at a rate of 45p per mile, as discussed above in respect of the car. [½]

If flat rate expenses are not claimed, the full cost of £15,000 would be deducted in arriving at taxable profits for the year ended 31 March 2028. [½] In addition, the total running costs of £1,500 per annum would be deducted each year. [½]

There is no restriction on either of these amounts as the van would be used 100% for business purposes. [½]

You should note that once you have chosen the method of relief for either vehicle, you must continue to obtain relief on this basis for as long as the vehicle is used in the business. [½]

Max 8

Yours sincerely,

Tax Adviser

Total for question 17

10. KANGAROO BLUE LTD

1) Corporation tax accounting periods

1 st AP	1 April 2025 to 31 December 2025	[½]
	Starts when trading starts (as no source of income before this) and ends when period of account ends	[½]
2 nd AP	1 January 2026 to 31 December 2026	[½]
	Begins day after previous AP ends and ends when period of account ends	[½]

Tutorial Note:

Incorporation of a company does not cause a corporation tax accounting period to begin.

Total 22) 9 m/e 31 December 2025

	£	£	
Net profit		331,000	
Add:			
Depreciation	10,250		[½]
Sales invoiced in January 2026	25,000		[½]
Bonus paid May 2026	-		[½]
Accrued pension contributions	5,000		[½]
Legal fees re company formation	1,250		[½]
Client entertaining	282		[½]
Golf club membership	-		[½]
General office costs	—		[½]
		41,782	
Less:			
Class 1A (W1)	(330)		[½]
Rent (1 January 2025 – 31 March 2025)	(5,000)		[½]
Capital allowances (W2)	<u>(75,000)</u>		[½]
		<u>(80,330)</u>	
Trading profits = Taxable total profits		<u>292,452</u>	[½]

Tutorial Note:

Sales are only recognised in the profit and loss account when the invoice is issued so an additional £25,000 of sales income needs to be added for the sales completed in December which were not invoiced until January.

The golf club membership and health insurance are allowable expenses for the company because they are part of the directors' remuneration. The directors will be assessed to tax on these benefits in calculating their employment income.

	£	
TTP (= Augmented profits)	<u>292,452</u>	
<u>CT liability:</u>		
292,452 x 25%	<u>73,113</u>	[½]
Large company threshold = 1,500,000 x 9/12	1,125,000	
Due by instalments?	No	
Corporation tax is due by	1 October 2026	[½]

WorkingsW1) Class 1A

	£	
Golf club membership	1,000	
Health insurance	<u>1,200</u>	
	<u>2,200</u>	[½]

£2,200 @ 15% 330 [½]

W2) Capital allowances

<u>9 m/e 31 December 2025</u>	AIA @ 100% £	Main pool £	CAs £	
<u>Additions:</u>				
Office equipment	75,000			[½]
AIA @ 100%	<u>(75,000)</u>		<u>75,000</u>	[½]
Tax wdv c/f	<u>Nil</u>	<u>Nil</u>		
			Total 9	

Tutorial Note:

The AIA has been claimed here in respect of the office equipment rather than the 100% FYA (full-expensing) as this will reduce the potential for a balancing charge on the disposal of the machinery. However, the ATT have confirmed that as the allowances for the period are the same either way full marks will be given for either choice.

3) Submission of return & amendments

The corporation tax return for the nine months ended 31 December 2025 must be submitted online [½] within one year of the end of the accounting period, [½] ie by 31 December 2026. [½]

Kangaroo Blue Ltd can make amendments to its corporation tax return within 12 months of the due filing date, [½] ie until 31 December 2027. [½]

HMRC can amend the company's corporation tax return for obvious errors in the return within 9 months from the actual date of receipt. [½]

Total 34) Late notification penalty

To avoid a penalty, Kangaroo Blue Ltd should have notified HMRC by 31 December 2026 of its chargeability to Corporation Tax. [½]

Maximum penalty = 30% [½] of the potential lost revenue, [½] which is the Corporation Tax unpaid at 31 December 2026 (12 months after end of accounting period). [½]

Total 2**Total for question 16**

11. MARVELLOUS LTD

1) Marvellous Ltd – Corporation Tax computation for y/e 30 June 2025

	£	
Trade profit (W1)	227,590	[½]
Non-trading profit (LRs)	1,000	[½]
Less: QCD	<u>(200)</u>	[½]
Taxable Total Profits	<u>228,390</u>	
<u>CT liability:</u>		
TTP = Augmented Profits	<u>228,390</u>	
Upper limit	250,000	
Lower limit	50,000	
CT rate	Marginal	
228,390 × 25%	57,098	[½]
Less: 3/200 × (250,000 – 228,390)	<u>(324)</u>	[1]
CT liability	<u>56,774</u>	[½]

Large company threshold	1,500,000	
Due by instalments?	No	
Due date	1 April 2026	[½]

	£	£	
W1)			
Profit per accounts		217,000	
Add:			
Depreciation	17,000		[½]
Loss on disposal of equipment	8,000		[½]
Provision for repairs	4,000		[½]
Legal costs re renewal of short lease (allowed)	-		[½]
Legal costs re abortive property purchase	2,000		[½]
Entertainment – customers	5,000		[½]
Entertainment – staff (allowed)	-		[½]
Penalty – late paid VAT	1,350		[½]
Lease costs 15% x £2,400 (CO ₂ > 50g/km)	<u>360</u>		[½]
		37,710	
Add:			
Balancing charge on disposal of old laminator (100% × £3,000)		3,000	[1]
Less: Capital allowances (W2)		<u>(30,120)</u>	[½]
Trade profit		<u>227,590</u>	

<u>Y/e 30 June 2025</u>	AIA @ 100% £	Main pool £	Special rate pool £	CAs £	
Tax wdv b/f		14,000			
<u>Additions:</u>					
Laminator	25,500				[½]
Car – CO ₂ > 50g/km			<u>35,000</u>		[½]
	<u>25,500</u>	14,000	35,000		
AIA @ 100%	(25,500)			25,500	[½]
WDA @ 18%		(2,520)		2,520	[½]
WDA @ 6%			<u>(2,100)*</u>	2,100	[½]
Tax wdv c/f		<u>11,480</u>	<u>32,900</u>		
Total allowances				<u>30,120</u>	

* For ignoring private use of car [½]

Tutorial Note:

The AIA has been claimed here in respect of the laminator rather than the FYA @ 100% as this will reduce the potential for a balancing charge on the disposal of the machinery. However, the ATT have confirmed that as the allowances for the period are the same either way full marks will be given for either choice.

Total 132) VAT returns

The company should submit an online VAT return within one calendar month plus seven days. [½] So for the quarter ended 30 June 2026, the return should have been submitted by 7 August 2026. [½]

Payment should be made electronically by the same date [½] unless the company sets up a direct debit facility whereby payment is normally taken three days later. [½] For the quarter ended 30 June 2026, payment would be made by direct debit on 10 August 2026. [½]

Max 23) Tax Relief on Purchase of Shop

The 'Structures and Buildings Allowance' (SBA) can be claimed in respect of the purchase of the shop. Tax relief is given at 3% per annum [½] on the qualifying expenditure from the later of:

- the date the expenditure is incurred, and [½]
- the date the shop is first brought into business use. [½]

The qualifying expenditure is the purchase price, excluding both the cost of the land [½] and expenditure on integral features such as the air conditioning and electric lighting. [½]

Therefore, the cost qualifying for the SBA is £270,000 (being £530,000 - £200,000 for land - £60,000 for integral features). [½]

The SBA in year ended 30 June 2026 will be given from 1 August 2025, the date the shop is first used for business purposes. [½]

Plant and machinery capital allowances will be available for the £60,000 cost of the integral features in the year ended 30 June 2026. [½]

Max 34) Sale of Shop in the Future

In the accounting period of sale, the SBA is time apportioned to take account of the length of time the shop was owned by Marvellous Ltd. [½]

Marvellous Ltd will calculate a capital gain on the sale of the shop. [½] The total amount of SBAs claimed by the company is added to the sale proceeds in the gain calculation. [½] The cost of the shop in the gain calculation will include the cost of the land. [½]

For capital allowance purposes, the sale proceeds attributed to the integral features will be dealt with in the capital allowances computation for the year of sale. [½]

If the FYA at 50% was claimed on the purchase of the integral features in the year ended 30 June 2026, a balancing charge equal to 50% of the proceeds will arise in the period of sale. [½] The balance of the proceeds will then be deducted from the special rate pool. [½] If the FYA at 50% was not claimed, the full amount of the proceeds will be deducted from the special rate pool. [½]

The purchaser can then continue to claim the SBA at 3% per annum on the original qualifying expenditure, [$\frac{1}{2}$] time apportioned for the length of time the building is owned in the accounting period of acquisition. [$\frac{1}{2}$]

Max 3

5) TTP After Trade Loss Relief

	Y/e 30.6.25 £	Y/e 30.6.26 £	Y/e 30.6.27 £	
Trade profits	227,590	-	150,000	[$\frac{1}{2}$]
Non-trade profits (LRs)	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	[$\frac{1}{2}$]
	228,590	1,000	151,000	
Trade loss current year		(1,000)		[$\frac{1}{2}$]
Trade loss carried back	(228,590)			[$\frac{1}{2}$]
Trade loss carried forward			(150,800)	[1]
Less: QCD	<u>wasted</u>	<u>wasted</u>	(200)	[$\frac{1}{2}$]
TTP	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	[$\frac{1}{2}$]

Trade loss memo

	£
Y/e 30.6.26	(400,000)
Less: current year claim (needed before carry back claim)	1,000
Less: carry back claim to y/e 30.6.25	<u>228,590</u>
	(170,410)
Less: carry forward claim (claim amount to preserve QCD)	<u>150,800</u>
	<u>(19,610)</u>

Total 4

Tutorial Note:

The current year and carry back claims are 'all or nothing' which means that if there is enough loss to do so, Marvellous Ltd must reduce its total profits down to nil in each period and hence, tax relief for the QCDs is wasted.

Marvellous Ltd can specify the amount of the carry forward claim, so the company can ensure that there are enough profits left after the carry forward claim to relieve the £200 QCD paid. The maximum amount of carried forward losses which may be offset against profits is the lower of:

- the unrelieved carried forward losses; and
- the deductions allowance plus 50% x (unrelieved profits – deductions allowance)

The deductions allowance is £5m for a standalone company. The deductions allowance must be claimed on the corporation tax return.

'Unrelieved profits' means total profits less any current year loss relief.

Total for question 25

12. TRASHMAGIC LTD

1) Corporation Tax computation – Trashmagic Ltd

The company has two corporation tax accounting periods relating to this set of accounts:
y/e 30 April 2025 and 5 m/e 30 September 2025. [½]

	Y/e 30 April 2025 £	5 m/e 30 September 2025 £	
Trading profit (W3)	35,388	113,034	
Rental income 15,000 x 4/12; 5/12	5,000	6,250	[1]
Donation in cash – date paid	(4,750)		[½]
Donation of shares – market value		(4,000)	[1]
TTP	<u>35,638</u>	<u>115,284</u>	
<u>Corporation tax liabilities:</u>			
TTP	35,638	115,284	
Dividends received	<u>5,000</u>	-	
Augmented profits	<u>40,638</u>	<u>115,284</u>	[½]
Upper limit	250,000	104,167	
Lower limit	50,000	20,833	
CT rate	19%	25%	
35,638 x 19%	<u>6,771</u>		[½]
115,284 x 25%		<u>28,821</u>	[1]
W1) <u>Adjustments to profit</u>			
		£	
Profit before tax per accounts		380,000	
Add:			
Depreciation (44,900 – 3,440)		41,460	[½][½]
Donations – cash		4,750	[½]
Donations – shares [add back cost as recorded at cost in accounts]		2,000	[½]
Store vouchers – Allowable as employment income		-	[½]
Golf club membership – Allowable as employment income		-	[½]
Less:			
Profit on disposal of scrap baler		(1,200)	[½]
Rental income (15,000 × 9/12)		(11,250)	[1]
Dividends received		<u>(5,000)</u>	[½]
Tax adjusted profit before CAs for 17 m/e 30 September 2025		<u>410,760</u>	

W2) <u>Capital allowances</u>				
	AIA @	Main	Special rate	CAs
<u>Y/e 30 April 2025</u>	100%	pool	pool	
	£	£	£	£
Tax wdv b/f		16,000	28,000	
<u>Addition:</u>				
Waste picking machine	<u>250,000</u>			
	250,000	<u>16,000</u>	<u>28,000</u>	
AIA @ 100%	(250,000)			250,000 [1]
WDA @ 18%		(2,880)		2,880 [1/2]
WDA @ 6%			<u>(1,680)</u>	1,680 [1/2]
Tax wdv c/f	<u>Nil</u>	<u>13,120</u>	<u>26,320</u>	<u>254,560</u>
<u>5 m/e 30 September 2025</u>	FYA @	Main	Special rate	CAs
	100%	pool	pool	
	£	£	£	£
Tax wdv b/f		13,120	26,320	[1/2]
<u>Addition:</u>				
Electric car	24,000			
Disposal – Sale of baler		<u>(30,000)</u>		
Balancing charge		<u>(16,880)</u>		(16,880) [1/2]
FYA @ 100%	<u>(24,000)</u>			24,000 [1]
WDA @ 6% × 5/12			<u>(658)</u>	658 [1]
Tax wdv c/f	<u>Nil</u>		<u>25,662</u>	
Allowances (net)				<u>7,778</u>

Tutorial Note:

The waste picking machine bought for £250,000 on 15 April 2025 is a long-life asset (as it has a life of at least 25 years and it cost at least £100,000) which is special rate pool expenditure. However, as the AIA @ 100% is available for the year ended 30 April 2025, this is used in preference to the FYA @ 50%.

The scrap baling machine was sold for £30,000 on 1 May 2025 and had an original cost of £48,000. For capital allowance purposes the lower of cost and sale proceeds are deducted on this disposal which ensures that the £18,000 cost to the business of using this machine has been given tax relief via capital allowances.

The accounting profit of £1,200 on the sale of the scrap baling machine (see note 1) arose because the company had depreciated the cost of the machine in its accounts, in the accounts the profit on sale is calculated as sale proceeds less net book value. Accounting profits are not taxable which is why this profit of £1,200 has been deducted in the adjustment to profits working (W1) above.

W3) Trading Profits

	Y/e	5 m/e	
	30 April	30 September	
	2025	2025	
	£	£	
Tax adjusted profits before CAs			
410,760 x 12/17: x 5/17	289,948	120,812	[1/2]
Capital allowances (W2)	<u>(254,560)</u>	<u>(7,778)</u>	[1/2]
Trading profit	<u>35,388</u>	<u>113,034</u>	

Total 16

2) National Insurance implications of vouchers and golf club membershipStore vouchers

All vouchers whether cash or non-cash are earnings for National Insurance purposes [½] and are therefore subject to Class 1 primary [½] and secondary contributions [½] through the payroll. [½]

Golf club membership

The golf club membership is subject to Class 1A National Insurance [½] payable by the employer and reported through form P11D(b). [½]

[Income Tax Chapters 4 & 5 of the Memory Jogger are helpful here.]

Max 2

Total for question 18

13. CHELMER DEVELOPMENTS LTD

Corporation Tax Computation - Chelmer Developments Ltd

The company has two corporation tax accounting periods relating to this set of accounts:
y/e 30 September 2025 and 3 m/e 31 December 2025. [½]

	Y/e 30 September 2025 £	3 m/e 31 December 2025 £	
Trading profit (W3)	1,486,662	372,153	
Property income (W5)	308,280	75,000	
Non-trading profit LR (W7)	-	515	
Net chargeable gains (51,175 (W4) – 15,000)		36,175	[1]
	<u>1,794,942</u>		
Non-trading deficit LR (W7)	(1,140)		[1]
Donation in cash – date paid	<u>(4,000)</u>		[½]
TTP	<u>1,789,802</u>	<u>483,843</u>	
<u>CT liabilities:</u>			
	250,000	62,500	
Upper limit	50,000	12,500	
Lower limit			
CT rate	25%	25%	
1,789,802 x 25%	<u>447,451</u>		[½]
483,843 x 25%		<u>120,961</u>	[½]
<u>Payment dates:</u>			
TTP = Augmented Profits	<u>1,789,802</u>	<u>483,843</u>	
Large company threshold (1,500,000 x 12/12: 3/12)	1,500,000	375,000	
Due by instalments	Yes	Yes	
<u>Y/e 30 September 2025</u>			
Each instalment = 3/12 × £447,451			[½]
14 th April 2025	111,863		[½]
14 th July 2025	111,863		[½]
14 th October 2025	111,863		[½]
14 th January 2026	<u>111,862</u>		[½]
	<u>447,451</u>		
<u>3 m/e 31 December 2025</u>			
1 instalment due on 14 th April 2026		<u>120,961</u>	[½]
W1) <u>Adjustment to profit</u>			
Draft tax adjusted profits before CAs		£ 1,860,000	
Add:			
Legal fees re sale of office		2,300	[½]
Cash donation		<u>4,000</u>	[½]
Tax adjusted profit before CAs for 15 m/e 31 December 2025		<u>1,866,300</u>	

W2) Capital allowances

	Main pool	Special rate pool	CAs	
<u>Y/e 30 September 2025</u>	£	£	£	
Tax wdv b/f	30,000	978		
WDA @ 18%	(5,400)		5,400	[½]
WDA = balance on pool		(978)	978	[1]
Tax wdv c/f	<u>24,600</u>	<u>Nil</u>	<u>6,378</u>	
<u>3 m/e 31 December 2025</u>				
Tax wdv b/f	24,600			[½]
WDA 18% × 3/12	(1,107)		1,107	[1]
Tax wdv c/f	<u>23,493</u>			

W3) Trading Profits

	Y/e 30 September 2025	3 m/e 31 December 2025	
	£	£	
Tax adjusted profits before CAs			
1,866,300 × 12/15: × 3/15	1,493,040	373,260	[½]
Capital allowances (W2)	<u>(6,378)</u>	<u>(1,107)</u>	[½]
Trading profit	<u>1,486,662</u>	<u>372,153</u>	

W4) Chargeable gain

	£	
Sale proceeds (October 2025)	158,000	
Less: Legal costs for sale of office	<u>(2,300)</u>	[½]
	155,700	
Cost (June 2014)	(65,000)	[½]
Improvements (August 2018)	<u>(34,000)</u>	[½]
	56,700	
Less: Indexation allowance		
On cost – June 2014 to December 2017: (278.1 – 256.3)/256.3 = 0.085 × 65,000	(5,525)	[1]
On improvements – no indexation allowance (incurred after Dec 2017)	-	[½]
Chargeable gain	<u>51,175</u>	

W5) UK Property income

	Y/e 30 September 2025	3 m/e 31 December 2025	
	£	£	
Accrued rental income 300,000 × 12/12: 3/12	300,000	75,000	[½]
Rental income element of premium (W6)	<u>8,280</u>		[½]
Property income	<u>308,280</u>	<u>75,000</u>	

W6) Rental income element of lease premium received

	£	
Lease premium received May 2025	9,000	[½]
Less: Capital element = 2% × 9,000 × (5 – 1)	<u>(720)</u>	[1]
Income from property	<u>8,280</u>	[½]

[Alternative calculation of lease premium treated as property income:

9,000 × (50 – 4)/50 8,280]

W7) Non-trading deficit/profit LRs

	Y/e 30 September 2025 £	3 m/e 31 December 2025 £	
Accrued bank interest receivable			
10,200 x 12/15: x 3/15	8,160	2,040	[½]
Interest on Corporation Tax refund		800	[½]
Loan interest paid on loan to build properties			
9,300 x 12/12: x 3/12	<u>(9,300)</u>	<u>(2,325)</u>	[1]
Non-trading LR deficit/ profit	<u>(1,140)</u>	<u>515</u>	

Tutorial Note:

You may have found this to be a more challenging question. Do not panic and apply good exam technique by setting up your corporation tax computation proformas and working methodically through the information in the question. Guess if you are unsure and keep going, showing your workings so that you earn follow-through marks even though your numbers may be different to the model solution. Remember there is no negative marking.

Total for question 20

14. ROYSTON LTD

- 1) New heating system
- Capital allowances are given in the accounting period in which expenditure is incurred. [½]
 - Expenditure is generally incurred when there is an unconditional obligation to pay, [½] ie in this case the date each part of the contract is certified. [½]
 - Amounts incurred in y/e 31 March 2026:
 - £500,000 (40% × £1,250,000) paid on 30 September 2025 [½]
 - £500,000 (40% × £1,250,000) paid on 31 December 2025 [½]
- ie £1,000,000
- £250,000 paid on 31 May 2026 will not be given capital allowances until year ended 31 March 2027. [½]
 - The £1,000,000 is eligible for the Annual Investment Allowance (AIA) at 100%. [½] Although the new heating system is an integral feature and is eligible for the FYA at 50% because it is new special rate pool expenditure, it is more beneficial to claim the AIA rather than the 50% FYA. [½]

Tutorial Note:

For plant and machinery which is constructed, the asset becomes the property of the purchaser as it is being constructed. The obligation to pay for part of an asset that has been completed becomes unconditional when the work is certified by an architect or engineer who has inspected the work done.

- 2) Finance Lease Car
- Capital allowances are not available in respect of the car as it is acquired under a finance lease. [½]

Tutorial Note:

The finance lease depreciation and interest expense that have been charged to the profit and loss account for the car are allowable expenses in calculating trade profits, restricted to 85% as CO₂ emissions > 50g/km.

- 3) New vans
- Vans qualify for the FYA at 100% [½] (the AIA has already been used up).
- 4) Car
- 100% FYA on electric cars but only if purchased new before 1 April 2026. [½]
 - Car is second hand therefore normal WDA @ 18%. [½]

- 5) New office building
- The new office building qualifies for the structures and buildings allowance (SBA) at 3% per annum. [$\frac{1}{2}$]
 - The SBA is given on the qualifying cost of the building which excludes the costs of the land [$\frac{1}{2}$] and the cost of the integral features. [$\frac{1}{2}$]
 - Qualifying cost is therefore £360,000 - £80,000 - £40,000 = £240,000. [$\frac{1}{2}$]
 - The SBA is calculated from the date the building is first used for the company's trade, [$\frac{1}{2}$] ie from 1 January 2026. [$\frac{1}{2}$]
 - The £40,000 cost of the integral features is eligible for the FYA @ 50% [$\frac{1}{2}$] (as the AIA has already been used up).

Tutorial Note:

Credit would be given if the AIA was allocated in full to this expenditure and the balance of the AIA allocated to the heating system.

Royston Ltd – Capital allowances on P&M for the year ended 31 March 2026

	FYA @ 50% £	FYA @ 100% £	AIA @ 100% £	Main pool £	SR pool £	CAs £	
Tax wdv b/f				279,000			[$\frac{1}{2}$]
<u>Additions:</u>							
Heating system			1,000,000				[$\frac{1}{2}$]
Vans		140,000					[$\frac{1}{2}$]
Second-hand electric car				16,000			[$\frac{1}{2}$]
Integral features	<u>40,000</u>						[$\frac{1}{2}$]
	40,000	140,000	1,000,000	295,000			
FYA @ 50%	(20,000)					20,000	[$\frac{1}{2}$]
FYA @ 100%		(140,000)				140,000	[$\frac{1}{2}$]
AIA @ 100%			(1,000,000)			1,000,000	[$\frac{1}{2}$]
WDA @ 18%				(53,100)		53,100	[$\frac{1}{2}$]
Transfer to SR pool	<u>(20,000)</u>				20,000		[$\frac{1}{2}$]
	Nil	Nil	Nil	241,900	20,000		
Total CAs						<u>1,213,100</u>	[$\frac{1}{2}$]

Royston Ltd – SBA for the year ended 31 March 2026

$$£240,000 \times 3\% \times 3/12 = \underline{£1,800} \text{ [$\frac{1}{2}$]}$$

Max 15**Total for question 15**

15. LUKE PRITCHARD

Firm's headed notepaper

Your address

Date

Dear Luke,

I have outlined the key differences between the taxation of a company and a sole trader below and provided an explanation of when VAT registration will be required.

Sole trader

As a sole trader you will pay income tax on the taxable trade profits of the tax year, [½] with those profits being reported on your self-assessment return. The £4,000 drawings you make from your business each month will not be allowable for tax purposes. [½]

For the first tax year (2026/27) [½] you will pay tax on the taxable trade profits of the period from 1 July 2026 to 31 March 2027. [½]

In 2027/28, you will be taxed on the profits of the year ended 31 March 2028 and so on. [½]

As your taxable trade profits are estimated to be £120,000, your personal allowance will be reduced to £2,570 (being £12,570 less 50% (£120,000 – £100,000)). [½] You will pay income tax at 20% up to taxable income of £37,700 [½] and at 40% on taxable income above £37,700. [½]

As a sole trader you will pay Class 4 National Insurance [½] on your taxable trade profits at 6% between £12,570 and £50,270 [½] and at 2% above £50,270. [½]

Your self-assessment tax return should be submitted online by 31 January following the end of the tax year, [½] ie by 31 January 2028 for 2026/27. [½]

As 2026/27 is your first tax year of trading, the due date for the payment of your income tax and Class 4 NIC will be 31 January 2028. [½]

For 2027/28 onwards, you will be required to make two payments on account – one on 31 January in the tax year (ie 31 January 2028) [½] and one on 31 July following the end of the tax year (ie 31 July 2028). [½] Each payment on account will be calculated as 50% of the previous tax year's total liability to Income Tax and Class 4 NIC. [½] A final balancing payment will then be due by 31 January following the end of the tax year (ie 31 January 2029). [½]

Company

Operating through a company, you can withdraw the £4,000 a month either via a salary or as dividends. [½]

If you take a salary, as a director you will incur Class 1 Primary NICs at 8% above the primary threshold [½] and the company will have to pay Class 1 secondary NICs at 15% above the secondary threshold. [½]

The company will however obtain corporation tax relief for both the salary and any Class 1 secondary NICs paid. [½]

Although there is a £10,500 employment allowance available to reduce an employer's Class 1 secondary NICs bill, this would not be available to you if you were the only

employee of the company as 'one man companies' cannot claim the employment allowance. [½]

By taking dividends instead of salary, neither you nor the company will be liable for NICs, [½] however no corporation tax relief is given for dividends paid. [½]

The company will pay corporation tax on its taxable total profits for each corporation tax accounting period. [½] The first corporation tax accounting period will be the 9 months to 31 March 2027. [½]

Given the level of your anticipated taxable total profits the rate of corporation tax payable will be 25% less marginal relief [½]. Marginal relief applies where annual profits are between £50,000 and £250,000 and reduces the corporation tax payable. [½]

Corporation tax is payable by the company no later than nine months and one day from the end of the corporation tax accounting period, [½] ie by 1 January 2028 [½] in respect of the period ended 31 March 2027.

Max 10

VAT registration

Registration for VAT is compulsory if, looking at the end of a calendar month, your turnover (ie sales) of taxable supplies [½] in the previous 12 months (or from the date of commencement if shorter) [½] exceed the VAT registration threshold which is currently £90,000. [½]

Based on your business plan, you will breach the threshold on 31 December 2026, [½] so you should notify HMRC of your requirement to register for VAT by 30 January 2027 [½] and should charge VAT on sales from 1 February 2027. [½]

If you set up the business as a sole trader, then you, as the sole trader, will become VAT registered. [½] If you set up the business as a company, then it is the company [½] that will become VAT registered.

The main effect of being VAT registered is that you must charge VAT at the standard rate on all your sales. [½]

You will however be able to recover any VAT you incur on your purchases, [½] expenses and capital assets used in the business. [½]

You will also have to file quarterly VAT returns. [½]

The quarterly VAT returns are due to be submitted online [½] within one month and seven days of the end of the return period. [½] Any VAT you owe is also payable at this point. [½]

If you set up a direct debit to pay the VAT owed, payment is normally taken three days after the normal payment date. [½]

Max 5

Please do not hesitate to get in touch if I can be of any further assistance.

Yours sincerely,

Tax Adviser

Total for question 15

ETHICS QUESTIONS

1. A member must be courteous and considerate to all with whom they come into contact in a professional capacity.

Courtesy falls within which of the five 'Fundamental Principles' relating to members?

2. The 'Standards for Tax Planning' are critical to any planning undertaken by members.

What are the five Standards and provide a brief explanation of them.

3. You have taken on a new client and wish to agree a contingent fee as the basis of payment for the work required.

State three of the guidelines in relation to using contingent fees.

4. A director of a company to which you provide tax advice has asked if you would like to invest in the company.

Outline the guidance given to members on financial involvement with a client.

5. **When should engagement letters for tax clients be reviewed?**

6. You receive a call from the bank manager of a client. He requests a copy of the client's latest income tax return in order to support an application for a loan.

According to the Professional Rules and Practice Guidelines, which of the five 'Fundamental Principles' is threatened in this situation?

7. The Professional Rules and Practice Guidelines list four examples of ways in which a member can charge for services.

List the four methods.

8. **Where a member of the ATT is to pay a commission to a third party for introducing a client, what disclosure must the member make to the client?**

9. **State four matters that you would expect to be dealt with in the covering letter accompanying a typical contract for the provision of tax services.**

10. **What are the three choices available to a member who is asked to act for both parties to a transaction?**

11. You are a tax technician working on a personal tax return for a client. Looking back to last year's return you think you have discovered an error. You are unsure of how to deal with this.

What steps should you take, according to the flowchart on 'Dealing with Errors'?

12. The profits of a trade, profession or vocation must be computed in accordance with Generally Accepted Accounting Principles (GAAP) subject to any adjustment required or authorised by law in computing profits for those purposes. This permits a trade, profession, vocation or property business to disregard non-material adjustments in computing its accounting profits.

How does the accounting concept of materiality apply when making adjustments required to accounting figures so as to arrive at taxable profits?

13. A member dealing with third parties on a client's behalf must be careful not to inadvertently assume a duty of care towards the third party.

State four ways in which the member may manage these risks.

14. A member may sign a tax return in their capacity as a liquidator.

Name three other ways in which they can sign a return.

15. The Professional Rules and Practice Guidelines state that a member should request the prospective client's permission to communicate with the client's existing adviser before accepting a new appointment.

Explain why a member should communicate with an existing adviser.

16. **Describe briefly four principles set out in the Professional Rules and Practice Guidelines that govern a member accepting a new client.**

17. **According to the Association of Taxation Technician's Professional Rules and Practice Guidelines, what procedures should be put in place to handle complaints from clients?**

18. P Ltd is engaging Dov, a member of ATT, to assist with tax compliance work. The company is offering to pay a monthly fee in return for which its finance department is likely to want between two and five days of work from Dov per month.

Identify the major areas of concern when accepting a client on a retainer arrangement.

19. You discover that due to an error by HMRC you have received an excessive repayment of tax, on behalf of a client.

Briefly state what action you should take.

20. **When a member delegates work to a junior, or subcontracts it, who takes responsibility for this work, according to the Professional Rules and Practice Guidelines?**

ETHICS ANSWERS

The references in brackets at the end of the answers are to the 6th edition of the text book "Professional Responsibilities & Ethics for Tax Practitioners".

1. Professional behaviour.

[Chapter 19 section 19.6 para 2.22]

2. The five standards are:

- Client Specific – it must be specific to the particular client's facts and circumstances;
- Lawful – Members must act lawfully and with integrity at all times and expect the same from their clients;
- Disclosure and transparency – All relevant facts must be disclosed to HMRC;
- Tax planning arrangements – Members must not promote tax planning that is set out to achieve results contrary to the intention of Parliament;
- Professional judgement and appropriate documentation – members must exercise professional judgement on a number of matters and keep timely notes.

[Chapter 20 section 20.2 point 1]

3. Any three from Chapter 8, section 8.2, for example:

- Contingent fees can carry increased risks, such as a third party questioning the independence and objectivity of the member. Accordingly, where a contingent fee basis is adopted, a member should take care not only to ensure that their conduct meets, but is seen to meet, the required principles of integrity and objectivity.
- A member should be aware that there may be legal or regulatory restrictions to having a contingent fee.
- It is advisable that where contingent fees are used the engagement letter should set out the scope of the work they cover and stipulate the action to be taken should subsequent events cancel all or part of the benefits to the client of the contingent fee arrangement. It should set out clearly and precisely whether part or the entire fee is to be repaid and whether interest is payable.

4. Having a financial involvement with a client may impair or be perceived as impairing a member's ability to act objectively. Members should exercise care before entering into any kind of financial arrangement with a client. This includes, for example, lending money or investing in the business of a client.

[Chapter 6 section 6.5 para 6.5.1]

5. Engagement letters should be reviewed:

- annually; and
- when the scope of services changes significantly.

[Chapter 4 section 4.10 points 1 and 3]

6. Confidentiality

[Chapter 19 section 19.5 para 2.16]

7. Time and expenses

- Fixed fees
- Contingent (including success) fees
- Insurance

[Chapter 8 section 8.1 para 8.1.2]

8. If an ATT member is to pay a commission, they must disclose to the client:

- the amount and nature of the fee, commission or other reward; and
- the identity of the third party recipient.

[Other valid points will gain credit]

[Chapter 4 section 4.2 para 4.2.1]

9. Any four from Chapter 4 section 4.11, for example:

- (i) Who we are acting for;
- (ii) Period of engagement;
- (iii) Scope of services;
- (iv) AEOI, including FATCA

10. The three choices are:

- To advise both parties of the conflict and to give both the opportunity to consider if they wish to seek alternative representation, or agree that you continue to act for both, if appropriate;
- To act for one client only – normally the one who first sought advice;
- To act for neither party – if the conflict cannot be managed.

[Chapter 6 section 6.4 para 6.4.2]

11. You should:
- 1) Establish the facts – is there an error?
 - 2) If there is an error – is it trivial?
 - 3) If it is not trivial – is specific authorisation required from the client to disclose the error to HMRC?
 - 4) If specific authorisation is required and the client is unwilling to give authorisation, and this is confirmed in writing, you must write to the client explaining the consequences of non-disclosure
 - 5) If client still refuses to authorise disclosure, you are required to cease to act, notify HMRC, and your MLRO/NCA.

[Other valid points will get credit.]

[Chapter 23 section 23.2 - flowchart]

12. The application of GAAP does not extend beyond the accounting profits. Thus, the accounting concept of materiality cannot be applied when completing tax filings, for example, when computing adjustments required to accounting figures so as to arrive at taxable profits.

[Chapter 21 section 21.6 points 16-17]

13. Any four from Chapter 7 section 7.2 para 7.2.5, for example:

- Including a clear notice or caveat in the information stating that the advice has been prepared for the client and that no liability is accepted to any third parties who choose to make use of the information.
- Requiring that the client seek consent before information with which the name of member is associated is released by the client to third parties.
- Requiring the third party and/or its advisers to undertake in writing that a member be excluded from liability or held harmless as a consequence of making the information available to them.
- Communicating to the third party the terms upon which the information is released including limitations on scope, stating that the advice was prepared only with the client's interests mind, may not apply in all circumstances, and confirmation that no responsibility is accepted.

14. Any three from:

- receiver
- administrator
- under personal appointment as trustee
- under personal appointment as executor
- under personal appointment as attorney
- under personal appointment as director

[Chapter 21 section 21.11 point 33]

15.

- a) The member is aware of any professional reason why they should not accept the appointment.
- b) The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period.

[Chapter 4 section 4.4 paras 4.4.1-4.4.2]

16. Any four from Chapter 4 section 4.3 para 4.3.1, for example:

- Comply with the identification requirements set out in the anti-money laundering/terrorist financing guidance.
- Consider whether the potential client will be an acceptable client in terms of the risks which will arise for the practice from acting for that client and whether the member has the capability to manage those risks.
- Consider whether the member and firm will have the skills and competence to service the client's requirements during the course of the engagement.
- Consider whether there is any conflict of interest in accepting the client and if so whether and how it might be managed.

17. The ATT's rules state that the procedures should ensure that:

- Each new client is informed in writing of the name and status of the person to be contacted in the event of the client wishing to complain about the services provided and of the ability to complain to the Taxation Disciplinary Board (TDB). This information should be included in the engagement letter.
- Each complaint is acknowledged promptly in writing.
- Each complaint is investigated thoroughly and without delay by a person of sufficient experience, seniority and competence who preferably was not directly involved in the act or omission giving rise to the complaint and the client is told about investigation.
- If the investigation finds that the complaint is justified, wholly or in part, any appropriate action is taken.
- Consideration is given as to whether to inform the firm's professional indemnity insurer

[Chapter 9 section 9.1 para 9.1.1]

18. One area of concern is what is covered by the arrangement. Therefore, the member should normally set out the retainer arrangement in writing so that the member and the client clearly understand the extent and limitations of the agreement and the point when further charges may be levied.

The other area for concern is that a member should watch out for conflicts of interest, given that under a retainer, the client can call on that member's services at any time, which may mean that the member may not be able to fulfil their obligations to other clients.

[Chapter 8 section 8.4 paras 8.4.2-8.4.3]

19. You should return it to HMRC as soon as practicable.

You do not need your client's authority to return an excessive repayment but should notify your client that you have done so.

[Chapter 23 section 23.5 point 21]

20. If a member delegates work, the member remains primarily responsible for the work so should exercise sufficient supervision to confirm that the work performed is satisfactory and that it is carried out by persons who have been suitably trained to carry out the work involved.

[Chapter 5 section 5.4 para 5.4.1]