



Mock Exam One

AAT Level 4

Principles of Taxation

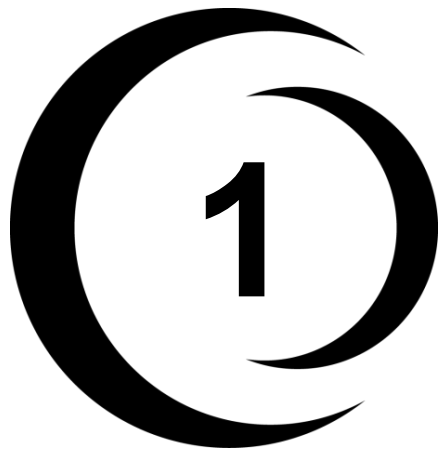
(Finance Act 2026)

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This practice assessment is one of a set of five AAT mock practice assessments which have been published for this subject. They are produced by our expert team of AAT tutors, giving real AAT exam style and standard tasks, that ensure the very best for exam success. All practice assessments are relevant for the current syllabus.

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Mock Exam One

AAT Level 4

Principles of Taxation

Assessment information:

- You have **2 hours** to complete this **Principles of Taxation practice assessment**.
 - This assessment contains **9 tasks** and you should attempt to complete **every** task. Each task is independent. You will not need to refer to your answers to previous tasks.
 - The total number of marks for this assessment is **100**.
 - Read every task carefully to make sure you understand what is required.
 - Where the date is relevant, it is given in the task data. Both minus signs and brackets can be used to indicate negative numbers **unless** task instructions state otherwise.
 - You must use a full stop to indicate a decimal point. For example, write 100.57 **not** 100,57 or 100 57. You may use a comma to indicate a number in the thousands, but you don't have to. For example, 10000 and 10,000 are both acceptable. You will need to double click to enter values into a gapfill or cell within a table.
 - Before attempting this practice assessment, please ensure that you have access to the AAT Tax Reference Material (Finance Act 2026). This can be downloaded from the AAT website and is available to view during your live AAT assessment.
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Task 1 (12 marks)

This task is about the UK tax system, ethical behaviour and types of income.

This task contains parts (a) to (d).

(a)(i) Identify which ONE of the following is least likely to be an objective of a tax system. (1 mark)

Raise revenue for the government.

☐

Redistribution of wealth in the economy.

☐

Discourage activities that create positive externalities.

☐

Influence consumer and business behaviour.

☐

(a)(ii) Identify TWO sources of UK tax law and guidance.

(2 marks)

Financial news reports.

☐

Acts of Parliament.

☐

Devolved legislation.

☐

Social media posts.

☐

Company policies.

☐

(b) Identify whether each of the following examples represents tax planning, tax avoidance or tax evasion. (3 marks)

Example	
A sole trader sets up a company primarily to reduce their National Insurance contributions.	
A sole trader earns £50,000 from their business but deliberately declares only £30,000 to HMRC, concealing the remaining £20,000 to reduce their Income Tax liability.	
A sole trader uses legitimate capital allowances available to them to reduce their taxable profits and, consequently, their Income Tax liability.	

Picklist: tax planning, tax avoidance, tax evasion.

(c) Identify for each of the following examples, the factor used to determine whether the individual is employed or self-employed. (3 marks)

Example	
A plumber is hired by a customer to repair a leaking pipe. The plumber is responsible for completing the agreed job, but the customer is not required to provide ongoing work, and the plumber is not required to accept any future work from the customer.	
An accountant works within a company's finance department. They use the company's systems, attend staff meetings, have a company email address and work alongside other employees as part of the organisation.	
A sales assistant works in a shop. Their employer decides when they work, where they work and how they should carry out their duties. The individual must follow the employer's instructions.	

Picklist: degree of control, mutual obligations, provision of equipment, ability to provide a substitute, level of integration.

A mechanic buys an old car for £2,000 with the intention of repairing it and selling it for a profit. He carries out significant repairs and improvements, including replacing the engine, repainting the bodywork and fitting new parts. He then advertises the car online and sells it for £5,600. The mechanic has carried out similar transactions several times during the year.

(d) Complete the following sentences.

(3 marks)

A valid conclusion is that a



Picklist: trade exists, trade does not exist.

The consequence of this conclusion is that any profits will be treated as



Picklist: trading income, a capital transaction.

Profits will be subject to



Picklist: Income Tax and NIC, Capital Gains Tax.

End of Task

Task 2 (12 marks)

This task is about the trading income of sole traders, partnerships and limited companies.

This task contains parts (a) to (e).

Joe is a sole trader preparing his year-end accounts on the cash basis for the tax year 2026/27. He has included the following expenditure in his accounts:

- £28,000 for a brand-new electric vehicle used by Joe exclusively for business purposes.
- £5,500 for computer equipment used by Joe's employees for business purposes.
- £500 for a Christmas dinner provided for his employees.
- £1,200 for entertaining clients, customers and suppliers.
- £60 for a parking fine. Joe's employee was delivering goods to a customer in a business van, they parked illegally and received a £60 parking penalty in their own name. Joe decided to pay the £60 for the employee.
- £7,500 in lease payments for vans used by Joe's employees.

(a) Identify if the following statements are true or false.

(3 marks)

Statement	TRUE	FALSE
When adjusting accounting profit for tax purposes, £1,200 should be added to the accounting profit.	☐	☐
The £60 parking fine is allowable if the parking notice is issued to an employee who is driving a business vehicle on business duties and the business was liable for the penalty.	☐	☐
If non-employee guests also attended the Christmas dinner provided for his employees, even if the event was a genuine staff function, the £500 would be generally disallowable.	☐	☐

Maryam is a sole trader with an accounting period running from 1 January 2026 to 31 December 2026. Maryam prepares her accounts using the accruals basis. At 1 January 2026, the main pool balance for capital allowances was £24,000.

During the year, Maryam purchased:

- Second hand computer equipment costing £8,000.
- Second hand machinery costing £12,000.
- Both assets qualify for the main pool.

Maryam has already fully utilised her Annual Investment Allowance (AIA) for the year. Therefore, the AIA is not available for these purchases. All of the assets were used wholly for business purposes, with no private use.

(b) Calculate the main pool writing-down allowance for the year ended 31 December 2026. (2 marks)

£

Note: The main pool writing-down allowance should be calculated using monthly apportionment. The applicable rate is 18% up to 5 April 2026 and 14% from 6 April 2026 onwards.

Gary is a VAT-registered sole trader. On 6 April 2026, he purchased a new car for £36,000, including £6,000 VAT. Gary uses the car 70% for business purposes and 30% for private use.

(c) The amount qualifying for capital allowances would be. Round your answer to the nearest 2 decimal places. (1 mark)

£

Company X has prepared accounts for the nine-month period ended 31 March 2027. During the period, the company incurred expenditure on several non-current assets and wishes to maximise the capital allowances available in respect of these investments. There was no opening balance on the main pool or special rate pool at the start of the accounting period.

- 1 July 2026: New plant and machinery purchased for £800,000.
- 14 August 2026: Second-hand fully electric car purchased for £9,000. The car is used 30% privately by an employee.
- 1 December 2026: New car purchased for £28,000, with CO₂ emissions of 48 g/km. The car is used 20% privately by an employee.
- 22 February 2027: New car purchased for £39,000, with CO₂ emissions of 162 g/km. The car has no private use.

(d)(i) Calculate the maximum capital allowances available under the Annual Investment Allowance (AIA) for the nine-month accounting period ended 31 March 2027. (1 mark)

£

(d)(ii) Calculate the capital allowances available under the main pool for the nine-month accounting period ended 31 March 2027. (2 marks)

£

(d)(iii) Calculate the capital allowances available under the special rate pool for the nine-month accounting period ended 31 March 2027. (1 mark)

£

Company Y incurred £412,700 on the construction of offices and a factory. Construction commenced on 1 August 2025 and was completed on 30 June 2026. The offices and factory were brought into qualifying use on 1 December 2026. Company Y prepares accounts for the year ended 31 March 2027 and wishes to maximise the capital allowances available in respect of this investment.

Expenditure	£
Purchase of land	120,000
Planning permission costs	5,700
Construction costs for offices and factory	232,000
Professional fees relating to construction	4,000
Site preparation costs	19,000
Construction of a car park	14,000
Financing costs	18,000
	412,700

(e)(i) Calculate the qualifying expenditure for Structures and Buildings Allowance (SBA). (1 mark)

£

(e)(ii) Calculate the capital allowances available on structures and buildings for the year ended 31 March 2027. (1 mark)

£

End of Task

Task 3 (14 marks)

This task is about income and National Insurance contributions from employment.

This task contains parts (a) to (h).

Maryam is a Sales Director of a company with a 31 March year-end. During the tax year 2026/27, she receives the following:

- Salary: £4,000 per month, paid on the 25th of each month.
- Bonus 1: £10,000 credited to the company's accounting records on 31 March 2027 and paid on 10 April 2027.
- Bonus 2: £15,000, which had not been determined by 31 March 2027. It was determined on 30 April 2027 and paid on 10 May 2027.
- Bonus 3: £8,000, to which Maryam became entitled on 20 March 2027. It was paid on 20 April 2027.

(a) Calculate Maryam's employment income assessable for 2026/27. (2 marks)

£

(b) Calculate the taxable benefit-in-kind (BIK) for each of the following beneficial loans. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (3 marks)

Beneficial loans:	£
A company provided a director with an interest-free loan of £5,000 on 6 July 2026.	
On 6 April 2026, an employee had a low-interest loan outstanding of £15,000. The employee repaid £2,000 on 6 January 2027 and paid £275 in interest. The employee has chosen to use the average method.	
On 6 April 2026, an employee had a low-interest loan outstanding of £20,000. The employee repaid the entire loan on 6 January 2027 and paid £225 in interest. The employee has chosen to use the strict method.	

The official rate of interest is 3.75%.

- An employee was provided with a new petrol-engine company car on 6 September 2026.
- The car had a list price of £55,000 and CO₂ emissions of 178 g/km.
- The employer paid for all petrol used in the car, with no reimbursement from the employee.
- The employee contributed £200 per month towards the private usage of the car. These payments were made to the employer on the 25th of each month.

Calculate the car and fuel taxable benefits for the employee for 2026/27. Enter your answers to the nearest whole pound. If your answer is zero, enter '0'.

(c)(i) Taxable car benefit. (2 marks)

£

(c)(ii) Taxable fuel benefit. (1 mark)

£

(d) Identify if the following statements are true or false. (2 marks)

Statement	TRUE	FALSE
An employer provides free eye tests to employees who use display screen equipment (DSE). This would be an exempt benefit-in-kind.	☐	☐
An employee drives 2,000 business miles in their own car and receives 60p per mile from their employer. The reimbursement of qualifying business mileage would be an exempt benefit-in-kind.	☐	☐

An employer has offered an employee a choice between receiving a £50 gift voucher, which can be used to purchase goods from specified retailers, or a £50 cash voucher. The cost to the employer is £50 in either case.

(e) Complete the following sentence. (1 mark)

The  would minimise the employee's overall Income Tax and NIC liability.

Picklist: cash voucher, gift voucher.

An employee earns an annual salary of £40,000 and has no other benefits. Their employer has offered the employee a choice between receiving a £5,000 salary increase or being provided with a company car with a taxable benefit of £5,000.

(f) Complete the following sentence. (1 mark)

The  would minimise the employee's overall Income Tax and NIC liability.

Picklist: company car, pay rise.

Company A has one employee, who is also the sole director. During the 2026/27 tax year, the director was paid a salary of £50,000.

(g) Complete the following sentence. (1 mark)

Company A is  to claim the Employment Allowance.

Picklist: eligible, not eligible.

An employee was provided with the following taxable benefits for the tax year:

- Company car £10,800
- Company car fuel benefit £4,500
- Private medical insurance £1,500

(h) Calculate the Class 1A NIC liability for the employer. (1 mark)

£

End of Task

Task 4 (8 marks)

This task is about income from property, allocating partnership profits and Class 4 National Insurance.

This task contains parts (a) to (c).

Brian lives in a two-bedroom apartment and rents out one of the bedrooms to a friend for £8,000 per year. Brian has allowable property expenses of £2,600 per year relating to the rented room. He wishes to claim Rent-a-Room Relief and wants to choose the method that will minimise his tax liability.

(a)(i) Calculate Brian's taxable income from property under the Rent-a-Room Relief Scheme. (1 mark)

£

(a)(ii) Identify if the following statement is true or false. (1 mark)

	TRUE	FALSE
The accruals basis may be used to calculate property income if a landlord chooses to elect for this method.	☐	☐

Karen rents out a property to a tenant. During the year, the washing machine broke down, and Karen paid £450 to replace it. An equivalent washing machine would have cost £300.

(a)(iii) Identify the allowable deduction from Karen's property income for the replacement washing machine. (1 mark)

£0 ☐

£150 ☐

£300 ☐

£450 ☐

Anne and Barry trade as a partnership. The accounts for the year ended 5 April 2027 show an adjusted accounting profit for tax purposes of £68,200.

The partnership agreement includes:

- Anne receives a monthly salary of £500.
- Anne receives £4,000 per annum in interest on capital, while Barry receives £8,000 per annum.
- Any remaining profits are shared between Anne and Barry in a 3:2 profit-sharing ratio.

(b)(i) Calculate the total profit allocated to each partner for the year ended 5 April 2027. (2 marks)

Anne £

Barry £

Anne would like to admit her husband, Tom, into the partnership. Tom would not be entitled to a salary or interest on capital. Anne would continue to receive her salary, while both Anne and Barry would continue to receive interest on capital. Any remaining profits would be shared between Anne, Barry, and Tom in a 3:2:1 profit-sharing ratio.

(b)(ii) Using the adjusted accounting profit for tax purposes of £68,200 for the year ended 5 April 2027, identify which ONE of the following statements is correct. (1 mark)

Anne's total profit allocation would decrease by £3,347. ☐

Barry's total profit allocation would decrease by £5,020. ☐

Tom's total profit allocation would increase by £8,367. ☐

(c)(i) Calculate Toms's Class 4 National Insurance contributions (NICs) for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Alison is a self-employed web designer operating as a sole trader. Her tax-adjusted trading profits for the tax year ended 5 April 2027 were £80,000.

(c)(ii) Calculate Alison's Class 4 National Insurance contributions (NICs) for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

End of Task

Task 5 (14 marks)

This task is about the calculation of Income Tax.

This task contains parts (a) to (f).

(a) Identify which ONE of the following types of income is NOT exempt from Income Tax purposes. (1 mark)

Interest on National Savings Certificates. ☐

Interest earned from a Cash ISA. ☐

Premium Bond winnings. ☐

Building Society interest. ☐

Bruce is a self-employed sole trader. His tax-adjusted trading profits are:

- Year ended 31 July 2026: £55,000
- Year ended 31 July 2027: £59,000

Bruce also received interest from a bank savings account on the following dates:

- 30 June 2026: £350
- 31 December 2026: £450
- 30 June 2027: £375

(b)(i) Calculate Bruce's total income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Bethany receives an annual salary from her employer. Her salary was £40,000 per year until 31 December 2026, when it increased to £45,000 per year with effect from 1 January 2027. Bethany also receives £5,200 during the tax year from a tenant who rents a bedroom in the house in which she lives.

(b)(ii) Calculate Bethany's total income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

James and his wife, Sarah, are married and live together. They hold a joint savings account, which generated £2,400 of bank interest during the tax year 2026/27. Sarah also owns shares in her family's company. During the tax year 2026/27, she received £6,000 in dividends from these shares. Both James and Sarah receive £12,500 per year in State Pension.

(b)(iii) Calculate Sarah's total income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Tom makes a £5,000 payment into his personal pension scheme during the tax year 2026/27. His total income for the tax year is £30,800.

(c)(i) Calculate the gross pension contribution made by Tom during the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

(c)(ii) Calculate Tom's adjusted net income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Fred has total income of £113,550.

(d)(i) Calculate Fred's personal allowance for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Sam and Alex are in a civil partnership and are both under State Pension age.

For the 2026/27 tax year:

- Sam earns £10,000 and has no other taxable income, so he has no Income Tax liability.
- Alex earns £30,000 from employment and is a basic-rate taxpayer.
- Sam makes an election to claim Marriage Allowance for the tax year.

(d)(ii) Calculate Alex's taxable income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Peter earned employment income of £13,500 during the 2026/27 tax year.

He also received the following interest during the tax year:

- £3,000 interest from a government bond.
- £9,400 interest from a Cash ISA.
- £6,700 interest from a bank deposit account.

Peter lives in England.

(e)(i) Calculate Peter's Income Tax liability for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'.

(2 marks)

£

Reuben is a self-employed sole trader working as a subcontractor in the construction industry. Reuben lives in England.

For the tax year 2026/27:

- Reuben's tax adjusted trading profit for the year ended 5 April 2027 was £66,000.
- £13,200 of CIS deductions were taken at source from his payments.
- Reuben made £6,000 of contributions to his personal pension scheme.
- He received £800 of dividends from shares held in a company.
- He received £12,000 of property income from renting out his former home, where he no longer lives.

(e)(ii) Calculate Reuben's Income Tax payable for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

£

Robert lives and works in Scotland. For the tax year 2026/27, he received £45,000 of employment income. His employer deducted £6,432 in Income Tax through PAYE. Robert had no other income during the tax year.

(f) Calculate Robert's Income Tax payable for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'.

(2 marks)

£

End of Task

Task 6 (10 marks)

This task is about Capital Gains Tax.

This task contains parts (a) to (d).

(a)(i) Identify which ONE of the following disposals is chargeable to Capital Gains Tax. (1 mark)

Sale of a car.	☐
Sale of a racehorse.	☐
Sale of shares held in an ISA.	☐
Sale of a diamond ring.	☐

(a)(ii) Calculate Katherine's chargeable gain or allowable loss for the 2026/27 tax year for each of the assets sold below. Enter your answer to the nearest whole pound and enter all answers as positive amounts. If the answer is zero, enter '0'. (2 marks)

Sale of assets	Amount of gain or loss (£)
Katherine sells an antique vase on 1 September 2026 for £7,500. She originally bought the vase for £3,500 nine years ago.	
Katherine sells an antique painting on 30 October 2026 for £4,000. She originally bought the painting for £10,000 two years ago.	

Joe is a higher-rate taxpayer and is considering selling an antique vase for £20,000. He originally purchased the vase for £7,000 approximately nine years ago. Joe is married to Sally, who is a basic-rate taxpayer.

(a)(iii) Identify which ONE of the following actions would be appropriate, to minimise Joe and Sally's joint tax liability. (1 mark)

Joe should transfer the antique vase to Sally.	☐
Sally should transfer her Capital Gains Tax (CGT) Annual Exempt Amount (AEA) to Joe.	☐
Joe should transfer his Marriage Allowance to Sally.	☐

Sarah sells a painting on 1 September 2026 to her sister for £45,000. The painting has a market value of £60,000 at the date of sale. Sarah deliberately sold the painting for less than its market value to help her sister. Sarah originally bought the painting for £25,000 and paid £1,000 in legal and valuation costs when she acquired it. She subsequently spent £6,000 on a permanent improvement to the painting, which increased its value and is reflected in the painting at the date of disposal. Sarah also paid an estate agent's fee of £2,000 and £500 in advertising costs when selling the painting.

(b) Calculate Sarah's chargeable gain arising from the sale of the painting for the 2026/27 tax year. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

£

Richard has capital gains of £55,000 and capital losses of £13,000 for the 2026/27 tax year. He also has unused capital losses of £48,000 brought forward from the 2024/25 tax year. Richard wants to use his capital losses in the most tax-efficient manner.

(c)(i) Calculate Richard's taxable gain for the 2026/27 tax year. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

(c)(ii) Calculate any unused capital losses to be carried forward to the 2027/28 tax year. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£

Robert has taxable income of £20,000 and taxable gains of £50,000 from the sale of a residential property in the 2026/27 tax year.

(d) Calculate Robert's Capital Gains Tax payable for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

	£
Basic-rate tax	
Higher-rate tax	
Capital Gains Tax payable	autosum

End of Task

Task 7 (8 marks)

This task is about tax computations for companies.

This task contains parts (a) to (c).

Company X has prepared financial accounts covering a 15-month accounting period ending on 30 June 2026.

Details:

- Adjusted trading profit before capital allowances: £288,000.
- Interest income: £18,000, including £3,500 of accrued interest.
- Property income: £60,000.
- Chargeable gain: £200,000 arising from the disposal of an office building on 1 May 2026.
- Qualifying charitable donations (QCDs): £5,000 paid on 1 June 2025 and a further £5,000 paid on 1 June 2026.

(a) Complete the workings table below to calculate taxable total profits (TTP) for the 15-month accounting period ended 30 June 2026. Enter all amounts to the nearest whole pound. Do not enter negative figures. Where there is no amount, enter '0'. (6 marks)

	12 month period 1 April 2025 to 31 March 2026	3 month period 1 April 2026 to 30 June 2026
Adjusted trading profit before capital allowances		
Capital allowances	41,000	28,000
Tax-adjusted trading profit	autosum	autosum
Interest income		
Property income		
Chargeable gains		
Qualifying charitable donations (QCDs)		
Taxable total profits (TTP)		

Company Y has taxable total profits of £118,000 for the year ended 31 March 2027. Company Y has two associated companies.

(b) Calculate the Corporation Tax payable by Company Y for the year ended 31 March 2027. Enter your answer to the nearest whole pound. (1 mark)

£

Company Z has taxable total profits of £50,000 for the six-month period ended 31 March 2027. Company Z has one associated company.

(c) Calculate the Corporation Tax payable by Company Z for the six-month period ended 31 March 2027. Enter your answer to the nearest whole pound. (1 mark)

£

End of Task

Task 8 (12 marks)

This task is about the administration of the UK tax system.

This task contains parts (a) to (f).

(a) Identify if the following statements are true or false.

(2 marks)

	TRUE	FALSE
For the 2026/27 tax year, the qualifying income threshold is more than £20,000. Individuals whose qualifying income exceeds this threshold will be required to use Making Tax Digital (MTD) for Income Tax from 6 April 2028.	☐	☐
Making Tax Digital requires self-employed individuals, not landlords, to keep their income and expense records digitally and use compatible software to report their information to HMRC.	☐	☐

An individual has the following Income Tax and Class 4 National Insurance Contributions (NIC) liabilities:

2025/26 tax year:

- Income Tax liability: £5,486
- Class 4 NIC liability: £2,194

2026/27 tax year:

- Income Tax liability: £2,994
- Class 4 NIC liability: £7,486

(b) Complete the following sentences.

(4 marks)

The amount due for the individual's first payment on account for the 2026/27 tax year is:

£

The deadline for this payment is .

The individual's balancing payment for the 2026/27 tax year is:

£

The deadline for this payment is .

Picklist: 31 January 2026, 31 July 2026, 31 January 2027, 31 July 2027, 31 January 2028, 31 July 2028.

Company A was incorporated and commenced trading on 31 March 2027.

(c) Identify the deadline by which Company A must notify HMRC that it is chargeable to Corporation Tax. (1 mark)

Picklist: 30 June 2026, 31 January 2027, 30 June 2027, 5 October 2027, 31 January 2028, 30 June 2028, 30 June 2032.

Company B made a trading loss for the accounting period ended 30 June 2026. The company wishes to make a claim to set this trading loss against its total profits of the current and previous accounting year.

(d) Identify the deadline by which Company B must make the loss relief claim. (1 mark)

Picklist: 30 June 2026, 31 January 2027, 30 June 2027, 5 October 2027, 31 January 2028, 30 June 2028, 30 June 2032.

Company C has taxable total profits of £550,000 and a Corporation Tax liability of £137,500 for the accounting period ended 30 April 2026. The company has no associated companies. Company C did not file its Corporation Tax Return or pay the Corporation Tax due until 5 June 2027. Assume that the official rate of interest is 3.75%.

(e) Calculate the interest and any penalties arising from the late payment and late filing of Company C's Corporation Tax. Round all answers to the nearest whole pound. Do not enter any negative figures. If your answer is nil, enter 0. (2 marks)

Penalty	£
Late payment	
Late filing	

(f) Identify whether the following statement are true or false.

(2 marks)

	TRUE	FALSE
A deliberate error means the taxpayer failed to take reasonable care when preparing their tax return or providing information to HMRC.	☐	☐
An prompted disclosure is when the taxpayer tells HMRC about the error before they have reason to believe that HMRC has discovered, or is about to discover the error.	☐	☐

End of Task

Task 9 (10 marks)

This task is about tax planning and trading losses.

This task contains parts (a) to (d).

(a) Identify TWO reasons why an individual may wish to undertake tax planning.
(2 marks)

To minimise the amount of tax that needs to be paid by any means necessary. ☐

To avoid being taxed at higher tax rates. ☐

To avoid the High Income Child Benefit Charge. ☐

To reduce the amount of employment income received. ☐

To maximise the amount of investment income earned. ☐

Sarah and James are a married couple who live together. Sarah earns £70,000 per year, while James earns £30,000 per year. They are considering making a £5,000 pension contribution.

(b)(i) Identify which ONE of the following actions would result in the greater tax saving.
(1 mark)

Sarah should make the £5,000 pension contribution. ☐

James should make the £5,000 pension contribution. ☐

Sarah and James should each contribute £2,500 to their pensions. ☐

Sarah purchased shares for £20,000 and subsequently transferred them to her husband, James, when the shares were worth £50,000. James later sold the shares on 26 March 2027 for £45,000.

(b)(ii) Identify which ONE of the following is correct.
(1 mark)

James will use a £20,000 cost if calculating any chargeable gain. ☐

Sarah will be treated as disposing of the shares for Capital Gains Tax purposes. ☐

The couple could have achieved a greater tax saving if the shares were split equally. ☐

Brian is the director and shareholder of Company A. Company A pays Corporation Tax at the small profits rate. Brian is a higher-rate taxpayer and has not received any dividends during the tax year. Brian is considering whether to receive a £10,000 dividend from the company or have a company car, which would give rise to a taxable benefit in kind of £10,000 in the first year. The company's running costs for the car and any available capital allowances are estimated to total £8,000 in the first year.

(c)(i) Calculate the Income Tax saving for Brian if he receives the £10,000 dividend instead of the company car. Round all answers to the nearest whole pound. Do not enter any negative figures. If your answer is nil, enter 0.

(1 mark)

£

(c)(ii) Calculate the Corporation Tax saving for Company A if it provides the company car instead of paying a dividend. Round all answers to the nearest whole pound. Do not enter any negative figures. If your answer is nil, enter 0.

(1 mark)

£

The following financial results relate to Company E:

	Year ended 31 March 2025	Year ended 31 March 2026	Year ended 31 March 2027
Trading income	55,000	67,000	32,000
Property Income/(Loss)	15,000	(18,000)	44,000
Capital Gain/(Loss)	16,000	(60,000)	9,000

(d)(i) Identify if the following statement is true or false.

(1 mark)

Statement	TRUE	FALSE
Either the £18,000 property business loss or the £60,000 capital loss can be offset against Company E's total profits for the year ended 31 March 2026.	☐	☐

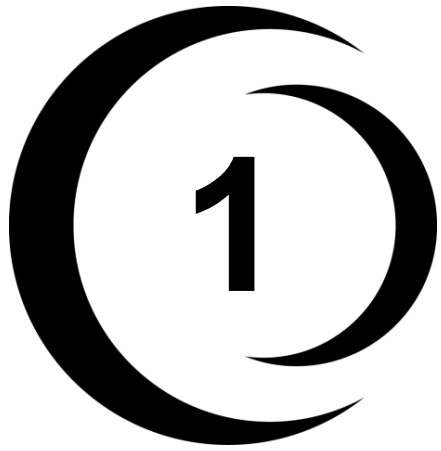
A sole trader has the following tax-adjusted trading profits/(losses) and other taxable income:

	2024/25	2025/26	2026/27
	£	£	£
Trading profit/(loss)	24,000	(150,000)	75,000
Dividends received	5,000	0	0
Property income	24,000	26,000	32,000

(d)(ii) Identify if the following statements are true or false. (3 marks)

Statement	TRUE	FALSE
The sole trader can choose to set off the trading loss against total income in 2024/25, in which case £53,000 of the loss will be used and the Personal Allowance will be wasted.	☐	☐
The sole trader can choose to set off the trading loss against total income in both 2024/25 and 2025/26, leaving £75,000 of the loss to be carried forward against trading profits in 2026/27.	☐	☐
To maximise the overall income tax saving, the sole trader should carry forward the trading loss to 2026/27.	☐	☐

End of Task



Mock Exam One - Solutions AAT Level 4 Principles of Taxation

Task 1 - Solutions (12 marks)

(a)(i) Identify which ONE of the following is least likely to be an objective of a tax system. (1 mark)

Raise revenue for the government.	☐
Redistribution of wealth in the economy.	☐
Discourage activities that create positive externalities.	☒
Influence consumer and business behaviour.	☐

- **Raise revenue for the government.** Taxes provide the government with money to fund public services such as healthcare, education and infrastructure.
- **Redistribution of wealth in the economy.** Taxation can help reduce income inequality by taking a greater proportion of income from those who can afford to pay more.
- **Discourage activities that create positive externalities.** This is not normally an objective of taxation. Positive externalities provide benefits to society, so governments generally aim to encourage activities such as education, vaccinations and public transport. In contrast, taxes can be used to discourage activities that create negative externalities, such as pollution, littering, smoking and traffic congestion.
- **Influence consumer and business behaviour.** Taxes can be used to encourage or discourage certain behaviours. For example, higher taxes on cigarettes may discourage smoking, while more generous capital allowances can encourage businesses to invest.

(a)(ii) Identify TWO sources of UK tax law and guidance. (2 marks)

Financial news reports.	☐
Acts of Parliament.	☒
Devolved legislation.	☒
Social media posts.	☐
Company policies.	☐

- **Financial news reports.** These may discuss tax changes but do not create tax law or official tax guidance.
- **Acts of Parliament.** Acts of Parliament are laws passed by Parliament and are a major source of UK tax legislation.
- **Devolved legislation.** Certain tax powers are devolved to Scotland and Wales, so devolved legislation can form part of UK tax law.
- **Social media posts.** Social media posts are not an official source of tax law or guidance, even if they discuss tax matters.
- **Company policies.** Company policies apply to an individual organisation and do not create UK tax law.

The main sources of UK tax law and guidance are:

- **Acts of Parliament.** Laws passed by Parliament that establish and change UK taxation.
- **Devolved legislation.** Certain tax powers are devolved to Scotland and Wales, allowing them to introduce specific tax legislation.
- **HMRC guidance.** Guidance issued by HMRC explaining how tax legislation is interpreted and applied in practice.
- **Case law.** Decisions made by courts in tax cases can help interpret tax legislation and establish legal principles.
- **UK tax treaties.** Agreements between the UK and other countries that determine how income or gains involving more than one country are taxed.

(b) Identify whether each of the following examples represents tax planning, tax avoidance or tax evasion. (3 marks)

Example	
A sole trader sets up a company primarily to reduce their National Insurance contributions.	tax avoidance
A sole trader earns £50,000 from their business but deliberately declares only £30,000 to HMRC, concealing the remaining £20,000 to reduce their Income Tax liability.	tax evasion
A sole trader uses legitimate capital allowances available to them to reduce their taxable profits and, consequently, their Income Tax liability.	tax planning

- **Tax avoidance.** A sole trader sets up a company primarily to reduce their National Insurance liability. This is tax avoidance, which involves arranging financial affairs to obtain a tax advantage, often by exploiting how the tax rules work, without deliberately providing false information or concealing income. If a sole trader sets up a company for a genuine commercial reason e.g. to bring in shareholders, protect personal assets, or expand the business, and the arrangement also happens to reduce NICs, that does not automatically make it tax avoidance.

- **Tax evasion.** A sole trader earns £50,000 from their business but deliberately declares only £30,000 to HMRC, concealing the remaining £20,000. This is tax evasion, which involves deliberately breaking the law, such as hiding income or providing false information, to reduce the amount of tax payable. The person has deliberately concealed income and provided false information to HMRC, which is illegal.
- **Tax planning.** A sole trader uses legitimate capital allowances to reduce their taxable profits and Income Tax liability. This is tax planning, which involves legally arranging your financial affairs and using available tax allowances, reliefs and exemptions as intended to minimise your tax liability. The person is using legal tax rules as intended to reduce their tax liability.

(c) Identify for each of the following examples, the factor used to determine whether the individual is employed or self-employed. (3 marks)

Example	
A plumber is hired by a customer to repair a leaking pipe. The plumber is responsible for completing the agreed job, but the customer is not required to provide ongoing work, and the plumber is not required to accept any future work from the customer.	mutual obligations
An accountant works within a company's finance department. They use the company's systems, attend staff meetings, have a company email address and work alongside other employees as part of the organisation.	level of integration
A sales assistant works in a shop. Their employer decides when they work, where they work and how they should carry out their duties. The individual must follow the employer's instructions.	degree of control

- **Plumber (mutual obligations).** This considers whether the employer is required to provide work and whether the individual is required to accept and perform the work. The plumber is hired to complete one specific job. The customer is not obliged to provide further work, and the plumber is not obliged to accept future work. This lack of an ongoing obligation between both parties indicates self-employment.
- **Accountant (level of integration).** This considers how much the individual is integrated into the organisation. The accountant is part of the company's organisation. They use the company's systems, attend staff meetings, have a company email address and work alongside other employees. This high level of integration indicates employment.

- **Sales assistant (degree of control).** This considers how, when and where the work is carried out. The employer controls when, where and how the sales assistant works. The employee must follow the employer's instructions, showing that the employer has a high degree of control. This indicates employment.

Factors used to determine employment status:

Factor	Employed	Self-employed
Degree of control	Employer decides when, where and how the work is carried out.	Individual has greater control over when, where and how the work is carried out.
Mutual obligations	Employer is generally required to provide work, and the employee is required to do the work.	Usually no ongoing obligation to provide or accept work beyond the agreed contract.
Provision of equipment	Equipment and materials are usually provided by the employer.	Individual usually provides their own equipment.
Degree of financial risk	Usually receives an agreed salary or wage and has limited financial risk.	May make a profit or loss and takes greater financial risk.
Ability to provide a substitute	Generally expected to do the work personally and cannot freely send someone else.	May have the right to provide a substitute to complete the work.
Level of integration	Usually integrated into the organisation, working alongside other employees and following company procedures.	Usually operates independently and is not integrated into the organisation.
Employment rights	Generally entitled to employment rights such as paid holiday and statutory sick pay, depending on their status.	Generally does not receive the same employment rights as an employee.

(d) Complete the following sentences.

(3 marks)

A valid conclusion is that a **trade exists**. The consequence of this conclusion is that any profits will be treated as **trading income**. Profits will be subject to **Income Tax and NIC**.

Applying the badges of trade:

- **Profit-seeking motive:** The mechanic bought the car intending to make a profit.
- **Number of transactions:** He has bought and sold several vehicles.
- **Nature of the asset:** Cars are assets that can commonly be bought and sold for profit.
- **Similar trading transactions or interests:** He regularly buys, repairs and sells vehicles.
- **Changes to the asset:** He significantly improved the car by repairing and upgrading it.
- **How the sale was carried out:** He advertised the car for sale and actively a buyer.

Taken together, the above factors strongly indicate that the mechanic is carrying on a trade. Therefore, profits are likely to be treated as trading income and subject to Income Tax and National Insurance, rather than simply being a private capital transaction. The badges of trade are factors used to help determine whether a transaction is a trade or a private investment (capital transaction). No single badge automatically proves that a trade exists. All the relevant factors should be considered together before reaching a conclusion.

Badge of trade	What to consider
Profit-seeking motive	Was the asset acquired with the intention of making a profit?
Number of transactions	Has the person carried out several similar transactions? Repeated buying and selling may indicate a trade.
Nature of the asset	Is the asset normally bought and sold for profit, or is it more likely to be held as an investment or for personal use?
Similar trading transactions or interests	Does the person already carry out similar trading activities or have an existing interest in the same type of business?
Changes to the asset	Has the asset been altered, repaired or improved before being sold to increase its value or make it more saleable?
Way the sale was carried out	Was the asset actively marketed or advertised in a way that suggests a trading activity?
Source of finance	How was the purchase financed? For example, borrowing money specifically to buy an asset for resale may indicate trading.
Interval between purchase and sale	How long was the asset held before being sold? A short period may suggest an intention to trade, although it is not conclusive.
Method of acquisition	How was the asset acquired? An asset acquired specifically for resale may indicate trading, whereas an asset received as a gift or inheritance may suggest otherwise.

Task 2 - Solutions (12 marks)

(a) Identify if the following statements are true or false.

(3 marks)

Statement	TRUE	FALSE
When adjusting accounting profit for tax purposes, £1,200 should be added to the accounting profit.	☒	☐
The £60 parking fine is allowable if the parking notice is issued to an employee who is driving a business vehicle on business duties and the business was liable for the penalty.	☐	☒
If non-employee guests also attended the Christmas dinner provided for his employees, even if the event was a genuine staff function, the £500 would be generally disallowable.	☐	☒

- **When adjusting accounting profit for tax purposes, £1,200 should be added to the accounting profit.** This statement is true (see explanations shown below). The £1,200 spent on entertaining clients, customers and suppliers is business entertaining and is disallowable. Therefore, it is added back.
- **The £60 parking fine is allowable if the parking notice is issued to an employee who is driving a business vehicle on business duties and the business was liable for the penalty.** This statement is false. If the business is liable for the penalty, the fine is disallowable. In Joe's actual facts, however, the employee was personally liable and Joe paid the fine, so the treatment was different.
- **If non-employee guests also attended the Christmas dinner provided for his employees, even if the event was a genuine staff function, the £500 would be generally disallowable.** This statement is false. A genuine staff Christmas dinner is generally an allowable business expense for a sole trader because it is staff entertaining incurred for the purposes of the business. If Joe spends £500 on a Christmas dinner for his employees and some employees bring their partners, the £500 is not automatically disallowed simply because the partners are not employees.

For a sole trader in 2026/27, Joe will be taxed on the profits arising during 6 April 2026 to 5 April 2027, even if his accounts are prepared to a different year-end.

- Under the cash basis, most capital expenditure on qualifying assets is generally claimed as an allowable expense when paid, rather than through normal capital allowances.
- The main exception is cars, where capital allowances are still claimed.
- Private use must be taken into account.
- The Annual Investment Allowance (AIA) is generally not relevant to expenditure already deducted under the cash basis.

Fully electric vehicle (£28,000 Allowable). Under the cash basis, business cars are the exception to the normal rule for capital expenditure. Capital allowances can be claimed on business cars. New and unused fully electric cars get 100% First-Year Allowances (FYA). This means 100% of the cost can be deducted from taxable profits in the year of purchase. Used (second-hand) electric cars do not qualify for the 100% FYA they generally go into the main-rate pool.

Computer equipment (£5,500 Allowable). Under the cash basis, the cost of most business equipment can be deducted as an expense. Joe has 100% business use, so the full £5,500 is allowable.

Staff entertainment (£500 Allowable). The Christmas dinner provided for employees is generally allowable as a staff entertaining expense for the sole trader.

Client entertaining (£1,200 Disallowable). Business entertaining of clients, customers and suppliers is not allowable for tax purposes.

Employee parking fine (£60 Allowable). The £60 parking fine is allowable to Joe because the employee, rather than the business, was personally liable for the fine. The employee was driving the business van while carrying out business duties, but the parking penalty was issued in the employee's own name. Joe then chose to pay the £60 on the employee's behalf. HMRC treats this payment as an employment-related cost for the employer. Therefore, Joe can deduct the £60 when calculating his taxable trading profit. However, the £60 payment is treated as a benefit or payment made to the employee and may therefore be taxable on the employee. If instead the business itself was legally liable for the parking fine, the £60 would normally be disallowable because fines and penalties imposed on the business are not deductible for tax purposes.

Lease payments for employee vans (£7,500 Allowable). The vans are being used in the business, and genuine lease payments are deductible as a rental expense. Under the cash basis, assets that are simply leased do not qualify for capital allowances; the lease payment itself is the relevant expense. Importantly, there is normally a 15% lease restriction that applies to cars (with CO₂ emissions above 50 g/km), but it does not apply to vans.

(b) Calculate the main pool writing-down allowance for the year ended 31 December 2026. (2 marks)

£6600.

For an accruals-basis sole trader, qualifying plant and machinery is normally dealt with through capital allowances such as AIA, writing-down allowances and first-year allowances. Please refer to the AAT tax reference materials for further information on capital allowances:

- The main pool writing-down allowance is 18% before 6 April 2026.
- The main pool writing-down allowance is 14% from 6 April 2026.
- The accounting period straddles 6 April 2026, so a hybrid rate must be calculated using monthly apportionment.

Step 1: Calculate the hybrid rate for the main pool.

- 1 Jan to 5 Apr = 3 months at 18%.
- 6 Apr to 31 Dec = 9 months at 14%.
- Total = 12 months.
- Calculation = $(18\% \times 3/12) + (14\% \times 9/12) = 4.5\% + 10.5\% = 15\%$.
- A 15% hybrid rate would apply to the main pool.

Step 2: Calculate the main pool balance

- Opening pool: £24,000.
- Additions: £8,000 + £12,000 = £20,000.
- Total main pool: $(£24,000 + £20,000) = £44,000$.

Step 3: Calculate WDA for the main pool

- $£44,000 \times 15\% = £6,600$.

The closing tax written-down value would be $£44,000 - £6,600 = £37,400$.

The AIA and 40% FYA is available to sole traders, partnerships and companies. If Maryam has no AIA available, she could potentially claim the 40% FYA on the computer equipment and machinery, provided they were new and unused main-rate plant and machinery purchased after 1 January 2026. However, both assets were purchased second-hand, so the new 40% FYA does not apply.

(c) The amount qualifying for capital allowances would be. Round your answer to the nearest 2 decimal places. (1 mark)

£25200.00.

- The amount qualifying for capital allowances is: $£36,000 \times 70\% = £25,200$. As the VAT on the purchase of a car is generally blocked where there is private use, the full gross cost of £36,000 is used before applying the business-use percentage.
- If the VAT were fully recoverable, the business could reclaim the £6,000 input VAT on its VAT Return. In which case, the amount qualifying for capital allowances would be based on the net cost: $£30,000 \times 70\% = £21,000$.
- The new 40% First-Year Allowance (FYA) does not apply to cars.
- AIA is not available on cars, regardless of whether the car is new, second-hand, electric, or has low CO₂ emissions. HMRC explicitly excludes cars from AIA.

(d)(i) Calculate the maximum capital allowances available under the Annual Investment Allowance (AIA) for the nine-month accounting period ended 31 March 2027. (1 mark)

£750000.

- Please refer to the AAT tax reference materials for further information on capital allowances.
- The AIA limit is £1,000,000 for a 12-month period.
- As Company X has a 9-month accounting period, the maximum AIA is: $£1,000,000 \times 9/12 = £750,000$.
- Cars do not qualify for the Annual Investment Allowance (AIA). HMRC specifically excludes business cars from AIA.
- The £800,000 plant and machinery qualifies for AIA.
- Therefore, although the qualifying expenditure is £800,000, the maximum AIA claim is £750,000.
- The remaining £50,000 of the plant and machinery expenditure would be allocated to the main pool and qualify for a 14% writing-down allowance (WDA).

(d)(ii) Calculate the capital allowances available under the main pool for the nine-month accounting period ended 31 March 2027. (2 marks)

£3885.

The main pool WDA rate is 14% for periods beginning on or after 1 April 2026. As the accounting period began on 1 July 2026, the 14% rate applies throughout the nine-month period, so no hybrid rate is required.

Private use by employees

- For Company X, where company-owned assets are provided to employees and are used partly for private purposes, the employee's private use does not normally restrict the company's capital allowances. HMRC accepts that expenditure on assets provided to directors or employees as part of their remuneration package can qualify for capital allowances.
- For a sole trader or partnership, where an asset is used privately by the owner or partner, capital allowances are generally restricted to the proportion relating to business use. However, private use by an employee does not, in itself, restrict the business's capital allowances. The key distinction is whether the private use is by the owner/partner or by an employee.

Plant and machinery purchased for £800,000

- The plant and machinery costs £800,000. Company X can claim AIA of £750,000 for the nine-month period, leaving £50,000 that could be fully expensed. Full expensing provides 100% relief to companies on qualifying main-rate plant and machinery purchases (excluding cars). Sole traders and partnerships are not eligible to claim it. Company X could therefore use the £750,000 AIA and fully expense the remaining £50,000, or alternatively choose not to use the AIA and fully expense the entire £800,000. The company has flexibility to choose between these options.
- The company could potentially claim the 40% FYA on new and unused main-rate plant and machinery purchased after 1 January 2026. However, AIA and the 40% FYA cannot be claimed on the same expenditure. Therefore, AIA or full expensing would be the most beneficial options for maximising the capital allowances available.

Second-hand electric car purchased for £9,000

- It is electric, but it is second-hand. The 100% FYA is only available for new and unused electric cars.
- As its emissions are 50 g/km or less, it qualifies for the main rate of capital allowances (14%), rather than the 100% first-year allowance. Cars do not qualify for AIA or the 40% FYA for plant and machinery.
- The 30% private use by an employee does not restrict Company X's capital allowances; a company providing a car to an employee can generally claim capital allowances on the full cost.

- Therefore, £9,000 is included in the main pool. The WDA is reduced to reflect the nine-month accounting period. $£9,000 \times 14\% \times 9/12 = £945$.

New car purchased for £28,000, with CO₂ emissions of 48 g/km

- It is a new car, but it is not electric/zero-emission.
- As its emissions are 50 g/km or less, it qualifies for the main rate of capital allowances (14%), rather than the 100% first-year allowance. The 100% FYA is available for new electric cars or cars with zero CO₂ emissions.
- Cars do not qualify for AIA or the 40% FYA for plant and machinery.
- The 20% private use by the employee does not restrict Company X's capital allowances. A company providing a car to an employee can claim capital allowances on the full cost.
- Therefore, the £28,000 goes into the main pool and is subject to the 14% WDA rate for expenditure after 1 April 2026. The WDA is reduced to reflect the nine-month accounting period. $£28,000 \times 14\% \times 9/12 = £2,940$.
- This car is treated differently from the second-hand electric car: both go into the main pool, but the reason is different, the second-hand electric car gets main-rate treatment because it is second-hand, while the £28,000 car gets main-rate treatment because its emissions are 48 g/km.

New car purchased for £39,000, with CO₂ emissions of 162 g/km

- As the car has CO₂ emissions of over 50 g/km, it qualifies for the special rate pool rather than the main pool. Cars do not qualify for AIA or the 40% FYA for plant and machinery.

Summary of the main pool for the nine-month accounting period:

Second-hand electric car purchased for £9,000

- $£9,000 \times 14\% \times 9/12 = £945$.

New car purchased for £28,000, with CO₂ emissions of 48 g/km

- $£28,000 \times 14\% \times 9/12 = £2,940$.

Total allowances claimed under the main pool

- $£945 + £2,940 = £3,885$.

It would be usual practice to include all additions to the main pool before calculating the writing-down allowance (WDA). This also provides a quicker calculation:

- Total additions: $£9,000 + £28,000 = £37,000$.
- $£37,000 \times 14\% \times 9/12 = £3,885$.

(d)(iii) Calculate the capital allowances available under the special rate pool for the nine-month accounting period ended 31 March 2027. (1 mark)

£1755.

New car purchased for £39,000, with CO₂ emissions of 162 g/km

- Cars do not qualify for AIA or the 40% FYA for plant and machinery.
- Goes into the special rate pool, not the main pool (CO₂ emissions over 50 g/km).
- The special rate WDA is 6%. The WDA is reduced to reflect the nine-month accounting period.
- The fact that there is no private use does not change the pool classification.
- $£39,000 \times 6\% \times 9/12 = £1,755$.

(e)(i) Calculate the qualifying expenditure for Structures and Buildings Allowance (SBA). (1 mark)

£269000.

Expenditure	£
Construction costs for offices and factory	232,000
Professional fees relating to construction	4,000
Site preparation costs	19,000
Construction of a car park	14,000
	269,000

The purchase of land (£120,000), planning permission costs (£5,700) and financing costs (£18,000) do not qualify for Structures and Buildings Allowance (SBA).

Qualifying expenditure: SBA generally applies to the costs of constructing, converting or renovating qualifying non-residential buildings and structures. This can include construction costs, structural works, site preparation, qualifying roads and hard surfaces, car parks, and professional fees directly related to the construction or development of the building. The expenditure must relate to the qualifying structure itself and meet the relevant SBA conditions.

Non-qualifying expenditure: SBA generally does not apply to the purchase or cost of land, including related costs such as stamp duty and legal fees, planning permission costs, financing or borrowing costs, or expenditure on plant and machinery. These costs may either be excluded from capital allowances or qualify under a different capital allowance regime. Residential buildings are also generally excluded from SBA, although specific rules and exceptions may apply depending on the type and use of the property.

(e)(ii) Calculate the capital allowances available on structures and buildings for the year ended 31 March 2027. (1 mark)

£2690.

- The qualifying SBA expenditure is £269,000.
- The building was brought into qualifying use on 1 December 2026, so the SBA is available from that date. The annual SBA rate is 3%, and the first-year allowance is time-apportioned because the building was only in qualifying use for part of the accounting period.
- The relevant period is 1 December 2026 to 31 March 2027 = 4 months. The fact that construction was completed on 30 June 2026 does not start the SBA claim; the allowance starts when the building is brought into qualifying use. Qualifying use means that the building or structure is actually being used for a qualifying business purpose that allows the Structures and Buildings Allowance (SBA) to be claimed.
- Calculation: $£269,000 \times 3\% \times 4/12 = £2,690$.

Task 3 - Solutions (14 marks)

(a) Calculate Maryam's employment income assessable for 2026/27. (2 marks)

£**66000**.

Salary

- Maryam receives £4,000 per month.
- During 2026/27, there are 12 monthly payments: $£4,000 \times 12 = £48,000$.

Bonus 1

- Credited to company records: 31 March 2027.
- Paid: 10 April 2027.

Because Maryam is a director, crediting the amount to the company's accounting records can trigger receipt. Therefore Bonus 1 is assessable in 2026/27.

Bonus 2

- Not determined by 31 March 2027.
- Determined: 30 April 2027.
- Paid: 10 May 2027.

Because the bonus was not determined by the end of the accounting period, it is treated as received when it was determined, which was on 30 April 2027. The 30 April 2027 falls in 2027/28 (£nil assessable in 2026/27).

Bonus 3

- Maryam becomes entitled: 20 March 2027
- Paid: 20 April 2027

The earlier date is 20 March 2027, when she became entitled to the bonus. Therefore bonus 3 is assessable in 2026/27.

Summary of employment income (2026/27):

- Salary: £48,000
- Bonus 1: £10,000
- Bonus 2: £nil
- Bonus 3: £8,000
- Total employment income: £66,000

Employees

For most employees, money earnings are taxed in the tax year in which they are received.

The receipt date is the earlier of:

- Date payment is made, or
- Date the employee becomes entitled to the payment.

Directors

Directors have an additional rule because their remuneration can sometimes be recorded in the company's accounts before it is physically paid.

For a director, earnings are treated as received at the earliest of the following dates:

- The payment is actually made.
- The director becomes entitled to the payment.
- The earnings are credited to the company's accounting records.
- The end of the relevant period, if the amount has been determined by that date. The "period" generally refers to the period for which the director's earnings are calculated, usually the company's accounting period.
- The date on which the amount is determined, if this occurs after the end of the relevant period.

(b) Calculate the taxable benefit-in-kind (BIK) for each of the following beneficial loans. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (3 marks)

Beneficial loans:	£
A company provided a director with an interest-free loan of £5,000 on 6 July 2026.	0
On 6 April 2026, an employee had a low-interest loan outstanding of £15,000. The employee repaid £2,000 on 6 January 2027 and paid £275 in interest. The employee has chosen to use the average method.	250
On 6 April 2026, an employee had a low-interest loan outstanding of £20,000. The employee repaid the entire loan on 6 January 2027 and paid £225 in interest. The employee has chosen to use the strict method.	197

A company provided a director with an interest-free loan of £5,000 on 6 July 2026. The loan is only £5,000, so it does not exceed the £10,000 small-loan exemption. The exemption applies to both employees and directors where the total beneficial loans do not exceed £10,000 throughout the tax year. Taxable BIK = £nil.

On 6 April 2026, an employee had a low-interest loan outstanding of £15,000. The employee repaid £2,000 on 6 January 2027 and paid £275 in interest. The employee has chosen to use the average method. Loan outstanding: 6 April 2026: £15,000 and 5 April 2027: £13,000 (after a £2,000 repayment on 6 January 2027). Average loan: $(£15,000 + £13,000) \div 2 = £14,000 \times 3.75\% = £525.00$. The employee paid £275 in interest, therefore the taxable benefit-in-kind (BIK) would be $£525 - £275 = £250$.

On 6 April 2026, an employee had a low-interest loan outstanding of £20,000. The employee repaid the entire loan on 6 January 2027 and paid £225 in interest. The employee has chosen to use the strict method. Loan outstanding: 6 April 2026: £20,000 and 6 January 2027: £nil (after full repayment). Average loan: $(£20,000 \times 9/12) + (£nil \times 3/12) = £15,000$. As the loan was outstanding for only 9 months of the tax year, the HMRC official annual interest rate of 3.75% is time-apportioned: $£15,000 \times 3.75\% \times 9/12 = £421.875$. The employee paid £225 in interest, therefore the taxable benefit-in-kind (BIK) would be $£421.875 - £225.00 = £196.875$ (rounded to £197). Always round the final answer (never your workings).

Beneficial loan rules

A beneficial loan arises where an employer provides an employee or director with a cheap or interest-free loan because of their employment. The HMRC official rate for 2026/27 is 3.75%. The rate is included in your AAT tax reference materials. HMRC can change the official rate during the tax year. Generally there is no taxable benefit-in-kind (BIK) if the total outstanding beneficial loan never exceeds £10,000 at any point in the tax year, this applies to both employees and directors.

If the total outstanding beneficial loan exceeds £10,000 at any point in the tax year, a benefit in kind normally arises, in particular if the loan was either low interest or zero interest (less than 3.75%). The amount of the loan if the same throughout the tax year, makes the calculation of any benefit in kind much easier. If this is not the case, the amount needs to be determined before the consideration of the official rate of interest.

Average method:

This is the simpler method and is normally used. You calculate the average loan balance as: $(\text{Opening balance} + \text{Closing balance}) \div 2$. Taxable BIK = $(\text{Average loan} \times \text{HMRC official rate}) - \text{interest actually paid}$.

Strict (precise) method:

The strict method calculates the interest based on the actual loan balance for each day during the tax year. This is useful when the loan balance changes significantly during the year. Instead of simply taking the opening and closing balances, you calculate the interest attributable to each period using the appropriate number of days. **Exam note:** for your AAT exam the loan values would time apportioned in months (not days). Taxable BIK = $(\text{Average loan} \times \text{HMRC official rate}) - \text{interest actually paid}$. The taxpayer can use whichever method gives them the lowest taxable benefit.

Calculate the car and fuel taxable benefits for the employee for 2026/27. Enter your answers to the nearest whole pound. If your answer is zero, enter '0'.

(c)(i) Taxable car benefit.

(2 marks)

£10471.

(c)(ii) Taxable fuel benefit.

(1 mark)

£6302.

Taxable car benefit:

A car BIK arises where a car is made available to the employee for private use. The basic calculation for a normal business car used privately by an employee: = (List price + taxable accessories – qualifying capital contribution) × appropriate percentage. Then there are further reductions for unavailability during the tax year (prorate in months) and payments (contributions) made by the employee for private use.

Please refer to your AAT tax reference material. For a standard petrol or diesel company car, HMRC determines the appropriate percentage based on the vehicle's official CO₂ emissions (g/km).

For the 2026/27 tax year, the maximum appropriate percentage under the normal company-car rules is 37%. Cars with CO₂ emissions of 160g/km or more are subject to the maximum rate of 37%. Therefore, for a petrol company car with CO₂ emissions of 178g/km, the relevant appropriate percentage is 37%.

Annual car benefit: List price of the car £55,000 × 37% = £20,350. However, the car was only available from 6 September 2026 to 5 April 2027, which is 7 months. Therefore: £20,350 × 7/12 = £11,871 (round to the nearest whole pound).

A reduction is available for payments towards the private use of the car, there are 7 payments during the 2026/27 tax year (25 September 2026 to 25 March 2027). Therefore, £200 × 7 months = £1,400 contributions made by the employee. Car taxable benefit = £11,871 – £1,400 = £10,471.

Taxable fuel benefit:

Because the employer provides all petrol without reimbursement, there is a separate taxable fuel benefit if the fuel is available for private use. For 2026/27, HMRC's car fuel benefit multiplier is £29,200. The same car benefit percentage is used to calculate the fuel benefit: £29,200 × 37% = £10,804 annual fuel benefit. Again, the fuel was available for only 7 months. £10,804 × 7/12 = £6,302 (round to the nearest whole pound).

If the employee reimburses the employer for the full cost of all private fuel, the fuel benefit can be nil (it is all or nothing). There is no taxable fuel benefit charge for a fully electric vehicle (HMRC states that electricity is not treated as fuel).

(d) Identify if the following statements are true or false.

(2 marks)

Statement	TRUE	FALSE
An employer provides free eye tests to employees who use display screen equipment (DSE). This would be an exempt benefit-in-kind.	☒	☐
An employee drives 2,000 business miles in their own car and receives 60p per mile from their employer. The reimbursement of qualifying business mileage would be an exempt benefit-in-kind.	☐	☒

Health screening (medical examinations)

Restrictions on exempt benefits are included in your AAT tax reference material. An employer can generally provide one health screening assessment per tax year without a benefit-in-kind charge. An eye test can also be tax-free where it is required under health and safety rules, for employees who use display screen equipment (DSE). The exemption is not simply limited to one eye test per year. So, if the employee needs two eye tests because of their DSE use, the employer can generally pay for both without creating a taxable benefit. If the second eye test is purely for personal reasons and is not required for DSE use, the position is different and it may be taxable.

Approved mileage allowance payments

Approved mileage allowance payments are included in your AAT tax reference material. These rates apply when an employee uses their own car or van for qualifying business journeys (rather than a company car). Rates per business mile for 2026/27 are 55 pence for the first 10,000 business miles in a tax year, then 25 pence for each subsequent mile. For National Insurance purposes (not income tax) the rate is 55 pence for all business miles.

If an employer pays more than the HMRC Approved Mileage Allowance Payment (AMAP) rate, the excess is generally taxable on the employee (and subject to Class 1 NIC). If an employee receives less than the HMRC Approved Mileage Allowance Payment (AMAP) rate, they may be able to claim Mileage Allowance Relief on the shortfall, reducing their taxable employment income for the tax year. Mileage Allowance Relief (MAR) only reduces the employee's taxable income for Income Tax purposes, it does not give the employee a reduction in Class 1 NIC.

AMAP rates:

- First 10,000 business miles: 55p per mile.
- Over 10,000 business miles: 25p per mile.

The employee drives 2,000 business miles in their own car and receives 60p per mile.

- HMRC approved amount: $2,000 \times 55p = £1,100$.
- Employer pays: $2,000 \times 60p = £1,200$.
- Taxable excess: £100.

The £1,100 approved amount is tax-free, while the £100 excess is generally subject to PAYE income tax and employee/employer NIC as applicable.

(e) Complete the following sentence.

(1 mark)

The **gift voucher** would minimise the employee's overall Income Tax and NIC liability.

A cash voucher is generally treated as taxable earnings and subject to Income Tax and NIC. A non-cash gift voucher may qualify for the trivial benefits exemption, provided all the conditions are met. Since the value is £50, it can potentially fall within the exemption. Please refer to your AAT tax reference material for information on employee exemptions.

A benefit can be tax-free as a trivial benefit if all of these conditions are met:

- It costs the employer £50 or less.
- It is not cash or a cash voucher.
- It is not a reward for the employee's work or performance.
- It is not provided as part of the employee's contractual terms.

If all four conditions are met, the benefit is generally exempt from Income Tax and NIC.

The £50 limit applies to the cost of the benefit to the employer, not its value to the employee. If the benefit costs more than £50, the whole benefit is taxable, rather than just the excess. There is generally no annual limit for ordinary employees, provided that each individual benefit meets all the conditions for the trivial benefits exemption. Therefore, multiple gifts can be provided during the tax year, and each gift will be exempt if it satisfies the qualifying conditions.

(f) Complete the following sentence.

(1 mark)

The **company car** would minimise the employee's overall Income Tax and NIC liability.

The £5,000 company car would generally minimise the employee's overall Income Tax and NIC liability. The company car would result in the same Income Tax liability as the pay rise, but the car benefit is not subject to Class 1 employee NIC.

(g) Complete the following sentence.

(1 mark)

Company A is **not eligible** to claim the Employment Allowance.

The Employment Allowance allows eligible employers to reduce the amount of employer (not employee) Class 1 National Insurance contributions (NICs) they pay to HMRC. The allowance for 2026/27 is £10,500 and is claimed through the employer's PAYE payroll.

Conditions for Employment Allowance:

- It has secondary (employer) Class 1 NIC liability arising from employees' earnings.
- The employer is not an excluded employer, such as a non-charitable public authority or an employer of domestic staff such as a nanny or chauffeur.
- A single-director limited company generally cannot claim if the director is the only employee paid above the secondary threshold. There are additional rules if the company has other employees.

In the case of Company A, the only employee earning above the secondary threshold for NIC is the sole director, so it cannot claim the Employment Allowance. However, if Company A employs another employee who is also paid above the secondary threshold for NIC, the company may be eligible to claim the Employment Allowance, assuming all other conditions are met.

(h) Calculate the Class 1A NIC liability for the employer.

(1 mark)

£2520.

For the 2026/27 tax year, the Class 1A NIC rate is 15%. Your AAT tax reference material includes the Class 1A NIC rate. Total taxable benefits were £16,800. Class 1A NIC: $£16,800 \times 15\% = £2,520$ for the employer. Class 1A NICs are National Insurance contributions paid by the employer (not employee) on certain employee benefits and expenses. For example, if an employee receives a company car that is subject to a benefit-in-kind charge, the employer will generally pay Class 1A NICs on the taxable benefit. A benefit reported on a P11D does not automatically mean that Class 1A NIC is payable; the NIC treatment must be considered for each individual benefit.

Task 4 - Solutions (8 marks)

(a)(i) Calculate Brian's taxable income from property under the Rent-a-Room Relief Scheme. (1 mark)

£500.

Brian lives in a two-bedroom apartment and rents one of his bedrooms to a friend for £8,000 per year. Since Brian is renting out a furnished room in his main residence, he can potentially use the Rent-a-Room Relief Scheme. For the 2026/27 tax year, the Rent-a-Room threshold is £7,500.

To calculate Brian's taxable property income under the Rent-a-Room Scheme, we compare his gross rental income of £8,000 with the £7,500 tax-free threshold. The amount above the threshold is taxable. Therefore, the calculation is $£8,000 - £7,500 = £500$. This means Brian has £500 of taxable property income under the Rent-a-Room method. Brian also has allowable property expenses of £2,600. However, when using the Rent-a-Room Scheme's simplified method, Brian does not deduct these expenses from his rental income. Instead, he receives the benefit of the £7,500 tax-free Rent-a-Room threshold.

Brian wants to minimise his tax liability, so we should compare the Rent-a-Room method with the normal property income method. Under the normal method, his taxable property income would be $£8,000 - £2,600 = £5,400$. Under Rent-a-Room relief, his taxable income is only £500.

If Brian's gross rental income was £7,500 or less, the entire amount would be covered by the Rent-a-Room Relief Scheme. Therefore, he would have £0 taxable property income, as the rental income would fall within the tax-free threshold.

(a)(ii) Identify if the following statement is true or false. (1 mark)

	TRUE	FALSE
The accruals basis may be used to calculate property income if a landlord chooses to elect for this method.	☒	☐

For income from property, the cash basis is the default method for calculating taxable property income. Under the cash basis, income is generally included in the tax calculation when the rent is actually received, while allowable expenses are included when they are actually paid. This makes the cash basis relatively simple and straightforward for landlords.

However, a landlord may choose to use the accruals basis instead. Under the accruals basis, income and expenses are recognised in the accounting period to which they relate, rather than when the money is actually received or paid. This can give a more accurate picture of the property's income and expenses for the relevant period. The accruals basis may be used if the landlord elects to use it, rather than using the default cash basis. Once the landlord chooses the accruals basis, the property income calculation is prepared using normal accounting principles, including recognising income and expenses when they become due.

(a)(iii) Identify the allowable deduction from Karen's property income for the replacement washing machine. (1 mark)

£0	☐
£150	☐
£300	☒
£450	☐

The cost of the original washing machine (or any other domestic items) is generally treated as capital expenditure and is not an allowable revenue expense, when first purchased for the property. However, when the item is replaced, the replacement cost may qualify for Replacement of Domestic Items Relief. The deduction is generally limited to the cost of an equivalent replacement. If the landlord chooses a more expensive item, the deduction is restricted to the cost of an equivalent item. For example, if Karen buys a washing machine for £450, but an equivalent machine costs £300, her allowable deduction is £300, not £450.

(b)(i) Calculate the total profit allocated to each partner for the year ended 5 April 2027. (2 marks)

Anne £**40120**.

Barry £**28080**.

Workings:

	Anne	Barry	Total
Salary (£500 per month x 12 months)	6,000	0	6,000
Interest on capital	4,000	8,000	12,000
Profit-sharing ratio (3:2)	30,120	20,080	50,200
Total profit allocated	40,120	28,080	68,200

- Remaining profit: £68,200 – £6,000 – £12,000 = £50,200.
- Profit-sharing ratio (3:2): Anne receives £50,200 × 3/5 = £30,120, while Barry receives £50,200 × 2/5 = £20,080.
- Important for tax: A partner's salary and interest on capital are generally treated as appropriations of partnership profit, rather than as normal business expenses.

(b)(ii) Using the adjusted accounting profit for tax purposes of £68,200 for the year ended 5 April 2027, identify which ONE of the following statements is correct. (1 mark)

Anne's total profit allocation would decrease by £3,347. ☐

Barry's total profit allocation would decrease by £5,020. ☐

Tom's total profit allocation would increase by £8,367. ☒

Workings:

Before:	Anne	Barry	Tom	Total
Salary (£500 per month x 12 months)	6,000	0	0	6,000
Interest on capital	4,000	8,000	0	12,000
Profit-sharing ratio (3:2)	30,120	20,080	0	50,200
Total profit allocated	40,120	28,080	0	68,200

After:	Anne	Barry	Tom	Total
Salary (£500 per month x 12 months)	6,000	0	0	6,000
Interest on capital	4,000	8,000	0	12,000
Profit-sharing ratio (3:2:1)	25,100	16,733	8,367	50,200
Total profit allocated	35,100	24,733	8,367	68,200

Change in total profit allocated	-5,020	-3,347	8,367	
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Under the new agreement, the £50,200 remaining profit is shared between Anne, Barry, and Tom in a 3:2:1 profit-sharing ratio. Anne receives $£50,200 \times \frac{3}{6} = £25,100$, Barry receives $£50,200 \times \frac{2}{6} = £16,733$, and Tom receives $£50,200 \times \frac{1}{6} = £8,367$.

(c)(i) Calculate Toms's Class 4 National Insurance contributions (NICs) for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£0.

Please see your AAT tax reference material for NIC rates. For the 2026/27 tax year, if the partner's profit share is £8,367, there is no Class 4 NIC liability because Class 4 NIC is only payable on profits above £12,570.

(c)(ii) Calculate Alison's Class 4 National Insurance contributions (NICs) for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£2857.

Please see your AAT tax reference material for NIC rates. For 2026/27, Alison's tax-adjusted trading profits are £80,000. Class 4 NIC is calculated at 6% on profits between £12,570 and £50,270, and 2% on profits above £50,270.

Calculation:

- $£50,270 - £12,570 = £37,700 \times 6\% = £2,262$
- $£80,000 - £50,270 = £29,730 \times 2\% = £594.60$
- Total Class 4 NIC = £2,856.60 (rounded to £2,857).

Task 5 - Solutions (14 marks)

(a) Identify which ONE of the following types of income is NOT exempt from Income Tax purposes. (1 mark)

Interest on National Savings Certificates.	☐
Interest earned from a Cash ISA.	☐
Premium Bond winnings.	☐
Building Society interest.	☒

The correct answer is Building Society interest, as this is generally taxable (subject to the applicable savings allowances). All the other types of income are exempt for income tax.

Exempt income:

- Prizes, lottery or betting wins.
- Income from Individual Savings Accounts (ISAs).
- Interest on National Savings Certificates.
- Income fully covered by the Rent a Room Scheme.
- Scholarships, bursaries and certain educational grants.
- Damages or compensation for personal injury or death.

(b)(i) Calculate Bruce's total income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£58467.

Total income is calculated before the Personal Allowance.

Trading profit:

- Bruce's tax year basis covers 6 April 2026 to 5 April 2027. Trading income straddles two tax periods; therefore, the profits must be time-apportioned to determine the trading profits assessable in the 2026/27 tax year.
- Profit for year ended 31 July 2026: 6 April 2026 to 31 July 2026 = 4 months of the tax year. $£55,000 \times 4/12 = £18,333.33$.
- Profit for year ended 31 July 2027: 1 August 2026 to 5 April 2027 = 8 months of the tax year. $£59,000 \times 8/12 = £39,333.33$.
- Trading income assessed for the tax year 2026/27: $£18,333.33 + £39,333.33 = £57,666.66$ (rounded to £57,667). Always round the final answer only; do not round the workings.

Savings interest:

Savings interest is assessable in the tax year in which it is received, i.e. when it is credited to the account during that tax year. Interest received during 2026/27: 30 June 2026 = £350 and 31 December 2026 = £450. 30 June 2027 interest not included in the tax year. Interest received £350 + £450 = £800.

Total income: £57,667 + £800 = £58,467.

(b)(ii) Calculate Bethany's total income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£41250.

Salary

An employee is generally assessed on amounts received in the tax year, subject to the specific employment-income timing rules:

- Salary for 9 months (Apr–Dec 2026): $£40,000 \times 9/12 = £30,000$
- Salary for 3 months (Jan–Mar 2027): $£45,000 \times 3/12 = £11,250$
- Total salary assessed for the tax year 2026/27: $£30,000 + £11,250 = £41,250$

Rent

- Rent-a-Room Scheme limit: £7,500
- Rental receipts £5,200 < £7,500 therefore the rental income is exempt under the Rent-a-Room Scheme.

Bethany's total income for tax purposes would be: $£30,000 + £11,250 + £0 = £41,250$.

(b)(iii) Calculate Sarah's total income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£19700.

For Sarah's total income in 2026/27:

- State Pension = £12,500.
- Share of joint bank interest = $£2,400 \div 2 = £1,200$.
- Dividends = £6,000.
- Therefore: $£12,500 + £1,200 + £6,000 = £19,700$ total income.

General rules for the income tax treatment of jointly owned income-generating assets is:

- For a married couple or civil partners living together, income from jointly owned assets is generally split 50:50, unless they have made a valid declaration to HMRC to split the income according to their actual beneficial interests.
- For other joint owners, income is generally allocated according to each person's beneficial share in the asset.
- Each person's share of the income is then assessed separately for income tax purposes.

(c)(i) Calculate the gross pension contribution made by Tom during the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£6250.

With a personal pension under the relief-at-source system, Tom pays the net contribution of £5,000. HMRC then provides the pension provider with 20% basic-rate tax relief of £1,250, resulting in a gross pension contribution of £6,250 ($£5,000 \div 80\% = £6,250$). The gross pension contribution is the total amount paid into the pension scheme, including both Tom's contribution and the tax relief provided by HMRC.

(c)(ii) Calculate Tom's adjusted net income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£24550.

Tom's Adjusted Net Income (ANI) is calculated as:

- Total income – gross personal pension contribution = ANI.
- Total income = £30,800.
- Gross pension contribution = $£5,000 \times 100/80 = £6,250$.
- Therefore: $£30,800 - £6,250 = £24,550$ adjusted net income.

The main reason you will see Adjusted Net Income (ANI) is to determine whether someone is affected by income-related tax thresholds and allowances. For example, the Personal Allowance restriction where ANI exceeds £100,000, or the High Income Child Benefit Charge when determining whether Child Benefit is subject to a tax charge.

Both Gift Aid payments and personal pension contributions can reduce Adjusted Net Income (ANI). The basic calculation is: Net income – gross Gift Aid donations – gross personal pension contributions = Adjusted Net Income (ANI).

Gift Aid donations are deducted using the grossed-up amount, as the charity receives an additional 20% tax relief from HMRC. For example, if £800 is paid to charity: $£800 \times 100/80 = £1,000$. Therefore, £1,000 is deducted when calculating ANI.

Personal pension payments are amounts that an individual personally pays into a pension scheme to build up their pension for retirement. Generally, employee occupational pension contributions are deducted before arriving at taxable employment income. Therefore, they should not be deducted again when calculating Adjusted Net Income (ANI).

(d)(i) Calculate Fred's personal allowance for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£5795.

Please refer to your AAT tax reference material for guidance on the restriction of the Personal Allowance. The Personal Allowance of £12,570, reduced by £1 for every £2 of adjusted net income above £100,000. Importantly, HMRC uses adjusted net income, not simply "total income". Pension contributions and qualifying Gift Aid donations can reduce adjusted net income. The Personal Allowance reaches nil at adjusted net income £125,140.

- Fred's income = £113,550.
- Calculate the excess over £100,000: $£113,550 - £100,000 = £13,550$.
- Divide the excess by 2: $£13,550 \div 2 = £6,775$.
- So Fred's Personal Allowance is: $£12,570 - £6,775 = £5,795$.

(d)(ii) Calculate Alex's taxable income for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£16170.

- Alex's employment income = £30,000.
- Normal Personal Allowance = £12,570.
- Marriage Allowance received from Sam = £1,260.
- Alex's adjusted Personal Allowance = £13,830.
- Therefore: $£30,000 - £13,830 = £16,170$ taxable income.

Please refer to your AAT tax reference material for guidance on the Marriage Allowance. Marriage Allowance allows one spouse or civil partner to transfer £1,260 (10% of the £12,570 Personal Allowance) to the other spouse. The transferor's Personal Allowance therefore falls to £11,310, while the recipient's allowance effectively increases by £1,260.

The main conditions are:

- The couple must be married or in a civil partnership.
- The transferor must not pay Income Tax, or their income must be below their Personal Allowance (normally £12,570).
- The recipient must generally pay Income Tax at the basic rate. For 2026/27, this normally means income between £12,571 and £50,270.
- The recipient must not be liable to Income Tax at the higher or additional rate.

Even if Sam earns £12,570 and uses his full Personal Allowance, he can still transfer the full £1,260 under Marriage Allowance. The transfer is not restricted based on the amount of Personal Allowance Sam has remaining.

(e)(i) Calculate Peter's Income Tax liability for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

£1112.

- Employment income: £13,500.
- Government bond interest: £3,000: taxable savings income.
- Cash ISA interest: £9,400: tax-free. The £9,400 Cash ISA interest is completely ignored for Income Tax purposes, rather than being included and then covered by an allowance.
- Bank interest: £6,700: taxable savings income.
- Taxable savings income: £3,000 + £6,700 = £9,700.

Employment income

Peter's Personal Allowance of £12,570 is applied first to his employment income: £13,500 – £12,570 = £930. So, £930 of non-savings income is taxable. Tax on non-savings income: £930 × 20% = £186.

Interest received

Peter's non-savings income above his Personal Allowance is £930. As his non-savings income is below £17,570, he is eligible for the Starting Rate for Savings. The first £5,000 of savings income is potentially taxed at 0%. However, Peter's £930 of non-savings income above his Personal Allowance reduces the £5,000 starting-rate band by £930. Therefore: £5,000 – £930 = £4,070 remaining for the 0% rate to apply to savings income. Therefore, the first £4,070 of savings income is taxed at 0%.

Peter is also a basic-rate taxpayer, so his Personal Savings Allowance (PSA) is £1,000. A basic-rate taxpayer can receive £1,000 of savings interest tax-free under the PSA.

Remaining savings income: £9,700 – £4,070 – £1,000 = £4,630. Tax on savings income: £4,630 × 20% = £926.

Income Tax liability for 2026/27: £186 + £926 = £1,112.

Income Tax liability is calculated in the following order: non-savings income first, followed by savings income and finally dividend income. The Personal Allowance is applied in the same order, with relief given against non-savings income first, then savings income and finally dividend income.

2026/27 Income Tax rates (England, Wales or Northern Ireland):

Type of income	Basic rate	Higher rate	Additional rate
Non-savings income	20%	40%	45%
Savings income	20%	40%	45%
Dividend income	10.75%	35.75%	39.35%

The main bands are £37,700 basic-rate band, followed by the higher-rate band up to £125,140 for taxable income.

- **Personal Savings Allowance (PSA):** A basic-rate taxpayer can receive £1,000 of savings interest tax-free under the PSA. A higher-rate taxpayer can receive £500, while an additional-rate taxpayer gets £0 (nil) PSA.
- **Dividend Allowance:** £500 of dividend income is taxed at 0% for everyone. Dividends above £500 are taxed at the applicable dividend rate.
- Both the above allowances use up the tax bands.
- **Starting Rate for Savings (0%):** Up to £5,000 of savings income can be taxed at the 0% Starting Rate for Savings, provided the individual's non-savings income is below £17,570.

(e)(ii) Calculate Reuben's Income Tax payable for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

£4039.

Total income

- Trading profit: £66,000
- Property income: £12,000
- Dividends: £800
- Total income = £78,800

Pension contribution

The £6,000 personal pension contribution is grossed up: $£6,000 \times 100 \div 80 = £7,500$. This extends the basic-rate band to £45,200 (£37,700 + £7,500).

Personal Allowance

Income is below £100,000, so Reuben receives the full £12,570 Personal Allowance.

Non-savings income

Taxable non-savings income: $£66,000 + £12,000 - £12,570 = £65,430$.

Income Tax on non-savings income: First £45,200 (basic-rate band) at 20%: $£45,200 \times 20\% = £9,040$. Remaining taxable income: $£65,430 - £45,200 = £20,230$, at 40%: $£20,230 \times 40\% = £8,092$. Non-savings tax = £17,132 (£9,040 + £8,092).

Dividend income

Dividends = £800. Dividend Allowance = £500, so: $£800 - £500 = £300$ taxable dividends. Reuben is already a higher-rate taxpayer, so the £300 is taxed at 35.75%. $£300 \times 35.75\% = £107.25$

Total Income Tax liability

$£17,132 + £107.25 = £17,239.25$

Income Tax payable

Deduct CIS tax already paid: CIS deductions = £13,200. £17,239.25 – £13,200 = £4,039.25 (Answer rounded to £4,039). The £13,200 CIS deduction is a credit against Reuben's Income Tax liability, rather than a deduction from his £66,000 trading profit.

(f) Calculate Robert's Income Tax payable for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

£451.

Employment income £45,000 Less: Personal Allowance £12,570 = Taxable income £32,430. Apply the Scottish rates:

Taxable income	Rate	Tax (£)
£0 – £3,967	19%	753.73
£3,968 – £16,956	20%	2,597.80
£16,957 – £31,092	21%	2,969.46
£31,093 – £32,430	42%	561.54
Income Tax liability		6,882.53

Then deduct the £6,432 PAYE already paid: £6,882.53 – £6,432 = £450.53 income tax payable (rounded to £451). Please see your AAT tax reference material for the relevant income tax rates for Scotland.

Scottish Income Tax (non-savings income) rates for 2026/27

Band	Taxable income after PA	Rate
Starter	£0 – £3,967	19%
Basic	£3,968 – £16,956	20%
Intermediate	£16,957 – £31,092	21%
Higher	£31,093 – £62,430	42%
Advanced	£62,431 – £112,570	45%
Top	Over £112,570	48%

For 2026/27, Scotland and England apply the same rules to savings interest and dividend income. The Personal Savings Allowance and Dividend Allowance are UK-wide, so Scottish taxpayers receive the same £1,000/£500 Personal Savings Allowance and £500 Dividend Allowance as taxpayers in England. The Starting Rate for Savings is also the same, with up to £5,000 of savings interest taxed at 0%, subject to the relevant conditions.

Task 6 - Solutions (10 marks)

(a)(i) Identify which ONE of the following disposals is chargeable to Capital Gains Tax. (1 mark)

Sale of a car.	☐
Sale of a racehorse.	☐
Sale of shares held in an ISA.	☐
Sale of a diamond ring.	☒

- **Sale of a car:** The sale of a private car is generally exempt from Capital Gains Tax, regardless of the amount of the gain. This is because private motor vehicles are specifically exempt, unless the car has been used for business purposes.
- **Sale of a racehorse:** The sale of a racehorse is generally exempt from Capital Gains Tax where it qualifies as a wasting asset. A wasting asset is an asset with a predictable useful life of 50 years or less, and gains or losses on wasting chattels are normally exempt.
- **Sale of shares held in an ISA:** The sale of shares held within an ISA is exempt from Capital Gains Tax. Gains arising from investments held within an ISA are not subject to CGT.
- **Sale of a diamond ring:** The sale of a diamond ring is not automatically exempt from Capital Gains Tax. Jewellery is a non-wasting chattel, so a gain may be chargeable if the disposal proceeds exceed £6,000. If the proceeds are £6,000 or less, the disposal is generally exempt under the chattels rules.

(a)(ii) Calculate Katherine's chargeable gain or allowable loss for the 2026/27 tax year for each of the assets sold below. Enter your answer to the nearest whole pound and enter all answers as positive amounts. If the answer is zero, enter '0'.

(2 marks)

Sale of assets	Amount of gain or loss (£)
Katherine sells an antique vase on 1 September 2026 for £7,500. She originally bought the vase for £3,500 nine years ago.	2500
Katherine sells an antique painting on 30 October 2026 for £4,000. She originally bought the painting for £10,000 two years ago.	4000

Antique vase:

- Actual gain: $\text{£}7,500 - \text{£}3,500 = \text{£}4,000$.
- Maximum gain under the marginal-relief rule: $5/3 \times (\text{£}7,500 - \text{£}6,000) = \text{£}2,500$.
- HMRC requires the lower of the actual gain (£4,000) and the maximum gain (£2,500) to be used. Therefore, chargeable gain = £2,500.

Antique painting:

- Actual loss: $\text{£}4,000 - \text{£}10,000 = \text{£}6,000$ loss.
- Because the proceeds are below £6,000, HMRC requires the proceeds to be treated as £6,000 when calculating the allowable loss: $\text{£}6,000 - \text{£}10,000 = \text{£}4,000$ allowable loss.

Non-wasting chattel rules:

		Proceeds	
		$\leq \text{£}6,000$	$> \text{£}6,000$
Cost	$\leq \text{£}6,000$	Exempt.	Gain cannot exceed $5/3 \times (\text{Gross Proceeds} - \text{£}6,000)$.
	$> \text{£}6,000$	Gross Proceeds of £6,000 used to calculate the gain or loss.	Calculate gain or loss in the normal way.

(a)(iii) Identify which ONE of the following actions would be appropriate, to minimise Joe and Sally's joint tax liability. (1 mark)

Joe should transfer the antique vase to Sally.



Sally should transfer her Capital Gains Tax (CGT) Annual Exempt Amount (AEA) to Joe.

☐

Joe should transfer his Marriage Allowance to Sally.

☐

Transfers of assets between spouses or civil partners are generally treated as made on a no gain, no loss basis. The receiving spouse/civil partner effectively takes over the original acquisition cost for CGT purposes. This treatment generally applies where the spouses/civil partners are living together. However, if the husband has already sold the asset to a third party, he cannot retrospectively transfer the asset to his wife to obtain the spouse exemption. Joe should transfer the antique vase to Sally as this would allow Sally to sell the vase and pay less capital gains tax, because she is a basic rate taxpayer.

Spouses cannot transfer their unused CGT Annual Exempt Amount (AEA) to each other. For 2026/27, each individual has their own £3,000 AEA, and it is personal to that individual. HMRC confirms that spouses have separate annual exemptions. Married couple/civil partners can potentially have £6,000 combined if both have sufficient gains. However, a spouse can transfer only part of an asset to their spouse/civil partner, rather than transferring the whole asset, which can help utilise the £6,000 AEA combined.

For 2026/27, the Marriage Allowance is £1,260, allowing a lower-earning spouse or civil partner to transfer 10% of their Personal Allowance to their spouse or civil partner. The lower-earning spouse must normally have income below the £12,570 Personal Allowance, while the recipient must generally be a basic-rate taxpayer. As both Joe and Sally are basic or higher rate taxpayers, neither meets the conditions for the transfer, so Marriage Allowance would not be available and would not reduce their joint Income Tax liability.

(b) Calculate Sarah's chargeable gain arising from the sale of the painting for the 2026/27 tax year. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (2 marks)

£25500.

	£
Market value at disposal	60,000
Less: Original cost	-25,000
Less: Acquisition costs	-1,000
Less: Enhancement expenditure	-6,000
Less: Estate agent's fee	-2,000
Less: Advertising costs	-500
Chargeable gain	25,500

The chargeable gain is calculated before deducting capital losses and the £3,000 Annual Exempt Amount (AEA).

Sarah's sister is a connected person, the £60,000 market value is generally used for CGT purposes instead of the actual sale proceeds of £45,000. Connected persons include a spouse or civil partner, close relatives such as parents, children, grandparents, grandchildren, brothers and sisters, and business partners. For CGT purposes, close relatives generally include brothers, sisters, ancestors and lineal descendants. However, aunts, uncles and cousins are not automatically treated as connected persons simply because they are relatives.

Enhancement expenditure (£6,000 on a permanent improvement to the painting) is money spent on an asset to improve or increase its value, rather than simply maintaining or repairing it. For CGT purposes, enhancement expenditure is generally allowable where it enhances the value of the asset, the asset is still owned by the individual when the expenditure is incurred, and the enhancement is still reflected in the asset at the date of disposal.

Certain costs of buying and selling an asset are normally allowable deductions when calculating the gain. Buying costs can include costs such as legal fees, valuation fees and stamp duty incurred in acquiring the asset. Selling costs can include estate agent fees, legal fees and advertising costs incurred in disposing of the asset. These costs generally need to be incidental to the acquisition or disposal and incurred wholly and exclusively for that purpose.

(c)(i) Calculate Richard's taxable gain for the 2026/27 tax year. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£0.

(c)(ii) Calculate any unused capital losses to be carried forward to the 2027/28 tax year. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'. (1 mark)

£9000.

Richard has capital gains of £55,000 and current-year capital losses of £13,000. Therefore, his net capital gains are £42,000. All capital gains and losses arising in the same tax year must be netted off first.

Richard has £48,000 of capital losses brought forward. To use these losses tax-efficiently, he should use £39,000 of the brought-forward losses to reduce his net gains to the £3,000 Annual Exempt Amount (AEA). This leaves gains of £3,000, which are fully covered by the AEA. Therefore, Richard's taxable gain for 2026/27 is £0.

HMRC's guidance requires brought-forward losses to be used against net gains where necessary to reduce the gains to the AEA. Any unused losses can then be carried forward to future tax years.

Richard originally had £48,000 of brought-forward losses and used £39,000 in 2026/27. Therefore, £9,000 of capital losses remain unused and can be carried forward to the 2027/28 tax year.

(d) Calculate Robert's Capital Gains Tax payable for the tax year 2026/27. Enter your answer to the nearest whole pound. If your answer is zero, enter '0'.

(2 marks)

	£
Basic-rate tax	3186
Higher-rate tax	7752
Capital Gains Tax payable	10,938

- Taxable income = total income after deducting the Personal Allowance.
- Taxable gains = total chargeable gains after deducting allowable capital losses and the £3,000 Annual Exempt Amount.

Please refer to your AAT tax reference material. Taxable gains are taxed using the income tax basic-rate and higher-rate bands. Income tax is calculated first, using up the available income tax bands. The amount of the basic-rate band remaining after taxable income has been taxed determines how much of the taxable gains is taxed at 18%. Any remaining taxable gains are taxed at 24%.

- Taxable income: £20,000.
- Taxable gains: £50,000.
- Basic-rate band: £37,700.
- Unused basic-rate band: $£37,700 - £20,000 = £17,700$.
- CGT rate: 18% within the unused basic-rate band and 24% thereafter.
- Basic-rate band: $£17,700 \times 18\% = £3,186$.
- Higher-rate band: Remaining taxable gains $(£50,000 - £17,700) = £32,300 \times 24\% = £7,752$.
- CGT payable: $£3,186 + £7,752 = £10,938$.

Task 7 - Solutions (8 marks)

(a) Complete the workings table below to calculate taxable total profits (TTP) for the 15-month accounting period ended 30 June 2026. Enter all amounts to the nearest whole pound. Do not enter negative figures. Where there is no amount, enter '0'. (6 marks)

	12 month period 1 April 2025 to 31 March 2026	3 month period 1 April 2026 to 30 June 2026
Adjusted trading profit before capital allowances	230400	57600
Capital allowances	41,000	28,000
Tax-adjusted trading profit	189,400	29,600
Interest income	14400	3600
Property income	48000	12000
Chargeable gains	0	200000
Qualifying charitable donations (QCDs)	5000	5000
Taxable total profits (TTP)	246800	240200

HMRC does not allow a Corporation Tax accounting period to exceed 12 months, even where a company's statutory accounts cover a longer period.

- Statutory accounts: One set of statutory accounts can cover the entire 15-month accounting period.
- Corporation Tax: The 15-month period must be divided into two Corporation Tax accounting periods, normally consisting of the first 12 months and the final 3 months. The company's taxable profits must be allocated between these two periods for Corporation Tax purposes.
- Tax returns: The company must submit two CT600 Corporation Tax returns, one for each Corporation Tax accounting period. A separate Corporation Tax payment deadline will apply to each period.

Workings:

- **Adjusted trading income:** The accruals basis is used for allocation. Trading profit: £288,000. Calculate monthly trading profit $£288,000 \div 15 = £19,200$ per month. Allocate to Period 1 (1 April 2025 to 31 March 2026) = 12 months,

$£19,200 \times 12 = £230,400$. Allocate to Period 2 (1 April 2026 to 30 June 2026) = 3 months, $£19,200 \times 3 = £57,600$. 1 mark will be awarded if both figures are entered correctly.

- **Interest income:** The accruals basis is used for allocation. Calculate monthly interest income $£18,000 \div 15 = £1,200$ per month. Allocate to Period 1 (1 April 2025 to 31 March 2026) = 12 months, $£1,200 \times 12 = £14,400$. Allocate to Period 2 (1 April 2026 to 30 June 2026) = 3 months, $£1,200 \times 3 = £3,600$. 1 mark will be awarded if both figures are entered correctly.
- **Property income:** The accruals basis is used for allocation. Calculate monthly property income $£60,000 \div 15 = £4,000$ per month. Allocate to Period 1 (1 April 2025 to 31 March 2026) = 12 months, $£4,000 \times 12 = £48,000$. Allocate to Period 2 (1 April 2026 to 30 June 2026) = 3 months, $£4,000 \times 3 = £12,000$. 1 mark will be awarded if both figures are entered correctly.
- **Chargeable gains:** The date of disposal is used for allocation. Sold an office building on 1 May 2026, so the gain of £200,000 is included in Period 2 (1 April 2026 to 30 June 2026). 1 mark will be awarded if both figures are entered correctly.
- **Qualifying charitable donations (QCDs):** The date of payment is used for allocation. £5,000 was paid on 1 June 2025 and a further £5,000 was paid on 1 June 2026. Therefore, Period 1 and Period 2 will each include £5,000. 1 mark will be awarded if both figures are entered correctly.
- **Taxable total profits (TTP):** 1 mark will be awarded if both figures for taxable total profits (TTP) are entered correctly.

(b) Calculate the Corporation Tax payable by Company Y for the year ended 31 March 2027. Enter your answer to the nearest whole pound. (1 mark)

£29500.

Please refer to your AAT tax reference material for information on Corporation Tax rates and Marginal Relief. For the year ended 31 March 2027, the Corporation Tax rates remain at 19% for companies within the small profits rate and 25% for companies subject to the main rate, with Marginal Relief available for profits between £50,000 and £250,000. However, as Company Y has two associated companies, the lower and upper profit limits must be divided by three. Therefore, the lower limit is $£50,000 \div 3 = £16,667$, and the upper limit is $£250,000 \div 3 = £83,333$.

Company Y has taxable total profits of £118,000, which is above the adjusted upper limit of £83,333. Therefore, Company Y is subject to Corporation Tax at the main rate of 25%. The Corporation Tax payable is calculated as follows: $£118,000 \times 25\% = £29,500$.

(c) Calculate the Corporation Tax payable by Company Z for the six-month period ended 31 March 2027. Enter your answer to the nearest whole pound. (1 mark)

£12313.

Company Z has taxable total profits of £50,000 for the six-month period ended 31 March 2027 and has one associated company. As there are two companies in total, the Corporation Tax profit limits must first be divided by two. The limits must then be reduced proportionately because Company Z's accounting period is only six months.

The adjusted lower limit is calculated as $£50,000 \div 2 \times 6/12 = £12,500$, while the adjusted upper limit is $£250,000 \div 2 \times 6/12 = £62,500$.

Company Z's taxable total profits of £50,000 fall between the adjusted lower and upper limits. Therefore, the company is subject to Corporation Tax at the main rate of 25%, with Marginal Relief available.

Corporation Tax at 25% is $£50,000 \times 25\% = £12,500$. Marginal Relief is calculated as $(£62,500 - £50,000) \times 3/200 = £187.50$. Therefore, the Corporation Tax payable is $£12,500 - £187.50 = £12,312.50$, which rounds to £12,313.

Task 8 - Solutions (12 marks)

(a) Identify if the following statements are true or false.

(2 marks)

	TRUE	FALSE
For the 2026/27 tax year, the qualifying income threshold is more than £20,000. Individuals whose qualifying income exceeds this threshold will be required to use Making Tax Digital (MTD) for Income Tax from 6 April 2028.	☒	☐
Making Tax Digital requires self-employed individuals, not landlords, to keep their income and expense records digitally and use compatible software to report their information to HMRC.	☐	☒

The first statement is true. The MTD threshold reduces to more than £20,000 for 2026/27, with MTD applying from 6 April 2028 to those above the threshold. The second statement is false. MTD applies to both self-employed individuals and landlords who meet the qualifying income requirements. Both may need to keep digital records and use compatible software to report to HMRC.

Qualifying income mainly includes income from self-employment, such as income from running a business, and property income, such as rental income from property. The threshold is based on gross income before deducting expenses, rather than the profit made after expenses.

(b) Complete the following sentences.

(4 marks)

The amount due for the individual's first payment on account for the 2026/27 tax year is **£3840**. The deadline for this payment is **31 January 2027**.

The individual's balancing payment for the 2026/27 tax year is **£2800**. The deadline for this payment is **31 January 2028**.

Please refer to your AAT tax reference material for payments, administration and penalties. For the 2025/26 tax year, the individual's total Income Tax and Class 4 National Insurance Contributions (NIC) liability is £7,680, calculated by adding the Income Tax liability of £5,486 to the Class 4 NIC liability of £2,194. Payments on account are normally made in two equal instalments, with each payment being 50% of the previous year's relevant tax liability. Therefore, the first payment on account for 2026/27 is £3,840, calculated as $£7,680 \times 50\%$. This payment is due on 31 January 2027. The second payment on account of £3,840 is due on 31 July 2027.

For the 2026/27 tax year, the individual's total Income Tax and Class 4 NIC liability is £10,480, calculated by adding the Income Tax liability of £2,994 to the Class 4 NIC liability of £7,486. The individual has made payments on account totalling £7,680. Therefore, the balancing payment is £2,800, calculated as $£10,480 - £7,680$. The balancing payment is due on 31 January 2028.

(c) Identify the deadline by which Company A must notify HMRC that it is chargeable to Corporation Tax. (1 mark)

30 June 2027.

Please refer to your AAT tax reference material for payments, administration and penalties. If the company commenced trading on 31 March 2027, the three-month deadline is 30 June 2027. A company must notify HMRC that it is chargeable to Corporation Tax within three months of becoming active (has started to trade). Therefore, the deadline for Company A to notify HMRC is 30 June 2027.

(d) Identify the deadline by which Company B must make the loss relief claim. (1 mark)

30 June 2028.

Company B made a trading loss for the accounting period ended 30 June 2026 and wishes to claim relief by setting the loss against its total profits of the current and previous 12-month accounting period. The claim must be made within two years of the end of the accounting period in which the loss arose. Therefore, the deadline for Company B to make the loss relief claim is 30 June 2028.

Summary:

Chargeability and loss claims	Deadline
Income Tax – notification of chargeability	By 5 October following the end of the relevant tax year.
Corporation Tax – notification of chargeability	Within 3 months of the company becoming active e.g. has started to trade, rather than just existing as a registered company.
Individual – Loss off-set against total income (current or previous tax year)	12 months from 31 January following the tax year in which the loss arose.
Company – Trading loss off-set against total profits of the current year and then carried back against the previous years total profits	2 years from the end of the accounting period in which the loss arose.

(e) Calculate the interest and any penalties arising from the late payment and late filing of Company C's Corporation Tax. Round all answers to the nearest whole pound. Do not enter any negative figures. If your answer is nil, enter 0. (2 marks)

Penalty	£
Late payment	1752
Late filing	200

Please refer to the AAT tax reference material for information on payments, administration and penalties. The Corporation Tax payment is due nine months and one day after the end of the accounting period. As Company C's accounting period ended on 30 April 2026, the Corporation Tax payment deadline was 1 February 2027. The company did not pay the Corporation Tax until 5 June 2027, so the payment was made late.

For Corporation Tax, HMRC calculates late-payment interest on a daily basis. Interest starts on the day after the payment due date and continues until the date the tax is paid. Therefore, interest is calculated from 2 February 2027 to 5 June 2027, which is 124 days. Assuming an interest rate of 3.75%, the late-payment interest is calculated as follows: $\text{£}137,500 \times 3.75\% \times 124 \div 365 = \text{£}1,751.71$. Rounded to the nearest whole pound, the late-payment interest is £1,752.

The Corporation Tax Return is due 12 months after the end of the accounting period. Therefore, Company C's filing deadline was 30 April 2027. As the company filed its return on 5 June 2027, the return was 36 days late. Under HMRC's Corporation Tax late-filing rules, a £200 penalty applies when a Corporation Tax Return is filed late. As Company C's return was only 36 days late, it was less than three months late. Therefore, the company is liable for the initial £200 late-filing penalty, but no additional late-filing penalties apply.

Summary:

CT600 filed	Late filing penalty
1 day late	£200
3 months late	Another £200
6 months late	10% of any unpaid tax
12 months late	Another 10% of any unpaid tax

(f) Identify whether the following statement are true or false.

(2 marks)

	TRUE	FALSE
A deliberate error means the taxpayer failed to take reasonable care when preparing their tax return or providing information to HMRC.	☐	☒
An prompted disclosure is when the taxpayer tells HMRC about the error before they have reason to believe that HMRC has discovered, or is about to discover the error.	☐	☒

- The first statement is false. A deliberate error means the taxpayer knowingly provides incorrect information to HMRC. Failing to take reasonable care describes a careless error.
- The second statement is false. This describes an unprompted disclosure. A prompted disclosure occurs when the taxpayer tells HMRC about the error after HMRC has contacted them or started an investigation.

Summary:

Term	Meaning
Careless error	A mistake or failure to take reasonable care when preparing a tax return or providing information to HMRC.
Deliberate error	The taxpayer knowingly provides incorrect information to HMRC.
Deliberate & concealed error	The taxpayer knowingly provides incorrect information and takes steps to hide the error from HMRC.
Unprompted disclosure	The taxpayer tells HMRC about the error before HMRC discovers it or contacts them about it.
Prompted disclosure	The taxpayer tells HMRC about the error after HMRC has discovered it or contacted them about it.

Task 9 - Solutions (10 marks)

(a) Identify TWO reasons why an individual may wish to undertake tax planning.

(2 marks)

To minimise the amount of tax that needs to be paid by any means necessary.	☐
To avoid being taxed at higher tax rates.	☒
To avoid the High Income Child Benefit Charge.	☒
To reduce the amount of employment income received.	☐
To maximise the amount of investment income earned.	☐

- **To minimise the amount of tax that needs to be paid by any means necessary.** Tax planning can involve reducing the amount of tax paid, but the phrase “by any means necessary” is incorrect because tax planning must use legal methods. If someone deliberately uses illegal methods to avoid tax, this could be considered tax evasion rather than tax planning.
- **To avoid being taxed at higher tax rates.** An individual may undertake tax planning to arrange their income and investments in a way that helps them avoid moving into a higher tax band. For example, they may make pension contributions or use available tax allowances and reliefs. This can reduce their taxable income and therefore the amount of tax they pay.
- **To avoid the High Income Child Benefit Charge.** An individual may use tax planning to reduce their adjusted net income so that they can reduce or avoid the High Income Child Benefit Charge. For example, making pension contributions can reduce adjusted net income and may reduce the amount of Child Benefit that has to be repaid through the tax system.
- **To reduce the amount of employment income received.** The purpose of tax planning is not normally to reduce the amount of income an individual receives from employment. Reducing employment income would mean the individual earns less money, rather than simply arranging their finances in a tax-efficient way. Tax planning aims to legally reduce the tax payable, not necessarily reduce earnings.
- **To maximise the amount of investment income earned.** Maximising investment income is not itself a reason for tax planning. Tax planning may involve choosing investments that are tax-efficient, but the objective is generally to maximise the individual’s income after tax, rather than simply increasing investment income. An investment that produces more income could also result in more tax being payable.

(b)(i) Identify which ONE of the following actions would result in the greater tax saving. (1 mark)

Sarah should make the £5,000 pension contribution.



James should make the £5,000 pension contribution.

☐

Sarah and James should each contribute £2,500 to their pensions.

☐

Sarah earns £70,000, making her a higher-rate taxpayer, while James earns £30,000, making him a basic-rate taxpayer. Pension contributions can attract tax relief at the individual's marginal tax rate. Therefore, Sarah can potentially obtain higher-rate tax relief on the contribution, giving the couple a greater tax saving than if James made the full contribution or they split it equally.

(b)(ii) Identify which ONE of the following is correct. (1 mark)

James will use a £20,000 cost if calculating any chargeable gain.



Sarah will be treated as disposing of the shares for Capital Gains Tax purposes.

☐

The couple could have achieved a greater tax saving if the shares were split equally.

☐

- **James will use a £20,000 cost when calculating any chargeable gain.** Under the no gain, no loss rule, Sarah's transfer of the shares to James is not treated as an immediate taxable disposal. James effectively inherits Sarah's original £20,000 base cost. When James sells the shares for £45,000, his chargeable gain before any available exemptions or reliefs would therefore be: £45,000 – £20,000 = £25,000.
- **Sarah will be treated as disposing of the shares for CGT purposes.** The transfer between spouses is generally made on a no gain, no loss basis, so Sarah does not have an immediate CGT charge on transferring the shares to James.
- **The couple could have achieved a greater tax saving if the shares were split equally.** This is not necessarily correct. The question asks what happens under the stated transfer, and the key rule is that James takes over Sarah's original £20,000 base cost.

(c)(i) Calculate the Income Tax saving for Brian if he receives the £10,000 dividend instead of the company car. Round all answers to the nearest whole pound. Do not enter any negative figures. If your answer is nil, enter 0.

(1 mark)

£604.

The dividend option minimises Brian's personal Income Tax liability. If Brian receives a £10,000 dividend, the £500 dividend allowance means that £9,500 is subject to dividend tax. As Brian is a higher-rate taxpayer, the dividend tax would be £3,396.25.

If Brian instead receives the company car, he has a taxable benefit in kind of £10,000. As a higher-rate taxpayer this would result in £4,000 of Income Tax. Therefore, the £10,000 dividend results in a lower Income Tax liability for Brian, saving him £603.75 compared with the company car (£4,000 – £3,396.25 = £603.75).

(c)(ii) Calculate the Corporation Tax saving for Company A if it provides the company car instead of paying a dividend. Round all answers to the nearest whole pound. Do not enter any negative figures. If your answer is nil, enter 0.

(1 mark)

£826.

Company A pays Corporation Tax at the small profits rate of 19%. If the company provides the car, the £8,000 of running costs and capital allowances will reduce its taxable profits, giving a Corporation Tax saving of $£8,000 \times 19\% = £1,520$.

If the company instead pays Brian a £10,000 dividend, the dividend is not deductible for Corporation Tax purposes. Therefore, Company A must first earn enough profit to have £10,000 remaining after Corporation Tax. As the company pays 19% Corporation Tax, it retains 81% of its profit. The required pre-tax profit is therefore $£10,000 \div 81\% = £12,345.68$. Corporation Tax on this amount is $£12,345.68 \times 19\% = £2,345.68$, leaving £10,000 available to pay the dividend. Therefore, the Corporation Tax saving from providing the company car rather than paying the dividend is $£2,345.68 - £1,520 = £825.68$.

(d)(i) Identify if the following statement is true or false.

(1 mark)

Statement	TRUE	FALSE
Either the £18,000 property business loss or the £60,000 capital loss can be offset against Company E's total profits for the year ended 31 March 2026.	☐	☒

The statement is false. The £18,000 property loss for the year ended 31 March 2026 can generally be offset against Company E's total profits for the same accounting period. The £60,000 capital loss cannot be offset against trading profits or property income. It can only be set against chargeable gains. As Company E has no chargeable gain in the year ended 31 March 2026, the loss is carried forward. The first opportunity to use the capital loss is against the £9,000 chargeable gain arising in the year ended 31 March 2027. Any remaining capital loss can then be carried forward against future chargeable gains.

Summary:

Loss	Current accounting period	If unused
Property loss	Set against total profits.	Generally carried forward against total profits of the next accounting period.
Capital loss	Set against chargeable gains.	Carried forward against future chargeable gains only.

(d)(ii) Identify if the following statements are true or false.**(3 marks)**

Statement	TRUE	FALSE
The sole trader can choose to set off the trading loss against total income in 2024/25, in which case £53,000 of the loss will be used and the Personal Allowance will be wasted.	☒	☐
The sole trader can choose to set off the trading loss against total income in both 2024/25 and 2025/26, leaving £75,000 of the loss to be carried forward against trading profits in 2026/27.	☐	☒
To maximise the overall income tax saving, the sole trader should carry forward the trading loss to 2026/27.	☒	☐

- **The sole trader can choose to set off the trading loss against total income in 2024/25, in which case £53,000 of the loss will be used and the Personal Allowance will be wasted.** This statement is true. Please see the workings and explanations below.
- **The sole trader can choose to set off the trading loss against total income in both 2024/25 and 2025/26, leaving £75,000 of the loss to be carried forward against trading profits in 2026/27.** This statement is false, because £71,000, rather than £75,000, of the trading loss will be carried forward against trading profits in 2026/27. Please see the workings and explanations below.
- **To maximise the overall income tax saving, the sole trader should carry forward the trading loss to 2026/27.** This statement is true. Total income in 2026/27 is £107,000 before deducting the Personal Allowance, meaning the loss is likely to provide greater tax savings because it is offset against income taxed at higher rates. In addition, carrying the loss forward avoids wasting the Personal Allowance, unlike making a current-year or carry-back claim where the loss will reduce income below the Personal Allowance threshold.

Trading loss relief options available to sole traders (and partners):

- Current-year relief: set the trading loss against total income of the same tax year.
- Carry-back relief: set the trading loss against total income of the previous tax year.
- Carry-forward relief: carry the loss forward and set it against future trading profits from the same trade.

The taxpayer can choose whether to claim relief against total income in the current tax year and/or the previous tax year. The choice is flexible, meaning the taxpayer may choose the current year only, the previous year only, both years, or neither year. Where relief is claimed for a particular year, the trading loss must be relieved as far as possible against total income. Consequently, if the loss is large enough, using the loss in a particular year may result in some or all of the taxpayer's Personal Allowance being wasted.

If the taxpayer does not claim current-year or carry-back relief, or makes a claim but still has losses remaining, the unrelieved trading loss can be carried forward against future trading profits from the same trade. For a sole trader (or individual partner), the carried-forward loss must be set against the first year in which a trading profit arises, with any remaining loss then set against the next profitable year, until the loss is fully relieved.

As with current-year and carry-back relief, the carried-forward loss must be used as far as possible against the available trading profits. This means that carrying forward a loss can also result in the taxpayer's Personal Allowance being wasted in a future tax year, particularly where the loss is large enough to eliminate the entire trading profit.

Elect to carry forward the trading loss only:			
Tax year	2024/25	2025/26	2026/27
	£	£	£
Trading profit	24,000	0	75,000
Trading loss (carried forward)			(75,000)
Dividends received	5,000	0	0
Property income	24,000	26,000	32,000
Total income	53,000	26,000	32,000
Trading loss (carry back or current year claim)	0	0	0
Net income (before personal allowance)	53,000	26,000	32,000

Note: If the trading loss is carried forward, it must be relieved as far as possible against the first available trading profits, which arise in the 2026/27 tax year. As the trading loss is £150,000 and £75,000 is relieved against the 2026/27 trading profits, the remaining £75,000 would be carried forward to 2027/28.

Elect for the carry back only:			
Tax year	2024/25	2025/26	2026/27
	£	£	£
Trading profit	24,000	0	75,000
Trading loss (carried forward)			(75,000)
Dividends received	5,000	0	0
Property income	24,000	26,000	32,000
Total income	53,000	26,000	32,000
Trading loss (carry back or current year claim)	(53,000)	0	0
Net income (before personal allowance)	0	26,000	32,000

Note: If the taxpayer elects to carry back the loss to the previous tax year, 2024/25, the loss must be relieved in full against total income. This will result in the Personal Allowance being wasted but will generate an income tax repayment for the sole trader. Any remaining trading loss would then be carried forward and relieved in full against the first available trading profits, which would arise in the 2026/27 tax year.

Elect for the current year only:			
Tax year	2024/25	2025/26	2026/27
	£	£	£
Trading profit	24,000	0	75,000
Trading loss (carried forward)			(75,000)
Dividends received	5,000	0	0
Property income	24,000	26,000	32,000
Total income	53,000	26,000	32,000
Trading loss (carry back or current year claim)	0	(26,000)	0
Net income (before personal allowance)	53,000	0	32,000

Note: If the taxpayer elects to use the loss in the current tax year, 2025/26, it must be relieved in full against total income. This will result in the Personal Allowance being wasted but will reduce the sole trader's income tax liability. Any remaining trading loss would then be carried forward and relieved in full against the first available trading profits, which would arise in the 2026/27 tax year.

Elect for the carry back and current year:			
Tax year	2024/25	2025/26	2026/27
	£	£	£
Trading profit	24,000	0	75,000
Trading loss (carried forward)			(71,000)
Dividends received	5,000	0	0
Property income	24,000	26,000	32,000
Total income	53,000	26,000	36,000
Trading loss (carry back or current year claim)	(53,000)	(26,000)	0
Net income (before personal allowance)	0	0	36,000

Note: If the taxpayer elects to use the loss in both the previous and current tax years, 2024/25 and 2025/26, in either order, the loss must be relieved in full against total income in each year. This will result in the Personal Allowance being wasted in both tax years. The remaining trading loss of £71,000 (£150,000 – £53,000 – £26,000) would then be carried forward and relieved in full against the first available trading profits, which would arise in the 2026/27 tax year.

How to select the relief that gives the maximum tax benefit for losses:

The best choice depends on the taxpayer's income, applicable tax rates, and the tax years in which the loss can be relieved. For example, if the taxpayer is paying income tax at 20%, 40% or 45% in different tax years, using the loss against income taxed at 45% would generally provide the greatest tax saving. However, carrying the loss back may also be beneficial, as it can generate an income tax repayment and provide an immediate cash-flow benefit.

Loss relief option	Main advantage
Current-year relief	Gives immediate tax relief by setting the trading loss against other income in the same tax year. This can be particularly valuable if the taxpayer is paying tax at a higher or additional rate.
Carry-back relief	Can generate a tax repayment relatively quickly, because the loss is used against income from an earlier year where tax has already been paid. It can be especially beneficial if the earlier year had a higher marginal tax rate.
Carry-forward relief	Preserves the loss for future use, which can be valuable where the taxpayer expects higher trading profits or higher tax rates in future. It can also avoid using the loss against income that is taxed at a relatively low rate.