ACCA

# Advanced Taxation (ATX-UK) September/ December 2025 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

## Contents

**General comments**

This examiner's report should be used in conjunction with the published September/December 2025 sample exam which can be found on the ACCA Practice Platform.

In this report, the examining team provide constructive guidance on how to answer the questions whilst sharing their observations from the marking process, highlighting the strengths and weaknesses of candidates who attempted these questions. Future candidates can use this examiner's report as part of their exam preparation, attempting question practice on the ACCA Practice Platform and reviewing the published answers alongside this report.

**Format of exam**

The ATX-UK exam has followed a new format from June 2023. This comprises of wholly compulsory questions. Section A consisted of one compulsory question worth 50 marks and Section B consisted of two further compulsory questions worth 25 marks each.

The marking scheme included ten professional skills marks in question one for the following professional skills:

- Communication
- Analysis and evaluation
- Commercial acumen
- Scepticism

Five professional skills marks were included in the marking guide for each of the section B questions for the following professional skills:

- Analysis and evaluation
- Commercial acumen
- Scepticism

Candidates should familiarise themselves with what we are looking for to demonstrate professional skills by reviewing the Professional Skills for ATX videos and advice available on the ATX Exam Resources page.

**General Approach to the ATX-UK examination**

Candidates should pay particular attention to the following in order to maximise their chances of success in the exam in the future.

**Know their stuff**

- Successful candidates are able to demonstrate a good level of accurate knowledge of the UK tax system and its application.

- This includes knowledge brought forward from the TX-UK syllabus. This is extremely important and must not be underestimated.

**Practise questions from past exams**

This should be a key part of candidates' preparation for the exam. Candidates should note the style and presentation of the model answers, particularly where a more effective or efficient style has been used, with the aim of adopting this style in subsequent questions which they attempt. Where a candidate did not identify a particular point, they should focus on how to spot the 'clues' or 'triggers' in the question, which should have flagged this up for them. In particular, this applies to the longer, scenario-based Section A question, where important guidance is often provided in the form of a communication from the manager.

**Address the requirement**

- Read the requirement carefully – in the Section A question, the detailed tasks which candidates are to perform will be set out in one of the documents. Marks are awarded only for satisfying the requirements and not for other information, even if it is technically correct.

- The requirements of each question are carefully worded in order to provide candidates with guidance with regards to the style and content of their answers. It is very important to note the command words (calculate, explain, advise etc).

  Requirements to 'explain' or 'advise' require a written element to the answer, perhaps accompanied by supporting calculations, but calculations alone will not suffice. However, an instruction to 'calculate' does not require anything more than a clear labelling of the figures, or perhaps a brief note where, for example, a source of income is exempt, or a relief or allowance is restricted, or not available.

  Candidates should also pay attention to any matters which the question instructs them do **not** need to be covered, as inclusion of these will not gain marks.

- Pay attention to the number of marks available – this provides candidates with a clear indication of the amount of time which should be spent on each question part.

**Don't provide general explanations or long introductions**

- If the requirement is simply to 'calculate', there is no need for candidates to explain what they are going to do before doing it; the calculations alone will suffice – explanations should only be provided when they are requested.

- Candidates should think before they write. They should then only write what is necessary to satisfy the requirement.

- Candidates should apply their knowledge to the facts by reference to the requirement.

**Think before you start and manage your time**

- The correct amount of time should be allowed for each question part.

- Before starting to write, candidates should take time to think about the issues and identify all of the points they intend to address and/or any strategy they intend to adopt to satisfy the requirement.

**Show your workings**
It should be remembered that method marks are available, irrespective of whether the final answer is correct. Calculations should not simply be performed on calculators with only the very final number being entered in the answer. It is important that the method used to arrive at calculations is always shown, whether working within the word document or the spreadsheet.

**Resitting**
Candidates who are preparing to resit the exam should think about the number of additional marks they need and identify a strategy to earn them. For example:

- Identify those areas of the syllabus where they are weakest and work to improve knowledge in those areas. This should include any technical areas brought forward from TX-UK, where necessary.

- Practise past exam questions in order to familiarise themselves with the style of questions which they will have to deal with. This is a vital part of the preparation for this exam and its importance cannot be over-emphasised.

- Ask themselves whether they could improve the way they manage their time in the exam and whether they address all of the parts of all three questions, or whether time has been spent addressing issues which have not been asked for, or in terms of providing unnecessary explanations in a question which just requires calculations.

- Make sure that they earn the professional skills marks and that they are prepared to address the ethical issues which may be examined.

Those candidates finding themselves scoring in the 40s should ensure that they read the various non-technical articles aimed at improving performance in the ATX-UK exam; these are available on the ACCA website.

## Comments on individual questions

### Question 1 – Scott (50 marks)

### Requirement (a)(i) – 11 marks

**Extracts from an email from your manager dated 1 November 2025**

Please carry out the following work:

**(a) Scott**

Prepare notes for us to use as a basis for discussion prior to a meeting with Scott. The notes should cover the following issues:

**Gift to Liam**

**(i) Tax implications of the gift to Liam (Exhibit 1)**

- Calculate the inheritance tax (IHT) which will be payable as a result of Scott's death on 30 November 2027 in respect of the gift to be made to Liam under each of the two options. You should state any additional assumptions you have made.
- Explain, with supporting calculations, the amount of capital gains tax (CGT) which will be payable by Scott in respect of each of the two options and the date by which any tax will be payable.

(11 marks)

The first part of this requirement asked candidates to calculate the inheritance tax (IHT) payable in respect of a lifetime gift to be made by the client to his son, on the assumption that he dies within three years of making this gift. Two alternative options were being considered for this gift – the sale of a farm, followed by the immediate gift of the proceeds, or the gift of the farm itself.

It was pleasing to see that most candidates clearly presented their calculations under separate subheadings for each option and for each tax. Use of such subheadings is always recommended in questions like this, where different alternatives are under consideration, to provide structure to the answer, and ensure that it is easy to follow for the marker. In addition, candidates who did this were usually able to score an analysis and evaluation mark for their clear consideration of all aspects.

Despite the requirement being only to 'calculate', a significant number of candidates included written explanations as part of their answer. Sometimes these were quite detailed, and, while technically correct, were not part of the requirement. In some cases, it appeared that quite a lot of time would have been wasted here. Candidates are reminded that they should ensure they carefully read the command word(s) for each requirement. On each exam there will be a variety of requirements; some asking only for calculations, some only for explanations and some for a combination of both. Double checking what is required in each case should help candidates to formulate their answer to achieve the maximum marks for each question part, in the most efficient way.

The requirement stated that the calculation was to be only of the IHT payable as a result of Scott's death in respect of the proposed gift to Liam. Candidates had to consider the availability of the nil rate band in doing this calculation – a very commonly tested aspect of this type of computation. Most identified that both of the two previous lifetime gifts were made within the seven years prior to this proposed gift, and, given the value of these, would have used up all of the nil rate band available on Scott's death. However, a good number seemed to think that they needed to perform full calculations of both the IHT payable in lifetime, and as a result of death, in respect of all three gifts, chronologically. Again, in some cases, this wasted a considerable amount of time. Questions at ATX will often focus on just one aspect of the IHT computation – in this case tax on one lifetime gift as a result of the donor's death. Candidates should practice sufficient questions to ensure they are able to quickly identify precisely what is needed in each case. The inclusion of a farm did elicit consideration of agricultural property relief (APR) and most were able to apply this correctly, and at the correct rate.

The final part of this part of the requirement was to state any additional assumptions which had been made. Very few candidates provided an answer to this. In the case of APR (or business property relief (BPR)) being available in respect of a lifetime gift, candidates should always expect that the requirement for the recipient to still own the asset (or a replacement) at the date of the donor's death, will inevitably be relevant.

It is also worth reminding candidates that before moving on to the next part of the requirement, they should always double check that they have completely addressed the current part.

The second part of this requirement required an explanation, with supporting calculations, of the capital gains tax (CGT) payable in respect of each of the options. At this point, candidates would have been well advised to go back to the scenario and remind themselves of the information provided in respect of these two options.

In respect of the first option – to sell the farm and gift the proceeds, a good number of candidates appeared to have forgotten about the sale of the farm prior to the gift of cash, and focused only on the latter, correctly recognising that it would be exempt, but unable to access up to three marks for correctly calculating the CGT that would be due on the prior sale.

In respect of the second option, most candidates picked up from the scenario that the gift would be eligible for gift holdover relief and were able to correctly conclude that this would mean that no CGT would arise currently in this case. Those who went on to explain that the gain would only be deferred until a future sale by the recipient were also able to earn a commercial acumen mark.

**Requirement (a)(ii) – 5 marks**

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| (ii) | **Tax planning in respect of the gift to Liam (Exhibit 1**) |
| | - Explain and calculate the reduction in IHT which would result from delaying the gift by six months; and<br>- Prepare a summary of the taxation advice you would give to Scott based on the work you have done in part (i) and (ii). |
| | (5 marks) |

When asked for IHT consequences of delaying a lifetime gift, candidates should always consider two things:

1. The availability of taper relief.
2. The possibility of one or more previous lifetime gifts falling more than seven years prior to the new date of the gift, such that they would no longer be accumulated for the purpose of determining the available nil rate band.

The first of these was not relevant here, as the new date would still fall within three years of the assumed date of death. However, a delay of six months would be enough for the earlier of the two previous lifetime gifts to fall outside the seven-year accumulation period, thereby enabling Scott to take advantage of part of the nil rate band and reduce the IHT which would be payable as a result of his death.

The second part of this requirement was for a summary of the advice candidates would give Scott, based on the work they had done in the first two question parts. As a starting point, candidates should reconsider all the key points which they have just been dealing with. In this case that meant the IHT and CGT payable in respect of two proposed options for a gift, and the effect of delaying the gift for six months. Consideration of all three relevant elements, as requested, scored an analysis and evaluation mark. Good answers to this part compared, separately, the IHT and CGT consequences for each option, and then the impact of the delay in each case. Candidates should remember that follow-through marks are always available for a summary, so even if they believe they have made a technical error previously, it is worth attempting to summarise their workings as requested.

**Requirement (a)(iii) – 7 marks**

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| **Value added tax (VAT)**<br>**(iii) Partial exemption (Exhibit 2)**<br><br>- Provide explanations of the two aspects of partial exemption, as requested by Scott. (7 marks) |

Most candidates were able to make an attempt at both parts of this requirement in relation to the recoverability of input VAT for a partially exempt entity, thereby enabling them to access an analysis and evaluation mark.

The first part required a statement of the rules governing the recoverability of input tax. Good answers here stated simply and concisely the rules relating to goods and services in respect of making taxable supplies, as opposed to exempt supplies, and provided a brief explanation of the partial recovery available in respect of inputs which could not be directly attributed to either type of supply. Despite the clear instruction not to explain any aspects of the de minimis limits, it was disappointing to see that a good number of candidates ignored, or had not read, this, and provided varying levels of detail in relation to these. This scored no marks. Candidates should ensure that they have completely read a requirement before starting on their answer, to avoid wasting time on content which cannot score marks, because it was excluded from the requirement.

Generally, the second part of this requirement, concerning application of the capital goods scheme rules to a building which had been acquired a few years ago, was done better by most candidates. This is a topic which is tested regularly in ATX-UK exams and it was pleasing to see that candidates appeared to have practised similar questions so were able to produce clear, competent calculations in many cases, thereby scoring well on this part.

**Requirement (b) – 5 marks**

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| **(b) Conflicts of interest (Exhibit 1)**<br><br>- Explain why it is necessary to consider possible conflicts of interest when taking on a new client.<br>- In relation to becoming tax advisers to Caron, explain the possible conflicts of interest and state the actions which we had to take in respect of them. (5 marks) |

The first part of this requirement was generic – asking why it is necessary to consider possible conflicts of interest when taking on a new client, but the second part required specific application of knowledge in relation to conflicts of interest to this scenario – taking on a client who is the daughter of an existing client. Although relatively few candidates did so, better answers to this part clearly distinguished the two different aspects of this requirement.

As part of a generic answer, it is often useful to refer to the fundamental principles underlying the ACCA Professional Code. It is then necessary to identify which particular principle(s) are relevant in this scenario. Merely listing all the fundamental principles will not score any further mark; it is candidates' skill in identifying which one or ones are relevant that will be rewarded with further marks.

Most candidates identified the personal relationship between Scott and Caron as a possible cause of conflict of interest, but few provided more detail here, in spite of specific information being provided in the scenario in respect of estate planning and both being members of the same business partnership. This information was given for a reason and before starting an answer, candidates should think carefully about why the information has been given to them and how they can use it in their answers. This will always be rewarded with technical and/or professional skills marks.

Finally here, candidates must remember that they can only earn marks for answering the specific requirement, not what they hoped the requirement would be. A significant minority, having recognised that Caron would be a new client, included discussion of actions to be taken in relation to taking on a new client eg contacting previous advisers, money laundering checks etc. This was not relevant and such candidates wasted valuable exam time in doing this.

**Requirement (c)(i) – 5 marks**

**(c) Caron**

Prepare a memorandum for Caron's client file which covers the following issues:

**(i) Taxation of partnership income (Exhibit 3)**

When carrying out this task you should note that Caron did NOT have a UK income tax liability in respect of the tax year 2024/25, and you should IGNORE her overseas property income for the tax year 2025/26.

- Calculate the total taxes which will be payable by Caron in respect of her income from the PAJ partnership for the tax year 2025/26.
- Explain the date(s) by which the taxes you have calculated will be due for payment and comment on Caron's statement regarding PAYE.

(7 marks)

More than half of the marks available for this part of the question were for calculations in respect of the taxes payable on income received by someone who is a new partner in a partnership, which was required knowledge for TX-UK. Performance was mixed. Most candidates produced an income tax computation including income from the partnership, deduction of the personal allowance and calculation of the income tax liability, but many failed to obtain marks on the actual calculation of the amount of Caron's taxable trading income. The main errors were failing to deduct the partners' salaries from the partnership trading profit before calculating Caron's share, and a failure to recognise that her 'salary' would not be taxed as employment income, but was part of her share of profit from the partnership and therefore taxed as trading income. This is brought forward knowledge from TX-UK and candidates should be prepared to be tested on their brought forward knowledge in some detail, as here.

The reference to ‘taxes’ ie plural in the requirement should have alerted candidates to the fact that more than one tax was relevant here. It would possibly be useful for candidates to highlight this on reading through the requirement so that they don’t forget about it after considering the more obvious tax, income tax. Only a minority of candidates identified that national insurance contributions (NIC) would also be payable on the partnership income. Identification of this scored a commercial acumen mark, with a further technical mark being available for a correct calculation, using the rates provided in the tax tables.

The second part of this requirement was, surprisingly, ignored, or barely attempted by a good number of candidates. Stating a due date for payment should be an easy mark to get, so it is worth learning these. The precise date – 31 January 2027 – should be stated, and, as this applies to both the income tax and NIC, again, this needs to be stated to get full marks here.
Comment was also required on Caron’s statement regarding PAYE, but, in spite of the clear reference to this in the requirement, relatively few candidates addressed it. The statement is contained in the scenario. This has become a common feature, particularly in Section A questions, and there will be a scepticism mark available for picking up and discussing this statement. Candidates should make it clear in their answers when they do this, that it is a response to the comment made in the scenario and not just a general observation. Including words such as ‘with reference to the comment made by Caron . . ‘ or something similar will help to flag this up.

**Requirement (c)(ii) – 5 marks**

**(ii) Taxation of overseas property income**

Caron is domiciled in the UK. She was non-UK tax resident from 1 June 2021 until 5 April 2025. The split year basis will apply in the tax year 2025/26 (by reference to 1 September 2025).

- Explain the amount of Caron’s overseas property income which will be subject to income tax in the tax year 2025/26 and why Caron’s retention of this income overseas has no relevance for tax purposes.

(5 marks)

The answer to the first part of the requirement to explain the amount of overseas property income which would be subject to UK income tax was expected to focus on the impact of Caron’s changed UK tax residence status. Her tax residence and domicile status were clearly spelled out in the narrative. Many candidates were able to identify that seven months worth of income (ie from 1 September 2025) would be liable to tax, but a significant proportion of these thought this was due to her domicile status, or her combined tax residence and domicile status, rather then her tax residence status alone.

There was frequently similar confusion in relation to the discussion of the irrelevance of Caron's unremitted overseas income with respect to the availabilty of the remittance basis, and the relevance of her tax residence and domicile status in determining this. The default position for taxing overseas income of a UK tax resident is to use the arising basis – hence the irrelevance of this income not being remitted to the UK – but relatively few candidates actually stated this. It was a key point here, and needed to be stated.

Candidates who are sitting – or resitting - ATX-UK in March 2026 should ensure that they learn the relevance of tax residence and domicile in relation to the taxation of overseas income and gains, and practise past exam questions to see how they have been examined, in context. However, due to changes in the legislation introduced in the Finance Act 2025 in respect of domicile status, this will no longer be an issue from the June 2026 examination.

**Professional skills marks**

The analysis and evaluation, scepticism and commercial acumen skills marks tend to be given in relation to a particular question part and some of these have been detailed above.

The communication skills marks tend to be given in relation to the whole answer.

Communication skills marks were broadly awarded for the following:

- General format and structure;
- Style, language and clarity;
- Appropriate use of the available tools (spreadsheet and word processor);
- Effectiveness with which the information is communicated; and
- Adherence to specific instructions.

It is important for candidates to bear in mind two key points when addressing Section A questions. Firstly, the explanations provided should be concise but comprehensive enough to be understood by the intended reader(s). Secondly, the information should be clearly presented in a logical, structured way, such that the reader is easily able to find the information that they need.

Candidates who scored well demonstrated good use of the word document and the spreadsheet, structured their answer according to the matters to be discussed (which were clearly set out in the manager's email), wrote concisely in short, clear paragraphs, and demonstrated a logical thought process when tackling each of the relevant issues.

In summary, those candidates who prepared sound answers to this question were able to do the following:

- directly address each of the tasks within the manager's email, providing concise explanations, where required;
- demonstrate a good knowledge of: IHT and CGT implications of making lifetime gifts; VAT partial exemption; ethics; taxation of partnership income; taxation of overseas income; and
- tailor their knowledge intelligently to the scenario by using the facts of the question.

**Question 2 – Freya (25 marks)**

**Requirement (a) – 7 marks**

**(a) Explain, with supporting calculations, the impact on the total amount of tax payable by both Freya and Qua Ltd if, on 31 March 2026, Qua Ltd pays Freya either:**

**(1) a bonus of £20,000 (gross); or**

**(2) a dividend of £20,000.**

Note: ignore the employment allowance.

(7 marks)

Performance on this question part was mixed, with many candidates picking up most, if not all of the marks for calculations, but not necessarily the marks for explanations and/or not adopting a very efficient approach.

Candidates are advised to spend a few moments carefully reading the requirement for each part before starting to answer it. The requirements have been deliberately worded so as to be able to elicit the precise answer which the examiner is looking for. Breaking it down in this case:

**'Explain, with supporting calculations'** is an instruction which is very frequently used in ATX-UK and means that both written explanations and calculations are required. Candidates should note that the 'explain' marks cannot be obtained by inference from the calculations; a written statement is needed.

'**The impact on the total amount of tax payable by both Freya and Qua Ltd'** requires two things: firstly, the reference to 'impact' in respect of the tax payable means that candidates need to calculate whether there is a tax saving, or additional tax payable as a result of the payment of a bonus or alternatively a dividend. Secondly, this needs to be done for both Freya and Qua Ltd.

Very few candidates went as far as to calculate the **total** payable by **both** parties. It is important to ensure that the precise requirement is addressed as this is frequently rewarded with an analysis and evaluation mark, as it was here.

Candidates should also note that no specific taxes are mentioned here. Income tax and corporation tax are the obvious ones, but candidates should always be on the lookout for national insurance contributions (NIC) being relevant. As stated in relation to the previous question, such recognition usually attracts a commercial acumen mark, as it did here. These are rarely specifically asked for, and it is left to candidates to recognise when they will be relevant. Question practice is extremely important in this regard, to help candidates to recognise the types of scenario when NIC need to be considered.

Before starting on the calculations, candidates should then pay attention to the marks available for this question part. The fact that there were only 7 marks available for these calculations and explanations should have acted as a signal to candidates that comprehensive detailed computations were not required. Candidates should therefore consider taking a marginal approach.

The first step in doing this is to determine the relevant rates of tax/tax saving for both Freya and Qua Ltd. Freya's only other income is a salary of £75,000; the bonus/dividend will be £20,000, so this will be taxed at the higher rate for Freya. Qua Ltd has total taxable profits of £80,000, so it's profits therefore fall in the margin and will continue to fall in the margin following the additional payment to Freya. Where a tax deduction is available (in the case of the bonus), Qua Ltd will save corporation tax at the marginal rate of 26.5%. Candidates who took a little time to identify these rates and then went on to perform the calculations using these marginal rates, were usually able to achieve very good answers in an efficient way.

Candidates who produced full income tax and corporation tax calculations, showing the position both before and after payment of each of the bonus and dividend were also able to score full marks here, but will no doubt have considerably exceeded the time allocated to this question part, potentially leading to significant time pressure for later parts. Candidates should always take note of the marks allocated to each question part and endeavour to manage their time accordingly.

**Requirement (b) – 7 marks**

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| **(b) On the assumption that Freya will be paid the additional £20,000 on 31 March 2026 as a dividend, explain, with supporting calculations, the maximum amount which Freya can pay into her personal pension scheme in the tax year 2025/26 which will qualify for tax relief, and why it will not give rise to an annual allowance charge.** (7 marks) |

This part of the question was answered quite well by many candidates, who picked up from the requirement that they needed to consider the annual allowance available in respect of pension contributions. Most of these provided accurate calculations of the amount of annual allowance available, including unused brought forward, and taking account of contributions by Freya's employer.

However, in a good number of cases these were not accompanied by the required explanations. Once again, candidates are reminded to take note of the command word(s) for each question part. Where, as here, the first word is 'Explain', marks are specifically allocated for appropriate written statements or explanations; these can not be gained by inference from the calculations. In questions with this type of command, candidates should generally work on the basis that approximately half of the marks available will be for the explanations, and ensure that they include these in their answers.

While the majority of the marks were available for consideration of the available annual allowance, there was also an additional aspect to this requirement, which was overlooked by a significant minority. The reference to 'the maximum amount ... which will qualify for tax relief' required consideration of the restriction on contributions to Freya's relevant earnings for the tax year. This completes the picture and is an important consideration in being able to advise on the maximum amount which an individual is able to contribute. Consideration of both aspects earned an analysis and evaluation mark. Candidates should note the careful wording of this requirement. It will frequently be the case that both of these aspects need to be considered.

Candidates should have finished this question part with a conclusion as to the maximum amount of contribution which could be paid, following from the working they had done. Those who recognised that the actual amount payable by Freya would be net of basic rate income tax, scored an additional commercial acumen mark.

**Requirement (c) – 6 marks**

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| **(c) In respect of both of the proposed gifts of shares in Timp plc, explain whether or not gift holdover relief will be available, and, on the basis that the relief is claimed where it is available, calculate the base cost of the shares to the recipient in each case.** (6 marks) |

This requirement effectively comprised two parts. Firstly, candidates had to explain whether or not gift holdover relief would be available in respect of two proposed gifts of shares, then, secondly, on the basis that the relief would be claimed where available, calculate the resulting base cost of the shares to the recipient.

Where there is more than one gift to consider in this type of question it is important that candidates consider each gift separately. The facts and figures will be different in each case, so each must be evaluated separately. Candidates who recognised this earned an analysis and evaluation mark.

Candidates who had learned the conditions for gift holdover relief scored well on this question part. They were able to concisely explain that the gift out of a holding of less than 5% of the shares in a quoted company wasn't eligible for relief when the recipient was an individual, but did qualify for relief when the recipient was a trust, as this is a chargeable lifetime transfer for IHT purposes. Those who had apparently not learned the precise rules often suggested reasons for (non)availability which were actually conditions pertaining to other capital gains tax reliefs, particularly business asset disposal relief, in respect of periods of ownership, employee status etc. These cannot score marks.

All of the capital gains tax reliefs available to individuals are tested on a very regular basis, and this will frequently include a requirement to identify and discuss the conditions to be satisfied in order for the relief to be available. Candidates should prepare for this by making sure that they take some time to learn the conditions specific to each relief. These are then very quick, straightforward marks to score in the exam, leaving more time for some of the more time-consuming calculations, and not wasting time on irrelevant points which score no marks.

Most of the candidates who went on to address the question of the base cost for the recipient recognised that, as a starting point, they needed to calculate the current market value of a single share. This would allow them to go on to calculate the market value of the total gift, which would be the base cost for the recipient in the first case, where gift holdover relief was not available, and would be used as deemed proceeds to calculate the gain to be deferred in the second case, where the relief was available.

Although many correctly determined an average price from the price range provided, a reasonable number adopted the quarter-up principle, confusing the different valuation rules for CGT and IHT. As gifts of assets are frequently tested at ATX-UK, in both taxes, it is important that candidates learn carefully the different valuation rules applicable in each case. Once again, question practice is a very useful way to consolidate this knowledge.

**Question 3 – Merino Ltd (25 marks)**

**Requirement (a) – 4 marks**

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| **(a) On the assumption that Merino Ltd's trading loss for the year ending 31 March 2026 will NOT be carried forward:**<br><br>**(i) State the options available to relieve the loss.**<br><br>**(4 marks)** |

This part of the question required candidates to identify loss relief options and this was generally well answered. Many candidates were able to identify that the trading loss could be carried back to the prior year in the loss-making company and used against profits of that year. Similarly, many candidates identified a losses group and that the loss could be group relieved. In detailing both these options, candidates were able to gain an analysis and evaluation mark as well as technical marks.

The two companies had only been in a group together for nine months of the twelve-month accounting period and lots of candidates were able to comment on this, realising that this would limit the amount of group relief possible.

The requirement specifically stated that the loss would not be carried forward but a minority of candidates still discussed this as an option which earned no marks and wasted their valuable exam time. Candidates are advised to read the precise wording of the requirement very carefully, highlighting the key points, so that they avoid wasting time on unnecessary responses.

**Requirement (a)(ii) – 7 marks**

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| **(ii) Explain, with supporting calculations, how the loss should be relieved in order to obtain relief at the highest possible rate of corporation tax.**<br><br>(7 marks) |

This part of the question followed on from part a(i) and was asking for an explanation, with supporting calculations of how the loss should be relieved to maximise relief at the highest possible rate of corporation tax. It was pleasing to see many candidates trying to calculate **and** explain and by attempting both these aspects of the question were able to increase their marks on this part.

In order to calculate what rate of tax a company is paying, the company's profits must be compared to the applicable lower and upper limits. The standard limits are £50,000 and £250,000 for a twelve-month period but if there are associated companies, the limits above must be divided by the number of associates. In this scenario, one company had bought another company in the current year and so had gone from having no associates in the prior year to having one associated company in the current year. As such, candidates should have halved the limits for the current year. Lots of candidates failed to consider associated companies and so did not obtain the technical and professional skills marks for this point. Candidates should note that in any group situation, they should consider the impact of associated companies.

Candidates were able to consider carrying back the loss to the prior year and group relief in the current year. However very few candidates fully understood how to group relieve when two companies have only been in a group for nine months of a twelve-month accounting period. In this case, a pro-rata loss in the surrendering company (loss x 9/12) must be compared to a pro-rata profit in the claimant company (profit x 9/12). Many candidates pro-rated one of these but very few realised that both loss and profit must be pro-rated. Furthermore. almost no candidates stated that there is a maximum group loss relief available which is the 'lower of' the available loss and the available profits.

Despite these technical errors above, it was good to see most candidates attempting to conclude on how to obtain relief at the highest possible rate of corporation tax and many were able to score technical and analysis and evaluation marks for this.

**Requirement (b) – 5 marks**

**(b) Calculate, with supporting explanations, the amount of the planned expenditure which will qualify for the research and development expenditure credit (RDEC) and explain how this relief will be given in Merino Ltd's corporation tax computation for the year ending 31 March 2027**.

(5 marks)

There were some very good answers produced for this part of the question. A common error was in thinking that hardware was qualifying R&D expenditure but candidates were generally very good on the rule for only allowing 65% of the subcontractor costs but 100% of software and consumables costs. The requirement had asked for a calculation, with supporting explanations, and it was very good to see candidates attempting to explain their reasoning as well as producing calculations, earning them an analysis and evaluation mark.

Candidates were also asked how the relief would be given in the corporation tax computation. There were three elements to this which candidates needed to identify. Firstly that 20% of the qualifying expenditure is taken. Secondly that it is included in the company's profits and thirdly that the same amount is then deducted from the company's corporation tax liability. There were a variety of different answers given here and candidates are reminded that they will be tested on the detail of the tax rules. A good way for candidates to test themselves on these rules is by practising questions so that they learn the detailed rules and how to apply them to a given scenario.

**Requirement (c) – 4 marks**

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|---|
| **(c) Calculate Brandon's income tax liability for the tax year 2025/26 in respect of the use and subsequent purchase of the computer from Merino Ltd.** (4 marks) |

In this part of the question, lots of candidates were able to calculate the annual benefit of the computer and then correctly apportioned it for six months' use.

The benefit arising from the sale of the computer was not so well understood. Most candidates thought this benefit was the market value at the time of the sale less any amounts paid at the time of the sale, which earned them some marks. However the correct benefit is the higher of the market value of the time at sale compared to the market value when first provided less amounts taxed as benefits. Once the higher of these two figures has been selected, then the amount paid on sale should be deducted. Once again, there is a considerable amount of detailed tax knowledge required for this exam and once again, question practice is key to learning how to apply this knowledge.

Finally the question asked for the income tax liability for the year in respect of the computer, and it was good to see candidates concluding their answers by calculating the tax on the benefits they had arrived at, earning them both a technical and analysis and evaluation mark.

**Conclusion**

Performance in the above questions was mixed, with some candidates producing comprehensive, well-considered and well-presented answers to most question parts, but with others clearly struggling with aspects of the technical knowledge, application, professional skills, or time management skills.

In broad terms, candidates who are successful at ATX-UK are generally able to demonstrate competence and proficiency in the following four key areas:

- They have sufficient, precise knowledge of the tax rules within the ATX-UK tax syllabus and brought forward from TX-UK.
- They are able to apply this knowledge to the specific circumstances of the scenario.
- They carefully read and address each of the specific requirements within a question.
- They take the time to think and plan their answers and manage their overall time well.