

ACA ICAEW TAX COMPLIANCE PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What is the primary role of the Chair in a company?**
 - A. Lead the company's operations
 - B. Manage financial resources
 - C. Lead the board and ensure its overall effectiveness
 - D. Engage solely with shareholders
- 2. What is 'income splitting' in tax strategy?**
 - A. A strategy to increase the tax rates of high earners
 - B. A method to distribute income to family members to decrease tax liability
 - C. A technique to hide income from tax authorities
 - D. A way to defer tax payments on earned income
- 3. What characterizes market imperfection?**
 - A. Efficient allocation of resources by the government
 - B. Monopoly power leading to inefficiency that prompts government intervention
 - C. Universal access to information about goods and services
 - D. A perfectly competitive market
- 4. What factors determine an individual's tax residency status?**
 - A. Number of dependents in a country
 - B. Physical presence, domicile, and links to a country
 - C. Total income earned in a year
 - D. Occupation and business location
- 5. Grando plc raised its price from £12.60 to £14.10 due to compliance costs. This response is an example of?**
 - A. Market adjustment
 - B. Mere compliance
 - C. Profit maximization
 - D. Market segmentation

- 6. What indicates that a business may have a dominant position in the market?**
- A. Its product is highly unique
 - B. Its market share is over 40%
 - C. It has global operations
 - D. It provides the lowest prices
- 7. What type of tax is 'inheritance tax' (IHT)?**
- A. A tax on income from work
 - B. A tax on the estate of a deceased person
 - C. A tax on capital gains
 - D. A tax on corporate profits
- 8. What constitutes insider trading?**
- A. Gaining access to public records
 - B. Improper disclosure of confidential information
 - C. Reporting market activities
 - D. Negotiating investor agreements
- 9. What is the goal of tax avoidance strategies?**
- A. To evade taxes illegally
 - B. To ensure payment of all taxes owed
 - C. To reduce tax liability through legitimate means
 - D. To accumulate wealth without paying taxes
- 10. Which statement is true regarding the independent status of non-executive directors?**
- A. All non-executive directors are always independent
 - B. Non-executive directors can only be independent if they have not served more than 5 years
 - C. Several factors can affect their independence such as relationships with the company
 - D. Independent status is determined solely by tenure

Answers

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1. C
2. B
3. B
4. B
5. B
6. B
7. B
8. B
9. C
10. C

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Explanations

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1. What is the primary role of the Chair in a company?

- A. Lead the company's operations
- B. Manage financial resources
- C. Lead the board and ensure its overall effectiveness**
- D. Engage solely with shareholders

The primary role of the Chair in a company is to lead the board and ensure its overall effectiveness. This responsibility involves facilitating board meetings, guiding discussions, and ensuring that the board fulfills its governance duties effectively. The Chair acts as a liaison between the board and the management of the company, promoting a cohesive environment where strategic decisions can be made in alignment with the company's objectives. In this capacity, the Chair plays a crucial role in setting the tone of the board's discussions, ensuring that all voices are heard and that decisions are made in a constructive manner. The effectiveness of the board also relies on the Chair's ability to maintain a balance between oversight of the company's management and support for the executive team, fostering a productive working relationship. While other roles within a company, such as operations management or financial management, deal with specific aspects of the company's functioning, the Chair's focus is broader and centered on governance and strategic leadership. This distinction is essential, as the Chair does not engage solely with shareholders but also interacts with other stakeholders, including board members, executives, and sometimes the public, to represent the company's interests. Ultimately, the Chair's leadership of the board is pivotal to the company's strategic direction and its compliance with governance practices, making it an indispensable

2. What is 'income splitting' in tax strategy?

- A. A strategy to increase the tax rates of high earners
- B. A method to distribute income to family members to decrease tax liability**
- C. A technique to hide income from tax authorities
- D. A way to defer tax payments on earned income

Income splitting refers to the strategy of distributing income among family members, particularly those in lower tax brackets, in order to minimize the overall tax liability for the family unit. By allocating income to relatives who may not utilize their full personal allowance or who are subject to lower tax rates, the taxable income is reduced for the high earner, leading to a potentially significant tax saving. This method is commonly used in situations where income can be legally allocated to spouses or children, allowing the family to take advantage of multiple personal allowances and lower tax thresholds effectively. It is particularly beneficial when one family member is in a much higher tax bracket compared to others, thereby maximizing the potential tax advantages available through income distribution. Other options represent misunderstandings of tax strategies. Increasing tax rates for high earners is not a technique associated with income splitting, but rather reflects tax legislation in certain jurisdictions. Hiding income from tax authorities is illegal and contravenes tax compliance obligations, while deferring tax payments generally involves different mechanisms like tax deferment strategies, which do not have a direct connection to the concept of income splitting. Thus, the correct understanding of income splitting within tax strategy is centered on its aim to legally distribute income to reduce the overall tax burden for a family.

3. What characterizes market imperfection?

- A. Efficient allocation of resources by the government
- B. Monopoly power leading to inefficiency that prompts government intervention**
- C. Universal access to information about goods and services
- D. A perfectly competitive market

Market imperfection is characterized by situations where the allocation of resources is not optimal due to various distortions or barriers in the market. One key aspect of market imperfection is the presence of monopoly power, which occurs when a single seller controls the entire market for a particular product or service. This control leads to inefficiencies because the monopolist can set prices higher than the competitive market level, reducing consumer surplus and overall welfare. The existence of monopoly power often prompts government intervention, as policymakers may seek to promote competition and protect consumers from the potential negative effects of monopolistic practices. This could involve antitrust laws or regulations aimed at breaking up monopolies or preventing monopolistic behaviors. In contrast, characteristics such as efficient allocation of resources by the government, universal access to information about goods and services, or a perfectly competitive market indicate scenarios where market imperfections are absent. In a perfectly competitive market, numerous buyers and sellers operate without barriers, leading to an efficient distribution of resources and information. Thus, identifying monopoly power as a source of market imperfection is essential for understanding when and why government intervention may be necessary to restore efficiency and promote fair competition.

4. What factors determine an individual's tax residency status?

- A. Number of dependents in a country
- B. Physical presence, domicile, and links to a country**
- C. Total income earned in a year
- D. Occupation and business location

The correct choice highlights the primary factors that determine an individual's tax residency status, which revolve around the concepts of physical presence, domicile, and connections to a country. Physical presence refers to the number of days an individual spends within a country during a tax year, often leading to residency status if the presence exceeds a certain threshold, typically established by local tax laws. Domicile indicates the country an individual considers their permanent home, which can impact residency status for tax purposes, as it suggests a long-term connection to a location beyond mere physical presence. Additionally, links to a country can encompass various personal and economic ties, such as family relationships, property ownership, and social connections, which collectively provide a clearer picture of an individual's intent to reside in that country. The other factors mentioned in the incorrect options do not directly address tax residency criteria. For example, the number of dependents may affect certain tax benefits or liabilities, but it doesn't fundamentally influence residency status. Likewise, total income earned in a year is relevant for taxation levels but does not determine residency status. Lastly, while one's occupation and business location can offer context about economic activity, they are not definitive factors for establishing tax residency, which is primarily gauged by how a person interacts physically and

5. Grando plc raised its price from £12.60 to £14.10 due to compliance costs. This response is an example of?

- A. Market adjustment
- B. Mere compliance**
- C. Profit maximization
- D. Market segmentation

The situation described, where Grando plc has raised its price solely due to compliance costs, exemplifies the concept of "mere compliance." This term refers to actions taken by a business that are in direct response to regulatory requirements or compliance obligations, rather than strategic market maneuvers aimed at maximizing profits or segmenting the market. In this case, the price increase is not driven by an intention to enhance profitability through market strategies such as profit maximization or market segmentation. Instead, it is a direct reflection of the need to cover the increased costs associated with compliance. Compliance costs can arise from various regulatory changes, such as new safety standards, environmental regulations, or industry-specific mandates, which necessitate businesses to adjust their pricing structures to sustain operations. While market adjustment, profit maximization, and market segmentation are all valid terms within the context of pricing strategies, the specific action taken by Grando plc highlights a reactive measure to fulfill legal obligations rather than a proactive strategy to improve competitive advantage or profitability.

6. What indicates that a business may have a dominant position in the market?

- A. Its product is highly unique
- B. Its market share is over 40%**
- C. It has global operations
- D. It provides the lowest prices

A business may have a dominant position in the market when its market share exceeds a specific threshold, typically considered to be over 40%. This significant share implies that the business has considerable control over its market, enabling it to influence pricing, supply, and potentially the behavior of competitors. A high market share often leads to fewer competitive pressures, allowing the company to operate with more freedom compared to those with smaller market shares. While uniqueness in a product, global operations, or competitive pricing strategies are indicators of a strong business presence, they do not directly determine market dominance. Unique products might attract niche markets, but they don't guarantee dominance across a broader market. Similarly, having global operations indicates reach but does not equate to dominance within a specific market structure. Offering the lowest prices could capture market segments but not necessarily indicate a dominant position, especially in markets where competition drives prices lower. Therefore, high market share serves as a clear quantifiable measure of market power, making it the most relevant indicator of a business's dominant position in the market.

7. What type of tax is 'inheritance tax' (IHT)?

- A. A tax on income from work
- B. A tax on the estate of a deceased person**
- C. A tax on capital gains
- D. A tax on corporate profits

Inheritance tax (IHT) is classified as a tax on the estate of a deceased person. This means it is levied on the value of all the assets owned by an individual at the time of their death, minus any debts and liabilities. The tax is typically calculated based on the total value of the estate, which can include property, investments, and various personal belongings. Inheritance tax is assessed after a person's death and is paid from the estate before the assets are distributed to the beneficiaries. This classification is distinct from other types of taxes, such as income tax, which is based on earnings from work; capital gains tax, which applies to profit from the sale of assets; or corporation tax, which is related to the profits of a business. The focus of inheritance tax is specifically on the transfer of wealth upon death, making it a unique category within the tax system.

8. What constitutes insider trading?

- A. Gaining access to public records
- B. Improper disclosure of confidential information**
- C. Reporting market activities
- D. Negotiating investor agreements

Insider trading refers to the buying or selling of securities based on non-public, material information about a company. The correct answer is centered around the idea of improper disclosure of confidential information, which plays a critical role in this concept. When an individual who possesses material information that is not available to the public discloses this information to others, it can lead to an unfair advantage in the trading of stocks or other securities. This improper disclosure often occurs when a person with a fiduciary duty, such as a company executive or employee, shares confidential insights about the corporation's financial status, upcoming significant transactions, or other sensitive matters that could influence investor decisions. By trading on this non-public information, individuals could significantly influence market conditions and outcomes in a manner that undermines the fairness and integrity of the financial markets. Consequently, such actions are illegal and punishable under securities laws. Other options, while related to financial practices, do not encapsulate the essence of insider trading. Gaining access to public records is legal and does not involve any insider information. Reporting market activities typically pertains to compliance and transparency and does not imply the use of confidential data. Negotiating investor agreements may involve discussions around terms of investment but does not inherently suggest the misuse of

9. What is the goal of tax avoidance strategies?

- A. To evade taxes illegally
- B. To ensure payment of all taxes owed
- C. To reduce tax liability through legitimate means**
- D. To accumulate wealth without paying taxes

The goal of tax avoidance strategies is to reduce tax liability through legitimate means. This encompasses various legal methods that individuals and businesses can utilize to minimize the amount of tax they owe. Tax avoidance involves careful planning and the use of available deductions, credits, exemptions, and other strategies permitted under tax law to lower effective tax rates and increase overall financial efficiency, all while remaining compliant with legal regulations. In essence, tax avoidance reflects a proactive approach to managing tax responsibilities ethically and strategically, distinguishing it from illegal tax evasion. It is focused on optimizing tax obligations while still adhering to the laws put forth by tax authorities. Businesses and individuals engage in tax avoidance not only to conserve resources but also to reinvest in growth opportunities, thereby enhancing their overall financial position.

10. Which statement is true regarding the independent status of non-executive directors?

- A. All non-executive directors are always independent
- B. Non-executive directors can only be independent if they have not served more than 5 years
- C. Several factors can affect their independence such as relationships with the company**
- D. Independent status is determined solely by tenure

The choice that states that several factors can affect the independence of non-executive directors is correct because independence is not solely defined by one aspect, such as tenure or duration of service. Instead, a range of factors can influence how independent a director is perceived to be. These factors include personal or professional relationships with the company, potential conflicts of interest, past employment with the company, and any significant business ties to the firm or its major stakeholders. The essence of a non-executive director's role is to bring an outsider's perspective to the board, providing checks and balances to the executive management team. Therefore, having strong connections or relationships with the company can diminish their objectivity and independence. In contrast, merely having served for five years does not automatically imply a loss of independence, nor does mere tenure determine their status. Independence is a multifaceted concept that takes into account various relational dynamics and connections, making this choice the most comprehensive and accurate statement regarding the independent status of non-executive directors.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://acaicaewtaxcompliance.examzify.com>

We wish you the very best on your exam journey. You've got this!

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