ACCA Advanced Taxation (ATX) Practice Exam (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

Table of Contents

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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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

1. **If a business is considered de minimis, what does this entail regarding VAT?**
   A. No output VAT can be charged
   B. All input VAT can be recovered
   C. The business is not required to pay any VAT
   D. Output VAT is restricted to specific thresholds

2. **What is the primary consideration for determining if VAT is charged on a property sale?**
   A. The age of the property and the owner's election
   B. The buyer's status as a business
   C. The location of the property
   D. The amount of the sale

3. **Is income tax payable upon the grant of share options?**
   A. Yes, immediately upon the grant
   B. No, there is no income tax payable
   C. Only if shares are sold
   D. Only if the value increases

4. **Are retraining services considered exempt benefits in termination payments?**
   A. No, they are taxable benefits
   B. Yes, they are exempt benefits
   C. Only if the employee was on leave
   D. Only if the employer pays directly to the service provider

5. **What is the threshold for VAT registration for partnerships in a 12-month period?**
   A. £75,000
   B. £85,000
   C. £100,000
   D. £90,000

6. What happens to a previous PET if the donor dies within seven years of the original gift?

A. It becomes non-chargeable

B. Only the later PET is chargeable

C. The original and later deemed PET both become chargeable

D. It creates an additional tax credit

7. Which limits are assessed for recovering VAT relating to exempt supplies?

A. £400 per month and 30% of all input tax

B. £625 per month and 40% of all input tax

C. £625 per month and 50% of all input tax

D. £800 per month and 60% of all input tax

8. What is an important consideration when dealing with overseas companies and their CFC status?

A. They must have minimum capital requirements

B. They must always follow UK tax rules

C. They could be classified as a CFC

D. They are exempt from local regulations

9. When can the reduced rate of 36% apply for Inheritance Tax?

A. When any gift is made

B. When gifts to charity are 10% or more of the estate

C. When transferring shares to family

D. When the estate is valued under a set limit

10. Which of the following is NOT an example of exempt supplies from VAT?

A. Financial services

B. Telecommunications services

C. Insurance

D. Postal services

Answers

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

Explanations

1. If a business is considered de minimis, what does this entail regarding VAT?

A. No output VAT can be charged

B. All input VAT can be recovered

C. The business is not required to pay any VAT

D. Output VAT is restricted to specific thresholds

In the context of Value Added Tax (VAT), when a business is classified as de minimis, it pertains to the idea that the business engages in a minimal amount of taxable supplies in relation to its overall activities. This classification has specific implications regarding the recovery of input VAT. When a business qualifies for de minimis relief, it typically means that the business can recover all its input VAT on related expenses, provided that the input VAT is attributable to taxable supplies. This is significant because it allows businesses with limited levels of taxable output to still benefit from reclaiming VAT on purchases they make which support their business operations. For instance, if a business incurs VAT on expenses while mainly making exempt supplies, it may not be able to recover that VAT under normal circumstances. However, businesses under the de minimis threshold find it advantageous as they can recover VAT that they may not usually be able to if their input VAT exceeds the threshold of exempt or non-business supplies. In contrast, the other choices do not accurately reflect the implications of being de minimis. For example, a business being required to pay no VAT or having restrictions on output VAT threshold does not align with the de minimis principles. Instead, being de minimis primarily facilitates the recovery of input VAT,

2. What is the primary consideration for determining if VAT is charged on a property sale?

A. The age of the property and the owner's election

B. The buyer's status as a business

C. The location of the property

D. The amount of the sale

The primary consideration for determining if VAT is charged on a property sale is the age of the property and the owner's election. In VAT law, whether a sale of property is subject to VAT often hinges on whether the property is considered to be "commercial" or "residential." For properties that are not new (typically those over a specified age, often considered to be more than three years old), the default position is that they are exempt from VAT. However, if the owner of the property opts to tax, they can choose to charge VAT on the sale. This election to tax allows the seller to recover VAT on related costs, thus making it a strategic decision. The buyer's status as a business, while relevant for other VAT considerations such as input VAT recovery, does not fundamentally determine whether VAT applies to the sale itself. The location of the property can influence VAT rates or exemptions, but it is not the primary driver for taxability. The amount of the sale may impact the size or scale of the transaction, but again, it does not dictate VAT liability on its own. Therefore, understanding the implications of the age of the property and whether the owner's election to tax has been made is pivotal in determining the VAT treatment on a property sale.

3. Is income tax payable upon the grant of share options?

A. Yes, immediately upon the grant

B. No, there is no income tax payable

C. Only if shares are sold

D. Only if the value increases

When it comes to the taxation of share options, income tax is generally not payable at the time of the grant of the option. Share options grant an employee the right to purchase shares in the future at a predetermined price, and there is typically no value realized at the moment they are granted. Instead, tax liability typically arises when the options are exercised, and the employee acquires the shares. At that point, if the shares are purchased at a lower price than their market value, the difference between the exercise price and the market value at exercise is treated as income and is subject to income tax. This aligns with the nuanced tax treatment whereby the income tax implications are deferred until there is a realized benefit from the share options, hence the correct understanding is that there is no income tax payable immediately upon the grant of the share options.

4. Are retraining services considered exempt benefits in termination payments?

A. No, they are taxable benefits

B. Yes, they are exempt benefits

C. Only if the employee was on leave

D. Only if the employer pays directly to the service provider

Retraining services are considered exempt benefits in termination payments because they are intended to assist an employee in transitioning to new employment opportunities after a redundancy or termination. This exemption acknowledges the support that retraining provides, helping individuals to improve their skills and employability in the workforce. In many tax jurisdictions, termination payments may include various components, and certain benefits associated with retraining are facilitated to alleviate the financial impact of job loss. By classifying these retraining services as exempt, the tax legislation encourages employers to provide such supportive measures without imposing additional tax burdens on the benefits given. The rationale behind this classification focuses on the broader societal interest of reducing unemployment and helping individuals reintegrate into the job market more effectively. This exemption highlights a recognition that investing in human capital is beneficial not only for the individuals involved but also for the economy as a whole.

5. What is the threshold for VAT registration for partnerships in a 12-month period?

A. £75,000

B. £85,000

C. £100,000

D. £90,000

The threshold for VAT registration for partnerships, as well as for other types of businesses, is set at £85,000 in the UK for a 12-month period. This means that if the taxable turnover of a partnership exceeds £85,000 at any point in the past 12 months, it is required to register for VAT. This registration threshold is important, as businesses that exceed it must comply with VAT regulations, including charging VAT on their sales, filing VAT returns, and keeping appropriate records. Partnerships, like other business structures, must monitor their turnover closely to ensure compliance with VAT laws. While £75,000, £100,000, and £90,000 may reflect other figures relevant in different contexts or time periods, the current and applicable threshold for VAT registration remains £85,000. This specific figure is established by HM Revenue and Customs (HMRC) and must be adhered to by partnerships to avoid penalties and ensure proper tax obligations are met.

6. What happens to a previous PET if the donor dies within seven years of the original gift?

A. It becomes non-chargeable

B. Only the later PET is chargeable

C. The original and later deemed PET both become chargeable

D. It creates an additional tax credit

When a donor makes a gift, known as a Potentially Exempt Transfer (PET), it typically becomes exempt from Inheritance Tax (IHT) if the donor survives for seven years after making the gift. However, if the donor dies within that seven-year period, the PET is included in the donor's estate for IHT purposes, and this is where the concept of a deemed PET comes into play. The original gift that was a PET will be considered a chargeable transfer if the donor dies within the seven years. Moreover, if the donor made other subsequent gifts during this period, each of those gifts would also be deemed chargeable transfers, known as later PETs. Therefore, both the original PET and any later PETs made by the donor before their death become chargeable for IHT purposes. This is a fundamental aspect of IHT planning and understanding the implications of making gifts, as it underscores the importance of surviving beyond the seven-year threshold to ensure that gifts do not attract tax liability upon death. Thus, in the event of the donor's death within that timeframe, both the original PET and any additional gifts made during that span are treated as chargeable. The choice that accurately reflects this situation is that both the original and later

7. Which limits are assessed for recovering VAT relating to exempt supplies?

A. £400 per month and 30% of all input tax

B. £625 per month and 40% of all input tax

C. £625 per month and 50% of all input tax

D. £800 per month and 60% of all input tax

The correct answer reflects the implications of the UK VAT system regarding input tax recovery for businesses that make exempt supplies. When a business deals with exempt supplies, it faces limitations on its ability to reclaim VAT on purchases associated with those supplies. This is because the input tax related to exempt supplies does not contribute to taxable business activities. The limits state that a business can recover a fixed amount of input tax, specifically £625 per month, while being capped at 50% of the total input tax related to purchases. The reasoning behind these figures is that they are designed to balance the need for businesses to manage their input VAT recovery without providing an unwarranted advantage to those making primarily exempt supplies. Higher recovery limits may incentivize businesses to make exempt supplies, potentially distorting market competition and reducing VAT revenues for the government. Therefore, the figures: £625 per month and recovery at a rate of 50% of input tax reflect a controlled approach aimed at balancing these interests within the VAT framework.

8. What is an important consideration when dealing with overseas companies and their CFC status?

A. They must have minimum capital requirements

B. They must always follow UK tax rules

C. They could be classified as a CFC

D. They are exempt from local regulations

An important consideration when dealing with overseas companies and their Controlled Foreign Company (CFC) status is that these companies could be classified as a CFC under certain conditions. The CFC rules are designed to prevent profit shifting to low or no tax jurisdictions and typically apply when a UK resident company has control over a foreign corporation, and that corporation derives its income from passive sources or from lower tax jurisdictions. This classification is crucial because, if the overseas company qualifies as a CFC, its income may be subject to UK taxation under the UK's CFC rules, which aim to curb tax avoidance. This could lead to UK tax liabilities for the controlling UK company, regardless of where the income is earned. The other considerations listed are less relevant to the specific context of CFC status. Minimum capital requirements are generally a matter of local company law rather than a direct factor in CFC classification. Additionally, overseas companies do not always need to follow UK tax rules, as they are subject to their local jurisdiction's regulations. Lastly, being exempt from local regulations does not relate to the CFC classification and can be misleading; they must comply with the laws of their operating country. Therefore, the possibility of classification as a CFC is the most pertinent consideration to understand the implications

9. When can the reduced rate of 36% apply for Inheritance Tax?

A. When any gift is made

B. When gifts to charity are 10% or more of the estate

C. When transferring shares to family

D. When the estate is valued under a set limit

The reduced rate of 36% for Inheritance Tax applies when the value of gifts to charity amounts to 10% or more of the deceased's estate. This reduced rate is aimed at encouraging charitable giving, as individuals looking to leave a legacy can benefit from a lower tax liability when they choose to allocate a significant portion of their estate to charitable causes. By donating to registered charities, an individual not only supports causes they care about but also reduces the overall amount taxed upon their estate after their passing. In contrast, simply making any gift (the first choice) does not trigger the reduced rate, as the focus is strictly on charitable contributions relative to the total estate value. Sharing family-owned assets like shares (the third choice) does not relate to the reduced tax rate but may involve different provisions regarding gift tax. Lastly, the value of the estate (the fourth choice) is not relevant to achieving the reduced rate; rather, it is the specific proportion of charitable giving that qualifies the estate for the advantageous tax rate.

10. Which of the following is NOT an example of exempt supplies from VAT?

A. Financial services

B. Telecommunications services

C. Insurance

D. Postal services

Telecommunications services are generally considered taxable supplies under VAT regulations, as they do not meet the criteria for exemption. Exempt supplies are those that do not charge VAT, allowing businesses to make certain types of sales without VAT implications; these typically include financial services, insurance, and postal services. In the context of VAT, financial services refer to activities like banking and investment, which are exempt to encourage these types of economic activities. Similarly, insurance services are also exempt because they represent risk management rather than a good or service in the traditional sense. Postal services, particularly when provided by national postal authorities, are also exempt due to their essential role in communication and parcel delivery. On the other hand, telecommunications services involve the provision of electronic communications and are usually subject to VAT as they are considered commercial transactions where consumers receive a definite service in exchange for payment. Therefore, telecommunications services are not exempt and make option B the correct choice as the one that does not represent exempt supplies.

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://accaadvancedtaxationcertification-atx.examzify.com

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