

CIOT - ATT-CTA

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

	£	£	£	£	£
	FYA @ 50%	FYA @ 100%	General Pool	Special Rate Pool	CAs
TWDV B/FWD			3,575,000	125,600	
Additions:					
Car with CO2 emissions of 45g/km			27,500		
New electric car		30,000			
Electric lighting system	250,000				
Totals	250,000	30,000	3,602,500	125,600	
FYA @ 50%	(125,000)				125,000
FYA @ 100%		(30,000)			30,000
WDA @18%			(648,450)		648,450
WDA @ 6%				(7,536)	7,536
Move Electric lighting system to SRP	(125,000)			125,000	
TWDV C/F	NIL	NIL	2,954,050	243,064	
Total CAs					<b>810,986</b>

Total CAs that can be claimed by Chaffinch Ltd in the year

ended 31 March 2022 is £810,986.

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-----ANSWER-1-ABOVE-----  
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 -----ANSWER-2-BELOW-----  
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Answer-to-Question-\_2\_

Input VAT recoverable

	£				
Accountancy fees [N1]	NIL				
Home telephone bill [W1]	34				
Purchase of motor car [N2]	NIL				
Purchase of plant and machinery used in Greenham Ltd's business	3,000				
VAT input credit	<b><u>3,034</u></b>				

[N1] The accountancy fees cannot be recovered if Greenham Ltd does not have sufficient records detailing VAT.

[W1] £68 \* 50% business use = £34

[N2] Car must only be used for business for input VAT to be recoverable. As there is a private use element, no input VAT is recoverable

Total input VAT recoverable by Greenham Ltd on its VAT return for the quarter ended 31 January 2022 is £3,034.

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-----ANSWER-2-ABOVE-----  
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[N1] Depreciation of fixed assets is disallowed expenditure and must be added back to profit before tax.

[N2] While staff entertainment is an allowable expense, customer entertainment is disallowed expenditure and must be added back to profit before tax.

[N3] Donations to a national charity are disallowed expenditure and must be added back to profit before tax.

[N4] Losses on disposals of fixed assets are disallowed expenditure and must be added back to profit before tax.

[N5] As the directors' bonus accrued are not paid within nine months of the period end, i.e. by 31 December 2022, it is not an allowable expense.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question-\_4\_

Dr Directors loan account 100,000  
Cr Bank 100,000

Dr Salary expense 75,000  
Cr Directors loan account 75,000

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question-\_5\_

As Steve is operating through an intermediary, Arnott Ltd, the income from relevant engagements that exceeds actual salary paid out and various other deductions is deemed to be a salary received by Steve on 5 April.

If Arnott Ltd is subject to off-payroll working treatment, all income received by Arnott Ltd will be taxed on Peter as employment income, after the deductions of allowable expenses.

The net deemed payment is calculated as income from relevant engagements, less a 5% automatic deductions, less expenses paid by Arnott Ltd that are allowable as deductions from earnings if paid by an employee, less employer's NICs on worker's pay, less the actual salary paid to Steve.

Steve will be deemed to be paid on 5 April and subject to tax and Class 1 primary NICs via PAYE on the net deemed payment less employers NICs, and Arnott Ltd will be subject to Class 1 secondary NICs.

Steve will need to report the actual salary paid to him by Arnott Ltd and the net deemed payment on his self-assessment tax return.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question-\_6\_

Bonus:

Havers Ltd will pay class 1 secondary NICs on the bonus of £10,000 as the bonus constitutes earnings. Havers Ltd will be subject to Class 1 secondary NICs at 13.8% on amounts above the secondary threshold.

Employer pension contributions to a registered pension scheme are a tax-exempt benefit, therefore no NICs will be payable on the £5,000 pension contributions made by Havers Ltd.

Medical insurance is a taxable benefit and Havers Ltd will be subject to Class 1A NICs at 13.8% on the £750.

High Street store vouchers constitute earnings, therefore Havers Ltd will be subject to Class 1 secondary NICs at 13.8% on amounts above the secondary threshold.

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-----ANSWER-6-ABOVE-----  
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 -----ANSWER-7-BELOW-----  
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Answer-to-Question-\_7\_

For the year ended 31 December 2021

	£				
TTP	19,500,000				
Dividend income (excluding dividends received from 51% subsidiaries)	1,500,000				
<b>Augmented profits</b>	<b>21,000,000</b>				

Dorothea Ltd is required to pay its corporation tax liability in instalments if it is a large company or a very large company. The large company threshold is augmented profits exceeding £1.5 million; and the very large company threshold is augmented profits exceeding £20 million. This threshold proportionately reduced for short accounting periods and the number of related 51% group companies at the end of the previous accounting period.

As Dorothea Ltd's augmented profits for the year ended 31 December 2021 exceeds £20m, it is considered a very large company.

As Dorothea Ltd had a similar level of profits and dividends in previous years, it is assumed that the exceptions for instalment payments do not apply.

Corporation tax liability for the year ended 31 December 2021:

	£					
TTP	19,500,000					
<b>CT liability @ 19%</b>	<b>3,705,000</b>					

Dorothea Ltd is required to make instalment payments as follows:

Instalment 1:  $3/12 * 3,705,000 = \text{£}926,250$  (due 14th day of month three from start of AP, i.e. **14 March 2021**)

Instalment 2:  $3/12 * 3,705,000 = \text{£}926,250$  (due three months after previous instalment, i.e. **14 June 2021**)

Instalment 3:  $3/12 * 3,705,000 = \text{£}926,250$  (due three months after previous instalment, i.e. **14 September 2021**)

Instalment 4:  $3/12 * 3,705,000 = \text{£}926,250$  (due 14th day of the final month of the AP, i.e. **14 December 2021**)

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 -----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question- 8\_

Musikanten Ltd is not-resident for UK corporation tax purposes. However, non-resident companies are still liable to UK corporation tax on chargeable gains from disposals of UK land and buildings.

Therefore, when Musikanten Ltd sells the UK land later in the year, it will be subject to UK corporation tax at 19% on the chargeable gain arising from the disposal of the UK land.

As the land is held for investment purposes, any gain arising from 5 April 2019 will be chargeable to UK CGT in respect of the disposal of an interest in UK land. The gain will be calculated as the sale proceeds less the market value at 5 April 2019. Alternatively an election for the retrospective method can be made, in which case the gain will be calculated as sale proceeds less the original cost when it was purchased by Musikanten Ltd in June 2019.

The gain will be subject to UK corporation tax at 19% as described above.

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-----ANSWER-8-ABOVE-----  
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 -----ANSWER-9-BELOW-----  
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Answer-to-Question-\_9\_

Disposal of building on 1 April 2022:

	£				
Proceeds	1,500,000				
Less: Cost	(900,000)				
Less: IA [W1]	(58,500)				
Indexed Gain	541,500				
Less: Rollover Relief [N1] [W2]	(341,500)				
<b>Chargeable gain</b>	<b>200,000</b>				

[W1]

$$IA = £900,000 * (278.1 - 261.1) / 261.1 = £58,500$$

[N1] As the building is used in Colossus Ltd's trade, it is qualifying asset. Assuming that the new freehold building is purchased within the four year period starting from one year before the disposal of the old building and ending three years after the disposal fo the new building, and the new building is immediately brought into business use, rollover relief will be available. Colossus Ltd intends to purchase a new freehold building on 30 September 2022, therefore it has been assumed that rollover relief is available.

[W2] Rollover relief

	£				
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Sale proceeds	1,500,000				
Less: Amount to be reinvested into new building	(1,300,000)				
Cash retained (chargeable)	200,000				
Rollover relief [W3]	341,500				

[W3] Rollover relief = indexed gain - cash retained  
Rollover relief = £541,500 - £200,000 = £341,500

Base cost of new freehold building:

	£				
Cost	1,300,000				
Less: Rollover relief [W3 above]	(341,500)				
<b>Revised base cost</b>	<b>958,500</b>				

**The chargeable gain on the sale of the old building is £200,000.**

The base cost of the new freehold building is £958,500.

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-----ANSWER-9-ABOVE-----  
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 -----ANSWER-10-BELOW-----  
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Answer-to-Question-\_10\_

A close company is a company that is resident in the UK; and either controlled by five or fewer participators, or any number of participator directors.

Rachel's shareholding together with her associates' shareholding is as follows:

	Shareholding %				
Rachel	28%				
Paul (Rachel's husband) [N1]	5%				
Robert (Rachel's brother) [N2]	5%				
Total	38%				

[N1] Paul is associated to Rachel as associates include one's spouse/civil partner.

[N2] Robert is associated to Rachel as associates include one's siblings.

Sally is not an associate of Rachel as associates do not include one's in-laws

Shareholding of five participators with largest shareholding:

	Shareholding %				
Rachel and	38%				

associates [above]					
Sally (Paul's sister)	5%				
Unconnected shareholder 1	5%				
Unconnected shareholder 2	5%				
Unconnected shareholder 3	5%				
<b>Total</b>	<b>58%</b>				

**As Crystal Ltd is controlled by five or fewer participators  
(and resident in the UK), it is a close company.**

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-----ANSWER-10-ABOVE-----  
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-----ANSWER-11-BELOW-----  
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Answer-to-Question-\_11\_

If the interest payment to Laura of £25,000 is delayed until 31 July 2022, it will be deductible from trade/non-trade profits (depending on the type of loan relationship - see explanation below) in the year ended 30 June 2022, rather than the year ended 30 June 2021.

If the interest relates to a trading loan, it will be allowable as a deduction from trade profits in arriving at taxable trading profits (TTP).

If the interest relates to a non-trading loan, the interest payable to Laura will be treated as a non-trading expense (LR) and added back to trade profits and allowed as a non-trading expense (LR).

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-----ANSWER-11-ABOVE-----  
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CIOT - ATT-CTA

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 2**

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 -----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

1)

	£	£	£	£	
	YE 30.06.20 20	6m/e 31.12.2020	YE 31.12.2021		
Trading profit	4,400,900	1,600,000	NIL		
Non-trade profit (LR)	NIL	NIL	20,100		
Chargeable gains	NIL	100,600	250,000		
Totals	4,400,900	1,700,600	270,100		
Current year loss relief claim			(270,100)		
Carry back loss relief claim [N1] [N2]	(4,200,450)	(1,700,600)			
Totals	200,450	NIL	NIL		
Less: QCDs	(750)	wasted	wasted		
<b>TTP</b>	<b>199,700</b>	<b>NIL</b>	<b>NIL</b>		
QCDs wasted:	NIL	(750)	(750)		
Repayment of tax that can					

be received by Burford:					
<b>£4,200,450 @ 19%</b>	<b>798,086</b>				
<b>(£1,700,600 - 750) @ 19%</b>		<b>322,972</b>			

Trading Loss Memo (£):

Trading loss arising YE 31.12.2021 = (6,680,000)  
 Current year loss claim s37(3) (a) = 270,100  
 Carry back loss relief claim [N1]:  
 -Carried back to 6m ended 31.12.2020 = 1,700,600  
 -Carried back to year ended 30.06.2020 = 2,200,450 + 2,000,000 [N2]  
 Remaining loss to carry forward = £508,850

[W1] Profits of the 12m to 31.12.2020:

	£				
6m/e 31.12.2020	1,700,600				
YE 30.06.2020 * 50% (4,400,900 * 50%) [see N2]	2,200,450				
Profits of 12m to 31.12.2020	3,901,050				

[N1] As the trading loss of £6,680,000 was incurred in an accounting period ending between 1 April 2020 and 31 March 2022 inclusive (trading loss was incurred on 31 December 2021), the losses can benefit from the temporary extension

of carry back rules. Losses are carried back and offset against profits of the 36 months on a last in first out (LIFO) basis.

[N2] For the extended relief, the total amount of loss that can be carried back to the two earlier years is capped at £2 million total. Only the first 6 months from the year ended 30.06.2020 relates to the 'earlier two years', therefore £2,000,000 of trade loss can be offset against the the first 6 months worth of profit ( $£4,400,900 * 50\% = £2,200,450 =$  first 6 months of profit). As the second 6 months of the year ended 30.06.2020 does not relate to the 'earlier two years' for the temporary extension of carry back, it is not subject to the cap of £2 million. Therefore, £2,200,450 can be offset for the second 6 months, and £2,000,000 for the first 6 months, for a total of £4,200,450.

2)

For the current year loss relief claim, the deadline for the claim is 2 years from the end of the loss-making period, i. e. **31 December 2023**. HMRC must be notified by this date.

For the carry back claim, the claim must be made in the corporation tax return within 2 years from the end of the loss-making period, i.e. **31 December 2023**. HMRC must be notified by this date.

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-----ANSWER-12-ABOVE-----  
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-----ANSWER-13-BELOW-----  
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Answer-to-Question-\_13\_

1)

In deciding what operating structure should be used by each of the new overseas businesses of Northey Ltd, several factors need to be considered.

If the foreign countries which Northey Ltd is considering have lower corporation tax rates than the UK and Northey Ltd expects to generate profits in those countries, an overseas subsidiary has its advantages as profits of the subsidiary will not be subject to UK corporation tax. The disadvantage is that the subsidiary will be a 51% group company and Northey Ltd will prima facie be a large company for purpose of the quarterly payment regime. This is particularly important for Northey Ltd, as cash flow is an issue for the company. It may therefore be more tax efficient for Northey Ltd to set up foreign subsidiaries instead.

However, if the overseas activities end up being loss-making, no relief will be available for these losses in the UK for foreign subsidiaries. Therefore, if losses are anticipated, foreign permanent establishments/branches may be preferred, so that the losses get relief in the UK.

Another point to consider is the fact that there are no UK loss relief is available and UK CAs are not available on plant and machinery purchased by the subsidiary so Northey Ltd should carefully consider if it will be investing in plant and machinery. If so, foreign permanent establishments/branches may be more beneficial from a cash flow point of view.

If setting up overseas operations as a branch, double tax relief will be available on any overseas tax paid, subject to a maximum of the UK tax on overseas profits. Any losses will be available for UK loss relief in Northey Ltd's corporation tax computation and profits from year two will be subject to UK corporation tax. It is possible to elect



for profits arising from foreign PEs of a UK company to be exempt, however if the election is made, losses will be excluded as well.

2)

As the branch in Ruritania is a foreign permanent establishment, its profits are treated as part of the profits of Northey Ltd (the UK company) and is included in Northey Ltd's corporation tax computation as trading profits.

Year ended 31 January 2022 (Northey Ltd):

	£				
Trade profits	1,000,000				
Foreign branch profits (£200,000 * 100/75) [N1]	266,667				
Dividend from overseas company	Exempt				
TTP	1,266,667				
CT Liability @ 19%	240,667				
DTR = lower of UK corporation tax or foreign tax paid:	(50,667)				
<b>CT</b>	<b>190,000</b>				

<b>Liability payable =</b>					

UK corporation tax  $(266,667 * 19\%) = \pounds 50,667$

Foreign tax paid =  $\pounds 66,667$

[N1] Its foreign branch profits treated as part of the profits of Northey Ltd.

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 -----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question-\_14\_

1)

To: Adam (email-address)

From: Tax adviser (e-mail address)

Subject line: R&D expenditure for AP Development Ltd

Hi Adam,

Thank you for your e-mail.

Please see my responses below in answer to both your and our clients' queries:

AP Developments Ltd

To briefly describe what type of expenditure would qualify, research and Development (R&D) expenditure for tax purposes takes place when a project seeks to achieve an advance in science or technology.

Qualifying expenditure on such projects include expenditure on staff costs, which includes salaries (but excludes benefits), bonuses, class 1 secondary national insurance contributions paid by AP Developments Ltd, and pension paid in the accounting period. Please note the costs mentioned above only relate to employees who are directly and actively involved in the research and development project.

Qualifying expenditure also includes computer software and consumable items (such as water and electricity used in the R&D process, but not consumable reflected in goods/services sold as part of AP Developments Ltd's trade), relevant payments to subjects of clinical trials, subcontracted R&D costs and externally provided workers.

Should AP Developments Ltd incur capital expenditure for R&D purposes, this would not be qualifying R&D expenditure, but it would be if it is eligible for 100% first-year allowance

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instead.

The size of the company is relevant as it determines the how relief is given to the company:

For small and medium-sized enterprises (SMEs), relief is given as a tax deduction of 230% for qualifying R&D. A SME is a company with less than 500 employees, and either annual turnover equal or less than 100 million Euros, or an annual balance sheet of less than or equal to 86 million Euros.

There is a further relief available to SMEs. A SME with trade losses may surrender the losses to HMRC and receive a tax credit in the form of a cash payment. The trade loss which can be surrendered is the amount of the unrelieved trade loss that is attributable to the tax relief given on qualifying R&D expenditure. The surrenderable loss is the lower of qualifying expenditure multiplied by 230%, and the unrelieved trade loss after any actual or potential current year loss relief claims and any actual carry back loss relief claims. The tax credit is calculated as 14.5% of the surrenderable loss for the accounting period, subject to a cap of £20,000 plus 3 times the PAYE and NICs payable on all employees for the period.

For large companies, relief is given as a research and development expenditure credit (RDEC). A large company is one that does not meet the criteria for an SME. The RDEC is calculated as 13% of a company's qualifying R&D expenditure.

The RDEC is taxable in calculating the trade profits of a company for the accounting period, and credit against the company's corporation tax liability. If there is insufficient corporation tax liability to fully relieve the RDEC, a company may receive a cash repayment for some of the unrelieved RDEC from HMRC. The cash repayment is calculated as the lower of the remaining unrelieved RDEC, 100% RDEC less (RDEC - 19%), or PAYE and Class 1 NICs relating to R&D staff. Any remaining RDEC that is unrelieved may be carried forward and treated as a credit in the next accounting period.

2)

Swinsbrook Ltd

A R&D tax credit is a form of relief available to a SME with trade losses. As Swinsbrook Ltd will make a loss in the year, it may surrender the losses to HMRC and receive a tax credit in the form of a cash payment.

The trade loss which can be surrendered is the amount of the unrelieved trade loss that is attributable to the tax relief given on qualifying R&D expenditure. The surrenderable loss is the lower of qualifying expenditure multiplied by 230%, and the unrelieved trade loss after any actual or potential current year loss relief claims and any actual carry back loss relief claims. The tax credit is calculated as 14.5% of the surrenderable loss for the accounting period, subject to a cap of £20,000 plus 3 times the PAYE and NICs payable on all employees for the period.

The calculation of the R&D tax credit for Swinsbrook Ltd is as follows:

	£				
Surrenderable Loss [W1]	133,400				
<b>R&amp;D Tax Credit @ 14.5%</b>	<b>19,343</b>				

[W1]

Surrenderable loss = lower of:

i) qualifying R&D expenditure \* 230% = £58,000 \* 230% =

**£133,400**

ii) unrelieved trade loss = £1,500,000

Loss remaining after surrendering loss for R&D tax credit:

	£				
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Unrelieved trade loss	1,500,000				
Less: loss surrendered	(133,400)				
<b>Loss remaining</b>	<b>1,366,600</b>				

The R&D tax credit available to Swinsbrook Ltd is £19,343.

The loss remaining after surrendering loss for the R&D tax credit is £1,366,600

3)

CN Group Ltd

An engagement letter is important for tax work as it defines the terms and limitations of the engagement and what work is agreed with the client. It is used to manage clients' expectations and can provide significant protection against potential claims. The letter provides evidence of what was agreed in the event that a dispute arises as to the scope of the CTA LLP's engagements or where there are allegations of professional negligence. The engagement letter also records the terms of the contract with the client for the provision of professional services and so it is important that the terms are precise and clear.

While it is strongly recommended to issue an engagement letter to the client at the outset of the engagement for the above described reasons, and for the engagement to be reviewed regularly, it is not compulsory, given that this is guidance rather than a rule. However, as it is very important in engagements, an engagement letter should be issued and I urge that we draft one up and get the client to sign the engagement letter as soon as possible before we proceed with undertaking any work for a potential client.

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-----ANSWER-14-ABOVE-----  
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-----ANSWER-15-BELOW-----  
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Answer-to-Question-\_15\_

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-----ANSWER-15-ABOVE-----  
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-----ANSWER-16-BELOW-----  
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Answer-to-Question-\_16\_