THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Tamson Ltd has a Corporation Tax liability of £57,500 for the year ended 31 March 2023. Tamson Ltd paid most of this liability to HMRC on 31 December 2023 and the remainder 31 March 2024 when it submitted its Corporation Tax return. Tamson Ltd is not a large or very large company.

   Explain how the interest on late payment of Corporation Tax is calculated, when the interest is due and how the interest payable is treated in the Corporation Tax computation. (3)

2. Kaleb Ltd, a standalone company, purchased the following assets during the year ended 31 January 2024:

	£
Tractor – purchased 28 March 2023	125,000
Manufacturing equipment – purchased 14 April 2023	315,000
Car with CO_2 emissions 100g/km	65,000

   At 1 February 2023 the pool balances were:

	£
General pool	5,625,000
Special rate pool	125,000

   Calculate the maximum capital allowances that can be claimed by Kaleb Ltd for the year ended 31 January 2024. (4)

3. Sidgwick plc, a company listed on the London Stock Exchange, provides the following items of remuneration to one of its employees, Nicola:

   1) Salary
   2) Contribution to her pension scheme
   3) Medical insurance
   4) 50 shares in Sidgwick plc

   State the class of National Insurance both Sidgwick plc and Nicola should pay on each of these items. (4)

4. Carter Ltd has £50,000 6% debentures. The debentures are held by individuals and Carter Ltd pays interest annually.

   The payment to the debenture holders is made net of Income Tax at a rate of 20%.

   Show the accounting entries for the annual interest payments. (2)

5. Leanna owns 25% of Lennard Ltd. The remaining 75% of Lennard Ltd is owned by her friend Matt. On 1 March 2024 Lennard Ltd provided Leanna with a car for private use. Leanna pays tax at the additional rate of tax and has received dividends during the year totalling £5,250.

   Explain the possible Income Tax treatments of the provision of the car to Leanna by Lennard Ltd including any further information that is required. (4)

6. Redfern Ltd has a 75% subsidiary Riverside Ltd. Redfern Ltd purchased a property in April 2001 for £300,000. In September 2007 Redfern Ltd transferred the property to Riverside Ltd. At this point it had a market value of £575,000. Riverside Ltd sold the property in January 2024 for £950,000.

   Calculate the chargeable gain for Riverside Ltd on the disposal in January 2024. (4)

7. Leslie incorporated his bakery business on 31 January 2024 and transferred the assets to a new company, Leslie Bakes Ltd, in exchange for shares in the new company.

Leslie transferred all the assets of the business into the company except for £50,000 of cash.

Explain the Capital Gains Tax relief that automatically applies on the transfer of assets to the new company. (3)

8. For the year ended 30 November 2023, Roadley Ltd has taxable total profits of £700,000 and received dividends of £85,000 from its 75% subsidiary, Streetley Ltd. Neither Roadley Ltd nor Streetley Ltd has any other shareholding.

Explain when Roadley Ltd should have paid its Corporation Tax Liability for the year ended 30 November 2023. (3)

9. Graeme owns 100% of Cowling Ltd. Graeme loaned £500,000 to the company when it was originally incorporated. Cowling Ltd accrues interest payable of £15,000 each year on its loan from Graeme. The accrual for the year ended 31 March 2023 was not paid until 6 April 2024.

Explain when the interest payable to Graeme is deductible in the Corporation Tax computation for Cowling Ltd. (4)

10. Hastings Ltd has the following income for the year ended 31 March 2024:

	£
Taxable Total Profits	20,000
Dividends received from shareholdings of less than 20%	15,000
Dividends received from a shareholding of 70% in Battle Ltd	10,000

Hastings Ltd has no shareholdings other than those above.

Calculate the Corporation Tax liability of Hastings Ltd for the year ended 31 March 2024. (4)

11. During the year ended 31 March 2024, Brandon Ltd acquired a patent from Flowers Ltd an unconnected company for £150,000. The patent is for use within Brandon Ltd's trade and is amortised in the company's accounts on a straight-line basis over five years.

Explain how Brandon Ltd may receive tax relief for the amortisation of the patent acquired and state which option would be the preferred one. (2)

12. Moulton Ltd started trading on 1 January 2022 and its first accounts were to 31 March 2023. On 22 March 2022 Moulton Ltd notified HMRC that it had started to trade. HMRC issued a notice to file a return (CT603) on 1 February 2024.

Explain when Moulton Ltd will need to file its Corporation Tax return(s) for all periods to 31 March 2023. (3)

PART II

Presentation skills – awarded for quality of presentation. (2 marks)

13. Aldborough Ltd is a trading company with one subsidiary, Mosaic Ltd. Aldborough Ltd's accounting period ended on 31 March 2024; the previous period was the year ended 30 June 2023.

In the period ended 31 March 2024 Aldborough Ltd had the following results:

	£
Trading Profits (as adjusted for tax)	8,600,500
Chargeable gain (as adjusted for tax)	290,000
Income from UK property "A"	600,000
Loss made on UK property "B"	(900,000)

During the 2020 and 2021 periods, Aldborough Ltd incurred trading losses due to difficult trading conditions brought about by the COVID lockdown. The trade has continued without any changes being made to it; nor did the lockdown cause the trade to cease or become negligible. The trading loss brought forward as at 1 July 2023 was £16,000,000.

Throughout the nine month period Aldborough Ltd has owned 78% of the ordinary shares in Mosaic Ltd. Due to a commercial dispute with the other shareholder in Mosaic Ltd, Aldborough Ltd will not group relieve any losses to Mosaic Ltd.

Mosaic Ltd does have some losses carried forward and despite the disagreement mentioned above, an agreement has been reached that the deductions allowance will be allocated in the most tax efficient way, which is as follows: Aldborough Ltd 78% of the allowance and Mosaic Ltd, 22%.

Paul is one of the directors of Aldborough Ltd. His daughter Susie is a keen amateur sailor. Paul has pointed out to his fellow directors that "having a daughter with boats as a hobby is not cheap; however fortunately the sailors are allowed to be sponsored and carry the names of their sponsors on the boats." Paul usually funds all of his daughter's sailing costs. It has been suggested to Paul (by a third party) that he approach several of Aldborough Ltd's main suppliers and ask them to provide Susie with sponsorship money for her and her boat. He is intending to do this without declaring that Susie is his daughter, but simply to say that Aldborough Ltd is also sponsoring the boat.

Requirements:

1) **Calculate the taxable total profits for Aldborough Ltd for the period ended 31 March 2024, after loss relief. Explain what losses can be used and any losses that are to be carried forward.** (8)

2) **Explain how the Aldborough Ltd group is to inform HMRC of the use of the deductions allowance. Include any relevant filing dates.** (2)

3) **Explain four key directors duties, imposed by the Companies Act, that are breached if Paul asks main suppliers for sponsorship money. Briefly state the potential sanctions that Paul may face for breaching these key directors' duties.** (5)

Total (15)

14. Your client, Newby Ltd is a trading company with a 30 June accounting year end. The company prints specialist training manuals, operating from a factory in Lincolnshire. During May 2024 Newby Ltd will dispose of the following two assets:

1) Adjoining land

In June 2018 Newby Ltd acquired 10 acres of land adjoining its factory with the intention of using a small part of it (½ acre) for staff car parking. The rest was fenced off and never used.

Newby Ltd has had an offer from a housing developer, Great Dwellings Ltd to purchase the unused adjoining 9½ acres of land. The value of the land has increased over the price that Newby Ltd paid for it, because of the potential to build housing on it.

Newby Ltd paid £150,000 for the whole plot of land; Great Dwellings Ltd has offered Newby Ltd £2,000,000 for the 9½ acres that it wishes to buy.

A local surveyor has informed Newby that the value of the remaining ½ acre, that it will retain after the sale, has a value of £70,000.

2) Subsidiary company

In December 2023 Newby Ltd bought 100% of the share capital in Oldstead Ltd, a specialist delivery company for £195,000.

At the time of the purchase Big Truck Ltd (a company unrelated to Newby Ltd which operates in the delivery and logistics sector) was also interested in acquiring Oldstead Ltd but did not have sufficient funds.

Big Truck Ltd has now offered to acquire all of the shares in Oldstead Ltd (there are 100,000 shares in issue) and has valued the company at £500,000. As Big Truck Ltd still doesn't have sufficient cash it has offered to pay the £500,000 consideration as 75% in cash and 25% as shares in Big Truck Ltd. Newby Ltd has agreed to this offer.

<u>Further issue</u>

Whilst reviewing the client files it has come to your attention that there is an error in prior years accounts that were prepared by the client. This has led to an underpayment of Corporation Tax. You establish the facts and consider that the error isn't trivial. The engagement letter that your firm has with Newby Ltd does not give you authority to disclose any errors to HMRC.

Requirements:

1) Calculate the gain arising on:

i) the sale of the land to Great Dwelling Ltd; and (3)

ii) the sale of the shares in Oldstead Ltd to Big Truck Ltd, and Newby Ltd's base cost of the shares of Big Truck Ltd. (3)

2) Briefly state the actions that you should take to deal with the error and the underpayment of Corporation Tax. (4)

Total (10)

15. Neville Ltd is a client of your firm. The company is owned by four individual shareholders, and is a small company for the purposes of paying Corporation Tax. Sarah, the finance director of Neville Ltd has sent to you the following email:

"Hi

We have four issues on which we would like some advice. Please can you email me with the answers quite quickly – as I would like to be able to discuss the issues with the finance team at our next fortnightly meeting.

1) We want to simplify part of the group structure. Two group companies, Sutton Ltd and Green Ltd trade with the same customers which sometimes leads to confusion. Neville Ltd owns 100% of the shares in both Sutton Ltd and Green Ltd.

   We want to transfer the trade and assets of Sutton Ltd to Green Ltd, probably halfway through the next accounting period. I need to understand what the tax implications are of the proposed asset transfer. Sutton Ltd has net liabilities so we will liquidate it after the transfer. Both companies have assets upon which capital allowances have been claimed and Sutton has made trading losses.

2) One of our shareholders, Geoff, has received a £25,000 loan from the company. I recall from when I did my training that this will result in a tax charge arising for the company. Can you remind me of the rules? We will need to accrue for the tax so I will need to know how to calculate the charge and when it needs to be paid. Also I would like to know, whether and how we can get the tax back if Geoff repays the loan?

3) On 28 February 2024 Neville Ltd sold shares in Street Ltd, an investment company. Neville Ltd has owned the shares since September 2022. Neville Ltd bought the shares in Street Ltd for £1.2 million and paid legal fees for the purchase of £50,000. The proceeds of the sale of the shares were £1.5 million, and legal fees of £20,000 were incurred on the sale.

   In December 2023 Neville Ltd had transferred a property which it owned, Grange House, to Street Ltd. Neville Ltd had purchased Grange House in December 2010 and paid £460,000 for it. In December 2023 Grange House was independently valued at £900,000.

   Once again I recall that there is some sort of exemption from tax from the sale of shares – is that relevant here?

4) Finally, I don't know if it is the current economic climate, but we seem to find that more of our customers, all of whom are trading companies, are paying us late, or in some cases, not at all. We are meticulous in paying over our net output VAT to HMRC, but our customers still owe us the money! – surely there is something we can do about this?

Thanks, and regards

Sarah"

Requirements:

Write an email to Sarah at Neville Ltd in which you:

1) Explain the capital allowance and trading loss consequences of transferring the trade and assets from Sutton Ltd to Green Ltd; (4)

2) Explain why a tax charge will arise and how the tax will be calculated. State when the tax will be paid and under what circumstances the tax can be repaid; (4)

3) Calculate the gain that arises on 28 February 2024 and explain why there is no exemption available; and (7)

4) Explain how Neville Ltd can deal with the VAT on late and unpaid invoices. Identify what records need to be kept, how any claim is to be made and whether the customer needs to be notified. (5)

Total (20)

16. Roger is a director of your client Redbird Ltd. It is a company which has non-trading income as well as trading income from both UK and overseas operations. Some of the company's shares are owned by another company.

Roger contacted you with the following queries:

"One of our shareholders, Maria (who is also a director), wants the company to purchase all of her shares. She is going to resign as a director and use the money from the sale to retire.

I'm assuming that there will be tax implications for Maria but I'm not sure if the tax is Income Tax or Capital Gains Tax.

Maria owns 10,000 shares and the purchase price we are offering is £25 per share. She bought the shares for £170,000 in total. The original subscription price for these shares was £160,000. I'm not sure why she bought the shares as she isn't related to any of the other shareholders.

I know that Maria's income from earnings usually exceeds £150,000 per year. She is a very wealthy individual who gets huge amounts of dividend income from shares in listed companies, and each year she sells enough investments in those listed companies to use her annual exempt amount.

Could you possibly outline the potential tax implications for Maria so that I have a better understanding of the situation?

I understand that you might not have all the information needed to conclude on which treatment will be applicable, so could you please calculate the tax that could be due under both income or capital treatment?

We have another query – Redbird Ltd is increasingly doing business in the overseas country of Aldovia; in fact, to deal with this we are going to set up a new subsidiary company in Aldovia (this is on the advice of the Aldovian accountants, so we don't need advice from you on tax in Aldovia). This new company, Redbird Aldovia Inc, will not have any buildings or trade in the UK but will deal only with our Aldovian customers.

I'm assuming that Redbird Aldovia Inc will not be subject to UK tax as it is being set up overseas. That is correct, isn't it?"

Requirements:

1) Explain the circumstances in which Maria will treat the repurchase of own shares as:

(i) income, or

(ii) a capital receipt. (5)

2) Calculate, with supporting explanations, the tax payable by Maria under each scenario. Explain the rate or rates of tax that may apply. (5)

3) Explain the circumstances in which Redbird Aldovia Inc will be subject to UK Corporation Tax. (3)

Total (13)