

CIOT - ATT

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 1**

Answer-to-Question-\_1\_

Tamson Ltd (YE 31 March 2023)

Tax return is due on 31 March 2024.

Corporation tax is due by 1 January 2024 (9m and 1 day following the end of the accounting period, given it is not large / very large).

Since Tamson Ltd paid most of its CT liability to HMRC on 31 December 2023, no interest on late paid tax is accrued on these balances. However, interest of 6.5% per annum is payable for the 3month period of the corporation tax balance that were late paid from the due date for payment (being 1 Janaury 2024) to the actual date of payment of tax (being 31 March 2024).

The interest paid by Tamson Ltd to HMRC is deductible for corproation tax as a non-trade loan relationship balance.

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

**Kaleb Ltd - Capital allowance (YE 31 Jan 2024)**

YE 31 Jan 2024 FYA = 100 + 30 (2/12) = 105%

	AIA @100%	FYA @ 105%	General pool	Special rate pool	Capital Allowance
	GBP	GBP	GBP	GBP	GBP
TWDV b/f			5,625,000	125,000	
Addition					
Tractor (28 March 2023)		125,000			
Manufacturing equipment (14 April 2023)	315,000				
Car (Co2 100 g/km)				65,000	
	315,000	125,000	5,625,000	190,000	
FYA @ 105%		(131,250)			131,250
AIA @ 100%	(315,000)				315,000
WDA @18%			(1,012,500)		1,012,500
WDA @ 6%				(11,400)	11,400
WDA c/f			4,612,500	178,600	1,470,150

The maximum capital allowance that can be claimed by Kaleb Ltd for the YE 31 January 2024 is £1,470,150

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question-\_3\_

The NIC treatement for each item is:

1. Salary : Nicola should pay Class 1 primary NICs, and Sidwick Plc should pay Class 1 secondary NICs on the total salary paid to Nicola.
2. Contribution to her pension scheme: This payment is an exempt benefit for NIC for both Nicola and Sidwick Plc
3. Medical Insurance: Sidwick Plc should pay Class 1A NIC on the cash equivalent of medical insurance paid to Nicola.
4. 50 shares in Sidgwick plc: Since quoted shares are readily convertible assets, Nicola should pay Class 1 primary NIC and Sidwick Plc should pay Class 1 secondary NIC on the cash equivalent of the shares to Nicola.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

A company can borrow money by issuing debentures or loan notes to other companies or to individuals.

Payment of interest

	Debit	Credit	
	GBP	GBP	
Dr Interest expense	2,400		
Cr Bank		2,400	
Dr HMRC account	600		
Cr Bank		600	

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

Lennard Ltd is a close company, as being controlled by five or fewer participators (i.e. shareholders). In this case just two participators Leanna and Matt control Lennard Ltd.

The Income Tax treatment of the car provided to Leanna depends upon whether she is an employee/director of Lennard Ltd or just a shareholder, so this needs to be confirmed.

As an employee/director

If Leanna is an employee or director of Lennard Ltd, then the provision of the car will result in a taxable benefit for her and it is taxed as part of her employment income. In this case GBP 5,250 as taxable benefit for Leanna.

Lennard Ltd will receive tax relief on GBP 5,250 being the cost of providing the benefit and class 1A NIC is payable on the benefit.

As just a participator in a close company

If Leanna is not subject to an employment benefit charge, she is still being provided a benefit from a close company.

As such, the equivalent of the employment benefit with respect to the car will be treated as a distribution/dividend. It will be subject to Income Tax, payable by Leanna.

The first GBP 1,000 of dividend income which Leanna receives in the year will be taxed at 0% (within the dividend allowance). As Leanna is an additional rate tax payer, the balance of the dividend will be taxed at the dividend additional rate of 39.35%.

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No corproation tax relief for the cost of providing benefit is available for Lennard Ltd as it is treated as cost of appropriation of company's profit.

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-----ANSWER-5-ABOVE-----  
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 -----ANSWER-6-BELOW-----  
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Answer-to-Question- 6

**Riverside Ltd - Chargeable gains YE Janaury 2024**

Riverside Limited and Redfern Ltd are in a same capital gains group, as Riverside Limited being a 75% subsidry of Redfern Ltd. So the transfer of the property from Redfern Ltd to Riverside Ltd on September 2007 is automatically at no gain no loss.

The base cost of the property for Riverside Ltd is original cost of £300,000 + £60,600 of Indexation allowance (see W1 below) = £360,600

	Workings	Amount		
		<b>GBP</b>		
Gross sale proceeds		950,000		
Cost (indexed)		(360,600)		
Inexation cost (Sept 2007 - Dec 2017)	£360,600 * (278.1 - 208.0)/208.0  (rounded to 3 decimal - 0.337)	(121,522)		
<b>Chargeable Gains taxable</b>		<b>467,878</b>		

Chargeable Gains taxable for Riverside Limited is GBP 467,878

W1 - Indexation allowance (April 2001 - September 2007)

$$£300,000 * (208.0 - 173.1) / 173.1 = £60,600$$

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

**Leslie**

As this is a transfer of an ongoing business (trading) incorporation relief is automatically available to Leslie as all of the assets of the business (which can exclude cash balances as in this case) are being transferred into the the new company Leslie Bakes Limited in exchange for shares in the new company.

This has the effect of deferring the potential tax charge, and it is achieved by reducing the base costs of the shares by the gain arising. There is no election necessary for incorporation relief.

However, as in this case since GBP 50,000 cash was not transferred to Leslie Bakes Limited, a restriction will arise on the total incorporation relief on the cash amount retained.

Any gains remaining after incorporation relief on land & building will be eligible for business asset disposal relief (BADR). BADR is not available for gains on goodwill.

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question-\_8\_

**Roadley Limited (YE 30 Nov 2023)**

A company is large if the Augmented Profits (AP) excess GBP 1.5 million and do not excess GBP 20 million. These limits are proportionaley reduced for the short accounting period and the number of associated companies at the end of the previous accounting period.

In this case the number of associates is two, being both Roadley Limited and its 75% subsidiary Streetley Ltd. Therefore the AP limit is  $GBP\ 1.5m/2 = GBP\ 750k$ .

TTP = GBP 700,000  
Dividend received (excluding GBP 85,000 received from 51% subsidiary Streetley Ltd) = nil  
Augmented profits = GBP 700,000

Since the augmented profits are lesser than GBP 750k limit, Roadley Ltd is requiried to pay thier corporation tax nine months and one day after the end of the accounting period, being 1 September 2024.

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

Cowling Ltd is a close company, and Graeme is a participator (i.e. shareholder).

As a result, the interest due to Graeme is not deductible for corporation for for Cowling Ltd on the normal accruals basis, unless it is paid within 12 months of the end of the accounting period in which it accrues. This is on the basis, that the interest has not yet been taxed in the hands of the recipient under the loan relationship rules.

The deferral arrangement may therefore result in a deduction only being available in the accounting period in which the interest is paid.

As such, the accrued interest as at the YE 31 March 2023 should be paid to Graeme by 31 March 2024 to be able to get a CT deduction for Cowling Ltd.

Please also note that the interest will be a trading expense for Cowling Ltd, provided the funds are used to expand the trading operations.

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

Hastings Limited (YE 31 March 2024)

	Workings	Amounts (GBP)		
TTP		20,000		
Add: Exempt dividend incomes (excluding recieved from 51% shareholdings)	Dividend income from Battle Ltd excluded as being a 70% shareholding	15,000		
<b>Augmented profits (AP)</b>		<b>35,000</b>		

Associates - 2 (being Hastings Limited & Battle Ltd).

Upper limit = GBP 250k/2 = GBP 125,000

Lower limit = GBP 50k/2 = GBP 25,000

AP is lesser than upper limit, and larger than lower limited. Therefore, marginal relief applies.

TTP = GBP 20,000

Marginal relief =  $(3/200) * (£125,000 - £35,000) * (£20,000/£35,000)$

Marginal relief = £771

Corporation tax liability =  $(£20,000 * 25\%) - £771$

Corporation tax liability for the YE 31 March 2024 = £4,229

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

**Purchase of patents by Brandon Limited**

As a general rule, acquisition of a non-relevant asset (such as patents) will be brought into account for tax purposes when it is recognised in the company's accounts.

Corproation tax relief is available for Brandon Limietd either the amount amortised in the financial accounts (being £150,000 / 5 years amortisation period = £30,000 per annum) or 4% of the costs (being £6,000 per annum).

As in this case claiming a tax deduction on the accounting amortisation expense of £30,000 is more beneficial for Brandon Limited.

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question-\_12\_

**Moulton Ltd**

The filing of corporation tax return (CT600) should be submitted to HMRC by the later of:

- 12 months after the end of the period of accounts (in this case 31 March 2024);
- 3 months from the receipt of the filing notice (CT603);

**For the 15 month period ended 31 March 2023 the corporation tax return is due by 1 May 2024** (being 3 months from the receipt of the filing notice issued by HMRC on 1 Feb 2024).

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-----ANSWER-12-ABOVE-----  
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CIOT - ATT

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 2**

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 -----ANSWER-13-BELOW-----  
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Answer-to-Question- 13\_

1)

**Aldbrough Ltd (9 month YE 31 March 2024)**

The total group deductions allowance available for the group is GBP 5 million (per annum), and this is apportioned to the 9m period ended 31 March 2024 = £3,750,000.

Share for Aldborough Ltd based on the agreement for 9m period ended 31 March 2024 is £3,750,000 \* 78% = £2,925,000

	Workings	Amount		
		GBP		
Trading profits		8,600,500		
UK property Income	Net loss of (£300,000)	Nil		
Chargeable gains		290,000		
Total profits		8,890,500		
Less: Current year UK property business loss - automatic		(300,000)		
Less: Brought forward trade loss	Max relief is lower of:  - unrelieved trading losses of 16m; or  - £2,925,000 +	(5,757,750)		

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	50% (£8,590,500 - £2,925,000)			
<b>Total Taxable profits (TTP)</b>		<b>2,832,750</b>		

**TTP for the YE 31 March 2024 is £2,832,750**

CT liability @ 25% = £708,187.50

Number of associates - 2 (being Aldborough Ltd and Mosaic Ltd). Upper limit (250k/2) = 125k;

Loss Memo (YE 31 March 2024)

Brought trading forward loss 1 July 2023 = £16,000,000  
Less: utilised in YE 31 March 2024 = (£5,757,750)  
Carried forward trading loss 31 March 2024 = £10,242,250

2)

The amount of a company's deduction allowance must be specified in the corporation tax return, otherwise use of losses brought forward will be restricted to 50% of unrelieved profits (under s.269ZZ CTA 2010).

The return must also specify the allocation of the deductions allowance between different types of profits if the loss carried forward can only be used against certain kind of profits.

3)

By asking the main suppliers to sponsor his daughter, Paul would likely breach the following key directors statutory duties imposed by Companies Act:

- Avoid conflict of interests;
- Not to accept benefits from third party;

- to declare an interest in a proposed transaction (which has not occurred in this case);
- to exercise independent judgement;
- to promote within their powers, and to promote the success of the company.

Paul could face the following potential sanctions for breaching these key directors duties:

- damages payable to the company where it has suffered loss;
- restoration of company property;
- repayment of any profits made by the director;
- rescission of contract (where Paul did not disclose an interest);
- criminal offences being committed.

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

1)

2)

The error should be considered in the context of the Professional Conduct in Relation to Taxation (PCRT) guidance.

It should be ascertained whether the error is trivial. It is reasonable for a member to take no steps to inform HMRC of isolated errors, where the tax effect is no more than minimal.

Engagement letter with Newby Ltd should be reviewed at this stage to see whether we require specific authorisation to disclose. However, in this case we do not have those authority. Therefore, an initial request should be made to Newby Ltd advising them of the relevant rules, penalties, surcharges and the estimated interest charges on the underpaid corporation taxes.

If this does not result in action on behalf of the client, the position, including consequences of failure to disclose, should be explained orally. If Newby Ltd is still not willing to agree to disclosure, then we would need to put our advice, including consequences, into writing and only after this stage we may be forced to consider ceasing to act.

There are also separate obligations under the anti-money laundering legislation and we should consider contacting our MLRO and whether it is necessary to file a SAR. This client should not be informed.

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

To: Sarah, Finance director, Neville Ltd  
From: A Tax advisor  
Date: 7 May 2024

Dear Sarah,

Thanks for your email. I can address the issues as follows:

1)

Transfer of trade and assets of Sutton Ltd to Green Ltd

Successions apply automatically for such a transfer of trade without a change in ownership.

Where a trade within the charge to UK tax is transferred from one company to another, and there is at least 75% common ownership of it (as some point in the year before the transfer, and at some point in the two years following the transfer):

- Trading losses in Sutton Ltd are transferred to the new owner, Green Ltd.
- Capital allowance pools transfers at tax written down value from Sutton Ltd to Green Ltd.

Please also note that there is a restriction on the transfer of losses where net liabilities are left behind in the transferor.

2)



Since Neville Ltd is a close company, being owned by five or fewer participators. A s455 tax charge should be paid on the lower of the loan balance outstanding on:

- last date of the accounting period;
- Normal due date (being 9m and 1 day following the end of the accounting period).

Assuming that GBP 25,000 remains unpaid 9m and 1 day following the end of the accounting period, then a tax charge of GBP 8,437.50 (GBP 25,000 \* 33.75%) is payable by Neville Ltd on the normal due date.

Neville Ltd can claim a tax credit in its tax return during that period for any loan repaid or written off by Geoff.

In case it is a write off, it is not deductible for Neville Ltd, and Geoff will be taxed on the amount of write off as dividends.

3)

#### Sale of Streed Ltd shares

Gross Proceeds = £1,500,000

Add: degrouping charges =

Less: Legal fees on sale = (£20,000)

Net proceeds = £1,480,000

Less: Cost (including legal fees on purchase) = (£1,250,000)

[Note: No indexations since acquired on September 2022]

Chargeable gains = £230,000

Substantial share holdings exemption (SSE) is not available, since Street Limited is not a trading (but an investment company) during disposal.

Degrouping charges on sale of property:

4)

Bad debt relief

Neville Ltd can then claim bad debt relief for VAT on any debt which is six months old (i.e. more than six months have passed since the later of the date of the supply and due date for payment).

Further conditions must be met, being:

- The supplied goods or services by Neville Ltd have been rightly accounted for and paid the output tax to HMRC (as in your case). Then the payment is deemed to have been made to the extent that output tax is covered by deductible input tax.
- The debt has been written off in Neville Ltd's accounts, and transferred to a separate bad debt account.
- The value of the supply must not be in excess of the normal selling price.
- The debt must not have been sold on.
- The claim for bad debt must be made within 4 years and six months from the later of the date of the supply and due date for payment.

The relief is obtained by adding the amount of the VAT to the box 4 input tax figure on the VAT return. Please also note that there is no obligation for Neville Ltd to tell the customers that it is claiming VAT bad debt relief.

Please let me know if you need any further assistance.

Regards  
A Tax advisor

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

1)

A purchase of own shares will be treated as an income distribution unless the conditions for capital treatment are met.

Income treatment:

Treated as dividend for the recipient.

Dividend = amount received on share buy back, less the original subscription price

In addition, there is also a capital gain on disposal of shares being original subscription price, less actual costs paid by the individual to acquire those shares.

Capital treatment:

Shares bought back from UK resident vendor who has held the shares for at least 5 years.

Shares must make a substantial reduction as a result of the buy back.

shareholder must not be connected with the company following the buy back.

2)

Dividend:

Capital gains tax:

3)

Redbird Aldovia Inc will will be subject to UK corproation tax if:

- It includes income and gains arising from carrying on a trade in the UK through a permanent establishment;
- it includes income arising from carrying on a trade of dealing in or developing (with a view to sale) UK land;
- If centrally managed and controlled from the UK;
- If it includes gains arising after 5 April 2019 on disposal of interests in UK land and buildings.