



May 2024 Examination

PAPER 4

Corporate Taxation

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1. Tamson Ltd paid some of its corporation tax liability late. (½) Interest on the amount paid late will run from the due date of payment, 1 January 2024 (½) to the actual date of payment on 31 March 2024. (½) The interest rate is 6.5% pa (Bank of England base rate plus 2.5%). (½)

HMRC will raise an interest demand which must be settled in 30 days. (½) Interest paid on late payment of corporation tax is treated as interest paid on a non-trading loan relationship, and hence tax deductible (½).

3 marks

2.

	FYA @130% £	AIA @100% £	General pool £	Special rate pool £	Allowances £	
WDV b/f			5,625,000	125,000		
Additions						
Tractor	125,000					(½)
Manufacturing equipment		315,000				(½)
Car				65,000		(½)
	<hr/>	<hr/>	<hr/>	<hr/>		
	125,000	315,000	5,625,000	190,000		
Allowances						
FYA @ 105%	(131,250)				131,250	(½)
AIA @ 100%		(315,000)			315,000	(½)
WDA @ 18%			(1,012,500)		1,012,500	(½)
WDA @ 6%				(11,400)	11,400	(½)
WDV c/f			<hr/>	<hr/>		
			4,612,500	178,600		
Total allowances					<hr/>	
					1,470,150	

W1 Where the super deduction is claimed for an accounting period which ends after 31 March 2023, a reduced rate is available. This is based on the length of the accounting period prior to 1 April 2023, which in this case is 2 months.

$$\text{FYA} = 100 + (30 \times 2/12) = 105\% \quad (\frac{1}{2})$$

4 marks

3. Sidgwick plc should pay the following types of national insurance:

		Sidgwick plc	Nicola	
1)	Salary	Class 1 – Secondary	Class 1 – Primary	($\frac{1}{2}$)($\frac{1}{2}$)
2)	Contribution to pension scheme	Exempt	Exempt	($\frac{1}{2}$)($\frac{1}{2}$)
3)	Medical insurance	Class 1 A	None – paid by employers only	($\frac{1}{2}$)($\frac{1}{2}$)
4)	50 shares in Sidgwick plc	Class 1 - Secondary	Class 1 – Primary	($\frac{1}{2}$)($\frac{1}{2}$)

4 marks

4.

Dr	P&L - Debenture interest (£50,000 @ 6%)	3,000		$\frac{1}{2}$
Cr	B/S - Income tax control account (£3,000 x 20%) $\frac{1}{2}$		600	$\frac{1}{2}$
Cr	B/S - Bank		2,400	$\frac{1}{2}$

Note: all available marks will be awarded if the candidate shows this as two journals with two debits to the P&L – Debenture interest account.

2 marks

5. Lennard Ltd is a close company as there are only two participators ($\frac{1}{2}$). Therefore the Income Tax treatment of the car provided to Leanna will depend on whether she is an employee/director ($\frac{1}{2}$) or just a shareholder of Lennard Ltd. ($\frac{1}{2}$)

As an employee or director, the provision of the car would result in a taxable benefit for Leanna ($\frac{1}{2}$), based on the list price and the CO2 emissions of the car. ($\frac{1}{2}$)

If Leanna is only a shareholder (and not an employee or director) the amount of the taxable car benefit would be treated as a dividend paid to Leanna. ($\frac{1}{2}$) The dividend would be calculated using the employment benefit rules ($\frac{1}{2}$) and Leanna would be taxed on this dividend at 39.35% as she has already used her £1,000 dividend allowance. ($\frac{1}{2}$)

4 marks

6. Transfer from Redfern Ltd to Riverside Ltd in September 2007 at no gain/no loss (½):

	£	
Cost to Redfern Ltd	300,000	½
Indexation April 2001 to September 2007 (208.0-173.1)/173.1 = 0.202 x 300,000	60,600	1
Cost to Riverside Ltd	360,600	

Disposal by Riverside Ltd in January 2004

	£	
Proceeds	950,000	½
Less: Cost September 2007	(360,600)	½
	589,400	
Less Indexation allowance (September 2007 – January 2024) (278.1-208.0)/208.0 = 0.337 x 360,600	(121,522)	1
Chargeable gain	467,878	

4 marks

7. As Leslie is transferring an ongoing trading business ie a going concern (½), incorporation relief (½) is available as all the assets of the business (½) are being transferred into the company in exchange for shares. (½) This is the case even though Leslie is not transferring the cash from the business. (½)

Incorporation relief will defer any Capital Gain by rolling over the net gain and setting this against the base cost of Leslie's shares in Leslie Bakes Ltd. (½). The base cost of the shares is the market value of the assets transferred. (½)

Max 3 marks

8. Roadley Ltd has augmented profits of £700,000 (½) as the dividends received from Streetley Ltd are not included as Roadley Ltd owns over 50% of that company. (½) As Roadley Ltd has a 51% subsidiary the limit of £1,500,000 is divided by 2 when working out the date that corporation tax should be paid (½). Roadley Ltd's augmented profits do not exceed £750,000 (£1500,000/2) (½) therefore the company is not large (½) and its corporation tax liability is due for payment on 1 September 2024, nine months and one day from the year end. (½)

3 marks

9. Cowling Ltd is a close company (½) as it is controlled (½) by five or fewer participators (½), in this case one participator, Graeme. (½) As Graeme is a participator in Cowling Ltd (½) and the interest was not paid within 12 months of the end of the accounting period (½) and the interest has not been taxed under the loan relationship rules in the hands of Graeme (½) then it is only deductible when it is paid (½) being in the year ended 31 March 2025. (½)

Max 4 marks

10. Hastings Ltd has the following augmented profits, ignoring dividends received from 51% subsidiaries (½):

	£	
TTP	£20,000	½
Dividends received	£15,000	½
Augmented profits	<u>£35,000</u>	

The year ended 31 March 2024 falls into FY 2023 entirely.

As Hastings Ltd has one associated company the upper and lower limits must be divided by 2 giving:

$$\begin{aligned} \text{Upper limit} &= 250,000/2 &= 125,000 & \quad (½) \\ \text{Lower limit} &= 50,000/2 &= 25,000 & \quad (½) \end{aligned}$$

Corporation tax liability is:

	£	
£20,000 @ 25%	5,000	(½)
Less: Marginal Relief 3/200 x (125,000-35,000) x 20,000/35,000	(771)	2 x (½)
Corporation tax liability	<u>4,229</u>	

4 marks

11. Brandon Ltd can claim a deduction for the amortisation of the Patent as charged in the accounts, in this case £30,000 (£150,000/5). (½) Alternatively, Brandon Ltd may make an irrevocable election to claim a deduction equal to 4% of the £150,000 cost of the patent, being £6,000 per annum. (½) Therefore Brandon Ltd would be better to follow the accounting treatment (½) than elect for the 4% straight line deduction to apply. (½)

2 marks

12. Moulton Ltd will need to submit two tax returns, one for the year ended 31 December 2022 (½) and one for the three months ended 31 March 2023. (½) Moulton Ltd must submit both these corporation tax returns to HMRC by the later of (½):

12 months from the end of the period of account, being 31 March 2024, (½) and three months from the receipt of the filing notice, ie 1 May 2024. (½)

Therefore the returns should be submitted by 1 May 2024. (½)

3 marks



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13.

1) 9 months ended 31 March 2024 - Total taxable profits

	£	
Trading profit	8,600,500	(½)
Capital gain	290,000	(½)
UK property loss (£600k - £900k)	(300,000)	(½)
Total profits	8,590,500	(½)
Less Loss (see calculation below)	(5,757,750)	(½)
Total Taxable Profit	2,832,750	(½)

The UK property loss is relieved first against total profits. (½)

Allocation of deductions allowance to Aldborough Ltd

Restricted for length of accounting period – 9 months

$£5,000,000 \text{ (½)} \times 9/12 \text{ (½)} = £3,750,000$

Amount allocated to Aldborough Ltd

$78\% \text{ (½)} \times £3,750,000 = £2,925,000 \text{ (½)}$

Maximum loss relief is the deductions allowance plus 50% of the remaining unrelieved profit

$£2,925,000 + 50\% \text{ (½)} \text{ (unrelieved profits (½) - } £2,925,000 \text{ (½))}$

$\text{(Unrelieved profits } £8,590,500 - £2,925,000 = £5,665,500 \text{ (½))}$

$£5,665,500 \times 50\% = 2,832,750 \text{ (½)}$

$\text{Maximum loss relief} = £2,925,000 + £2,832,750 = £5,757,750$

	£	
Loss brought forward	16,000,000	
Loss utilised	(5,757,750)	
Loss carried forward	10,242,250	(½)

(Max 8)

- 2) The group comprising Aldborough Ltd and Mosaic Ltd must nominate (½) a company to submit a group deductions allowance statement (½) to HMRC. This will state how the £5m deduction will be allocated. The statement must be signed by an appropriate person on behalf of each company (½) and state the period when it starts to have effect (½) This must be done within 12 months of the filing date of the accounting period to which it relates. (½) Further, Aldborough Ltd must state on its corporation tax return (due by 31 March 2025) how much of the deductions allowance has been allocated to it. (½)

Max (2)

- 3) The key duties of a company director that Paul is breaching are,
- To exercise independent judgement - as Susie is Paul's daughter, his independence is impaired. (1)
 - To avoid conflict of interest- Paul may be conflicted between his business relationship with the suppliers and his family relationship. (1)
 - Not to accept benefits – as the sponsorship is taking the place of Paul's funding then he is effectively accepting a benefit (1)
 - To always declare an interest in any arrangement that involves the company. Paul should be careful that any sponsorship received is declared. (1)

Paul's sanctions are likely to include repayment of any monies that he/ Susie has received. (1)

(5)

Total (15)

14.

1.

- i. Gain arising on the sale of land to Big Dwellings Ltd – this is a part disposal.

	£
Proceeds	2,000,000 (½)
Less cost	
£150,000 (½) x 2,000,000 (½) / (2,000,000 (½) + 70,000 (½))	(144,928)
Gain	1,855,072 (½)

(3)

- ii. Gain on sale of shares – cash proceeds only

	£
Proceeds	
75,000 shares at £5 per share (½)	375,000 (½)
Cost	
£1.95 per share x 75,000 shares (½)	(146,250) (½)
Gain	228,750

The base cost in the Big Truck Ltd shares that Newby Ltd acquire will be the original base cost in Oldstead Ltd (½), being £1.95 per share (½) (£48,750 in total)

(3)

2. The steps that should be taken are as follows on finding the error are –
- i. Ask Newby Ltd for permission to notify HMRC of the error (½) ; disclosures should be on a timely basis. (½)
 - ii. Newby Ltd should be informed that it is their decision to notify HMRC. (½)
 - iii. Advise Newby Ltd to pay the underpaid tax. (½)
 - iv. Advise Newby Ltd of the consequences of failure to disclose (½) (which should be done in writing). (½)
 - v. Advise Newby Ltd that voluntary disclosure (½) could result in reduced penalties.
 - vi. The firm should inform Newby Ltd that non-disclosure will result in the firm ceasing to act for them. (½)
 - vii. The firm may have to withdraw any previous reports signed by them. (½)

Marks will be given for any relevant points.

Max (4)

(10) Marks

15.

Email

To: Sarah, Finance Director

From: A Tax Advisor

Date: May 2024

Subject Group Re-organisation, Sale of Shares and VAT

Dear Sarah

Thanks for your email. Please find answers your queries set-out below –

1. Sutton Ltd & Green Ltd.

As Sutton Ltd & Green Ltd both are both at least 75% (½) subsidiaries of Neville Ltd, and both companies are within the charge to corporation tax , the consequences of transferring the trade and assets are-

- Capital allowances arising in the accounting period of transfer will be shared (½) on a time apportioned basis. (½) There will be no balancing adjustment (½) in Sutton Ltd and Green Ltd will inherit the TWDV of the assets at the point of transfer. (½)
- The trading losses in Sutton Ltd should be transferred (½). However, there are certain restriction, such as Sutton Ltd's losses may only be offset against profits of the historic trade going forward. (½)
- Sutton Ltd will cease to trade but no terminal loss relief is available (½)
- As Sutton Ltd has net liabilities the losses that transfer will be reduced by the amount of the net liabilities. (½) The liabilities which are included are all liabilities incurred in connection with the trade (and retained by Sutton Ltd), other than share capital, share premium, loan stock and reserves. The assets netted off against these liabilities include the consideration for the sale. (½)

Max (4)

- 2 A tax charge will arise as a loan is being made to a participator of a close company. (½) The tax is calculated using the dividend rate of 33.75% (½) applied to the balance of the loan (½) which is the lower of the amount outstanding at the year end (½) or at the due date for the payment of the corporation tax (½). The tax charge is added to the payment of the corporation tax. (½) so as you are a small company it will be paid 9 months after the year end. (½) If the loan is repaid the corporation tax for that accounting period can be reduced by the tax charge. (½)

(4)

- 3 Gain on the sale of shares

The gain will not be exempt under SSE rules (½) as Street Ltd is not a trading company. (½)

	£
Proceeds less legal costs (½)	1,480,000 (½)
Degrouping charge (see below)	339,720 (½)
Cost	
£1,200,000 (½) + legal fees £50,000 (½)	(1,250,000) (½)
Gain	569,720 (½)

Degrouping charge

	£
Market value of Grange House	900,000 (½)
Less Cost	(460,000) (½)
Less Indexation	
$460,000 (½) \times (278.1 - 228.4) / 228.4 (½)$	(100,280) (½)
Being 460,000 x .218	
Charge	339,720

(7)

4 As you have noted that Neville Ltd, has supplied the goods and paid the output tax to HMRC (½), Neville Ltd can make a claim for VAT Bad Debt relief (½) if the following conditions have been fulfilled:

- Neville Ltd has written off the debt in their accounts (½)
- The amount of the write off was not any more than the normal selling price (½)
- The debt is at least 6 months old ie 6 months since the due date for payment (½)

The claim must be made within 4 years and six months from the date that the invoice was payable. (½)

The claim is made by adding the bad debt figure to the input VAT figure (½) in the VAT return. (½)

Neville Ltd's records must include the VAT invoices and any other records showing that output VAT has been accounted for. (½)

Neville Ltd is not (½) under any obligation to tell its customers that the debt has been written off.

(5)

I hope that gives you sufficient information to discuss this matter with your team – feel free to give me a ring if you want any further help.

Regards

A Tax Advisor

(20) Marks

16.

1. The normal treatment for the purchase of own shares is for the sale to be subject to income tax as a dividend. (½) The dividend will be the amount received for the shares less the subscription price. (½)

However capital treatment would be applied if the following conditions are met –

- a) The company must be an unquoted company (½), and not a subsidiary of a quoted company (½)
- b) The company must be a trading company (½)
- c) The buyback is for the benefit of the trade (½)
- d) Maria is resident in the UK (½)
- e) Maria has owned the shares for at least 5 years (½)

Two other conditions apply , which are that there needs to be a substantial reduction in Maria's shareholding; and after the buyback Maria must not be connected to the company. (½) We know that both of these conditions will apply (½)

(5)

2. It is unknown from the limited information provided if Maria will be subject to income or capital treatment. If she is subject to the normal treatment (i.e. income tax), the tax due will be –

	£
Proceeds	250,000
Less subscription price	(160,000)
Amount treated as a dividend	90,000 (½)

As Maria is a higher rate tax payer the highest dividend rate will be applied being 39.35%, so income tax due is £35,415. (½)

As she was not the original subscriber there are also gains implications. (½) She has a capital loss of £10,000 to use against her other gains (subscription price less cost ie £160,000 - £170,000). (½)

Alternatively, CGT treatment may be applicable, if the conditions noted above apply .

If the above conditions were satisfied, then the capital gains tax calculation is as follows:

Proceeds £250,000 less cost £170,000 = £80,000. (½)

Tax rate 20% (½) (Maria is a higher rate taxpayer) and no annual exempt amount (used elsewhere) (½)

Tax due - £16,000. (½)

However, as a director, business asset disposal relief (BADR) (½) may be available.

This is available on the sale of shares in a trading company (but the non-trading must be 20% or less) (½) and Maria must have held at least 5% of the shares. If this is the case the gain will be taxed at 10%, the tax arising will be £8,000. (½)

BADR has a lifetime maximum but we are not sure whether Maria has used any of this. (½)

Max (5)

3. Redbird Aldovia Inc will be subject to UK corporation tax if it is tax resident in the UK. (½)

It is possible for an overseas incorporated company to be UK resident (½). This would be the case if the place of “central management and control” (½) is in the UK. This is generally taken to mean where the highest level (½) of management decisions (½) are taken. So, if the UK board of directors (½) take the management decisions, then Redbird Aldovia Inc will be treated as UK resident. This may be overridden by the application of a double taxation convention (if one exists) between the UK and Aldovia.

Credit will be given for other relevant factors.

(3)

Total (13)