

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

November 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. Barnaby Ltd, a standalone company, purchased the following assets during the year ended 31 March 2024:

	£
Air conditioning system	225,000
New production equipment	950,000
Car CO ₂ emissions 45g/km	55,000

At 1 April 2023 the pool balances were:

	£
General pool	10,525,500
Special rate pool	95,000

Calculate the maximum capital allowances that can be claimed by Barnaby Ltd in the year ended 31 March 2024. (4)

2. Vera is planning to start a trade selling fabrics. She is unsure whether she should undertake this activity through a company, Stanhope Ltd, from which she would initially receive only a salary, or whether she should set up as a sole trader.

Explain the National Insurance consequences of the two options for Vera and Stanhope Ltd. (3)

3. Palmer Ltd moved into a new factory that cost £750,000 in the year ended 31 March 2024. The company received a government grant of £200,000 towards the cost of the property. Palmer Ltd depreciates buildings at a rate of 3% per annum on cost.

State the accounting entries needed for the capital grant for the year ended 31 March 2024. (2)

4. Benjo Ltd sells home furnishings. The company has been operating for several years and has recently expanded rapidly. This has resulted in the directors missing some filing deadlines.

The Corporation Tax return for the year ended 31 March 2023 was filed on 15 October 2024. Benjo Ltd's Corporation Tax liability for the year ended 31 March 2023 was £25,000. The company made a part payment of £7,000 in August 2024, and the balance when the return was filed.

The only other return that Benjo Ltd filed late was the return for the year ended 31 March 2022.

Explain the late filing penalties that Benjo Ltd will incur in relation to the year ended 31 March 2023. (3)

5. Kevin Carter was the sole director/ shareholder of Street Ltd, a trading company. Kevin purchased all 10,000 shares in Street Ltd on 13 September 2000. On 27 July 2023 he sold all of the shares in Street Ltd making a gain of £1.2 million. Kevin has made no previous chargeable gains.

Explain the relief available to Kevin for the gain on disposal of his shares in Street Ltd including when the relief needs to be claimed. (4)

6. Kitto Ltd owns shares in Heligan plc which were acquired as follows:

<u>Date</u>	<u>No. of shares</u>	<u>Cost</u> £
1 January 2018	15,000	22,000
21 November 2022	12,000	14,000

On 6 June 2018 Heligan plc announced a 1 for 2 bonus issue.

On 23 March 2024, Kitto Ltd sold 10,000 shares for £16,000.

Calculate the chargeable gain arising from the sale of shares. (4)

7. Perez Ltd is an investment company. It has rental properties and a small share portfolio. Perez Ltd has incurred the following expenses during the year ended 31 March 2024:

	£
Directors' salaries	50,000
Repairs to rental properties	45,000
Audit and accountancy fees	5,000
Insurance (£7,000 for the rental properties and £5,500 for the head office building)	12,500
Donation to a registered charity	1,000

State how each expense is treated for Corporation Tax purposes. (3)

8. Littleton Ltd is a large company for quarterly instalment purposes. For the nine-month period to 31 January 2024 it had a Corporation Tax liability of £450,000.

Calculate the quarterly instalments payable by Littleton Ltd, stating the due dates of payment. (3)

9. The shares in Herring Ltd are owned as follows:

Roddy Ltd	18%
Lerwick Ltd	22%
Wilson Ltd	31%
Ravenswick Ltd	8%
Gibson Ltd	6%
Individuals	15%

All companies are UK resident with the exception of Gibson Ltd.

Herring Ltd has made a trading loss for the year ended 31 January 2024 of £225,000 and has non trading profits of £25,000.

Explain how Herring Ltd's loss can be relieved for the year ended 31 January 2024. You are not required to calculate the amount of loss available to each shareholder. (4)

10. Ashworth Ltd paid and received the following amounts during the year ended 29 February 2024:

		£
31 March 2023	Patent royalties paid to Joe, a UK resident	4,000
2 May 2023	Patent royalties received from Billy, a UK resident	3,000
21 June 2023	Interest paid to Holly, a UK resident	4,000
31 January 2024	Interest paid on a loan from Ferdinand Ltd, a UK company	6,000

Calculate the Income Tax due on each CT61 return required and state the date that the Income Tax is payable to HMRC. (3)

11. Shadow Ltd has incurred costs on medical research during the year ended 31 March 2024 and Nina the finance director has asked you to explain what relief is available for this expenditure.

Shadow Ltd has spent money on staff costs, software, consumables and computer hardware in its research for the year ended 31 March 2024.

Shadow Ltd has 200 employees, annual turnover of £2 million and a balance sheet total of £5 million. These are similar to previous years. Shadow Ltd has no linked enterprises.

Explain what relief is available to Shadow Ltd for the expenditure on medical research. (4)

12. Biddle Ltd has a contract to provide services to Rushy Ltd (a large company). George owns 100% of Biddle Ltd and carries out these services to Rushy Ltd. Biddle Ltd invoices Rushy Ltd for the services that George carries out. Biddle Ltd has no other contracts and George would be treated as an employee if he worked directly for Rushy Ltd.

Explain who decides how Rushy Ltd should treat the payments made to Biddle Ltd and how those payments are calculated. Ignore VAT. (3)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

13. Alltrees Ltd is a trading company and a longstanding client of your firm. Alltrees Ltd has one wholly owned subsidiary, Brownmere Ltd.

Alltrees Ltd and Brownmere Ltd make up their accounts to 31 March. In the year to 31 March 2024 Alltrees Ltd had the following results:

	£
Trading profit	370,000
Interest from bank account deposits	25,000

In the year Brownmere Ltd had total profits of £4,654,000. This amount included a dividend of £19,000 which it received from a small (less than 5%) shareholding in shares in a quoted company.

Alltrees Ltd has brought forward trading losses of £12,500,000 from year ended 31 March 2019.

It is agreed that the deductions allowance is allocated to allow Alltrees Ltd to relieve all the current year profits and the remainder to Brownmere Ltd.

All of the shares in Alltrees Ltd are owned by Joe Rees. In addition, Joe owns 75% of the shares in Deanridge Ltd (the other 25% are owned by Sam Morris, a business investor unconnected to Joe). Joe owns no other shares.

The finance director of Alltrees Ltd called you to discuss the amount of Corporation Tax due for the year. During the call he asked:

“Can I have your opinion on an issue that has arisen? Last week I attended a meeting at the offices of Greenmoss Ltd, to whom we supply a lot of our products. Greenmoss Ltd is unrelated to Alltrees Ltd but we do a lot of work with them – in fact in some instances, where Greenmoss Ltd has the better relationship with the final client, Greenmoss Ltd acts as our agent.

During the meeting, the sales director of Greenmoss Ltd made a comment that they allow some of Greenmoss Ltd's agency fee, that is payable by the final client, to be paid directly to Greenmoss Ltd employees. The sales director says that this gives the employees a 'favourable tax result'.

You have previously determined that Greenmoss Ltd is not a group company or associated company of ours, and its employees are not our employees. However, Alltrees Ltd does a lot of work with Greenmoss Ltd and we do have a trading connection.

I am concerned that Alltrees Ltd may have some sort of legal exposure as we are now aware of what Greenmoss Ltd is doing?”

Requirements:

- 1) Calculate the taxable total profit for the year ended 31 March 2024 for both Alltrees Ltd and Brownmere Ltd. Explain what losses can be used and state what losses can be carried forward. (6)
- 2) Calculate the Corporation Tax payable by the companies in the Alltrees Ltd group, showing necessary explanations. (7)
- 3) Explain the offence that Alltrees Ltd may be committing with regards to the third-party payments to the employees of Greenmoss Ltd and in what way Alltrees Ltd could defend itself from charges of having committed this offence. (5)

Total (18)

14. For some years Randolph has had a management consultancy business (which he operates as a sole trader). You are Randolph's tax advisor, and he has raised the following query with you:

"After all these years I think it is now the right time to convert the business into a limited company.

I have had the business valued by a professional business valuation agency, who have said that it is worth £950,000.

The tangible assets are as follows:

Unit 5 High Street: The trading premises. I own this building, and this is the current value put on it by a local chartered surveyor.	£ 475,000
Cash: The amount that there will be at the point of incorporation.	30,000
Other equipment: Mainly computers.	5,000

As these don't add up to £950,000, I suppose the rest is goodwill that I have generated?

You may recall that I bought Unit 5 High Street in 2018 and paid £210,000 for it, which included the professional fees. The building was around 75 years old at the time.

I bought the computer equipment for £10,000 a couple of years ago.

I think that I might retain Unit 5 High Street in my personal ownership, and the new company could pay me market rate rental income.

Also, I don't want to take just shares in the new company, I would like to have some of the consideration as a director's loan account. I understand this might be beneficial in the future.

Would it be possible for you to work out the tax position under two alternatives, being:

- 1) Alternative one – all the assets go across to the new company but the £950,000 comes to me as £800,000 of shares and £150,000 left on the director's loan account; and
- 2) Alternative two – all the assets go across to the new company with the exception of Unit 5 High Street which stays in my ownership. I shall not receive any cash.

I already own a dormant company which I could use for the new trading company. It has share capital of £100 (being 100 x £1 shares) which I don't intend to change unless you tell me otherwise.

I also want to think about the impact on selling the business in future, although it is likely to be in several years' time. I think the best way to do this is by selling a company.

My turnover is well over the VAT threshold and I've been doing VAT returns for years. I suppose I shall have to start again with a new VAT number and close the old number down? And that I shall have to account for VAT on the assets being transferred?

Many thanks

Randolph"

Requirements:

- 1) **For Alternative one, calculate the chargeable gain on incorporation of Randolph's sole trade business as a limited company, after applying any automatic relief. State the base cost of Randolph's new shares in the company.** (5)
- 2) **For Alternative two, explain the gains implications for Randolph and the company of the transfer of all assets except Unit 5 High Street to the company. Explain what possible relief may apply to reduce the gain.** (5)
- 3) **Explain the VAT implications of the transfer of Randolph's business to the company, assuming he chooses Alternative one.** (5)

Total (15)

15. You are a tax manager at ATT & Co, a firm of Chartered Accountants and Tax Advisers. Julie is a colleague of yours in the firm's audit department; she has sent you the following email:

"Good Afternoon

I wonder if you can help me on a couple of queries which have arisen whilst I have been out on the audit of the XYZ International Ltd group of companies. This is the first year we have done this audit so you might not know anything about the group.

Until last year the UK companies charged the same price for goods whether the customer was a group company or not, and whether it was in the UK or overseas. This year there are a lot of transactions for goods between group companies – both in the UK and overseas that are not consistent.

When I queried this with the Finance Director, Marek, he told me that this is fine as all the companies are in the same group so there is "nothing lost" and it doesn't affect the consolidated group accounts. I'm sure this isn't right. They even seem to vary the way the management charges are calculated amongst group companies.

I would like to go back to Marek to discuss this further but I need to know more about the rules regarding intragroup trading for tax purposes. Could you email me back with details of how these rules apply and what further information I need to be getting?

Also, Marek said that he was under pressure from a non-executive director of the group to ensure that the group paid as little tax as was legally possible. Marek said that he was sure that there were "loophole tax planning schemes with some steps inserted" that could be implemented; and asked if there was a "general, off the shelf, ready-made" tax scheme they could implement. I'm not sure whether we can offer such a scheme. Please could you let me know so that I can manage Marek's expectations?

An email back with the answers as soon as possible would be great!

Many thanks

Julie"

Requirements:

Write an email to Julie in which you:

- 1) **Explain for XYZ International Ltd and its group of companies:**
 - (a) **the further information needed to determine if the transfer pricing rules apply; and**
 - (b) **the effect of the rules on the UK Corporation Tax computations.** (7)

- 2) **With reference to each of the standards that your firm should follow, explain whether your firm will be able to advise on the tax planning scheme requested by Marek.** (5)

Total (12)

16. Bank House Ltd is a trading company based in the UK but which has some properties in overseas countries which it rents out (it has no other overseas business or trading interests). Jo Richards owns all of the shares in Bank House Ltd.

In the year to 31 March 2024 Bank House Ltd had the following results:

		£
Tax-adjusted trading profit	(see Note 1)	1,100,000
Net interest payable	(see Note 2)	97,000

Rent from overseas properties is as follows (having been translated into sterling from the overseas currency):

	£
Property "A" located in Parisia:	112,000
Rent remitted to the UK after deduction of local tax at 20%	
Property "B" located in Gratinia:	
Rent remitted to the UK after deduction of local tax at 40%	55,000

Notes

- 1) The tax-adjusted trading profit of £1,100,000 has been adjusted for most items. However Bank House Ltd did not know how to deal with a loan write-off and so it includes the write-off of a loan totalling £250,000. This is a loan which Bank House Ltd made to Smart Co Ltd, a tech start-up company in which Jo Richards owns 60% of the shares.
- 2) Net interest payable (as above) of £97,000 is made up of the following. None of these items have been included in arriving at the tax-adjusted trading profit of £1,100,000.

	£
Interest payable on bank overdraft	(75,000)
Interest payable for loan to purchase investment property	(16,000)
Interest receivable on loan made to Sue, a member of staff (not a director)	1,000
Interest on overdue VAT	(2,000)
Interest on loan made by Jo Richards to Bank House Ltd (for non-trading reasons), being:	
(a) Amount paid 1 December 2023 – £4,000	(5,000)
(b) Amount accrued for the year, to be paid on 1 August 2026 – £1,000	
	(97,000)

Requirements:

- 1) **Calculate the taxable total profits for Bank House Ltd for the year to 31 March 2024. Include where necessary, explanations of the tax treatment adopted.** (8)
- 2) **Calculate the UK Corporation Tax payable for the year ended 31 March 2024.** (5)

Total (13)