



November 2024 Examination

PAPER 4

Corporate Taxation

Part I Suggested Answers

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

1.

	FYA @100% £	AIA @100% £	General pool £	Special rate pool £	Allowances £	
WDV b/f			10,525,500	95,000		
Additions						
Air conditioning system		225,000				(1/2)
Production equipment	175,000	775,000				(1/2)(1/2)
Car CO2 emissions 45g/km			55,000			(1/2)
	<u>175,000</u>	<u>1,000,000</u>	<u>10,580,500</u>	<u>95,000</u>		
Allowances						
FYA @ 100%	(175,000)				175,000	(1/2)
AIA @ 100%		(1,000,000)			1,000,000	(1/2)
WDA @ 18%			(1,904,490)		1,904,490	(1/2)
WDA @ 6%				(5,700)	5,700	(1/2)
WDV c/f			<u>8,676,010</u>	<u>89,300</u>		
Total allowances					<u>3,085,190</u>	

4 marks

2. If Vera sets up a company for her fabric trade, then she would be classed as employed by that company. (1/2) This would mean that she would pay Class 1 Primary NIC on her salary as this would be classed as earnings. (1/2) at 12% on earnings between £12,570 and £50,270). (1/2) Stanhope Ltd would need pay Class 1 Secondary NIC on her salary. (1/2) at 13.8% on earnings over £9,100. (1/2)

If Vera doesn't use a company for her new trade, then she would be classed as self-employed (1/2) and would therefore pay Class 2 NIC of £3.45 per week assuming that she had profits in excess of £12,570 per annum. (1/2) She would also need to pay Class 4 NIC contributions on profits between the upper and lower profits limits (£50,270 and £12,570) at 9% (1/2) and 2% on profits in excess of the upper limit (£50,270). (1/2)

Max 3 marks

3. The accounting entries to record the capital grant are:

Dr	Bank	£	200,000	£		(1/2)
Cr	Grant account (deferred income)			200,000		(1/2)
Dr	Grant account (deferred income) - 200,000 x 3% (1/2)	£	6,000			(1/2)
Cr	Grant income (profit and loss account)			6,000		(1/2)

Max 2 marks

4. The deadline for filing the return for the year ended 31 March 2023 was 31 March 2024. (½) As this was only the second late return the initial penalty for being late remains at £100. (½)

The return had not been filed by 30 June 2024 (½)* (ie three months late) and so an additional £100 penalty falls due. (½)

The return was still not filed by 30 September 2024 ie 18 months after the start of the accounting period (½)*, and so a tax geared penalty of 10% of the Corporation Tax unpaid at that date was due ie £1,800 (£18,000 x 10%).(½)

* These ½ marks are for either the correct date or for the correct explanation.

3 marks

5. Kevin will be able to claim Business asset disposal relief (BADR) on the disposal of the shares in Street Ltd. (½) This is because Street Ltd is a personal trading company because Kevin is employed by the company (½) and holds at least 5% of the ordinary share capital (100% in this case) (½) and this has been the case for the two years prior to disposal. (½)

BADR means up to £1 million of the gain will be taxed at 10% which uses up all of Kevin's lifetime limit. (½) The remaining gain (if any) will be taxed at normal CGT rates. (½)

BADR must be claimed on or before the first anniversary of the 31 January following the tax year of disposal, (½) in this case by 31 January 2026. (½)

4 marks

6. Section 104 pool

		No of shares	Indexed cost £	
01/01/18	Acquisition	15,000	22,000	(½)
06/06/18	Bonus issue 1:2 ½ x 15,000 (½)	7,500	-	(½)
21/11/22	Acquisition	12,000	14,000	(½)
		<hr/>	<hr/>	
		34,500	36,000	
23/03/24	Disposal (10,000/34,500) x 36,000 (½)	(10,000)	(10,435)	(½)
	Balance c/fwd	<hr/>	<hr/>	
		24,500	25,565	

Kitto Ltd's chargeable gain will therefore be:

	£	
Proceeds	16,000	(½)
Less: indexed cost	(10,435)	(½)
Chargeable gain	<hr/>	
	£5,565	

4 marks

7. The expenses incurred by Perez Ltd will be treated as follows:

	£		
Directors' salaries	50,000	These will be treated as management expenses.	(½)
Repairs to rental properties	45,000	Repairs to rental properties will be deductible from any rental income received.	(½)
Audit and accountancy fees	5,000	These will be treated as management expenses.	(½)
Insurance (£7,000 for the rental properties and £5,500 for the head office building)	12,500	The cost of insurance for the rental properties will be deducted from any rental income received. The £5,500 for the head office building will be treated as management expenses.	(½)
Donation to a registered charity	1,000	This will be treated as a qualifying charitable donation and will be deducted last in calculating TTP.	(½)(½)

Max 3 marks

8. Littleton Ltd's corporation tax liability will be split into the following three instalments:

Instalment date	Amount payable	
14 November 2023 (14 th day of month seven from the start of the accounting period) (½)	£450,000 x 3/9 = £150,000	(½)
14 February 2024 (3 months after previous instalment) (½)	£450,000 x 3/9 = £150,000	(½)
14 May 2024 (3 months and 14 days after the end of the accounting period) (½)	£450,000 x 3/9 = £150,000	(½)

3 marks

9. Herring Ltd is a consortium company as more than 75% of its shares (85%) are owned by other companies (½) which each own at least 5%. (½) The consortium members may be UK or overseas tax resident for the purpose of the 75% threshold; however, losses may only be surrendered to UK tax resident companies. (½) ie Gibson Ltd is a consortium member but cannot receive Herring Ltd's losses.

Herring Ltd can only surrender £200,000 (£225,000 - £25,000) of the trading loss (½) as it will be deemed that a current year claim of £25,000 will be made. (½)

The maximum consortium relief available is the lower of (½):

the consortium company's loss multiplied by the consortium members interest in that consortium (½)
the consortium member's available profit. (½)

For example Herring Ltd can surrender 18% of its loss to Roddy Ltd, £36,000, providing that Roddy Ltd has profits of at least that amount in the overlapping period. (½)

Losses cannot be surrendered to shareholders who are individuals. (½)

Max 4 marks

10. Ashworth Ltd will have complete the following returns:

CT61 return - 1.3.23 – 31.3.23				
Patent royalties paid to Joe – paid net of 20% tax	4,000 x 20/80	£1,000	(1/2)	Due 14.4.23(1/2)
		<hr/>		
CT61 return - 1.4.23 – 30.6.23				
Interest paid to Holly – paid net of 20% tax	4000 x 20/80	£1000	(1/2)	
Patent royalty from Billy – received net of 20% tax	3000 x 20/80	(£750)	(1/2)	
		<hr/>		
		£250		Due 14.7.23(1/2)
		<hr/>		
No return required for the interest payable to Ferdinand Ltd as payments to UK Companies are made gross. i.e. without withholding deduction.			(1/2)	

3 marks

11. Shadow Ltd is an SME for the purposes of obtaining research and development (R&D) Tax credit. (1/2) as it has fewer than 500 employees (1/2) and turnover not exceeding €100m and annual balance sheet not exceeding €86m. (Only one of these last two conditions needs to be satisfied.) (1/2) As an SME, Shadow Ltd, is able to claim an additional deduction equal to 86% of the qualifying R&D expenditure incurred in calculating its taxable total profits for the year ended 31 March 2024. (1/2)

Qualifying R&D expenditure must be revenue in nature and related to the trade carried on by Shadow Ltd. (1/2) The staff costs incurred by Shadow Ltd are qualifying R&D expenditure if they are directly and actively involved with the R&D project. (1/2) Provided the software is employed directly in carrying out the R&D then these costs will be qualifying R&D expenditure. (1/2) Consumables fully used or expended in the R&D activity are qualifying expenditure. (1/2) The computer hardware is not eligible for the additional 86% R&D tax deduction as it is capital expenditure however it is eligible for a 100% FYA instead. (1/2)

Max 4 marks

12. Biddle Ltd is a personal service company (1/2) and will be within the scope of the off payroll working legislation. (1/2). As Rushy Ltd is a large company, it must issue a status determination statement to George setting out that it considers that George would be an employee if the services were provided directly. (1/2)

As such, Rushy Ltd will calculate a 'deemed direct payment' when paying Biddle Ltd. The deemed direct payment is the gross payment due to Biddle Ltd (1/2) after deduction of allowable expenses. (1/2) It will be subject to PAYE and Class 1 NIC (1/2). The payment will be subject to employer's NIC. (1/2)

Max 3 marks



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13

1)

Deductions allowance allocation –

	£	
Alltrees Ltd	395,000	(1/2)
Brownmere Ltd	4,605,000	(1/2)
Total	5,000,000	

Alltrees Ltd – Profit for the year to 30 September 2024

	£	
Trading profit	370,000	
Non trading loan relationship	25,000	
Total	395,000	
Less loss brought forward	(395,000)	(1/2)
Taxable total profit	Nil	(1/2)

Brownmere Ltd – Profit for the year to 30 September 2024

	£	
Profit	4,654,000	
Less dividends (non taxable)	19,000	(1/2)
Total	4,635,000	
Less loss brought forward; group relieved from Alltrees Ltd (see working 1)	(4,620,000)	(1/2)
Taxable total profit	15,000	(1/2)

Working 1 – Loss relief restriction

	£	
Profit	4,635,000	
Less deductions allowance	(4,605,000)	(1/2)
Relevant profit	30,000	(1/2)
50% of relevant profit	15,000	(1/2)
Losses available (£4,605,000 plus £15,000)	£4,620,000	(1/2)

Loss memorandum

	£	
Loss brought forward	12,500,000	

Utilised by Alltrees Ltd	(395,000)	
Utilised by Brownmere Ltd	(4,620,000)	
Loss carried forward	7,485,000	(1/2)

(6)

2)

Alltrees Ltd – all profits relieved by losses brought forward. So Corporation Tax payable is £Nil. (1/2)

Brownmere Ltd – Corporation Tax payable on profits of £15,000.

Marginal relief limits –

Joe also owns shares in Deanridge Ltd (1/2) so there are three (1/2) associated companies.

Lower limit - £50,000/3 = £16,667 (1/2)

Upper limit - £250,000/3 = £83,333 (1/2)

The Augmented profit of Brownmere Ltd is –

	£	
Taxable total profit after group relief	15,000	
Dividends received	19,000	(1/2)
Augmented profit	34,000	(1/2)

Corporation tax rate to be applied – 25% (1/2)

Tax on £15,000 at 25% = £3,750 (1/2)

Less Marginal relief –

$\frac{3}{200} \times (\text{£}83,333 - 34,000) \times \frac{15,000}{34,000}$

= £326

Corporation tax liability (£3,750 – 326) = £3424 (1/2)

Max (7)

3) Greenmoss Ltd and its employees seem to be committing tax evasion. (1)

Alltrees Ltd has a connection through its trading and agency relationship with Greenmoss Ltd which makes it an associated person for this offence. (1/2)

So Alltrees Ltd may be committing the offence of failing to prevent the facilitation of tax evasion. (1).

A company can be liable for the criminal act of tax evasion committed by its associated persons. (1/2)

In order to defend itself, Alltrees Ltd should have in place documented procedures (½) to prevent the facilitation of tax evasion by others. (½)

These procedures should be reasonable (½) (or Alltrees Ltd could document that it was not reasonable to expect procedures to be in place). (½)

The defence of having reasonable procedures in place are based on - risk assessments; proportionality; top level commitment; due diligence; communication; monitoring & review. (1)

Max (5)

(18) marks

14

1) Alternative 1

	£	£	
Unit 5 High Street			
Consideration – Current Market Value	475,000		(½)
Less cost	(210,000)		(½)
Gain		265,000	(½)
Computer Equipment – no gain, no loss			(½)
Goodwill			
Market value (950k-475k-30k-5k)	440,000		
Cost nil	Nil		
		440,000	(½)
Total gain		705,000	

Incorporation Relief (½) is available as all assets are being transferred. It applies automatically unless an election is filed to disapply it.

The relief is as follows –

Gain £705,000 x (value of shares/ total consideration) (½)

=£705,000 x (800/950)

Relief £593,684 (½)

Amount brought into charge - £111,316 (½)

Base cost of shares £800,000 - £593,684 = £206,316 (½)

Note: there is no BADR available on the gain arising from goodwill.

(5)

2) Alternative two

One of the conditions for obtaining Incorporation Relief is that all assets (except cash) must be transferred. (½)

This alternative does not meet that condition as the building is being retained. (½)
Therefore, a gain will arise on the transfer of the goodwill, (½) on the deemed proceeds £440,000. (½)

It is possible to claim Gift Relief (½) on this transfer. This will mean that the gain will not become immediately chargeable; (½) however the base cost of goodwill in the company will be reduced by the held over gain. (½)

The shares in the new company will have the base cost being the amount that you subscribed plus the value of non-chargeable assets (ie cash and computers totalling £35,000). (½) When you sell the company the base cost would be lower than the base cost in alternative one. (½)

Gift Relief must be claimed jointly (by Randolph and the company) (½) within four years of the end of the tax year of disposal. (½)

Max (5)

3) VAT

The incorporation could be a transfer of a going concern (½) (TOGC) for VAT if the following conditions are met –

- The business is transferred as a going concern (½)
- There is no break in trading (½)
- The same business is carried on after incorporation. (½)
- The new company is VAT registered (½)

If these conditions are met – which seems likely – then no VAT needs to be charged on the assets transferred. (½)

Under Alternative one, the building is transferred and this would usually also form part of the TOGC. (½) However if an option to tax has been made on the building by Randolph's sole trader business, an option to tax must also be made by the company to remain within the TOGC. (½)

The old business must deregister for VAT and has 30 days from the incorporation to do this. (½)

However it is possible for the VAT number used in the old business to be transferred to the company (½) but both the old business and the company must jointly elect for this. (½) (but this will mean that the company will be liable for any VAT liabilities of the old business. (½)

Max (5)

(15) Marks

15

Email

To: Julie, Audit dept

From : A Tax Advisor, Tax Dept

Date November 2024

Subject XYZ International Ltd – intragroup trading and tax planning

Good afternoon, Julie

Thank you for the email. To answer your queries –

1. The rules you are querying are the transfer pricing rules. These rules apply to groups that are large (½), which are those having more than 250 employees (½) and either turnover over €50m or a balance sheet total over €43m. (½) So you need to ascertain the size of the group to decide if the transfer pricing rules apply. HMRC can request that medium sized groups apply the transfer pricing rules.

The rules apply if intercompany prices are set to take advantage of, (½) for example, lower rates of tax in other jurisdictions or available losses, and a UK tax advantage (i.e., reduced tax) arises. (½)

The rules apply to intra group transactions only (½) but do apply to overseas and UK group companies. (½)

The transfer pricing rule applies as if an arm's length price (½) is charged to connected companies (½) – the arm's length price being that what which would be charged to a third party. (½) This arm's length price should be documented. (½) Connected companies are those where one company controls the other or both are controlled by the same person(s). (½)

If the arm's length price isn't being charged, then an adjustment needs to be made (½) in the UK tax computation of the company obtaining the UK tax advantage. (½) If both companies are UK based then a corresponding adjustment (½) can be made in the tax computations of the "disadvantaged" company. (½) (this is unlikely to be available in the same way to an overseas company) (½)

Max (7)

2. We need to consider applicable standards that apply when we advise clients on tax planning especially as the client is requesting a "general, off the shelf ready made" scheme. The standards and how they might be breached are –
 - i. The tax planning should be client specific. (½) A general ready-made scheme may not be client specific. (1)
 - ii. All tax planning must be lawful. (½) We would need to question what they meant by a "loophole" scheme and if it they wanted to implement an unlawful scheme. Loophole suggests lawful even if not as intended by Parliament. (½)
 - iii. A scheme needs to be disclosed and transparent. (½) Again, we need to query if a "loophole" scheme works only because certain facts are withheld. Disclosure to HMRC may be required. (1)
 - iv. Schemes that are highly artificial or contrived should not be promoted. (½) It is possible that the request for a scheme with "steps inserted" is artificial. (1)
 - v. As advisors we need to use our professional judgement about tax planning; (½) the client should be informed of that. (½)

Max (5)

I hope that is helpful. Let me know if I should meet with the client to explain any of the issues.

Regards

A Tax Advisor

(12) Marks

16

1. UK Total Taxable Profits

	£	£	
Trading profit (as stated)	1,100,000		(½)
Plus, non-deductible write off of loan to Smart Co Ltd; (½) no tax deduction as to a connected company (½)	250,000		(½)
Less Interest on trading item – bank overdraft (½)	(75,000)		
		1,275,000	(½)
Gross (½) Income from properties			
Property “A” in Parisia	140,000		(½)
Property “B” in Gratinia	91,667		(½)
Rental Income		231,667	
Non-Trading Loan Relationships			
Interest to purchase rental property	(16,000)		(½)
Interest from Sue	1,000		(½)
Interest on Overdue VAT	(2,000)		(½)
Interest paid to Jo Richards only deductible on a paid basis (½) to connected parties (½)	(4,000)		(½)
		(21,000)	
Total Taxable Profits		1,485,667	(½)

(8)

2. UK tax payable

	£	£	
Total Taxable Profits		1,485,667	
Tax at 25% (1/2)		371,417	(1/2)
Less Double Tax Relief (1/2)			
Property "A"			
Gross Income £140,000			
Lower of: UK tax at 25%; and (1/2)	35,000		
Tax paid in Parisia(1/2)	28,000		
DTR		(28,000)	(1/2)
Property "B"			
Gross Income £91,667			
UK tax at 25% (1/2)	22,917		
Tax paid in Gratinia (1/2)	£36,667		
		(22,917)	(1/2)
UK tax due		320, 500	(1/2)

(5)

(13) Marks