

Institution **CIOT - ATT**  
Course **ATT Paper 4 Corporate Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>56</b>	<b>278</b>	<b>370</b>
Section 2	<b>142</b>	<b>586</b>	<b>724</b>
Section 3	<b>42</b>	<b>197</b>	<b>231</b>
Section 4	<b>109</b>	<b>447</b>	<b>554</b>
Section 5	<b>207</b>	<b>945</b>	<b>1143</b>
Section 6	<b>74</b>	<b>350</b>	<b>409</b>
Section 7	<b>28</b>	<b>191</b>	<b>210</b>
Section 8	<b>78</b>	<b>333</b>	<b>404</b>
Section 9	<b>146</b>	<b>768</b>	<b>907</b>
Section 10	<b>60</b>	<b>285</b>	<b>366</b>
Section 11	<b>171</b>	<b>863</b>	<b>1022</b>
Section 12	<b>199</b>	<b>1001</b>	<b>1192</b>

Answer-to-Question- 1

Ye 31 March 2024	GP 18%	SRP 6%	FYA 50%	FYA 100%	aia 100%
Tax wdv bf	10,525,500	95,000			
Air conditioning system					225,000
New production equipment				175,000	775,000
Low emmissions car	55,000				
	10,580,500	95,000		175,000	1,000,000
WDA 18%	1,904,490				
WDA 6%		5,700			
FYA 100%				175,000	
AIA 100%					1,000,000
Tax wdv cf	1,904,490	5,700			
CA Claim	3,085,190				

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

As a sole trader Vera would pay Class 2 NICs where her profits exceeds the 12,570 limit. She would pay this at 3.45 per week or 179.4 for the year and this would be paid on 31 January after the tax year.

As a sole trader she would also pay Class 4 NICs on trading profits. This would be charged at 9% between 12,570 and 50,270. Then 2% on anything above this.

If she received a salary from Stanhope Ltd she would pay class 1 Primary on earnings en 12570 and 50270, then 2% on anything over this. Then she would pay class 1 secondary on earnings 13.8% above 9,100 and 0% between ST and UST for employees under 21.

The company would then also pay class 1A at 13.8% on taxable benefits and class 1b at 13.8% on benefits under PSA.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

Asset or capital grant as helping to purchase a fixed asset

Dr Bank 200,000

Cr Grant account 200,000

then for depreciation

depreciation =  $200,000 \times 3\% = 6,000$

Dr Grant account 6,000

Cr Grant income 6,000

as the fixed asset is depreciated.

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

CT return should have been filed 12 months from the end of the AP. This would have been 31 March 2024. As it was filed on 15 October 2024 it was over 5 months late there would be an immediate £100 penalty for the late filing, this would then double to 200 as it was over three months late. This would increase to 500 (or 1000 where it is 3 months late) for a company's third consecutive offence.

There are no penalties charged on the late payment of corporation tax but interest can be charged at 6.5%. This would be calculated as  $25,000 \times \frac{8}{12} \times 6.5\% = 1,083$

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

The disposal of shares by Kevin would qualify for business asset disposal relief.

This applies where there is a material disposal of business assets.  
IE sole traders selling the whole or part of their business

To qualify for BADR the shares must have been owned for two years prior to sale, which they have been.

A personal company is one where the shareholder owns at least 5% of the ordinary share capital and is able to exercise at least 5% fo the voting rights. In addition, the shareholder must either be entitled to at least 5% of the distributable profits and 5% of teh assets available on a winding up, and/or be entitled to atleast 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company.

Kevin meets all these requirements.

These conditions must also be satisfied for atleast two years prior to disposal, which Kevin does.

BADR is given by taxing qualifying gains at 10%. these gains are treated as using any unused basic rate band in priority to other gains.

BADR is only available in respect of eligible gains up to the lifetime limit of £1 million.

Gains in excess of this are taxed ad normal CGT rates.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----

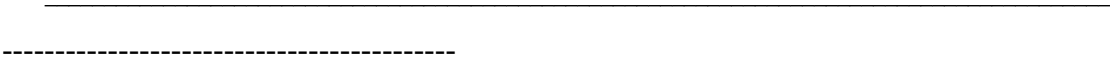
Answer-to-Question- \_6\_

Share matching:

- 1- acquired on same day = 0
- 2- Acquired following 30 days= 0
- 3- s.104 pool

Date	Shares	Total shares	Cost	Indexed cost	Total cost
1 January 2018	15,00	15,000	22,000	No indexation as post December 2017	
21 November 22	12,000		14,000		
		27,000			36,000
6 June 2018	13,500		0		
		40,500			36,000
TOTAL SHARES	40,500				
TOTAL COST	36,000				
Divided by	1.125 per share				
Proceeds	16,000				
Cost	11,250	1.125 x 10,000			
Chargeable Gain	4,750				

-----ANSWER-6-ABOVE-----





-----ANSWER-7-BELOW-----

Answer-to-Question- 7\_

Directors salaries	Allowable	if reasonable	
Repairs to rental property	Deductible		
Audit and accountancy fees	Allowable		
Insurance	5,500	Allowable as management fees	disallow 7000
Donation to registered charity	deductible		

-----ANSWER-7-ABOVE-----

-----ANSWER-8-BELOW-----

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Answer-to-Question- 8 -----

A company is large if augmented profits (ap) exceed 1.5 million and do not exceed 20 million. This is shorted for a short accounting period.

$$1,500,000 \times 9/12 = 1,125,000$$

$$450,000 \times 125\% = 1,800,000$$

$$3/9 \times 450,000 = 150,000$$

1st- 14th day of month 7 = 14th November 2023 = 150,000

2nd- three months after previous = 14th February 2024 = 150,000

3rd- three months and 14 days from end of AP = 14th May 2024 = 150,000

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9

Consortium relief is available here as atleast 75% of the shares of the company are owned by other companies. The consortium members must each own 5% of more of the consortium company.

As none of the companies own 75% themselves, group relief will not take priority over consortium relief.

Consortium relief allows loses to be transferred between the consortium company and the consortium members. Consortium relief is set against taxable total profits in the claimant company.

As here the consortium company, Herring ltd, has made the loss the maximum consortium relief availabel to each member will be the lower of:

- Herring ltd's loss multiplied by the members interest in the consortium company
- The consortium members available taxable total profit.

Where Herring ltd has other income (25,000 non trade profits) it is deemed that a current year claim has been made before the consortium relief is calculated.

-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----

Answer-to-Question- 10

Patent royalties and annual payments recieved by UK compamies from individuals are recieved net of a 20% tax.

Royalties paid to joe	$4000 \times 100/80$	5,000	(1000)	
Royalties recieved from billy	$3000 \times 100/80$	3,750	750	
Interest paid to individual	$4,000 \times 20/100$	800	(800)	
Interest paid to a UK comapny	$6,000 \times 100/80$	4,800	(1,200)	
Income tax due			2,750	

-----ANSWER-10-ABOVE-----

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

Shadow Ltd can claim R&D relief. Research and development expenditure for tax purposes takes place when a project seeks to achieve an advance in science or technology.

Qualifying expenditure includes:

staff costs

computer software

Relevant payments to subjects for clinical trials

Subcontracted R&D costs

Externally provided workers

We would need further information to confirm the costs for Shadow Ltd are spent on R&D in accordance with GAAP, and to confirm that it is qualifying expenditure.

An SME is a company with under 250 staff, annual turnover under 50 million and a balance sheet total under 43 million. In this case shadow ltd would be an SME.

SME's can claim a tax deduction of 186% for qualifying R&D expenditure incurred on or after 1 April 2023, (230% for expenditure incurred before).

SME's with trade losses can surrender them to HMRC and receive a tax credit.

The trade loss which can be surrendered is the amount of the unrelieved trade loss that is attributable to the tax relief given on qualifying R&D expenditure.

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question- 12

The off payroll rules are designed to prevent individuals inserting a company between themselves and a client to enable gross payments to be made to the company which are then extracted by way of dividends, saving income tax and NICs.

Where an individual (George) provides services to a medium/large client, the client (Rushy Ltd) is responsible for determining if the rules apply. The client will issue a status determination statement, setting out their assessment of the worker's status.

Where the rules apply, the client will calculate a deemed direct payment which will be subject to PAYE and NICs.

The amount of the deemed direct payment will be the amount due to be paid to the intermediary (excluding VAT) less any direct costs of materials and, at the option of the client, any expenses met by the intermediary which would be deductible from taxable earnings if the worker had been an employee.

Payment

less direct cost of materials incurred by intermediary

less expenses paid by intermediary that would be allowable for an employee

=Deemed direct payment

Rushy Ltd is responsible for deducting and accounting for PAYE/NICs and will need to provide the George with a form P60 and form P45.

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-----ANSWER-12-ABOVE-----  
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Section 13	<b>207</b>	<b>1077</b>	<b>1273</b>
Section 14	<b>238</b>	<b>1149</b>	<b>1369</b>
Section 15	<b>660</b>	<b>3368</b>	<b>4001</b>
Section 16	<b>177</b>	<b>990</b>	<b>1140</b>

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 -----ANSWER-13-BELOW-----  
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Answer-to-Question- \_13\_

1)

Brownmere Ltd

Trading profit	4,654,000	
Less dividend	19000	generally exempt for companies
TP	4,635,000	

Maximum amount of brought forward losses that can be relieved lower of:

-unrelieved losses brought forward= 12,500,000  
 -deductions allowance + 50%(unrelieved profits - deductions allowance  
 $5,000,000 + 50\% (12,500,000 - 5,000,000) = 8,750,000$

Maximum amount of current year loss to surrender is lower of:

-Current period qualifying losses in surrendering company = 0  
 - available taxable total profits of claiming company= 4,635,000

Brownmere Ltd

Trading profit	4,635,000		




**Alltrees Ltd**

Trading profit	370,000		
NTLR	25,000		
Total profits	395,000		
Less loss bf	(395,000)		
Taxable total profits	0		

Losses carried forward = 12,500,000 - 395,000 = 12,105,000

2)

The Alltrees Ltd Group is comprised of Brownmere Ltd as it is wholly owned aswell as Deanridge Ltd.

As Alltrees ltd is owned 100% by Joe Rees, who owns 75% of Deanridge Ltd. There is direct ownership.

$$75\% \times 100\% = 75\%$$

$$50,000 / 4 = 12,500$$

$$250,000 / 4 = 62,500$$

3)

The offence being committed by Alltrees Ltd may be considered off-payroll working.

If, but for the existence of the intermediary, the individual would be an employee of the

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client, the rules essentially ensure income from the client is taxed as salary for the worker.

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-----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----

Answer-to-Question- \_14\_

1)

Chargeable to Randolph

Proceeds	950,000	
Less original cost	510,000	
Less gain deferred by gift relief	220,000	
Gain chargeable after gift relief	290,000	actual proceeds - cost 800,000 - 510,000
Less AEA	(6,000)	
= Chargeable gain	284,000	x 10% BADR = 28,400
Base cost for company		
MV	950,000	
Less gift relief	220,000	= 730,000

Incorporation relief = gains x (shares recieved / total consideration)  
 =(950,000 - 510,000) x (800,000/950,000) = 370,526

If renting the building back to the company, relief will be restricted.

2)

950,000 - 475,000 = 475,000 - 30,000 (cash) = 445,000

3)

No VAT needs to be charged on the transfer of a business to a company, as the incorporation will be a transfer of a going concern. Transfer of a going concern treatment may apply, providing the following conditions are met:

- business is transfered as a going concern
- Business uses the assets transfered to carry on the busienss with no significant break in trading.

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-As Randolph was VAT registered, the company must be or become VAT registered as a result of the transfer.

If TOGC conditions are not met, then output VAT at the standard rate of 20% will need to be charged on the goodwill at sale.

As a sole trader, Randolph must deregister his business within 30 days by sending form VAT7. The new company should then register for VAT. The new company can elect to use Randolph's old VAT registration number.

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

To: Julie  
From: Tax Manager at ATT & Co  
Subject: Audit of XYZ International Ltd  
Date: 05/11/2024

This email will aim to address all issues brought forward in your previous email.

### Transfer Pricing Rules

Transfer pricing rules apply to transactions between connected companies which take place at a non-arms length prices such that one of the parties obtains a UK tax advantage. Arms length effectively means the equivalent price that would be paid by a third party transacting on similar terms. Two companies are connected where one company controls another, or both companies are controlled by the same person, such as companies in a group. The definition of control is the power to secure that the affairs of a company are dealt with in accordance with a person's wish, by means of shareholdings, voting power or powers conferred by documents regulating the company.

All prices should be at arms length. Therefore, the selling price of the goods should be consistent with open market value.

It is vital that in the future you retain sufficient information on internal prices charged in order to justify them in the event of a CTSA enquiry.

If XYZ International Ltd meets the criteria of being a small or medium sized enterprise for transfer pricing purposes, then the transfer pricing rules will not apply.

The effect of the rules is that the company has obtained a UK tax advantage, the advantaged company is required to make an adjustment in its tax computation to reflect an arms length price.

If XYZ Ltd sells the goods for less than open market value then a corporation tax adjustment will need to be made at the year end to reflect the profit that would have been made if an open market price had been charged to the subsidiary.

This will be calculated as the total sales income (at market value), less total sales income (the actual price charged) = the increase in trading income.

This adjustment would have the effect of increasing profits to an amount that would have been recognised if the arms length price had been charged.

Where one party to a transaction has been obliged to make a transfer pricing adjustment and the other party is also UK resident, the disadvantaged person may make a corresponding adjustment to its tax return.

Transfer pricing adjustments also apply to internal management services and interest charges.

There is an exemption for dormant companies and situations where the advantaged company is a small or medium sized company.

### Tax Planning Scheme

Regarding the tax planning scheme requested by Marek. We cannot advise on tax planning which is contrary to the five standards for tax planning. The standards for tax planning are:

-Client specific: in order to meet the standard, the planning should be specific to the clients circumstances and an "general, off the shelf" scheme is unlikely to meet this requirement

-Lawful: Marek wants to pay as little tax as "legally possible" which does not indicate behaviour which may breach the standards. However, you should be aware of the likely risks and costs that might be incurred to deal with a dispute with HMRC.

-Disclosure and transparency: Tax advice must not rely for its effectiveness on HMRC having less than relevant facts. Any disclosure must fairly represent all relevant facts.

-Advising on tax planning arrangements: Marek believes that their are "loophole tax planning schemes". As an advisor I cannot encourage tax planning that uses a loophole which could be contrary to the intention of parliament in enacting legislation and/or which uses a contrived structure that seeks to exploit any shortcomings in the law.

-Professional judgement and appropriate documentation: An advisor should always use

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their professional judgement. We should ensure that we document our views.

To conclude I would recommend reconsidering the pricing structure used within the group in order to comply with transfer pricing rules, and I would strongly suggest taking my advice regarding tax planning in order to stay compliant.

Regards,  
Tax Advisor.

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-----ANSWER-15-ABOVE-----  
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-----ANSWER-16-BELOW-----

Answer-to-Question- 16

Trading income

Tax adjusted trading profit	1,100,000		
Loan write off	(250,000)	No income or expense is recognised in respect of impairments or released debts between connected companies.	
Adjusted profit	850,000		

Non-trading profits

Non-trade interest receivable			
Loan to member of staff (not a director)	1,000		
LESS			
Non-trade interest payable			
Bank overdraft	(75,000)		
Loan to purchase investment property	(16,000)		
Interest on overdue VAT	(2,000)		
Non-trade loan to director	(4,000)	(1,000) not allowable as not paid within 9 months of YE	
Non-trade loan deficit	(96,000)		



Overseas income

Property A		
Income	112,000	
Foreign tax suffered	28,000	$112,000 \times 20/80 =$
UK CT due on income	28,000	$112,000 \times 25\% =$
Double tax relief	(28,000)	
	84,000	

Property B		
Income	55,000	
Foreign tax suffered	76,667	$115,000 \times 40/60$ $=76,666.6667$
UK CT due on income	28,750	$115,000 \times 25\% = 28,750$
Double tax relief	(28,750)	
	26,250	

Taxable total profits		
Trading income		
Adjusted profit	850,000	
Less capital allowances		0
Trade profit	850,000	
Other income		
Overseas income	110,250	
Non-trading loan deficit		(96,000)
Less qualifying charitable donations		(0)
Taxable total profit	864,250	
CT liability	x 25%	216,063

rdrw10

Adjusted profit	850,000		
Less capital allowances		0	
Trade profit	850,000		
Other income			
Overseas income	110,250		
Non-trading loan deficit		(96,000)	
Less qualifying charitable donations		(0)	
Taxable total profit	864,250		
CT liability	x 25%	216,063	