

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 | 66 | 319 | 349 |
| Section 2 | 81 | 339 | 418 |
| Section 3 | 10 | 48 | 56 |
| Section 4 | 112 | 431 | 541 |
| Section 5 | 134 | 581 | 714 |
| Section 6 | 51 | 242 | 259 |
| Section 7 | 31 | 185 | 208 |
| Section 8 | 39 | 180 | 208 |
| Section 9 | 110 | 550 | 660 |
| Section 10 | 41 | 163 | 193 |
| Section 11 | 137 | 640 | 774 |
| Section 12 | 135 | 636 | 763 |

Answer-to-Question- _1_

AP: 1 April 23- 31 March 24, FY 23/24

| | FYA 100% | AIA 100% | GP 18% | SR 6% | Total CAs £ |
|----------------------|-------------|-------------|-------------|---------|----------------|
| WDV | | | 10,525,500 | 95,000 | |
| Production equipment | | 950,000 | | | |
| air con | 175,000 | 50,000 | | | |
| car | | | | 55,000 | |
| totals | 175,000 | 1,000,000 | 10,525,500 | 150,000 | |
| FYA 100% | (175,000) | | | | 175,000 |
| AIA 100% | | (1,000,000) | | | 1,000,000 |
| GP 18% | | | (1,894,590) | | 1,894,590 |
| SR 6% | | | | (9,000) | 9,000 |
| CF to next AP | nil | nil | 8,630,910 | 141,000 | |
| Total CA's for AP | | | | | 3,078,590 |
| | | | | | |
| | | | | | |
| | | | | | |

 -----ANSWER-1-ABOVE-----



-----ANSWER-2-BELOW-----

Answer-to-Question- 2

Sole Trader:

As a sole trader Vera will be self employed and therefore have to pay Class 2 NIC's at £.05 pw unless below small profits threshold, and Class 4 NIC's at 9% with a further 2% on the Upper Limit.

Company:

If Vera undertakes this activity through Stanhope LTd she will have to pay Class 1 Primary and Secondar NIC's on her income. Class 1 Primary is at 12% with a further 2% and Class 1 Secondary id at 13.8%.

-----ANSWER-2-ABOVE-----

-----ANSWER-3-BELOW-----

Answer-to-Question- 3

DR Bank 750,000
CR grant accouny 200,000

DR grant account

-----ANSWER-3-ABOVE-----

-----ANSWER-4-BELOW-----

Answer-to-Question- 4
AP: 1 April22- 31st March 23

The CT return was due to be filed on the 12 months post the AP- therefore 31 March 2024. Therefore as the filing was 7 months and 14 days late. There is a flat rate penalty of £100 for late filing, and then this increases to £200 if over three months late. As this is only a second consecutive offence it will not increase to £500

The payment was due 9m and 1 day from the end of the AP, this would have been 1 January 2024. there will be a 6.5% interest on the payment of the CT tax, this is £25,000 x 7%= £1,750

-----ANSWER-4-ABOVE-----

-----ANSWER-5-BELOW-----

Answer-to-Question- 5

Kevin would be eligible for Business Asset Disposal relief, therefore only having to be charge 10% for CGT. For this to apply, Kevin has to have 5% of ordinary share capital, voting rights, be entitled to 5% of distributable profits and 5% of assets on winding up. Which he has as Kevin owns all the shares

Kevin has to have owned these for 2 year prior to disposal- which he has also satisfied.

The company has to be a trading company- which is satisfied.

The BADAR Claim has to be done within the first anniversary of the 31st of January following the tax year of disposal.

BADR is set at a lifetime limit of £1 million. The excess over this amount will be charged CGT according to what Income Tax band Kevin is in.

-----ANSWER-5-ABOVE-----

-----ANSWER-6-BELOW-----

Answer-to-Question- _6_

| | | | Shares | | Cost |
|----------------|------------------|--|--------|--|--------|
| 1 Jan 18 | Buy | | 15,000 | | 22,000 |
| 6 June 2018 | 1:2 bonus rights | | 7,500 | | |
| total | | | 22,500 | | 22,000 |
| 21 November 22 | Buy | | 12,000 | | 14,000 |

| | | | | | |
|-------------|------|--|----------|-------------------------------|----------|
| total | | | 34,500 | | 36,000 |
| 23 March 24 | sale | | (10,000) | $10,000/34,500 \times 36,000$ | (10,435) |
| total | | | 24,500 | | 25,565 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Cap gain

| | | | |
|----------------|--|----------|--|
| proceeds | | 16,000 | |
| less cost | | (10,435) | |
| Gain on shares | | £5,565 | |
| | | | |
| | | | |

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

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

Answer-to-Question- 7

| | | | | | |
|---------------------------------|--|--|----------|--|--|
| income | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Less managemen t expenses | | | (60,550) | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

management fees are deducted from the CT computation for the accounting period

| | | | |
|--------------------------------|--|--------|--|
| | | | |
| Directors salaries | | 50,000 | |
| accountacny fees | | 5,000 | |
| insurance for head office y | | 5,550 | |
| ttoal | | 60,550 | |

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

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

Answer-to-Question- 8

AP: 30th April 2023- 31st Jan 2024

| | | Due | | Amount due | |
|-------------------------|--|--------------------------|------------------|------------|--|
| Payment 1 | | 14th December 2023 | 3/9 x 450,000 | 150,000 | |
| | | | | | |
| Subseques nt payment | | 14th March | 3/9 x 450,000 | 150,000 | |
| | | | | | |
| Final payment | | 14th May 2023 | 3/9 x 450,000 | 150,000 | |
| | | | | | |
| | | | | | |
| | | | | | |

3/9 x 450,000

-----ANSWER-8-ABOVE-----

-----ANSWER-9-BELOW-----

Answer-to-Question- 9

Herring LTD will be in a consortium with all companies that own more than 5% of Herring LTD. This would be Roddy Ltd, Lerwick LTD, Wilson LTD, Ravenswick LTD, and Gibson LTD, they are all consortium members. Herring Ltd is the consortium company.

Herring would make a claim against their own non trade profits first.

Then Herring's LTDs loss can be shared within the consortium members. The maximum relief is the lower of

- the consortium company's loss x the consortium members' interest in Herring LTD
- the consortium members' available TTP.

Losses cannot be claimed within non UK companies.

Share cannot be transferred to the individuals within the consortium

-----ANSWER-9-ABOVE-----

-----ANSWER-10-BELOW-----

Answer-to-Question- 10

| | Amount | calc | | £ Inocme tax | | Due date |
|------------------------------|--------|----------------|--|--------------|--------------------------------------|-----------------|
| 31 March Patent royalties | 4,000 | 4,000 x 100/80 | | 5,000 | | 14th April 2023 |
| 2 May 2023 | 3,000 | | | 3,000 | as this is recieved it is paid gross | 14th July |
| 21 June 2023 4,000 | | | | | | |
| | | | | | | |
| 31 Jan 2024 | | | | | | |
| | | | | | | |

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

-----ANSWER-11-BELOW-----

Answer-to-Question- _11_

There is the option to claim a tax deduction of 186% for the qualifying R&D expenditure on the medical research.

It can be assumed that Shadow LTD is a small company as it has less than 200 employees, the annual turnover is less than 100 million Euros and the annual balance sheet is less than 86 million euros

The qualifying expenditure is on the following

- staff costs if the earnings are paid in the AP and this includes Class 1 secondary NIC's and pensions
- computer software
- payments of clinical trials
- subcontracted R&D costs and external provided workers

Therefore Shadow could not claim R&D on the computer hardware and consumables. however the hardware can have 100% capital allowances instead

This would then result in a tax credit if there is a loss for the SME.

-----ANSWER-11-ABOVE-----

-----ANSWER-12-BELOW-----

Answer-to-Question- 12

This would be an example of off payroll working performed by George under the guise of Biddle Ltd.

As a large company it is their responsibility to determine if these rules apply. A deemed direct payment will be paid to the intermediary (Biddle Ltd). This payment is less the cost of materials, less expenses paid. This deemed direct payment

| | | | |
|-----------------------|---|-----|--|
| payment for services | | x | |
| less | Direct costs of materials incurred by Biddle LTD | (x) | |
| | Expenses paid by Biddle LTD that would be allowable for an employee | (x) | |
| Deemed direct payment | | X | |

Rushy LTD will also have to deduct and account for PAYE/NICs and will need to provide George with a P60, and P45 when the contract is over.

The amount of deemed direct payment is deducted from the income extracted from the intermediary for the worker

 -----ANSWER-12-ABOVE-----

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|------------|------------|-------------|---------------|
| Section 13 | 101 | 552 | 613 |
| Section 14 | 361 | 1631 | 1949 |
| Section 15 | 551 | 2633 | 3161 |
| Section 16 | 125 | 617 | 706 |

 -----ANSWER-13-BELOW-----

Answer-to-Question- 13

AP:1 April 2023- 31 March 2024 FY: 23/24

1)

| | | | | |
|---------------|--|---------------|--|--|
| | | Brownmere ltd | | |
| | | 4,654,000 | | |
| NTLR | | | | |
| total profits | | 4,654,000 | | |
| loss | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

| | | | | | | |
|-----------------------------------|--|---------------|--|----------------|--|--|
| | | All Trees LTD | | Brownme re Ltd | | |
| Trading Profit | | 370,000 | | 4,654,000 | | |
| NTLR | | 25,000 | | | | |
| total | | 395,000 | | 4,654,000 | | |
| less brought forward from trading | | | | (4,654,000) | | |

| | | | | | | |
|-----------------------------------|---------------------------|-----------|--|-----|--|--|
| loss | | | | | | |
| less loss against in group relief | 5024,500 0-465400 0 | (370,500) | | | | |
| | | | | | | |
| TTP | | 24,500 | | nil | | |
| | | | | | | |
| CT liability @26.5 % | | 6,493 | | | | |

Max losses brought forward is the lower of:

- unrelied losses brought forward (12,500,000)
- 5 million + 50% ((395,000+4,654,000)- 5million)= 5,024,500

loss memo

| | | | |
|-----------|--|-------------|-----------|
| | | £ | |
| | | 12,500,000 | |
| Brownmere | | (4,654,000) | 7,846,000 |
| All trees | | | |
| | | | |
| | | | |

Rates of tax

| | | | |
|-----------|-------------|--------|--|
| | | £ | |
| 250,000/3 | upper limit | 83,333 | |
| | | | |
| 50,000/3 | lower limit | 16,667 | |
| | | | |

-----ANSWER-13-ABOVE-----

-----ANSWER-14-BELOW-----

Answer-to-Question- 14

1)

With option one because all assets are transferred then RAndulf can get incorporation relief. if the business stays as a going concern. NO BADR is available as goodwill is transferred. For the computer a balancing adjustment can be made. this will be the lower of the cost or the actualy consideration.

| | | | | | | |
|---|-----------------------------------|--|--|-----------|--|--|
| | | | | £ | | |
| Gains on transfer of land and building w1 | | | | 265,000 | | |
| gains on goodwill | | | | 445,000 | | |
| total gains | | | | 710,000 | | |
| | | | | | | |
| less incorp releif | 710,000x (800,000/ 950,000) | | | (597,895) | | |
| | | | | | | |
| Gain | | | | 112,105 | | |
| | | | | | | |
| | | | | | | |
| base cost of shares | | | | | | |
| | | | | | | |
| MV at incorp | | | | 800,000 | | |
| less incorp releif | less incorp releif | | | (112,105) | | |

| | | | | | | |
|-------------------------|--|--|--|---------|--|--|
| base cost of new shares | | | | 687,895 | | |
| | | | | | | |

w1

| | | | |
|-------------|--|---------|--|
| | | | |
| MV at sale | | 475,000 | |
| less cost | | 210,000 | |
| total gains | | 265,000 | |
| | | | |
| | | | |

2)

If Randolph does not transfer all of the assets including the Unit 5 High Street then incorp relief is not available, but gift relief will be. Both Randal and the company must claim within 4 years of the end of the tax year of gift relief

| | | | | |
|-----------------------|-------------------|-----------|--|--|
| | | £ | | |
| sale proceeds | | 475,000 | | |
| less cost of goodwill | | | | |
| gain before relief | | 475,000 | | |
| less gift relief | | (210,000) | | |
| gain | (475,000-210,000) | (265,000) | | |
| | | | | |

Base cost of property

| | | | |
|---------|--|-----------|--|
| | | | |
| MV | | 475,000 | |
| less GR | | (210,000) | |

| | | | |
|-------------------|--|---------|--|
| Revised base cost | | 265,000 | |
|-------------------|--|---------|--|

- 3) No VAT needs to be charged on the transfer of a business to the company if the transfer is of a going concern. A transfer of going concern is
- the company must carry the same trade
 - the business is a going concern
 - there is no significant break in trading
 - the new company becomes VAT registered

The sole trader must deregister for VAT within 30 days using the VAT17 form. The new company must register for VAT. It can use the sole trader's old VAT registration number

There is no output tax for the vendor and no input tax for the purchaser.

However the TOGC rules do not apply if the sole trader transfers land or buildings to the company. Therefore if Rudolf chooses option 1 then VAT must be charged to the new company at the standard rate of 20% and paid by Rudolf to HMRC. If the new company decides to charge tax on the building then VAT is part of the going concern.

-----ANSWER-14-ABOVE-----

-----ANSWER-15-BELOW-----

Answer-to-Question- _15_

To : Julie@email
From@ Tax Manager at ATT & Co
date: XXXXX
RE: XYZ International LTD

Dear Julie,

Thank you for your email regarding XYZ International LTD, please see my response below in reagrds to the relevant questions.

1) Intra- Group transfers of goods

There are transfer pricing regulations set up for connected companies to ensure that none of the parites obtain an unfair tax advantage against what would be market prices.

These rules apply to connected companies, in this case a connected company are two companies where

1. One controls the other
2. Both companies are controlled by the same company or person.

Contorl here means the power of shareholdings, voting powers form the documents regulating the company.

The rules mean that the two connected companies should transfer goods at an arms lenth price, which is what would have been charged on the market, if the companies were not connected in any way. The transfers could be at a lower price, meaning less impact in the CT calculation, or a hight price to cancel out losses in teh CT calculation. If the transfers within XYZ Ltd are at a price other than the market value of the good, an unfair tax advantage has been given. These rules apply to UK to UK transaction or overseas to UK transactions within teh group.

The company that has obtained the UK tax advantage is required to make an adjustment to their tax computation to reflect an arms length price.

This is expemt if the ccompany is dormant, or if the company is small or medium sized.

This also includes not just goods but internal management services and interest charges.

Please see thresholds below:

| | Small Comapny | | Medium company |
|---------------|------------------|--|-------------------|
| Emploeyss | <50 | | <250 |
| Turnover | <10million euros | | <50 million euros |
| Balance Sheet | <10 million uros | | <43 million euros |

[It is very important to ensure XYZ Internation LTD have arms lenth adjustments for their inter company transfers and also keeps relevant and sufficnet information and documentation for if they have a CTSA enuqiry.

2) Tax Planning Scheme requested by Maerk

There are standards we have to follow as a firm for effiecnt tax planning. These are that they are :

1. Client Specific. We would not be able to pull an 'off the shelf' approca for XYZ INternation LTD, as each company is different and thofore needs a specific tax planning.
2. Lawful. We would not be able to find a loophole to ensure that as little tax is paid as possible. It is important for us to act within the law and with integrity, to ensure there are no risks and litigation issues int he future.
3. Discolosure and transparancy. We must not rely on loopholes and advice in the hopes that HMRC will not have all the relevant infomration. We must be able to disclose everything to HMRC easily and with full transparency.
4. Advising on tax planning means we must use our professional judgement according to our five fundimental principles. We should not act incontry to law and its clear intentioins, or exploit the shortcomings in legislations
5. We need to be professional and apply our judgement to this. Our firm would not want to take part in any tax avoidance.

I hope this has helped.

Please reach out with any further questions,

Tax Manager

-----ANSWER-15-ABOVE-----

-----ANSWER-16-BELOW-----

Answer-to-Question- 16

| | | | | | | |
|---|--|--|-----------|--|--|--|
| | | | £ | | | |
| tax adjusted trading profit | | | 1,100,000 | | | |
| less NLR w2 | | | (94,000) | | | |
| less laon write off | | | (250,000) | | | |
| add overseas property income w1 | | | 231,667 | | | |
| TTP | | | 987,676 | | | |
| CT liability @25% | | | 246,919 | | | |
| lessDTR | | | (50,000) | | | |
| Tax payable | | | 196,919 | | | |
| | | | | | | |

w1) Overseas property income
 grossed rental income up to 100% of rent DTR will be added at end of CT computation

| | | | | | |
|------------|--------------------|--|---------|--|--|
| | | | £ | | |
| Property A | 112,000x 100/80 | | 140,000 | | |
| | | | | | |

| | | | | |
|------------|--------------------|---------|--|--|
| Property B | 55,000 x 100/60 | 91,667 | | |
| total | | 231,667 | | |
| DTR | | | | |

lower of

-FT suffered $28,000 + 22,000 = \text{£}50,000$

- CT due on income = $231,667 \times 25\% = \text{£}57,916$

w2) Interest

| | | | | | |
|------------------------------|---------------------------------------|--|----------|--|--|
| | | | £ | | |
| interest recievable | | | 1,000 | | |
| less interest payable | laon for invest ment property | | (16,000) | | |
| | bank overdraft | | (75,000) | | |
| | lan by Jo Richrds to Bank house | | (4,000) | | |
| total interest payable | | | (94,000) | | |
| | | | | | |

Amount to be paid in 1 Aug 2026 not included.

