1. Hadrian Ltd owns commercial properties in the UK which it rents out to unconnected companies. It also invests in the shares of UK listed companies (all investments being less than 10% of the shares in the investee company) and has loan relationships.

Hadrian Ltd has the following results for the year ended 31 March 2020:

	£
<u>UK rental property</u>	
Profit from factory rental	65,000
Loss from warehouse rental	(130,000)
Loss from retail unit rental	(153,000)
Proceeds from the sale of a 1% shareholding (original cost £40,000)	230,000
<u>Non trading loan relationships</u>	
NTLR credit	30,000
NTLR debit	(26,000)
<u>Expenses incurred</u>	
Management expenses (of which £20,000 relates to excessive directors' remuneration)	(25,000)

1) **Calculate the taxable total profit for Hadrian Ltd for the year ended 31 March 2020. Give any explanations necessary and ignore indexation allowance.** (3)

2) **Calculate the losses available for carry forward, stating how the losses will be relieved.** (1)

2. A company may be a member of a consortium and therefore take advantage of consortium relief.

1) **State the conditions to be met for a company to be a consortium company.** (2)

2) **Explain how to calculate the maximum consortium relief that can be surrendered from a loss-making consortium company to a consortium member.** (2)

3. Grove Ltd has 2,000,000 £1 ordinary shares in issue. The Board of Grove Ltd decided to make a 1 for 5 rights issue of shares, for £2 each.

State the accounting entries needed to record the rights issue. (2)

4. **Explain the conditions to be met for an individual member of an LLP to be treated as being employed by the LLP.** (4)

5. When a company sells shares which it has acquired in more than one transaction, the matching rules are used to determine which of the shares it has sold. This will identify the base cost of the shares for the purposes of calculating the chargeable gain arising.

State the matching rules that apply to the sale of shares by a company, and how these rules identify the base cost. (4)

6. In the year to 30 April 2020, Temple Ltd purchased the trade and assets of Hope Ltd, which included the purchase of goodwill.

   Explain the circumstances in which Corporation Tax relief is available to Temple Ltd for the acquisition cost of this goodwill and on what basis the tax relief is calculated. (2)

7. Linton Ltd has recently disposed of an antique desk from the managing director's office. The original cost of the desk in June 2018 was £4,000 and disposal proceeds were £14,000. Linton Ltd was charged fees of £1,000 by the auction house that sold the desk.

   Calculate the chargeable gain on the above asset to be included in the Corporation Tax computation. (3)

8. Valley Ltd recently sold the ordinary shares in Ridgeview Ltd, an unquoted investment company. The consideration was satisfied by cash and the issue of Qualifying Corporate Bonds (QCB) as follows:

	£
Cash	550,000
QCB	700,000
	£1,250,000

   Valley Ltd bought the shares in Ridgeview Ltd for £600,000 in January 2018.

   Valley Ltd has no immediate plans to redeem the QCB.

   1) Calculate the amount of the gain to be brought into the charge to Corporation Tax in the accounting period of the disposal of the shares in Ridgeview Ltd. (2)

   2) Explain when the remaining gain will be brought into the charge to Corporation Tax. (1)

9. Olive Ltd provides a car and fuel, for both business and private use, to Sajid, the company sales director. Olive Ltd does not reclaim any input VAT on the cost of the fuel, as there is a private use element. The company accountant has been advised that input VAT could be reclaimed but that an output VAT charge may arise.

   Explain the options available to Olive Ltd to reclaim input VAT on the fuel purchased, and whether any output VAT charge will arise under each option. (3)

10. Manor Ltd has profits of £35 million for the year ended 30 April 2020. Its profits have been at this level for many years.

    State the date that each instalment of Corporation Tax is due for the year ended 30 April 2020. (2)

11. A reduced rate of Corporation Tax (10%) is applied to profits from patents created after July 2016.

Briefly state how the profit from patents is calculated specifically for the purpose of the patent box legislation. You are not required to give details of how to calculate the nexus fraction. (4)

12. A company incorporated in the UK is regarded as UK resident and therefore subject to UK Corporation Tax.

1) State the factors that would usually determine that a company incorporated overseas is UK resident for Corporation Tax purposes. (1)

2) Identify when any income or gains of a non-UK resident company are chargeable to UK Corporation Tax. (2)

13. Southburn Ltd started trading on 1 April 2018 and its first accounting period ended on 31 March 2019. It received a CT603 (notice to file a return) from HMRC on 1 March 2020.

Explain the obligations Southburn Ltd has to notify HMRC of starting to trade, and when its first Corporation Tax return is due. (2)

14. Hermit Ltd is an unquoted trading company that started trading on 1 April 2016 and prepares accounts to 31 March each year. It purchased 51% of the ordinary shares in Porcelain Ltd on 1 January 2019. The following information is available for each company.

Hermit Ltd

For the year ended 31 March 2020, the tax-adjusted trading profit before the deduction of capital allowances is £510,000.

The tax written down values for capital allowances purposes at 1 April 2019 are:

	£
General pool	44,800
Special rate pool	12,900

The following acquisitions and disposals were made in the year ended 31 March 2020:

Acquisitions		£
14 April 2019	Computer equipment	2,800
3 May 2019	New electric car provided to the managing director and used 60% for private purposes	15,000
13 June 2019	Wall mounted TV for the new office	1,900
Disposals		
13 May 2019	Office chair previously purchased for £900	1,200
20 May 2019	Car for the managing director of Hermit Ltd used by him 60% for private purposes. CO_2 emissions 180 g/km. The car had been purchased for £12,000 in May 2018.	8,350

On 13 March 2020, Hermit Ltd sold Broad Road, its original office premises, for £170,000. The property was purchased in April 2016 for £93,000. On 12 April 2020, Hermit Ltd purchased the new freehold office premises on Pea Lane for £140,000.

For the year ended 31 March 2020, Hermit Ltd had interest receivable of £1,200 and interest payable of £800 on a loan to purchase the shares in Porcelain Ltd.

Porcelain Ltd

Porcelain Ltd is a trading company that also rents out surplus office space in a number of its premises. Its rental income for the year ended 31 March 2020 is £70,000 and there is interest payable of £19,000 relating to the parts of its properties that are rented out. For the year ended 31 March 2020, Porcelain Ltd also has bank interest receivable of £14,000.

Porcelain Ltd's tax adjusted trading profit after capital allowances for the year ended 31 March 2020 is £81,900. It has a trading loss brought forward from the year ended 31 March 2019 of £3,000.

In May 2019, Porcelain Ltd made a charitable donation of £1,000 to Shelter, a national charity.

In July 2020, Porcelain Ltd intends to spend £240,000 (including £50,000 for land) on the construction of offices on Shore Drive that will be used as its new headquarters from January 2021.

Continued

Continuation

Requirements:

1) **Calculate the Corporation Tax payable by Hermit Ltd for the year ended 31 March 2020. Show the base cost for future disposal of the new offices on Pea Lane**. (11)

2) **Calculate the Corporation Tax payable by Porcelain Ltd for the year ended 31 March 2020. Assume maximum relief is claimed in the year ended 31 March 2020.** (5)

3) **Explain the Corporation Tax consequences of the construction of Shore Drive.** (4)

Total (20)

15. You are a sole practitioner and advise Clyde Ltd, a UK trading company that normally prepares accounts to 31 December each year. Business has declined in recent years. On 30 June 2019, Clyde Ltd deleted its website and accounts were prepared to this date. Clyde Ltd ceased trading on 31 March 2020.

Clyde Ltd's results are as follows:

	31 December 2016 £	31 December 2017 £	31 December 2018 £	30 June 2019 £	31 March 2020 £
Trading profit/ (loss)	21,800	32,000	12,000	1,900	(63,200)
Interest income	3,000	1,000	200	90	-
Charitable donations	500	100	100	-	-

The managing director of Clyde Ltd is Clint Wood and he believes that some of your advice at an over-inflated fee contributed to the decline of the business. There was an engagement letter in place with your firm and Clyde Ltd. However, he has indicated that he might sue under the terms of the Supply of Goods and Services Act 1982 (SGSA).

Requirements:

1) **Explain when an accounting period ends for Corporation Tax purposes and the application of those rules to Clyde Ltd.** (2)

2) **Calculate the taxable total profits for Clyde Ltd for all relevant accounting periods, assuming maximum loss relief is claimed.** (5)

3) **Explain the protection given to Clyde Ltd by SGSA in relation to the work performed and fee charged by you.** (3)

Total (10)

16. On 1 April 2019, Claude set up Luna Ltd, a company that provides equipment to catering firms. For the year ended 31 March 2020, Luna Ltd had turnover of £80,000 resulting in draft taxable trading profit of £24,000. However, the draft taxable trading profit figure of £24,000 is before any deduction for the following amounts of expenditure:

		£
3 April 2019	Legal fees for advice in drafting and filing legal documents to set up the company.	690
5 April 2019	Health and Safety training to update Claude's knowledge in relation to food hygiene.	150
1 May 2019	Purchase of disposable plastic cooking utensils as samples to show to prospective clients. Half of the items were given away to potential customers and half remain as stock.	200
12 May 2019	Fees paid to a computer consultancy business to help set up a website for Luna Ltd.	190

Eugene is Claude's brother and has extensive contacts with restaurant chains. Luna Ltd wishes to use Eugene's skills in a sales role from 1 April 2020 to aid its expansion. Claude is unsure of how to structure the contract with Eugene. These are the options:

<u>Option A</u>

Eugene will be employed and be paid an annual salary of £12,000. He will be provided with a company car for which the annual taxable benefit will be £1,900. The car (with CO_2 emissions of 200 g/km) will be leased by Luna Ltd at an annual rental of £8,100.

<u>Option B</u>

Eugene will be engaged by Luna Ltd as a self-employed consultant. He will be paid £2,000 per month.

Luna Ltd has no employees other than Claude and he has not drawn a salary since the company was set up.

Luna Ltd's turnover is expected to rise over the next year. Therefore, Claude decided to register Luna Ltd for VAT purposes from 1 April 2020. All of Luna Ltd's supplies are standard rated.

Claude has heard about the cash accounting scheme for VAT purposes. Most of Luna Ltd's sales are invoiced on 30 day credit terms, but his suppliers normally ask for payment on delivery. He would like to know whether Luna Ltd qualifies for the scheme, how it works and whether it would be beneficial to join.

Requirements:

1) **Calculate Luna Ltd's revised taxable trading profit for the year ended 31 March 2020, making clear your treatment of the four items of expenditure that have not yet been deducted.** (4)

2) **Calculate the annual after tax cost to Luna Ltd of each of options A and B.** (8)

3) **Explain whether Luna Ltd is eligible to join the VAT cash accounting scheme and whether it may be beneficial for Luna Ltd to join.** (8)

Total (20)

17. You are a trainee tax technician and your manager, Grace White, has sent you the following email:

To: Trainee
From: Grace White
Date: Today
Subject: Email from Phil Dent

Phil Dent is the finance director of Whitby Ltd, one of our clients. He contacted me today about two issues. I have attached extracts from his email. Please can you send me an email setting out the correct Corporation Tax treatment of these two issues and any ethical issues and penalties that may arise?

<u>Extracts from Phil's email</u>

"In putting together our group accounts, one page of a spreadsheet was accidentally deleted. Therefore, dividends received from an overseas company in which we hold 15% of the shares were omitted from the Corporation Tax return for 31 March 2019, which was submitted on time. Withholding tax at a rate of 10% was suffered on these dividends. Please can you tell me the correct Corporation Tax treatment and any penalties we may incur?"

"The bonus pool for our sales directors was quite small for the year ended 31 March 2019. The payment of all bonuses was delayed until 31 January 2020. However, I have deducted the bonus payments in calculating the taxable total profits of Whitby Ltd for the year ended 31 March 2019, as I know that remuneration should be deducted when accrued not paid."

Requirements:

Prepare an email to Grace that explains:

(a) **the correct Corporation Tax treatment of the two issues identified, including potential penalties; and**

(b) **any ethical issues arising.**

Marks will be allocated as follows:

1)	**Missing dividends**	(4)
2)	**Bonus payments**	(6)

Total (10)