CIOT - ATT-CTA - 2020 November Exams

Paper: **ATT Paper 4**

Part/Module: **Part 1**

Answer-to-Question-_1_

	£	£	£	£
	AIA	GP	SRP	Total CAs
tax wdv b/f		482,149	102,567	
Additions:				
Manufacturing equipment	704,505	45,745		
Air Conditioning	295,495			
Car (145g/km)			29,750	
Disposal:				
Manufacturing equipment		(31,323)		
	1,000,000	496,571	132,317	
AIA @ 100%	(1,000,000)			(1,000,000)
GP @ 18%		(89,383)		(89,383)
SRP @ 6%			(7,939)	(7,939)
Total CAs				(1,097,322)
Tax wdv c/f		407,188	124,378	

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

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

Answer-to-Question-_2_

Martha would be considered self employed as she has a large number of clients (indicating majority of her work is done outside of Bird Ltd). That she is only paid once the issue is resolved and not guaranteed a wage and that her fee is for the amount of work she completes and not on a timely basis (i.e monthly wage).

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

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

Answer-to-Question-_3_

Lavender

	£
Amount received on share buy back	7,500
Less: original subscription price	(2,250)
Dividend recived	**5,250**
Original subscription price	2,250
Less:	
Actual cost	(1,500)
Chargeable gain	**750**

Poppy

Sale proceeds	5,000
Less: Cost	(1,200)
Gain	**3,800**

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

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

Answer-to-Question-_4_

Florence's VAT return is due 31 May 2021.

Her payments are due on the last day of the month starting from 31 July 2020 up until 31 March 2021. She needs to pay 90% of the £43,000 during this time which will be 10% for each payment (i.e £4,300).

The outstanding balance will then be paid on 31 May 2021.

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

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

Answer-to-Question-_5_

The mobile phone, company car benefit and premium bonds benefit will be subject to Class 1A NIC which is at 13.8%.

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

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

Answer-to-Question-_6_

	£	£
Dr Corporation tax charge £75,650 - £66,000	9,650	
Cr Corporation tax creditor		9,650

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

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

Answer-to-Question-_7_

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

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

Answer-to-Question-_8_

Baritone Ltd should purchase the replacement warehouse within 1 year before or 3 years after the sale of the old warehouse.

As Baritone Ltd has not fully reinvested the proceeds of the sale then the cash retained (i.e £91,000) will be chargeable to capital gains tax.

The rollover relief will need to be calculated by deducting the amount of the gain from the proceeds which will leave £91,000 as a chargeable gain.

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

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

Answer-to-Question-_9_

Sculthorpe Ltd's sale of shares will likely apply for Substantial Shareholding Exemption as it held more than 10% of the ordinary share capital of Titchwell throughout a 12 month period within 6 years prior to the disposal. Although it only held 6% at the time of sale, since it owned 12% previously, this makes it eligible for SSE.

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

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

Answer-to-Question-_10_

Ruthen Ltd is a close company as more than 50% of the share capital is held by 5 participators (Phil has two associates in Sarah and Peter and therefore, all their shares counts as one shareholding).

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

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

Answer-to-Question-_11_

As Princess Ltd is considered a large company with more than 250 employees, a transfer pricing adjustment would need to be made to Princess Ltd's corporation tax return to reflect the arms length price of £29,500.

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

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

Answer-to-Question-_12_

Klondike Ltd will need to submit two corporation tax returns, one for the year ended 31 March 2020 and for the period ended 30 June 2020. These both need to be submitted one year from the end of the period of account (i.e 30 June 2021).

However, the tax is due 9 months and 1 day from each end of period

Y/e 31 March 2020 - tax due 1 January 2021
Period ended 30 June 2020 - tax due 1 April 2021

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

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Paper: **ATT Paper 4**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

1)

	Harris Ltd	Jerome Ltd	Klapka Ltd
	£	£	£
Trading profit	Nil	15,000,000	Nil
Non Trading loan relationship income	6,500,000		
Chargeable gains			6,000,000
Property income		5,320,000	
Less: current year claim	-	-	-
Less: b/f losses(w)	(4,250,000)	(11,410,000)	(3,000,000)
Revised TTP:	**2,250,000**	**8,910,000**	**3,000,000**

(W)

b/f losses:
Jerome Ltd
£2,500,000+(50% x (20,320,000-2,500,000))= 11,410,000

Harris Ltd:
lower of
maximum loss - £2,500,000 +(50% x (6,000,000-2,500,000))= 4,250,000
available loss - 16,500,000-11,410,000= 5,090,000

Klapka Ltd:
50% x 6,000,000 = 3,000,000

2)

Our firm should inform the client of the potential action HMRC may take if they were to discover the error without the taxpayer informing them. If the client does not want to revise the tax return then our firm should consider disengaging from the client.

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

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

Answer-to-Question-_14_

1)

Kingston Ltd	£	£
Trading profit		5,015,000
Less: Management expenses	(5,000,000)	
Interest on loan to buy P&M	(15,000)	
		Nil
NTLR profit/(losses)(W1)	(52,000)	
		(52,000)
Overseas property income		850,000
Foreign interest		80,000
Less: Management expenses	(36,000)	
TTP		**77,000**
Corporation tax (£77,000 @ 19%)		14,620
Less DTR; lower of:		
UK tax(£930,000 x 19%) = £17,670		
Overseas tax		
((15% x 80,000) + £350,000)= £362,000		
	(14,620)	
Coroporation tax		**Nil**

(W1)

	£
Interest receivable	143,000
Interest payable:	
Overdue CT	(5,000)
Loan to buy 2% shares	(190,000)
Total NTLR	(52,000)

2)

<u>Overseas Branch</u>
UK resident companies are taxed on their worldwide profits,

incuding those from overseas branches and this is ubject to doublt tax relief.

Any overseas profits that are subject to UK corporation tax, the amount of double tax is limited to the lower of:
- the overseas tax payable; or
- uk tax bill on that source of income

The overseas branch is seen as park of the UK company and therefore, is not a seperate legal entity.

Branches of UK resident companies have the advantage of capital allowances being available as it would be in the UK. Trading losses are available to be offset against the UK income any all usual loss reliefs are available.

<u>Subsidiary locally incorporated</u>
A subsidiary which is incorporated and controlled locall will not be subject to UK tax and and any distributions received in the UK from the subsisidiary would be exempt from UK corporation tax.

Losses will only be relieved against the UK parent company in very few circumstances and no capital allowance deductions will be available.

Although the subsidiary will be a seperate legal entity, it will be a related 51% group company when detrmining if the parent company needs to pay tax by instalments or not.

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

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

Answer-to-Question-_15_

To: Susan Finch
From: Tax Advisor
Subject: Tax advice

Dear Susan,

Thank you for getting in touch with your queries.

Intangible fixed assets and R&D costs reliefs

There are number of reliefs available to you regarding this expenditure.

I can tell you that for the purhcase of your patent, you may be able to claim a deduction for the amortisation or impairment in the accounts. You could also claim a straight line deduction of 4% on cost. However, we do need to know if it is treated as a trading or non-trading asset by determining if it is held for trade purposes.

For the purchase of your goodwill, as it was acquired after 1 April 2019, relief may be available if it was acquired as part of the acquisition of a business in which you also acquired intellectual property (i.e relief is available if this was purchased along with the patent via the acquisition of a company).

Relief is available at 6.5% of cost per annum however, there is a maxium cost in which the deduction is based being six times the value of the relevant intlellectual property.

No tax relief is available for amortisation of assets acquired after 8 July 2015 except in very limited circumstances.

The relief available for your R&D costs is a 230% deduction as you are a medium sized company for R&D purposes. We need to know the breakdown of the R&D costs to understand if they qualify for the 230% deduction or not.

Chargeable gain in Commerce Ltd

I have attached a computation for your reference to show the chargeable gain regarding the consideration you received for your shares in DealerCo.

If you have any further questions, please feel free to contact me.

Kind regards
Tax Advisor

Attachment:

	£
Proceeds	600,000
Less:	
Cost	(95,000)
IA Allowance	
278.1-171.1)/171.1)x £95,000	(59,410)
Gain	**445,590**

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

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

Answer-to-Question-_16_

1)2018/19

120,000 x 4/12 = £40,000
95,000 x 8/12 = £63,334
Taxable income **£103,334**

2019/20

120,000 x 8/12 = 80,000

£80,000 + £125,000 - £205,000
Less:
OVerlap relief (16,000)
Taxable income **189,000**

2)Incorporation relief is beneficial for Jasmine as it will allow her to defer her gain by rolling it over to set against the base cost of Jasmine's shares in the company. The gain will then only be charged once Jasmine sells her shares in the company.

There three conditions that need to be satisfied to qualify for incorproation relief are:
- The business transferred must be a "going concern";
- All assets, excluding cash, must be transferred to the company; and
- The consideration paid to Jasmine must be wholly or partly in shares.

3)

	Premises	Kitchen equipment	Goodwill
	£	£	

			£
Proceeds (@MV)	250,000	20,000	35,000
Less: Cost	(140,000)	(30,000)	Nil
Gains/(loss)	110,000	(10,000)	35,000

Total Gains
135,000

Less:
Incoporation relief
135,000 x (200,000/325,000)
(83,077)
Chargeable gain
51,923

MV of shares
200,000
Less:
Incoporation relief
(83,077)
Base cost of Jasmine's shares
116,923

4)The incorporation will qualify as a transfer of going concern as it meets the following conditions:
- business transferred is a going concern;
- the purchaser is/will immediately become VAT registered;
- there is no significant break in trading; and
- the business carried on by the company is the same

Jasmine will need to deregister her sole trader business for VAT within 30 days and reregister Jas Eats Ltd.