THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

November 2020

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. In the year ended 31 March 2020, Bempton Ltd, a shoe manufacturing company, purchased the following assets for use in the business:

	£
Manufacturing equipment	750,250
Air conditioning system	295,495
Car with emissions of 145g/km	29,750

Bempton Ltd also sold some old manufacturing equipment for £31,323 which was less than its original cost.

At 1 April 2019 the pool balances were:

	£
General pool	482,149
Special rate pool	102,567

Calculate the maximum capital allowances that can be claimed by Bempton Ltd in the year ended 31 March 2020, assuming it does not have any 51% related companies. (4)

2. Bird Ltd is unsure whether Martha, a person working for the company, should be treated as employed or self-employed. Martha has been doing some work on resolving issues with the company's stock control systems. Bird Ltd has insisted that only Martha can do this work. Martha, who has a large number of clients, has not previously done any work for Bird Ltd.

Martha must do the work at Bird Ltd's offices during normal office hours. She uses her own computer to analyse the stock control system. Martha will be paid a fixed fee on resolution of the issue. The work is expected to take one month, but Martha will be paid the same fee even if the work is completed early. If she cannot successfully resolve the issue she will not receive any fee.

Explain the factors that indicate Martha is self-employed in relation to this work. (3)

3. Peony Ltd is buying back its shares from two shareholders at £5 per share.

Lavender Davies purchased 1,500 £1 ordinary shares in Peony Ltd four years ago at £1.50 per share. The income treatment will apply on the buy-back.

Poppy Dean purchased 1,000 £1 ordinary shares in Peony Ltd seven years ago at £1.20 per share. The capital treatment will apply on the buy-back.

The original subscription price of Peony Ltd was £1 per share.

Calculate the amounts that Lavender and Poppy will be taxed on from the buy-back of shares in Peony Ltd, indicating how all amounts received will be dealt with for tax purposes. (4)

4. Florence Ltd has been trading and has been VAT-registered for many years, and has started using the annual accounting scheme for VAT purposes. The total VAT liability for the year ended 31 March 2020 was £40,000 and for the year ended 31 March 2021 is expected to be £43,000.

Explain when Florence Ltd's VAT annual accounting payment(s) and return(s) for the year ended 31 March 2021 are due. State the expected amount of the payment(s). (4)

5. Ringo receives the following benefits as part of his remuneration package from Music Ltd:

	£
Mobile phone	500
Company car benefit	4,000
Interest free loan	5,000
Premium bonds	2,000

Explain whether these benefits are subject to employer National Insurance Contributions, stating the relevant class. (3)

6. Endeavour Ltd draws up its accounts to 31 December each year. For the year ended 31 December 2019, Endeavour Ltd provided for Corporation Tax of £66,000 in its accounts. The Corporation Tax return subsequently submitted to HMRC showed Corporation Tax payable of £75,650 which was paid in full on the due date.

Show the accounting entries to record the payment of Corporation Tax and the adjustment for the under provision. (2)

7. Hedgehog Ltd owned a plot of 40 acres of land. In July 2019 it sold 15 acres for £230,000. At that date the remaining land was valued at £325,000. The company acquired the 40 acre plot of land in April 2016 for £415,000. Hedgehog Ltd incurred costs of sale totalling £5,750.

Calculate the chargeable gain arising on the sale of the land. (3)

8. Baritone Ltd sold a warehouse in March 2020 for £485,000. Baritone Ltd plans to purchase a replacement freehold warehouse at a cost of £394,000 and claim rollover relief.

Explain when Baritone Ltd will need to purchase the replacement warehouse by and how it would calculate the rollover relief available should the purchase go ahead. (4)

9. Sculthorpe Ltd owned 12% of Titchwell Ltd from January 2013 until November 2017 when it sold half of its shareholding. Sculthorpe Ltd sold its remaining 6% shareholding in October 2019. Titchwell Ltd manufactures sports equipment.

Explain the Corporation Tax consequences of the disposal of Sculthorpe Ltd's shares in Titchwell Ltd in October 2019. (3)

10. Ruthen Ltd is a UK resident company. Its shares are owned by the following individuals:

Sarah	10%
Phil (Sarah's husband)	10%
Peter (Phil's brother)	7%
Karen	8%
Rebecca	7%
Richard	6%
Amanda	4%
Other shareholders 2% each	48%

Sarah, Phil, Peter, Karen, Rebecca and Richard are directors of the company.

Explain whether Ruthen Ltd is a close company. (4)

11. Hamilton Ltd is a company which is resident overseas where the Corporation Tax rate is 17%. Hamilton Ltd owns 100% of the ordinary share capital in Princess Ltd, a company resident in the UK. Each company has in excess of 400 employees.

Hamilton Ltd supplied goods to Princess Ltd at a price of £34,000. The price to unconnected customers would be £29,500.

Explain the Corporation Tax consequences of Hamilton Ltd selling these goods to Princess Ltd for £34,000. (3)

12. For many years Klondike Ltd has drawn up its accounts to 31 March. However a decision was made to extend the period of account in 2020 to become the 15 months ended 30 June 2020. Klondike Ltd is not required to make quarterly instalment payments of Corporation Tax.

Explain when Klondike Ltd needs to submit its Corporation Tax return(s) and the date(s) for payment of its Corporation Tax liability. (3)

PART II

13. Your firm has for many years prepared the Corporation Tax computations for the Harris group of companies. The group comprises a holding company, Harris Ltd and its two wholly owned subsidiaries, Jerome Ltd and Klapka Ltd. All three companies are UK resident and make up their accounts to 31 March.

For the year ended 31 March 2020 the results for the group companies are as follows:

	Harris Ltd	Jerome Ltd	Klapka Ltd
	£	£	£
Trading profit /(loss)	(500,000)	15,000,000	nil
Non-trading loan relationship income	6,500,000		
Chargeable gains			6,000,000
Property income		5,320,000	

Jerome Ltd has brought forward trading losses of £16.5 million. These losses were incurred in the year ended 31 March 2019.

Klapka Ltd breaks even each year on its trading account. It has brought forward capital losses of £10 million.

The group agrees to allocate the deductions allowance equally between Harris Ltd and Jerome Ltd.

The financial controller of the Harris group has queried the tax treatment of bonus accruals with you. You have explained that a deduction can only be taken if the bonus is paid within nine months of the year end. He believes that a deduction was taken several years ago for a bonus which might not have been paid. The financial controller is not sure of the facts and he stated that the finance director "wouldn't want to correct any errors in the tax computations anyway as to do so would be more trouble than it was worth, especially when the amounts involved are probably really small".

Requirements:

1) **Calculate the taxable total profits of each company after loss relief, clearly showing your treatment of the losses, and state the losses carried forward.** (10)

2) **Explain the steps that your firm should take in relation to the potential error in the tax treatment on the bonus accrual.** (5)

Total (15)

14. Kingston Ltd is a UK resident company that prints greetings cards and rents out properties which are surplus to its trade. It has several subsidiaries and investments.

For the year ended 31 March 2020, the draft Corporation Tax computation for Kingston Ltd shows the following results:

	£
UK trading profit	5,015,000
UK property income	400,000
Interest receivable	143,000

These figures are stated before including the following income and expenses:

1) The interest payable in the year is as follows:

	£
Interest on loan to buy printing plant and machinery	15,000
Interest on overdue Corporation Tax	5,000
Interest on loan to buy 2% of the shares in a UK company	190,000
Total	£210,000

2) In the year Kingston Ltd received foreign interest of £80,000, having suffered 15% withholding tax.

3) Kingston Ltd also received foreign property income of £850,000 after foreign withholding tax of £350,000.

4) Kingston Ltd has management expenses for the year of £5,360,000.

The directors of Kingston Ltd are considering expanding the business further by opening a factory in another overseas jurisdiction, Otopia. One of the issues under consideration is whether to operate in Otopia via a branch of Kingston Ltd or to incorporate a new company there. The directors believe that the business will be profitable and will only have trading profits.

Requirements:

1) Calculate the UK Corporation Tax payable by Kingston Ltd for the year to 31 March 2020. (9)

2) Explain the UK Corporation Tax treatment of:

(a) An overseas branch of Kingston Ltd.

(b) A subsidiary company incorporated overseas.

(6)

Total (15)

15. Your firm has been contacted by Susan Finch, the recently appointed finance director of Commerce Ltd. She wants to understand the tax treatment of the expenditure that the company makes on research and development (R&D) and on intangible fixed assets. Commerce Ltd is a medium-sized company for R&D purposes.

The tax manager who normally deals with the tax affairs of Commerce Ltd is away on holiday and as Susan would like the information before the tax manager returns to the office you have been asked to respond. You have limited knowledge of Commerce Ltd, other than it is sometimes loss making; however, Susan has said that she is happy for you to say in your response to her what further information that you may need.

Susan informs you that expenditure by the company on intangible fixed assets and on R&D in the year to 30 June 2020 has been as follows:

	£
Purchase of patent	75,000
Purchase of goodwill	295,000
R&D costs	353,000

Commerce Ltd has a small shareholding (less than 2% of the shares) in DealerCo Ltd, which Commerce Ltd acquired in January 2001 for £95,000. Susan tells you that in January 2020 LargerCo Ltd took over DealerCo Ltd, acquiring all the shares in issue. Commerce Ltd received consideration of £600,000 for its shares.

The consideration was paid as follows:

	£
Shares in LargerCo Ltd	200,000
Cash	400,000
	£600,000

Susan believes that the shares in LargerCo Ltd will be a good long-term investment and therefore Commerce Ltd has no plans to sell these shares.

Requirements:

Prepare an email to Susan in which you:

1) **Explain the Corporation Tax reliefs available on the expenditure on intangible fixed assets and on R&D during the year ended 30 June 2020, stating additional information required to confirm the reliefs available.** (7)

2) **Calculate the chargeable gain in Commerce Ltd arising on the takeover of DealerCo Ltd, showing clearly how both elements of the consideration are treated.** (3)

Total (10)

16. Jasmine is a client of your firm. She ran her restaurant (which was registered for VAT) as a sole trader but incorporated the business as a limited company on 31 January 2020. Jasmine owns 100% of the shares in the new company, Jas Eats Ltd.

Jasmine's business profits (adjusted for tax), and capital allowances, for two recent periods are as follows:

	Trading profit
	£
Year ended 30 September 2019	120,000
Year ended 30 September 2018	95,000

In addition, the trading profit for the four months ended 31 January 2020 was £125,000 and is stated before deducting capital allowances. The business has claimed capital allowances on kitchen equipment, the tax written down value of which was £8,000 at 1 October 2019. On incorporation the consideration for the kitchen equipment was £20,000. Jasmine did not elect to transfer the equipment at tax written down value.

Overlap profits brought forward are £16,000.

The assets of the business which Jasmine transferred to Jas Eats Ltd are as follows:

	Market Value	Cost
	£	£
Business premises	250,000	140,000
Kitchen equipment (cost and market value of each item is less than £6,000)	20,000	30,000
Goodwill	35,000	nil
Cash	20,000	
Market Value of the business at 31 January 2020	£325,000	

Jasmine owned the freehold of the business premises, which were acquired in January 2005. No Structures and Buildings Allowance has been claimed on the premises.

On incorporation Jas Eats Ltd paid consideration to Jasmine consisting of £200,000 in shares and £125,000 which was left outstanding on the director's loan account.

Jasmine wants to understand how the transfer is treated for the purposes of VAT and also more about the legal implications of trading as a limited company.

Continued

Continuation

Requirements:

1) **Calculate Jasmine's taxable profits for 2018/19 and 2019/20.** (4)

2) **Explain the benefit of incorporation relief on the incorporation of Jasmine's business, and the conditions that must be fulfilled for the relief to be available.** (2)

3) **Calculate the chargeable gain arising on the assets transferred to Jas Eats Ltd assuming incorporation relief is available, and state the base cost of the shares.** (4)

4) **Explain the VAT implications of the incorporation.** (5)

5) **Explain the separate corporate personality which the business acquires on incorporation and state the legal consequences of this.** (5)

Total (20)