THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

November 2022

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. During the year ended 31 March 2022, Bantam Ltd, a poultry company, bought the following items (all in June 2021):

	£
New processing equipment	900,000
New air conditioning system	175,000
Computer equipment	15,000

Bantam Ltd sold some equipment for £50,000 which originally cost £190,000 in 2016.

At 1 April 2021 the pool balances were:

	£
General pool	7,325,000
Special rate pool	312,000

Bantam Ltd does not have any 51% related companies.

Calculate the maximum capital allowances that can be claimed by Bantam Ltd in the year ended 31 March 2022. (4)

2. Twomey Ltd received £12,000 (gross equivalent) of patent royalty income from Bill, net of the basic rate of Income Tax at 20%.

Show the accounting entries for the receipt of the royalty. Do not consider the impact on the Corporation Tax liability. (2)

3. Heron Ltd, a newly incorporated company, opened a bank account on 1 October 2020 but no funds were deposited in the account at this time. The bank account started earning interest when funds were deposited on 1 January 2021. The company started to trade on 1 April 2021 and drew up its first set of accounts to 31 March 2022. It received a CT603 (notice to file a tax return) from HMRC on 3 May 2022.

Explain the obligations Heron Ltd has to notify HMRC of starting to trade and when its first Corporation Tax return is due. (3)

4. Archie owns all of the shares in Smith Ltd. Smith Ltd makes its accounts up to 31 January each year. At the end of the year ended 31 January 2022 Archie's loan account showed that he owed £21,000 to Smith Ltd. There was no loan account at 1 February 2021.

Explain the tax implications for the company of the loan made to Archie by Smith Ltd, assuming Smith Ltd is a small company for Corporation Tax purposes. (3)

5. Leon Ltd is a UK resident company that owns 100% of the share capital of Tiffy Ltd and Kay Ltd. Tiffy Ltd is a UK resident company, however, Kay Ltd is resident in an overseas country with which the UK has no Double Tax Treaty. The group is large for the purpose of the Transfer Pricing legislation.

Leon Ltd supplied parts to both companies at a price of £340 when the arm's length price is £710.

Explain why and how the transfer pricing rules apply to Leon Ltd's transactions with Tiffy Ltd and Kay Ltd. (4)

6. At 31 March 2019 Thorne Ltd owned 21% of Jesmond Ltd. On 30 June 2020 Thorne sold 15% of its shares in Jesmond Ltd. On 1 February 2022 Thorne Ltd sold its remaining shares in Jesmond Ltd. Both Thorne Ltd and Jesmond Ltd are trading companies.

   Explain the tax consequences of the share disposal on 1 February 2022 for Thorne Ltd. (4)

7. Bailey Ltd, a manufacturing company, prepares its accounts to 31 March each year. Bailey Ltd pays interest to debenture holders who are all individuals on 6 March and 6 September.

   Explain how Bailey Ltd will report the Income Tax on the debenture interest paid and when the Income Tax is paid to HMRC. (3)

8. Elliott, the financial controller of Olive Ltd, has asked for advice regarding some payments that the company is planning to make to their employees as they have recently been required to work from home:

   a) Reimbursement of home telephone calls;
   b) Membership of a local gym; and
   c) £50 supermarket voucher.

   Explain to Elliott how these expenses will be treated for National Insurance purposes and how they will be reported to HMRC. (3)

9. Simba Ltd, a trading company, has the following items included in interest payable and receivable in the year ended 31 March 2022.

Interest payable	£
Interest on a loan used to purchase an investment property	12,250
Interest on underpaid Corporation Tax	500
Interest on the bank overdraft	1,200
Interest receivable	
Interest on a loan to a subsidiary	4,000

   Calculate the non-trade loan relationship income or deficit for the year ended 31 March 2022. Show your treatment of each item and state whether the result is income or a deficit. (3)

10. For the 10-months ended 31 January 2022 Broscombe Ltd had taxable total profits of £1,200,000 and received dividends of £75,000 from a company in which it owns 15%. Broscombe Ltd had augmented profits of £1,600,000 for the year ended 31 March 2021. Broscombe Ltd has no other shareholdings.

    Explain when Broscombe Ltd needs to pay its Corporation Tax liability for the 10-months ended 31 January 2022 and state the amount(s) it will need to pay. (4)

11. Spike is the managing director of Buffy Ltd and is considering making one of his employees, Giles, redundant. Spike wants to understand the Income Tax implications of the redundancy package. The terms would be as follows:

	£
Statutory redundancy payment	12,000
Ex-gratia redundancy payment	33,000
Payment into an occupational pension scheme	2,500

Explain the Corporation Tax and Income Tax implications of the payments to be made to Giles. (4)

12. Nichols Ltd prepares its accounts to 31 December each year. The Corporation Tax return for the year ended 31 December 2020 was submitted on 7 August 2022. Nichols Ltd paid some of its Corporation Tax liability on the normal due date of 1 October 2021, however, the remainder wasn't paid until 7 August 2022 when the return was submitted.

Explain which late filing penalties will apply to Nichols Ltd. (3)

PART II

13. Your client, the Redwood group of companies, manufactures kitchens supplying both the cheaper, DIY end of the home improvement market and also the more expensive specialist retailers. The products are made by different wholly owned companies in the group and sell under different brand names.

The directors of the Redwood group are considering selling some of the group companies and assets. The finance director, Jon Robins, has given you the following information:

"The market for our more expensive products has declined in recent years which has led to a sharp reduction in the turnover of Fern Ltd, a group company. The increase in raw material prices has led to another group company, Box Tree Ltd, making a loss in recent years. We are considering selling Fern Ltd and Box Tree Ltd.

Both companies have trading losses brought forward. We have largely wound down Fern Ltd's trade but the factory from which it operates can easily be started up again by another kitchen business. Box Tree Ltd has continued to manufacture and has manufacturing capabilities that could be used in any other trade. It is most likely that any purchaser would be using it for something other than manufacturing kitchens i.e. with a different customer base. The trading losses in each company are substantial. We assume that these losses will be attractive to a buyer of the companies.

We also plan to sell another group company, Aspen Ltd, in the year to 30 June 2023. Aspen Ltd will be loss making in this year. However, this loss will not be repeated, and the company will return to profit without any change to the business. We forecast the trading loss will be £300,000, with no other income or gains in the year. Redwood Ltd will have a taxable total profit of £250,000 in the year ended 30 June 2023, so there is plenty of scope for group relief.

A competitor company, Spring Ltd, has offered to buy Aspen Ltd. Spring Ltd anticipates a taxable total profit in the year (which is also to 30 June 2023) of £450,000. Spring Ltd is also interested in obtaining group relief. Of course, we don't want a situation where losses can't be used by either Spring Ltd or Redwood Ltd! There are no other companies in our group that can use the trading losses.

We settled Heads of Agreement with Spring Ltd for the sale of Aspen Ltd on 1 September 2022 but we understand that shareholders needed to approve the purchase, which happened on 31 October 2022. The sale will complete on 31 January 2023.

We have had an offer from a third party to purchase the business currently run by our company Knotweed Ltd. The purchaser doesn't want the company, just the trade and the assets (which comprise plant and machinery and working capital). I think this might have VAT implications?

Finally, we have had an offer to buy a large piece of machinery from Redwood Ltd. The offer is £300,000 which will be a very welcome boost to our cashflow. My concern is that the offer is from a partnership, not a limited company, and I'm not sure how a partner can act on behalf of the other partners? We don't want to negotiate with this individual and then find out that he can't sign the contract!"

Requirements:

1) **Explain how the change of ownership of Fern Ltd and Box Tree Ltd would affect their ability to use their own losses. Ignore group relief for this part.** (6)

2) **Calculate the maximum loss that Aspen Ltd can group relieve to both Redwood Ltd and Spring Ltd, in the year to 30 June 2023, giving any explanations necessary. State what, if any, losses cannot be group relieved in the current year.** (4)

3) **Explain the VAT implications for Knotweed Ltd of the sale of its trade and assets. Ignore any deregistration issues.** (5)

4) **Explain the law which allows partners in a partnership to make contracts with third parties and how it applies to the contract with Redwood Ltd.** (5)

Total (20)

14. You work for Jones and Smith LLP, a firm of tax advisers. Your client, Chatton Ltd, is a stand-alone company whose business consists wholly of making investments.

In the year to 30 September 2022 the company's investments returned income and gains, as follows:

	£
Rental income from fully let UK commercial properties	2,650,750
Gain arising from the sale of UK investment property (see Note 1)	1,490,000
Bank interest received	72,800
Dividend income in UK companies	1,432,600
Overseas property income arising in Norlandia , an overseas country	400,000
Overseas property losses arising in Westlandia, an overseas country	(600,000)

The company had expenditure as follows:

	£
Interest paid on loan to purchase UK property	35,000
Fees paid to agent who manages the commercial property (see Note 2)	105,000
Rent paid on office space occupied by Chatton Ltd	44,000
Charitable donations paid	2,000
Commission paid to stockbroker for managing shares owned by Chatton Ltd	10,000
Salary paid to managing director (see Note 3)	20,000
Purchase of computer equipment (see Note 4)	15,000
Release of loan balance (see Note 5)	600,730

Notes

Note 1

The gain on the sale is calculated as follows:

	£	£
Net proceeds after selling costs (30 June 2022)		6,000,000
Less purchase price (30 January 2000)	4,500,000	
Costs relating to purchase	10,000	
		(4,510,000)
Profit		1,490,000

Note 2

In the year to 30 September 2022 the company paid the agent for both the work done in the year to 30 September 2021 (£40,000) and 30 September 2022 (£65,000). The amount relating to the work done in the year to 30 September 2022 will be recognised in the 30 September 2022 accounts in accordance with GAAP.

Note 3

The salary paid to the MD is for 75 hours work done in the year. HMRC have, in previous years, queried the amount to the MD as excessive and Chatton Ltd have agreed that a reasonable amount is £50 per hour.

Note 4

The computer purchased is to be used exclusively by the shareholders of Chatton Ltd to manage their personal share portfolio.

Continued

Note 5

Chatton Ltd had, some years ago, made a loan to Fordy Ltd. Both companies are controlled by the same shareholder. In the year to 30 September 2022, Chatton Ltd released Fordy Ltd from this loan, the balance of which was £600,730.

In the year to 30 September 2021 the company had excess management expenses of £4,600,000 which were not relieved in that year.

Your firm has recently been discussing with Chatton Ltd the fee that it charges for preparing the company's tax returns. You then received a letter from Williams & Co LLP, another firm of tax advisers. This letter informs you that from 1 January 2023 they will be acting for Chatton Ltd. In the letter, Williams & Co LLP request that Jones and Smith LLP hand over to them all of the Chatton Ltd related documents that it has in its possession, including working papers relating to the September 2022 tax return.

Requirements:

1) **Calculate the total taxable profits for Chatton Ltd for the year to 30 September 2022, showing how each item is treated. State any amounts to be carried forward. Include any necessary explanations of the tax treatment of the income and expenditure.** (10)

2) **Explain what issues should be considered in relation to being asked to hand over papers relating to a former client to a new adviser.** (5)

Total (15)

15. You work for Ant & Co, a firm of tax advisers. You have had the following email from Jo who is finance director at your client, the Mildert Group of companies.

"Hi -

Could you possibly have a look at a couple of gains issues for us?

1) We want to transfer an item of machinery between two companies, Elvert Parts Ltd and Dun Ltd. Although both companies are part of the Mildert Group of companies, neither company holds shares in the other. We need advice as to whether this transfer can be done with minimal/no tax charge. Do we need to claim anything? The machinery is currently worth more than we paid for it.

2) As you are aware we have a wholly owned group company, Bede SA which is a French resident company, but has a permanent establishment in the UK. Next year Bede SA is going to sell a UK property from which it trades. The proceeds from the sale will be £2,000,000. We need to understand to what extent rollover relief will be available on this sale.

3) We are going to sell our 100% subsidiary, Moatside Ltd, on 30 April 2023. This was a trading company up to January 2020 when the trade ceased. The consideration we will receive for the sale of the shares will be £1,635,000. The shares were bought from a third party in January 2003 for £450,000. You will recall that in March 2019 we had transferred a property intragroup from Mildert Group Holdings Ltd to Moatside Ltd. At the time of transfer the property was worth £900,000; Mildert Group Holdings Ltd paid £230,000 in June 2009. It would be really helpful for my cashflow forecasting to know what the tax on the sale of Moatside Ltd will be. I seem to remember that the gain might be exempt.

Can you please email me back with the answers?

Thanks,

Jo"

Requirements:

Write an email to Jo in which you:

1) Explain in what circumstances the transfer from Elvert Parts Ltd to Dun Ltd could be at no gain/no loss and the tax consequences for Dun Ltd of a no gain/no loss transfer. (3)

2) Explain the conditions that must be met for Bede SA to claim full rollover relief on the gain on the sale of its property. (5)

3) Calculate the gain resulting from the sale of the shares in Moatside Ltd. Explain why the gain is not exempt. (7)

Total (15)

16. Barnes Ltd runs a recruitment and HR services company from Park House, an office building which it owns. Barnes Ltd has a 31 December year end.

On 1 November 2020 Barnes Ltd bought Park House. It was a new building and Barnes Ltd started to use it immediately on purchase. The seller of the building, Broadway Ltd, had bought it from the developer who built it (GME Developments Ltd). However, Broadway Ltd decided not to use Park House and so sold it on to Barnes Ltd.

Broadway Ltd paid GME Developments Ltd £2,500,000 for Park House, of which £200,000 related to the land. Barnes Ltd paid Broadway Ltd £3,000,000 for the property (of which £250,000 nominally relates to the land).

On 1 April 2022 Barnes Ltd incurred £100,000 on renovation works on the building.

Barnes Ltd intends to expand its business and hence needs a bigger office building. Barnes Ltd has recently agreed to sell Park House to Towpath Ltd for £5,000,000. The sale will take place on 1 May 2023.

To assist in the planned expansion of its business, Barnes Ltd is considering buying the trade, assets and business of Lake Ltd. This company develops specialist HR management software and has copyrights over the software.

Among the assets of Lake Ltd which Barnes Ltd will be buying is an amount recognised for goodwill. The directors are concerned that there may not be any tax relief available for the purchase of goodwill.

Requirements:

1) **Calculate the Structures and Buildings Allowance which Barnes Ltd can claim during its ownership of Park House.** (5)

2) **Explain the potential tax relief available to Barnes Ltd on the purchase of goodwill, including the circumstances in which it is available.** (5)

Total (10)