
CIOT - ATT-CTA

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

y/e 31 march 2022 - bought all items in june

	GP	SRP	FYA 130%	AIA	CA Claim
TWDV b/f	7,325,000	312,000			
additions					
-processing			900,000		
-air con				175,000	
-computer			15,000		
disposal					
-equipment	(50,000)				
	7,275,000	312,000	915,000	175,000	
WDA 18%	(1,309,500)				1,309,500
WDA 6%		(18,720)			18,720
FYA 130%			(1,189,500)		1,189,500
AIA 100%				(175,000)	175,000
TWDV c/f	5,965,500	293,280	nil	nil	2,692,720

equipment lower of cost and proceeds is 50,00

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

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

Answer-to-Question- 2_

Company received £12,000 of patent royalty from Bill. This was received net of basic rate of income tax.

12,000 was received
 $12,000 * 100/80 = 15,000$

DR Bank 12,000
DR income tax control account 3,000
CR royalty income 15,000

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

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

Answer-to-Question-3_

Heron's first accounting period runs from 1 January 2021 to 31 March 2021.

As it will first be coming into charge of corporation tax, as it is newly incorporated, it must notify HMRC of its' chargeability.

The deadline for notifying HMRC is within 3 months of the start of the company's first accounting period. For Heron, this is by the 31 March 2022.

The first corporation tax return is due by the later of:
- 12 months after the end of the period of account, or
- 3 months from the receipt of the filing notice.

The end of the period of account is when it draws up its first set of accounts to which is 31 March 2022. 12 months from the end of the period account would be 31 March 2023 and 3 months from the notice would be 3 August 2022. The later is 31 March 2023, so Heron Ltd's first corporation tax return is due by 31 March 2023.

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

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

Answer-to-Question- 4_

As there was no loan at 1 February 2021, this implies that during the year ended 31 January 2022, Smith Ltd made a loan to Archie.

Here, we have that Smith Ltd is a small close company as it is controlled by fewer than 5 participants.

If a close company makes a loan to a shareholder, there will be a s.455 charge on the company. This charge is calculated as 32.5% of the amount of the loan.

The amount of the loan is taken as the lower of the amount outstanding on:

- the last day of the accounting period, or
- the normal due date.

In respect of Archie and Smith Ltd, the amount of the loan would be:

- £21,000
- the amount outstanding at the normal due date of 9 months and 1 day following the end of the accounting period in which the loan was made, i.e., 1 November 2022.

This s.455 charge will be paid with the corporation tax liability for the period, unless the loan has been repaid before the tax is due.

It should be noted that s.455 tax can be reclaimed by the company if the loan is repaid by Archie or written off by the company.

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

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

Answer-to-Question-5_

Leon is UK resident. 2 subs Tiffy and Kay. Tiffy is UK resident, Kay is overseas. Group is large.

The transfer pricing rules are relevant and apply to transactions between connected companies which take place at non-arm's length prices such that one of the parties obtains a UK tax advantage.

Two companies are connected if one company controls another, or they are both controlled by the same person.

Where Leon supplies parts to Tiffy and Kay, this should be done at a price which is arm's length to avoid one party obtaining a UK tax advantage.

The difference and the tax adjustment required for transfer pricing purposes is $710 - 340 = \text{£}370$.

Leon has sold parts to Tiffy/Kay at less than market value and this results in a UK tax advantage for Leon as it has decreased its trading income. Therefore Leon must make a transfer pricing adjustment and increase its trading income by $\text{£}740$ (due to Tiffy and Kay both paying $\text{£}340$ for the parts at) on its corporation tax return for year.

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

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

Answer-to-Question-_6_

Under the substantial shareholding exemption, gains on shares held by companies are exempt from corporation tax and losses are not allowable provided that:

- a shareholding of at least 10% has been held throughout a period of 12 months in the six years prior to the disposal
- the company being sold is a trading company throughout the period beginning with the start of the latest 12 month period and ending with the time of the disposal.

At 31 March 2019 - Thorne owned 21% of Jesmond.

At 30 June 2020 - Thorne sold 15% of shares.

For the first disposal, this will qualify for the substantial shareholding exemption as 21% (at least 10%) has been held for a period of 12 months in the 6 years prior to disposal, Jesmond is also a trading company.

Then, on 1 February 2022, Thorne sold the remaining shares in Jesmond - sold 6% of shares.

Subsequent disposals of what was once a substantial shareholding continue to qualify for the exemption for a further 5 years, i.e., 30 June 2025, even if the shareholding is below 10%, which is now is at 6%. Further Jesmond is also a trading company. For these reasons, the disposal of the shares in Jesmond Ltd, will mean that the gain/loss realised for the share disposal will be exempt from corporation tax at 19%.

SSE is an automatic relief and no claim will need to be made for it.

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

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

Answer-to-Question-_7_

Bailey pays interest to individuals who are debenture holders on 6 March and 6 September.

The debenture interest paid to individuals will be paid net of 20% tax. Bailey Ltd will need to pay 20% to HMRC. The gross expense is the debenture interest * 100/80 and then the amount paid to HMRC is 20% of this.

This liability is reported on the form CT61, which is a quarterly return. The due date for the return and any income tax due is 14 days after the end of the quarter.

In this case the return period is the month to 31 March, so the CT61 is due by 14 April.

Also, for the return period ending 31 September, the CT61 is due by 14 October.

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

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

Answer-to-Question- 8_

a) no NICs are payable on the reimbursement of home telephone calls as they have been asked to work from home and so these phone calls are for business purposes

b) membership of a local gym will mean that Olive Ltd is to pay Class 1A NIC at a rate of 13.8%

b) the £50 supermarket voucher is deemed as earnings for NIC purposes and Olive Ltd will pay Class 1 secondary NICs on any earnings at a rate of 13.8% above the secondary threshold of £8,840

The Class 1A nics are due on 22 July if paid electronically (or 19th july otherwise).

The Class 1 secondary NICs are paid over PAYE on the 22nd of each month where paid electronically (otherwise 19th)

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

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

Answer-to-Question-_9_

NTLR Income			
loan to sub		4,000	
NTLR expense			
loan investment prop		(12,250)	
underpaid CT		(500)	
bank overdraft		-	trade related
NTLR deficit		(8,750)	

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

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

Answer-to-Question-_10_

10 month period
dividend received from 15% related company

TTP	1,200,000	
Dividends	75,000	
Augmented profit	1,275,000	

A company is large if it's augmented profits exceed £1.5m and do not exceed £20m.

Here the threshold needs to be adjusted for the short accounting period.

$$1,500,000 * 10/12 = \text{£}1,250,000.$$

As Broscombe's augmented profits exceed the threshold of £1,250,000, it will be considered large for the 10me 31 January 2022. It was also large in the previous period.

For a large company, instalments will be paid as follows:

$$\begin{aligned} \text{TTP} &= 1,200,000 \\ \text{CT liability} &= 1,200,000 * 19\% = 228,000 \end{aligned}$$

The amount of corporation tax due for each instalment is:
 $3/10 * 228,000 = \text{£}68,400.$

instalment one is due on: 14th Octobr 2021.

Instlamente two is due: 14th January 2022

Instalment three is due: 14th April 2022

Final instalment is due 3 months and 14 days after the end

of accounting period: 14 May 2022.

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

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

Answer-to-Question-_11_

statutory redundancy		12,000	
ex-gratia		33,000	
		45,000	
less exempt amount		(30,000)	
		15,000	
pension scheme		2,500	
balance		17,500.	

The payment into the occupational pension scheme is deductible as wholly and exclusively for purposes of trade

The first 30k of the termination apyment is exempt and the rest alongside the pension shceme is taxable at either 20/40/45%.

The remaining amount, 17,500 is subject to income tax and class 1a NICs

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

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

Answer-to-Question-_12_

prepares accounts to 31 December

For the year ended 31 December 2020, the return should have been submitted 12 months from the end of the accounting period, or 3 months from the filing notice if received from HMRC. As such, the return should have been submitted by 31 December 2021. However, it was submitted by 7 August 2022. This is late. As such it will be subject to a flat rate penalty of an immediate £100 penalty. As this was still filed more than 3 months late, the penalty doubles to £200.

As the return was not filed 18 months after the end of the accounting period, the tax geared penalty applies in addition to the flat rate penalty. This is calculated as a percentage of the amount of corporation tax unpaid 18 months after the end of the accounting period and will be at a rate of 10% as he will then submit it by 7 August 2022.

The corporation tax payment was due on 1 October 2021 but he did not pay it all until 7 August 2022. Therefore interest will run on the late paid corporation tax from the due date to the actual payment date at a rate of 2.6%.

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

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Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

1)

Where there is a change in the ownership of a company, the use of trading losses will be blocked from the date of the change of ownership if, in a period of five years beginning not more than three years before the change, there has been a major change in the nature or conduct of the company's trade.

A major change includes a major change in:

- property dealt in
- services provided
- facilities provided
- customers
- outlets
- markets.

Fern's trade has been wound down but the factory is likely to still be used by another kitchen business. As such, there is unlikely to be a major change in the business and the losses will still be able to be used against profits arising after the change in ownership.

However, for Box Tree, there will be a major change in the nature or conduct of the trade, due to the change in customer base, manufacturing something else. As such, the trade losses of Box Tree cannot be carried forward after the change in ownership and these losses will be blocked forever.

Given that the losses are substantial, a major change in the nature or conduct of trade will mean that those losses cannot be relieved.

2)

Aspen

trading loss of £300,000

redwood

ttp of £250,000

Using Redwood's profits we can group relieve Aspen's trading loss down to a loss of £50,000 (250,000-300,000)

Spring wants to buy Aspen

3)

If the third party is VAT registered, VAT will normally have to be charged where assets are transferred in the course or further of business.

However, no VAT needs to be charged on the transfer of a business as a going concern. A transfer of business as a going concern is not a supply of goods or services and outside the scope of VAT.

To be a transfer as a going concern, there are a few conditions:

- the business being transferred is a going concern,
- the purchaser is, or will immediately become VAT registered,
- there is no significant break in trading, and
- the business carried on by the company is the same.

4)

Each partner is an agent of the partnership and of the other partners for the purpose of carrying on the business. Each partner is also a principal.

A partner's power to make contracts on behalf of all the partners of the firm is determined according to the rules of law of agency.

There are three types of authority that a partner may have:

- 1) express authority - explicitly given
- 2) implied authority
- 3) apparent authority - not a partner but is held out as one by the firm

Under the PA 1890, authority is given to a partner to make contracts as follows:

As every partner is an agent of the firm and their other partners, they can bind other partners to a contract if they are concluding a contract for the business of the partnership. If the partner does not have the authority to bind the partnership, the partnership will still be bound by the contract if the third party did not know that the partner did not have the authority to make the contract.

If the partner behaved with this actual authority, the transaction related to the business, then the firm is bound by the contract with the third party.

Regarding your situation with Redwood, if the partner has authority as described above, then you will be bound by the contract even if you didn't know that he may not have had the authority to do so.

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

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

Answer-to-Question-_14_

Income			
UK rental income	2,650,750		
dividend income	-		exempt
Expenditure			
rent paid	(44,000)		
salary			
capital allowances:			
computer equipment	(19,500)		15,000 *130% (FYA 130%) = 19,500
chargeable gains	1,490,000		
NTLR deficit			all loan relationships are non-trade for investment company
bank interest	72,800		
loan UK property	(35,000)		
release of loan	(600,730)		
overseas loss	(200,000)		400,000-600,000=(200,000)

We should obtain written consent from chatton Ltd to provide working papers to William & CO LLP.

If the client refuses permission to be given to hand over any information and related documents, then we should reply to Williams & CO LLP that permission has been withheld. It is then up to Williams and Co llp to make enquireies from Chatton Ltd as to the reasonso for such a refusal.

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

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

Answer-to-Question-_15_

To: Jo
From: Analyst
Subject: Queries on Capital Gains
Date: 31 October 2022

Hi Jo,

Thank you for getting touch, I have laid out my response below.

1)

In order to be part of a capital gains group, one company must own at least 75% of the ordinary shres of another company, or two companies are 75% owned by the same parent. And if the direct cmpany shareholdings is at least 75%, there should be an indirect company shareholding of at least 50%.

In your case, Elvert and Dun do not have shares in one another, but if there is an indirect shareholding of at least 50% and there's a 75% direct shareholding above them within the group strucutre, then they will be part of a capital gains group. The benefit of being part of a capital gains group is that tranfer of chargeable assets are automatically at no gain/no loss. The chargeable gain is nil and the deemed proceeds are calculated as the balancing figure in the proceeds less cost = gain calculation. This will also be the deemed cost held in the transferee company which is releveant if they want to go on to sell the asset later.

If there is no capital gains group, then Elvert and Dun would be connected companies, in which case, the tranfer of asset will take place at market value.

2)

Bede SA is French resident but has a permanent establishment in the UK. Non-UK resident companies are subject to UK corporation tax if they carry on a trade in the UK through a permanent establishment.

A capital gains group is treated as one unit for rollover relief purposes. The rules states that group rollover applies if the company is UK resident or carrying on a trade in the UK through a permanent establishment, therefore Bede SA will be eligible.

The gain on the disposal of a qualifying asset by Bede SA can be deferred by a rollover relief claim if another group company reinvests the net sale proceeds in other qualifying assets in the qualifying time period, A joint claim must be made within four years of the later of the accounting period of disposal or the accounting period of reinvestment.

3)

Consideration		1,635,000	
less cost		(450,000)	
less indexation allowance 278.1-178.4/178.4 * 450,000		(251,485)	
Indexed gain		933,515	

Transfer of property from Mildert Moatside. Property worth 900k at the time but Mildert Group paid 230,000

deemed proceeds	299,690		
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less cost	(230,000)		
less indexation allowance 278.1-213.4/213.4 (3dp) *230,000	(69,690)		
chargeable gain	Nil		

At the time of transfer, the property was given at a cost of £299,690.

Therefore, upon disposal of the asset, the base cost of the property will be £299,690.

The substantial shareholding exemption could have applied in the case that:

- a shareholding of at least 10% has been held throughout a period of 12 months in the six years prior to the disposal,
- the company being sold is a trading company throughout the period beginning with the start of the latest 12 months period and ending with the time of the disposal.

The gain will not qualify for the SSE and be exempt because it is not a trading company at the time of the disposal, it stopped being a trading company in January 2020.

Let me know if you would like to discuss anything further.

Yours sincerely,
Analyst

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

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

Answer-to-Question-_16_

1 November bought an office building
Seller bought from developer who sold it onto Barnes

Seller paid developer 2.5m - 200k for land.

Barnes paid seller 3m - 250k relates to land.

1 April 2022 - renovation of 100k

y/e 31 december for barnes
- bought on 1 nov 2020
claim 2 months of SBA for y/e 31 december 2020

for y/e 31 december 2021
claim 12 months

for y/e 31 december 2021

from april 2022 9 months claimed for renovation

The allowance starts from when Park House is first brought
into use which is 1 November 2020.

SBA: $(3,000,000 - 250,000) * 3\% * 2/12 = \pounds 13,750$

For the y/e 31 december 2022:
qualifying expenditure: 100,000

SBA: $100,000 * 3\% * 9/12 = \pounds 2,250$

When Barnes goes to sell Park House to Towpath, as SBA has
been claimed, the consideration for the disposal is
increased by the total amount of SBAs claimed, when

calculating the gain (or loss) for capital gains tax purposes. therefore a gain on sale would be increased and a loss would be reduced.

2)

Barnes wants to expand. Wants to sell property for £5m in 2023.

Barnes is considering buying trade, assets and business of Lake Ltd.

For goodwill, there is usually no tax relief unless it is acquired from 1 April 2019 as part of a business acquisition which also includes intellectual property. As Barnes is looking to acquire the whole of the trade of Lake Ltd including its assets, which must also include intellectual property given it develops software and has copyright of this, and the acquisition will be after 1 April 2019, the goodwill will qualify for tax relief.

The tax relief is calculated as 6.5% per annum * the lower of:

- the cost of the goodwill, and
- six times the amount of the qualifying intellectual property.