

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

May 2023

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation in Part II.
- 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. Wright Ltd purchased the following assets during the 10 months ended 31 March 2023:

	£
Digger	55,000
Concrete mixer	20,000
Car with emissions of 70g/km	27,000

The digger and concrete mixer were purchased second hand.

At 1 June 2022 the pool balances were:

	£
General pool	2,540,000
Special rate pool	65,000

Calculate the maximum capital allowances that can be claimed by Wright Ltd in the period ended 31 March 2023, assuming it does not have any 51% related companies. (4)

2. Hobnob Ltd sold its factory in March 2023 for £2.6 million. Legal fees of £3,500 were incurred on the sale. The factory had been purchased in February 2001 for £900,000 and was extended in November 2012 for a cost of £650,000.

Calculate the chargeable gain on the sale of the factory in March 2023. (4)

3. Denton Ltd spent £300,000 on developing a new product during the year ended 31 December 2022. The new product went into production on 1 November 2022 and is expected to produce revenues for Denton Ltd for the next five years.

State the accounting entries needed for this expenditure for the year ended 31 December 2022. (3)

4. Marcus is a self-employed gardener with trading profits of £19,500 per annum. One of his contracts is to keep the grounds tidy at a factory owned by Adcock Ltd.

Darren is employed by Adcock Ltd and has a salary and a car benefit.

Identify the different classes of National Insurance payable by Marcus, Darren and Adcock Ltd. (3)

5. Cunningham Ltd is a partner in an LLP. Alex, Cunningham Ltd's Finance Director, has asked for some advice regarding the taxation of the profits. The LLP has a mix of corporate and individual partners.

1) Explain the tax treatment of the profits arising in the LLP, for the LLP and Cunningham Ltd. (2)

2) Identify the returns to be made to HMRC by the LLP and Cunningham Ltd, stating which profits are to be declared on those returns. (2)

6. West Ltd was incorporated on 1 January 2020 and opened an interest-bearing bank account on 1 April 2020 and immediately deposited £100,000 into it. West Ltd started trading on 1 November 2020 and drew its first set of accounts to 31 January 2022.

West Ltd drew up its next set of accounts to 31 January 2023 before ceasing to trade on 28 February 2023. The company became dormant on 31 March 2023 when the interest-bearing bank account was closed.

State the chargeable accounting periods for West Ltd up to and including 31 March 2023. (3)

7. Fisher Ltd has drawn its accounts up to 30 November for many years. It has been decided that the accounts should be extended for the current period to the 14 months ended 31 January 2023. Fisher Ltd has augmented profits of £700,000 and has no related 51% group companies.

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

8. Bogdan Ltd has total profits of £8.25 million for the year ended 31 March 2023. It has trading losses brought forward of £7.5 million from the previous year. It has no other losses in the year and no other losses brought forward. Bogdan Ltd wants to minimise its tax liability in 31 March 2023.

Calculate the taxable total profits for the year ended 31 March 2023 and the amount of losses carried forward. (4)

9. Meadowcroft Ltd owns 100% of Richie Ltd and 75% of Hudson Ltd. Richie Ltd owns 75% of Gray Ltd and Hudson Ltd owns 75% of Jankowski Ltd.

Explain which companies are in a group for group relief purposes with Meadowcroft Ltd. (3)

10. The accounts for Wexford Ltd show an accounting profit of £1,258,900 for the year to 31 March 2023, the following items have been included in arriving at this amount, and no adjustment made for tax purposes:

<u>Income</u>	£
Bank interest receivable on deposit account	2,000
<u>Expenses</u>	
Depreciation	125,000
Gifts to customers (100 pens bearing the Wexford Ltd logo)	1,000
Pension contributions relating to March 2023 and paid on 14 April 2023	15,000
Legal fees for the renewal of a lease for 25 years	5,000

Wexford Ltd has capital allowances of £450,000 for the year ended 31 March 2023.

Calculate, with supporting explanations, Wexford Ltd's tax-adjusted trade profit for the year ended 31 March 2023. (4)

11. Nigel, the financial controller of Dodgy Ltd, received a notice of enquiry on 14 April 2023 in respect of the year ended 31 January 2021. Nigel has contacted you as he believes that this notice has been issued too late. Dodgy Ltd submitted its Corporation Tax return on 8 February 2022. The notice to file a return was issued on 15 May 2021. Dodgy Ltd is not part of a group.

Explain to Nigel whether the enquiry is within the deadline for HMRC to start an enquiry or not. (2)

12. Kinks Ltd owns several rental properties in the UK, as well as carrying on other investment activities. For the year ended 28 February 2023 it accrued £180,000 in rental income and incurred the following expenses:

	£
Insurance (£1,500 relates to the head office)	7,500
Advertising for tenants	1,000
Roof repair	20,000
Installation of solar panels	30,000
Head office expenses	3,000

Explain which expenses are deductible in calculating property income.

(3)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

13. Angel Court Ltd has been a client of your firm for many years. It is a standalone company whose business was importing and wholesale selling of high-quality fashion clothes. Historically it operated from four properties which it owned – two warehouses in Belgium, a showroom in Manchester, and an office building in London. Unfortunately, the business of Angel Court Ltd has become less profitable over the last few years. In an attempt to save costs, the business moved to cheaper, rented properties and rented out the Belgian properties to unrelated third parties in 2021. In November 2021 the Manchester property was sold; finally in January 2023 the London office building was sold.

The directors decided in 2022 that the business was no longer viable and would cease to trade on 31 January 2023. They want to relieve as many losses as possible.

The company had a brought forward capital loss of £200,000 from the sale of an asset several years ago. The company always paid Corporation Tax by 31 December following the year end, due to good cashflow at that time of year.

The final accounting period is the five months ended 31 January 2023.

The accounts for that final period show the following:

	£
Tax-adjusted trading loss (as adjusted for tax)	(450,000)
Profit from renting out Warehouse A, Belgium	75,000
Loss from renting out Warehouse B, Belgium	(97,000)
Allowable loss on sale of London office	(320,000)

In previous years the results of Angel Court Ltd have been as follows (before the offset of any losses):

Year ended 31 August 2022

	£
Tax-adjusted trading profit	55,000
Profit from renting out Warehouse A, Belgium	10,000
Loss from renting out Warehouse B, Belgium	(12,000)
Chargeable gain on sale of Manchester property	50,000

Year ended 31 August 2021

	£
Tax-adjusted trading profit	40,000
Profit from renting out Warehouse A, Belgium	1,000
Profit from renting out Warehouse B, Belgium	1,000

Year ended 31 August 2020

	£
Tax-adjusted trading profit	100,000

Year ended 31 August 2019

	£
Tax-adjusted trading profit	170,000

Continued

Sheila Jackson

The former sales director of Angel Court Ltd, Sheila Jackson, has recently set up a company that has become a client of your firm, SJ High Fashion Ltd (SJ Ltd). SJ Ltd will be in a similar trade as Angel Court Ltd, being the import and wholesaling of high-end clothes. In addition to importing clothes from around the world, SJ Ltd will export goods made in the UK to South America. SJ Ltd will use the services of solicitors based in Brazil to deal with the trade contracts. Sheila says “I recall that VAT was a real problem at Angel Court Ltd – although I never understood it – but I know you gave us really good advice. So I’d like you to explain the VAT issues I will have with my new business. Thanks, Sheila.”

Requirements:

- 1) Calculate, with supporting explanations, the Total Taxable profits for each accounting period from year ended 31 August 2019. Show the amount of any loss relief. (8)
- 2) State the amount of any unused losses at 31 January 2023. (4)
- 3) Calculate the amount of the tax repayments in relation to earlier years. (2)
- 4) Explain where the VAT place of supply is for:
 - 1) Goods that SJ Ltd will import from abroad.
 - 2) Goods that SJ Ltd Fashion will export from the UK to South America.
 - 3) The services provided to SJ Ltd by the Brazilian solicitors. (4)

Total (18)

14. Your client, Bond Ltd is a manufacturing company with a year end of 30 April annually. Tim, the managing director of Bond Ltd is also a client. Tim has approached you about two issues that arose during the year ended 30 April 2023 for Bond Ltd and one issue relating to a venture of his.

Redundancy of Sam, marketing manager

Sam was made redundant on 31 March 2023. His notice period was for three months but he left immediately without working the notice period. His monthly salary was £3,000. Sam received the following redundancy package:

	£
Payment to ensure that Sam does not work for a local competitor for the next six months	5,000
Payment into Sam’s personal pension scheme	4,000
Non-contractual lump sum payment	45,000
Healthcare costs at £300 per month for the three months after leaving	900

Patents

Bond Ltd bought Patent “A” on 1 May 2017. It used the patent in its trade and it was acquired from an unrelated third party.

The cost of the patent was £750,000 which was to be amortised and had a tax written down value of £562,500 at 1 May 2022. On 30 April 2023 Bond Ltd sold the patent for proceeds of £1,000,000.

On 1 January 2022 Bond Ltd purchased another patent – Patent “B” for £150,000; and on 1 July 2022 it purchased Patent “C” for £800,000.

New company

Tim has informed you that he is considering being involved in the set-up of a company, Green Town Ltd. The other people involved in the set-up have told Tim that Green Town Ltd will be a company limited by guarantee. Tim said:

“I have never come across this before and would like to understand how such a company is constituted, what exposure do the members have and could it be converted into a normal company limited by shares?”

Continued

Requirements:

- 1) **Explain, with supporting calculations, the amounts on which Bond Ltd must pay Income Tax and National Insurance Contributions to HMRC. Identify the relevant class(es) of National Insurance Contribution. Do not calculate the amounts payable.** (6)
- 2) **Calculate, with supporting explanations, the amount of the rollover relief that can be claimed in relation to Patent A.** (2)
- 3) **Briefly explain how a company limited by guarantee is constituted and what specific issues arise from this. Explain what Corporation Tax issues arise from being a company limited by guarantee.** (5)

Total (13)

15. You are a manager at ATT Tax Advisers. The ABC & Co group of companies is a client of the firm. All companies have historically prepared accounts to 31 May. ABC & Co has recently appointed a new group finance director, Bill Jones, who has contacted you as follows.

“As you are aware the group has several subsidiary companies with various levels of shareholding from 50% to 100%, and the payment of Corporation Tax in instalments for each individual company takes a lot of co-ordinating and management time. Is there any way we can simplify this? Also, we find forecasting our results, and thus the amount of tax due, very difficult to do with any degree of accuracy. We often overestimate the tax payable for some of the companies (and overpay tax!) with an occasional underestimate for others.

I’m also not certain when we should be paying our Corporation Tax for the next account period. Once we have completed the year ending 31 May 2023, we will prepare our next accounts for the eight months ending 31 January 2024 – we estimate that group taxable profits will be £17m in that period, which is at a similar rate to prior accounting periods.

Also, can we have a word about fees? There seems to be a lot of small bills coming in from your firm for what I think of as quick pieces of advice. I want my team to feel as though they can always contact you – especially in areas such as VAT where we have no inhouse expertise. I would like to suggest that for a fixed monthly sum we can have unlimited access to your experts. In that way you won’t have to bother with the admin of time recording and all the small bills and my team will know they can just pick up the phone without having to get permission from our accounts team for the expenditure all the time.”

Requirements:

- 1) **Explain a method for making instalment payments for the group as a whole that can be used by the ABC & Co group. Include:**
 - 1) **The information which must be given to HMRC on the application;**
 - 2) **The date by which the application must be submitted; and**
 - 3) **Why the issue of overestimated and underestimated tax payable is simplified by this payment method.**(6)
- 2) **State the dates that the Corporation Tax will be payable by the group for the eight months ending 31 January 2024, and the estimated amounts payable on each date.** (4)
- 3) **Explain the issues that your firm should consider before agreeing to the suggested fee arrangement. Explain how the fee arrangement should be documented and what agreements should be made with the client.** (5)

Total (15)

16. You work at Advisory & Co as a tax manager. You receive the following email from Jo, a longstanding client who often invests in growing businesses. Jo is also a director of Motion World Ltd, another client of your firm.

“Hi

You may recall that a few years ago I invested £1,500,000 in STN plc. I’m pleased to say that I have just sold my shares on 1 February 2023, for proceeds of £12,000,000.

I recall from a previous investment that I may be eligible for Investors’ Relief. Can you please remind me of what conditions need to be met for me to qualify? If you look back at my file you will see that I have had £2.3m of gains already which qualified for Investors’ Relief, and £1.1m of gains which attracted Business Asset Disposal Relief.

Can you please also give me an indication of the tax which would be due, and if I need to make a claim, what is the deadline?

I have used up my annual exempt amount this year on another sale, and as you know I am a higher rate taxpayer.

Whilst you are looking at this, can you also give me some advice on another issue? As you know I am a director of Motion World Ltd and we have been approached by one of our competitors (Sunny Ltd) with an offer to buy our small holding of shares in Circle Cross Ltd (along with that of the other unconnected shareholders). Motion World Ltd owns around 9% of Circle Cross Ltd. Following the acquisition, Sunny Ltd would own the entire share capital of Circle Cross Ltd.

The offer that Sunny Ltd has made for our holding is more than we paid for the shares and so we would like to accept it. The offer is made up of some cash, and some ordinary shares in Sunny Ltd and some preference shares in Sunny Ltd.

I think there may be no gain, because Motion World Ltd has held the shares for so long, but I could be wrong. I would like to know what the chargeable gains implications for Motion World Ltd are if we accept this offer.

I look forward to hearing from you.

Regards

Jo”

Requirements:

Write an email to Jo in which you:

- 1) Identify what further information you require to determine if the gain is eligible for Investors’ Relief and which explains why the information is relevant. (3)**
- 2) State the date by which the claim must be made and calculate the Capital Gains Tax liability that will arise on the gain. Assume that Investors’ relief is available. (5)**
- 3) Explain what the chargeable gains implications are for Motion World Ltd if they sell the shares in Circle Cross Ltd to Sunny Ltd for the offer described, and what mechanism there is for confirming the tax treatment. (4)**

Total (12)