May 2023 Examination

PAPER 4

Corporate Taxation

Part I Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1.	AIA @100% £	General pool £	Special rate pool £	Allowances £	
WDV b/f		2,540,000	65,000		
Additions					
Digger	55,000				(½)
Concrete mixer	20,000				(½)
Car			27,000		(½)
	75,000	2,540,000	92,000		
Allowances					
AIA @ 100%	(75,000)			75,000	(½)
WDA @18% x 10/12		(381,000)		381,000	(1)
WDA @ 6% x 10/12			(4,600)	4,600	(1)
WDV c/f	Nil	2,159,000	87,400		
Total allowances				460,600	

4 marks

2. Basic gain calculation

	£	
Proceeds (March 2023)	2,600,000	(½)
Less: selling costs	(3,500)	(½)
	2,596,500	
Less: cost (Feb 2001)	(900,000)	(½)
Less: enhancement expenditure (Nov 2012)	(650,000)	(½)
Unindexed gain	1,046,500	
Less: Indexation on cost		
(278.1-172.0)/172.0 = 0.617 x 900,000	(555,300)	(1)
Less: Indexation on enhancement		
(278.1-245.6)/245.6 = 0.132 x 650,000	(85,800)	(1)
Indexed gain	405,400	

4 marks

3. Year ended 31 December 2022

		£	£	
Dr	Development expenditure (BS)	300,000		(½)
Cr	Bank		300,000	(½)
Dr	Amortisation expense (P& L a/c)	10,000		(½)
Cr	Provision for amortisation (development expenditure)		10,000	(½)

Amortisation expenses: 300,000/5 = 60,000 (½)
For the year: 60,000 x 2/12 (½)

3 marks

4. Marcus pays:
Class 2 National Insurance contributions (½)
Class 4 National Insurance contributions (½)

Darren pays:
Class 1 primary National Insurance contributions (1)

Adcock pays Class 1 Secondary National Insurance Contributions on earnings (½) and Class 1A contributions on benefits. (½)

3 marks

5.

1) The LLP is deemed to be "transparent" for tax purposes (½) where it is carrying on a trade or business, meaning that the LLP is not liable to corporation tax in its own right (½). Instead, corporate members, like Cunningham Ltd, are subject to Corporation Tax (½) on their share of the LLP's profits. (½)

2) The LLP must submit a tax return to HMRC which declares the taxable income arising in the trade of the LLP (½). This return also shows the interest of each LLP member in the taxable profits. (½) The taxable profit or loss is calculated under corporation tax rules for the share relevant to Cunningham Ltd. (½)

   The LLP share attributable to Cunningham Ltd (½) will be returned on its Corporation Tax return (½).

Max 4 marks

6.
1 April 2020 – 31 October 2020	(½)
1 November 2020 -31 October 2021	(½)
1 November 2021 -31 January 2022	(½)
1 February 2022 -31 January 2023	(½)
1 February 2023 -28 February 2023	(½)
1 March 2023 – 31 March 2023	(½)

3 marks

7. The period of account must be divided into two accounting periods for the purposes of calculating the corporation tax.

For Fisher Ltd the accounting periods will be:

12 months to 30 November 2022**(½)**
2 months to 31 January 2023**(½)**

The corporation tax returns for both accounting periods will be due for submission to HMRC by 31 January 2024. 2 x **(½)**

The corporation tax will be due for payment as follows:

Accounting period to	Tax due	
30 November 2022	1 September 2023	**(½)**
31 January 2023	1 November 2023	**(½)**

3 marks

8. The maximum amount of brought forward losses that can be deducted by the company is the lower of (½):

The unrelieved losses carried forward	£7,500,000	(½)
And;		
	£	
Full deductions allowance	5,000,000	(½)
Plus 50% x (unrelieved profits - £5million)		
50% x (£8.25million - £5million)	1,625,000	(½)
	6,625,000	
Maximum brought forward loss relievable:	£6,625,000	(½)

Total taxable profits for the year ended 31 March 2023:

	£	
Total profits	8,250,000	(½)
Less: carried forward relief	(6,625,000)	(½)
Taxable total profits	1,625,000	

Loss memo:	£	
Carried forward trading loss	7,500,000	(½)
Less: Loss used in year ended 31 March 2023	(6,625,000)	(½)
	875,000	

Max 4 marks

9. Meadowcroft Ltd is in a group with Richie Ltd, (½) Hudson Ltd (½) and Gray Ltd (½) because Richie Ltd, Hudson Ltd and Gray Ltd are all 75% subsidiaries of Meadowcroft Ltd. (½)

Meadowcroft Ltd is not in a group with Jankowski Ltd (½) as Meadowcroft does not have an effective 75% interest in Jankowski Ltd (75% x 75%= 56.25%). (½)

3 marks

10. Wexford Ltd

	£	£	
Accounting profit		1,258,900	
Add back:			
Depreciation	125,000		(½)
Pension contributions (allowable in the accounting period they are paid, not accrued) (½)	15,000		(½)
		140,000	
Capital allowances	(450,000)		(½)
Bank interest receivable (taxed as a NTLRD) (½)	(2,000)		(½)
		(452,000)	
Tax-adjusted trading profit		946,900	

Legal fees for renewal of a short lease i.e. one not exceeding 50 years are allowable (½). Gifts of under £50 and bearing the business name, logo or a clear advertisement are allowed.(£1000/100=£10 per pen). The gift also cannot be food, drink or tobacco. (½)

4 marks

11. The deadline for HMRC to open an enquiry into a corporation tax return is 12 months from the day on which the return was delivered, assuming the return was not filed late. (½)

    As the notice to file the return (Form CT603) was issued before the start of the three months leading up to the filing date, the normal filing date of 31 January 2022 is relevant (½) and therefore Dodgy Ltd filed its Corporation Tax return late. (½)

    Where a return is filed late the deadline for starting an enquiry is 12 months from the quarter day following the actual filing date i.e. 30 April 2022 in this case. (½) HMRC therefore had until 30 April 2023 to enquire into the tax return for the year ended 31 January 2021. As the enquiry notice was issued before 30 April 2023, HMRC have validly opened an enquiry into Dodgy Ltd's tax return. (½)

    Max 2 Marks

12. Insurance: The £6,000 that relates to its rental properties would be deductible against property income. (½) £1,500 relating to its head office are not deductible against property income as they are not wholly and exclusively for the rental business. (½)

    Advertising £1,000 would be deductible from property income. (½)

    Roof repair £20,000, would be deductible from property income. (½) Installation of solar panels, £30,000, would not be deductible as these are capital (as they are not a replacement). (½)

    The office expenses £3,000 are not deductible against property rental income as they are not incurred wholly and exclusively for the rental business. (½)

    The insurance of the head office and the office expenses would be treated as management expenses and available as a deduction from against total profits. (½)

    Max 3 marks

May 2023 Examination

PAPER 4

CORPORATE TAXATION

Part II Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

13.

1. As Angel Court Ltd has ceased to trade on 31 January 2023 it can claim terminal loss relief (½) . This relief allows trading losses (½) incurred in the final accounting period to be carried back against total (½) profits of the previous three years. (½)
   The terminal loss that can be considered for be carry back from 31 January 2023 is £450,000. (1)

   Total taxable profits after the relief are -

   Year to 31 August 2022

	£
Trading profit	55,000
Gain (offset by loss carried forward from earlier period) (½)	nil
Overseas properties (loss) (½)	nil
TTP pre loss relief	55,000
Terminal loss relief(½)	(55,000)
Total Taxable profits	Nil

   Year to 31 August 2021

	£
Trading profit	40,000
Profit from overseas rental properties (½)	2,000
TTP pre loss relief	42,000
Terminal loss relief (½)	(42.000)
Total Taxable profits(½)	Nil

   Year to 31 August 2020

	£
Trading profit	100,000
TTP pre loss relief	100,000
Terminal loss relief (½)	(100,000)
Total Taxable profits(½)	Nil

As the accounting period ended 31 August 2019 is outside of the 36 month carry back period no terminal loss relief is available. (1)

(8)

2. Losses unused at 31 January 2023 are-

   Trading losses

	£

Loss arising in 31 January 2023	(450,000)
Utilised	
31.08.2022	55,000(½)
31.08.2021	42,000(½)
31.08.2020	100,000(½)
Unused	253,000 (½)

Loss on overseas properties

	£
Arising	
31 January 2023	22,000 (½)
31 August 2022	2,000 (½)
Unused	24,000

Capital Losses

	£
Brought forward	200,000
Utilised 31 August 2022	(50,000) (½)
Incurred 31 January 2023	320,000 (½)
Unused	470,000

(4)

3. The tax repayable will be:

	£	£
31 August 2022	55,000 @ 19%	10,450 (½)
31 August 2021	42,000 @ 19%	7,980 (½)
31 August 2020	100,000 @ 19%	19,000 (½)
	TOTAL	37,430 (½)

(2)

4.

(a) For goods it is irrelevant where the supplier is based,as place of supply is determined if the goods are arriving in or leaving the UK. (1) The goods arriving in the UK do not have a place of supply in the UK. (1)
(b) The goods leaving the UK will have a place of supply in the UK (1)
(c) For the services provided by the Brazilian solicitors, the supply of services is being provided business to business. (1) The supply is treated as being made where the customer belongs which in this case in the UK. (1).
(Max 4)

Total (18)

14.

1.

The redundancy package given by Bond Ltd comprised:

(a) A restrictive covenant of £5,000 - taxed in full and subject to subject to Income Tax (½) for Sam and Class 1 NIC (½) for both Sam and Bond Ltd.

(b) A payment into Sam's personal pension scheme – exempt from both Income Tax (½) and National Insurance Contributions. (½)

(c) An ex gratia lump sum termination payment of £45,000. Sam was not able to complete the three month notice period. Therefore part of it is treated as Post-Employment Notice Pay (PENP). (½)The PENP represents the basic salary that he would have received for a three month notice period ie £9,000 (£3,000 x 3 months). (½) The PENP is subject to Income Tax (½) for Sam and Class 1 NIC (½)for both Sam and Bond Ltd.

(d) The remaining £36,000 is not treated as a PENP. The healthcare costs of £900 for the three months after leaving are added to the remaining termination payment. To give a total of £36,900. The first £30,000 of this exempt (½). The remaining £6,900 is subject to Income Tax (½) for Sam and Class 1A NIC (½) for Bond Ltd. There are no NICs payable by Sam on this amount. (½)

(6)

2. The relevant time period for reinvestment is 12 months before and 36 months after the sale of Patent A. (½) So only Patent C falls within that period. (½)

The amount to be rolled over is

	£
The amount spent on the new asset (½)	800,000
Less cost of the old asset(½)	(750,000)
Rolled over gain	50,000

(2)

3. A company limited by guarantee does not have any shares (½) or shareholders. (½) Members are instead guarantors (½) who guarantee to pay a stated amount if the company becomes insolvent. (½) The members liability is limited to this amount. (½) A company limited by guarantee is still be a separate legal entity. (½)

It is owned and can be sold by its members, (½) subject to the Articles of Association. (½)

A company limited by guarantee cannot be converted into a company limited by shares. (½)

Certain reliefs are specific to companies limited by shares – such as trading loss relief (½) – and so a company limited by guarantee cannot take advantage of these. (½)

Max (5)

Total (13)

15.

1. It is possible to enter into a group payment arrangement (½) for companies in a 51% group (½) if one or more companies in the group is liable to pay corporation tax in instalments. (½) A nominated company in the group (½) will inform HMRC which companies will participate in the arrangement, (½) and it is necessary for HMRC to consent to the Group Payment Arrangement.

   The nominated company is required to inform HMRC of the dates of the first period to which the arrangement will apply; (½) the arrangement will automatically apply to all subsequent accounting periods. (½)

   The application must be made by at least one month before the first instalment payment is due by a group member. (½)

   The nominated company needs only to make one payment of Corporation tax on the due date. (½) An allocation of the tax can be made retrospectively (½) and can be made in the most beneficial way. (½) The nominated company must notify HMRC of how the payments are to be allocated. (½) The nominated company can also claim a repayment where tax has been overpaid. (½)
   The participating companies are still required file returns to HMRC (½) . HMRC will send notice, based on the returns, of the liability for each company. (½) This notice is final. (½)

   Max (6)

2. The tax liability for the next period is £4,250,000 (£17m x 25%) (½). As a very large group the due dates for the payment, and amount of Corporation tax to be paid for the next accounting period will be

   14 August 2023 (½) payment (4,250,000 x (3/8) (½)) = £1,593,750 (½)
   14 November 2023 (½) payment = £1,593,750 (½)
   14 January 2024 (½) payment £4,250,000-previous payments) = £1,062,500 (½)

   (4)

3. Bill is suggesting a retainer arrangement (½) where the client pays for the retaining of services. The following should be considered if to entering into such an arrangement –
   - Do we have sufficient resources and expertise to enter into such an arrangement? (1)
   - Would entering into this impact our ability to service our other clients? (1)
   - Should we be limiting the extent of the advice (1) subject to the retainer (for example just VAT)

   The firm should set out in writing (½), for example in a letter of engagement, the terms of the retainer. (½) It will describe the circumstances at what point further fees will become due for work outside of the retainer. (½) The LoE will also set out at what point the retainer can be terminated. (½)
   (Max 5)

Total (15)

16.

1. Email

To Jo (Client)
From A Tax Advisor
Date May 2023

Subject Investors relief

Dear Jo
Thank you for your email.
In order to determine if you are eligible for Investors' Relief, I will need the following information

- What is the nature of STN plc's business? For the relief it needs to be a trading company or the holding company of a trading group. (½)
- How long have you held the shares? You need to have held them continuously for at least three years to qualify. (½)
- When did you acquire the shares – only shares issued after 17 March 2016 qualify. (½)
- Did you subscribe for the shares in cash? Shares bought from another person do not qualify. (½)
- Please confirm that the company was not listed when you acquired your shares, as only unlisted shares (at date of purchase) qualify. (½)
- Please confirm that you were not an employee of the company or if you were an employee this happened at least 180 days after the shares were acquired. (½)

(3)

2. In order to obtain the relief, a claim must be made by the first anniversary of the 31 January following the year in which the gain (½) is made – as the disposal was made in the tax year ended 5 April 2023, the claim needs to be made by 31 January 2025. (½)

The gain on the sale of Jo's shares in STN plc is -

Gain	**£**	**£**	
Proceeds	12,000,000		
Less Cost	(1,500,000)		
		10,500,000	
Remaining Life time allowance			
£10m (½) - £2.3m (½)	7,700,000		
Gain eligible for Investors Relief		7,700,700	
Chargeable @ 10% (½)		770,000	(½)
Gain not eligible for Investors relief			
£10,500,000 - £7,700,000		2,800,000	(½)
Chargeable @ 20%(½)		560,000	(½)
Total tax = £770,000 + 560,000		1,330,000	(½)

(5)

3. The shareholding in Circle Cross Ltd is less than 10% so will not be eligible for substantial shareholding exemption. (½) Any gain will be brought into the charge to tax in Motion World Ltd's tax computation. (½)
The cost of the original shares in Circle Cross Ltd is allocated to the three parts of the consideration based on the market value of the cash and shares at the takeover. (½)

As the consideration is to be met partially by shares and partly by cash there is a part disposal arising. (½) An immediate chargeable gain will arise only on the part of the gain which arises from the cash proceeds. (½)
The consideration being met by the issue of shares is a "share for share exchange" and does not give rise to a disposal (½) – instead the new shares will stand in the shoes of the old shares. In the hands of Motion World Ltd each class of new shares in Sunny Ltd will have the proportionate base cost (½) from the old shares in Circle Cross Ltd and have the same acquisition date. (½)
In order for this treatment to apply the exchange must take place for bona fide commercial reasons. (½)

(Max 4)

I look forward to receiving the information about Investors' relief then I could confirm the amount of tax payable on that disposal.

Regards

A Tax Advisor

Total (12)