

CIOT - ATT

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

adjusted AIA - 1m X 10/12 = 833,333

SRP	AIA Allowances	Main pool
TWDV b/f 65,000		2,540,000
Additions:		
Digger	55,000	
Concrete mixer	20,000	
Car 27,000		
Subtotal 92,000	75,000	2,540,000
AIA @ 100% 75,000	(75,000)	
WDA @ 18% 381,000 (X 10/12)		(381,000)
WDA @ 6% (X 10/12) (4,600)	4,600	
TWDV c/f 87,400	0	2,159,000
Total allowances 460,600		

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

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

Answer-to-Question- _2_

proceeds	2,600,000
less: cost	(900,000)
legal fees	(3,500)
extension	(650,000)
unindexed gain	1,046,500
IA	(555,300)
IA 2	85,800)
Indexed gain	405,400

Enhancement expenditure

$$IA = (278.1 - 245.6) / 245.6 = 0.132 \text{ (3dp)} \times 650k = 85,800$$

W. IA of factory

$$(278.1 - 172) / 172 = 0.617 \text{ (3dp)} \times 900k = 555,300$$

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

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

Answer-to-Question-_3_

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

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

Answer-to-Question-_4_

Marcus will need to pay Class 2 (fixed at £3.15 a week) and Class 4 (10.25% up to upper limit and 3.25% thereafter) NIC because he is self employed.

Darren will need to pay Class 1 Secondary NIC.

Adcock Ltd will need to pay Class 1A and 1B NIC on expenses and benefits paid to Darren (13.8%).

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

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

Answer-to-Question-_5_

The profits of a trading LLP are subject to income tax based on each member's shares of the underlying profit (ITTOIA 2005 s.863). LLP profits are also liable to Class 4 NICs payable by each member and each member will be liable to Class 2 NIC where their earnings exceed the small earnings threshold. This is applicable for the LLP where the partners are individuals. For Cunningham Ltd, as they are a corporate, their profit share will be taxable using the corporation tax rules.

Two separate computations of the taxable profits or loss of the partnership are required because it is a mixed partnership. Cunningham Ltd will need to make a CT (CTSA) return with the share of their profits and LLP will need to make a separate return for the remaining partners, in line with the sole trader/partnership rules. This will be a self assessment.

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

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

Answer-to-Question-_6_

AP 1 = 1 April 2020 - 31 October 2020

AP 2 = 1 November 2020 - 31 October 2021

AP 3 = 1 Novemebr 2021 - 31 January 2022

AP 4 = 1 February 2022 - 31 January 2023

AP 5 - 1 February 2023 - 31 March 2023

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

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

Answer-to-Question-_7_

Fisher Ltd will need to submit 2 CT returns, one for the year ended 30 November 2022, and the other for the 2 month period ended 31 January 2023. These returns will both be due on the same day which is 12 months following the end of the long accounting period, and therefore will need to both be filed by 31 January 2024.

In terms of payment, given that Fisher Ltd is considered a small company for CT purposes, it will be required to pay its CT 9 months and 1 day following the end of the accounting period. Which will be the below:

y/e 30 Novemeber 2022 - 1 September 2023

p/e 31 January 2023 - 1 November 2023

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

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

Answer-to-Question-_8_

deductions allowance applies - £5m for the 12 month period.

maximum amount of b/f losses allowed is

lower of :

unrelieved losses - 7.5m

or

$5m + 50\% (8.25m - 5m) = 6,625,000$ so this is to maximum amount of loss relief.

trading profits	8,250,000
less b/f losses	(6,625,000)
TTP	1,625,000
c/f losses	875,000

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

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

Answer-to-Question-_9_

Group 1

Meadowcroft Ltd, Richie Ltd, Hudson Ltd and Gray Ltd are all in a group for group relief purposes because the direct and indirect ownership between all companies is atleast 75%. Jankowski Ltd is not in this group because the indirect relationship to Meadowcroft Ltd is only 56%.

Group 2

Hudson Ltd and Jankowski Ltd are in a group relief group too because their relationship is atleast 75%.

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

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

Answer-to-Question-_10_

accounting profit	1,258,900
add back:	
depreciation	125,000
pension	15,000
less:	
bank interest	(2,000)
total adjusted	1,396,900
less: CAs	(450,000)
trade profits	946,900

pension not allowable because not paid in 9m and 1 day of year end
legal fees allowable because RENEWAL of short lease
gift to customers allowable because <£50 per customer and has business logo on
depreciation - always add back

trade profits	946,900
NTP	2,000
TTP	948,900

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

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

Answer-to-Question-_11_

Given that the notice to file was issued by HMRC on 15 May, this would mean that Dodgy Ltd would need to file their return within 3 months of this notice, which is by 15 August 2021. Given that the return was filed 5.75 months late, this means that the enquiry window from HMRC is extended from the typical 12 months from the filing date. HMRC are allowed the enquiry into Dodgy Ltd's return until 12 months from the next quarter day following the late filing return. This means they have until 30 April 2023 to enquire and therefore, by enquiring on 14 April 2023, they are within their enquiry window.

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

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

Answer-to-Question-_12_

insurance - allowable as wholly and exclusively for trade
advertising - allowable - wholly and exclusively for trade
roof repair - allowable deduction as revenue in nature and
wholly and exclusively for trade
solar panels - not deductible because capital expenditure
office expenses - allowable, wholly and exclusively for the
trade

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

CIOT - ATT

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

1)	y/e 31.08.19	y/e 31.08.20	y/e 31.08.21
y/e 31.08.22	p/e 31.01.23		
TP	170,000	100,000	40,000
55,000	0		
property			2,000
0			0
gains			
50,000	0		
Total	170,000	100,000	42,000
105,000	0		
CY claim			
(2,000)	0		
CB 12 months			
(103,000)			
Exended CB			
Terminal			(42,000)
Terminal		(66,667)	
(8/12)			
TTP	170,000	33,333	0
0	0		
Losses			
580,333			
unused			

Due to the company ceasing to trade the losses cannot be c/f

The losses could not be carried back to y/e 31.08.20 fully because terminal loss relief is available 3 years prior which would be up until 31 January 2020. This is also why they couldn't be carried back to y/e 31.08.19.

loss memo

	y/e 31.08.19	y/e 31.08.20	y/e 31.08.21
y/e 31.08.22	p/e 31.01.23		
Trade			
450k			
Property			
2k	22k		
Capital			
320k			

CY claim
(2k)
CB claim
(103k)
Terminal
(42k)
terminal

(66.667k)

2) unused losses are 580,333 as per the above calculation

3)

- 4) 1. No UK place of supply
2. UK place of supply
3. UK place of supply under the B2B rules

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

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

Answer-to-Question-_14_

1)

Sam's total yearly salary was £36,000 so he is a basic rate tax payer.

The below payments received on his redundancy will be subject to IT and NICs:

payment to ensure competitor - covenant payment so taxed in full and subject to Class 1 NICs

5,000 @ 20% = 1,000

personal pension scheme payment - Sam will not pay tax or NIC on this but Bond Ltd will pay Class 1 NIC on this.

non contractual lump sum - Not charged to NIC as earnings as not expected

after leaving healthcare costs - not PENP (within notice period)

2) all proceeds were reinvested so relief available under IFA 1 which means that rollover relief is calculated as the difference between the proceeds realised on disposal which are reinvested and the cost of the old IFA.

Therefore, rollover relief is £800k less £750k is £50k. The purchase of Patent B is not eligible because it was more than 12 months before the disposal.

3) In response to the query about the new company, A company limited by guarantee must have at least one guarantor and one director, which can be the same person. It will incorporate in the same way as other companies but does not have share capital or shareholders. It will need to provide

a physical address for the company and information about people with Significant Control (PSCs) in the business. Similar to a limited company by shares, a company limited by guarantee will need to establish themselves at companies house through the submission of various statutory forms and constitutional documents.

In the event that they become insolvent, their liability for the debts is still limited to the amount they have guaranteed in the same way.

From a tax perspective, being limited by guarantee means that reliefs available to groups of companies, e.g. transfer of trading losses and tax-free transfer of assets, are not available. With the exception of specifically extended rules in the legislation e.g share for share exchange rules which clearly state that an interest in the company rather than shares possessed by members is allowable.

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

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

Answer-to-Question-_15_

1) Because more than one group entity is liable to pay tax by instalments, there is a way that Bill can simplify the administrative burden of filing and paying the individual subsidiaries corporation tax. The ABC & Co group can nominate a company to deal with the payment of instalments for the group as a whole. This is known as a Group Payment Arrangement as per TMA 1970 s59F. The nominated company will have to complete a group payment arrangement document listing all the companies that are participating in the GPA and submit this document to HMRC at least 1 month before the first QIP is due by any group member. Therefore, when looking at the period ended 31 Jan 2024, on the assumption that all group entities have the same period end, this will need to be sent to HMRC by no later than 13 November 2023.

The application must state the start and end date of the first period to which the arrangements are to apply. This will then apply automatically for subsequent periods unless the group notifies HMRC that they want to terminate this arrangement.

2)

For the new accounting period ended 31 January 2024, on the basis that the company is deemed large for CT payment purposes as the augmented profits are less than £20m, the payments will be as follows:

$3/8 \times 17m = 6.375m$ this will be due by the nominated company
14 December 2023

$3/8 \times 17m - 6.375m$ this will be due by the nominated company
14 March 2024

$2/8 \times 17m - 4.25m$ this will be due by the nominated company
14 May 2024

With GPAs, there is a closing date by which HMRC will send a calculation of the amount due to the nominated company based on all of the returns that have been submitted for the entities in the GPA. The closing date is the later of the filing date that is the latest out of all of the entities or the day when HMRC receive the last of the returns in the GPA.

The calculation drawn up by HMRC will be final and conclusive and will need to be paid by the nominated company.

3) There are a number of things to consider when reviewing the proposed fee arrangement from The ABC & Co group. As a firm, we should consider whether this approach is feasible from a billing perspective, estimating fees and revenue, risk procedures and when trying to predict resourcing needs. As much as this approach may help from an admin perspective, with just one fixed fee, it is hard to predict what resource is going to be required and from what team with such a broad scope of work. For example, despite the previous advice being in relation to corporation tax, the mention of VAT and the lack of VAT expertise in house for the company, may mean that we are getting lots of VAT questions that we are not in a position to answer, due to our lack of VAT expertise. In line with our professional competence and due care, we would not be able to give this VAT advice and may have to bring someone from the VAT team onto the client account, which would have to be factored into the fee discussions when trying to determine the fixed fee.

Another consideration is risk procedures, it would be quite difficult to outline what is in scope and out of scope when the breadth of the potential advice required is so vague. This may cause problems when trying to charge for out of scope work because the scope would have never been clear in the first place.

In terms of documenting the fees, these would have to be clearly outlined in a formal scope and engagement letter for the client to agree upon. This document/documents would then need to be signed by the client. As part of this document, given the client has outlined the billing timetable, it may

be useful to outline a new proposed billing arrangement, detailing when the invoices are expected to be raised and paid. This way, the client will be agreeing to the specific invoicing arrangements, and should hopefully not be in a position to complain in the future.

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

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

Answer-to-Question-_16_

Recipient - Jo

Subject - Responses to your tax queries

Hi Jo,

Thank you for your email.

I have reviewed the information you have provided and responded to your specific queries below.

1) Investors Relief

In terms of determining whether or not the sale of your shares in STN Plc would be eligible for Investor's relief, there are a number of additional bits of information that we would require. Please see below:

- The exact date the shares were originally purchased - Investors relief is available where the shares have been owned for at least 3 years before the date of disposal. Therefore, they would have needed to have been purchased by yourself prior to 31 January 2020. We would also need to know the date because Investor's relief is only available for shares that have been issued after 17 March 2016, so the shares would need to have been obtained after this date, no earlier.

- We would also need to understand what the original share subscription looked like. For the gain on the sale to qualify, the shares must have been new ordinary shares subscribed for cash, and the shares must have been unlisted when you originally bought them, the fact that STN is a Plc now does not matter, as long as they were unlisted at the date of purchase.

- We would also need confirmation that you are not employed

by STN plc as relief is not available to directors or employees of the company.

2) Calculation of gain

The claim must be made by the first anniversary of 31 January following the tax year in which the disposal was made as per the legislation, so therefore in order for the claim to be possible, it would need to be submitted by no later than 31 January 2025, given that the disposal falls into the 22/23 tax year.

I have drafted a calculation below to indicate the potential tax due on this disposal, however I must caveat that this has been prepared on the basis that investor's relief is available, which may not be the case when we delve into the details of the disposal.

proceeds	12,000,000
less: cost	(1,500,000)
chargeable gain	10,500,000
less: AEA	(0)
taxable gain	10,500,000

lifetime limit = 10m

deduct IR	(2.3m)
deduct BADR	(1.1m)

available relief = 6.6m

$6,600,000 @ 10\% = 660,000$ CGT due

$10,500,000 - 6,600,000 = 3,900,000$

$3,900,000 @ 20\% = 780,000$ CGT due

total CGT liability = 780k + 660k = 1,440,000

3) Selling shares in Circle Cross Ltd

Unfortunately, given the shareholding in Circle Cross Ltd that Motion World Ltd are disposing of were only 9% rather than at least 10%, Substantial Shareholding Exemption relief does not apply as the conditions have not been satisfied. It is my assumption that this is the 'no gain' relief that you thought might be available for this disposal. SSE is available for at least 10% shareholding disposals where the shares were held for a 12 month period no more than 6 years prior to the disposal. However given the rules are not satisfied, the gain can not be considered exempt for capital gains purposes.

Instead, Motion World Ltd will have to calculate a chargeable gain on the sale of the 9% shareholding in Circle Cross Ltd by deducting the cost from the proceeds. If the shares were originally purchased before December 2017, the cost of the shares may be eligible for indexation allowance. If the owner of Motion Ltd was also a director of Circle Cross Ltd, there is a potential that business asset disposal relief will be available on the disposal, where similar to investor's relief, the gain will be subject to CGT at 10%. However, we would need to obtain more information to understand this.