

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

November 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. Shaw Ltd purchased the following assets during the year ended 31 March 2023:

| | £ |
|--|---------|
| Manufacturing equipment | 550,000 |
| Car with CO ₂ emissions of 65g/km | 32,000 |
| Office equipment (purchased second hand) | 15,000 |

On 1 April 2022 the capital allowances pool balances were:

| | £ |
|-------------------|-----------|
| General pool | 1,654,123 |
| Special rate pool | 125,521 |

The company disposed of manufacturing equipment for £50,000 which originally cost £300,000 when acquired in February 2012.

Shaw Ltd is not in a group of companies.

Calculate the maximum capital allowances that can be claimed by Shaw Ltd in the year ended 31 March 2023. (4)

2. On 3 January 2023 Booth Ltd sold a saw for £7,600. Booth Ltd purchased the saw for £2,200 in February 1999. The saw had been used in Booth Ltd's trade, and capital allowances have been claimed on it. Booth Ltd has 30 April as its year end date.

Calculate the chargeable gain for Booth Ltd for the year ended 30 April 2023. (4)

3. Bones Ltd is a trading company preparing accounts to 31 December each year. In February 2023, Bones Ltd disposed of its freehold office building for £2,150,000, realising a large gain, which it had purchased in August 2016. Bones Ltd had purchased a replacement freehold office building in December 2022 for £1,900,000.

Explain what relief can be claimed for the gain on disposal of the building in February 2023, the effect of the relief and any relevant time limits. (4)

4. Brenan Ltd intends to issue shares to raise funds. The finance director, Temp, has contacted you to ask which type of shares the company can issue.

Explain to Temp the two types of share capital the company could issue to raise funds and the main differences between these types. (3)

5. Hydrangea Ltd has no associated companies. The profits for the year ended 30 April 2023 are as follows:

| | £ |
|---|----------------|
| Taxable Total Profits | 120,000 |
| Dividends received from unconnected companies | 30,000 |
| Augmented profits | <u>150,000</u> |

Calculate the Corporation Tax liability for Hydrangea Ltd for the year ended 30 April 2023. (4)

6. Ragwort Ltd is wholly owned by Rattle Ltd. Marigold Ltd will purchase Ragwort Ltd within the next few months. Ragwort Ltd had trading losses of £250,000 as at 31 December 2022. The trading losses will not be group relieved.

Explain the relief available to Ragwort Ltd for its trading losses in future years, and any possible restrictions. (3)

7. Bailey Ltd has a 100% subsidiary Scarlett Ltd, and both companies are UK resident. Bailey Ltd sells goods to Scarlett Ltd at £1.50 per unit. However, Bailey Ltd sells the same goods to its other customers for £2.00 per unit.

The Bailey Ltd group has 3,000 employees and a turnover in excess of £100 million.

Explain the implications of the sales of goods between Bailey Ltd and Scarlett Ltd. (3)

8. Egret Ltd acquired 100 acres of land in January 2018 for £2,115,000 and incurred expenditure of £255,000 to enhance the land in December 2019.

In January 2023 the company sold 45 acres for £1,215,000. At that date the remaining land was valued at £1,425,000. Egret Ltd incurred costs of sale of £13,750.

Calculate the chargeable gain arising on sale of the land. (3)

9. Farrow Ltd is a UK resident company and has UK profits of £650,000 for the year ended 31 March 2023. It also has overseas interest received of £125,000 after deduction of overseas tax of £34,500, and overseas property income of £100,000 after deduction of overseas tax of £5,000.

Explain how much of the overseas tax can be deducted from Farrow Ltd's UK Corporation Tax liability. (4)

10. Holmes Ltd, a stand-alone company, prepared statutory accounts for the year ended 30 April 2022. Holmes Ltd has a Corporation Tax liability of £225,000 for that period, which it paid on 2 November 2023. The Corporation Tax computation was submitted to HMRC on the same date.

Holmes Ltd has previously submitted Corporation Tax returns on time.

Explain the penalties payable by Holmes Ltd relating to the return for the year ended 30 April 2022. (3)

11. For the year ended 31 January 2023, Dandy Ltd had total taxable profits of £18,500,000 and received dividends of £2,500,000 from a 15% shareholding in a company. The profits and dividends are at a similar level to previous years.

Explain the due date(s) for Dandy Ltd to pay its Corporation Tax liability for the year ended 31 January 2023. (3)

12. Baker Ltd is a wholly-owned subsidiary of Larners Ltd. Baker Ltd prepares its accounts to 31 March 2023 and has a trading loss of £200,000 for that year. Larners Ltd has a trading profit of £150,000 for the year ended 31 December 2022. Larners Ltd has no other income or expenditure.

Calculate, with supporting explanations, the group relief that could be surrendered by Baker Ltd to Larners Ltd in its year ended 31 December 2022. (2)

PART II

Presentation skills – awarded for quality of presentation.

(2 marks)

13. Sebastian, the finance director of Marchmain Ltd has sent you this email:

“Hi – in the next accounting period we are going to spend a considerable amount on developing new technology for use in our manufacturing process. The costs are likely to be staff costs, consumables, and computer related costs. I am aware that there is tax relief available for this expenditure. Could you please give me details of what would be available to us?

I also need to understand when I need to account to HMRC for output VAT on various goods which we supply to our customers. It is crucial for our cash flow forecasting that we get this right. I don't know if it is important, but our customers often pay us a deposit because the goods that we supply to them are bespoke. We usually invoice customers shortly after the goods are delivered, but occasionally just before to customers who we know can be slow at paying.

Finally, as we are entering into a time of high capital expenditure, we will need to borrow quite a lot of money. Our bank has indicated that it will lend us the money, but it will require a charge to be put in place.

Thanks, Sebastian”

You are aware that Marchmain Ltd has 525 employees (of which 17 are apprentices), annual turnover of £95 million, a balance sheet total of £100 million and historically has had substantial taxable profits.

Requirements:

- 1) **Explain the tax relief available to Marchmain Ltd for expenditure on developing the new technology.** (7)
- 2) **Explain why it is necessary to know when goods are supplied, and what determines this date for VAT purposes.** (6)
- 3) **Identify two types of charge that could be put in place and explain the key differences between them.** (5)

Assume rules applying in FY2022 continue to apply in future years.

Total (18)

14. Ridgeview House Ltd is a UK based company which provides management consultancy services. It has a subsidiary company, RH Services Ltd, which provides outsourced payroll services. Ridgeview House Ltd owns the building it operates from, Office Block A. Several years ago, it purchased the adjoining building (Office Block B) which it rents out to an unconnected third party.

In addition, Ridgeview House Ltd has some small shareholdings in companies which it holds as investments.

Ridgeview House Ltd is a close company.

The results for Ridgeview House Ltd for the year to 31 August 2023 are as follows:

| | £ |
|---|---------|
| Profit from management consultancy trading business | 750,000 |
| Gross rental income from Office Block B | 35,000 |

Office Block B

Ridgeview House Ltd uses a property agent to manage the building. The agent charges a fee of 12.5% of the gross rental income.

Other expenses incurred in the year relating to Office Block B are as follows:

| | £ |
|------------------------|--------|
| Insurance | 500 |
| New roof (see below) | 20,000 |
| New room in roof space | 25,000 |

During the year part of the roof of Office Block B was damaged in a storm. The cost of repair would have been £1,200. Instead of carrying out the repairs the company decided to take the opportunity to improve the building by adding an additional room in the roof space and so replaced all of the roof.

Office Block B has previously generated losses and a loss of £40,000 was brought forward at 1 September 2022.

Management consultancy trade

The profit from management consultancy trading business of £750,000 does not include:

| | £ |
|---|-------|
| Write off of a loan made to RH Services Ltd | 4,800 |
| Impairment of a loan made to PMM Ltd (Ridgeview House Ltd owns 25% of the shares in PMM Ltd) | 2,000 |

In addition, the profit of the management consultancy trade of £750,000 is stated before interest payments, which are as follows:

| | £ |
|---|--------|
| Interest payable on a loan to buy capital equipment used in the trade | 12,500 |
| Interest incurred on overdue Corporation Tax | 1,750 |
| Interest payable on a loan to buy 7% shareholding in a competitor company | 16,000 |
| Interest payable to Jill Ridge (see note below) | 8,500 |

Note:

Jill Ridge is a director and 35% shareholder. Some years ago, she made a loan to Ridgeview House Ltd to fund the purchase of Office Block B. The interest shown above is the amount accrued in the year, which has or will be paid to Jill as follows:

| | £ |
|-------------------|-------|
| 31 July 2023 | 4,000 |
| 31 January 2024 | 3,000 |
| 30 September 2024 | 1,500 |

Continued

Share sale – September 2023

On 30 September 2023 Ridgeview House Ltd sold part of its shareholding in High Grange Ltd (a trading company). Prior to the sale Ridgeview had a 6% holding in the company which it had purchased as follows:

1 July 2014 – purchased 40,000 shares at £1.50 per share.

31 December 2017 – obtained shares from a rights issue of one new share for every five shares, at £4 per share.

23 September 2023 – purchased 8,000 for £8 per share.

The sale on 30 September was of 50,000 shares for £1,000,000.

Requirements:

- 1) Calculate the taxable total profit of Ridgeview House Ltd for the year ended 31 August 2023. Show your treatment of each item. Assume maximum relief is taken for any losses. (10)
- 2) Calculate the chargeable gain arising on the sale of the shares of High Grange Ltd in the year ending 31 August 2024. (7)

Total (17)

15. Your client, Clerk & Smith Ltd is a company which has six shareholders who own the shares in the following proportions:

| | <u>Ownership of ordinary shares (%)</u> | <u>Voting rights (%)</u> |
|----------------------------|---|--------------------------|
| CS Investments Ltd | 45 | 43 |
| Abdul Khan | 10 | 11 |
| JFM Ltd | 20 | 20 |
| Acacia Road Holdings Ltd | 3 | 4 |
| UK Overseas Management Inc | 17 | 16 |
| AMJ Ltd | <u>5</u> | <u>6</u> |
| | 100 | 100 |

UK Overseas Management Inc is a company incorporated and tax resident in Delaware, USA. All other shareholders are UK resident.

Each shareholders entitlement to profits for distribution and assets on a winding up is in line with their ownership of ordinary shares.

In the year to 30 September 2023 Clerk & Smith Ltd incurred a trading loss for tax purposes of £2,000,500.

The shareholder companies are generally profitable and in the year to 30 September 2023 their trading profits are as follows:

| | <u>Trading profits</u> |
|----------------------------|------------------------|
| CS Investments Ltd | £900,000 |
| JFM Ltd | £3,000,000 |
| Acacia Road Holdings Ltd | £675,000 |
| UK Overseas Management Inc | US\$70,000 |
| AMJ Ltd | £50,000 |

On 30 September 2023 the UK £:US\$ exchange rate was £1: \$1.24.

The companies have no other source of income.

Abdul Khan is a self-employed consultant. He had taxable profits of £200,000 from self-employment in the year ended 30 September 2023.

You are informed by Sue, a tax partner, that your firm has received a formal request for information from HMRC regarding certain aspects of the tax affairs of Clerk & Smith Ltd. Sue is going to have a meeting with the directors of Clerk & Smith Ltd to discuss this and in advance of this she needs to be certain what this request will mean for the firm and for the client. The notice does not legally preclude the firm from informing the client that it has been received, and Sue has confirmed that the notice is valid.

Requirements:

- 1) Explain why Clerk & Smith Ltd is a consortium company, giving reasons for each shareholder.** (4)
- 2) Calculate the maximum loss relief that Clerk & Smith Ltd can surrender to each consortium member and state the amount of the loss carried forward.** (4)
- 3) Explain whether the firm should tell Clerk & Smith Ltd about the formal request for information from HMRC and the action that the firm should take.** (5)

Total (13)

16. You are a tax manager at ATT & Co Tax Advisers. You have had the following queries from three unconnected clients:

- 1) Andi, who is the finance director of TVC Products Ltd, asks “Our production department wants to contract with Fred, an engineer who is assisting them with a project. They tell me that Fred is self-employed and that he will invoice us for the work. All the other engineers are on our payroll and I am keen to get this right. Can you help?”
- 2) Lucie is a consultant who in 2022/23 provided her services via her personal service company (Lucie Ltd) to a client, SMC Ltd. SMC Ltd is a small company under the off-payroll working rules. There are no other employees in Lucie Ltd. She says “I understand that the engagement with SMC Ltd will fall under the off-payroll working rules. In the year Lucie Ltd received fees of £61,000 from SMC Ltd; Lucie Ltd paid me a salary of £20,000; and there were no allowable expenses. I need to know what the employment income is. I think the National Insurance Contributions payable by Lucie Ltd will be very small because of the employment allowance that my friend told me about.”
- 3) Jon, the managing director of Hepworth & Moore Ltd informs you that “..... the company has a great opportunity to expand overseas. I am not sure exactly how we will structure the overseas business – that will probably depend on the tax implications. I really don’t understand how income arising overseas will be taxed in our UK company. I’m not an accountant! but if you could give me a simple explanation of that I would be grateful. I am expecting the overseas business to be profitable.”

Requirements:

- 1) **Explain the key factors indicated by case law to consider when determining if the relationship between TVC Products Ltd and Fred is one of self-employment. You do not need to state case names.** (3)
- 2) **Calculate the net deemed employment income for Lucie in the year 2022/23 and explain the availability of the NIC employment allowance.** (4)
- 3) **Briefly explain which income from the overseas business will be taxed in the UK assuming it is remitted to Hepworth & Moore Ltd in the UK.** (3)

Total (10)