CIOT - ATT

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 1**

Answer-to-Question-_1_

		FYA @ 130%	AIA @ 100%	GP	SRP	CA
TWDV b/f				1,654,123	125,521	
Add:	Manufacturing Equipment 550,000 x 130% = 715,000	715,000				715,000
		(715,000)				
	Car - >50g/km				32,000	
	Office Equipment (NOT NEW)		15,000			15,000
			(15,000)			
Less:	Manufacturing Equipment			(50,000)		
		Nil	Nil	1,604,123	157,521	
WDA @ 18%				288,742		288,742
WDA @ 6%					9,451	9,451
						1,028,

						193

Maximum capital allowance for year ended 31 Mar 2023 - £1,028,193

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

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

Answer-to-Question-_2_

True Gain

Proceeds		7,600	
Cost		(2,200)	
Non indexed gain		5,400	
Indexation Allowance	(5,400) x (278.1 - 163.7)/(278.1) 5,400 x 0.411	(2,219)	
Chargeable Gain		3,181	

5/3rd Rule

(7,600 - 6,000) x 5/3 = 2,667 - Lower of the 2

Chargeable gain for year ended 30 April 2023 - £2,667

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

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

Answer-to-Question-_3_

Rollover relief can be claimed on the gain on the disposal of the original office builidng, as the proceeds are being reinvetsed in a qualifying asset (land and building).

Bones Ltd purchased the new building within the time limit for reinvestment - 1y prior to sale and 3y after sale.

Not all proceeds have been reinvested so no all the gain on disposal will be able to be rolled over and deferred. There will be a chargeable gain arising in year ended 31 Dec 2023.

Bones Ltd musr claim rollover relief within 4 years of end on accounting period of disposal of orignal asset - 31 Dec 2027.

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

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

Answer-to-Question-_4_

TBrenan Ltd could issue 2 types of share capital, ordinary share capital and preference shares.

Oridinary Share Capital - This will give the owner of these shares voting power within the company, equivelent to the percentage of oridnary shre capital they hold.

Preference Shares - This does not give voting power to the owner of there shares. However, it gives the owner a guarentee of receipt of divdiends. The divdiends can be paid on a dedicated date, or if no divdieds have been declared, these will cummulate to what would have been paid, until the next dividend is declared, and the total cummulitive dividend is paid to the owner of the preference shares.

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

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

Answer-to-Question-_5_

Augmented profits - 150,000

Acc Period - 1/5/22 - 30/4/23

1/5/22 - 31/3/23 = normal rate @ 19% = 11 months
150,000 x 11/12
= 137,500

137,500 x 19%
= 26,125

1/4/23 - 30/4/23 = Marinal Rate = 1m
Lower Limit = 50,000 x 1/12 = 4,167
Upper Limit = 250,000 x 1/12 = 20,833
Apportioned Augmented Profits = 150,000 x 1/12 = 12,500
Augmented profits fall between Lower and Upper limit
3/200 x (250,000 - 150,000) x (120,000/150,000) x 1/12 * used actual limit due to rounding
= 1,200

Total corporation tax payable = 26,125 + 1,200 = 27,325

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

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

Answer-to-Question-_6_

Relief for trading losses

Carry Forward Trade Losses

Any amounts after current year and carry back losses can be carried forward

Ragwort Ltd can offset c/f losses aginst total profits and they can specify the amount they want to claim

Relief is restircted to a maximum of

Unrelieved carry forward losses

Deductions allowance (£5m) + 50% of (unrelieved profits - Deductions allowance)

Deductions allowance is time apportioned for accounting period less than 12 months

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

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

Answer-to-Question-_7_

Transfer pricing rules apply as Bailey Ltd is a large company and sales of goods between connected parties are occuring at a non-arms length value.

A below market value price is being charged by Bailey Ltd to Scarlett Ltd. Bailey Ltd corporation tax charge will be less (as lower turnover), and Scarlett Ltd corporation tax charge will be higher (as lower purchase costs)

Adjustments must be made to both corporation tax computation as they are UK resident companies. Both must make amendedments to reflect an arms length transaction value for the sales of goods between the 2 companies.

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

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

Answer-to-Question-_8_

Part disposal

No indexation allowance as post Dec 17

Proceeds 45 Acres			1,215,000	
Costs	Costs on Sale		(13,750)	
	Acquisition Costs	2,155,000 x (1,215,000 / 1,215,000 + 1,425,000)	(991,790)	
	Enhasncement Costs	255,000 x (1,215,000 / 1,215,000 + 1,425,000)	(117,358)	
Chargeable Gain			92,102	

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

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

Answer-to-Question-_9_

		Total	UK	O/S 1	O/S 2	
Profit		650,000	650,000			
O/S Interest	125,000 + 34,500	159,500		159,500		
O/S Rental	100,000 + 5,000	105,000			105,000	
		914,500	650,000	159,500	105,000	
@ 19%				30,305	19,950	
Foreign Tax Suffered				34,500	5,000	
Restricted to UK tax chargeable						
Overseas tax credit				30,305	19,950	

Total overseas tax credit avalible is 30,305 + 19,950 = 50,255

As overseas tax suffered cannot exceed the UK tax due on the overseas income

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

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

Answer-to-Question-_10_

YE - 30/4/22
CT due - £225,000
Paid - 2/11/23
Filed - 2/11/23

Late payment penalties
Payment shoul have been made 9m and 1 day after end of account period
Payment due date - 1 Feb 2023
9m late
No penalties as not instalments

Late filing of return
Filing due date - 12 after end of period of account - 30/4/23
6m late
More than 3m late so flat rate penalty of £200

Total penalties is £200

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

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

Answer-to-Question-_11_

Augmented profits = 18.5m + 2.5m = 21m - very large company

Acc Period - 1/2/22 - 31/1/23

1st instalment
14th day OF 3rd month from start of accounting period
14 April 2022

2nd Instalment
3 motnhs after previous
14 July 2022

3rd Instalment
3 months after previous
14 October 2022

4th Instalmemt (Final)
14th Day of final month of AP
14 January 2023

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

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

Answer-to-Question-_12_

Accounting periods do no align
Common Periods - 1/4/22 - 31/12/22 - 9 months

Trading Profit (apportioned)	150,000 x 9/12		112,500	
Group Loss Relief	Restriced to Avalible Profits (112,500) or Avaliabe Loss (200,00)		(112,500)	

Baker Ltd can surrender £112,500 of trading losses to Larners Ltd. Larners Ltds tarding profits need to be time apprortined for common periods as accounting periods do not align. Relief if restriced to lower of avaliable losses or avaliable profits. After apportoning, lower is avalible profits.

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

CIOT - ATT

Paper: **ATT Paper 4 Corporate Taxation**

Part/Module: **Part 2**

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

Answer-to-Question-_13_

To: Sebastian
Subject: Tax advice

Hello Sebastian,

Thank you for your email, please find below advice relating to your queries.

Marchmain Ltd is a large comoany for research & develpoment (R&D) purposes. Because of this, RDEC can be claimed for relief on any qualifying R&D expenditure. Qualifying R&D expenditure would be the following:

- Revenue expenses relating to the R&D
    - This can be staff costs (Salary & NIC), Consumables, Subcontracted R&D work

All of the expenses you state would be elegible if they are to do with R&D. However, if the computer costs are capital, dependant if it is a new capital item, it could be beneficial to claim first year allowance at 130%.

RDEC is calculated at 13% of all qualifying R&D expenditure. This is treated as a taxable reciept, so turnover increased. Corporation tax is calculated based on this and RDEC of same amount (13%) is deducted from the corporation tax calculated. If there is insufficent corporation tax liability to deducted RDEC from, you will receive a cash payment of the lower:

RDEC remaining
RDEC - (RDEC x 19%)
PAYE & Class 1 NIC relating to R&D staff

Marchmain Ltd must calim this in there corporation tax return (or amendment) within 2 years from end of relevant accounting period.

The time the goods are supplied provides the basic tax point - often when goods are delivered, made avaliable or collected. This basic tax point can be overriden if there is a reciept of payment prior to basic tax point or the tax invoice is issued before basic tax point date - the earlier becomes the actual tax point.

If the basic tax point has not been overriden by the above, but an invoice has been issued in the 14 days after the basic tax point - the invoice date becomes the basic tax point.

It is possible to have more than one tax point for the same supply if a deposit has been paid.

Different charges can be issued from banks in relation to your possible bank loans. One charge could be arrangement fees, these would be a fixed cost which would be an allowable expenses as this relating to capital used in Marchmains Ltds trade. This would be deducted from trading profit when calculating Marchmains TTP.

Another charge would be interest on the loan. The interest would not be an allowable deduction through trading profit. But would be included as a non trade loan relationship debit. This would reduce (or create a loss) for non trade loan relationships.

As both of these options could create a loss, the possible use of these losses would need to be considered.

I hope this advice helps.

Kind regards,

Tax Adviser

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

--------------ANSWER-14-BELOW---------------
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1)

Answer-to-Question-_14_

YE 31/8/23

Sub - RH Services

			NTLR	TP	UK Prop
Trading Profit				750,000	
UK Property Income					35,000
UK Property	Agent Fees 35,000 x 12.5%				(4,375)
	Insurance				(500)
	Cost of Roof - Replacement not allowable (Capital)				(1,200)
	New Room - Not allowable (Capital				Nil

	)				
Trading Profit	Impairment of Loan - unconnected co			(2,000)	
	Loan Write off - RH services - No expense for creditor company (connected)			Nil	
	Loan - cap equip			(12,500)	
	Loan - Jill - Only 31 July 2023			(4,000)	
NTLR	Corp Tax		(1,750)		
	Loan to buy comp		(16,000)		
Trade Profit		731,500			
NTLR		NIL			
UK Property		28,925			
b/f UK property losses		(28,925)			
Current year		(17,750)			

NTLR deficit					
TTP		713,750			

b/f UK property Losses		40,000	
Losses Utilied in YE 31/8/23		(28,925)	
c/f		11,075	

CY NTLR deficit		17,750	
Losses utilised in current year		(17,750)	
c/f		Nil	

2)

No SSE avalablie - No shareholding over 10%

Deemed to have sold shares puchased 23 Sep 2023 first - prior 9 days

Proceeds	1,000,000 x 8,000/50,000 = 160,000		160,000
Cost	8,000 x 8 =64,000		(64,000)
Gain			96,000
Shares sold	50,000		
Shares used now	(8,000)		
Shares remaining	42,000		

		Number	Cost	Indexation
Jul 14	Purchase 40,000 x 1.5 =60,000	40,000	60,000	
Dec 17	Bonus Issue 40,000 x 1/5 = 8,000 8,000 x 4 = 32,000	8,000	32,000	

			92,000	
Indexation	92,000 x (278.1 - 256.3)/278.1 =			7,212
		48,000	92,000	7,212
Proceeds	1,000,000 x 42,000 /50,000 = 840,000			840,000
Cost	92,000 x 42,000 /48,000			(80,500)
Indexed Cost	7,212 x 42,000 /48,000			(6,311)
Gain				753,189

Total Gain = 753,189 + 96,000 = 849,189

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

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

Answer-to-Question-_15_

1)
Clerk & smith Ltd is a Consortium company as it is not a 75% subsiuary of another company and at least 75% of its shares are owned by companies, where those companies own at least 5% of the shares.

CS Investments Ltd - Consortium member - owns >5% of shares
Abdul Khan - Not member - Not a company
JFM Ltd - Consortium member - owns >5% of shares
Acacia Road Holdings Ltd - Not member - <5% shares
UK Overseas Management Inc - Not member - Overseas
AMJ Ltd - Consortium member - at least 5% shares

2)
Avalible consortium relief
Loss x members interest (lower of OSC, profit distribution, asset distribution or voting power)

CS Investments Ltd
2,000,500 x (45/43%) 43% = 860,215 maximum relief

JFM Ltd
2,000,500 x (10/11%) 10% = 200,050 maximum relief

AMJ Ltd
2,00,500 x (5/6%) 5% = 100,025 maximum relief

Clerk & Smith Ltd CY loss		2,005,000	
Consurtium Relief - CS I Ltd		(860,215)	

Consortium Relief - JFM Ltd		(200,050)	
Consortium Relief - AMJ Ltd		(100,025)	
c/f losses		840,210	

3)
The firm should inform Clerk & Smith Ltd of the notice from HMRC.

The firm should check the engagement letter to check if this additional servive is included - if not, produce new engagement letter for dealing with HMRC on this matter.

If Clerk & Smith Ltd give permission to act on this matter with HMRC, the firm should gather the documents needed for the notice and provide this to HMRC in the time provided.

The first should ensure they are keeping confidenitaly when gathering documents to provide to HMRC

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

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

Answer-to-Question-_16_

1)

Control

If Fred does not have a mananger or a boss, to advise him on how to do the job or discapline him, then it may be classed as self employed

Mutuality of obligation

If Fred is given work by TVC Products Ltd and there is no obligation to do the work - Fred could not carry out the project

Or, if TVC Prdocuts are not obliged to pay Fred, which they may not be as Fred raises the invoices, this could be deemed self employed

Personal Service

If Fred could hand the work onto someone else to do, as long as the work is done, this would seem like his is not an employee

2)

Income from relevant engagement			61,000
5% deduction	61,000 x 5%		(3,050)
Salary Paid			(20,000)
NIC paid on salary	(20,000 - 9,100) x 15.05%		(1,640)
Gross Deemed Salary			36,310
Employer NIC on gross	36,310 x 15.05/115.05		(4,750)

payment			
Deemed Employment			31,560

The employment allowance is not avaliable as Lucie is the sole employee and sole director of Lucie Ltd.

3)

If a permenant establishment is set up overseas, whislt within Hepworth & Moore Ltd, any trading income, loan relationships and gains will be taxable to UK corporation tax. any income from this permenant establishment will be able to claim UK capital allowances, and if losses occur, they can be used against the UK premises trading income, NTLRs, UK property income and gains.

If a subsidary is set up and is resident overseas, any trading income, NTLRs and gains will be taxable overseas. No losses will be able to be surrenders to the parent company as this is only for UK resident companys.