

Institution **CIOT - ATT**  
Course **ATT Paper 4 Corporate Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>34</b>	<b>182</b>	<b>279</b>
Section 2	<b>118</b>	<b>516</b>	<b>633</b>
Section 3	<b>28</b>	<b>141</b>	<b>165</b>
Section 4	<b>201</b>	<b>831</b>	<b>1032</b>
Section 5	<b>136</b>	<b>565</b>	<b>698</b>
Section 6	<b>54</b>	<b>256</b>	<b>322</b>
Section 7	<b>77</b>	<b>404</b>	<b>480</b>
Section 8	<b>45</b>	<b>180</b>	<b>223</b>
Section 9	<b>175</b>	<b>825</b>	<b>997</b>
Section 10	<b>189</b>	<b>770</b>	<b>959</b>
Section 11	<b>171</b>	<b>826</b>	<b>997</b>
Section 12	<b>123</b>	<b>565</b>	<b>688</b>

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Answer-to-Question-1

	FYA	AIA	General	Special	Total
TWDV			10,525,500	95,000	
Air con		225,000			
P&M	175,000	775,000			
Car			55,000		55,000
WDA 100%	175,000	1,000,000			1,175,000
WDA 18%			1,904,490		1,904,490
WDA 6%				5,700	5,700
Total CA claim					3,085,190

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question-   2  

If Vera was employed by Stanhope and received a Salary then she would be subject to Class 1 primary NICs (12% on earnings 12,570 - 50,270 and 2% on earnings in excess of that). The company would be liable to pay class 1 secondary NICs (13.8% above earnings over £9,100) and Class 1A Nics (13.8%) on any benefits provided. The salary and NICs are deductible for CT purposes. If she is the sole director and employee then will not get the employment allowance.

If a sole trader then treated as self employed and subject to Class 2 (£3.45 per week) and Class 4 NICs (9% on earnings 12,570 - 50,270 and 2% on earnings in excess of that).

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----

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Answer-to-Question- 3

Debit bank - 200,000

Credit grant account (deferred income) - 200,000

Debit grant account (deferred income) - 6,000 (200,000 x 3%)

Credit grant income (P&L a/c) - 6,000

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

Tax returns are due 12 months from end of the AP. The return was due on 31 March 2024. The return is therefore filed more than 6 months late. Benjo will receive an immediate penalty of £100. This increases to £200 (an extra £100) as the return is more than 3 months late. These penalties are increased to £500 and £1,000 respectively for a third consecutive offence. As this is the second offence then these increased penalties will not apply. As the return is filed more than 18 months after the end of the AP (it is more than 6 months late) there is an additional penalty of 10% of the tax unpaid which is 10% x £25,000. As it is not more than 2 years from the end of the AP then the 20% does not apply.

The CT is also paid late, but no penalties arise for a late payment of CT, only interest will be incurred.

The penalties can be appealed and will not be charged if the company has a reasonable excuse for late filing. This is decided on a case by case basis. It does not appear that the error will amount to a reasonable excuse.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----

Answer-to-Question- 5

Kevin qualifies for BADR as:

- he holds at least 5% of the share capital in Street Ltd and holds voting rights and is entitled to 100% of the profits on distribution
- it is his personal company which he is a director of
- Street Ltd is a trading company
- Kevin has held the shares for at least two years (and assume the above conditions have been met for at least 2 years).
- Relief is available on the first £1m by taxing gains at 10%. The remaining amount will be subject CGT at the normal rate depending on what taxpayer Kevin is. Kevin can use his AEA on the remaining 200,000. He will need to make the claim by first anniversary of 31 January following tax year of disposal (i.e. 31 Jan 2025).

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

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

Answer-to-Question- 6

Date	Shares	Cost	Total
1 Jan 2018	15,000	22,000	22,000
6 June 2018	7,500		
21 Nov 2022	12,000	14,000	36,000

S104 pool totals 34,500 shares

$$10,000/34,500 \times 36,000 = 10,435$$

16,000 - 10,435 = 5,565 gain chargeable for CT.

No indexation as acquired after Dec 2017.

SSE may apply depending on amount of shareholding.

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

-----ANSWER-7-BELOW-----  
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Answer-to-Question- 7

As Perez is an investment company then its TTP is calculated by adding the income and gains and deducting management expenses. The insurance for the head office, audit and accountancy fees and salaries are management expenses.

The expenses for the rental properties (the repairs and the insurance for rental properties) are related to the letting out and are treated as UK property income.

Management expenses are deducted from income and gains before QCDs and before loss claims.

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-----ANSWER-7-ABOVE-----  
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-----ANSWER-8-BELOW-----  
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Answer-to-Question- 8

$450,000 \times 3/9 = 150,000$ . AP is from 1 May 2023 to 31 January 2024 As a large company the due dates for the AP will be:

14 November 2023 payment of £150,000

14 February 2024 payment of £150,000

14 May 2024 payment of £150,000

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-----ANSWER-8-ABOVE-----  
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-----ANSWER-9-BELOW-----  
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Answer-to-Question- 9

Consortium relief is available as at least 75% of the shares in Herring Ltd are owned by companies (18%+ 22% + 31% + 8% + 6% = 85%).

Gibson Ltd can establish the consortium but it will not be able to share in Herring Ltds losses as it is non UK resident and not within the charge to UK CT.

The other company members own at least 5% of the shares and can therefore claim relief. Losses of the consortium company (Herring) can be surrendered to the other members in accordance with their interest.

Herring must first relieve the trading loss against its own profits (by making a current year claim) before it can give consortium relief. The loss available is therefore £200,000. The maximum consortium relief it can surrender to each member (other than Gibson) is the lower of:

- Herrings loss of £200,000 multiplied by the consortium members interest in the company
- the consortium members available taxable profit

Relief can also be claimed for any brought forward losses of the consortium company.

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-----ANSWER-9-ABOVE-----  
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-----ANSWER-10-BELOW-----

Answer-to-Question- 10\_

Date	Item	Gross	Net (20% withholding)
31 March 23	Patent to indivudal	4,000	3,200
2 May 23	Patent from individual	3,000	Companies not liable to pay Income tax
21 June 23	Interest paid	4,000	3,200
31 Jan 24	Interest paid	6,000	No withholding as company not liable to income tax and UK resident

The CT61 return is submitted in line with the company's accounting period. As the AP is 29 February then there will be five return periods. The following return periods apply:

- 1 March to 31 March
- 1 April to 30 June
- 1 July to 30 September
- 1 October to 31 December
- 1 Jan to 29 February

The payment made on 31 March 2023 is included in the return for that period ending 31 March 23, and the 800 income tax deducted is due 14 days from the end of 31 March 2023 (by 14 April 2023).

The interest paid on 21 June 2023 is due in the follow return period for the period ending 30 June 2023. The 800 deducted is due 14 days from the end of 30 June 2023 (14 July 2023).

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

-----ANSWER-11-BELOW-----  
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Answer-to-Question- 11

Shadow Ltd is a SME as it has less than 500 employees, annual turnover does not exceed 100m euros, and annual balance sheet does not exceed 86m euros.

As an SME then the company can claim relief of additional 86% (186% in total) on the qualifying R&D expenditure. Qualifying R&D expenditure includes expenses on staff costs, consumables, and computer software. Computer hardware is capital expenditure and therefore usual capital allowances can be claimed i.e. first year allowances or the annual investment allowance can be claimed on the costs depending on the remaining allowances.

If the company suffers a loss then it can surrender all or part of that loss for a tax credit (a cash payment). The surrenderable loss is the lower of the (i) unrelieved trading loss, and (ii) 186% of the qualifying R&D expenditure. Once this loss is surrendered the credit will be the lower of (i) 10% of the surrenderable loss, and (ii) the PAYE cap on all employees (20,000 + 3x PAYE & NICs on all workers).

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-----ANSWER-11-ABOVE-----  
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-----ANSWER-12-BELOW-----  
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Answer-to-Question- 12

As a large company then Rushy is responsible for determining if the off payroll working rules apply. As George would be treated as an employee (by providing services solely to Rushy) the rules therefore apply. Rushy could do a CEST to determine if the rules apply.

Rushy will need to calculate a deemed direct payment to George which will be subject to PAYE and employer NICs. The amount of deemed payment is the amount paid to Biddle Ltd less any direct costs of materials, expenses that would be allowable for an employer and excluding VAT. Rushy must deduct the PAYE and class 1 secondary NICs and provide George with a form P60. The net amount received by George is not taxable for him.

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-----ANSWER-12-ABOVE-----  
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Section 13	<b>489</b>	<b>2457</b>	<b>2973</b>
Section 14	<b>324</b>	<b>1402</b>	<b>1703</b>
Section 15	<b>455</b>	<b>2259</b>	<b>2707</b>
Section 16	<b>145</b>	<b>674</b>	<b>822</b>

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-----ANSWER-13-BELOW-----  
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Answer-to-Question- \_13\_

Accounting period 1 April 2023 - 31 March 2024

	Alltrees		Brownmere
Trading profit	370,000		4,654,000
LR	25,000		
Total profits	395,000		4,654,000
Trading losses B/F	(395,000)		(4,654,000)
TTP	Nil		Nil
CT	Nil		Nil

Alltrees brought forward trading losses must be used against own profits first before surrendering. To the extent that Allmere cannot utilise the brought forward losses in the accounting periods from 31 March 2019, they can be surrendered. The maximum amount that can be surrendered is the lower of:

- excess relieved brought forward losses ( $12,500,000 - 395,000 = 12,105,000$ ) and
- the available taxable profits of Brownmere (4,654,000)

Brought forward losses are subject to deductions allowances, as Allmere has the full deductions allowance available. The maximum amount that can be relieved is:

- unrelieved loss brought forward of 12,105,000, and
- $5m + 50\% (12,105,000 - 5,000,000) = 8,552,500$

Allmere is the 100% owner of Brownmere and is not a ultimate parent of another group (as it is wholly owned by an individual). And therefore forms a group relief group/deductions allowance group with Brownmere.

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As Allmere TTP is 4,654,000 then the full amount can be deducted leaving both companies with nil taxable profits. Dividend is not part of TTP for Brownmere but would form part of its augmented profits.

$12,105,000 - 4,654,000 = 7,451,000$  is remaining to carry forward against future accounting periods which will be subject to the deductions allowance and must be used against trading profit of Alltrees first.

The amount of deductions allowance must be specified in the corporation tax return otherwise use of losses brought forward will be restricted to 50% of the unrelieved profits.

As Alltrees is the 100% owner of Brownmere Ltd then they are part of a group. As they have nil TTP then there is no corporation tax to pay. Deanridge Ltd is not part of the group for group relief purposes but is treated as an associated company as Alltree and Deanridge are under common control of the same person (Joe) as he owns more than 50% shareholding in each company.

The corporation tax profit limits are therefore divided by the number of associated companies (being 3). This will reduce the thresholds for CT purposes and will also affect the thresholds for the time periods which the corporation tax payments must be made.

The payment of the agency would constitute tax evasion and is illegal. As the proceeds derives from tax evasion then it is therefore potentially money laundering and should be reported to their MLRO. As Alltrees are aware of the activity then they have a responsibility to report as they have knowledge/suspicion of the activity otherwise they will also be criminally liable. The client should decide whether to make a report to NCA. The client will have a defense if it is instructed by NCA/MLRO to carry on. Clients defense would be it was unaware of the arrangement and is not connected to Greenmoss Ltd.

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-----ANSWER-13-ABOVE-----  
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-----ANSWER-14-BELOW-----  
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Answer-to-Question- 14\_

	Proceeds	Cost	Gain
Property	475,000	210,000	265,000
Goodwill	440,000		440,000
Computers	5000		
Cash	30,000		
	950,000		705,000

Alternative 1 - if all the assets in the company go across to the ltd company then incorporation relief can apply as the consideration is wholly or partly consisting of shares and the transfer is a going concern.

Gain 705,000 less relief  $(800,000/950,000 \times 705,000 = 593,684)$  = 111,316 tax to pay.  
Can also use AEA of £6k to reduce the gain.

the shares will be reduced by the relief i.e.  $950,000$  base cost of shares -  $593,684$  =  $356,316$ .

Alternative 2 - if not transferring all of the business then can instead use gift relief to defer the gain as well as the AEA. The claim will reduce the base cost of the asset rather than the shares. If he decides to keep the building then the gain on the goodwill will be deferred and reduce the base cost of the asset to nil. The premises gain can qualify for BADR at 10%.

The transfer of a business is a supply for VAT purposes. If it qualifies as a TOGC then it is outside the scope of VAT and no VAT is chargeable:

- the business is a going concern
- the company is or will immediately become VAT registered
- there is no significant break in trading
- the same bsuienss is carried on.

If Randolph takes over the dormant company then this could be a break in trading or not be a going concern. Therefore a new company should be formed instead. If the building is opted to tax then in order for TOGC to apply then company will also need to opt to tax the building.

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If TOGC conditions are not met then Randolph will have to charge output tax on the assets transferred.1

Randolph can keep his same VAT number if he wishes but he will need to deregister for VAT.

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-----ANSWER-14-ABOVE-----  
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-----ANSWER-15-BELOW-----  
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Answer-to-Question- \_15\_

To: Julie  
From: Tax Adviser  
Date: Today  
Subject: XYZ Internal Ltd

Hi Julie

You are correct to question this transaction. There are rules for large company regarding transfer pricing adjustments.

Transfer pricing rules

Large companies that are connected companies (where they form part of a group as here) are subject to transfer pricing rules where a transaction has not taken place on arms length terms which has secured a tax advantage for a party.

Arms length means the price a third party would pay in similar terms.

The transfer pricing rules apply to the sale of goods between the group. Dormant and SME companies are exempt from these rules.

By artificially adjusting the price then a lower price could be charged to an overseas company to realise profits where the tax rate is lower. This creates a tax advantage and therefore a transfer pricing adjustment must be made to the UK company's CT computations if the advantage has been achieved there.

A corresponding adjustment may be made if the overseas company's jurisdiction permits it.

To identify whether the rules apply then we need to determine the following:

- are the UK companies obtaining a tax advantage e.g. are they accounting for a smaller amount in profits or a larger amount of losses?
- is the company a large company for transfer pricing rules? i.e. does it have more than 500 employees and either annual turnover of 100m euros or balance sheet total of more than 86m euros.

If the above applies, they are subject to transfer pricing rules and an adjustment must be made to the UK companies CT computation. Unless the company can demonstrate

with appropriate records that the pricing was set on an arms length basis.

Tax planning arrangement

The firm will not be able to provide the advice they have requested as thos breaches the following principles:

1. client specific - we cannot give off the shelf schemes and the planning should be specific to their circumstances;
2. lawful - the arrangement asks about paying as little tax as legally possible. Whilst tax efficiency is not illegal,the client should be aware of likely risks and costs if HMRC where ever to challenge the scheme.
3. Advising on tax planning arrangements - we should not encourage tax planning that uses a loophole or is contrary to parliaments intention of the legislation, or which uses structures to exploit loopholes in the law.
4. Disclosure and transparency - tax advice must not be relied on for effectiveness of HMRC having less than the relevant facts. Disclosre must represent all relevant facts.
5. Professional judgement and documentation - should use professional judgement and ensure we document our decisions for the scheme

Kind regards  
Tax Adviser

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-----ANSWER-15-ABOVE-----  
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-----ANSWER-16-BELOW-----

Answer-to-Question- 16\_

Trading profit (w1)	775,000		
NTLR (w2)	(21,000)		
Overseas property 1 (112,000 x 100/80)	140,000		
Overseas property 2 (55,000 x 100/60)	91,667		
TTP	985,667		
CT x 25%	246,417		
Less DTR: Lower of 28,000 or 140,000 x 25%	(28,000)		
Less DTR: Lower of 36,667 or 91,667 x 25%	(22,917)		
CT payable	195,500		

W1:

Trading profit 1,100,000 - 250,000 = 850,000. As this is a close company making a loan to a connected close company then there is no tax relief for the loan write off.

Interest on bank overdraft is trading expense 850,000 - 75,000

w2:

Interest payable on loan - (16,000)

interest receive from employee - 1,000

interest paid on overdue VAT - (2,000)

Late interest paid to participator only deductible on amount paid within 12 months on the end of the AP. - (4,000)

The remaining 1,000 can be deducted AP ending 31 March 2026.