THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

May 2025

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 of the answers.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Scoulton Ltd is a trading company with a wholly owned subsidiary – Bedlars Ltd. Scoulton Ltd also owns 10% of White Ltd.

Scoulton Ltd and Bedlars Ltd make up their accounts to 31 March. In the year ended 31 March 2025, Scoulton Ltd had an accounting profit of £4,200,000.

The following items have been included in arriving at the accounting profit for Scoulton Ltd, and no adjustment made for tax purposes:

Income	£
Bank interest receivable on deposit account	12,600
Dividends received from White Ltd	5,000
Dividends received from Bedlars Ltd	7,500
Expenditure	
Depreciation	725,000
Entertaining (of which staff entertaining totalled £1,000)	6,500
Loss on disposal of computer equipment	1,000
Interest on late payment of Corporation Tax	850
Qualifying charitable donation	500

Scoulton Ltd purchased the following assets during the year ended 31 March 2025:

	£
New air conditioning system	450,000
New computer equipment	55,000

At 1 April 2024 the pool balances were:

	£
General pool	6,125,500
Special rate pool	125,900

Scoulton Ltd disposed of some old computer equipment for £1,000 during the year. The computer equipment originally cost £42,000. It has been agreed that Bedlars Ltd will receive £750,000 of the Annual Investment Allowance, and the remainder is available to Scoutlon Ltd.

Scoulton Ltd sold an office building on 31 January 2025 for £2,500,000. The office building had originally been purchased in February 2015 for £1,325,000. Scoulton Ltd purchased a replacement office building in December 2024 for £2,425,000. This replacement office building was originally built in August 2001.

Scoulton Ltd's augmented profits for the year ended 31 March 2024 were £650,000.

Requirements:

1) Calculate the maximum capital allowances that can be claimed by Scoulton Ltd in the year ended 31 March 2025. (5)

2) Calculate the chargeable gain on the disposal of the office building. State the base cost of the replacement office building assuming any beneficial claim is made. (4)

3) Calculate the taxable total profit for the year ended 31 March 2025 for Scoulton Ltd. (7)

4) Calculate the Corporation Tax payable by Scoulton Ltd for the year ended 31 March 2025 and explain the date(s) by which the Corporation Tax is due. (4)

Total (20)

2. You work for Tudor LLP and Plantagenet Ltd is one of your firm's clients. On 1 May 2023, Elsie set up Plantagenet Ltd. Plantagenet Ltd opened a bank account on 1 July 2023 and the company began earning interest from this date. The company started to trade on 1 February 2024, with the first set of accounts being for the period to 31 December 2024. Plantagenet Ltd received a notice to file a tax return(s) on 3 March 2025.

Elsie registered Plantagenet Ltd for VAT from 1 July 2023 as the company's turnover was expected to be in excess of £100,000 for the next quarter. The company has always submitted its tax returns on time and paid it VAT on time. Plantagenet Ltd's supplies are all standard rated. Plantagenet Ltd's sales are invoiced on 30-day credit terms. and the company occasionally has customers who do not pay. Most of their suppliers ask for payment on delivery. Elsie is considering registering the company for the cash accounting scheme.

Since Plantagenet Ltd started trading, its 15 employees have only been paid a salary; however Elsie is considering providing some employees with benefits such as private medical insurance, a company car, and with any fuel for business purposes being reimbursed via an expenses claim at HMRC approved rates. Elsie is unsure what the National Insurance implications are of this.

Elsie has asked if Tudor LLP can advise her brother's company Porter Ltd regarding some taxation queries. She mentioned that it is quite a small task and speed is of the essence.

Plantagenet Ltd has recently signed a contract with Pyle Ltd for some consultancy work. This work will be completed by the sole shareholder and director of Pyle Ltd, Joanna. Joanna will only perform work for Plantagenet Ltd during the length of the contract and will need to be at Plantagenet Ltd's offices every day.

Requirements:

1) **Explain the first two chargeable accounting periods for Plantagenet Ltd and when the Corporation Tax return(s) need to be submitted.** (6)

2) **Explain whether Plantagenet Ltd is eligible to join the VAT cash accounting scheme, how it works and whether it would be beneficial for the company to join.** (5)

3) **Explain the National Insurance Implications for Plantagenet Ltd of the company providing its employees with private medical insurance, a company car and reimbursement of fuel, including when the National Insurance Contributions should be paid.** (3)

4) **Explain why a written engagement letter is recommended for the advice to Porter Ltd.** (3)

5) **Explain whether the contract between Pyle Ltd and Plantagenet Ltd will be caught by the off payroll working rules.** (3)

Total (20)

3. Zenon Industries Ltd is a longstanding client of your firm. It manufactures equipment used in the catering industry and has several warehouses and factories from which it operates. Zenon Industries Ltd also owns shares in other companies but these are small investments – all under 5% of the share capital of those companies. Zenon Industries Ltd has a 31 March year end.

In the year to 31 March 2025, Zenon Industries had the following, tax-adjusted results:

	£
Taxable Trading profits	8,900,000
Chargeable Gain (sale of a property used in the trade)	2,850,000

It has brought forward losses (all of which arose in the year ended 31 March 2021):

	£
Trading loss	12,000,000
Capital losses	3,600,000

Continued

Continuation

To keep fees down, Marie, the finance director of Zenon Industries Ltd calculates the taxable profits/chargeable gain. Your firm then calculates the offset of losses and the tax due, prepares the return and submits it to HMRC, acting as agent.

Regarding the 31 March 2025 year end, Marie informs you that:

a) Due to the way that the directors' bonuses are calculated, the maximum possible relief is to be taken against trading profits when calculating the tax due, and;

b) When calculating taxable trading profits for the year to 31 March 2025, she has included a deduction of £300,000. The advice regarding the tax treatment of this amount came from what she describes as a "specialist tax advice firm" who informed her that she needed their specialist advice in relation to a tax planning arrangement as the tax treatment was open to interpretation. The return which your firm will submit will reflect this deduction.

Marie also informs you that in the following accounting period, i.e. to 31 March 2026, Zenon Industries Ltd has sold part of its holding in StonyGreen Ltd. Prior to the sale Zenon Industries Ltd had a 2% shareholding in StonyGreen Ltd. The sale took place on 22 April 2025, when 75,000 shares were sold for £1,875,000.

The shares were acquired as follows:

1 September 2019	Purchase of 100,000 shares for £2 per share.
30 September 2021	Zenon Industries Ltd took up a rights issue in full – 1 new share for every 20 shares at £6 per share.
15 April 2025	Purchased 10,000 shares for £20 per share.

Requirements:

1) Assuming that the maximum possible relief is taken for trading losses, calculate the total taxable profits for the year to 31 March 2025. State the amount of the losses to be carried forward. (7)

2) When preparing and submitting the tax return, what steps should you take when considering whether to include the tax planning arrangement deduction suggested by the specialist tax advice firm. (4)

3) Calculate the gain on the sale of the shares in StonyGreen Ltd. (5)

Total (16)

4. The Polygon Ltd group of companies is a UK based trading group and a client of your firm, Tax Advisory LLP. The companies in the group have a 31 May year end.

You have received the following email from Amol, the group finance director:

Hi

As you are aware we are actively trying to grow our business so we are selling some companies which are not key to the growth plan and using the proceeds to fund purchases of companies which will be a better fit in our trading group. I have some tax queries which I hope you can answer regarding the tax position arising from these sales and purchases.

Firstly, sale of companies. We are in negotiations to sell one of our subsidiary companies, Triangle Ltd which we are selling to Big Corp Ltd. We recently completed the sale of our subsidiary Parallel Ltd to Mega Group Ltd.

I have the following queries regarding these sales:

a) Triangle Ltd has losses brought forward from recent accounting periods. These are clearly valuable as they can lower the taxable profits going forward. However, the board of Big Corp Ltd disagrees and say that it may not be able to use the losses. Is this correct? Triangle Ltd has one trade and has always traded at around the same level of turnover, and Big Corp Ltd trades in the same sector as Triangle Ltd.

Continued

b) We completed the sale of Parallel Ltd on 22 April 2025 to an unconnected company Mega Group Ltd. This was a really long process, not least due to the negotiation of the Heads of Terms and then getting our shareholders on board with the sale. Anyway, Parallel was part of the group for almost the entire year so I am assuming that we can utilise all of its losses in the year to 31 May 2025 by way of group relief?

Moving on to the acquisitions:

c) We are buying the shares in Brown-Goods Ltd from Yellow Group Ltd. The board of Yellow Group are telling us that they will have a large Corporation Tax bill to pay when they sell the shares but surely this type of transaction is exempt? Could it be that Yellow Group won't elect to use this exemption? It would be useful to know the answer to this so I can use it in my negotiations with the Yellow Group Board of directors.

d) I am assuming that the purchase of Brown-Goods Ltd will occur on 1 July 2025. Our forecast show that Brown-Goods Ltd will make a profit for the year ending 31 May 2026 of £300,000. In the Polygon Group we have a 75% subsidiary, Cube Ltd which will have losses for the year of £2,000,000. As these losses are quite big, I assume I can use them to eliminate the profits in Brown-Goods Ltd and bring the tax bill to nil?

And finally, an admin question:

e) The Polygon Group is growing into a very profitable business. Soon all our companies will need to start paying our Corporation Tax in instalments, but I'm not sure when it will be. This seems like an administratively heavy burden. Is there any way to simplify it? And can this reduce the number of Corporation Tax returns to be filed?

Many thanks – looking forward to your response.

Kind regards

Amol

Requirements:

Write an email to Amol which you:

1) Explain the circumstances in which Triangle Ltd could not use its brought forward losses against its own future profits once acquired by Big Corp Ltd. (5)

2) Explain to what extent the losses of Parallel Ltd may be group relieved in the year of the sale. (4)

3) Explain the potential exemption that may be available to Yellow Group Ltd on the sale of Brown-Goods Ltd, stating what conditions need to be fulfilled. (6)

4) Calculate the amount of the loss that Brown-Goods Ltd can utilise, and its forecast taxable total profits for the year ending 31 May 2026. (4)

5) Explain the administrative simplification that the Polygon group can use once it is required to pay tax in instalments, addressing both payments and Corporation Tax returns. (5)

Total (24)

5. Broadloom Ltd is a client whose business consists of making investments. It has UK and overseas property investments and owns shares in UK and overseas companies.

In the year to 31 January 2025 for Broadloom Ltd the income and gains from these investments were as follows:

	£
Rental income from UK commercial properties	1,450,750
Bank interest receivable	90,800
Dividend income from overseas companies (after deduction of overseas withholding tax of £40,997)	432,600
Overseas property income arising in Whiteland, an overseas country	91,000
Overseas property losses arising in Blueland, an overseas country	(110,000)

The company had expenditure as follows:

	£
Interest payable on loan to purchase property	40,500
Fees paid to third party managing agent who manages the UK commercial property (Note a)	250,000
Rent paid on office space occupied by Broadloom Ltd (Note b)	200,000
Charitable donations paid	3,500
Commission paid to stockbroker for managing shares owned by Broadloom Ltd	17,000
Release of loan balance (Note c)	400,800

<u>Notes</u>

a) In the year to 31 January 2025 the company paid the third-party management company for both the work done in the year to 31 January 2025 and a payment in advance for the work to be undertaken in the year to 31 January 2026. (This payment in advance was £146,800.) The amount relating to the work done in the year to 31 January 2025 will be recognised in the 31 January 2025 accounts.

b) The rent paid is for the office used by the directors and other staff. The company agrees that 25% of the office space can be used by the investment director for managing his own personal investments.

c) The release of the loan related to a loan which Broadloom Ltd had, some years ago, made to Landlord Ltd. Both companies are controlled by the same individual shareholder.

In the year to 31 January 2024 the company had excess management expenses of £3,700,000 which were not relieved in that year.

Petra, the finance director of Broadloom Ltd has messaged you as follows:

“I have had an email from Tomas, who is a director of XYZ GmbH, a company resident in Pinkland (an overseas country) in which we bought 10% of the shares on 1 January 2023. When we bought the shares, it was agreed that some of the directors of Broadloom Ltd would be involved in giving advice to/ making decisions with the XYZ GmbH board. Tomas is concerned that because of this shareholding/advice situation, XYZ GmbH will be liable to UK Corporation Tax as well as tax in Pinkland.

Can you please explain what would make this foreign company subject to UK Corporation Tax. I know that XYZ GmbH is incorporated and registered in Pinkland. It only trades in Pinkland and doesn’t own any land outside of Pinkland. Also, on a “worst case scenario basis”, can you include what penalties XYZ GmbH would be subject to if it was deemed to be in the charge to UK Corporation Tax. Many Thanks”

Continued

Requirements:

1) **Calculate the taxable total profits of Broadloom Ltd for the year to 31 January 2025. Show how each item is to be treated, including any necessary explanations of the tax treatment. State what amounts are carried forward.** (8)

2) **Explain the issues that Tomas has to consider when determining if XYZ GmbH could be liable for UK Corporation Tax, and briefly explain what relief from tax in both UK and Pinkland could be available.** (4)

3) **Explain what penalties XYZ GmbH would be liable for if it was deemed to be in the charge to UK tax and had not told HMRC that it is within the charge to UK Corporation Tax.** (6)

Total (18)