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# **May 2025 Examination**

## **PAPER 4**

### **CORPORATE TAXATION**

**Suggested Answers**

*Candidates will be given credit for relevant points not on the mark scheme.*

1.  
1)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | FYA @100% | FYA @50% | AIA @100% | General pool | Special rate pool | Allowances |  |
|  | £ | £ | £ | £ | £ | £ |  |
| WDV b/f |  |  |  | 6,125,500 | 125,900 |  |  |
| Additions |  |  |  |  |  |  |  |
| New air conditioning system |  | 200,000 | 250,000 |  |  |  | (½)(½) |
| Computer equipment | 55,000 |  |  |  |  |  | (½) |
| Disposals |  |  |  |  |  |  |  |
| Computer equipment |  |  |  | (1,000) |  |  | (½) |
|  |  |  |  |  |  |  |  |
|  | 55,000 | 200,000 | 250,000 | 6,124,500 | 125,900 |  |  |
| Allowances |  |  |  |  |  |  |  |
| FYA @ 100% | (55,000) |  |  |  |  | 55,000 | (½) |
| FYA @ 50% |  | (100,000) |  |  |  | 100,000 | (½) |
| AIA @ 100% |  |  | (250,000) |  |  | 250,000 | (½) |
| WDA @18% |  |  |  | (1,102,410) |  | 1,102,410 | (½) |
| WDA @ 6% |  |  |  |  | (7,554) | 7,554 | (½) |
| Balance to SRP |  | (100,000) |  |  | 100,000 |  | (½) |
|  |  |  |  |  |  |  |  |
| WDV c/f |  |  |  | 5,022,090 | 218,346 |  |  |
|  |  |  |  |  |  |  |  |
| Total allowances |  |  |  |  |  | 1,514,964 |  |

5 marks

1. Rollover relief is available to Scoulton Ltd on the sale of the building, as both the original office building and the new building are qualifying assets:

As Scoulton Ltd has not fully reinvested the proceeds from the sale, full rollover relief will not be available.

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| Proceeds | 2,500,000 | (½) |
| Less: cost | (1,325,000) | (½) |
|  | 1,175,000 |  |
| Less: indexation ((278.1-256.7)/256.7)=0.083 x 1,325,000 | (109,975) | (1) |
|  | 1,065,025 |  |
| Less: Rollover relief (restricted by the amount not reinvested) | (990,025) | (½) |
| Gain (2,500,000 – 2,425,000) | 75,000 | (½) |

£990,025 will be rolled over and reduce the base cost of the new office:

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| Cost | 2,425,000 | (½) |
| Less: rolled over gain | (990,025) | (½) |
|  |  |  |
| Base cost of new office | 1,434,975 |  |

4 marks

|  |  |  |  |
| --- | --- | --- | --- |
|  | £ | £ |  |
| Accounting profit |  | 4,200,000 |  |
| Add back: |  |  |  |
| Depreciation | 725,000 |  | (½) |
| Entertaining customers (£6,500 - £1,000) (½) | 5,500 |  | (½) |
| Loss on disposal of computer equipment | 1,000 |  | (½) |
| Interest on late payment of corporation tax | 850 |  | (½) |
| Qualifying charitable donation | 500 |  | (½) |
|  |  | 732,850 |  |
| Less: |  |  |  |
| Capital allowances | 1,514,964 |  | (½) |
| Bank interest receivable | 12,600 |  | (½) |
| Dividends received | 12,500 |  | (½) |
|  |  | (1,540,064) |  |
|  |  |  |  |
| Adjusted trading profit |  | 3,392,786 |  |
|  |  |  |  |
| Non-trading loan relationships (W1) |  | 11,750 | (½) |
| Chargeable gain |  | 75,000 | (½) |
|  |  |  |  |
|  |  | 3,479,536 |  |
| Less: Deficit on NTLR (W1) |  | - |  |
| Less: QCD |  | (500) | (½) |
|  |  |  |  |
| Taxable total profits |  | 3,479,036 |  |
|  |  |  |  |
| W1 – NTLR |  |  |  |
| Interest receivable |  | 12,600 | (½) |
| Less: |  |  |  |
| Interest on late payment of corporation tax |  | (850) | (½) |
|  |  |  |  |
|  |  | 11,750 |  |
|  |  |  |  |

7 marks

1. Scoulton Ltd has the following augmented profits, ignoring dividends received from 51% subsidiaries (½):

|  |  |  |
| --- | --- | --- |
|  | £ |  |
| TTP | 3,479,036 | (½) |
| Dividends received | 5,000 | (½) |
|  |  |  |
| Augmented profits | 3,484,036 |  |

The year ended 31 March 2025 falls into FY2024 entirely.

The upper limit of £250,000 is reduced due to the subsidiary company, £250,000/2 = £125,000 (½), therefore the main corporation tax rate of 25% applies. (½)

Corporation tax liability: 3,479,036 x 25% = 869,759 (½)

The company should pay its corporation tax liability on 1 January 2026. (½) Whilst the company is large for quarterly instalment purposes for the year ended 31 March 2025, as its augmented profits for the year exceed £750,000 (£1,5 million / 2) (½) the company was not a large company in the 12 months preceding 31 March 2025 and its augmented profits do not exceed £5 million (£10 million / 2) (½).  
  
Max 4 marks

**Total 20 marks**

1. 1)  
   The first chargeable accounting period starts when Plantagenet Ltd acquired a source of income, which in this case is when the bank account was opened and the company started to earn interest (½) being 1 July 2023 (½). This accounting period ends at the earliest of the company commencing to trade (½), 12 months after the accounting period began (½) or at the end of the company’s period of account (½), in this case 31 January 2024 when the company began to trade (½). The next accounting period therefore starts on 1 February 2024 (½) and ends on 31 December 2024 at the end of the company’s period of account (½).

There will be two tax returns (½) due, one for each accounting period and they will be due for submission by the later of (½):

* 12 months from the end of the period of account, 31 December 2025 (½) and
* 3 months after the receipt of the filing notice, being 3 June 2025 (½)

Therefore by 31 December 2025. (½)

Max 6 marks

2)  
The cash accounting scheme is available to businesses that are VAT registered (½) and where their taxable turnover is not expected to be more than £1.35m in the next 12 months (½). Plantagenet Ltd has also submitted returns and paid VAT on time(½), so it would therefore qualify for the scheme. (½)

Under the cash accounting scheme Plantagenet Ltd would account for VAT in respect of when money is received and money is paid (½). As sales are usually dealt with based on tax point of delivery or invoice date, and Plantagenet Ltd sell on 30-day credit terms (½), under the cash accounting scheme the VAT is likely to be accounted for later (½) which will give a cash flow advantage (½). The cash accounting scheme provides automatic bad debt relief (½) so if cash is never received from the customer, the output tax is not paid to HMRC (½). It would therefore be beneficial for Plantagenet Ltd to use the cash accounting scheme. (½)  
  
Max 5 marks  
  
3)  
Class 1A NIC (½) would be payable by Plantagenet Ltd on the cash equivalent of the benefit of the car (½) and the cost to Plantagenet Ltd of the private medical insurance (½) at a rate of 13.8% (½). No NIC is payable in respect of the fuel as it is for business purposes and paid in line with HMRC approved rate. (½) The Class 1A NIC is payable by 19 July following the end of the year (or 22 July if paid electronically). (½)

3 marks  
  
4)

It is necessary to consider whether an engagement letter needs to be issued to Porter Ltd in order to carry out the work that has been requested. (½) An engagement letter is recommended (½) as it defines the terms and limitations of the engagement (½) and to agree these with Porter Ltd. (½) It can be used to manage the client’s expectations (½)and provide protection to Tudor LLP against potential claims, as it provides evidence of what was agreed. (½) It is possible that an insurer would require an engagement letter to be signed in order for any liability arising, or they could charge a higher premium. (½)

*Credit will be given for other relevant points.*

Max 3 marks

5)

The off-payroll working rules apply as Joanna is personally performing services for Plantagenet Ltd (½) and these services are not provided under a contract directly between Plantagenet Ltd and Joanna (½) but instead are provided under arrangements involving a third party, Pyle Ltd, (½) and Joanna has at least a 5% holding in Pyle Ltd (½) . As Plantagenet Ltd is a small company Joanna (½) willI need to consider whether the circumstances are such that if the services had been provided under a contract directly between Plantagenet Ltd and Joanna (½), she would have been regarded for tax purposes as an employee (½) to confirm whether the off-payroll working rules apply (½).

Max 3 marks

Total 20 marks

**3.**

1)

|  |  |  |
| --- | --- | --- |
|  |  | £ |
| Trading Profit |  | 8,900,000 |
|  |  |  |
| b/f losses to use |  |  |
|  |  |  |
| £5m**(½)** + 50%**(½)** (£8,900,000**(½)** - £5,000,000**(½)**)  = £5m + £1.950m  = £6,950,000**(½)** |  | (6,950,000) |
|  |  |  |
| Total trading Profits |  | 1,950,000**(½)** |
|  |  |  |
|  |  |  |
| Chargeable Gain |  | 2,850,000 |
|  |  |  |
| Less  No deductions allowance – used against trading**(½)** |  |  |
| 50% of profit**(½)** |  | (1,425,000) **(½)** |
|  |  |  |
| Net Chargeable gain |  | 1,425,000**(½)** |
|  |  |  |
| Taxable Total profits |  | 3,375,000 |

Losses carried forward

|  |  |
| --- | --- |
|  | £ |
| Trading Loss brought forward | 12,000,000 **(½)** |
| Utilised | (6,950,000) |
|  |  |
| Loss carried forward | 5,050,000 **(½)** |
|  |  |
|  |  |
| Capital loss brought forward | 3,600,000**(½)** |
| Utilised | (1,425,000) |
|  |  |
| Loss carried forward | 2,175,000**(½)** |
|  |  |

**(7)**

2)

As you are acting as agent for the client you should satisfy yourself that the deduction suggested by the specialist tax advice firm is reasonable, **(½)** considering the following -

* Does the advice accord with your understanding of the law? **(½)**
* Is the “specialist tax advice firm” suitably qualified to give this advice? **(½)**
* Do the facts in the advice agree to your understanding of the client and its affairs? **(½)**
* Are there any legal opinions given in the advice? If so are they specific to the client? **(½)**
* Is the advice current and not out of date? **(½)**
* Do you believe that the advice is in any way contrived avoidance? **(½)**
* Has HMRC “spotlighted” this scheme? **(½)**
* Could the General Anti Abuse Rule apply? **(½)**
* Do you require your own second opinion on the advice? **(½)**

**Max (4)**

3)

Part sale of shares.

Sale Proceeds per share - £1,875,000 / 75, 000 = £25 per share

Gain on shares sold within 9 days (½) of purchase (15 April 2025) –

|  |  |
| --- | --- |
|  | **£** |
| Proceeds |  |
| 10,000 shares x £25 per share | 250,000(½) |
|  |  |
| Less cost |  |
| 10,000 shares x £20 per share (½) | (200,000) |
|  |  |
| gain | 50,000(½) |

Gain in s104 pool

|  |  |
| --- | --- |
|  | **£** |
| Proceeds (75,000 shares less 10,000) |  |
| 65,000 shares x £25 per share | 1,625,000(½) |
|  |  |
| Cost (W1) |  |
| 65,000/105,000 shares x £230,000 | (142,381) (½) |
|  |  |
| gain | 1,482,619(½) |

W1 – cost of shares in s104 pool

|  |  |
| --- | --- |
|  | £ |
| Purchase |  |
| 1 September 2019 |  |
| 100,000 shares cost £2 | 200,000(½) |
|  |  |
|  |  |
| Purchase rights issue 30 September 2021 |  |
| 100,000/20 = 5,000 shares at £6 per share(½) | 30,000 |
|  |  |
| Cost of shares in the s104 pool | 230,000 (½) |
| Number of shares in pool – 105,000 |  |

Shares sold out of s.104 pool – 65,000 shares

**Total gain**

£50,000 + 1,482,619 = £1,532,619 (½)

**Max (5)**

Total 16 marks

**4.**

**To Amol@Polygonltd.com**

**From Jo@taxadvisory.co.uk**

**Date 29 April 2025**

**SUBJECT – Your queries**

Hi Amol

Thanks for the email. I can respond as follows –

1. Regarding the sale of Triangle Ltd to Big Corp Ltd. The change of ownership of a company will not prevent the ability of that company to utilise brought forward losses (½) unless the specific anti avoidance rules apply. (½)

These rules are there to stop a company being bought only in order to use the losses. (½)

The rules are:

* If there is a change of ownership (½) (ie more than 50% (½) of the shares are sold)
* And there is a major change in the nature or conduct of the trade (½)

Then losses brought forward at the date of ownership cannot be used. (½)

The change in the nature or conduct of the trade must have occurred in a five-year period beginning no more than 3 years (½) before the acquisition and ending 5 years after. (½)

Although Big Corp Ltd operates in the same sector as Triangle Ltd it might be changing the nature or conduct of the trade, (½) for example (½) by changing the customer base, although HMRC would look at the individual facts when assessing if there is a change, and so the losses cannot be used.

Max **(5)**

1. Unfortunately you cannot group relieve all of Parallel Ltd’s losses arising in the period to 31 May ( ½ ). This is because losses may only be group relieved whilst the companies are in the same group ( ½ ). If a company is only a member of a group for part of a period, then only a proportion of the losses may be group relieved ( ½ ). The proportion is determined by way of time apportionment based on the “overlapping” period that the claimant and surrenderer were in the same group. ( ½ ) Alternatively, the adjustment should be determined on a “just and reasonable basis” if apportioning on the basis of time would give and unjust or unreasonable result. ( ½ )

A company is deemed to have left a group (and so the losses become unavailable to group relieve) when “arrangements” ( ½ ) to sell the company come in to force. This could be the date of the sale, ( ½ ) but more often it is when legally binding Heads of Terms are signed. ( ½ ) You mentioned getting the shareholders “on board” - if shareholder approval ( ½ ) is required that is likely to be the date that “arrangements” came into force. ( ½ )

**Max (4)**

1. You are correct that there is an exemption from corporation tax when a company sells its interest in another company – the substantial shareholding exemption. (½) Where the relevant conditions are satisfied, then the exemption applies automatically (½) – i.e. the seller cannot choose whether to apply it. (½)

The conditions for it to apply are as follows –

* Yellow Group Ltd must have held at least 10% of the ordinary share capital (½) (and be beneficially entitled to both 10% of the profits available for distribution and 10% of the assets available for distribution in a winding up(½)) of Brown-Goods Ltd throughout a consecutive 12-month(½) period which began no more than 6 years prior to the disposal. (½)
* Brown-Goods Ltd must be a trading (½) company throughout a period beginning with the start (½) of the 12-month period(½) in which Yellow Group Ltd (½) passed the substantial shareholding test and ending at the time of disposal. (½)

Assuming the requirements are met, Yellow Group Ltd will be exempt from tax on this disposal.

**(6)**

1. Brown-Goods Ltd can utilise losses arising in Cube Ltd in the year ending 31 May 2026. Although Polygon Ltd only owns 75% of the shares in Cube Ltd group relief is available, and will be calculated as follows

The lower of – (½)

The profit in Brown-Goods Ltd, restricted to the period when Brown was a member of the same group as Cube Ltd(½) –

11/12 (½) x £300,000 = £275,000 (½)

and

The loss in Cube Ltd (½) for the period

11/12 x £2,000,000 (½)= £1,833,333 (½)

So taxable profit in Brown Goods Ltd will be

|  |  |
| --- | --- |
|  | £ |
| Profit | 300,000 |
| Loss offset | (275,000) |
| Total Taxable Profits | 25,000 (½) |

**Max (4)**

1. It is possible for a group when paying tax by instalments to enter into a group payment arrangement. (½)

This means that one group company deals with the payments for the whole group. (½)

This is the nominated company, (½) and it must complete a document listing all the group companies which will participate in the group payment arrangement. (½)

This document must be submitted to HMRC ( ½ ) at least 1 month ( ½ ) before the first instalment is due; and it must state the period for which the arrangement will apply. (½)

The arrangement will then automatically apply to subsequent periods. (½ ) However the group can choose to terminate this arrangement, ( ½ ) also HMRC can terminate this if there is a breach of the terms or for noncompliance. (½)

Each company is however still obliged to submit a tax return (½)

**Max (5)**

**Total 24 marks**

**5.**

1. Calculation of total taxable profits for Broadloom Ltd with explanations.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **£** | **£** |  |
| Non-Trading profits (loan relationships) |  |  |  |
| Bank interest receivable | 90,800 |  |  |
| Interest payable on property loan | (40,500) |  |  |
|  |  | 50,300 | (½) |
| UK property income | 1,450,750 |  |  |
| Less third-party management fee (restricted to the amount recognised under GAAP in the accounts) (½) | (103,200) |  | (½) |
| Net UK property income |  | 1,347,550 | (½) |
|  |  |  |  |
| Overseas property |  |  |  |
| Whiteland | 91,000 |  |  |
| Blueland | (110,000) |  |  |
| Overseas property loss carried forward (½) | (19,000) |  |  |
| Net overseas property income |  | Nil | (½) |
|  |  |  |  |
| Management expenses:- |  |  |  |
| Rent for office – 25% of rent not allowed as used by investment director for his other work (½) | 150,000 |  | (½) |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| Stockbroker commission | 17,000 |  | (½) |
|  |  |  |  |
| Deductible management expenses |  | (167,000) | (½) |
|  |  |  |  |
|  |  |  |  |
| **Qualifying charitable donation** |  | (3,500) | (½) |
|  |  |  |  |
| **Total** |  | 1,227,350 | (½) |
|  |  |  |  |
| **Less excess management charges brought forward** |  | (1,227,350) | (½) |
|  |  |  |  |
| **Total Taxable profits** |  | nil | (½) |

Explanatory notes –

Overseas dividend income is not taxable and therefore there is no credit for overseas withholding tax (½)

Release of loan not deductible as to a connected party (½)

Excess management charges

|  |  |  |
| --- | --- | --- |
|  | **£** |  |
| Brought forward | 3,700,000 |  |
| Current year offset | (1,227,350) |  |
|  |  |  |
| Carry forward | 2,472,650 | (½) |

**Max (8)**

1. The fact that a UK based company owns shares in XYZ GmbH does not make it liable to UK corporation tax. (½)

As an overseas incorporated company (even if, like XYZ GmbH it is not trading in the UK or doesn’t have income from land in the UK (½)) it is liable to UK Corporation Tax if it is resident in the UK(½) ie if that is where it is centrally managed and controlled. (½) This could be because the board of directors of XYZ GmbH meet in the UK; (½) (although this is not conclusive) or if some other party has control, where that control is exercised will be determinative. (½) So Tomas needs to consider the role of the Broadloom Ltd directors – are they exercising control? (½) If the company were deemed to be centrally managed and controlled in the UK, then it could gain tax relief in the UK via double tax relief on income that is also taxed in Pinkland. (½) Relief would be as a deduction from of the lower of UK corporation tax and Pinkland tax. (½)

In summary, Tomas would need to consider these issues to conclude if XYZ GmbH is in the charge to UK tax

**Max (4)**

1. If Tomas, after considering the above, believes that XYZ GmbH is in the charge to UK tax then XYZ GmbH is required to notify HMRC (½) that it will have taxable profits. (½) This needs to be done within 12 months (½) of the end of the accounting period. (½) If this date has passed, then a penalty for failure to notify is due. (½)

The penalty will be based on the “potential lost revenue”, (½) being the corporation tax unpaid (½) 12 months after the accounting period for which the tax liability has not been notified. (½)

The penalty is calculated as a percentage of the tax due. (½) It can be as high as 100% (½) of the outstanding tax if the failure was deliberate and concealed (½) but this can be reduced to 10% (½) if the disclosure is unprompted (or nil if disclosure is within 12 months) (½)

**Max (6)**

**Total 18 marks**