

Paper 4: Corporate Taxation

Examiners' report

General comments

Candidates should ensure that they read the questions carefully and that they are answering what the question is asking for. Candidates should consider their presentation, some answers were difficult to decipher! Candidates shouldn't round to the nearest thousand in their answers as this will lose them marks.

Question 1

Generally this question was answered well.

Part 1

In the main this part of the question was answered well. Candidates lost marks where they didn't allocate the £250,000 to the special rate pool expenditure and allocated it to the computer equipment instead. Most candidates correctly allocated £250,000 AIA to this company as the rest was used by Bedlars Ltd. Candidates should take care in adding up the different pools as some lost marks as there were addition errors which gave WDA errors. The proceeds from the sale of old computer equipment should be deducted from the General pool not the cost, some candidates said this was a chargeable gain or a balancing charge which was incorrect and therefore they lost ½ a mark. The odd candidate transferred to the special rate pool before calculating the WDA and so lost ½ a mark.

Part 2

This part of the question was answered well. Candidates should remember to round indexation to 3 decimal places. The odd candidate missed the part of the question that asked for the base cost of the new building.

Part 3

This again was answered reasonably well. Some candidates forgot to include the capital allowances or chargeable gain from the first two parts of the question and so lost marks. Capital allowances were sometimes deducted from taxable total profits and so lost this ½ mark as the CA's are for the trade and so should be adjusted in the calculation of trading profit. Follow through marks were given where there were errors in part 1 and 2 of the question. Some candidates missed adjusting for the items in the trading calculation when they were taxed in a different way such as the non trading loan relationship credits and debits and the qualifying charitable donation. Some candidates only calculated trading profit.

Part 4

This part of the question was answered less well. Errors were made by including the 51% subsidiary in the augmented profit calculations, missing the augmented profit for the previous year in the question, not apportioning the limits for the associated company, especially the £10 million limit for the first year being in quarterly instalments. Sometimes the calculation of the corporation tax liability was in part 3, however candidates still received the relevant marks for this, but they should ensure they are answering the actual question. Candidates that incorrectly concluded that the company was in quarterly instalments did receive ½ a mark if the dates were correct.

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Question 2

This question was trickier for most candidates. Not applying the rules to the scenario and drawing a conclusion lost marks.

Part 1

Candidates did reasonably well on this part of the question. Quite a number of candidates didn't think that both returns would have the same submission deadline, so didn't receive all the available marks for this part. If a candidate didn't say that they were two returns required but this was clearly indicated in their answer they still received the marks. The comparison of three months from receipt of the CT603 or 12 months from the end of the period of account was often missed. Where candidates stated the correct rules for the start/end of the accounting period but applied them incorrectly they still received some marks.

Part 2

Candidates didn't do as well on this part. Many candidates didn't come to a conclusions of whether Plantagenet Ltd was eligible to join the scheme or not, or that it would be beneficial even though that was asked in the question, they just stated the facts.

Part 3

Candidates often said that the reimbursement of fuel was a benefit in kind and missed the point that the fuel was reimbursed at HMRC approved rates. The question didn't ask for the NIC rules for the salary but some candidates gave this information. Candidates didn't always indicate that the NIC was calculated on the cash equivalent or the cost of the benefit, although where this was inferred the marks weren't lost.

Part 4

Most candidates picked up the majority of the marks but some candidates listed what should be in an engagement letter which wasn't asked for. Candidates often didn't mention that the engagement letter agreed the scope of the work with Porter Ltd.

Part 5

Candidates missed that Joanna was a 100% shareholder of Pyle Ltd which is one of the conditions for the off payroll working rules to apply. Candidates didn't always say whether the contract would be caught, and many missed that Plantagenet Ltd was small and so Joanna was responsible for considering whether the rules applied. Candidates didn't always apply the scenario and therefore lost marks.

Question 3

Part 1

Many candidates completely missed the deductions allowance – this should have been obvious. The scenario is clear that the deductions allowance is to be taken against trading profits (...." the maximum possible relief is to be taken against trading profits....") and so the capital loss to be used is restricted to 50% of the chargeable gain (and not 50% of the loss b/f, as some candidates thought). Use of losses brought forward should be basic knowledge and it was disappointing that the application of the deductions allowance was poor amongst candidates.

A specific requirement was to state the losses to be carried forward – marks were lost for failing to do so.

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Part 2

Very few candidates applied the scenario. The client had asked to include a deduction about which a third party had given the specific advice. The majority of candidates merely stated the standards for tax planning with no specific reference to the issue of filing a return using third party advice, and hence scored badly.

Part 3

Generally answered well, mostly demonstrating the 9 day and s104 pool concepts. Also, most candidates presented the answer well - and thus in the odd occasion where the candidate transposed a figure or carried across an incorrect figure it was easy to follow the logic (and see the error) and therefore a "follow through mark" was given.

Question 4

The requirement was to write an email – easy presentation marks were lost for failing to do so.

Part 1

Most candidates recognised the possible restriction if there is a change of ownership and a major change in the nature or conduct of the trade. As the scenario stated that there would be no "revival" there was no need to discuss this, and no marks available.

Part 2

This part required both the discussion of time apportionment for the use of the losses and the point at which "arrangements" come in to force – the scenario did not state that shareholder approval was necessary and so marks were available for the any possible points in the sale process when "arrangements" were in force. Generally, most candidates scored some marks.

Part 3

Generally, candidates recognised that Substantial Shareholding Exemption could be the possible exemption, and knew the majority of the conditions (although the trading conditions were less well answered). In the scenario the buyer is concerned that the sellers "...won't elect to use this exemption" and so to gain full marks this had to be answered – ie SSE applies automatically – it is not an election.

Part 4

This was an easy question that was very badly answered. It was a "calculate" question so a description of group relief was not good enough to obtain marks. Many candidates miscalculated how long Brown Goods would be in the Polygon Group for. A specific requirement was to state taxable total profits – a mark was lost for failing to do so.

Part 5

This was specifically a question regarding Group Payment Arrangements. Many candidates included group relief arrangements; details of when quarterly payments are to be made; and at what level of profits. A specific issue in the scenario was whether it could “reduce the number of corporation tax returns to be filed” – many candidates did not address this issue.

However, if candidates addressed the issues in the scenario, this was an easy question to score the full 5 marks on.

Question 5

Part 1

This was a part question where a well laid out answer helped candidates who may not have got every element correct but could achieve some “follow through marks” if the reasoning and the error was obvious. Certain element of this part Q should have been easy for candidates – ie the offset of overseas property profits and losses and the c/f of the excess loss; the exemption of overseas dividends and no use of the withholding tax; release of a connected party loan not deductible. As a requirement was to state the tax treatment of each item the candidate who didn't do this lost marks.

The use of qualifying charitable donation was badly dealt with; as was the use of b/f excess management charges.

Most candidates didn't restrict the rent for the private use of the director

A specific requirement was to state the amounts to be carried forward – marks were lost for failing to do so. (again!)

Part 2

There were only two issues that needed to be answered - firstly did the shareholding in XYZ GmbH made it a UK resident company for CT purposes? It is a given that XYZ GmbH did not trade in the UK nor did it have land in the UK. Any other knowledge re overseas companies or branches was irrelevant (and unfortunately a lot of candidates gave irrelevant answers, for which there were no marks).

Secondly - if chargeable to UK corporation tax, double tax relief could be obtained, as the lower of UK and Pinkland tax. These were two easy ½ marks which a lot of candidates did obtain.

Part 3

This was a straightforward question with plenty of marks available if identifying that there was a failure to notify.

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Most candidates did well , especially on the penalty regime.