

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>311</b>	<b>1723</b>	<b>1935</b>
Section 2	<b>953</b>	<b>4447</b>	<b>5388</b>
Section 3	<b>298</b>	<b>1504</b>	<b>1751</b>
Section 4	<b>698</b>	<b>3304</b>	<b>3987</b>
Section 5	<b>606</b>	<b>3038</b>	<b>3601</b>
Section 6	<b>0</b>	<b>0</b>	<b>0</b>
Total	<b>2866</b>	<b>14016</b>	<b>16662</b>

Answer-to-Question- \_1\_

1) Maximum Capital Allowances

y/e 31 March 2025	FYA @ 50% £	AIA @ 100% £	General Pool £	Special rate Pool £	CA £	
TWDV b/fwd			6,125,500	125,900		
Disposals:						
Computer equipment			(1,000)			
Additions :						
New Air condition ing system	450,000					
New Computer equipmen t		55,000				
Balancin g adjustme nt	450,000	55,000	6,124,500	125,900		
FYA@ 50%	(225,000)				225,000	
AIA @ 100%		(55,000)			55,000	
WDA @ 18%			(1,102,410)		1,102,410	
WDA @ 6%				(7,554)	7,554	
Balance to Special rate Poll				225,000		

TWDV C/fwd	-	-	5,022,090	343,346		
Total CA					1,389,964	

## 2) Chargeable gain and new base cost

			£
Proceeds			2,500,000
Less: Cost			(1,325,000)
Unindexed gain			1,175,000
Less: Indexation allowance	1,325,000	$x(278.1-256.7)/256.7$	(110,505)
Indexed allowance			1,064,495
Less: Rollover relief	1,064,495	-75,000	989,495
Gain	2,500,000	-2,425,000	75,000

## 3)TTP

			£
Accounting profits			4,200,000
Add back disallowable expense:			
Depreciation			725,000
Client entertaining	stuff entertaining allowed	6,500-1,000	5,500
Loss on disposal of computer equipment			1,000

Adjusted trading profits before CA			4,931,500
Less: CA			(1,389,964)
Adjusted trading profits			3,541,536
Dividend			Not taxable
Non-trading loan relationship income	12,600	-850	11,750
Net chargeable gains	75,000	- 1,000 (loss on disposal of computer equipment)	74,000
Total profits			3,627,286
Less: QCD			(500)
TTP			3,626,786

#### 4) Corporation tax payable

Augumented profits = £3,626,786 + 5,000 = 3,631,786  
 (Dividend from Bedlars Ltd not included as dividend from 51% subsidiaries excluded)

Corporation tax liability - £3,626,786 x 25% = £906,697

Threshold for large company = £1,500,000/2 = £750,000 - dividend by 2 as Bedlars Ltd is an associated company

As augumented profits does not exceeds £10 million , no instalment payments required as it was not large in the previous accountign period. Only augumented profits of £650,000 in the y/e 31 March 2024 which means that it was not a large company as below threhsold of £750,000.

This means that the deadline for the payment is 9 months and 1 day from the end of the accounting period (1 January 2026).

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

### 1) Chargeable Accounting period

Setting up a company is not an event recognised for starting an accounting period.

As Plantagenet Ltd opens up an interest bearing account on 1 July 2023, this gives rise to the start of an accounting period as the company acquires a source of income.

The first chargeable accounting period ends when the company starts to trade.

First Accounting period - 1 July 2023 - 31 January 2024.

The second accounting period starts when the first account period ends due to the start of trading.

The second accounting period ends at the end of the company's period of account.

Second Accounting period - 1 February 2024 - 31 December 2024.

The due date of submitting a corporation tax return is the later of 12 months from the end of the accounting period or 3 months from the receipt of the filing notice and one return must be submitted for every accounting period.

The due date of the first accounting period is 3 June 2025 which is 3 months after the notice to file a return was received which is later than the normal due date of 31 January 2025.

The due date of the second accounting period is 31 December 2025, 12 months from the end of the accounting period which is later than 3 months from the receipt of the notice to file a tax return.

### 2) Cash Accounting Scheme

Based on the information supplied, Plantagenet Ltd will be eligible to join the cash accounting scheme as the following conditions are met:

-Turnover of taxable supplies in the next 12 months less than £1.35 million (Plantagenet has turnover of £190,000 every quarter which is equivalent to £760,000 in the next 12

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months which is less than the threshold for Cash Accounting Scheme

- All VAT returns have been submitted and VAT paid on time
- Has not been convicted of VAT offence in the past year as it only started trading in July 2023

Under the normal VAT rules, output and input VAT is accounted for based on the tax point which in general is the date when the goods are delivered.

However, under the cash accounting scheme, output VAT is accounted for when the cash is received from the client and input VAT is accounted for when the cash was paid for the client.

This scheme will be advantageous for Plantagenet Ltd as it will be easier to identify the tax point for transactions. Another benefit is that it could help them with their cash flow and lastly it provides automatic bad debt relief. This means that if the customers don't paid the cost of the goods within 6 months, the output tax does not have to be paid to HMRC.

### 3) National insurance implications for benefits

Plantagenet Ltd are required to pay class 1A national insurance provided to their employees.

The class 1A national insurance is charged as 13.8% of the benefit.

The medical insurance benefit is the cost paid by the company for the medical insurance plan offered to the employee. This means that the NIC payable will be 13.8% of the cost to the employer.

The class 1A national insurance is payable BY 19 July following the end of the tax year if paid by post or 22 July if paid electronically.

As the company car and fuel is for business purposes only and there is no private element to these, there will be no benefit to the employees as long as the reimbursement is at HMRC's approved rates.

The reimbursement is treated as earnings for the employee which means that the employer must pay class 1 secondary national insurance on this. The deadline for the payment of class 1 Secondary national insurance is the 22nd of the month following the month when the earnings were paid.

### 4) Use of engagement letter

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A written engagement letter is essential in reducing the risk of misunderstanding between the parties.

The engagement letter will mention the services that Tudor Ltd will provide to Porter Ltd and Porter LTD will have to sign this engagement letter in which case they give Tudor Ltd permission to start the work requested.

The engagement letter should also include an estimate of the fees to be charged for the work.

The signed engagement letter also acts as a cover for Tudor Ltd so in case of a conflict, the engagement letter is used as evidence for the agreement between the two parties.

#### 5) Off payroll working rules

The off-payroll workings rules is an anti-avoidance regulation which prevents a worked from using an intermediary company to supply services to a client and benefit from lower income tax rates by extracting dividend from the company.

The off-payroll workings rules are as follows:

- The worker is under obligation to perform services to the client
- The arrangement for the corner to provide the services to the client are done though an intermediary company
- If the services were provided by worker directly to the client without the use of an intermediary company, the client would be regarded as an employee.

As there is a contact for Joanna herself to perform duties for Plantagenet Ltd for a set period of time in Plantagenet Ltd's office every day, this means that without the use of Pyle Ltd, Joanna will be treated as an employee.

As the off-payroll rules apply, it depends on the size of Plantagenet Ltd how the consideration Joanna receives will be treated.

If Plantagenet Ltd is a medium size company, Joanna will have to be added to their payroll and her company will be paid a deemed direct payment. However, if Plantagenet Ltd is a small client, Joanna will be paid a deemed salary

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-----ANSWER-2-ABOVE-----  
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 -----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

1) TTP

			£
Chargeable gain			2,850,000
Less: Brought forward capital losses	2,850,000	+50%x(2,850,000-2,850,000)	(2,850,000)
Chargeable gain			-
Taxable trading profits			8,900,000
Less: Brought forward trading losses	2,150,000	+50%x(8,900,000-2,150,000)	(5,525,000)
TTP			3,375,000

Losses reminaing:

Capital Losses - £3,600,000 - £2,850,000 = £750,000

Trading losses - £12,000,000 - £5,525,000 = 6,475,000

2) Tax Planning arrangement

When preparing and submitting the return, we must reflect on the standard for tax planning.

First we need to idetify whether the planning is client specific and is not an 'off the shell' scheme.

We also need to double check if the scheme is lawful as HMRC's view may be different the the view of the law. We should check with the client to see if they have been made aware of the risks and costs in case of a dispute with HMRC.

The scheme will also have to be disclosure using the white space of the tax return.

We also need to check the documentation and judgement used for the tax planning so permission from Marie will be necessary to requested the supporting paperwork from herself or from the party that deal with the tax planning.

Lastly, we need to ensure that the scheme doesn't use some sort of loophole in the law which make the tax return to contain error.

The client should be advised in written of the things to consider such as legal battle with HMRC for differen views, penalties for inaccuracies in tax return and additional tax liability payable.

### 3)Gain on sale of shares

		No of shares	£
Proceeds		75,000	1,875,000
Less:			
Cost of shares purchased in last 9 days		(10,000)	(200,000)
S.104 Pool (W1)		(65,000)	(142,381)
Gain		-	1,532,619

#### W1: S.104 Pool

		No of shares	Cost £
1/09/2019		100,000	200,000
30/09/2021		5,000	30,000
Total		105,000	230,000
Sale		(65,000)	(142,381)

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-----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

To: Amol  
From: Tax Assistant  
Date:  
Subject: Advice on Sale

Hi Amol,

Thank you for your email.

I have outlined my advice regarding your queries below.

1) **Major change in ownership**

As Triangle LTD will be acquired by Big Corp Ltd, there will be a major change in ownership of the company.

There is an anti-avoidance rule that prevents trade losses arising before the change in ownership to be set against profits after the change in ownership and also any trading losses after the change of ownership can not be carried back to trading profits before date of change of ownership. This rule applies to trading losses only and there is no time limit meaning that the trading losses are blocked forever.

As there is a change in ownership but no change in nature or conduct of trade, there will still be a restriction on the carried forward losses during a period of 5 years that starts 3 years from the change in ownership date.

Where company's trade was small and after the change in ownership, trade is revived in any period after the change in ownership, the 5 year provision is not confined.

2) **Group relief**

When a company leaves the group, the group relief available must be time apportioned for the months Parallel Ltd was still part of the group based on the date that the arrangement comes into force (22 April 2025 - 11 months out of the accounting period)  
The group relief available is the lower of:

- loss until arrangement of sale
- profit until arrangement for sale of Parallel Ltd

### 3) Sale exemption

There will be a chargeable gain unless the disposal is exempt under substantial shareholding exemption.

The criteria for substantial shareholding exemption are listed below:

- Yellopw Group Ltd holds at least 10% shares in Brown-Goods for a period of 12 months in 6 years before the disposal
- Brown-Goods Ltd must be a trading company from the beginning of the 12 months period till the time of disposal.

When it comes to groups, the shareholdings of all group companies are aggregated to determine if the conditions are fulfilled.

The SSE exemption applies to both UK and non-UK residents.

If SSE does not apply there will be no relief for the gain.

There could be a degrouping charge for Yellow Group Ltd on the disposal of shares if SSE doesn't apply which means that the gain or loss will be adjusted. If degroupign charge is possitive this is consideration which is added to the gain, whereas if the degrouping charge is negative this is treated as allowable cost.

### 4) Losses and TTP for Brown-Goods Ltd

As Brown-Goods Ltd entered the group on 1 July 2025, the loss used will have to be time apportioned.

The loss available is the lower of:

- £300,000 x 11/12 = £275,000
- 2,000,000 x 11/12 = £1,833,333

$$\text{TTP} = £300,000 - £275,000 = £25,000$$

### 5) Group payment arrangement

Group payment arrangement could be used if at least one company in a 51% group needs to be corporation tax liability via instalment.

One company in the group must be nominated to complete the group payment arrangement document. The document must include a list of the companies that are participating and the application must state the start and end dates of the first period that the arrangement applies. The arrangement will then automatically apply to the next accounting period until the nominated company notifies HMRC to terminate the arrangement or HMRC terminate the arrangement itself.

The application must be submitted no later than one month before the first instalment payment is due of any group member.

The nominated company is required to determine how much to pay and when to make the payment before it pays the corporation tax liabilities.

It will simplify having the same accounting period for all group companies as this means all tax returns are submitted at the same time and payment have the same due date.

One tax return must be for every company that is part of the group. There is no way to combine tax returns.

Please let me know if you have any further questions.

Kind regards,  
Tax Assistant

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- \_5\_

1) TTP

			£
Rental income			1,450,750
Dividend			Not taxable in UK
Overseas property	91,000	-91,000 (losses restricted)	-
Non-trading loan relationship	90,800	-40,500	50,300
Total profits			1,501,050
Less: Management expenses (W1)			(270,200)
Less: QCD			(3,500)
Total			1,227,350
Less: Excess management expenses b/fwd			(1,227,350)
TTP			-

Foreign dividend not taxable in UK

Release of loan not deductible as loan made to a connected company

Management expenses are deducted based on when they are debited in the accounts.

Excess Management expenses

Overseas property losses carried forward = £110,000 - 91,000 = £19,000

Excess management expenses carried forward = £3,700,000 - £1,227,350 = £2,472,650

W1: Management expenses

			£
Fees to third managing agent	250,000	-146,800	103,200
Rent	200,000	x75% (business use only)	150,000
Commision for managing stock			17,000

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Total			270,200

2) For a company to be non-UK resident they must be incorporated abroad and centrally and controlled abroad.

We know that XYZ GmbH is incorporated abroad, however determining where the central management and control is located, this is a question of fact.

As some of the directors of Broadloom Lrtd have been involved in the decision making process for XYZ GmbH, that means that XYZ GmbH will class as a UK resident in which case it is taxed on both its UK and worldwide income.

If its worldwide income has suffered tax deducted at source, its gross income is include in the UK tax computation, however XYZ GmbH will be able to claim the double tax relief. The double tax relief is equivalent to the lower of: foreign tax suffered on the foreign income or UK tax chargeable on the foreign income. The double tax relief is deducted from the corporation tax liability decreasing the corproation tax payable in the UK.

3) For a company that is chargeable to corporation tax for the first time or is coming back into the charge of corporation tax, the company must notify HMRC within 3 months from the start of its accounting period.

For an exisiting company, if HMRC has not sent the company a CT603 (notification to file a corporation tax return), the company must notify HMRC within 12 months from the end of its accounting period.

Failure to notife HMRC of chargeability if equivalent to a percenatge of corporation tax unpaid 12 months after the end of the acocunting period.

The percentage depends on the behaviour of the company. If the behaviour was deliberate an concelled the maxium penalty is 100% of unpaid tax within 12 months from the end of the accounting period. The percentage for the minimum penalty with unprompted disclosure is 30%, whereas minimum penalty with prompted disclosure is 50%.

If the behaviour was deliberate but not concealed, the maxium penalty is 70%. The minimum penalties for this behaviour with unprompted disclosure is 20%, whereas minimum penalty with prompted disclosure is 35%.

The maxiumum penalty in any other cases is 30%. This could be reduced to 0%- 10%

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without unprompted disclosure or 20%-20% with prompted disclosure. This depends on whether the disclosure was made less than or more than 12 months after the due date for payment of corporation tax.

Based on the information supplied, the behaviour was not deliberate or concealed, so the maximum penalty for XYZ GmbH is 30%. However, if they let HMRC know as soon as possible of their chargeability, this could lower the penalty to 10% as they are making the disclosure more than 12 months after the payment due date.

The penalty will be raised within 30 days and failure to pay will cause interest to build up.

The penalties could not be charged as long as there is a reasonable excuse.

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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_