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	**329**	**1749**	**1994**
Section 2	**602**	**2866**	**3459**
Section 3	**246**	**1342**	**1550**
Section 4	**660**	**3282**	**3898**
Section 5	**359**	**1799**	**2113**
Section 6	**0**	**0**	**0**
Total	**2196**	**11038**	**13014**

Answer-to-Question-_1_

1)

Scoulton Ltd has AIA available of £1,000,000 - 750,000 = 250,000

There is not enough AIA for expenditure on new air conditioning as this totals £450,000

	£	£	£	£	£	
	FYA@50 %	AIA@100 %	General pool	Special rate pool	Total CAs	
Tax wdv b/f			6,125,500	125,900		
Additions:						
New air conditioner (Integral features)	450,000					
New computer equipment		55,000				
Disposal						
Lower of cost or sale proceeds: Computer			(1,000)			
FYA@50 %	(225,000)				225,000	
AIA@100 %		(55,000)			55,000	
WDA@18 %			6,124,500 X 18% = 1,102,410		1,102,410	
WDA@6 %				125,900 X 6% = £7,554	7,554	

Tax wdv c/f			5,022,090	125,900+225,000 = 350,900		
Total CAs					1,389,964	

2)

Rollover relief is 1,064,540 - (2,500,000 - 2,425,000) = 989,540

	£	£	
Proceeds	2,500,000		
Less: Cost	(1,325,000)		
Unindexed gain:	1,175,000		
Less indexation 278.1 - 256.7/256.7 x 1,325,000 =	(110,460)		
Gain:	1,064,540		
Less rollover relief	(989,549)		
Gain:	74,991		

Base cost of new asset is 2,425,000 - rolled over gain of 989,549 = £1,435,451

3)

Accounting profit: £4,200,000

Add back £:
Depreciation: 725,000
Entertaining: (6,500 - 1,000) 5,500
Loss on disposal of computer equipment: 1,000
Late payment interest: (Deductible) 0
QCD: 500

Less £:
Bank interest received: (12,600)
Dividends: 5,000 + 7,500 = (12,500)

Trading income: £4,906,900
Less CAs: £(1,389,964)

Trade profit: £3,516,936

Other income £:
NTLR profits: 12,600
Chargeable gains: 74,991

Less £: QCD (500)

Taxable total profits: £3,605,027

Dividends are not included in the calculation of TTP

4)

Scoulton Ltd has one associated company therefore two overall.

Large profits limit is divided by 2. 1,500,000/2 = 750,000

Augmented profits for y/e 31 March 2025 is (3,605,027 + 5,000) = £3,610,027.
Dividends from associated companies (Bedlars Ltd) are not included.

Augmented profits are above this threshold, however, as Scoulton Ltd's augmented profits for y.e 31 March 2024 were only £650,000, therefore Scoulton Ltd does not have to pay tax by instalments.

Tax will be due as normal 9 months and one day after the end of the accounting period.

CT Payable is £3,605,027 @25% = £901,258

Tax is due on 1 January 2026.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

1)

An accounting period begins on the earliest of, commencement of trade, acquisition of income, company being resident in the UK or immediately at the end of the previous accounting period. On 1 July 2023, Plantagenet Ltd opened an interest bearing account (source of income) therefore the AP begins on that date. An AP ends at the earliest of, cessation or commencement of trade, company becoming dormant, end of period of account, 12 months after AP began or companing ceasing to be resident in the UK. On 1 February 2024. trade began. Therefore, the first chargeable AP for Plantagenet Ltd is 1 July 2023 - 31 January 2024.

The 2nd accounting period runs from 1 February 2024 - 31 December 2024 as this was the end of the company's period of account. As there are two accouting periods, both periods need to file a return. The first return will need to be submitted on 31 January 2025 and the 2nd return will need to be submitted by 31 December 2025.

2)

To be eligible for the cash accounting scheme, the company needs to have met certain conditions under legislation. These include, reasonable grounds to believe the value of taxable supplies will not exceed £1,35 million in the next 12 months. All VAT submissions are up to date and outstading VAT has been paid. No VAT offences committed in the last 12 months. No VAT penalties have been received for evading VAT where the business has been accused of dishonest conduct.

Plantagenet Ltd will be eligible for the cash accouting scheme based on the information provided.

Cash accouting scheme will allow for a business to account for VAT when money is received and money is paid, not using the normal 'tax point' rules to determine time of supply.

An advantage of this is automatic bad debt relief. As Plantagenet Ltd has customers who occasionally do not pay, output tax would have been paid to HMRC before it had been collected from customers. Therefore, when the company suffer bad debt and will have to wait 6 months before they can reclaim output tax, under the cash accounting scheme, cash was never receoved from the customer, therefore no output tax is paid to HMRC and automatic bad debt relief is claimed.

3)

As Plantagenet Ltd provide its employees with benefits, they will pay Class 1As NICs on this. Plantagenet Ltd will pay NICs on the cash equivalent of the benefits mentioned. Class 1A Nics are the liability of the employer, and are charged at a rate of 13.8%.

If the company included a benefit in payroll, Class 1A Nics are still charged. Class 1As are due in one sum on the 22 July following the end of the tax year where the payment is made electronically.

4)

An engagement letter is recommended for advice because it defines the terms and limitations of the engagement and to agree these with Porter Ltd.

An engagement letter can be used to manage client expectations and provide significant protection for Tudor LLP against any potential claims.

An engagement letter record the terms of contract with Porter Ltd for the provision of professional services.

5)

Anti-avoidance legislation applies where there is relationship between the worker and employer. If the intermediary did not exist, then Joanna would have been regarded an an employee. As Joanna had to be at offices everyday and was not able to work for anyone else, then she would have been seen as an employee in the eyes of HMRC if the intermediary did not exist, and would therefore be subject to the off payroll working rules.

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

1)

Taxable trading profits: £8,900,000
Chargeable gain: £2,850,000
Total taxable profits: 11,750,000

	Trading profits £	chargable gain £			
Profits	8,900,000	2,850,000			
Less trading loss b/f	(8,375,000)				
Less capital loss b/f		(1,800,000)			
TTP:	£525,000	£1,050,000			

Allocate full deduction allowance to trading losses as the question states to take maximum relief is taken for trading loss. The deductions allowance could have been split between capital loss and trading loss b/f in order to use capital losses completely as these are streamed losses.

W1
Less trading loss b/f: 8,375,000

Maximum amount of relief available is lower of:

Unrelieved carried forward loss £12,000,000

Deductions allowance: £5,000,000 + (6,750,000/2) = £8,375,000

W2
The maximum amount of capital loss b/f is 50% of capital loss b/f - 3,600,000 x 50%

The losses remaining to be carried forward are:

Trade loss:
Loss b/f £12,000,000
Less relieved: (8,375,000)
Loss c/f: 3,625,000

Capital loss:
Loss b/f £ 3,600,000
Less relieved: £(1,800,000)
Loss c/f: £1,800,000

2)

In order to assess the inclusion of tax planning arrangements, the following should happen:

document the detailed reasoning and evidence sufficiently to be able to demonstrate why they took the view that any planning was not in breach of this standard.

Include in their client advice assessment of uncertainties and risks involved in the planning

Include in their client advice an assessment of the relevant disclosures that should be made to the relevant authority in order to enable to tax planning arrangements.

3)

		No of shares	Cost		
1 September 2019					

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Email:

To: Amol
From: Tax advisor
Subject: Tax
Date: 29/04/2025

Dear Amol,

I am writing to explain the queries you had. Please see the following:

<u>B/F Losses</u>

If within a 3 year period a single person acquires more than 50% of share capital in a companu, there has been a change in ownership. This would occur when Big Corp Ltd acquires Triangle limited.

Anti-avoidance rules exist to prevent a company carrying forward its trading losse where there has been a change in ownership. It stop the owner buying a company just for sake of utilising brought forward losses.

An effective brick wall is put up at the date of the change of ownership, which blocks trading losses being carried forward after the date of the change in ownership.

Furthermore, any losses made after the change in ownership cannot be carried back.

<u>Parallel Ltd</u>

Group relief allows losses to be transferred to profit making companies in the same 75% group.

The sale of Parallel Ltd means that they are no longer part of the group for group relief purposes. For the purposes of group relief, a company leaves the group when arrangements come into force to sell the shares in a company.

Time apportionment is applied to calculate what losses can be group relieved.

Losses in the company can be group relieved up until the point at which the arrangements come into place to sell the company.

The amount of group relief available is lower of loss until arrangements for sale or profit untul arrangements for sale.

<u>Yellow group limited</u>

A potential exemption available for Yellow Group Ltd for the share sale of Brown-Goods Ltd.

This exemption is substantial shareholding exemption.

The disposal of a substantial shareholding will allow for any gains to be exempt and a capital loss that is not allowable.

There is no requirement for the Yellow Group to be a trading company.

The substantial shareholding requirement is met if the Yellow Group company held at least 10% of the ordinary share capital in Brown-Goods Ltd throughout a 12 month period beginning no more than 6 years prior to disposal. Yellow Group Ltd also must have been entitled to at least 10% of both profits available for distribution and assets available for distribution on winding up.

Brown-Goods Ltd must have been a trading company or the holding company of a trading company or sub-group throughout the period beginning with the start of latest 12 month period where Yellow Group Ltd passed the substantial shareholding test.

A group's shareholding in Brown Goods Ltd is aggregated to satisfy the substantial shareholding requirement. For the purposes of these rules, a group is a 51% subsidiary.

The SSE is not restricted to disposal of shares in UK resident companies.

<u>Brown-Goods Ltd loss</u>

Brown-Goods profit year ended 31 May 2026 - 300,000

Share sale date given is 1 July 2025.

The maximum amount of group relief available to Brown-Goods is:

Lower of:

Profit until arrangements for sale - 1/12 x £300,000 = £25,000

Loss until arrangements for sale - 1/12 x £2,000,000 = £166,667
Maximum relief available is 25,000.

Total taxable profits for the Brown-Goods Ltd are:

TTP: £300,000
Less group relief: £(25,000)
TTP: £275,000

Polygon Ltd

Under group payment arrangements, companies that are liable to pay tax in instalments may nominate a company to deal with the payment of instalments for the group as a whole. The nominated group company completes a group payment arrangement document that lists all the companies that participate and submits to HMRC at least one month before the first instalment is due.

The application must have the start to end dates of the first period where the arrangements apply.

The nominated company undertakes the corporation tax liabilities of the participating companies for the periods that fall within the arrangements. It is up to the nominated company to determine when payments are made.

Please do let me know if you have any other questions

Kind regards,

Tax advisor

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

Answer-to-Question-_5_

1)

Year ended 31 January 2025

	£	£	
UK rental income	1,450,750		
Less: Third party expenses for the year 31 January 2025 and not for the year 31 January 2026, as these expenses are incurred on accruals basis - (250,000 - 146,800) =	(103,200)		
		<u>£1,347,550</u>	
Overseas rental income:			
Whiteland: 432,600 + 40,997 - this income needs to be gross	91,000		
Blueland:	(110,000)		
Interest receivable:			
Bank interest	90,800		
Interest payable on loan to purchase property	(40,000)		
Release of loan to participator (close company as individual shareholder controls both companies) treated debit loan relatonship	(400,800)		
Dividends exempt:			
432,600 + 40,997 = 473,597 - foreign dividends are exempt	0		
Total profits:		978,550	
Less management expenses:			
rent on office space	(200,000)		
Commission on shares	(17,000)		
Less QCD	(3,500)		

TTP:	£758,050		

2)

A company incorporated in the UK will be regarded as UK for the purposes of Corporation Tax. A company not incorporate in the UK but centrally managed in the UK will still be UK resident.

Also, the meeting of board directors is important to consider. HMRC will see whether directors have control, where this control is excercises and to find out who does if the board do not have central management or control.

Double tax relief is available where Pinkland pays tax on profits both overseas and in the UK. The amount of relief available is lower of the UK corporation tax due on the source of income and the foreiggn tax suffered.

3)

Penalties would arise on the failure to notify chargeability.

A failure that is deliberate and concealed is 100% of lost revenue.

The minimum penalty with unprompted and prompted disclosure for the above is 30% and 50% respectivaley.

Deliberate and not concealed is 70% of lost revenue.

The minimum penalty with unprompted and prompted disclosure for the above is 20% and 35% respectiveley.

Any other case is 30% of unpaid lost revenue

The minimum penalty with unprompted and prompted disclosure for the above is nil within 12 months of disclosure, 10% of more than 12 months and 10%within 12 months of disclosure and 20% of more than 12 months respectively.

Los revenue begins from the date tax is unpaid

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

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

Answer-to-Question-_6_