

Institution **CIOT - ATT**  
Course **ATT Paper 4 Corporate Taxation**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

**Notice: Exam was restarted!**

Count (s)	Word(s)	Char (s)	Char (s) (WS)
Section 1	<b>484</b>	<b>2213</b>	<b>2676</b>
Section 2	<b>407</b>	<b>2142</b>	<b>2556</b>
Section 3	<b>549</b>	<b>2446</b>	<b>2943</b>
Section 4	<b>851</b>	<b>3922</b>	<b>4730</b>
Section 5	<b>278</b>	<b>1352</b>	<b>1568</b>
Section 6	<b>0</b>	<b>0</b>	<b>0</b>
Total	<b>2569</b>	<b>12075</b>	<b>14473</b>

### Answer-to-Question- \_1\_

1. Patent - As a general rule, this will be brought into account for tax purposes when it is recognised in the company's accounts.

Accounting amortisation is allowable for the corporate taxation under the IFA rules. This is either the amount amortised or 4% of cost that is 5000 x 4%.

Goodwill:

From 1 April 2019, a deduction is available where the goodwill is acquired as a part of the acquisition of the business, in which there is qualifying intellectual property. the allowable deduction is 6.5% per annum. the Deduction allowance is 50000 x 6.5% = 3250 pa.

Acquired from an unconnected company, this falls in the IFA regime.

Plant and machinery:

P and M qualify for the capital allowance and not depreciation.

Cost of capital allowance is the cost to Orchard Ltd on acquisition

Relief via AIA in subject to restrictions are applicable or under main rate or special rate pool.

2. Treatment of the redundancy package - Jamila

Income tax:

Payment in Lieu of notice: This is taxable in full as it relates to the salary Jamila would have received had they worked in the notice period. This is subject to class 1 NIC and is deductible for the corporate tax purposes by orchard ltd.

therefore,  $90000 \times 3/12 = 22500$  is fully taxable with no exemption.

The non-contractual termination payment is exempt but under the s.401 ITEPA, it reduces the 30000 for the non-contractual payment, making 90000 taxable.

Restrictive covenant - This is taxable in full as this is being compensated for not working in another company. This is fully taxed by virtue of section 225 ITEPA 2003. This is subject to class 1 NIC and is deductible for the corporate tax purposes by orchard ltd.

3. VAT bad debt relief can be claimed if the following conditions are fulfilled:

The debts has been written off by orchard ltd, which has been done.

The amount written off was not any more than the normal selling price.

The debt is atleast 6 months old (i.e 6 months from the due date for payment). Here, Blossom ltd invoice is on 3rd Feb 2025 due on 3rd march. By october 31st the debt is more the 6 months due, therefore qualifies for the Bad debt relief.

Pear ltd invoice is on 29th Aug, which is due on 28 Sept, written off on 31st october, which has not crossed the 6 months overdue, therefore the relief is not available.

The claim must be made within 4 years and 6 months from the date that the invoice was

payable.

The claim is made by adding the bad debts figure to the input vat figure in the VAT return.

Orchard ltd's records must include the VAT invoices and any other records showing that output vat has been accounted for.

They do not have any obgligation to tell it's customers that the debt has been written off.

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

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 -----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

1. Capital Allowance:

Assets	FYA 50%	FYA 100%	AIA 100 %	Main pool/general pool 18%	Special rate pool 6%
Pool balances				2525000	25500
Solar panels	800000				
New Manufacturing Equipment		250000			
Car - emission 120g/km (No AIA or FYA, exceeds 50g/km)					45000
Solar panels - balance 50%					400000
Final Allowances	=800000 x 50%	250000	-	=2525000 x 18%	=470500 x 6%
	400000	250000		454500	28230

Total Capital Allowances claimable = 1132730

Manufacturing Equipment comes under the FYA 100% as this is new general pool plant and machinery.

Solar panels does not qualify for FYA 100% as it is an integral feature, It qualifies for Special rate pool. As this is a new integral feature, it qualifies for 50% FYA and the rest of the 50% cost can claim Special rate pool allowances.

2. A close company is one controlled (>50%) by any number of directors who are shareholders or five or fewer participators (Shareholders).

When considering how many shares an individual owns, include the shareholdings of their associates. This includes an individual's spouse, parents and remoter ancestors, children and remoter issue and siblings.

Participators	Shareholding	Reason	
Jack	11%	Individual participator	
Seeley and Associates (Angela, Camile)	14% + 14% + 11% = 39%	Seeley's 14% plus Seeley's sister Angela's 14% and Seeley's Business partner Camile's 11%	
Zack	10%	Individual participator	

Here, Seeley and her associates (Seeley, Angela, Camile) owns a total of 39% (See table below), Zack owns 10% and Jack owns a total of 11%. Together, Wendal Ltd is owned by 3 participators (less than 5 participators). Thus making it a close company.

### 3. TOTAL TAXABLE PROFITS (TTP Calculation)

Profit before tax per accounts for the period of account			1125000
Add back disallowable expenditure			
Depreciation	725000		
Interest payable - Camile	25000		
Legal Fees - Allowable <50 years			
Entertaining (8500-2000)	6500		
Gifts to customer(bears logo, advertising, allowanble)			
Car lease	4500		761000
Adjusted profit before CA			1886000
Less: Capital allowance			(1132730)
Trade Profit			753270
Add:			
Bank Interest	750		
Interest overpaid on corporate tax	(275)		475

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Less: QCB			(200)
<b>Taxable total profits</b>			<b>=756545</b>

loan Relationships:  
Bank interest receivable: 750  
Interest overpaid (275)  
NTLR = 475

4.

Taxable total profits			=756545
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Corporation Tax =  $756545 \times 25\%$   
= 188386.25

As the Augmented profits exceed the upper limit, 500000, the total amount is taxable at 25%.

The Augmented profits is  $756545 + 50000 = 803545$ . This includes the total loan paid back by Seeley as the payment are made within 12 months of the AP end.

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

1. Difference between BADR and Investors Relief:

**Business Asset disposal relief:**

BADR applies where there is a material disposal of the business assests.

Available on the disposal of shares in a trading company or holding company of a trading group.

The sgares must be owned for atleast 2 years before the sale.

The company must be a personal company to the shareholder i.e:

the shareholder owns atleast 5% of the ordinary share capital and is able to exercise atleast 5% of the voting rights.

They must be entitled to atleast 5% of the distributable profits and 5% of the assets is available on winding up.

BADR is given by taxing qualifying gains at 10%.

BADR is only available in respect of eligible gains upto the lifetime limit of 1 Million. Gains in excess of the lifetime limit are taxed at normal CGT rates.

**Investors Relief:**

Shares mudh be in a trading company (or holding company of a trading group) and must be unlisted when they are issued.

Shares must be new ordinary shares subscribed for cash on or after 17 march 2016.

The individual cannot usually be a director or employee of the company.

The shares must be held for 3 years.

The claim must be made by the first anniversary of the 31 Jan following the tax year in which the disposal takes place.

A holding may consist of:  
Qualifying shares,  
Potentially qualifying shares and  
Excluded shares

Only the proportion of the gain which relates to the qualifying shares will qualify for the investors relief.

These qualifying shares will be subject to tax at 10%  
The gains qualifying the relief are subject to a lifetime limit of 10 million per individual.

The major differences relate to the type of share and the lifetime limits of the reliefs.

Condition	BADR	invstor's relief	
Shareholding	$\geq 5\%$	none	
Employment	Must be employee	Must not be employee	
Type of shares	Any	Newly issued, unlisted,	
Minimum holding period	2	3	
Lifetime limit	1 million	10 Million	

## 2. Capital gains tax:

Sale proceeds = 250000  
Cost = 60000  
Gain = 190000

Chris is an employee for more than 10 years and have held these shares for 6 years. Out of which, more than 3 years, she has held  $>5\%$  of the company shares. Though now she owns only 3%, prior to 31st Dec 2023, she has owned 6% of the total shares for 3 years.

Therefore she is eligible for BADR.

Sale proceeds = 250000  
Less cost = (60000)  
Gain = 190000  
Less AEA = (3000)  
Taxable gain = 187000

**CGT Payable = 187000 x 10%**

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**= 18700**

3. Structure and building Allowance:

Cost of the access house = 2000000 (160000 is land)  
Qualifying cost for SBA = 2000000-160000 =1840000

First used - 1st Jan 2023

Renovation: 150000 on 1 june 2025

Disposal on 1 may 2026

SBA rate = 3% straight line  
Year end 30 September.

SBA Calculation:

y/e sept 2023 = 1840000 x 3% x 9/12 months = 41400

y/e sept 2024 = 1840000 x 3% = 55200

y/e sept 2023 = 1840000 x 3% + (150000 x 3% x 4/12) = 56700

y/e sept 2023 = (1840000 + 150000) x 3% x 7/12 = 34825

Total SBA = 188125

The total SBA reduces the base cost of the asset during disposal.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

1. Tax treatment of the proposed repurchase of the shares:

Rachel:

A company purchase of its own shares is not normally treated as a distribution, instead the shareholder will be treated as receiving a capital sum on disposal of shares equal to the amount paid by the company, this gives rise to pnc calculation a normal Capital gains calculation.

This treatment only applies when the company must be an unquoted trading company that are not 51% subsidiaries of a quoted company or holding company of a trading group.

If all conditions are met, the disposal is made under CGT rules rather than income.

The repurchase must satisfy either of the below conditions:

the buy back must be wholly or mainly benefit the trade carried by the company.  
Rachel must be a uk resident and have the shares held for at least 5 years  
Her interst in the company must be substantially reduced(Must not hold more than 75% of the prior interest after the buy back)  
Follwoing the buyback, she must not be connected to the company, that is she must not own more than 30% of the shares.

OR

The whole or substantially the whole of the payment is applied by the person whom it is made in discharging a liability of theirs for inheritance tax arising on the death of the another person, within the period of 2 years after the death. This only applies if, without the repurchase, the payment of the liabilit would cause undue hardship.

If these conditions are satisfied, rachel is taxed on a capital gain. If not, the payment is an income distribution taxable as dividends

As rachel is a higher rate tax payer, the capital gain would be subjets to 20% after the 3000 AEA for 2025/26.

The companyy may deduct the amount paud from its share capital but no corporate tax

deduction is available.

Sandmouth LTD.

FOR companies, Buy back is a disposal of shares.

Any gain = Proceeds-cost of the shares.

The SSE is exempts the gain if sandmouth ltd has held more than 10% ordinary share capital for more than or at least 12 months and west sharp is a trading company.

Here sandmounth only owns 4/5% therefore SSE does not apply.

IF HMRC regarded the payment as a distribution, it would be exempt as dividend income, not a capital gain.

2. CGT - rachel:

Total shares owned = 1000

Retained = 50 shares

Shares sold = 950

Proceeds =  $23.7 \times 950 = 22515$

COst =  $950 \times 1.5 = 1425$

Gains = 21090

LEss AEA = (3000)

Taxable gains = 18090

CGT =  $18090 \times 20\%$

As rachel is a higher rate tax payer

**CGT = 3618**

3. steps to be taken by my firm to act for both west sharp ltd and Rachel

Identifying the conflict od interest - As this is a conflict of interest, the firm should check the terms of its engagemnet letter which might prohibit this.

If the engagement letter does not expressly prohibit this, the firm should consider these 3 options:

Act for 1 party, which generally would be West sharp ltd, as this was the original clietn. Rachel should be informed of this immediately to avoid any suggestion of acting improperly.

Act for both parties. This would have to be disclosed to both parties if they wish to have alternative advisors. The firm would also have to be satisfied that this conflict could be managed. Separate teams should act for both parties and there should be an ethical walls in place.

If the conflict cant be managed, the firm should act for neither parties.

4.

To: Roger  
FRom: firm@advisor  
SUbject: Corporation tax treatment - Intragroup tarnsfer  
Date: xx xx xxxx

Dear Roger,

Thank you for your mail reagrding the transfer of cold farm factory building and wood warehouse between group companies.  
Please find below the tax implications for the same.

Intra group tranfer relief:

As all companies involved are members of the west sharp ltd group, and fall within the 75% ownership test, the transfers shpuld qualify for a no gain/no loss treatment under TCGA 1992 s.171. this is a compulsaory and applies automatically.

These rules apply when:

The tranfering company is a UK resident at the time of disposal or the assest is a chargeable asset in relation to that company immediately before that time.

The transferee company is a uk resident ay the time of disposal or the assest is a chargeable asset in relation to that company immediately after that time.

On the transfer to port sutton ltd, the disposal will be at no gain/no loss.

The historic base cost is taken which is at 635000 plus indexation from november 2010 to dec 2017. which is 105410

Therefore the base cost being 740410.

If there were no group relief, the gain would have been 465000 which would have been

charged at 25%.

The transfer of the wood warehouse to woodland trading ltd will also qualify for the no gain/no loss treatment.

The base cost would be the original base cost plus any indexation value.

Kind regards,

Tax advisory team

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-----ANSWER-4-ABOVE-----  
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 -----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

1. Taxable total profit calculation:

	2022	2023	2024	2025 mar 31	2025 oct 31
Trading profit	500000	270000	38000	48000	-
Property income Factory 1		-	2000	9000	65000
factory 2		-	2000		
Loss from Factory 2, Current year and Carry back mar 31 2025			(2000)	(9000)	(65000)
Loss from Factory 2, Current year and Carry back oct 31 2025	(21000)		(2000)		
Chargeable gain				75000	
Less: carried back losses from 31 oct 2025				(75000)	
income before Capital allowance	469000	270000	38000		
: losses carried back from 31 oct 2025	(262000)	(270000)	(38000)		

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<b>Taxable trading profit</b>	<b>207000</b>	-	-	-	-

2. Unrelieved losses:

Property loss on 31st oct 2025 = 88000  
Less Current year property = (65000)  
Less Carried back to 2024 = (2000)  
Unrelieved property loss = 21000 - Carried back to 2022 profits  
Balance - nil

Capital loss = 230000 - 75000 (2024 gain)  
balance = 155000

Trading Losses = 570000  
2024 carry back (38000)  
2023 carry back (270000)  
2022 carry back (262000)  
Balance = Nil

3. No taxable income for the y/e 2023, 2024, 2025.

The corporation tax due for the ye 2022 is  $207000 \times 19\% = 39330$

4. Issue a formal disengagement letter to raj confirming the effective date, scope of services ended and any outstanding fees.

Agree handover - We have to advice Raj to appoint a replacement adviser on receiving authority from new adviser provided professional clearance and tranfer client papers immediately as requested.

Notify HMRC that we no longer represent Raj and it no longer represents Raj.

Retaining work papers in accordance with the HMRC regulations and requirements and record the conflict checks and reason for cessation of representation.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- \_6\_