

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	452	2155	2576
Section 2	261	1396	1560
Section 3	305	1409	1666
Section 4	324	1463	1756
Section 5	226	1086	1255
Section 6	0	0	0
Total	1568	7509	8813

Answer-to-Question- _1_

1. Tax relief on aquisition if:

Goodwill:

Usually no tax relief is given on the purchase of goodwill. However from 1 April 2019 a deduction is available where goodwill is aquired as part of the aquisition of a business in which there is qualifying intellectual property. In this case Orchard Ltd had aquired patents which falls under the qualifying intellectual property. The allowable deduction is 6.5% per annum x lower of: the cost of the goodwill(50,000) or six times the amount of the qualifying intellectual property.(6 x 5,000)

Therefore $6.5\% \times 30,000 = 1,950$ relief

Patents:

Will fall under IFA where tax relief is available for the amortisation of an IFA in the charged accounts or Orchard can claim a straight line deduction of 4% on cost. The highest deduction would be chosen which is 625.

$5,000 \times 4\% = 200$ or $5,000/8 = 625$

P and M:

This will be taken as the MV at the time of aquisition by Orchard Ltd

2.

Redundancy Package Income tax purposes:

For income tax the non contractual termination payment will be taxed as earnings as its over 30k.

The restrictive covenant is fully taxable as Jamila's earnings.

Lastly the contribution to the pension scheme is fully exempt from tax.

Corporation tax purposes:

The non contractual termination payment as its non contractual will only be deductible for corporation tax purposes if it meets the 'wholly and exclusively' for the purpose of the trade test.

As for the restrictive covenant is deductible under statute.

Lastly the contribution to the pension scheme is fully exempt from tax.

NICS:

If the non contractual payments is 'ex gratia' and its is over £30,000. 90,000 will be subject to Class 1A NICS by Orchard.

By orchard ltd $90,000 \times 13.8\% = 12,420$

The restrictive covenant is part if Jamilas normal employment income and will be subject to class1 primary and secondary NICS as normal.

3.

Orchard Ltd can claim bad debt relief for VAT on any debt which is six months old(ie more than six months has passed since the later of the date of supply and and due date for

payment as stated on the invoice)

Further conditons must be met aswell:

Orchard ltd must have supplied the goods/services invoiced.

Orchard must have accounted for and paid the VAT to HMRC

The debt must have also been written off in the accounts and transferred to seperate bad debt account.

The value of the supply must not be in the excess of the normal selling price.

The claim for the bad debt must be made within 4 years and 6 months from the later date of the date of the supply and due payment.

There is no obligation for Orchard to tell its customers its claiming bad debt relief.

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

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

Answer-to-Question- 2

1.

	FYA 100%	AIA	MP	SRP	CA
TWDV			2,525,000	25,500	
Solar Panels		800,000			
Manufacturing equipment	50,000	200,000			
Car 120g/km				45,000	
Total	50,000	1,000,000	2,525,000	70,500	
FYA 100	(50,000)				50,000
AIA		(1,000,000)			1,000,000
WDA 18%			(454,500)		454,500
WDA 6%				(4,230)	4,230
TWDVCF	0	0	2,070,500	66,270	1,508,730

2.

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

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

Seely and Angela control 14% each therefore its 28% and angelas associate Jack 11% and Camille 11% make it up to 50% total. This means Wendal is controlled by 5 or fewer participators and is a close company.

3.

profit	1,125,000		
depreciation	725,000		
legal fees-short lease	(2,500)		
client entertaining 8500-2000	6,500		
gifts to customers- 500 pens with logo	(750)		
gifts-food hampers add back	3,000		
lease 15% disallowabe	675		
qualifying Donations	200		
less:			
bank interest	(750)		
allowable 85% lease	(3825)		
intrest payable on trading loan	(25,000)		
non trade intrest- on overpaid CT	(275)		
CA	(1,508,730)		
Trade profit	318,545		
NTLR	475		
Qualifying donations	200		
TTP	319,220		

Tax charge $50,000 \times 33.75\% = 16,875$

NTLR

Interest receivable	750		
less overpaid	(275)		

4.

TTP	319,220		
dividend	0		
Augmented profits	319,220		
CT Payable 319,220 x 25%	79,805		
Tax charge	16,875		

OVER 250,000 therefore main rate at 25%

Tax charge $50,000 \times 33.75\% = 16,875$

however as parts of this loan have been repaid past the period this will be repaid in the next period.

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

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

Answer-to-Question- 3

1. BADR relief

The BADR relief will be available if the disposal is a 'material disposal' of 'business assets'. For the disposal to qualify the following conditions must be met:

The soldtrader/partners should be selling the whole or part of their business.

With regards to disposal of shares the company directors/employees must be selling their shares in a 'personal trading company'.

The company must have been their personal trading company for a period of at least 2 years up to the date of disposal. In order to qualify as a personal company they must own at least 5% of the ordinary shares and be able to exercise at least 5% of the voting rights.

The company must be a trading company or holding company of a trading group.

and must also work for the company.

Investors relief

For investors relief it must also be to do with a trading company, the shares must be in trading company and must be unlisted when they are issued.

The shares must be new ordinary shares subscribed for cash on or after 17 March 2016.

However for this relief they cannot work for the company.

Lastly the shares must have been held for 3 years as compared to 2 for BADR.

2.
Chris

proceeds	250,000		
less cost	(60,000)		
GAIN	190,000		

	BADR	Not BADR	
on shares	190,000		
gain on land		15,000	
LESS AEA	-	(3,000)	
	190,000	12,000	
CGT	10% BADR C 190,000=19,000	20% X 12,000 =2,400	

3. SBA

YE 30 Sept 23

Qualifying cost = 1,700,000 - 100,000(land)=1,600,000

SBA:

YE 30 Sept 23	YE 30 Sept 24	YE 30 Sept 25	YE 30 Sept 26
3% x 1,600,000=48,000 X 9/12=36,000	3% x 1,600,000=48,000 full year allowance	annual allowance of 48,000 plus renovation cost. 150,000 x 3% x 4/12=1500 Total=49,500	sale on 1 May 2026 48,000 x 7/12=28,000
As apportioned Jan to Sept			

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

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

Answer-to-Question- 4

For Sandmouth Ltd as the shareholder is a company this will be treated as a capital treatment.

Under the capital treatment the disposal gives rise to a capital gain which will be taxable. BADR is not available as it is a company. The gain will be taxed in the CT return

For Rachel this will also be a capital treatment as the conditions have been met: unquoted trading company, the sale is for the benefit of the trade, she is a UK resident and has held the shares for more than 5 years. The buyback reduces her interest in the company by at least 25% and she will not be connected to the company following the buy back. $1000/10000=10\%$ $50/10000$

Her gains will be taxed at 20% as she is a higher rate tax payer and may qualify for BADR if she worked for the business. She already used up her AEA.

2.

PROCEEDS 23.7 X 50	1,185		
LESS cost 1.50 x 50	(75)		
less AEA	-		
GAIN	1,110		
CGT 20%	222		

3.

My firm needs to consider and evaluate working for both parties due to conflicts of interest.

The firm must advise both of the parties of the conflict and give them the opportunity to consider if they seek alternative representation or agree to act for both if appropriate by having safeguards eg separate teams working with each client

4.

To: Roger
From: Tax Adviser
Date: XXX
Subject: Treatment of transfer

Dear Roger,

Please see my response to the treatment of the transfer below:

The cold farm factory building will be transferred at market value at the time of the transfer 1,100,000.

The base cost of of port sutton ltd

A de grouping charge could also potentially arise however we would need more information to justify this.

With regards to Woolware house we will need to wait for more history and background to provided.

Please let me know if you have anymore questions.

Many thanks,
Tax Adviser

-----ANSWER-4-ABOVE-----

 -----ANSWER-5-BELOW-----

Answer-to-Question- 5

	22	23	24	25	p/e 6 months 31 oct 25
trading profit	500,000	270,000	38,000	48,000	0
property: factory 1			2,000	9,000	65,000
factory 2			2,000	0	0
Gain w1				0	
total pre losses	500,000	270,000	42,000	57,000	65,000
Property loss				(11,000)	(65,000)
terminal loss	(142,000)	(270,000)	(42,000)	(46,000)	
TTP	358,000	0	0	0	0

w1 gain
 75,000 less leads factory loss(230,000)

There is both terminal loss and trading losses to account for.

2.
 Capital loss

640,000-88,000=552,000 as well as the leads factroy of 230,000
 unused=782,000

property loss- $88,000 - 65,000 = 23,000$ to carry forward.

Trade loss
all used

3.

4. To stop acting for Raj the firm should continue to act until they have taken reasonable steps to notify Raj that they are no longer acting.

The firm should notify raj in writing that they no longer are acting a address the following in their letter of disengagement:

The summary of services provided up to the date of ceasing to acts.

A note of any further action to be taken by a member.

A note of any outstanding matters that either the ex client or new advisers would need to address.

Details of any impending deadlines and actions required.

The firms willingness to assist the new advisers to resolve any outstanding issues with HMRC and provide any copy paper to new advisers.

and details of any oustanding fees.

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

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

Answer-to-Question- _6_