

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	659	3042	3678
Section 2	304	1511	1762
Section 3	444	2218	2612
Section 4	627	3008	3593
Section 5	307	1610	1838
Section 6	0	0	0
Total	2341	11389	13483

Answer-to-Question- _1_

1.

Patents

Orchard Ltd purchased the patents for £5,000 from an unconnected party. They are amortised on a straight line basis over 8 years.

The company could claim a straight line deduction of 4% which would be £200 per year or it could claim the actual amount that has been claimed in the accounts for the amortisation or an impairment of the patent. This would be £625 per year.

Goodwill

Usually there is no tax relief dor amortisation or impairment of goodwill, however, as the as relevent assets were aquired as part of the acquisition of a business in which the company also acquired qualifying intellectual property (i.e patents) then there is an allowable deduction of 6.5% per annum on the purchase of good will which would be £3,250 per year.

Plant & Machinery

Orchard Ltd would be able to claim capital allowances on the price it paid for the plant & machinery. As it was obtained from an unconnected party, Orchard Ltd would be able to claim annual investment allowance (up to 1mil) on the plant & machinery. First year allowances would not be available as the P&M would be second hand. Any balances after the allowances have been claimed will be carried forward and WDA can be claimed going forward.

2.

Non-Contractual Terminal payment

The payment of £120,000 includes the 3 months notice as her contract was terminated immediately. This is known as post-employment notice pay(PENP), and would be calculated at 3/12 of her annual salary which was £90,000.

The PENP amount would be £22,500.

PENP is taxable in full and treated as employment earnings meaning Tax & NI would be payable on this amount by Jamila and Orchard Ltd would receive a tax deduction for this amount & Employers NI would be due on this amount.

The remaining £97,500 would be taxable under S.401 as the payment was made outside the contract of employment. The first £30,000 of this amount would be tax free for Jamila. The remaining £67,500 would be subject to tax at 40%/45% depending on whether she is higher/additional rate tax payer. National insurance would not be due on any of this payment (even the amount exceeding £30,000) for Jamila.

For Orchard Ltd Class 1A NIC charge will be levied on the amount that is subject to tax i.e £67,500 and NIC will be due at 13.8% on this amount. The company would receive tax relief for the whole termination payment and the NIC payment.

Contribution to pension scheme

The payment of £12,000 to the registered pension scheme will be completely tax free to Jamila and the company will be able to deduct this payment from their taxable profits.

Restrictive Covenant payment

The payment of £7,500 made for the restrictive covenant will be subject to tax and class 1

NIC for Jamila. Orchard Ltd will have to pay Class 1 Secondary NI on the payment and it is a deductible expense for the company.

3.

Both of the debts were written off in the accounts on 31.10.25

In order for Orchard Ltd to claim bad debt relief a number of conditions must be met:

- The supplied goods or services must have been accounted for and the output VAT must have been paid to HMRC
- The whole or part of the consideration must have been written off in their accounts
- The value of the supply being written off must not be more than the normal selling price.

The debt is at least 6 months old (based on the later of the date of the supply or date of payment)

The invoice to blossom Ltd was issue on 3.2.25 and the goods were received on 31.1.25. Bad debt releif will be avaiable for this invoice as at 3.8.25.

The invoice to Peter Ltd was invoiced on 29.8.25 and the goods were received on 26.8.25 so bad debt relief would not be available on this invoice at the moment. Relief will be due as at 26.2.26.

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

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

Answer-to-Question- 2

1.

Capital allowances	AIA @ 100%	FYA @ 50%		General pool	SR Pool
bfwd				2,525,000	25,500
solar panels		800,000			
manufacturing equip	250,000				
Car 120g/km					45,000
Total	250,000	800,000		2,525,000	70,500
AIA @ 100%	(250,000)	(400,00			
WDA @ 18%				(45,450)	(4,230)
Transfer to SR pool		(400,000			400,000
cfwd	0	0		2,479,550	466,270
Total CA's	699,680				

2.

A close company is a company which is resident in the UK and controlled by either:

- a) 5 or fewer participators
- b) any number of directors who are also shareholders

Wendal Ltd is a Close company as it meets the above criteria.

Seeley, Seeley's sister (Angela) & Seeley's business (Camile) party would be classed as one individual shareholder as they are associates which would total a shareholding of 39%. Jack holds 11% & Zack holds 10% bringing the total held by these shareholders to 60%.

Control over a company is met if the shareholders hold at least 50% between them.

3.

Trading profits:

Accounting profit	1,125,000		
Add back:			
Depreciation	725,000		
Legal fees	2,500		
Entertaining	6,500	*2,000 staff entertainment allowable	
gifts (pens)	0	allowable	
gifts (hampers)	3,000	not allowable	
Lease car	0	allowable	
Interest on Loan	0	Trade Loan interest	
Less:			
Bank interest recieveable	(750)		
Interest on overpaid Corp tax	(275)		
Total	1,860,975		
Less: CA's	(699,680)		
Loss:	1,161,295		

Taxable total profits			
Trading profits	1,161,295		
Non trade LR	525		
Less: QD's	(200)		
Total Taxable profit	1,161,820		

3.

Tax due on profits @25%	290,455		
Tax due on OD loan account	Lower of	50,000	amount outstanding at 31.12.24
		35,000	amount outstanding at payment due date 1.10.25
Tax @ 33.75% on 35,000	11,813	s455 tax due	
Total	302,268		

The tax due on the overdrawn loan account is S455 tax and this is due on the lower of the amount outstanding at the year end and the amount outstanding at 9 months & 1 day.

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

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

Answer-to-Question- 3

1.

BADR

For shareholders to qualify for BADR, for at least two years prior to the disposal, the company must be the individuals 'personal trading company' and the individual must work for the company (there is no minimum hours stipulation so full/part time directors would be eligible)

A personal trading company is a company where the shareholder owns at least 5% of the ordinary share capital and is able to exercise 5% of the voting rights.

The company must be a trading company i.e carrying on trading activities.

Associated disposals will also qualify for BADR.

Investors relief

Investors relief is a bit different and is available for shareholders who make a disposal of qualifying shares in a trading company (unlike BADR which is for personal trading companies).

The qualifying conditions are:

- The shares must have been issued by the company on or after 17 March 2016 and must be held continuously for a period of at least 3 years (BADR only requires shareholders to hold shares for 2 years)
- A claim must be made by 31st January following the tax year in which the disposal was made (BADR must be claimed on or before the 1st anniversary of the 31 Jan following the tax year of disposal)
- Must be a trading company (or holding company of a trading group) similar to BADR
- The individual cannot be a director or employee (with BADR the shareholder must be an employee).

2.

Sale proceeds Dec 23	81,900	1,365,000*6%	
Cost of shares	(30,000)	60,000*50%	
Notional Gain @ Dec 23	51,900	Deferred	

Sale proceeds	250,000	Remaining shares	
Less: Cost	(30,000)		
Gain	220,000		
Notional gain	51,900		
Total Gain	271,900		
	Non-BADR	BADR	
	220,000	51,900	
Tax @ 10%		5,190	
Tax @ 20%	44,000		
Total CGT	49,190		

As there was a dilution of shareholdings in December 2023 which meant that Chris went from being a 6% shareholder to a 3% shareholder, we need to calculate a notional gain at this point as the gain would have qualified for BADR. She has never made a share disposal so she must have deferred the notional BADR gain from Dec 23.

This became taxable at the point she sold the remaining amount of her shares and would qualify for BADR.

She has made a prior in year disposal so i have assumed that her AEA has already been used.

3.

Building came into use	1.1.23		
Original cost (less land)	1,600,000	1,700,000-100,000	
Purchase cost (less land)	1,840,000	2,000,000-160,000	
Renovation works	150,000	1.6.25	
SBA:			
y/e 30.9.23	36,000	$(1,600,000 * 3\%) * 9/12$	
y/e 30.9.24	48,000	$1,600,000 * 3\%$	
y/e 30.9.25 (up to 30.5.25)	32,000	$(1,600,000 * 3\%) * 8/12$	

y/e 30.9.25 (1.6.25 onwards)	17,500	$(1,750,000 * 3\%) * 4 / 12$	
Y/e 30.9.26 (up to sale in 1.5.26)	30,625	$(1,750,000 * 3\%) * 7 / 12$	
Total SBA claimable	164,125		

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

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

Answer-to-Question- 4

1.

Sandmouth Ltd - buy back

Sandmouth Ltd is a corporate shareholder, therefore, the share buy back would be treated as capital. This means a normal capital gains computation will need to be carried out. Sandmouth Ltd will be selling 450 shares and the gain will be the difference between the amount originally paid for the shares and the amount in which they are brought back which is the MV at £23.70 per share. Sandmouth Ltd will then have to pay corporation tax on the gain. The company will not qualify for the substantial shareholding exemption as they did not own over 10% of the shares in West Sharp Ltd.

Rachel - buy back

The normal treatment for buy-backs from individuals are usually treated as income distributions.

If the income treatment takes place, Rachel will be treated as receiving a dividend for the amount received on the share buy-back less the original subscription price.

However, if certain conditions are met, capital treatment can be applied.

For capital treatment to apply, the shares must:

- be shares of an unquoted trading company that is not a 51% subsidiary of a quoted company.

It must also satisfy the following conditions

- The vendor must be a UK resident
- The vendor must have owned the shares for at least 5 years prior to buy-back
- There must be a substantial reduction to the shares
- The vendor must not be connected to the company following the buy back.

Rachel would meet the conditions and would the capital treatment would apply.

2.

Sale proceeds	9,480	400 shares	23.70per share
Less: cost	(600)	1.50 per share	

Gain	8,880		
Tax on gain:			
CGT @ 20%	1,776		

3.

In order for the firm to be able to act for both parties, the firm must:

- Ensure there is an adequate disclosure of all relievant facts to both parties. Both clients should be given the opportunity to consider whether they wish to seek alternative representation.
- As a firm, we must be satisfied that we can manage the conflicts of interest by appointing different members of staff to work on each of the clients separately.
- We must have agreement from both parties in writing stating they are happy for us to act for both parties.
- No preference is to be shown towards either party when advising the parties

4.

To: Roger
From: Tax Technician
Subject: Building transfers
Date: Today

Hi Roger,

Please see below for an explanation of the gains treatment on transfer of the buildings.

Cold Farm Factory Building

This building is to be transferred from Wellswood Estates Ltd to Port Sutton Ltd. Both of these companies are in the same gains group, therefore, the transfer of this property will happen at no gain/no loss. The property will transfer to Port Sutton Ltd at the original cost price plus indexation. The base cost of Cold Farm Factory Building for Port Sutton Ltd will be £ (see annex a for calculation)

Wood Warehouse

The transfer of this property from Wellswood Estates Ltd to Woodlawn Trading Ltd would take place at market value cost as the companies are connected but they are not within the same gains group as West Sharp Ltd only indirectly holds 45% of Woodlawn Trading Ltd and 50% must be held for a company to be in a gains group.

As the current value is far more than the original cost, this would create a gain when transferring the property between the 2 companies and the tax would be due immediately, therefore, I assume you will not want to make this transfer.

I hope this information helps, if you have any further questions, please do not hesitate to contact me.

Kind regards
Tax Technician

Annex A:

Original cost	635,000		
Plus: indexation	143,510	$635,000 * 0.226$	$(278.10 - 226.8) / 226$ $.80 = 0.226$
Base cost	778,510		

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

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

Answer-to-Question- 5

1.

P/E 31.10.25			
Trading profit	0	Loss made of (570,000)	
Property profit	0	Loss made of (23,000)	65,000-(88,000)
Capital	0	Loss made of (230,000)	
Total taxable profits	0		
Y/E 30.4.25			
Trading profit	48,000		
Property profit	0	Loss made of (2,000)	9,000-(11,000)
Chargeable gain	75,000		
Total	123,000		
Less: Terminal loss relief	(123,000)		
Total taxable profit	0		
YE 30.4.24			
Trading profit	38,000		
Property income	4,000	(2,000+2,000)	
Total	42,000		
Less: Terminal loss relief	(42,000)		
Taxable profit	0		
YE 30.4.23			
Total taxable profit	270,000		
Less: Terminal relief	(135,000)	270,000/2	(6 months only to 31.10.22)

Total taxable profit	135,000		
YE 30.4.22			
Total taxable profit	500,000		

Terminal Loss Calc			
1.11.24 - 30.4.25	24,000	48,000*2	
1.5.25 - 31.10.25	(570,000)		
Terminal loss	(546,000)		

2.

Losses unrelieved			
<u>Property losses</u>			
YE 30.4.25	(2,000)		
PE 31.10.25	(23,000)		
<u>Trading losses</u>			
Terminal Loss relief	(546,000)		
Less: offset	123,000	y/e 30.4.25	
	42,000	y/e 30.4.24	
	135,000	y/e 30.4.23	
Total	(246,000)		
<u>Capital losses</u>			
p/e 31.10.25	(230,000)		
Total unrelieved losses	(501,000)		

3.

	YE 30.4.22	YE 30.4.23	YE 30.4.24	YE 30.4.25
Taxable income	500,000	270,000	42,000	123,000
Tax @ 25%				30,750
Tax @ 19%	95,000	51,300	7,980	
Marginal relief (w1)				(1,905)

Tax due originally	95,000	51,300	7,980	28,845
Tax due after loss relief	95,000	24,700	0	0
Tax repayment	0	24,700	7,980	28,845

Marginal relief	working 1		
(250,000-123,000) *3/200	1,905		

4.

In order to cease acting for Raj we would need to notify Raj and we should continue to act from him until he has been notified.

We would need to send him notification, in writing, that we no longer wish to act for him. The disengagement letter should state

- A summary of services provided up to the date of ceasing to act
- A not of any further action to be taken
- A note of any outstanding matters or invoices.
- Any deadlines that are required.
- A note indicating who should be advising HMRC of the change.

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

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

Answer-to-Question- _6_