

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	1021	4752	5754
Section 2	572	2644	3129
Section 3	659	3139	3733
Section 4	941	4391	5281
Section 5	388	1794	2117
Section 6	0	0	0
Total	3581	16720	20014

Answer-to-Question- _1_

1.

Orchard Ltd acquired goodwill for £50,000 from Field Ltd on 20 June 2025. This is a intangible fixed asset. No tax relief will be available for the amortisation of the goodwill, except in limited circumstances from transfers from 1 April 2019, and where the goodwill was also created or acquired by Field Ltd after that date. We know that Field Ltd has amortised the goodwill in the accounts over five years, and so we assume it was acquired after 1 April 2019. If transferred to the company along with other qualifying intellectual property, including Patents, registered designs and copyright or design rights, and as part of a business acquisition, then tax relief is calculated as 6.5% per annum x lower of:

- The cost of the goodwill (£50,000), and
- six times the amount of qualifying intellectual property ($6 \times 5,000 = £30,000$)

Therefore the highest amount of relief on the transfer of goodwill will be $£30,000 \times 6.5\% = £1,950$. This is available as Orchard Ltd acquired the business of Field Ltd, which included goodwill and patents, therefore satisfying the condition.

The Patents, as an intangible fixed asset, can claim tax relief from 1 April 2022 onwards for the amortisation of the IFA charged in the accounts, or the company can claim a straight line deduction of 4% of the cost. As they are amortised in the company's accounts on a straight line basis, the amount of relief for year of acquisition is $(5,000/8) = £625$.

Plant and machinery acquired from an unconnected company, capital allowances are available on the price paid for the P&M. The annual investment allowance will be available but not any first year allowances as the P&M will be second hand.

2.

Income tax

Non-contractual termination payments are only taxable to income tax and NICs if they exceed £30,000. This termination payment will not be regarded as earnings, and so will not be subject to Class 1 Primary NICs. While the first £30k is exempt, the remaining payment will be taxed as top slice (after dividends) at 20/40/45% depending on the income tax bands remaining.

However, as Jamila was entitled to three months notice but Orchard Ltd terminated her contract immediately, 3 months salary will be seen as post-employment notice pay (PENP). The amount of £22,500 is taken from the non contractual termination payment and taxable in full. Only the excess non-contractual termination payment qualifies for the £30k exemption. This PENP of £22,500 is the basic pay the employee would have received had they worked for the full duration of their notice period. This amount is taxed as normal net taxable earnings in the non-savings column and will be subject to Class 1 primary NICs for Jamila. Therefore when taking away the PENP, Jamilla is left with £97,500 of non-contractual termination payment, with the £30k being exempt and the remaining £67,500 taxed as top slice income (see above).

Contribution to a registered pension scheme are fully exempt from both income tax and NICs.

The restrictive covenant payment is taxed in full and will be subject to class 1 NICs. Therefore the full £7,500 of the restrictive covenant payment will be taxed as earnings and subject to income tax and Class 1 primary NICs.

Corporation tax

The non-contractual termination payment will be subject to Class 1A NICs, at a rate of 13.8%, on the amount exceeding £30,000. We determined this amount to be £67,500 above. This amount will be an allowable corporation tax deduction as being paid wholly and exclusively for the purpose of the trade. Here the Class 1a NIC payable will be £12,420, and this will also be an allowable CT deduction.

The PENP of £22,500 will be subject to Class 1 Secondary NICs (at a rate of 13.8% above the excess secondary threshold of £9,100 per annum), and will be an allowable CT deduction.

The contribution to the registered pension scheme will not be subject to any NICs and will be an allowable deduction from the corporation tax return as long as paid within the accounting period.

The Restrictive covenant payment will be subject to Class 1 Secondary NICs (at a rate of 13.8% above the excess secondary threshold of £9,100 per annum), and will be CT deductible under statute.

The employer has the obligation to report termination payments. A one off report needs to be filed by the employer no later than 6 July following the end of the tax year.

3.

Bad debt relief is available to traders where certain conditions are met. These include the following:

- They have supplied goods or services and have accounted for and paid the output tax to HMRC.

The payment is deemed to have been made to the extent that output tax is covered by deductible input tax.

- The whole or part of the consideration has been written off in their account as a bad debt (i.e there is an entry in their bad debt account).

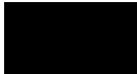
- The value of the supply being written off is not more than the normal selling price.

- the debt is at least six months old (i.e. six months have elapsed since the later of the date of the supply and the due date for payment as specified on the invoice). A claim cannot be made earlier.

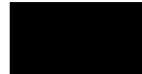
The Blossom Ltd debt of £1,200 plus VAT was invoiced on 3 February 2025. This debt is at least 6 months old and written off in accounts on 31 October 2025, and so bad debt relief will be available.

The Pear Ltd debt of £3,300 plus VAT was invoiced on 29 August 2025, and so was not at least 6 months old at the time of writing off, so bad debt relief will not be available.

The claim for the Blossom Ltd bad debt must be made by the trader within four years and six months from the later of the date of supply and the due date for payment as specified on the invoice (i.e 30 days from the invoice). The claim is made by adding the bad debt figure to the input VAT figure in the VAT return.



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

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

Answer-to-Question- _2_

1.

	GP	SRP	AIA	FYA 100%		CAs claimed
TWDX b/f	2,525,000	25,500				
Additions						
Solar panels			800,000			
Manufacturing equipment			200,000	50,000		
Car		45,500				
Total	2,525,000	70,500	1,000,000	50,000		
AIA/FYA 100%			(1,000,000)	(50,000)		1,050,000
WDA 18%	(454,500)					454,500
WDA 6%		(4,230)				4,230
						1,508,730

Maximum capital allowances claimed £1,508,730

2.

A close company is a resident in the UK and is controlled by either five or fewer participators (shareholders) or any number of participator directors. Here the meaning of control is over 50% and in looking at a person's shareholding we consider shares held by their associates, i.e. spouse, civil partner, parents and remoter forebearers, children and remoter issue and siblings.

Here Seeley and her associates; her sister Angela, and her business partner control 39% of Wendal Ltd. Jack also controls 11% of Wendal Ltd, and therefore a total of 50% is

controlled by two participators. In adding Zack, a total of 3 participators control 60% of the company. this means that Wendal Ltd is controlled by five or fewer participants and is therefore a close company.

3.

Total profits (see below)	375,620		
Add; NTLR (750+275)	1,025		
Less; QCD	(200)		
TTP	376,445		

	£		
Accounting profit	1,125,000		
Less; bank interest receivable	(750)		
Less: interest of overpaid CT	(275)		
Add: depreciation	725,000		
Add: interest payable to camille (w1)	25,000		
Renewal of short lease	nil		
Client entertaining	6,500		
Gifts to customers (w2)	3,000		
Car lease (w3)	675		
Add: QCD	200		
Less; CAs	(1,508,730)		
Total profits	375,620		

w1) interest is not deductible on an accruals basis, but is instead only deductible when it is paid if:

- it is payable to a participator in a close company
- it has not been paid within 12 months of the accounting period end
- it has not been taxed in the hands of the recipient under the loan relationship rules.

As the interest was paid on 5 April 2026, which is more than 12 months after 31 Decemebr 2024, the interest is not deductible in this accouting period.

w2) Gifts to customers are only allowed if they are less that £50 per item, include the companies logo, and are not food or drink. The pens are therfore allowable but the christmad food hampers are not.

w3)

Car leases for cars with CO2 emission above 50g/km, have to be restricted in the CT return, as only 85% is allowable

$$4,500 \times 15\% = 675$$

4.

TTP	376,445		
CT @ 25%	94,111		
s.455 tax	11,813		
CT payable	105,924		

When a close company makes a loan to a shareholder, a s.455 charge will arise. This charge is calculated as 33.75% for loans made on or after 6 April 2022 of the amount of the loan, taken as the lower of the amount outstanding on:

- the last day of the accounting period, or
- the normal due date (i,e 9 months and 1 day from the end of the AP)

The normal due date for the 31 December 2024 year end is 1 October 2025, and so we will have to look at the amount outstanding on this date.

£35,000 was unpaid at 1 October 2025, and so a s.455 tax will be payable with the CT liability for the period.

$$35,000 \times 33.75\% = £11,813$$

As the remaining loan was paid on 31 October 2025, the company will recieve a refund of the amount of s.455 tax paid for the year ended 31 December 2025, which will reduce the corporation tax liability.

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

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

Answer-to-Question- 3

1.

Business Asset Disposal Relief (BADR) applies when there is a material disposal of business assets, i.e. when company directors/employees selling shares (or securities) in their 'personal trading company'.

For BADR to apply, the individual must have owned at least 5% of both ordinary shares and voting rights, and are either entitled to at least 5% of distributable profits and 5% of the assets on a winding up and/or at least 5% of the proceeds on disposal of the whole ordinary share capital of the company. The individual must have this entitlement and have worked for the company for at least two years ending with the date of the share disposal.

BADR is given by taxing qualifying gains at 10%. These gains are treated as using any unused basic rate band in priority to other gains and the lifetime limit of £1 million.

Investors relief on the other hand, is also taxed at 10% but has a lifetime limit of £10m and is subject to different rules:

- shares must be in a trading company and must be unlisted when 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 have been held for three years.

Investors relief is still available if the individual either becomes an unremunerated director following the purchase or becomes an employee of the company 180 days after the share issue (as long as there was no reasonable prospect they would become employee at time shares were issued).

We therefore cannot determine whether Mark would apply for any of these reliefs.

2.

Where a company ceases to be an individual's personal company as a result of the issue of additional shares in the company for cash, an election can be made for a deemed disposal and reacquisition of the shares immediately before the dilution. The notional gain will qualify for BADR. The conditions for a disposal of shares to qualify for BADR must be met immediately before the share issue. This is beneficial here as Chris qualified for BADR pre December 2023, but no longer qualified on the sale of shares.

	£		
Deemed proceeds (6% of 1,365,000)	81,900		
Less; cost	(60,000)		
notional gain	21,900		

Actual gain on shares			
Proceeds	250,000		
Less; deemed cost	(81,900)		
gain	168,100		

	Eligible for BADR	Actual gain no eligible for BADR	
Deferred gain	21,900		
Actual sale		168,100	
No AEA			
Taxable gains	21,900	168,100	
CGT @ 10%	2,190		
CGT @ 20%	33,620		
Total CGT	35,810		

Assumed that Chris utilised her annual investment allowance for the disposal of commercial land

3.

SBA can be claimed on new buildings and structures and renovations/conversion of an existing building, where construction takes place after 29 October 2018 and the building is used for a non-residential purpose. Qualifying expenditure is multiplied by 3% per annum to determine the SBA claimed.

If a building is purchased unused from someone other than a developer (such as another business), the lower of the price paid for the building (excluding land) and the qualifying construction costs will qualify for relief.

The SBA is given from the later of:

- the date the expenditure incurred, and
- the date the building is first brought into business use.

As the construction costs was £1,600,000 (exc land) and the price paid by Leapord was £1,840,000 (exc land), we will use the £1,600,000 to calculate the SBA claim. The building started being used for the business on 1 January 2023, and so this is the date we can claim SBA for.

	SBA claimed £		
y.e 30.9.23 (1.6m x 3% x 9/12)	36,000		
y.e 30.9.24 (1.6m x 3%)	48,000		
y.e 30.9.25 (1.6m x 3%)	48,000		
y.e 30.9.26 (1.6m x 3% x 7/12)	28,000		
Total	160,000		
SBA on renovation			
y.e 30.9.25 (150k x 3% x 4/12)	1,500		
y.e 30.9.26 (150k x 3% x 7/12)	2,625		
Total	4,125		
Total SBA claimed during ownership	164,125		

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

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

Answer-to-Question- _4_

1.

A purchase of own shares will be treated as an income distribution unless the conditions for capital treatment are met, or the shareholder is a company.

Therefore, the buyback of shares from Sandmouth Ltd will be treated as capital and a gain will arise. This gain will be taxed at the companies corporation tax rate (either 25%, 19% or at marginal tax rate 26.5%).

The share buy back from Rachel will have to meet the following conditions to qualify for the capital treatment:

- the repurchase of shares is by an unquoted trading company which is not a 51% subsidiary of a quoted company, or by unquoted holding companies of a trading group.
- the repurchase of shares is wholly or mainly for the benefit of the trade;
- the shares are bought back from a UK resident vendor who has held the shares for at least five years;
- the vendor as a result of the buy-back, reduces their interest in the company by at least 25%; and
- the vendor is not connected (i.e Rachel and her associates don't own more than 50%) with the company following the buy back.

West Sharp Ltd is a holding company of a trading group, so we would need to know more details of the group companies to qualify for this condition.

to qualify as for the benefit of the trade, HMRC view this condition as satisfied when a dissenting shareholder is being removed or where the purpose is to ensure that an unwilling shareholder who wishes to end their association with the company does not sell their shares to someone who may not be acceptable to other shareholders. This condition is met as Rachel has been challenging and is considering selling shares to a competing business against the shareholders' wishes.

Rachel is UK resident and held the shares for at least five years

Rachel is intending on keeping 50 shares after the buy back. This is only 5% of her previous interest in the company, and so satisfies the fourth condition.

It has not been confirmed but we can assume that Rachel will not be connected with the company following the buy back.

As she satisfies the conditions listed, the gain from the share sale will qualify for the capital treatment (par some confirmations needed from the client)

2.

	£		
Proceeds (23.70 x 950)	22,515		
Less; cost (950 x 1.50)	(1,425)		
Gain	21,090		
CGT @ 20%	4,218		

Rachel has already used her annual exempt amount in the year and is a higher rate taxpayer, so her whole gain will be taxable at 20%

3.

Before providing advice to Rachel on the share buy back, the firm should comply with the client acceptance procedures including;

- complying with the identification requirements set out in the anti-money laundering guidance
- consider the acceptability of the client in terms of risk
- consider the firm's skill and competence to service the client's requirements
- consider any conflicts of interest and how these can be managed
- Agree with the client the scope of the services provided
- issue an engagement letter

Ethical concerns

There is a potential conflict of interest in acting for both Rachel and West Sharp Ltd, which may impair objectivity.

Possible options to consider are to act for both parties, to act for one, or act for neither.

Any conflict resolution should be put in writing to the client, including any agreement where the firm agrees to act for both parties.

4.

To: Roger
From: Tax Adviser
Date: 4 November 2025
Subject: Tax Advise

Hi Rodger,

Thank you for getting in touch, i have provided responses to your queries below.

Cold Farm Factory Building to Port Sutton Ltd

Companies are in the same gains group when one company owns at least 75% of the ordinary shares of another company directly, or if indirect company shareholdings exceed 50%.

A company can only be in one gains group and so the companies in the same gains group here are West Sharp Ltd, Port Sutton Ltd and Wellswood Estates Ltd. Woodlawn Trading ltd is not in the gains group as the indirect shareholding is only 45%.

Therefore as Wellswood Estates and Port sutton are in the same gains group, transfers of chargeable assets are automatically at no gains/no loss. Cold Farm factory building will be tranferred over to Port Sutton, and no gain will arise in Wellswood. Port Sutton will aquire the building at the deemed cost, which is calculated by adding the cost and indexation allowances to date.

Cost	635,000		
Indexation allowance (0.226 x cost)	143,510		
Deemed cost	778,510		

As seen above, the deemed cost is £778,510, which is the base cost of the building for Port Sutton Ltd.

Please note that if port sutton leaves the gains group within 6 years of the transfer, a degrouping charge will apply.

Wood Warehouse to Woodlawn Trading Ltd

As mentioned above, Woodlawn Trading Ltd is not in the same gains group as wellswood estates ltd and so a chargeable gain will arise on the sale of the asset.

As the parties are connected, the sale will happen at market value. Market value less the cost paid and indexation allowance, depending on the date of purchase will, will give rise to a chargeable gain, taxed at the corporation tax rate of Wellswood Trading Ltd.

No releif is avaible of this transfer of assets, and so if you do not want an immediate tax cost from the transfer, we would advise that the transfer does not happen.

I hope this was helpful, please get in touch if you have any further queries.

Kind Regards

Tax Adviser.

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

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

Answer-to-Question- _5_

1.

	y.e 2022	y.e 2023	y.e 2024	y.e 2025	6m.e 2025	
Trading profit	500,000	270,000	38,000	48,000	nil	
Overseas profit (w1)			4,000	nil	nil	
Chargeable gain (w2)					nil	
Total trading profits	500,000	270,000	42,000	48,000	nil	
Terminal loss relief (w3)	nil	(270,000)	(42,000)	(48,000)		
TTP	nil	nil	nil	nil	nil	

w1) Overseas property losses can only be relived against overseas property business profits in the current year or carried forward. It cannot be carried back to previous overseas profit. As the loss exceeds the profit in both the y.e 2025 and 6 months ended 31 October 2025, the remaining loss is lost and cannot be utilised in any other way.

w2) the company had b/f capital losses of £640,000 from 1 May 2021. This can offset the chargeable gain from the sale of the Bristol office in 2025. $640,000 - 75,000 = £565,000$

carried forward.

w3)

As the company has ceased trading, the trading loss of the last accounting period (as less than 12 months) is the terminal loss which can be carried back 36 months ending immediately before the loss making period. Therefore, no loss can be carried back to the y.e 2022, as this is over 36 months from the beginning of the loss making period.

2.

Unrelived trading loss

- 570,000
- (48,000)
- (42,000)
- (270,000)
- £210,000 unrelived trading loss

Unrelived foreign property loss

- £3,000
- £23,000
- £26,000 unrelived loss

Unrelived capital loss

- £565,000
- £230,000
- £795,000 unrelived capital loss

3.

FY23 - £270,000 x 19% = £51,300 repayment

FY24 - £42,000 x 19% (under £50,000) = £7980 repayment

FY25 - £48,000 x 19% (under £50,000) = £9120 repayment

Capital gain was relived in the year with b/f capital losses so not included in TTP.

4.

To stop acting for Raj

- should not cease to act until the relevant work is completed unless:

-
- they are obliged because of legal or professional obligations
 - the client requires it, or
 - a member gives reasonable notice to the client of their intention to cease to act

Provide a

- summary of services provided up to date of ceasing to act
- a note of further action to be taken by a member
- a note of outstanding matters
- details of impending deadlines or action required
- details of outstanding fees

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

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

Answer-to-Question- _6_