May 2026 Examination

PAPER 4

Corporate Taxation

Suggested Answers

Candidates will be given credit for relevant points not on the mark scheme.

1.

1) Icarus Ltd is a close company (½) because it is owned >50% by 5 or fewer participators (100% by Hanna). (½)

Icarus Ltd is not a Close Investment Holding Company (CIHC) (½) because it exists wholly or mainly for the making of investments in land and the letting the land to unconnected persons. (£280,000 out of £287,000 of income). (½)

2 Marks

2)

	AIA @100%	General pool	Special rate pool	Allowances	
	£	£	£	£	
WDV b/f		25,750	12,500		
Additions					
New office equipment	5,750				(½)
New computer equipment	2,500				(½)
Car CO_2 emissions 75g/km			27,500		(½)
Disposals					
Car – CO_2 emissions 120g/km			(7,500)		(1)
	8,250	25,750	32,500		
Allowances					
AIA @ 100%	(8,250)			8,250	(½)
WDA @18%		(4,635)		4,635	(½)
WDA @ 6%			(1,950)	1,950	(½)
WDV c/f		21,115	30,550		
Total allowances				14,835	

4 marks

3) S104 pool

Date		No of shares	Indexed cost £	
March 2014	Purchase	3,000	10,000	(½)(½)
December 2017	Indexation (278.1 – 254.8) / 254.8 x £10,000 Indexation not rounded to 3dp		914	(½) (½)
		3,000	10,914	
April 2018	Purchase	5,000	27,500	(½)(½)
		8,000	38,414	
June 2022	1:2 Bonus issue 8,000/2	4,000		(½)(½)
		12,000	38,414	
January 2026	Disposal 8,000/12,000 x 38,414	(8,000)	(25,609)	(½)(½)
	Balance c/f	4,000	12,805	

	£	
Proceeds	40,000	(½)
Less: indexed cost	(25,609)	(½)
Chargeable gain	£14,391	

6 marks

4) Calculation of total taxable profits:

	£	£	
Non-Trading profits (loan relationships)			
Bank interest receivable on deposit accounts	2,000		(½)
Interest on late payment of corporation tax	(200)		(½)
Non-Trading loan relationship credit (½)		1,800	
UK property income			
Rental income	280,000		(½)
Insurance	(6,500)		(½)
Legal fees for short lease (> 50 years)	(650)		(½)
Repairs to rental properties	(5,400)		(½)
		267,450	(½)
Chargeable gain		14,391	(½)
Management expenses:-			
Insurance	2,300		(½)
Capital allowances	14,835		(½)
Staff entertaining	300		(½)
Salaries	30,000		(½)
Audit and Accountancy	3,200		(½)
Commission for managing share portfolio	2,000		(½)
Deductible management expenses		(52,635)	(½)
Qualifying Charitable Donations		(500)	(½)
Taxable total profits		230,506	

Notes:

No deduction for the loss on disposal of car (½)
Dividends not taxable (½)
Max 8 marks

5)Tax payable:

Augmented profits:

	£	
Taxable Total Profits	230,506	(½)
Dividends received	5,000	(½)
Augmented profits	235,506	

Tax payable:

	£	
230,506 x 25% =	57,627	(½)
Less: Marginal relief		
3/200 x (250,000-235,506) x 230,506 / 235,506	(213)	(½)
CT liability	57,414	

2 marks
Total (22)

2.

To Marie@advisers.com

From jo@advisers.com

Date 5 May 2026

Subject We Transport Ltd – queries

Hi Marie

Thanks for your email. I hope the meeting goes well. In advance of it I can deal with your queries as follows –

1) VAT

(a) It is possible for a supplier to offer a prompt payment discount and then to calculate the VAT based on the discounted amount, **(½)** but only if the invoice notes -**(½)**

- The terms of the discount, and**(½)**
- The time by which the discounted amount must be paid. **(½)**

It would appear that the "informal ie not documented" arrangement between We Transport Ltd and Retail Products Ltd does not meet this requirement. **(½)**

If the requirement is not met, then We Transport needs to account for VAT based on the full amount shown on the invoice and not the 97.5% paid. **(½)**

It is possible for We Transport Ltd to make a Bad Debt relief claim for the VAT on the 2.5% not received. **(½)**

(b). In order for We Transport Ltd to reclaim all input VAT **(½)** on the fuel used for private use it must account for output VAT on the private use. **(½)** Using the method suggested by We Transport Ltd – i.e. charge the employees for their private use fuel – the amount charged must be inclusive of VAT, which We Transport Ltd would account for as output VAT. **(½)**

However, as 10p per litre is an artificially low price, **(½)**for We Transport Ltd to use this method it must calculate the output VAT based on the open market value of the fuel. **(½)**

(c) The input VAT on the purchase of a motor car cannot be recovered **(½)**if any private use of the vehicle is allowed. Only when cars are bought for exclusive business **(½)** use is the input VAT not blocked. **(½)**

The input VAT on vans is however recoverable. **(½)**

(d) The input VAT incurred on business entertaining is blocked and not recoverable. **(½)** This includes the entertaining of staff if it is incidental to the entertaining of clients/customers. **(½)**

However, staff entertaining (which is not incidental to that of clients as noted above **(½)**) is wholly for business purposes and the VAT is allowed as input VAT. **(½)**

(10)

2) Corporation Tax

The limits for paying tax in instalments for the accounting period to 30 April 2026 are augmented profits of above £1.5m for large companies and £20m for very large companies. **(½)**

These limits are divided by the number of associated companies. **(½)** Only Long Haul Ltd and We Transport Ltd are associated **(½)** for this calculation, as –

- Trucking Ltd is ignored as it was acquired after the end of the previous accounting period **(½)** -associated companies are determined based on the number at the end of the preceding accounting period; **(½)**
- WT Ltd is ignored as it is dormant, **(½)** and
- Bronco Ltd is ignored as the stake is less than 50%.**(½)**

The limits for We Transport Ltd are therefore £750,000 for large companies and £10m for very large companies. **(½)**

These limits are then tested against the augmented profits of the company, which includes dividends received. **(½)**

For We Transport this is

		£	
Total taxable profits		9,800,000	**(½)**
Dividend from Bronco Ltd		250,000	**(½)**
Augmented profit		10,050,000	**(½)**

Therefore, We Transport Ltd will need to make quarterly payments under the very large company regime for the year ended 30 April 2026. **(½)**

Max (6)

3) Payments

It does not matter that it was not a very large company in the previous year as there is no exemption made for a company when it first becomes very large. **(½)**

The corporation tax that needed to be paid in the year to 30 April 2026, based on TTP of £9,800,000 **(½)** is

CT at 25% = £2,450,000. **(½)**

Quarterly payments of £612,500 **(½)** are due on each of the following dates

- 14 July 2025 **(½)**
- 14 October 2025 **(½)**
- 14 January 2026 **(½)**
- 14 April 2026 **(½)**

Max (3)

If you need to discuss this, please let me know

Regards

Jo

Tax department

Total (19)

3.

1) As the LLP is a mixed partnership there are some restrictions on how the trading profit is calculated:
    - it cannot use the cash basis. **(½)**
    - Although the LLP has capital assets it cannot use the annual investment allowance (AIA). **(½)**
    - The partnership cannot benefit from flat rate expenses **(½)** (for example on use of own car) **(½)**

   For Jakeson Ltd a separate computation of trading profit is required using corporate rules **(½)**, for example full expensing FYAs are available **(½)**. Jakeson Ltd will then be allocated 20% of the adjusted loss for the year ended 31 March 2026. **(½)**

   As Jakeson Ltd's period of account does not coincide with that of the partnership**(½)** the allocated profit must be time apportioned. **(½)**

   Jakeson Ltd will be allocated 3/12 of the apportioned loss to the year ended 30 June 2025 **(½)** and 9/12 to the year ended 30 June 2026. **(½)**

   Max (5)

2) Chris can use 27% of the loss as calculated for income tax purposes – being the percentage of her partnership share. **(½)** The loss available to her is £147,150 **(½)** (i.e. £545,000 x 27%). This can be used against LLP profits, of previous or future years

   However the sideways use of LLP losses against non LLP losses and gains **(½)** is restricted to the amount of the contribution made to the LLP **(½)**. In Chris' case this is £60,000, being the initial contribution and the future contribution in a winding up. **(½)** If any of Chris' previous profit shares had not been distributed, then the loss claim could be increased by this amount. **(½)**
   If Chris uses this sideways relief she will be unable to make any sideways loss claims **(½)** for future losses unless her contributions to the LLP increases. **(½)** The remainder of the loss, after making a sideways claim – being £87,150 **(½)** (£147,150 - £60,000) can be carried forward against future LLP profits of the same trade. **(½)**
   It should be noted that if Chris was not an-active member of the LLP the sideways loss would be restricted to £25,000. **(½)**

   Max (5)

3) Under the Professional responsibilities guidelines, it is recommended that a complaints procedure is in place, and that a client should be made aware of this, **(½)** preferably in the engagement letter. **(½)** It should contain details of the person in the firm to whom complaints should be addressed. **(½)**

   The procedure should require that the complaint

    - Be acknowledged promptly, in writing **(½)**
    - Be investigated thoroughly, and without delay **(½)**
    - Be investigated by someone sufficiently senior **(½)** in the organisation, with relevant experience, **(½)** and preferably not involved in the matter **(½)**

   Appropriate action should be taken if the complaint is justified **(½)** and the firm's professional indemnity insurers be informed, if necessary. **(½)**

   (5)

4) If the HR specialist was engaged via the self-employed route, the NIC liable would be Class 4 (½) as follows –

		£	
On profits			
(£50,270 – 12,570) x 6%	**(½)**	2,262	
On profits			
(£70,000- 50,270) x 2%	**(½)**	395	
Total		2,657	**(½)**

In comparison the NIC liability for an employee would be –

Employee's NIC – Class 1 Primary**(½)**

		£	
On profits			
(£50,270 – 12,570) x 8%	**(½)**	3,016	
On profits			
(£70,000- 50,270) x 2%	**(½)**	395	
Total		3,411	**(½)**

And also, Employers pay Class 1 Secondary **(½)** on earnings above £5,000-

£65,000 x 15% = £9,750**(½)**

Total NIC liability when engaging an employee - £13,161.

(5)

Total (20)

4.

1) Nolan Ltd is a consortium company because:

- It is not a 75% subsidiary company of another company (½)
- At least 75% of its shares are held by companies (½)
- These companies hold at least 5% of the shares each. (½)

In the case of Nolan Ltd the companies which hold at least 75% of the shares, holding at least 5% are:

- Brody Ltd (½)
- Tennant Ltd (½)
- Delaney Ltd (½)
- Tilman Inc. (½) This is not a UK resident company, but its shares are included when looking at the 75% test. (½)

Mr Peterson's shares are not included as he is an individual. (½)

The maximum losses available for offset are:

<u>Brody Ltd:</u>
Lower of: (½)
The loss in Nolan Ltd £1,760,500 (½) x Brody Ltd's interest (24%) (½) = £422,520 (½)
and
Brody Ltd's profit £400,000 (½)

Loss available £400,000 (½)

<u>Tennant Ltd:</u>
Lower of:
The loss in Nolan Ltd £1,760,500 x Tennant Ltd's interest (55%) = £968,275 (½)
and
Tennant Ltd's profit £1,500,000

Loss available £968,275 (½)

<u>Delaney Ltd:</u>
Lower of:
The loss in Nolan Ltd £1,760,500 x Delaney Ltd's interest (8%) = £140,840 (½)
and
Delaney Ltd's profit £250,000

Loss available £140,840 (½)

Max 8 marks

2)
The disposal of shares in Redeye Ltd is not eligible for the substantial shareholdings exemption as Delaney Ltd owns less than 10% of the shares. (½)

A chargeable gain will arise immediately as part of the consideration is cash (½) and will form part of the taxable total profits in the year ended 31 January 2027. (½) The part disposal rules are used to calculate the chargeable gain as only part of the consideration is in cash form. (½)

Therefore, the allowable cost is – 16,000/80,000 x £25,000 (½) = £5,000

Gain on cash received:

	£	
Proceeds	16,000	(½)
Less: Cost (as above)	(5,000)	(½)
Chargeable gain	11,000	

No gain arises on the issue of shares in Banks Ltd as this is a share for share exchange. (½) The new shares in Banks Ltd stand in the shoes of the old shares in Redeye Ltd (½) and will have the proportionate base cost from the old shares in Redeye Ltd (½) and have the same acquisition date. (½)

Base cost of new shares = 50,000/80,000 x £25,000 = £15,625. (½)

The issue of loan stock in Banks Ltd is a Qualifying Corporate Bond (QCB). (½) The share for share exchange rules do not apply to the QCB as it is not a share for chargeable gains purposes.(½)

Delaney Ltd is treated as if it had received an amount of cash equal to the value of the loan stock in Banks Ltd (½) and a chargeable gain is calculated on this amount. (½) However, as Delaney Ltd has not physically received the cash the gain is not charged immediately and is frozen. (½)

The frozen gain is eventually charged to tax when Delaney Ltd disposes of the QCB in the future. (½)

The frozen gain is as follows:

	£	
Proceeds	14,000	(½)
Less: Cost (14,000/80,000 x £25,000. (½))	(4,375)	(½)
Frozen chargeable gain	9,625	

Max 10 marks

3) The determination has been submitted as Brody Ltd has failed to file its CT600 for the year ended 31 January 2024. (½) A determination can be issued up to three years from the due date of the return. (½) The tax return for the year ended 31 January 2024 was due for submission on 31 January 2025 (½), therefore the issue of the determination on 16 February 2026 is within three years from that due date. (½)

Whilst the determination is treated as a self-assessment, Brody Ltd cannot appeal against it.(½) As Brody Ltd believes that the corporation tax liability determined is greater than the actual liability for the year, Brody Ltd should complete and submit its corporation tax return as soon as possible (½) and definitely by 16 February 2027 (½) to prevent HMRC taking proceedings (½) to recover the additional £65,000 (½) (£175,000-£110,000) tax that has been determined.

Max 4 marks

Total (22)

5.

1)

Marble Ltd – Profit for the year to 30 April 2026

	£	£	
Trading profit		6,275,000	
Nontrade loan relationship		20,000	(½)
Total		6,295,000	(½)
Less loss brought forward			
- Trading (w2)		(4,110,000)	
Chargeable Gain	1,150,000		(½)
Less loss brought forward	(1,150,000)		(½)
		Nil	
Total Taxable Profit			
		2,185,000	(½)

Granite Ltd – Profit for the year to 30 April 2026

	£	
Trading profit	3,695,000	
UK dividends received – non-taxable (½)		
Total	3,695,000	
Less loss brought forward		
Group relief from Marble Ltd (w3)	(2,810,000)	
Total Taxable Profit	885,000	(½)

Working 1
Deductions allowance allocation

	£	
Marble Ltd		
-Trading	1,925,000	(½)
-Chargeable Gain	1,150,000	(½)
Granite Ltd	1,925,000	(½)
TOTAL	5,000,000	(½)

Working 2
Loss relief – Marble Ltd

	£	£	
Trading profit	6,295,000		
Less deductions allowance (w1)	(1,925,000)		(½)
Relevant profit		4,370,000	(½)
50% of relevant profit (½)		2,185,000	
Loss to be offset against profit			
£1,925,000 + 2,185,000(½)		4,110,000	

Working 3
Loss relief – Granite Ltd

	£	£	
Trading profit	3,695,000		
Less deductions allowance (w1)	(1,925,000)		
Relevant profit		1,770,000	
50% of relevant profit		885,000	(½)
Loss to be offset against profit			
£1,925,000 + 885,000		2,810,000	

(8)

2) Loss memorandum

Trading Loss

	£	
Loss brought forward	21,000,000	
Utilised by Marble Ltd	(4,110,000)	
Utilised by Granite Ltd	(2,810,000)	
Loss carried forward	14,080,000	**(1)**

Capital Loss

	£	
Loss brought forward	7,000,000	
Utilised by Marble Ltd	(1,150,000)	
Loss carried forward	5,850,000	**(1)**

(2)

3) Bluestone Ltd will need to notify HMRC within three months **(½)** when the first accounting period starts, **(½)** stating the date of the beginning of the accounting period. **(½)**

HMRC will send a notice to Bluestone Ltd to file a return. **(½)** However if this has not happened (for example because Bluestone Ltd failed to notify HMRC as above), the company will need to notify HMRC that it is chargeable to tax within 12 months of the end of the accounting period. **(½)** It should then file a return by the later of 12 months from the end of the period of account **(½)** and three months from receipt of the filing notice. **(½)**

As there has been a long period of account two forms CT600 must be filed; one to cover the accounting period 1 January 2024 to 31 December 2024 **(½)** and one to cover 1 January 2025 to 30 April 2025. **(½)** Both were due by 30 April 2026 **(½),** subject to having received filing notices.

Financial Statements and computations covering the 16-month period of account should accompany the CT600. **(½)**

Max (5)

Total (15)