

July 2026

ANSWERS

1.

To jan@orford.com

From ann@STA.co.uk

Date 30 September 2026

SUBJECT – Sales and purchases of companies/ businesses

Dear Jan

Thanks for the email. It sounds like you are going to have a busy few months.

In response to your email I can respond as follows:

(1)

It is not possible to use all of Borough Ltd's losses arising in the year ending 30 September 2026 as group relief. ($\frac{1}{2}$) This is because losses can only be group relieved whilst the companies are in the same group, ($\frac{1}{2}$) If a company is only member of a group for part of a period then only a proportion of the losses can be group relieved. ($\frac{1}{2}$) The proportion is usually determined by way of time apportionment based on the overlapping period that the claimant and the surrenderer are in the same group. ($\frac{1}{2}$) Alternatively the adjustment should be on a just and reasonable basis if time apportioning does not give a fair or reasonable result. ($\frac{1}{2}$)

Borough Ltd will be deemed to have left the Orford Ltd group (and so the losses become unavailable) when arrangements are in place ($\frac{1}{2}$) to sell the company. This is usually when the Heads of terms are in place ie 30 January 2026. ($\frac{1}{2}$), and so four months of the trading loss is available to group companies ($\text{£}121,000 = \text{£}363,000 \times 4/12$). ($\frac{1}{2}$) However you mentioned that the shareholders will meet. If shareholder approval ($\frac{1}{2}$) is required that is the date that arrangements come into force, ($\frac{1}{2}$) and so ten months of the trading loss is available to group companies ($\text{£}302,500 = \text{£}363,000 \times 10/12$) ($\frac{1}{2}$)

(Max 5)

(2)

The sale of the shares in Orford Invest Co Ltd qualifies for substantial shareholding exemption, because

- It is assumed that Orford Invest Co Ltd is a trading company ($\frac{1}{2}$)
- It owns at least 10% of the shares ($\frac{1}{2}$)
- It has owned them for at least 12 months out of the previous six years. ($\frac{1}{2}$)

The sale of the shares will also give rise to a degrouping charge. ($\frac{1}{2}$) This arises when a company leaves a group ($\frac{1}{2}$) whilst owning assets which were transferred to it intra-group ($\frac{1}{2}$) in the previous six years ($\frac{1}{2}$) on a "no gain/no loss" basis.

The degrouping charge is calculated using the open market value of the asset at the time of the transfer. ($\frac{1}{2}$)

The charge can be either a gain or a loss . If a gain, this is added to the consideration for the obtained for the sale of the shares; a loss will be an allowable cost. (½)

The exemption also applies to the degrouping charge. (½)

The gain in the sale of the shares in Orford Invest Co Ltd would therefore be -

	£		
Consideration received for the sale of the shares	1,649,000		
Plus degrouping charge on the transfer of Unit B	237,000		(½)
Total consideration		1,886,000	
Less			
Cost of shares	1,000,000		
Degrouping loss on the transfer of Unit C	52,000		(½)
		(1,052,000)	
Gain on the sale of the shares in Orford Invest Co Ltd		834,000	(½)

Note – there is no degrouping charge for Unit A as this was transferred more than 6 years ago (½)

(7)

(3)

It is possible that the purchase of Dunwich Ltd may prevent the carrying forward and offset of its trading losses due to specific anti avoidance rules. (½)

These rules are there to stop a company being bought only in order to use the losses.

The rules apply:

- If there is a change of ownership (½) (ie more than 50% percent of the shares are sold) (½)
- And there is a major change in the nature or conduct of the trade (½)

The change in the nature or conduct of the trade must have occurred in a five year period (½) beginning no more than 3 years (½) before the acquisition and ending 5 years after. (½)

A change in the nature or conduct of the trade, could be, for example

- changing the customers, outlets or markets (½)
- services or facilities provided (½)

However applying new technology, new management techniques or efficiencies will not be a major change in the nature or conduct of the trade. (½)

Further information will be needed as to the proposed changes to be made by Orford Ltd to Dunwich Ltd to determine if the losses can be used.

(5)

(4)

On the purchase of Peter's business VAT will apply at the standard rate ($\frac{1}{2}$) unless the purchase is treated as a transfer of a going concern" ("TOGC") ($\frac{1}{2}$) then VAT will not be chargeable ($\frac{1}{2}$) on the purchase of the assets. The transaction will be outside of the scope ($\frac{1}{2}$) for VAT

To be a TOGC the following conditions must be met

- Peter's business is a going concern – ie the business can be carried on after the sale ($\frac{1}{2}$)
- The business to be carried on after sale is the same as before sale ($\frac{1}{2}$)
- There is no significant break in trading ($\frac{1}{2}$) after sale
- Orford East Ltd is VAT registered ($\frac{1}{2}$) – which it is

Peter will have to deregister for VAT within 30 days of the sale ($\frac{1}{2}$)

(max 4)

If you have any more queries, please do get in touch

Regards

Ann

Total marks (21)

2.

1. AIA restricted as nine month period of account - £1,000,000 x 9/12 = £750,000 (½)

	FYA @50%	AIA @100% £	General pool £	Special rate pool £	Allowances £	
WDV b/f			125,000	22,600		
<u>Additions</u>						
Manufacturing equipment – second hand		625,000				(½)
Air conditioning	25,000	125,000				(½)(½)
Car – emissions 75g/KM				35,000		(½)
<u>Disposals</u>						
Computer equipment			(2,000)			(½)
	25,000	750,000	123,000	57,600		
Allowances						
FYA@ 50%	(12,500)				12,500	(½)
AIA @ 100%		(750,000)			750,000	(½)
WDA @18% x 9/12			(16,605)		16,605	(½)(½)
WDA @ 6% x 9/12				(2,592)	2,592	(½)(½)
Balance to SRP	(12,500)			12,500		(½)
WDV c/f			106,395	67,508		
Total allowances					781,697	

Max 6 marks

2. Calculation of taxable total profits:

Accounting profit	£	£	
		750,000	(½)
<u>Add back:</u>			
Depreciation	325,000		(½)
Pension contribution paid 7 July 2026	25,000		(½)
Pension contribution paid in year	-		(½)
Leased cars – 3,500 x 15% (½)	525		(½)
General bad debt provision	20,000		(½)
Specific bad debt provision	-		(½)
CT enquiry fees	2,500		(½)
Interest paid to HMRC	1,200		(½)
		374,225	
<u>Less:</u>			
Capital allowances	781,697		(½)
Profit on disposal of fixed assets	500		(½)
Bank interest receivable on deposit account	2,000		(½)
		(784,197)	
Adjusted trade profits		340,028	
Non-trade loan relationships (W1)		800	(½)
Taxable Total profits		340,828	

W1 NTLR

Bank interest receivable on deposit account	2,000	(½)
Interest paid to HMRC	(1,200)	(½)
Non-trade loan relationship credit	<u>800</u>	

8 marks

3. This expenditure will be classed as research and development expenditure and relief will be given under the all-company scheme (½) as whilst we do not know the size of the company, the company is not making a loss for the year. (½) Under the all-company scheme relief must be claimed (½) and is given as an R&D expenditure credit (RDEC). (½) The RDEC is treated as a taxable receipt in calculating the profits of the trade for the accounting period. (½) The company will also receive a credit against its tax liability of the same amount. (½) The RDEC is equal to 20%(½) of the company's qualifying R&D expenditure. (½) All £413,000 of the expected costs appear to be qualifying expenditure. (½)

		£	
Trading profits		250,000	(½)
Add: RDEC – taxable receipt	£413,000 x 20% (½)	82,600	(½)
Taxable total profits		<u>332,600</u>	
Corporation tax liability:			
£332,600 x 25%		83,150	(½)
Less: RDEC (fully used)		(82,600)	(½)
Corporation tax payable		<u>550</u>	

Max 6 marks

Total 20 marks

3.

(1)

As a medium sized company Lux Ltd needs to determine ($\frac{1}{2}$) if the relationship with the engineer is such that they would be an employee if the contract was not with the intermediary.

The key issues that need to be considered when determining the status of the engineer (Bill) supplied via Light Engineers Ltd are-

- Mutuality of obligation ($\frac{1}{2}$) – that is, is Lux Ltd obliged to provide work for Bill and is Bill obliged to turn up and do the work? Such obligation suggests that Bill has a contract of service
- Personal Service/right of substitution ($\frac{1}{2}$) – does Bill have to undertake the work or can they send a suitable substitute?
- Control - ($\frac{1}{2}$) - does Lux Ltd have the right to determine how and when Bill performs the tasks?
- Integration into the business ($\frac{1}{2}$) – how much Bill is integrated into Lux Ltd is an indicator of whether they would be employees. For example does Bill have a Lux Ltd email address and can Bill access Lux Ltd's premises? Is Bill invited to Lux Ltd social events?
- -Provision of own equipment($\frac{1}{2}$), financial risk ($\frac{1}{2}$)and number of contracts/ length of contract ($\frac{1}{2}$) – are all factors to consider

Lux Ltd then has to provide a status determination statement to Bill. ($\frac{1}{2}$) which gives an assessment of his status

If Lux Ltd determines that Bill would be an employee if the services were not provided via Light Engineers Ltd, the Lux Ltd will need to calculate the deemed direct payment ($\frac{1}{2}$) when paying Light Engineers Ltd, as follows

	£	
Payment made (excluding VAT ($\frac{1}{2}$))	100,000	($\frac{1}{2}$)
Direct cost of materials	(4,000)	($\frac{1}{2}$)
Allowable expenses (£17 x 50 weeks) ($\frac{1}{2}$)	(850)	
Deemed direct payment	95,150	($\frac{1}{2}$)

(max 7)

(2) The NIC treatment of the various benefits provided to the managing director is-

(a) School fees – the school is settling a personal liability of the managing director ($\frac{1}{2}$) so class 1 NIC (both employers and employees) is due on the amount paid. ($\frac{1}{2}$)

(b) The provision of the private medical insurance is a benefit, but as it is paid under a contract between Lux Ltd and the provider, ($\frac{1}{2}$) Class 1 A is due by the employer($\frac{1}{2}$)

(c) Provision of car park at the place of work is exempt from the benefits regime (½) and therefore no NIC is due. (½)

(3)

(3) Lux Ltd could structure their proposed overseas business as either a company resident in Outlandia (½) or as a branch of Lux Ltd. (½)

a) Overseas company not resident in the UK.

As Outlandia has a lower tax rate than the UK it should be more tax efficient to use an overseas resident company (½) as the profits arising will be subject to the lower, overseas tax rate. (½) As the company is not tax resident in the UK the profits will not usually be subject to UK tax. (½) However this advice should be considered in conjunction with reviewing what deductions can be obtained in the overseas country – for example for capital allowances and loan interest deductions as the business will be subject to the overseas tax regime. (½) If these create a higher level of profit then the overall tax may be higher than that in the UK. (½)

Income remitted, if in the form of a dividend is usually exempt from UK Corporation Tax. (½)

b) A branch of Lux Ltd operating in Outlandia.

The other option for the new business is to operate as a branch (½) of Lux Ltd and be taxed on the overseas profits in the UK. However the branch's profit may also be taxed in Outlandia (½) so consideration should be given to the availability of double tax relief in the UK. (½) It is possible to elect (½) to have foreign branch profits exempt from UK corporation tax. (½) Such an election applies to all branches of the UK company (½) and once made is irrevocable. (½)

Max (6)

(4) Fixed plant & machinery is a depreciating asset. It is possible to claim rollover relief when re-investment is made in depreciating assets. (½)

For Lux Ltd rollover relief can be claimed against the investment made on 31 March 2027 and 31 December 2027, (½) as they fall within the requirement for the reinvestment to take place within one year prior to, and three years after the disposal. (½) The investment on 31 May 2026 does not qualify as it falls outside of the investment window. (½)

As not all of the proceeds are invested, part of the gain will be immediately chargeable to corporation tax (½), being the proceeds £1,000,000 less the amount reinvested £550,000 = £450,000. (½)

The rest of the gain, being £300,000 (½) will be deferred. This has the effect of freezing (½) this gain until the replacement asset is sold, ceased to be used in the business, or 10 years after acquisition of the replacement. (½)

The gain deferred by Lux Ltd will crystallise partly on 31 December 2030 (½) when the plant and machinery purchased on 31 March 2027 ceases to be used in the business, (½) and at the latest by 31 December 2037 (½) if the plant and machinery purchased on 31 December 2027 has not been sold or cease to be used by then. (½).

Max (6)

Total (22) Marks

4.
1.

	£	
Proceeds	2,100,000	(½)
Less: Costs of sale	(12,000)	(½)
Less: Cost		
$3,000,000 \times (2,100,000 / (2,100,000 + 3,500,000))$	(1,125,000)	(½)
Less: Cost of acquisition		
$100,000 \times (2,100,000 / (2,100,000 + 3,500,000))$	(37,500)	(½)
Less: Enhancement cost		
$325,000 \times (2,100,000 / (2,100,000 + 3,500,000))$	(121,875)	(½)
Less: indexation on cost:		
$(278.1 - 241.8) / 241.8 \times (1,125,000 + 37,500)$		(½)
$0.150 \times 1,162,500$	(174,375)	(½)(½)
Less: indexation on enhancement expenditure:		
$(278.1 - 264.8) / 264.8 \times (121,875)$		
$0.050 \times 121,875$	(6,094)	(½)(½)
Chargeable gain	<u>623,156</u>	

7 marks

2. The capital loss brought forward can be set against the chargeable gains arising during the year ended 31 December 2025 (½) which total £8,000,000 (£7,376,844 + 623,156). (½)

Bittern Ltd will need to specify the allocation of its deduction allowance of £5 million for the year ended 31 December 2025 in its tax return, (½) in this case to allocate to chargeable gains. (½) In calculating the maximum amount of capital loss that may be used in the year ended 31 December 2025, the qualifying profits will just be the chargeable gains. (½)

Therefore the maximum amount of relief for the capital loss brought forward will be the lower of: (½)

- The unrelieved carried forward losses; £8,250,000 (½)
- The deductions allowance, plus 50% x (unrelieved profits-deductions allowance) (½) which is $£5,000,000 \times (½) + 50\% \times (£8,000,000 \times (½) - 5,000,000 \times (½)) = £6,500,000$.

Taxable total profits for the year:

	£	£	
Trading profits		1,750,000	(½)
Chargeable gain	8,000,000		(½)
Less: capital loss carried forward relief	<u>(6,500,000)</u>		(½)
		1,500,000	
Taxable total profits		<u>3,250,000</u>	

Loss memo:

	£	
Capital loss brought forward	8,250,000	(½)
Capital loss relieved	(6,500,000)	(½)
Capital loss carried forward	<u>1,750,000</u>	

8 marks

3. Your firm should take the following steps regarding the possible error in tax treatment of the interest payable.

- Establish the facts (½), is there in fact an error in the prior year's computations for Bittern Ltd? (½)
- Does your firm have specific authorisation from Bittern Ltd to disclose the error to HMRC? (½)
This could be in the letter of engagement, if so the error can be adjusted. (½)
- If you do not have the authority to disclose errors, your firm should ask Bittern Ltd to authorise disclosure (½)
- If they say no, Bittern Ltd should be informed in writing (½) of the consequences of the failure to disclose ie interest and penalties. (½)
- If Bittern Ltd still refuses to disclose the error, your firm should cease to act for Bittern Ltd. (½) and notify HMRC that you are ceasing to act (½)
- Your firm should consider if a Money Laundering Report is necessary. (½)

5 marks

Total 20 marks

5.

1. To consider if Cook Ltd is required to pay its corporation tax in instalments, it is necessary to consider the profit thresholds, above which instalment payments are required. These are £1.5m for large companies and £20m for very large companies; divided by the number of associated companies. Cook Ltd is associated with Plate Ltd (as it has 60% of the voting rights) ($\frac{1}{2}$) and Tray Ltd as Angela owns 100% of its shares. ($\frac{1}{2}$)

Spoon Ltd isn't associated as it was only acquired in this accounting period. ($\frac{1}{2}$)

The thresholds are therefore (after dividing by 3 companies)

- Large companies - £500,000 ($\frac{1}{2}$)
- Very large companies – £6,666,667 ($\frac{1}{2}$)

Comparing this to Cook Ltd's augmented profit

	£
TTP	2,500,000
Dividend from plc	900,000
	3,400,000 ($\frac{1}{2}$)

Therefore it will be required to pay corporation tax in instalments in the large company regime. ($\frac{1}{2}$)

There is an exception for paying in the large companies regime for companies that were not large in the previous accounting period (which Cook Ltd was not). ($\frac{1}{2}$) However this exception does not apply ($\frac{1}{2}$) when augmented profits exceed £10m ($\frac{1}{2}$) in the accounting period. This is divided by the number of associated companies, the limit is therefore £3,333,333. ($\frac{1}{2}$)

Cook Ltd's augmented profit is above this, therefore instalment payments need to be made this year, as follows

14 January 2026

14 April 2026

14 July 2026

14 October 2026

(2 x $\frac{1}{2}$)

Corporation tax will be £625,000 (£2,500,000 x 25%), ($\frac{1}{2}$) each payment being £156,250. ($\frac{1}{2}$)

(max 7)

2. HMRC cannot usually make an assessment which is not a self assessment and where returns have already been delivered for the accounting period. ($\frac{1}{2}$)

However the exception to this is where there is a loss of tax ($\frac{1}{2}$) due to careless ($\frac{1}{2}$) or deliberate ($\frac{1}{2}$) behaviour; or where the HMRC officer could not have reasonably been expected to be aware of the facts that gave rise to the loss of tax. ($\frac{1}{2}$)

There is a time limit of four years $(\frac{1}{2})$ for HMRC to raise this assessment unless it was due to careless behaviour in which case the time limit is 6 years. $(\frac{1}{2})$ If it is due to deliberate behaviour the time limit is 20 years $(\frac{1}{2})$

(4)

3. Pencil Ltd is a close company as it is controlled by five or fewer participators, $(\frac{1}{2})$ as follows:

Angela	10%
Frank and his wife Sam	14%
Sue	12%
Syd	5%
Jeff	10%
Total	51%

When a loan is made to a participator a tax charge (s.455 charge) is payable. $(\frac{1}{2})$

The tax charge is calculated based on the lower of the amount of the loan outstanding on either the last date of the accounting period ; $(\frac{1}{2})$ or on the due date for the payment of the corporation tax $(\frac{1}{2})$ (in Pencil Ltd's case, this is nine months and one day after the year end).

Thus Pencil Ltd will pay the tax charge of 33.75% $(\frac{1}{2})$ of the loan outstanding on 1 December 2025. It is added to the corporation tax paid. $(\frac{1}{2})$

As the loan is paid back on 1 January 2026 the s455 charge is repayable. $(\frac{1}{2})$ This is done by reducing the corporation tax charge due for the accounting period in which the repayment is made – ie to 28 February 2026. Effectively the repayment is made on 1 December 2026. $(\frac{1}{2})$

(4)

Total Marks (15)