

THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

July 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- A maximum of two marks will be awarded for the quality of presentation of the answers.

1. The Orford group of companies is a client of your firm, STA LLP, where you are a tax manager.

Orford Ltd is the holding company of the trading group and there are several subsidiaries. The group manufactures components for the renewable energy industry as well as servicing parts for third party manufacturers, all of which it distributes throughout the UK and the rest of Europe. The group prepares accounts to 30 September each year.

Jan is the finance director of the group and has contacted you as follows:

“As you are aware we are looking to make the Orford group more profitable and that means we have to take the opportunity to sell off underperforming or non-core subsidiaries. Equally we are looking for the opportunity to buy other businesses, if their trade can enhance our group.

This year is going to be busy as we have identified several such opportunities.

(a) Sale of Borough Ltd

As this subsidiary is no longer key to our business we are in negotiations to sell it. Borough will make a forecast Trading loss in the year ending 30 September 2026 of £363,000. Obviously we would like to use this loss against profit elsewhere in the group.

Heads of terms with the purchaser were signed on 30 January 2026. The sale will go through on 8 August 2026, after a shareholders' meeting to be held on 31 July 2026.

Can you explain what, if any trading loss will be available to use as group relief.

(b) Sale of Orford Invest Co Ltd

It is also our intention to sell the shareholding in Orford Invest Co Ltd. This group company holds ten properties. It does not have any subsidiary companies. You will recall from previous years that other group companies transferred several buildings to Orford Invest Co Ltd over the years, all at “no gain/ no loss”. The dates, and the gains/ losses that would have arisen if sold to third parties at the time of the transfers were:

<u>Building</u>	<u>Year Transferred</u>	<u>Gain / loss at time of transfer</u>
		£
Unit A	2019	Gain - 416,500
Unit B	2023	Gain - 237,000
Unit C	2024	Loss - 52,000

The proceeds from the sale of the 100% shareholding in Orford Invest Co Ltd when sold by Orford Ltd will be £1,649,000. The total cost of the shares when purchased in June 2018 was £1,000,000.

(c) Purchase of Dunwich Ltd

The shareholders of Dunwich Ltd have approached us, offering to sell this company to us. The trading results are not great, but it has the benefit of losses. We are sure we can turn the company into a profitable subsidiary by implementing a few strategic changes to how it operates.

To what extent will the losses brought forward be available to offset against Dunwich Ltd's profits in the future?

(d) Purchase of trade and assets

A third-party sole trader, Peter, has a successful business in our sector and we wish to buy the trade and assets of the business from him. Peter's assets are mainly plant and machinery. He operates from rented premises.

Will we have to account for VAT on the assets purchased? Peter is VAT registered, as is Orford East Ltd, the subsidiary company which will buy the business.

Will Peter and Orford East Ltd need to account for VAT on this transaction?

Continued

Requirements:

Write an email to Jan in which you:

- | | | |
|----|---|------------|
| 1. | Explain the extent to which the trading loss of Borough Ltd can be group relieved to the Orford group of companies, in the year ending 30 September 2026. | (5) |
| 2. | Explain why the gain on the sale of the shares in Orford Invest Co Ltd is exempt, including the impact of the buildings previously transferred to Orford Invest Co Ltd. Calculate the amount of the chargeable gain if the exemption did not apply. | (7) |
| 3. | Explain the circumstances in which restrictions may apply to the use of brought forward losses in Dunwich Ltd against its own potential profits after its sale to the Orford group. | (5) |
| 4. | Explain the VAT implications for Orford East Ltd and Peter on the purchase of Peter's business. | (4) |
| | | Total (21) |

2. Eversleigh Ltd is a trading company that has no associated companies. It had always prepared accounts to 30 June each year until 30 June 2025. It then prepared accounts for the nine months ended 31 March 2026 and had an accounting profit of £750,000.

Eversleigh Ltd purchased the following assets during the period ended 31 March 2026:

	£
Manufacturing equipment – second hand	625,000
New air conditioning	150,000
Car emissions 75g/km	35,000

At 30 June 2025 the pool balances were:

	£
General pool	125,000
Special rate pool	22,600

On 1 January 2026 Eversleigh Ltd disposed of computer equipment for £2,000 which originally cost £15,000 in 2020.

The costs and proceeds relating to the capital assets were not included in arriving at the accounting profit of £750,000.

The following items have been included in arriving at the accounting profit for Eversleigh Ltd, and no adjustment made for tax purposes:

Income	£
Bank interest receivable on deposit account	2,000
Profit on disposal of fixed assets	500

<u>Expenditure</u>	
Depreciation	325,000
Pension contributions (£75,000 paid by 31 March 2026, £25,000 paid 7 July 2026)	100,000
Leased car costs – emissions 80g/km	3,500
Bad debt provision – specific	23,250
– general	20,000
Costs of dealing with an enquiry into the Corporation Tax return for the year ended 30 June 2023.	2,500
Interest paid to HMRC	1,200

Continued

The enquiry into the Corporation Tax return for the year ended 30 June 2023 concluded that the company had made an error due to careless behaviour and there was additional tax to pay.

In the next financial year to 31 March 2027, Eversleigh Ltd will incur expenditure on developing new technology for use in its manufacturing process. The expected costs are as follows:

	£
Staff costs	325,000
Consumables (directly employed in the development of the new technology)	25,000
Computer related costs	<u>63,000</u>
Total	<u>413,000</u>

Eversleigh Ltd forecasts tax-adjusted trading profits of £250,000 after deduction of the above expenditure for the year ended 31 March 2027. The company has no other income expected for the year.

The financial director has contacted you as they know that there is tax relief for expenditure of this nature but would like to know how it works and the relief Eversleigh Ltd can claim based on the forecasted results.

Requirements:

- 1. Calculate the capital allowances for the period ended 31 March 2026. (6)
- 2. Calculate the taxable total profits for the period ended 31 March 2026. (8)
- 3. Explain how the tax relief available to Eversleigh Ltd for the expenditure on developing the new technology works and calculate the expected effect that this will have on the company's Corporation Tax liability for the year ended 31 March 2027. (6)

Total (20)

3. Lux Ltd provides lighting equipment and specialist engineers to film production companies.

The finance director has contacted your firm with the following issues;

- 1) Lux Ltd is a medium-sized company which frequently uses the services of engineers provided by intermediaries. One such contract is with Light Engineers Ltd, who is to provide the services of an engineer, Bill. He is the sole shareholder of Light Engineers Ltd. The finance director of Lux Ltd has mentioned that they believe that there is an obligation to assess the status of Bill, but queries who this obligation falls on? They then go on to ask;
 - (a) What issues need to be looked at in assessing this status?
 - (b) Depending on the outcome of the status, what does Lux Ltd need to do?
 - (c) What, if any, reporting/ paying tax to HMRC do we have to do?

Lux Ltd is going to pay Light Engineers Ltd £120,000 including VAT. This is for a contract for 50 weeks. Light Engineers Ltd will provide lights and other materials which have a cost of £4,000 excluding VAT. Lux Ltd normally allows other expenses of £17 per week for its employees.

- 2) The managing director of Lux Ltd receives the following benefits in addition to his salary from Lux Ltd:
 - (a) The school fees for his children aged four and seven are paid directly to the school by Lux Ltd. The contract is between the managing director and the school.
 - (b) Private medical insurance is provided for the managing director and his partner. The contract is between Lux Ltd and the insurance provider.
 - (c) The managing director has the use of a car parking space at the offices of Lux Ltd. There is a public car park near the office where an annual parking contract for one car is £1,100.

Continued

- 3) Lux Ltd has been successful in gaining work in the film industry in Outlandia, a foreign jurisdiction. The work will be highly profitable from the outset. The finance director has asked for advice as to how to structure the overseas work to be the most tax efficient. Some of the profits generated by the new work will be remitted to the UK.

You believe that the Corporation Tax rate in Outlandia is lower than that in the UK. However, you believe that there are some differences in how profits are calculated in the two jurisdictions.

There is no double tax treaty between the UK and Outlandia.

- 4) Lux Ltd is also expanding the work done in the UK and has been purchasing more plant and machinery to use in this expanded business.

The investment in fixed plant and machinery has been:

	£
purchased on 31 May 2026	300,000
purchased on 31 March 2027	400,000
purchased on 31 December 2027	150,000

Lux Ltd is aware that the fixed plant and machinery which it will buy on 31 March 2027 will be subject to new health and safety legislation coming into force on 31 December 2030 which will make it obsolete. At that date Lux Ltd will cease to use it in its business.

Lux Ltd is also going to sell a warehouse that had been used for storage of the equipment. A gain will be made on this sale. The sale will take place on 30 June 2027. Proceeds will be £1million and this will give rise to a chargeable gain of £750,000.

Requirements

- 1. Explain to Lux Ltd the actions it must take when engaging a worker via an intermediary. Include the key issues which need to be considered when determining status. State the amount that could be subject to Income Tax and National Insurance Contributions (NIC). (7)
- 2. Explain the NIC treatment of the three benefits provided to the managing director. (3)
- 3. Explain two options for Lux Ltd to operate the overseas business in Outlandia, giving consideration to Lux Ltd’s wish to pay as little tax as possible. (6)
- 4. Explain how the investment in fixed plant and machinery can be used to shelter any gain made on the sale of the warehouse, noting when any deferred gain would be brought into the charge to tax. (6)

Total (22)

4. Bittern Ltd purchased 150 acres of land in June 2012 for £3,000,000 plus costs of acquiring the land totalling £100,000. The company then incurred expenditure of £325,000 to enhance the land in October 2016.

In October 2025 the company sold 65 acres for £2,100,000. At that date the remaining land was valued at £3,500,000. Bittern Ltd incurred costs of sale totalling £12,000.

During the year ended 31 December 2025 the company had the following additional income and gains:

	£
Taxable trading profits	1,750,000
Other chargeable gains	7,376,844

At 1 January 2025, Bittern Ltd had capital losses brought forward of £8,250,000. The company has no other losses.

The financial controller of Bittern Ltd recently contacted you to ask about the tax treatment of accrued interest payment to the sole shareholder in the company. You have explained that it is deductible provided it is paid within 12 months of the accounting period. During your conversation, the financial controller said that he thought that due to an administrative error a payment of £40,000 was made a week after the 12 months had passed and so shouldn’t have been deducted, however as it was only days late, he feels that nothing should be done about this.

Continued

Requirements:

1. Calculate the chargeable gain arising on the sale of the land in October 2025. (7)
2. Calculate the taxable total profits for the year ended 31 December 2025 together with explanations of the amount of capital loss brought forward that can be set off in the year and the amount of capital loss carried forward. (8)
3. Explain the steps that your firm needs to take in relation to the possible error in the tax treatment of the interest. (5)

Total (20)

5. Angela is an investor who owns 100% of the shares in Cook Ltd. In turn Cook Ltd owns 40% of the shares in Plate Ltd (where it has 60% of the voting rights).

Cook Ltd also acquired 100% of the shares in Spoon Ltd on 30 November 2025.

Cook Ltd, and its subsidiary companies have a 30 June year end.

Angela has also owned 100% of Tray Ltd for many years.

Previous years' profits of Cook Ltd have been:

	£
Year to 30 June 2025	450,000
Year to 30 June 2024	430,000

However, in the year ending 30 June 2026, after many years of trying, Cook Ltd won a large contract and was also, under Generally Accepted Accounting Principles (GAAP), able to recognise the profits made on a long-term contract. Thus, for the year ending 30 June 2026 the taxable total profit will be £2,500,000.

In addition to the total taxable total profit, Cook Ltd received a large windfall dividend from a UK company (in which Cook had a 3% holding) of £900,000.

Cook Ltd has received a Corporation Tax assessment from HMRC. Angela has asked how HMRC can raise an assessment as all of Cook Ltd's returns have been submitted and they have complied with all the Corporation Tax self-assessment requirements.

Angela also has a query on another company that she has an investment in, Pencil Ltd. This was a speculative investment, and she has no involvement in the company, and she is not related to any of the other shareholders, who are as follows:

	<u>Percentage of shareholding</u>
	%
Angela	10
Frank	12
Sue (Frank's cousin)	12
Syd (an unconnected party)	5
Jeff (an unconnected party)	10
15 small investors each holding less than 5%, including 2% held by Sam, Frank's wife	<u>51</u>
Total	<u>100</u>

None of the above are employees or directors. Pencil Ltd does not fall into either of the quarterly instalment payment regimes.

Pencil Ltd prepares accounts to 28 February each year. A loan was made to Sam on 20 February 2025. Sam repaid it in full to Pencil Ltd on 1 January 2026.

Continued

Requirements:

- 1. **State, with supporting explanations, when Cook Ltd’s Corporation Tax will be due for the year ending 30 June 2026. State the amount of tax to be paid on any due date(s).** (7)

- 2. **Explain the circumstances under which HMRC can make an assessment for an accounting period in which a return has been filed, and state the time limit for such assessments.** (4)

- 3. **Explain why a tax charge will arise on the loan made by Pencil Ltd to Sam, when the charge will be due and the implications of the repayment.** (4)

Total (15)