THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

NOVEMBER 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.

Important Information – Please read carefully

A spreadsheet is provided with each question. You do not have to use this, but where the requirements include calculations and workings, you may find it a useful tool. However, all computations and workings completed in the spreadsheet **MUST** be copied and pasted into the word processor answer box. Any calculations left in the spreadsheet and not copied to the answer box will not be marked.

You **MUST** use keyboard shortcuts to copy from and paste to the answer box. These are CTRL+C (Command+C on a Mac) to copy and CTRL+V (Command + V on a Mac) to paste. Other methods of copying/pasting will not work.

- Markers will NOT be able to view any formulae/workings behind calculations carried out in the spreadsheet. You must set out details of your workings in full.
- Tax tables and the Tolley Manuals / Memory Joggers can be accessed as PDFs via the "open book" icon in the top right of your screen.
- Hyperlinks to Croner and Tolley (Lexis Nexis) student legislation versions, and HMRC manuals, can also be accessed via the "open book" icon in the top right of your screen.

Technical support during the exam: how to access

- You will be able to access technical support during the exam. This is limited to troubleshooting issues with the exam software.
- You can open the support portal by navigating to the 'open book' icon in the top right of the screen. A link to candidate support is provided in the resources list.
- This will open in a separate tab in the secure browser. The 'chat' function is found in the bottom right of that screen. The chat will first attempt to resolve issues by directing you to troubleshooting guidance. If that is unsuccessful, you will be directed to a live agent.

1. Lemon Ltd made an accounting profit of £63,000 for the year ended 31 October 2026.

The following items were included in arriving at the accounting profit (no adjustments made for tax purposes):

Income includes

	£
Dividends from Apple Ltd	10,000
Bank interest receivable on deposit account	12,000
Dividends from Grape Ltd	17,000

Expenditure includes

	£
Depreciation	613,000
Entertaining (includes staff entertaining of £7,000)	13,000
Interest charged on late payment of Corporation Tax	500
Qualifying charitable donation	800

Capital allowances available to Lemon Ltd in the year to 31 October 2026 have been calculated as £645,000.

Lemon Ltd owns shares in other companies as follows:

Company	Lemon Ltd's shareholding
Grape Ltd	49% of the ordinary share capital; the rights over these shares include 62% of the voting rights.
Apple Ltd	50% of the ordinary share capital.
Banana Ltd	71% of the ordinary share capital, and the rights to 20% of the profits in a winding up.

Lemon Ltd has in issue 1,000 fixed rate preference shares, 62% of which were subscribed for by Pomegranate Ltd. Pomegranate Ltd is an investment company whose only asset is these preference shares. Pomegranate Ltd receives a dividend from these shares which it passes on to its shareholders but has no other income or outgoings (including any management expenses ie it has no management responsibilities). Pomegranate Ltd is not a close company.

Requirements:

1) Calculate the taxable total profit for the year ended 31 October 2026 for Lemon Ltd. (6)

2) Explain whether Grape Ltd, Apple Ltd, Banana Ltd and Pomegranate Ltd are associated with Lemon Ltd to determine Corporation Tax rates. (4)

3) Calculate the Corporation Tax liability for Lemon Ltd for the year ended 31 October 2026. (6)

Total (16)

2. Blethyn Ltd prepares its accounts for the year ended 31 March 2026. Blethyn Ltd acquired an office building for £800,000 (which included £150,000 for the cost of the land) on 1 June 2025. The building was constructed in January 2021. The original construction cost was £600,000 which included £100,000 for the cost of the land.

Blethyn Ltd purchased the following assets during the year ended 31 March 2026:

	£
Computer equipment	25,000
Air conditioning system	150,000
Car with CO_2 emissions 100g/km	35,000

At 1 April 2025 the pool balances were:

	£
General pool	1,525,000
Special rate pool	65,000

During the year Blethyn Ltd sold a car with CO_2 emissions of 45g/km for £30,000 which was originally purchased in March 2025 for £25,000. The company also sold a painting in January 2026 for £8,520 incurring costs of disposal totalling £215. The painting originally cost £5,250 in December 2014 and the company incurred acquisition costs of £152.

Blethyn Ltd has restructured its operations and is making one of its employees Vera redundant. Vera's redundancy package is as follows:

	£
Statutory redundancy payment	20,000
Ex-gratia redundancy payment	42,000
Payment into an occupational pension scheme	7,000

Blethyn Ltd set up a new subsidiary Ashworth Ltd, which was incorporated on 2 January 2026. Ashworth Ltd opened up a bank account on 1 April 2026 and the company began earning interest from this date. The company started to trade on 1 June 2026 and will prepare its first set of accounts for the period ended 31 March 2027.

Requirements:

1) Calculate the maximum capital allowances that can be claimed by Blethyn Ltd for the year ended 31 March 2026. (6)

2) Calculate with explanations, the chargeable gain on disposal of the painting in January 2026. (7)

3) Explain the Corporation Tax and Income Tax implications of the payments made to Vera. (4)

4) State with explanations the first two chargeable accounting periods for Ashworth Ltd. (4)

Total (21)

3. Your client, Ruler Ltd has investments in a variety of companies. In the year ended 30 November 2026 the following changes to its investments were made:

Inch Ltd

Ruler Ltd bought 900 shares (a minority holding) in Inch Ltd in June 2020, paying £3.50 per share. In September 2026 Inch Ltd was taken over by Holdings Ltd (an unrelated company). As consideration for the acquisition of the shares, the Inch Ltd shareholders received five Holdings Ltd shares for each Inch Ltd share they owned.

Continued

Continuation

Circle Ltd

On 1 December 2019 Ruler Ltd purchased 15% of the share capital in Circle Ltd for £550,000. On 1 January 2023 Ruler Ltd sold part of its shareholding in Circle Ltd so that its remaining shareholding represented 7.5% of the ordinary share capital.

Circle Ltd is a holding company which holds shares in Square Ltd, a manufacturing company.

The directors of Ruler Ltd have agreed that the remaining 7.5% of the shares in Circle Ltd can be sold for £100,000 which will give rise to a loss. The directors believe that the loss arising could be used against gains elsewhere in Ruler Ltd.

New contract

Ruler Ltd has won a contract to supply products to customers located in Westland, an overseas country. Jak, the Ruler Ltd finance director has sent the following query:

"In order to facilitate the contract into Westland, we are going to incorporate a new company called Ruler Westland Inc. We have not yet decided who the directors of the company will be. We may just use the directors of Ruler Ltd or a mixture of Ruler Ltd directors and local directors. Surely we won't have to pay any tax on the profits as it will be a Westland incorporated and registered company. Ruler Westland Inc won't trade in the UK and won't own or deal in any UK properties."

Henry's shares

Ruler Ltd has a small proportion of its shares held by Henry, a retired employee. Jak has asked your firm to prepare a valuation of the shares in Ruler Ltd as it would like to negotiate a repurchase of the shares from Henry, based on this valuation. You are aware that Henry is elderly and probably can't afford professional advice. Jak has proposed a fee arrangement such that Ruler Ltd will pay a large fee to your firm if the valuation of Henry's shares is within a specific limit; and a substantially smaller fee if the resulting valuation is higher than the specific limit (as the higher valuation would cost Ruler Ltd more in terms of the payment to Henry).

Requirements:

1) Explain the tax consequences for Ruler Ltd of the transfer of its shares in Inch Ltd to Holdings Ltd in exchange for the shares in Holdings Ltd. (3)

2) Explain how the loss on the sale of the shares in Circle Ltd will be treated in the Corporation Tax computation for the year to 30 November 2026. (7)

3) Explain how Ruler Westland Inc could be in the charge to UK Corporation Tax, given the information provided by Jak. (5)

4) Explain the nature of Jak's suggested fee arrangement and how the fundamental ethical principles may be threatened by such an arrangement. (4)

Total (19)

4. Healy Ltd, a manufacturing company, prepares its accounts to 31 January each year.

Healy Ltd has the following income and expenditure during the year ended 31 January 2026:

a. Interest receivable of £4,000 on a loan made to a subsidiary.
b. Interest payable of £3,100 on underpaid Corporation Tax.
c. Interest payable of £11,250 on a bank loan to purchase a new factory used in the company's trade.
d. Bank interest receivable of £400.
e. Repayment of a loan of £25,000 at par on a loan used to purchase some shares.

Continued

Continuation

Healy Ltd has the following additional income for the year ended 31 January 2026:

	£
Tax adjusted trading loss before capital allowances (after the relevant adjustments for the items above)	1,325,000
Capital allowances	275,000
Chargeable gain	23,000

For the year ended 31 January 2025 the company had the following:

	£
Trade profits after capital allowances	2,755,000
Non-trade loan relationship profit	2,000

The company pays a Qualifying Charitable Donation of £500 every year.

Healy Ltd pays patent royalties to individuals and UK resident companies totalling £80,000 gross per annum. Healy Ltd pays the patent royalties equally on 31 July and 31 January each year. 60% of the payments are to individuals.

Healy Ltd intends to provide the following benefits to some of its employees:

a. Membership of a local gym.
b. Work car parking space.
c. High Street store voucher.

Rachel, the financial controller, is not sure how these should be treated for National Insurance purposes.

Requirements:

1) Calculate, with explanations, the non-trade loan relationship profit or deficit for the year ended 31 January 2026. (5)

2) Calculate the taxable total profits for the year ended 31 January 2025 and 31 January 2026. Show the use of the trading losses for the year ended 31 January 2026 and state the amount of any remaining loss carried forward. (7)

3) Explain how Healy Ltd will report the Income Tax on the patent royalties and calculate the Income Tax payable to HMRC with the date that this is payable for patent royalty payments made in the year ended 31 January 2026. (5)

4) Explain how the payments that Healy Ltd intends to provide to some employees will be treated for National Insurance purposes. (2)

Total (19)

5. Your client, Bear Ltd, manufactures toys and its busiest trading period is in the months leading up to Christmas. The financial controller at Bear Ltd, Chris, has recently mentioned a number of issues that you need to address.

<u>VAT invoicing</u>

Chris tells you that they have invoicing agreements for their four biggest customers as follows:

Toys for U Ltd is Bear Ltd's major customer. Invoices are sent to this customer three months after the supply. However, Toys for U Ltd pays immediately on receipt of the invoice so Chris is not concerned about the time between supply and invoicing as they know that Bear Ltd will be paid.

Continued

Another customer, Big Shop Ltd pays Bear Ltd when they place the order for the toys as this gives them a discount (and helps Bear Ltd's cash flow). The VAT invoice is sent to Big Shop Ltd three weeks after the supply is made.

J&L Ltd is a customer that also pays as soon as they receive Bear Ltd's invoice – Chris says "we send that 12 days after we make the supply to them".

Finally, C&N Ltd is a new customer that has only been ordering from Bear Ltd for a few months. As such, when C&N Ltd places an order, Bear Ltd takes a deposit of 10% of the value of the order. The invoice for the supply is sent 21 days after the supply with payment made within 30 days after that.

For all of these invoices Bear Ltd accounts for the VAT in the quarter when the invoice is raised.

BB LLC

Bear Ltd has a wholly owned subsidiary that is resident in Bergland (an overseas jurisdiction), BB LLC. This company manufactures products which are sold to Bear Ltd for onward sale to customers. In Bergland the Corporate Tax rate is 6% on company profits. Therefore, to minimise group wide tax, higher-than-normal prices are charged by BB LLC to Bear Ltd
Chris has stated that this is fine as both of the companies are in the same group so there is "nothing lost" and does not affect the consolidated group accounts.

The Bear Ltd group has 307 employees, and its turnover exceeds €300 million annually and its balance sheet total is €210 million.

New toy - Billy

Bear Ltd has recently started to make and sell a toy called Billy based on a character in a very successful children's film, Toy Tales. The rights to the likeness of Billy were owned by the film company but on 1 January 2026 Bear Ltd bought the rights. The cost was £700,000.

Bear Ltd will amortise the cost over 20 years in its accounts (straight line basis) in line with generally accepted accounting practice (GAAP). It makes its accounts up to 31 December each year.

Chris says that he is aware that a sequel film, Toy Tales Two, is going to be released in 2031 and at that point Bear Ltd would sell the rights to Billy to another manufacturer. Chris believes that the third-party manufacturer would be willing to buy the rights for £600,000 on 1 January 2031.

Chris, who prefers to get the earliest possible tax relief, has asked you to determine the most tax efficient way is to deal with the purchase. Chris also want to know what the tax impact would be if the rights are sold in 2031.

Requirements:

1) Explain why the date on which Bear Ltd raises its invoices is crucial and how the timing for accounting for VAT is determined. For the circumstances outlined for each of its four major customers, explain when Bear Ltd should account for VAT. (8)

2) Outline the transfer pricing rules and how they would apply to the Bear Ltd group of companies; and explain what effect the rules will have on the UK Corporation Tax computation of Bear Ltd. (8)

3) Outline to Chris what the options are for calculating the deduction in relation to the cost of the rights. Calculate the deduction that can be taken each year and the income or loss in the computations to 31 December 2031 assuming the rights are sold as Chris states. (7)

Total (23)