1. Livermore Ltd prepared accounts for the year ended 31 March 2016 and submitted its Corporation Tax return on 15 July 2017. The return showed a Corporation Tax liability of £12,000 of which £6,000 was paid on 1 June 2017 and the remainder on 15 July 2017.

   Explain, and calculate, the penalties that become payable by Livermore Ltd due to:

   1) The late filing of the Corporation Tax return.

   2) The late payment of the Corporation Tax.

   You should assume that the new penalty regime introduced by Finance Act 2009 is in force. (4)

2. A company incorporated overseas may become chargeable to UK Corporation Tax on some or all of its profits.

   1) Explain the situations and extent to which profits of a company incorporated overseas may become chargeable to UK Corporation Tax.

   2) Explain the relief available for any profits that have suffered both UK and overseas tax. (4)

3. Avro Ltd produced accounts for the nine month period to 31 March 2017.

   The following capital transactions took place:

	£
Purchase of an energy saving boiler	50,000
Purchase of a production line	150,000
Electrical wiring	25,000

   At 1 July 2016, the tax written down value on the general pool was £75,000.

   Calculate the maximum capital allowance claim that can be made by Avro Ltd for the period ended 31 March 2017. (4)

4. Ashton Ltd has been trading for a number of years and prepares accounts to 31 December every year. At 31 December 2016, there were 150,000 50p ordinary shares in issue.

   On 1 March 2017, the company issued 50,000 50p ordinary shares for £1 each.
   On 30 June 2017, the company made a 1 for 2 bonus issue.

   Show the accounting entries needed to record the share transactions in the year to 31 December 2017. (3)

5. Star LLP was formed many years ago and is owned by Freddie, Liam and Paul in the ratio 35:35:30 respectively.

   The LLP's taxable trading profit for the year to 31 March 2017 was £100,000.

   Explain how the LLP's taxable trading profit for the year ended 31 March 2017 will be taxed and identify which classes of National Insurance apply. (2)

6. Rangers Ltd has held shares in Park plc for a number of years.

The shares were acquired in two tranches as follows:

1 January 2000, 5,000 shares for £10,000.
31 December 2005, 7,500 shares for £30,000.

On 31 March 2017, Rangers Ltd sold 2,500 shares for £25,000.

Calculate the capital gain arising from the sale of shares, assuming the following figures of indexation:

	£
1 January 2000 to 31 December 2005	**1,651**
1 January 2006 to 31 March 2017	**15,751**

(4)

7. Ricardo Ltd had been trading profitability for many years, however a slump in the market has caused a trading loss of £9,000 to be incurred in the year to 30 September 2017.

Furthermore, a property owned by the company has been empty for part of the year causing a rental loss of £5,000 to be incurred.

The company realised a gain of £5,000 in the year to 30 September 2017. Its taxable total profits for the previous year were £6,000.

1) Explain how both the trading and rental losses can be relieved.

2) Calculate any losses carried forward to the year ended 30 September 2018, assuming the company wishes to set off its losses as soon as possible. (4)

8. Longham Ltd makes annual payments to individuals and companies.

In the year to 31 March 2017, the following gross payments were made:

Interest on a director's loan account balance of £50,000 at the rate of 10% per annum.
Patent royalties of £5,000 to Peter, a UK resident.
Interest of £5,000 on a loan from Eastham Ltd.

Explain how Longham Ltd will treat each payment for Income Tax purposes, showing clearly the amounts payable and to whom they are paid. (3)

9. Ross worked for Central Ltd as the Sales Director until 3 June 2017, when he was made redundant. His redundancy package was as follows:

(a) Statutory redundancy payment of £2,800.

(b) Amounts in settlement of contractual holiday not taken of £1,900.

(c) Ex gratia termination payment of £35,000, paid on 3 August 2017.

Central Ltd prepares accounts to 30 June each year.

Explain the Corporation Tax and Income Tax consequences of the payments made to Ross. (4)

10. Bernhard Ltd has prepared accounts to 31 October 2016, having commenced trading on 1 January 2016. The accounts show a profit before tax of £37,500.

    The following transactions are included within the accounts to 31 October 2016:

    Accrued wages of £10,000 (£5,000 paid in July 2017 and £5,000 paid in August 2017).
    Pension costs of £5,000 of which £500 was paid on 10 November 2016.
    Stationery costs of £2,000 incurred on 15 December 2015.
    Business entertaining costs of £400.
    Staff entertainment costs of £250.
    Warranty provision of £3,000 calculated in accordance with FRS102.

    Calculate Bernhard Ltd's taxable trading profit for the period ended 31 October 2016, showing clearly your treatment of each of the above items. (3)

11. Ali Ltd was incorporated on 1 May 2014 and opened an interest bearing bank account on 1 August 2014. The company began trading on 1 September 2014 and drew up its first set of accounts to 31 October 2015.

    The company drew up the next set of accounts to 31 October 2016 before ceasing to trade on 31 January 2017. The company became dormant on 31 March 2017, when the interest bearing bank account was closed.

    State the chargeable accounting periods for Ali Ltd up to and including 31 March 2017. (3)

12. **Briefly explain the purpose of the transfer pricing rules and state which companies are exempt from the transfer pricing rules.** (2)

November 2017 Examination

PAPER 4 PART II

Corporate Taxation

TIME ALLOWED – 3 ¼ HOURS
(for Part I and Part II)

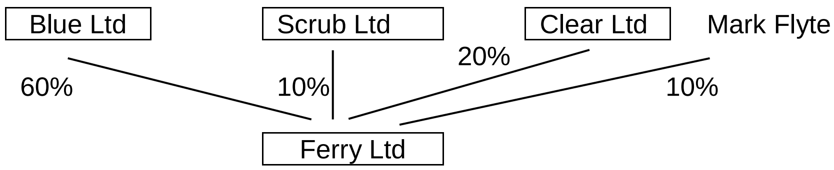
- The first 15 minutes of the three and a quarter hour exam is designated as reading time. You then have three hours to answer both the Part I and Part II questions.
- <u>During the 15 minutes reading time, you may read and annotate your Part II question paper**.** You may also read the legislation.</u>
- <u>You are **NOT** permitted to open the Part I question and answer booklet until the Presiding Officer says the 15 minutes reading time is over. Calculators may not be used during reading time.</u>
- The Presiding Officer will inform you when you can start writing your answers.
- You are required to answer **all Part II** questions in the Part II answer booklet.
- Please start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question requires otherwise.

Part II

Write your answers in the Part II answer booklet.

Marks are specifically allocated for appropriate presentation.

1. Your firm acts for Ferry Ltd and the following diagram shows the shareholdings in that company on 30 June 2017:



Ferry Ltd's results for the year ended 30 June 2017 are as follows:

	Notes	£	£
Trading profit			670,070
Add:			
UK bank interest receivable		2,180	
Profit on the sale of 13 Pick Street	1	94,700	
Less:			96,880
Depreciation		20,000	
Research and development (R&D) costs	2	27,700	
Interest payable	3	3,950	
Other allowable costs		171,800	
			(223,450)
Net profit			£543,500

Notes:

1 13 Pick Street was sold for £235,000 on 1 November 2016. It had been purchased on 2 July 2012 for £140,300 to replace the previous headquarters, 8 Drew Road. The full gain of £120,000 on the disposal of 8 Drew Road was the subject of a rollover relief claim as a result of the purchase of 13 Pick Street.

2 The R&D costs are as follows:

	£
Staff costs related to the development of a new engineering process	17,000
Consumables (40% relating to the new engineering process, the remainder relating to normal production)	3,200
Computer hardware	7,500
	£27,700

3 Interest payable is as follows:

	£
Interest on a loan taken out to purchase 13 Pick Street	250
Interest on a loan to purchase a 4% shareholding in Gray plc, an investment company	2,800
Interest on underpaid Corporation Tax	900
	£3,950

Continued

1. *Continuation*

The total capital allowances claimed by Ferry Ltd for the year ended 30 June 2017, including the information provided above, are £13,900 and it has a capital loss brought forward at 1 July 2016 of £2,600.

Ferry Ltd is a small/medium sized entity for the purposes of R&D.

Clear Ltd has a trading loss of £180,000 for the year ended 30 June 2017.

Mark Flyte is a sole trader. He has an adjusted trading loss for the year ended 30 June 2017 of £29,000. The other companies in the structure shown above are profitable.

It has been agreed that maximum consortium relief claims will be made to surrender losses where possible.

In addition, the tax director of Ferry Ltd has contacted you as he is concerned about the documents that you might disclose to HM Revenue & Customs, following questions raised in an enquiry into the company's Corporation Tax return for the year ended 30 June 2016. He believes any documents he has sent to you should be privileged information.

You are required to:

1) **Calculate the adjusted trading profit for Ferry Ltd for the year ended 30 June 2017.** (5)

2) **Calculate Ferry Ltd's Corporation Tax payable for the year ended 30 June 2017, assuming the rates for financial year 2016 continue to apply.** (6)

3) **Explain the concept of professional privilege and how it applies to your firm with respect to the circumstances described above by the tax director of Ferry Ltd.** (4)

Scottish Law: Confidentiality of communications is the equivalent term in Scotland for professional privilege.

Total (15)

2. Wave Ltd provides marketing services to clients both directly and online. However, Wave Ltd has identified a need for more robust information technology (IT) support to their business and therefore to their clients via one of three options:

Option One

Wave Ltd will employ Albert to manage IT support. He would be paid an annual salary of £35,000 and provided with taxable benefits which will cost Wave Ltd £4,500 per year and will result in an annual taxable benefit for Albert of £2,700.

Option Two

Wave Ltd will use the services of Function Ltd, a company that Albert uses to provide IT services. Function Ltd is caught by the personal service company (PSC) legislation. The annual fee paid to Function Ltd would total £43,000. No expenses will be incurred by Function Ltd.

Option Three

Wave Ltd will use the services of Max, a previous employee, who will be paid £1,500 per month to support the IT systems for Wave Ltd, as well as being on call when problems arise. Max set up his own business as a sole trader after leaving Wave Ltd and has many other clients. He works partly from home and makes on site visits to his clients when necessary.

You are required to:

1) **Explain the Corporation Tax and National Insurance consequences of Option One for Wave Ltd. You are not required to calculate the National Insurance Contributions payable.** (3)

2) **Explain the Corporation Tax, Income Tax and National Insurance consequences of Option Two for Function Ltd, including a calculation of the annual net deemed payment under the PSC legislation.** (4)

3) **Explain the Corporation Tax and National Insurance consequences of Option Three for Wave Ltd.** (2)

4) **Explain the Income Tax and National Insurance consequences of Option Three for Max.** (2)

Total (11)

3. Your firm advises Mowbray Ltd and your manager sent you the following email today:

To: Consultant@firm
From: Manager@firm
Date: Today
Subject: Mowbray Ltd

Joan Coleville is the finance director of the Mowbray Ltd group and all of the group companies described below prepare accounts to 31 March each year. Joan has raised some concerns which I have summarised below.

Please send me an email by the end of the day addressing the Corporation Tax consequences of the following issues:

On 1 May 2015, Mowbray Ltd transferred the freehold of a commercial building to Pistol Ltd, a 100% subsidiary. The building cost £250,900 when it was purchased in June 2014 and the market value at the time of the transfer on 1 May 2015 was £290,700. In July 2017, Mowbray Ltd sold half of its shareholding in Pistol Ltd for £179,000. It had purchased its shareholding for £520,000 in January 2015. Both Pistol Ltd and Mowbray Ltd are trading companies.

Mowbray Ltd owns 100% of the shares in Hastings Ltd, which has trading losses brought forward at 1 April 2017 of £170,000. The plan is to sell all of the shares in Hastings Ltd in December 2017 and a buyer has been identified. Joan wants to increase the price charged for the sale by the tax value of the trading losses brought forward as she knows that they can be used by the new owner. Please draft an explanation of the tax position with regard to these losses.

Pistol Ltd is VAT registered and prepares quarterly returns which align with its year end. On 1 October 2016, an invoice for £15,600 (VAT inclusive) was issued to one of its customers. This was in respect of goods provided by Pistol Ltd on 28 August 2016. The customer has not paid the bill and, despite numerous attempts to recover the amount, Pistol Ltd wrote off the amount in its accounts for the year ended 31 March 2017. It has done nothing about this write off for VAT purposes.

There are plans for Mowbray Ltd to purchase shares in two UK companies in the year ended 31 March 2018. Joan estimates that the profits of all group members will rise next year and she is concerned about how the acquisition of various levels of shareholdings in these companies might affect the timing of Corporation Tax payments.

Regards

Manager

You are required to prepare an email to your manager addressing the issues described above. Marks will be awarded as follows:

1)	**Sale of shares in Pistol Ltd.**	(7)
2)	**Proposed sale of shares in Hastings Ltd.**	(4)
3)	**VAT write off.**	(3)
4)	**Purchase of UK companies.**	(5)
		Total (19)

4. Helena, a client of your firm, is a successful entrepreneur who has set up and sold many businesses, mainly in the catering industry. She is now approaching retirement, but has used up her lifetime entitlement to entrepreneurs' relief.

Helena is a higher rate taxpayer and makes sufficient gains on investment assets in each tax year to utilise her annual exempt amount.

On 1 November 2016, as her final venture, she set up an unincorporated business which provides cookery courses to children. Through her extensive network, the business expanded rapidly and on 31 July 2017 she transferred all of the assets of the cookery business to a newly incorporated company, Mustard Ltd, in which she is the sole shareholder.

The only chargeable assets at the time of incorporation were internally generated goodwill, valued at £50,000 on 31 July 2017 and the freehold of a building that had been purchased for £300,000 in November 2016, but had a market value of £285,000 on 31 July 2017. Other non-chargeable assets valued at £20,000 were also transferred on 31 July 2017.

The consideration received by Helena on incorporation was £10,000 cash and the remainder in the form of ordinary shares in Mustard Ltd.

In August 2017, Mustard Ltd issued new shares to Phil Mader, the newly appointed managing director of the company. This gave him a 10% shareholding in Mustard Ltd. Aside from his salary, he expects to receive a bonus, benefits, including a car, and dividends each year from Mustard Ltd. He has asked you for advice on his Income Tax position, although he is not yet a client of your firm. Phil is a higher rate taxpayer.

You are required to:

1) **Calculate the net gain arising on the incorporation of Helena's business prior to any relief.** (2)

2) **Calculate the amount of incorporation relief that is available, any Capital Gains Tax payable by Helena and the base cost of the Mustard Ltd shares for Capital Gains Tax purposes.** (3)

3) **Explain the VAT treatment of the transfer of Helena's business to Mustard Ltd.** (3)

4) **Explain the Corporation Tax and Income Tax consequences of the amounts that are expected to be provided to Phil Mader.** (4)

5) **Explain any ethical issues for your firm as a result of Phil's request for advice.** (3)

Total (15)