THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

May 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.

- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.

- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

PART I

1. Stema plc recently purchased the entire shareholding of Wornig Ltd, a company with substantial trading losses brought forward. Stema plc is planning to make changes to how Wornig Ltd operates but is concerned that these changes may trigger anti-avoidance legislation and so restrict the use of the losses.

   State the types of major change that trigger this anti-avoidance legislation and state the time period that needs to be considered by Stema plc in relation to such changes. (4)

2. Satin Ltd has a year ended 31 December 2020. On 1 January 2020 Satin Ltd moved into a factory costing £700,000 and received a government grant of £200,000 towards the cost of this factory. Satin Ltd depreciates buildings at a rate of 2% per annum on cost.

   State the accounting entries needed for the capital grant for the year ended 31 December 2020. (2)

3. Cotton Ltd started trading on 1 July 2020. Cotton Ltd had the following taxable supplies for the first seven months:

	£
July 2020	5,000
August 2020	12,000
September 2020	15,000
October 2020	21,000
November 2020	19,000
December 2020	30,000
January 2021	35,000

   Explain the date by which Cotton Ltd should have notified HMRC that it needed to be VAT registered and the date from which registration was effective. (3)

4. In the year ended 31 March 2021, Tule Ltd, a food manufacturer, purchased the following assets for use in the business in November 2020:

	£
Machinery	205,000
Hot and cold water system for the factory	400,000
Car with emissions of 145g/km	25,000

   Tule Ltd also sold an antique desk from one of its offices for £5,000 which was originally purchased for £2,800.

   At 1 April 2020 the tax written down values brought forward were:

	£
General pool	1,931,110
Special rate pool	96,356

   Tule Ltd does not have any related 51% group companies.

   Calculate the maximum capital allowances that can be claimed by Tule Ltd in the year ended 31 March 2021. (4)

5. Bruin Ltd pays Corporation Tax in instalments. For the year ended 30 June 2020 the company slightly overpaid the first instalment payment, but then underpaid the final instalment payment. HMRC issued an interest demand in relation to the final instalment but the company has not yet paid the additional Corporation Tax or interest due.

   Explain how HMRC charges interest on Bruin Ltd's under and over payments of Corporation Tax, including the rates applicable and when it must be paid. (4)

6. The accounts for Haddel Ltd show an accounting profit of £351,425 for the year to 31 March 2021, the following items are included in arriving at this amount:

	£
Profit on sale of fixed asset	3,725
Depreciation	35,000
Bonuses to be paid January 2022	21,000
Entertaining customers	4,500
Provision calculated in accordance with FRS 102	3,900
Legal fees for renewal of a 20-year lease	6,250

   Calculate Haddel Ltd's tax-adjusted trading profit before capital allowances. Showing the tax treatment of each item, with an explanation if necessary. (4)

7. James is a self-employed window cleaner with trading profits in excess of £20,000 per annum. One of his many contracts is to clean the windows of the Molting Ltd office building.

   Zohaib is employed by Molting Ltd and has a salary and benefits.

   Identify the different classes of National Insurance payable by James and Zohaib. (3)

8. Simone has operated as a sole trader for many years. She intends to incorporate her trading business into a company, Honeyford Ltd, but wishes to personally retain the property that the business trades from, rather than transferring it to the company.

   Explain the relief that is available to Simone and how this relief operates, including whether this has an impact on future disposals of assets by the company, or shares by Simone. Ignore business asset disposal relief. (3)

9. In 2020/21 Jane sold an antique dresser for £100,000 and this resulted in a capital gain of £45,000. She used £85,000 of the proceeds to subscribe for shares in Otley Ltd, which are qualifying Enterprise Investment Scheme shares. This is the only investment that she made in Otley Ltd during 2020/21. Jane has £12,300 of unused annual exempt amount.

   Explain how much EIS reinvestment relief should be claimed by Jane in 2020/21. (3)

10. Musicarma Ltd is a UK resident company. In the year ended 31 March 2021 Musicarma Ltd had three sources of overseas income, in addition to a small amount of UK trading income. The three sources of overseas income are dividend income, property income and interest receivable.

The company also made a substantial donation to a qualifying UK charity. There are no relevant double tax treaties applying to the overseas income.

Explain how Musicarma Ltd will obtain tax relief in the UK for the tax paid on the three sources of overseas income. Explain how the qualifying donation should be relieved. (4)

11. Olivas Ltd was incorporated on 1 May 2018 and opened an interest bearing bank account on 1 June 2018. The company began trading on 1 November 2019 and drew up its first set of accounts to 31 March 2021.

State the chargeable accounting periods for Olivas Ltd up to and including 31 March 2021. (2)

12. Ballard Ltd had the following income and expenditure during the year ended 28 February 2021:

1) Interest on a loan of £200,000 used to purchase a factory used in the company's trade. Interest is paid at a rate of 4.75% per annum.
2) Interest received on over payment of Corporation Tax of £1,200.
3) Interest on a loan of £450,000 used to purchase a property that is rented to a third party. Interest is paid at a rate of 6.25% per annum.
4) Repayment of £30,000 at par on a loan used to purchase some shares.
5) Bank interest received £3,000.

Calculate the non-trade loan relationship income or deficit for the year ended 28 February 2021. Show your treatment of each items and state whether the result is income or a deficit. (4)

PART II

13. You are the tax manager at a firm of advisers. Your client is the Ideal Spaces group, which comprises the holding company Ideal Spaces Ltd and its subsidiary companies. The finance director of the group informs you that they want to focus on the group's most profitable products (manufacturing garden furniture), dispose of less profitable businesses, and raise finance for expansion, as follows:

Transfer of trades

Two wholly owned subsidiaries in the group, Woodworker Ltd and Wooden Furniture Ltd both manufacture high quality garden furniture. The directors believe it would be more profitable to consolidate these into one company and so will transfer the trade of Woodworker Ltd to Wooden Furniture Ltd. Woodworker has trading losses and its balance sheet shows liabilities exceeding assets.

Sale of subsidiary

In order to dispose of non-core businesses, Ideal Spaces Ltd sold the shares in a wholly owned subsidiary, Box Tree Ltd, an investment company, on 30 November 2020. At that point, Box Tree Ltd had the following assets which it acquired from Ideal Spaces Ltd by way of an intra group transfer.

Asset	Date of transfer from Ideal Spaces Ltd	Original purchase price	Market Value at date of transfer	Market Value at 30 November 2020
		£	£	£
Property 1	1 January 2010	400,000	600,000	£1,200,000
Property 2	1 June 2015	350,000	933,000	£2,200,000

The consideration for the sale of the shares in Box Tree Ltd was £3,800,000. You have informed Ideal Spaces Ltd that the substantial shareholding exemption did not apply on the sale of the shares.

Sale of business

The management team of a subsidiary, Lime Ltd has approached the board of Ideal Spaces Ltd with an offer to buy the business of Lime Ltd. As this business does not fit into the new group structure it is agreed that the trade and assets are to be sold to the managers of the business. The managers have never purchased a business before and are uncertain as to what is involved. They have asked if your firm could advise them.

Issue of new shares

In order to fund the planned expansion of the group, the directors of Ideal Spaces Ltd are considering issuing further shares to its current and new shareholders for consideration paid in cash. They are currently considering what class of shares could be issued.

All group companies are UK resident and prepared accounts for the year ended 31 January 2021.

Continued

Continuation

Requirements:

1) **Explain why the transfer of trade from Woodworker Ltd to Wooden Furniture Ltd would be subject to the succession rules and the tax consequences of the succession rules applying.** (4)

2)
   (a) **Explain why a degrouping charge arises on the sale of the shares in Box Tree Ltd.**

   (b) **Calculate the degrouping charge (assuming an indexation factor of 10%) and calculate the chargeable consideration for the shares in Box Tree Ltd.**

(6)

3) **Explain the ethical issues that your firm should consider when being asked to advise both parties (Ideal Spaces Ltd and the managers) in the sale of Lime Ltd business.** (5)

4) **Explain the process of issuing shares and give a brief description of the key features of:**

   (a) Preference shares;
   (b) Deferred shares;
   (c) Convertible shares; and
   (d) Redeemable shares.

(5)

Total (20)

14. Woodbridge Logistics Ltd is a client of your firm with a 31 March year end. It provides warehouse and transport services for the clothing retail sector, and owns the following properties:

North Property

A subcontractor built this warehouse for Woodbridge Logistics Ltd. The total costs incurred were:

	£
Land acquisition costs	500,000
Land preparation costs	250,000
Cost of obtaining planning permission	25,000
Construction costs	2,000,000
Total	2,775,000

Construction started on 1 April 2020 and the factory was brought into use on 31 January 2021.

South Property

Woodbridge Logistics Ltd bought this factory new and unused from the developer. The construction of the factory was completed on 29 February 2020, having started in June 2019. Woodbridge Logistics Ltd purchased it on 31 May 2020 and started using it in their business on 31 October 2020. The construction cost of the building was £1,250,000. Woodbridge Logistics Ltd purchased it for £1,600,750.

Midlands Warehouse

The Midlands warehouse is too far from the nearest motorway and so Woodbridge Logistics Ltd is considering selling to Deben Trucks Ltd. This warehouse was purchased for £4,000,000 from the developer on 1 April 2019. The developer's cost of construction was £3,600,000. Structures and Buildings allowance (SBA) is being claimed on this property. Deben Trucks Ltd has offered to pay £5,200,000 for the building. The proposed sale would take place on 30 June 2021. As part of the negotiation Deben Trucks Ltd would like to know what Structures and Buildings allowance would be available to them on the Midlands warehouse.

WL Properties Ltd

Woodbridge Logistics Ltd has a 100% subsidiary; WL Properties Ltd. WL Properties Ltd prepares accounts for the year ended 31 March 2021. It owns several buildings which are surplus to trading as follows:

UK Properties:

1) Eastern House: Rental income during the year to 31 December 2020 was £35,000 per year and increased to £40,000 per year on 1 January. The rental income is received on 1 June each year. In the year ended 31 March 2021 interest payable on the loan to purchase the property was £22,000;

2) Western Warehouse: Rental income for the year ended 31 March 2021 is £120,000. In the year WL Properties Ltd redecorated the property at a cost of £6,000; and

3) Border House: This property had been empty for several years, generated no rental income, and was sold on 31 August 2020. (See details below.)

Continued

French Properties

1) Calais Warehouse: Net rental income in the year ended 31 March 2021 was £72,650.

2) Le Havre Warehouse: This was empty for most of the year ended 31 March 2021 and so rental income was only £13,000. Costs incurred by WL Properties Ltd to keep the empty building secure amounted to £80,000 and in addition £25,000 in legal fees and other costs in pursuing the former tenant for non-payment of rent were paid.

There is no tax in France on the rental income from the French properties.

Sale of Border House

The proceeds for the sale of Border House were £4,750,000. Costs relating to the property are:

	£
Selling Agents fees	15,000
Legal fees	17,500

The building was purchased on 1 January 2000, costs being as follows:

	£
Purchase price	1,000,000
Legal fees on purchase	12,000
Surveyors fees on purchase	6,000

On 1 June 2008 £400,000 was paid for an essential roof replacement on the property.

Priti Kumar

In order to consider how to use the properties in the most efficient way, Woodbridge Logistics Ltd proposes to engage the services of a specialist commercial property consultant, Priti Kumar. She will advise on business expansion and will be paid £1,000 per day for her services.

Requirements:

1) Calculate the Structures and Buildings Allowance available to Woodbridge Logistics Ltd on the North Property and South Property in the year ended 31 March 2021. (4)

2) Calculate the Structures and Buildings Allowance available to Woodbridge Logistics Ltd on the Midland warehouse in the year ended 31 March 2022; and the SBA available to Deben Trucks Ltd in its year ended 31 December 2021. (2)

3) Calculate the Corporation Tax payable by WL Properties Ltd in the year to 31 March 2021. Clearly show any loss relief and/ or carried forward losses. Ignore any potential group reliefs for gains or losses. (8)

Continued

Continuation

4) **Explain the key factors that should be taken into consideration when determining the employment status of Priti Kumar, and briefly mention any other factors that could be considered.** (4)

Total (18)

15. You are a tax manager at XYZ Tax consultants. You have received an email from the Managing Director of your client Green Media Ltd which states:

"You might be aware that our Finance Director has been off work recently, and as he has been diagnosed with stress, we don't expect him back in for sometime. In his absence I have asked the financial controller, Jordan Lendal, to take over as interim Finance Director. Jordan has brought two tax related issues to my attention:

1) The company has significant debtors and having looked at a detailed analysis we believe that it is unlikely that we will be paid by the majority of them. We have paid HMRC the output VAT on the invoices we raised for these services, despite the fact that we have not been paid by the customers.

   I would like to understand if there is anything that we can do about the VAT aspects of these debtors.

2) Part of the role of Finance Director is to ensure that the Corporation Tax returns for the company are prepared and submitted. Jordan has discovered that this has not been done in recent times but at this point in our review we don't know how many years returns have not been submitted.

   I need to know what exposure we have to penalties for the Corporation Tax returns that are outstanding."

Requirements:

Prepare an email to send to the Managing Director in which you:

1) Explain what relief is available for the VAT on the outstanding debts, and how the relief is obtained. (5)

2) Explain the penalties that Green Media Ltd may incur on the late submission of the Corporation Tax returns and in what circumstances a penalty will not be charged. Ignore any concessions provided as a result of Covid-19. (5)

Total (10)

16. The following shows the shareholdings of the Diverse Ltd group of companies at the start of the year ended 28 February 2021.

Diverse Ltd

100%	80%	100%	100%
Puffin Ltd	Dunlin Ltd	Egret Ltd	Wading Ltd

All companies have a 28 February year end, apart from Wading Ltd which has a 30 April year end.

The results for the companies to 28 February 2021, apart from Wading Ltd, are as follows:

	Diverse Ltd	Puffin Ltd	Dunlin Ltd	Egret Ltd
	£	£	£	£ (see note 1 below)
Trading profit		3,650,000		
Trading losses			(1,000,000)	(1,700,000)
Property income	200,000			
NTLR profit	20,000			
NTLR deficit			(11,000)	
	220,000	3,650,000	(1,011,000)	(1,700,000)

Note 1

The shares in Egret Ltd were sold on 31 December 2020. The sale was approved by the shareholders of Diverse Ltd at a meeting on 30 September 2020.

Note 2

For the years ended 30 April 2020 and 2021 Wading Ltd had the following results:

	30 April 2020	30 April 2021
	£	£
Trading loss	(2,600,500)	(820,000)
NTLR deficit	(4,000)	(8,000)
Total	(2,604,500)	(828,000)

The senior management team of the subsidiary companies are assessed for bonus purposes on their individual company profit after tax figure. Therefore, a decision has been taken that group relief claims and surrenders are between the subsidiary companies only.

In addition, Diverse Ltd owns 25% of the shares in Yellow Fin Limited. The shares in Yellow Fin Ltd are held as follows:

Diverse Ltd	French Societe SA	Blue Ltd	Red Ltd	Mr Stan Jones
25%	30%	4%	26%	15%

Yellow Fin Ltd

All shareholders are otherwise unconnected, and all are UK resident except for French Societe SA.

Continued

Continuation

Although the entitlement to profits and assets on a winding up follows the level of the shareholding, the voting rights for the shareholders differ and are:

Shareholder	Percentage of the voting rights
Diverse Ltd	25%
French Societe SA	30%
Blue Ltd	4%
Red Ltd	21%
Mr Stan Jones	20%

Yellow Fin Ltd's results for the year to 28 February 2021 are:

	£
Trading loss	(1,200,750)
Property Income	40,000
Chargeable gain	75,000

The total taxable profits for the year ended 28 February 2021 for the consortium members are:

Diverse Ltd	£220,000
Paris Societe SA	€40,000
Blue Ltd	£75,000
Red Ltd	£400,000

Mr Stan Jones has trading profits as a member of an LLP, being £175,000.

Requirements:

1) Calculate, with supporting explanations, the maximum group relief that can be surrendered to Puffin Ltd in the year ended 28 February 2021, from each of its fellow subsidiary companies. Ignore any possible relief to Diverse Ltd. (6)

2) Calculate, with supporting explanations, the maximum consortium relief available to each shareholder in Yellow Fin Ltd. Clearly state the treatment of the losses and show any loss that can be carried forward in Yellow Fin Ltd. (6)

Total (12)