THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

May 2022

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. Chaffinch Ltd is a manufacturing company within a group of companies. It prepares accounts for the year ended 31 March 2022. In November 2021 the company bought the following assets:

	£
Car with CO_2 emissions of 45g/km	27,500
New electric car	30,000
Electric lighting system	250,000

Chaffinch Ltd sold some equipment for £25,000 which originally cost £45,000 in 2019.

At 1 April 2021 the pool balances were:

	£
General pool	3,575,000
Special rate pool	125,600

Another group company has used all the Annual Investment Allowance for the year and there isn't any allowance available to Chaffinch Ltd.

Calculate the maximum capital allowances that can be claimed by Chaffinch Ltd in the year ended 31 March 2022. Show the amount of tax written down values carried forward at 31 March 2022. (4)

2. Greenham Ltd is a VAT registered company.

The following amounts of input VAT were incurred by Greenham Ltd for the VAT quarter ended 31 January 2022:

<u>Date</u>	<u>Reason</u>	£
3 December 2021	Accountancy fees – the invoice has been mislaid	300
21 November 2021	Home telephone bill of HR manager (50% private use and 50% business use)	68
15 December 2021	Purchase of motor car for a Director (business use 85% and private use 15%)	7,000
2 January 2022	Purchase of plant and machinery used in Greenham Ltd's business	3,000

Calculate the amount of input VAT that should have been recovered by Greenham Ltd on its VAT return for the quarter ended 31 January 2022. Show your treatment of each item. (4)

3. The accounts for Courtfield Ltd show an accounting profit of £752,131 for the year to 31 March 2022, the following items have been deducted in arriving at this amount:

	£
Depreciation	75,100
Entertaining (staff – £1,250, customer – £2,000)	3,250
Donation to a registered national charity	1,500
Loss on the sale of a fixed asset	4,500
Directors' bonus accrual to be paid on 31 March 2023	60,000

Calculate, with supporting explanations, Courtfield Ltd's tax-adjusted trade profit before capital allowances for the year ended 31 March 2022. (4)

4. Thomas, a director of Lynley Ltd, borrowed £100,000 from Lynley Ltd on 13 November 2021. Just before the year end of 31 December 2021 the company awarded Thomas a bonus of £75,000, for his contribution during the year which was credited to his loan account.

   State the accounting entries for the loan and the bonus in the accounts of Lynley Ltd. (2)

5. Arnott Ltd has a contract to provide consulting services to Fleming Ltd. Steve is the sole shareholder in Arnott Ltd and fulfils the services to Fleming Ltd. Arnott Ltd pays Steve a small salary and incurs a number of costs in relation to the contract. Fleming Ltd is a small company for the purposes of off-payroll working.

   Explain the tax implications, for Steve, if Arnott Ltd is subject to the off-payroll working/Personal Service Company rules. (4)

6. Havers Ltd has made payments on behalf of one of its employees, Edna, as follows:

	£
Bonus	10,000
Pension contributions	5,000
Medical insurance	750
High Street store voucher	100

   Explain which class of National Insurance, if any, is payable by Havers Ltd on each of these payments for Edna. (3)

7. For the year ended 31 December 2021, Dorothea Ltd had total taxable profits of £19,500,000 and received dividends of £1,500,000 from a 10% shareholding in a company. The profits and dividends are at a similar level to previous years.

   Explain when Dorothea Ltd should have paid its Corporation Tax Liability for the year ended 31 December 2021. (4)

8. Musikanten Ltd is not resident in the UK for Corporation Tax purposes. The UK does not have a double tax agreement with the country where Musikanten Ltd is resident. The company owns some land in the UK which it intends to sell. It is expecting this sale to take place later in 2022. The land was purchased in June 2019 and is held for investment purposes.

   Explain the consequences for Musikanten Ltd of disposing of the land. (3)

9. Colossus Ltd sold a building used in its trade for £1,500,000 on 1 April 2022. The building originally cost £900,000 in March 2016. Colossus Ltd intends to purchase a new freehold building on 30 September 2022 costing £1,300,000.

   Calculate the gain on the sale of the building, assuming all available claims are made. State the base cost of the replacement asset. (4)

10. The following individuals are shareholders in Crystal Ltd:

	Shareholding
Rachel	28%
Paul (Rachel's husband)	5%
Robert (Rachel's brother)	5%
Sally (Paul's sister)	5%
Other unconnected shareholders	57%

   One unconnected shareholder owns 2% and each of the others owns 5%.

   Explain whether each of the shareholders is associated with Rachel for close company purposes, and whether Crystal Ltd is a close company. (4)

11. Laura is the sole director and shareholder of Thorne Ltd. During the year ended 30 June 2021, the accounts for Thorne Ltd showed interest payable to Laura of £25,000. It is proposed that the payment of this interest to Laura is delayed until 31 July 2022.

Explain how this interest will be treated for Corporation Tax purposes in Thorne Ltd if the interest is paid to Laura on 31 July 2022. (4)

Continued

PART II

12. Your client, Burford Ltd currently has a 31 December year end, and is not part of a group.

In the year to 31 December 2021, the company's results were:

	£
Trading loss	(6,680,000)
Loan Relationship Credit	20,100
Chargeable Gain	250,000
Qualifying donation to a registered charity	(750)

In the six-months ended 31 December 2020, the company's results were:

	£
Trading profit	1,600,000
Chargeable gain	100,600
Qualifying donation to a registered charity	(750)

In the year to 30 June 2020, the company's results were:

	£
Trading profit	4,400,900
Qualifying donation to a registered charity	(750)

Requirements:

1) Calculate the loss that can be relieved in Burford Ltd, assuming that the maximum relief is taken as early as possible. Show the loss carried forward and calculate any repayment of tax that can be received by Burford Ltd. (8)

2) Explain when HMRC must be notified of the claim(s) for relief of the loss. (2)

Total (10)

13. Your client, Northey Ltd, is considering restructuring how it operates its business overseas. It currently trades with several overseas customers via a branch in Ruritania (an overseas country). It is now looking to increase the business it does by opening both manufacturing operations and sales offices in various other countries, none of which has a double tax treaty with the UK.

The Finance Director of Northey Ltd, Sam Jones, has contacted you to discuss the structure of the overseas operations so that they are as tax efficient as possible. As cash flow is an issue for the company, Sam also wants to ensure that the timing of tax payment is as efficient as possible.

In the year to 31 January 2022, Northey Ltd has trade profits in the UK of £1,000,000. The branch in Ruritania has a profit of £200,000 (after deducting Ruritanian tax at 25%). Northey Ltd also has a dividend of £400,000 from an overseas company (in a qualifying overseas territory) in which it has an investment. The dividend of £400,000 is stated after local tax of £90,000 is deducted.

Requirements:

1) Explain what issues need to be considered when deciding what operating structure should be used by each of the new overseas businesses of Northey Ltd, to meet the aims of tax efficiency and maximising cash flow. (10)

2) Calculate the UK tax payable by Northey Ltd for the year ended 31 January 2022. Show how each source of income is treated. (5)

Total (15)

14. You work at CTA LLP, a firm of Chartered Tax Advisers. Your colleague, Adam Simons is the business development manager at the firm. You have received the following email from Adam:

"Hi – it was great to see you give a presentation on Corporation Tax at the business development seminar the firm held last week for our clients and contacts. One of the issues that you mentioned (briefly) was tax relief for research and development (R&D) and this subject seems to have made a very good impression on a couple of existing clients; and also, with one contact who we have been trying to win as a client for some time. All three mentioned R&D to me when I was talking to them over coffee after the seminar.

I will be meeting with these clients/contact more formally over the next few weeks. I would like to understand more about R&D so that I can field any general questions from them and ensure they understand the service we can offer. The clients and their issues surrounding R&D are as follows:

1) AP Developments Ltd

The company is always profitable and so would be eager to maximise the deductions that it can take. I also know it has significant revenue and capital expenditure. It is part of a larger group of companies – I believe that the size of the company is relevant?

2) Swinbrook Ltd

You said in your seminar that losses can be surrendered to create an "R&D tax credit". The Finance Director of Swinbrook Ltd mentioned that the company will make a loss for tax purposes in the year. I would like to give them an illustration of what this would mean in cash terms, and the amount of any remaining loss if the company had a loss for tax purposes of say £1,500,000, after deducting relief for qualifying R&D expenditure of £58,000.

3) CN Group Ltd

This is the contact I mentioned – the company isn't a client (not yet!) but we have been trying to win their work for some time. The Managing Director, Tim, is interested in the benefits obtainable from an R&D review, and wondered if we could undertake this? The fee won't be huge so we need to be efficient. I know Tim well, and so can we just side step the Engagement letter process to get the work done quickly and incur as few chargeable hours as possible?

Regards

Adam"

Requirements:

Write an email response to Adam which explains:

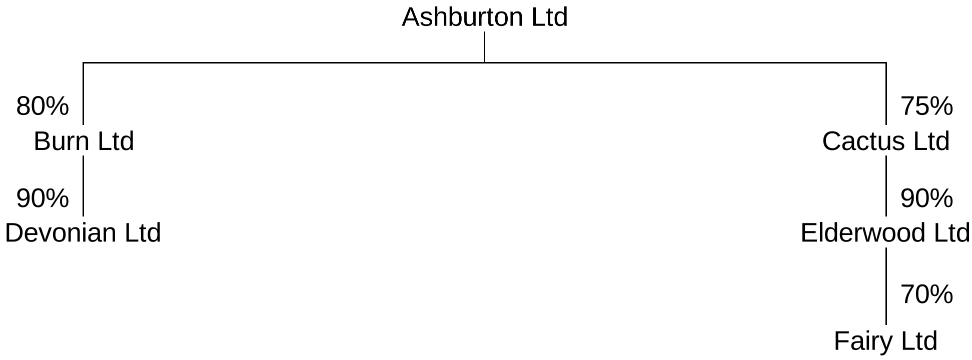
1) **For AP Developments Ltd, the type of expenditure which is qualifying for R&D purposes, why the size of company is relevant and how the relief is given;** (10)

2) **What is meant by an "R&D tax credit" and in what circumstances it can be obtained, including calculations of the cash credit and the loss remaining for Swinbrook Ltd using Adam's suggested figures; and** (5)

3) **In relation to CN Group Ltd, the status of the Engagement Letter when undertaking a piece of work for a potential client, and whether to accept Adam's proposal to side step the Engagement letter.** (5)

Total (20)

15. The Ashburton Group is made up of the following UK resident companies, with shareholdings as shown below:



All companies in the group prepare accounts to 30 April. In the year to 30 April 2022 Ashburton Ltd had gains and losses as follows:

	£
Gain on property	3,000,000
Trading loss	(250,000)

Burn Ltd has a capital loss of £300,000 in the year. It also has a capital loss brought forward of £1,500,000 from 2018 in respect of which no elections have been made.

Cactus Ltd purchased its shareholding in Elderwood Ltd on 1 September 2019. At that date, Elderwood Ltd had realised capital losses of £600,000 which were still unrelieved at 1 May 2021. Elderwood Ltd also owned a warehouse which was up for sale at a price that would give rise to a capital loss of £400,000. The warehouse finally sold in the year to 30 April 2022 and the capital loss arising was £450,000.

Also, in the year to 30 April 2022 Elderwood Ltd sold a building which was purchased in 2018, realising a chargeable gain of £50,000.

In the year to 30 April 2022, Cactus Ltd had the following results:

	£
Trading profit	15,000,000
Gain on the sale of Building A (purchased 2020)	3,000,000
Gain on the sale of Building B (purchased 2014)	2,000,000

Both Buildings A and B were used in the trade of Cactus Ltd.

The management of the Ashburton Group assume, for historical group reporting purposes, that Ashburton Ltd and Burn Ltd will offset profits/gains and losses; and that Cactus Ltd and Elderwood Ltd will offset profits/gains and losses.

Also, the group deductions allowance is shared as follows Burn Ltd – £2,500,000, Cactus Ltd – £1,250,000 and Elderwood Ltd £1,250.000.

Ashburton Ltd is currently in negotiation to purchase another company, Greengrass Ltd. The finance director of Ashburton Ltd has asked you about the purchase process and the documents needed. In particular, he is querying the length of the Sale and Purchase Agreement. The finance director has emailed you to say "I don't see why we need such a long document. In particular, I don't see the need for those lengthy tax warranties and indemnities, which run to 20 pages. The affairs of Greengrass Ltd are really simple; they make a profit, pay the Corporation Tax on time and have never had any queries raised by HMRC."

Continued

Requirements:

1) **Explain which companies in the Ashburton Group form a group or groups for capital gains purposes.** (4)

2) **Assuming that Ashburton Ltd and Burn Ltd only offset each other's profits/ gains and losses, calculate the total taxable profits of Ashburton Ltd and Burn Ltd for the year to 30 April 2022. Explain the use of Burn Ltd's brought forward capital loss.** (3)

3) **Assuming that Cactus Ltd and Elderwood Ltd only offset each other's profits/ gains and losses, calculate the taxable total profit of Cactus Ltd for the year ended 30 April 2022. Calculate the gain brought into the charge to Corporation Tax for Elderwood Ltd, and state the amount of any unused capital loss.** (3)

4) **Explain the purpose of tax warranties and indemnities in the purchase of Greengrass Ltd, giving an example of both a tax indemnity and a tax warranty.** (5)

Total (15)