THE ASSOCIATION OF TAXATION TECHNICIANS

ATT PAPER 4 CORPORATE TAXATION

November 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. In the year ended 31 March 2021, Nesbit Ltd, a manufacturing company with several 51% related group companies purchased the following in December 2020:

	£
Computer equipment	70,000
Manufacturing equipment	140,000
Air conditioning system	750,000

Nesbit Ltd sold some old computer equipment for £5,000 which was purchased several years ago for £14,000.

At 1 April 2020 the pool balances were:

	£
General pool	2,874,125
Special rate pool	74,845

£300,000 of the group AIA was allocated to Nesbit Ltd.

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

2. Cormorant Ltd has 500,000 £1 ordinary shares in issue. On 31 January 2021 its reserves amounted to £1,700,000 and the net assets of the company were £2,200,000. The company proposes to make a bonus issue of one share for every two shares held.

	£
Net assets	2,200,000
Share capital	500,000
Profit and loss account reserve	1,700,000
	2,200,000

State the accounting entries needed to record the bonus issue and the effect this would have on the above balance sheet figures. (3)

3. Beach Ltd provides some employees with company cars, with any fuel for business purposes being reimbursed via an expenses claim at HMRC approved rates. All employees receive a membership to their local gym.

Explain the National Insurance implications for Beach Ltd of providing their employees with company cars, fuel and gym membership, including when the National Insurance Contributions should be paid. (3)

4. Bumble Ltd, a UK VAT registered company, has recently started purchasing goods from overseas and then supplying these goods to a different overseas company.

1) Explain to Bumble Ltd what is meant by place of supply for VAT purposes and the significance of the place of supply rules to a UK business. (2)

2) Identify the general place of supply for goods assuming that they fall within s7(7) VATA 1994 and identify the place of supply of Bumble Ltd's transactions with overseas companies. (2)

5. An antique desk and a painting were bought by Cherish Ltd for the boardroom in January 2018. The desk cost £2,500 and the painting £9,000. The desk was sold for £7,800 in December 2020 and incurred auction fees of £750 and the painting was sold for £5,500 in March 2021. There were costs of sale totalling £250 on the disposal.

   Calculate the chargeable gain/allowable loss for Cherish Ltd on the sale of the desk and painting. (4)

6. Sungold Ltd is owned by Max Shearwater. Sungold Ltd is a UK resident company and owns shares in the following companies:

Company	Shareholding
Strillo Ltd	75%
Romello GmbH	85%
Losetto Ltd	51%

   All of the companies are UK resident except for Romello GmbH which is resident in Germany. Romello GmbH owns 100% of the shares of Ferline Ltd, a UK company. Strillo Ltd owns 75% of the shares in Tomande Ltd which is also a UK resident company.

   Explain whether the above companies are able to surrender trading losses to Sungold Ltd and whether they are able to transfer capital assets to Sungold Ltd at nil gain/nil loss. (4)

7. Sheddick Ltd disposed of a factory that it had purchased in September 2007 for £1,200,000. The company received proceeds of £1,850,000 from the sale in February 2021 and incurred costs of sale totalling £7,500.

   Calculate the Corporation Tax payable on the sale of the factory. (3)

8. Rushmeadow Ltd is a close company and does not pay Corporation Tax in instalments. During the year ended 31 December 2020 it made an interest free loan of £15,000 to its sole shareholder Nicola. Nicola repaid £10,000 on 5 April 2021 and plans to repay the remaining £5,000 in December 2021.

   Explain the Corporation Tax implications of the loan to Nicola and its repayment. (3)

9. Kittiwake Ltd has been trading for several years and its latest accounts are drawn up for the nine months ended 31 March 2021. Kittiwake Ltd has no 51% related group companies and has augmented profits of £12m which includes dividends received of £200,000. This is at a similar level to previous accounting periods.

   Explain when Kittiwake Ltd should have paid its Corporation Tax liability for the nine months ended 31 March 2021. (2)

10. Jarvis the new finance director of Pulp Ltd would like some information on how the company's profits from UK patents are taxed. He understands that the company has made a special election regarding the profits from these patents. Jarvis has already calculated the amount of relevant intellectual property profits, but is not sure how to use this to calculate the correct amount of tax.

    Explain to Jarvis the impact that the election has on the effective rate of Corporation Tax on the profits from patents and how the relief is calculated. (3)

11. Scarlett Ltd has the following results for the year ended 31 March 2021. Scarlett Ltd has no 51% related group companies:

	£
Trading profits	200,000
<u>UK rental property</u>	
Income from a furnished property	25,000
<u>Expenses</u>	
Insurance for the furnished property	1,500
Repairs to furnished property	1,100
Interest on loan to purchase the property	400
Qualifying charitable donations	600

Calculate the Corporation Tax payable for Scarlett Ltd for the year to 31 March 2021. (4)

12. Phoebe is the new financial director of Firefly Ltd; her experience has been with trading companies in the past. However, Firefly Ltd doesn't trade and generates income and incurs costs from renting out commercial properties to unconnected companies and from investments in shares in UK listed companies (owning less than 10% of the shares in these companies). The company also incurs costs in relation to an office from which the business is managed.

Explain to Phoebe what type of company Firefly Ltd is and how its taxable total profits are calculated. (3)

PART II

13. Your firm of chartered tax advisers prepares the Corporation Tax return for your client, Blackchurch Ltd. The company has no subsidiaries and all its shares are owned by one individual. Blackchurch Ltd is an SME for research and development (R&D) purposes.

Blackchurch Ltd's accounts for the year to 30 September 2021 show the following:

	£
Trading profits before adjustments for tax purposes (see Notes 1 and 2 below)	1,625,000
Rental income from overseas property (after deducting overseas tax of £125,000)	500,000
Net profit per accounts	2,125,000

1) Trading profits include a deduction of £100,000 spent on qualifying R&D revenue expenditure.
2) In the year ended 30 September 2021, Blackchurch Ltd made the following capital purchases:

	£
Car for use (including private use) by sales manager (CO_2 emissions 155g/km)	25,000
Qualifying R&D capital expenditure	400,000

At 1 October 2020 the company has no tax written down value brought forward balances.

Other information

Blackchurch Ltd realised a gain on the sale of a property which it sold on 30 June 2021 for £2,000,000. The cost of the property, including professional fees, in January 2011, was £1,057,000. At 1 October 2020, brought forward capital losses arising in 2018 were £350,000. No accounting profit or loss was recognised in the trading profit of £1,625,000.

The finance director of Blackchurch Ltd has contacted you to discuss tax planning opportunities. The finance director says he has been made aware of an "off the shelf" scheme which does not have to be tailored in any way to be effective for Blackchurch Ltd and works by creating a corporate structure to exploit loopholes in the law. He has been told that HMRC have a different view of how the structure works. However, he wishes to implement the scheme.

The finance director also states that this is not the first time that your firm has failed to bring to his attention any possible "tax savings" initiatives. He believes that the company will have paid too much tax due to the lack of pro-active tax planning advice, and as a consequence the shareholders will have seen a reduction in the value of their shares. He says that the shareholders have a case against your firm and will consider suing for negligence.

Continued

Continuation

Requirements:

1) **Calculate the Corporation Tax payable by Blackchurch Ltd for the year ended 30 September 2021 showing all necessary workings.** (8)

2) **Identify the five standards for tax planning that are within PCRT, and explain where the scheme suggested by the finance director may breach the standards.** (5)

3) **Explain whether the shareholders are able to sue your firm for breach of contract and/or negligence. Explain the three matters that must be proved to be successful in a negligence claim.** (5)

Total (18)

14. You are a tax manager at a firm of tax advisers. Four unrelated clients have requested your advice on specific tax issues, as follows:

1) Elmet Ltd is an unquoted trading company with no subsidiaries. To benefit its trade, the company wishes to purchase its own shares from a UK resident shareholder, Ahmed. The company has 20,000 £1 ordinary shares in issue which were issued in 2010 for £3.50 per share. Ahmed owns 6,000 shares and is an original subscriber for the shares. Elmet Ltd will repurchase 4,000 of his shares. Ahmed will use the proceeds to pay off his children's student loans. Elmet Ltd proposes that it will pay Ahmed £17 per share.

   Ahmed has never been employed by Elmet Ltd, nor is he a director. He is an additional rate taxpayer and has already used his dividend allowance and CGT annual exempt amount.

   The finance director of Elmet Ltd wants to understand the tax implications for the shareholder of the proposed repurchase.

Requirement:

Explain the tax treatment that will apply to the repurchase of Ahmed's shares and calculate the tax that will be due by him. (6)

2) Langsales Ltd, a manufacturing company, has 25,000 shares in issue, all of which are owned by InvestingCo Ltd. The shares were purchased as follows:

Date of purchase	Number of shares
1 January 2019	20,000
1 January 2021	5,000

   InvestingCo Ltd is in negotiation to sell the shares it owns in Langsales Ltd. There will be two separate sales:

   First tranche will complete on 30 November 2021 – 23,000 shares will be sold.
   Second tranche will complete on 1 December 2022 – 2,000 shares will be sold.

Requirement:

Explain whether the sale of the shares in Langsales Ltd will be eligible for substantial shareholding exemption. (3)

Continued

3) Brickie Ltd undertakes building construction and refurbishment works. The company is reviewing its recent VAT returns and notes the following transactions:

<u>Sales</u>

(a) The sale of a house which Brickie Ltd converted from a commercial building.
(b) The sale of a house. This sale was not the first grant of a major interest in this property.
(c) The sale of an office block in October 2021. Brickie Ltd completed the construction of the block in 2020 and it has been empty since then.

<u>Purchases (all from VAT registered suppliers)</u>

(d) Purchase of woodworking machinery used specifically in the conversion of commercial properties to houses; and
(e) Purchase of a car for the site manager. She is allowed to use it for private journeys but in the past hasn't used it for this purpose.

Requirement:

Explain how each transaction will be treated for the purposes of calculating input and output VAT for Brickie Ltd. (5)

4) Maybird Ltd is in the process of terminating the contract of Jo, who works in the in-house IT department. Once the termination package is agreed, Jo will leave immediately. The package is as follows:

(a) Payment in lieu of notice, being the salary that Jo would have received had they worked the contractual notice period – £20,000;
(b) Statutory redundancy pay – £6,000;
(c) Ex-gratia payment (not contractual) – £32,000; and
(d) Payment made to Jo in return for an agreement not to work for another IT company for the next six months – £35,000.

Requirement:

Explain the tax treatment for Jo of each element of the redundancy package. (4)

Total (18)

15. Castle Ltd has had one 100% subsidiary, Clifton Ltd, for many years. Both companies manufacture parts for the car industry.

The taxable total profits for the companies for the year ended 31 October 2021 are as follows:

	£
Castle Ltd profit	15,000,000
Clifton Ltd profit	27,000,000

Castle Ltd has brought forward trading losses incurred in 2019 of £30,000,000.

The deductions allowance is allocated equally between the two companies.

Castle Ltd owns 50 acres of undeveloped land. It had planned to seek planning permission to build a new warehouse on this land. However, the company which owns the next-door land is looking to expand its business and has offered to buy 20 acres of the undeveloped land from Castle Ltd. Castle Ltd paid £600,000 for the 50 acres in February 2018. The sale of the land will go through in December 2021 (which will be in the accounting period to 31 October 2022) and Castle Ltd will receive proceeds of £900,000 for the 20 acres. Castle Ltd has been informed by a valuer that the value of the remaining 30 acres will be £1,200,000.

10% of the ordinary shares in Castle Ltd were originally subscribed for by Harri Atfield. In 2019, Harri gifted the shares to his son Tim. The shares originally cost Harri £40,000 and at the time of the gift to Tim they were valued at £800,700. Tim has now sold the shares for £950,000. Both Harri and Tim are UK resident.

Requirements:

1) Calculate the taxable total profits of Castle Ltd and Clifton Ltd for the year to 31 October 2021, assuming that the maximum loss relief is claimed. State the amount of the remaining loss to be carried forward. (6)

2) Calculate the gain on the sale of the undeveloped land by Castle Ltd in December 2021. (3)

3) (a) State the circumstances in which gift relief is available on the transfer of the shares from Harri to Tim; and

(b) Calculate the gain that Tim will have on the sale of the shares (assuming gift relief is claimed).

(4)

Total (13)

16. You are the tax manager at a firm of chartered accountants. You have received the following email from Jemila, who is CEO of your client, Acamb Computers Ltd. This company manufactures microchips, and is a large company for all tax and accounting purposes and the holding company of the group of companies.

"We are considering setting up a wholly owned subsidiary in Ruritania, a foreign country. This company (to be called Acamb Ruritania SA) will trade with Acamb Computers Ltd, buying microchips from us, repackaging them and selling them on to third party customers, mainly in Africa and Asia.

One of the reasons for setting up the company in Ruritania is because the tax rate is really low there. We want the business to be liable for tax in Ruritania. How can we ensure that this happens? Also, we want as much of our profit as possible to be recognised in Ruritania but I understand it is not as simple as having sales in Ruritania accounts and the cost of sales in the UK business' accounts. My idea is to charge a really low price for the microchips to Acamb Ruritania SA, and also they can use the services of the group marketing department for free.

Another of our UK companies, Acamb Group Services Ltd, has been notified by HMRC that an enquiry is being opened into the return for the year to 30 June 2019. Surely HMRC are out of time? The return was submitted on 1 September 2020, the notification from HMRC is dated 1 October 2021 and was received by our Company Secretary on 6 October 2021. Can you please advise us on these matters?"

Requirements:

Prepare an email to Jemila which explains the following:

1) **The factors which will be taken into consideration when assessing where the company in Ruritania will be resident for tax purposes.** (4)

2) **The rules relating to the amount charged to Acamb Ruritania SA by Acamb Computers Ltd for microchips and marketing services**. (4)

3) **The time limits that HMRC has to open an enquiry into Acamb Group Services Ltd's Corporation Tax return for the year to 30 June 2019.** (3)

Total (11)