1. Louth Ltd is a manufacturing company which makes its accounts up to 31 March each year. In the year to 31 March 2018 it purchased the following assets for the purposes of its trade:

	£
Machinery	235,250
Solar panels for office building	22,500
Energy saving heating equipment	53,000

The tax written down values at 1 April 2017 were:

	£
General pool	595,000
Special rate pool	227,500

Calculate the capital allowances that can be claimed in the year to 31 March 2018 by Louth Ltd, assuming that it has no associated companies and that all possible claims are made. (4)

2. A VAT registered business must be aware of the time of supply rules and how they apply.

Explain why the time of supply is important when calculating VAT inputs and outputs and in what circumstances the basic time of supply rule can be overridden. (3)

3. JM (JV) Ltd is a UK resident company, whose shares are owned as follows:

Company	Shareholding in JM (JV) Ltd
Jasper Ltd	60%
Maypole Ltd	10%
Gardenia SA	26%
Lobelia Ltd	4%

All are UK resident except for Gardenia SA which is resident in France.

In the year to 31 March 2018, the companies made the following taxable profits/(losses):

Company	Profit / (Loss)
	£
JM (JV) Ltd	(1,005,750)
Jasper Ltd	7,500
Maypole Ltd	500,650
Gardenia SA	105,000
Lobelia Ltd	92,000

Calculate, with brief explanations, the losses that JM (JV) Ltd can surrender to each consortium member in the year to 31 March 2018. (4)

4. The draft accounts to 31 December 2017 for Jolyon Ltd (which is not a large company) show profit before tax of £470,250. The following items are shown in the accounts:

	£
Depreciation	11,350
Expenditure on research and development	27,650
Directors' bonuses accrual (to be paid on 31.12.18)	100,000
Profit on the sale of a fixed asset	14,000
Gifts to 2,000 customers - cost £25 per customer (gifts are laptop bags bearing Jolyon Ltd's logo)	50,000
Donation to a political party	5,000

Calculate the adjusted trade profit for Jolyon Ltd, showing the tax treatment of each of the above items. (4)

5. Cyril has been trading as an interior designer since 2007. He owns the freehold of his business premises. He has been advised that he should incorporate the business and trade as a limited company.

1) Explain the Capital Gains Tax treatment of the incorporation of Cyril's business assuming no reliefs are claimed. (1)

2) Explain whether incorporation relief and gift relief will be available to Cyril and the effect of these alternative reliefs. (3)

6. The individual members of an LLP can sometimes be treated as receiving a disguised salary.

1) Explain the normal tax treatment of the profits arising in an LLP for the individual members. (2)

2) Explain in what circumstances an individual's LLP profit share will be deemed to be disguised salary. (1)

7. POK Ltd has a contract to provide consulting services to Emerald Ltd. Peter is the sole shareholder in POK Ltd and fulfils the services to Emerald Ltd. In the year to 31 March 2018 Emerald Ltd paid fees of £80,000 to POK Ltd.

1) Explain the tax implications if POK Ltd is caught by the IR35 regulations (2)

2) Calculate the net deemed payment, assuming POK Ltd is deemed subject to IR35. (2)

8. Heloise Ltd provides the following benefits to its employees:

(a) Reimbursement of school fees for Managing Director's children.

(b) Private medical insurance.

(c) Christmas party (included in PAYE settlement agreement).

Identify the class of National Insurance payable in respect of each of the above.
(2)

9. Ousebridge Ltd accrued £65,000 in the accounts to 31 March 2018 for its Corporation Tax liability. However, following adjustments to the computations, the agreed liability of £80,000 was paid on the due date.

Show the accounting entries necessary to record the payment of the Corporation Tax liability. (2)

10. Ernest has recently sold shares in Field Ltd. He has been informed that he can benefit from Entrepreneurs' Relief on the gain made.

Explain the conditions that need to be fulfilled by both Ernest and Field Ltd for Entrepreneurs' Relief to be available. (3)

11. The directors of Waggon Ltd are considering selling the company's shareholding in Zane Ltd. The shares were purchased in December 2016 for £1,500,000 and they have had an offer for them at £2,630,500. Incidental costs of purchase were Stamp Duty of £7,500 and legal fees of £25,000.

1) Calculate the potential chargeable gain that would arise if Waggon Ltd sold the shares in Zane Ltd in May 2018. (3)

2) Explain the conditions that need to be fulfilled by Waggon Ltd for the substantial shareholding exemption to be available. (1)

12. Large companies are required to pay their Corporation Tax liabilities in instalments.

Explain the due dates for payment of Corporation Tax for large companies and how the interest on unpaid/ overpaid tax regime relates to them. (3)

May 2018 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.
- During the 15 minutes reading time, you may read and annotate your Part II question paper**.** You may also read the legislation and use your calculator.
- 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.
- 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.

1. On 12 July 2017, Hampshire Ltd purchased 2,000 shares in Cider plc for £27,000. On 1 August 2017, Cider plc declared a one for five bonus issue when its shares were quoted at 1370p-1374p.

On 17 February 2018, Cider plc declared a one for two rights issue at £10. Hampshire Ltd took up all of its rights. On 3 April 2018, Hampshire Ltd sold 1,000 shares in Cider plc for £17,500.

1) You are required to calculate the gain or loss arising on 3 April 2018 on the sale of the Cider plc shares. (5)

Cider plc owns 100% of the shares in World Ltd which is incorporated overseas and managed by Owen Ball who has authority to conclude contracts on behalf of World Ltd. He runs this company with his sales team from their overseas offices. World Ltd's results for the year ended 31 March 2018 are as follows:

	£
Adjusted trading profits	78,000
Interest paid to Cider plc (gross)	2,100
Dividend paid to Cider plc (gross)	6,000

Withholding tax of 25% was deducted from the dividend paid to Cider plc and withholding tax of 5% was deducted from the interest paid to Cider plc. No overseas tax was paid on World Ltd's trading profit. Cider plc pays Corporation Tax at the main rate.

You are required to:

2) Explain why World Ltd is non-UK resident for Corporation Tax purposes and the tax consequences of this status. (2)

3) Calculate the UK Corporation Tax payable by Cider plc for the year ended 31 March 2018 as a result of World Ltd's activities. (3)

On 1 February 2017, Cider plc incorporated New Ltd, a 100% subsidiary, which makes standard rated supplies. On 1 January 2018, New Ltd registered for VAT and prepared its first VAT return to 31 March 2018.

The following amounts of input VAT were incurred by New Ltd:

<u>Date</u>	<u>Reason</u>	£
12 March 2017	Legal fees on the set up of New Ltd	800
11 July 2017	Legal fees regarding the dismissal of an employee who worked for New Ltd	200
3 November 2017	Purchase of plant and machinery used in New Ltd's business	1,100
4 March 2018	Estate agent fees in connection with the acquisition of a five year lease on office premises used by New Ltd	300
15 March 2018	Fees for tax advice on Income Tax issues relating to the employment benefits provided to the managing director of New Ltd	150

4) You are required to explain the amount of input VAT that may be recovered by New Ltd on its VAT return for the quarter ended 31 March 2018. (5)

Total (15)

2. Your firm has recently agreed to act for Drake Ltd, a UK resident company, and prepare its Corporation Tax computation for the year ended 30 September 2017.

Walter is the new financial controller of Drake Ltd. He has sent you various emails and here are relevant extracts:

"I am used to preparing Corporation Tax computations for trading companies, but Drake Ltd doesn't trade. It makes its profits from investments. Please can you explain what type of company this is and help me with the preparation of the tax computation?

"Here is the relevant information for the year ended 30 September 2017, please prepare a draft Corporation Tax computation, including the amount of tax payable".

This is a summary of the information provided by Walter in his emails.

<u>UK property</u>

The annual rental income receivable by Drake Ltd is £202,000. Repairs to this property cost £5,000 during the year ended 30 September 2017. Interest on a loan to purchase the property was £5,200 for the year ended 30 September 2017. In addition, the exterior of the building was repainted in July 2017 at a cost of £4,800.

<u>Overseas property</u>

The annual rental income receivable is £70,000. No overseas tax has been deducted from the amount received by Drake Ltd.

During the year ended 30 September 2017, Drake Ltd received dividends of £23,000 from a 15% shareholding in Raleigh Ltd and debenture interest of £7,100 from Gama plc. Both of these companies are UK resident.

Drake Ltd incurred the following expenses for the year ended 30 September 2017:

	£
Head office staff costs	36,900
Overdraft interest	900
Rent payable on head office premises	21,000
General overheads	12,500
Purchase of computer equipment to upgrade all administrative systems	3,000
Qualifying charitable donations	2,600

In June 2018, Drake Ltd intends to sell the UK property, probably at a loss. As a result it is estimated that for the year ended 30 September 2018, Drake Ltd's expenses and capital allowances combined will exceed its income.

You are required to:

1) Briefly explain what type of company Drake Ltd is and how its taxable total profits are calculated. (3)

2) Calculate Drake Ltd's Corporation Tax payable for the year ended 30 September 2017, making clear your treatment of each item. (9)

3) Explain the tax position with regard to the year ended 30 September 2018 when total expenses and capital allowances are estimated to exceed Drake Ltd's income. (2)

Total (14)

3. Your manager has asked you to deal with the following email from your client Eva Aspen. She is a director of Viper Ltd and also a shareholder. Viper Ltd is also a client of your firm.

To: Adviser
From: Eva Aspen
Date: Today
Subject: Tax advice
Attachments: Shareholdings in Viper Ltd

Hi

I need your advice today on a number of urgent matters, but don't spend too much time on these issues as your hourly rates are very high:

Loan from Viper Ltd

Viper Ltd advanced an interest free loan of £10,000 to me on 1 May 2016 and it has now been agreed in preparation for the repurchase of my shares (see below) that this will be written off on 1 June 2018. Please can you explain the tax consequences of this for Viper Ltd and for me? Viper Ltd has a 31 March year end.

Purchase of my shares in Viper Ltd planned for July 2018

Viper Ltd has made an offer to repurchase my shares at £25 per share in July 2018 as I wish to retire. I am an additional rate taxpayer and have used up all of my entrepreneurs' relief as a result of a disposal of a business last year, but this is the only disposal I will make in the foreseeable future. I understand that the repurchase may be treated as additional income for me or as a capital gain. Without repeating the conditions, which I have looked up online, please advise me of the tax effect of the proposed repurchase under these two routes?

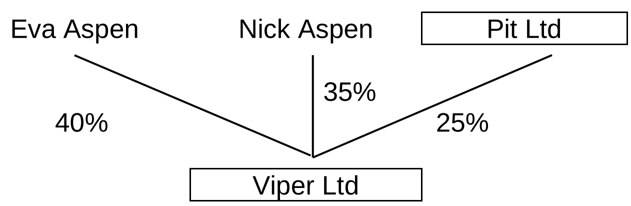
Fees

Please reply to me this afternoon, but bill me personally for two days work with an invoice back-dated to 4 April 2018 as I need to deduct this amount in calculating my Income Tax payable for 2017/18.

Regards

Eva

Attachment: Shareholdings at 31 March 2018



There are 10,000 issued ordinary shares in Viper Ltd and all of the shareholders shown above subscribed at par for £1 in May 2012 when the company was set up. Viper Ltd is not a large company for the purposes of the payment of Corporation Tax.

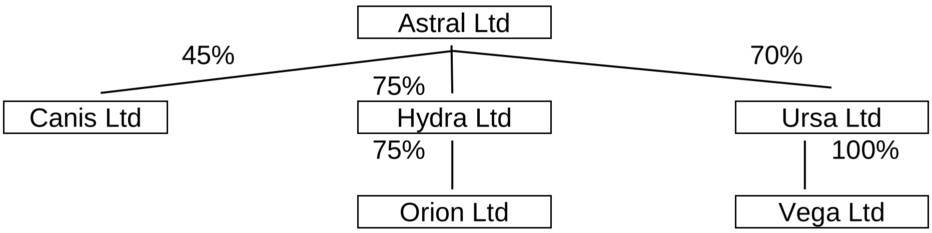
You are required to:

1) **Prepare an email to Eva for approval by your manager addressing Eva's concerns about her loan and the plans for the repurchase of her shares. Ignore National Insurance.** (10)

2) **Explain the ethical issues arising from Eva's comments about fees.** (3)

Total (13)

4. The following is the structure of the Astral Ltd group at 31 March 2017:



All companies prepare accounts to 31 March each year and all other shareholdings in the above companies were held by individuals at 31 March 2017.

On 1 July 2017, one of the individual shareholders in Canis Ltd sold his 30% holding in that company to Astral Ltd. The draft figures indicate that Canis Ltd will have an estimated trading loss of £84,000 for the year ended 31 March 2018.

On 1 February 2018, Ursa Ltd sold its entire shareholding in Vega Ltd to an unconnected party. Vega Ltd had incurred a capital loss of £21,000 on the disposal of a building on 1 January 2018.

Astral Ltd received dividends of £18,000 from Ursa Ltd during the year ended 31 March 2018.

In addition, it has been proposed that an allotment of shares be made by Astral Ltd to one of its shareholders, Brian Weeks, but the finance director is unsure of the correct legal procedures to implement this.

You are required to:

1) **Explain how Astral Ltd should determine whether it needs to make quarterly instalment payments for Corporation Tax purposes for the year ended 31 March 2018.** (6)

2) **Explain how Canis Ltd's trading loss may be relieved within that company or within the loss relief group.** (5)

3) **Explain which companies are in a gains group for Corporation Tax purposes and how Vega Ltd's capital loss may be relieved.** (4)

4) **Explain the legal requirements for the proposed allotment of shares by Astral Ltd.** (3)

Total (18)