Practical Tax People

Association of Taxation Technicians

May 2015 Examination

PAPER 4

Corporate Taxation

Candidate Script

Part I

QUESTION NO. 1 CANDIDATE NO.

	AIA	GP	SR	CA's
TWDV		8,000	15,000	
Additions.				
Shelving	15,000			
Drinks M	5,000			
Disposals				
Drinks M		(500).		
	20,000	7,500	15,000.	
WDA @ 100%.	(20,000)			20,000.
WDA 18% x 8/12		(900)		900
WDA 8% x 8/12			(800)	800
C/fwd	Nil	6,600	14,200	~~21,700~~
CA's				21,700.

CA's for 8 month period is 21,700.

Part I

QUESTION NO. 2 CANDIDATE NO. ..

1) If operating as a personal service company, to avoid NIC that would have been paid in a normal employer employee arrangement, then the individual is taxed on a 'deemed salary' as if he were employed by the ~~compan~~ employer rather than through the intermediary.

2)

Invoice for Relevant Engagements	50,000
Less 5%	(2,500)
Less Non-Qualifying Travel Expenses	(700)
Less Pension Contribution	(5700)
	41,100

~~13.8/113.8 x 41,100~~

41,100 x 13.8 / 113.8 = 4984 employer NIC.

41,100 - 4984 = 36,116.

Deemed Employment payment = 36,116.

Part I

QUESTION NO. 3 CANDIDATE NO. ...

~~Aa~~ For an individual to get Entrepeneurs Relief on the disposal of shares, the shares must be relevant EMI shares.

The individual must have owned the shares/ been granted them atleast 12 months before, and throughout that one year period: ~~the~~

- the company must be a trading company or the holding company of a trading group.
- the individual is an officer or employee of the company.

On the disposal of the EMI shares the individual will only pay 10% CGT if they qualify for ER.

QUESTION NO. 4 CANDIDATE NO. ..

In order to create a loss relief grap a company must have control of 75% of it's subsidiary. This means they must have 75% of:
- the ordinary share capital; and
- the right to 75% of assets on winding up, and
- 75% of trade profits.

A subsidiaries subsidiary may also be part of the loss relief grap if the parent company also has 75% indirect control over the company.

In order to be in a chargeable gains grap a company must also have a 75% interest in it's subsidiary; however they only need:
- 75% ordinary share capital; or
- 75% share of profits; or
- 75% of assets on winding up

For a subsidiaries subsidiary, they only need to have indirect interest with the parent company of atleast 50%. Companies can only be in one ~~capital~~ chargeable gains grap, whereas they can be in several loss relief graps.

Part I

QUESTION NO. 5 CANDIDATE NO. ....

1) Sole traders who incorporate will get incorporation relief on assets they transfer to their new company. This defers any gain that may arise since they have disposed of their assets as a sole trader. The gain is rolled over into the base cost of the new shares.

Incorporation relief is automatic if the following conditions are met:

- Trade continues as a going concern.
- All assets are transferred to the business (excludes cash).
- Business is transferred wholly or in part for shares.

	Freehold	Goodwill	Assets
2) Proceeds.	235,000	150,000	125,000
Cost.	(135,000)	–	–
Gain.	100,000	150,000	125,000

Total Gain 375,000.

Whole of gain can be rolled over as receives shares in company, and no cash.

Shares Value (50,000 x £1)	50,000.
Incorporation Relief.	(375,000)
	(325,000).

Part I

QUESTION NO. 6 CANDIDATE NO.

LLP's are similar in nature to a company, however they are taxed like ordinary partnerships.

That is each individual member of an LLP will declare they ratio of the profits from the LLP via self assessment.

However, like a company the individual members have a limited liability to how much of their personal funds are liable for any debts. This is usually any profits they are entitled to, plus any capital invested in the LLP. Therefore, the losses they can claim are also limited in this way.

LLP's have to incorporate with companies house and must have two 'designated' members who act much like directors of a company. An LLP will also have to complete a partnership tax return as well as each individual partners self assessment.

Part I

QUESTION NO. 7 CANDIDATE NO. .

1. Pre-2002 Goodwill - normal capital gain.

Proceeds	50,000.
Cost	(35,000)
Gain.	15,000

Land

Proceeds	60,000.
Cost	(30,000)
Gain	30,000.

Trading Stock.

Proceeds	25,000
less Cost	(5,000)
Gain	20,000.

Can elect to transfer trading stock at greater of:
- consideration received.
- acquisition cost

If both lower than MV; so no gain on trading stock.

Total Gain 15,000 + 30,000 = 45,000.

2. ~~Cost~~ Land.

Cost at Transfer	60,000.
Less RO	(30,000)
Base Cost	30,000.

Goodwill

Cost at transfer	50,000
Less RO	(15,000)
Base Cost	35,000.

Part I

QUESTION NO. 8 CANDIDATE NO.

14th August : Filed

31 January 2014 filing date 31 January 2015.
So 6 months & 14 days late.

£100 penalty for missing the deadline
£10 per day x 90 days = £900.
Total £1000 for filing late.

21 February 2015 : Paid.

31st October payment deadline.
3 months 21 days late

5% penalty on outstanding amount.
12,000 x 0.05 = £600.

Part I

QUESTION NO. 9 CANDIDATE N(

- S.37(3)a.

Current year Claim. Trade losses can be used against net income for tax year. Loss relief available at higher of available loss or available profits i.e. an all or nothing claim.

- S.37(3)(b).

Carry Back claim. Trade losses can be carried back against net income. Again all or nothing. Must relieve current year losses first

- ~~S.18B~~ S.43

Carry Forward against Trade Profits only.

Part I

QUESTION NO. ....Q1.12...... CANDIDATE N ....

Qualifying expenditure on in-house direct research and development means expenditure incurred on:
- Staffing costs
- Software or consumable items
- externally provided workers
- relevant payments to subjects of clinical trials.

The expenditure must be on research and development that the company undertakes itself. It cannot be contracted out to the company by any person. The expenditure must also not be subsidised.

ER

Part II

QUESTION NO. ......1...................... CANDIDATE NO. ....

i) Repurchase of own shares can either be treated for tax purposes as a dividend distribution or a capital gain.

For the capital treatment to apply the shares must be in an unquoted trading company and being repaid for the benefit of the business.

The individual selling the shares must be:

- a UK resident
- owned the shares for 5 years
- substantially reducing their interest.
- unconnected with the company afterwards.

As a result Stephen's disposal will not qualify for the capital treatment as he has only owned his shares for 4 years and 1 month. The income treatment will be assessed on:

MV at repurchase	x.
Less acquisition price of shares	(x)
Income Treatment.	x.

ie	~~29201~~ i.e. £29 x 10,000	290,000
	£1 x 10,000	(10,000)
		280,000.

This will then be grossed up as a dividend by 100/90 i.e. 280,000 x 100/90 = 311,111. He will then be taxed at the appropriate rate for dividends, although he will receive the national credit.

There will then also be a capital gain equal to:

original subscription price	x.
less cost	(x)
	x.

Part II

QUESTION NO. ......1...... CANDIDATE NO. .

However as stephen is the original Shareholder there will be no gain.

2) The write off of the loans will be calculated as a dividend payment on the recipients. They will also be subject to Class 1 NIC primary if they are employees. Stephen and Alex are both employees so they will be liable to Class 1 NIC primary. As a result, Krystal Ltd will also have Class 1 NIC secondary to pay. Krystal Ltd will be able to deduct the cost of the NIC class 1 Secondary payment from their corporation tax liability, however, they will be unable to deduct the write off of the loan as it is an ~~income~~ dividend distribution.

3) The statutory redundancy pay & ex gratia payment will be deductible from Krystal Ltd's corporation tax liability, as it is a trading expense.

5)

	Dr	Cr
Dr Bank	120,000	
Cr Share Capital		5,000
Cr Share premium		115,000

Total: 24 x 5000 = 120,000.
Share Capital: 5,000 x £1 = 5,000.
Premium: 120,000 - 5,000 = 115,000.

Part II

QUESTION NO. 2 CANDIDATE NO.

Your Address
Date.

Their Address

Dear Mikael Khan,

Thank you for your enquires regarding Walling Plc. I have ~~attached~~ responded to your questions below.

Treatment of Goodwill

For tax purposes, the goodwill you have purchased is treated as Post FA-2002 Goodwill. This means you can amortise the value of the goodwill at either an amount determined by yourself, or at a straight line deduction of 4% per annum.

When you come to sell the goodwill, the cost you will use is the net book value of the goodwill i.e. the cost of the goodwill less amortisation. This will therefore reduce your chargeable gain. The gain (Proceeds less NBV) will be subject to corporation tax, in your case at 21%.

If you intend to reinvest the proceeds of the sale of the goodwill into another IFA, then you will only be charged on the proceeds that you have not reinvested. You can reinvest the proceeds in another IFA up to 12 months before, and 3 years after the sale of your goodwill and claim rollover relief.

However, going forward the base cost of your new IFA will be the amount you paid less the amount ~~you~~ ~~rolled~~ of the gain you rolled over. As a result, your gain will be

Part II

QUESTION NO. 2 CANDIDATE NO. ..

realised if you ever sold the new IFA. Furthermore, you can only amortise the cost less the gain of the new IFA.

Transfer Pricing

Regarding the goods sold by King Inc to Walling Plc, the company must adjust the profits of Walling Plc for tax purposes as if they paid an amount equal to an arms length transaction.

This is because, under the current arrangement Walling Plc gains a tax advantage as they have artificially increased their costs and thus reducing the profits they pay in the UK.

If the actual provision differs from an arms length provision and it confers an advantage in relation to UK taxation, then profits of the advantaged person are to be calculated for tax purposes as if an arms length provision took place.

Royalties and Donations

~~Yes~~ Usually when companies receive royalties from other companies no tax is withheld. However, in your case there has been a 15% deduction. Therefore, when calculating the corporation tax liability you must include the gross figure i.e. net amount received x 100/85.

When you have calculated your corporation tax liability for the year, then deduct the amount withheld to give you your corporation tax liability outstanding. As a result, you will not pay tax on the same amount twice.

Part II

QUESTION NO. 2 CANDIDATE NO. ..

Rocky Ltd.

We have calculated Rocky Ltd's corporation tax liability to be £137,046 (see Appendix 1). This is on the basis that it is an investment company.

I hope the above is useful.

Kind Regards,

2) You should make sure that the tax Senior has relevant disclosure to discuss Walling Plc's tax issues with you.
Similarly, the tax controller should have the authority to share the information.

QUESTION NO. 2. CANDIDATE NO. ....

Appendix 1.

Investment Income (w1).	689,150
Non-Trade LR.	3450.
Gain.	10,000.
Management Expenses.	(48,000).
CA's.	(2,000).
TTP.	652,600.

W1:

Rental Income		810,700.
Less:		
Office space	(55,750).	
Staff costs	(65,800).	
	(121,550)	(121,550)
		689,150

UL = 1,500,000 / 3 = 500,000.
LL = 300,000 / 3 = 100,000.

652,600 @ 21% = 137,046.

Notes.

- Rocky Ltd is an investment company so allowed reasonable management expenses.
- Rocky Ltd has 2 associates - Walling Plc and King Inc.

Part II

QUESTION NO. 3 CANDIDATE NO.

1) Class 1 NIC Secondary.

Salary: 90,000.

(90,000 - 7956) x 0.138 = 11,322.

Car 1A NIC

Car Benefit	4160.
Fuel Benefit	5642.
	9802.

9802 @ 13.8% = 1353.

Total NIC contributions: 1353 + 11,322 = 12,675.

Salary	90,000.
Operating lease	14,000.
Fuel	13,800.
NIC contributions	12,675
Gross Cost.	130,475.

130,475 @ 80% = 104,380.

Allowing for corporation tax deduction of 20% for small rate companies.

Class 1 NIC Secondary is payable by the employer at a rate of 13.8% above the primary threshold, which for this year is £7956. There is no upper limit.

Class 1A NIC is also payable by the employer. It is for Benefits that are not immediately convertible into cash. Rate of 13.8%. no exemption.

Part II

QUESTION NO. 3 CANDIDATE NO. ..

2) As Cemmor Ltd is centrally managed and controlled in the UK by Pericles Ltd's head office, then it is deemed to be resident in the UK for corporation tax purposes.

It will be regarded as an overseas Establishment so can therefore share losses with the UK company, or alternatively relieve it's own losses against the UK companies profits.

The fact that it is incorporated overseas does not make a difference to it's residency as HMRC will look at where the company is controlled from.

As Pericles owns greater than 10% of the shares in Cemmor Ltd it may qualify for Substantial Shareholding relief if it disposes of Cemmor Ltd's shares and has owned the shares throughout a 12 month period beggining no more than 2 years before the disposal date. As a result any gain on the shares will be exempt from corporation tax.

Part II

QUESTION NO. 4 CANDIDATE NO.

1) Capital Allowances

	~~AIA~~	GP	SR	CA's.
TWDV		6,200	1,000	
Disposals.				
Furniture		(500)		
Machinery		(2900)		
Car			(2,200)	
		2800	(1200).	
Balancing Allowance		(2800)		2800.
Balancing charge			1200×70%. ~~(1200)~~	(840)
CA's.				1960.

~~Trade Profit~~	~~(78,600)~~
Non-Trade Income (LR)	700
UK Property Business	(300)
CA's	(1960)
TTP.	~~77,640~~
	(80,160)

Trade Loss	(78,600)
Less CA's	(1960)
	~~76,640~~
	80,560.

Gains - Coriander House.

Proceeds	900,000
Less Cost	(497,000)
Less Indexation.	(259,434)
Gain	143,566.

Indexation:

(258.9 − 170.1) / 170.1 = 0.522.

497,000 × 0.522 = 259,434.

Part II

QUESTION NO. 4 CANDIDATE NO.

Sale of Cumin Ltd.

Date	Shares	MV	Total
05/2000	1,000	£12	£12,000
			12,000
06/2004.			
Indexation.	–	–	13,132.
	200	£14	2,800
11/14.			15,932.
Indexation.			6,149
			22,081.

Indexation - June 2004.
$((186.8 - 170.7)/170.7) \times 12{,}000 = 1{,}132$

$12{,}000 + 1{,}132 = 13{,}132$.

Indexation - Nov 2014.
$((258.9 - 186.8)/186.8) \times 15{,}932 = 6{,}149$.

$6149 + 15932 = 22{,}081$.

Proceeds	45,000.
Less Costs	(22081)
Gain.	22,919.

~~Re~~ Gain Rollover
Poppy Ltd can roll over the gain into Seasame Ltd's purchase of the warehouse.

Proceeds	890,000.
Less Gain shares	(22,919)
Less Coriander House	(143,566)
New Base Cost.	723,515.

Part II

QUESTION NO. 4 CANDIDATE NO.

	y/e 31.03.12	y/e 31.03.13	y/e 31.03.14	9 M/E 31.12.15
Trade Profit	20,000	16,600	16,000	~~80,560~~ Nil
Non-Trade LR.	2,000	1,700	650	700
UK Property	1,000	4,400	2,000	Nil
	23,000	22,700	18650	700
Current Year Claim				(700)
Carry Back			(18650)	
QCD	(1,000)	(1,000)	~~Nil~~	~~Nil~~
	22,000	21,700	Nil	Nil

Loss Memo

Trade Loss	80,560
Current Year claim	(700)
Carry Back Claim	(18,560)
Remaing loss	(61,300)

As Poppy Ltd is ceasing it can not carry forward any remaining losses
It can group loss them to Seame Ltd at the lower of:
- 9/12 available losses in Poppy Ltd.
- 1/12 available profits Seame.

Notes
- QCD y/e 31.03.14 given up, as carry back of losses an all or nothing claim.

3) Poppy Ltd must de-register for VAT as ceasing to trade. It must also settle all outstanding VAT.