Practical Tax People

Association of Taxation Technicians

May 2015 Examination

PAPER 4

Corporate Taxation

Part I Suggested Solutions

1

	AIA additions	General pool	Special rate pool	Allowances	
	£	£	£	£	
WDV b/fwd		8,000	15,000		
New shelving	15,000				(1/2)
Drinks machine	5,000				(1/2)
	20,000				
AIA @ 100%	(20,000)			20,000	(1/2)
	-				
Sale proceeds		(500)			(1/2)
		7,500			
WDA @ 18% *8/12		(900)		900	(1)
WDA @ 8% *8/12			(800)	800	(1)
WDV c/fwd		6,600	14,200		
Total allowances				21,700	

4 marks

2

If you trade as a personal service company, you are effectively taxed as if you are an employee. (1/2) Monies received from relevant engagements will be subject to PAYE and national insurance (1/2) with allowances given for employment expenses. (1/2)

Max 1 mark

	£	
Income from relevant engagements	50,000	(1/2)
Less: 5% automatic deduction	(2,500)	(1/2)
	47,500	
Less: qualifying travel expenses	(1,800)	(1/2)
Less: employer pension contributions	(5,700)	(1/2)
	40,000	
Employers NIC (£40,000 x 13.8/113.8)	(4,851)	(1/2)
Net deemed payment	35,149	(1/2)

4 marks

3

The disposal of shares or securities of a company may qualify providing:

For a period of one year up to the date of the disposal, (1/2) the company is the individual's personal company (1/2) and is a trading company or the holding company of a trading group. (1/2)

A personal company is one where the individual holds at least 5% of the ordinary share capital (1/2) and can exercise at least 5% of the voting rights. (1/2)

The individual is an officer or employee of the company or another group company. (1/2)

Relief is also available if these conditions are met for at least one year up to the date the company ceases to trade and the individual disposes of the shares within three years of that date. (1)

Max 3 marks

4

To form a loss relief group, there has to be a 75% direct and indirect relationship between the parent and subsidiary companies. (1/2)

The parent company must hold 75% of the ordinary share capital, (1/2) be entitled to 75% of the distributable profits (1/2) and be entitled to 75% of the assets on winding up of the subsidiary. (1/2)

In order to form a chargeable gains group, there has to be a 75% direct (1/2) and more than a 50% indirect relationship between the parent company and subsidiary (1/2). For chargeable gains group purposes only 75% ownership of the ordinary share capital is required. (1/2)

Max 3 marks

5

Providing the business is a going concern, (1/2) and all the assets of the business (except cash) (1/2) are transferred to the limited company in return for shares (1/2), then any gain will be treated as reducing the base cost of those shares (1/2).

<u>Base cost of shares in new company</u>

	£	
Market value (600,000 – 90,000)	510,000	(1/2)
Less: gains (100,000 + 150,000)	(250,000)	(1/2)
Base cost of shares	260,000	

<u>Gain on premises</u>

£235,000 - £135,000 = £100,000 (1/2)

<u>Gain on goodwill</u>

£150,000 - £0 = £150,000 (1/2)

4 marks

6

An LLP is a corporate entity similar in nature to a limited company (1/2) but for tax purposes it operates like a general partnership. (1/2)

An LLP has to be registered at Companies House, (1/2) with annual accounts and an annual return also being required to be filed at Companies House. (1/2) The LLP has members instead of partners or directors/shareholders. (1/2)

For tax purposes, the LLP is usually completely transparent and not subject to tax. (1/2) The members are subject to income tax on their share of profits (similar to how partners are taxed in a general partnership). (1/2)

Max 3 marks

7

Calculation of chargeable gain

Goodwill

	£	
Consideration	35,000	
Less: cost	(35,000)	
Gain	Nil	(1)

Land

	£	
Consideration	25,000	
Less: cost	(25,000)	
Gain	Nil	(1)

Arnold would have the following base cost for the above assets for any disposal in the future

Goodwill - £35,000 x 60%	£21,000	(1/2)
Land not held as trading stock £25,000 x 60%	£15,000	(1/2)

William would have the following base cost for the above assets for any disposal in the future

Goodwill - £35,000 x 40%	£14,000	(1/2)
Land not held as trading stock £25,000 x 40%	£10,000	(1/2)

4 marks

8

The due date for the return is 31 January 2015. (1/2)

An initial penalty of £100 will be charged. (1/2)

There may also be daily penalties of £10 per day as the return is more than 3 months late, up to a maximum of 90 days. (1)

As the return is more than 6 months late, (1/2) a further £600 is charged. (5% of £12,000) (1/2)

As the corporation tax liability was paid after the filing due date, (1/2) there will be a penalty of £600 (5% of £12,000) in respect of late payment. (1/2)

4 marks

9

Trading losses can be:

Set against total profits in the current chargeable accounting period. (1/2). Total profits are before the deduction of qualifying charitable donations (1/2).

Carried back and set against total profits in the preceding 12 months (1/2) (or 36 months on cessation). (1/2) A claim can only be made if a current year claim has been made. (1/2)

Carried forward (1/2) and set against the next available future trading profits from the same trade. (1/2)

Max 3 marks

10

Timing difference = £20,000 - £9,000 = £11,000 (1/2)

Tax at 20% = £2,200 (1/2)

Accounting adjustment:

Dr Deferred tax charge (P&L a/c)	£2,200		(1/2)
Cr Deferred tax provision		£2,200	(1/2)

2 marks

11

The purpose of an engagement letter is to define the terms and limitations of the engagement and to agree these with the client. (1)

It can be used to manage clients' expectations and can provide significant protection to the practitioner against potential claims. (1)

It will set out the scope and nature of the assignment as well as the basis upon which fees are charged. (1)

3 marks

12

In order to qualify for enhanced relief, the expenditure:

Must be revenue and not capital in nature. (1/2)

Must relate to a trade carried on by the company. (1/2)

Must be incurred on staff costs, software or consumables, subcontracted costs or externally provided workers. (1/2)

Must not be incurred on activities contracted out to the company by a person. (1/2)

Must not be subsidised. (1/2)

The company must be a going concern. (1/2)

3 marks