Tolley® Exam Training

ATT PAPER 4

CORPORATE TAXATION

PRE REVISION QUESTION BANK

FA 2023 & F(No 2)A 2023

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PQ664

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INTRODUCTION

This Pre Revision Question Bank for ATT Paper 4 contains four SFQ tests and 10 exam standard long questions all with answers updated to Finance Act 2023 and Finance (No 2) Act 2023. This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

You will need a copy of the **ATT Tax Tables 2024** (included in this bank) either as a hard copy on your desk or as a pdf on your screen or on a second screen/device.

Format of the exam

All the ATT exams are **3.5 hours and** will have a mixture of computational and written questions with no question choice. The paper is split into 2 parts:

Part I consists of "short form" questions ("SFQs") worth between 2 and 4 marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper. There are no presentation marks in this part of the paper and your answers should be bullet points and summary computations.

In Part II the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection. There are also 2 presentation skills marks available in this part of the paper.

Presentation Skills Marks

There are **no marks for 'format'** within the long form questions in Part II . There are simply **58 marks for technical content and 2 marks for presentation skills across the whole of Part II.**

Typically two marks would be awarded where a candidate's presentation is very good; full sentences are used where appropriate throughout; answers flow well and are in a logical order; explanations clearly relate to the question scenario.

There are likely to be letter/email style questions and these (together with other questions) will contribute towards awarding the two marks. There will not be separate marks for formats but the absence of the required formats would reduce the likelihood of gaining a full two marks.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying "yes I know that point, yes I understand that advice given" - the test is would you have actually put those points in your answer? You won't find this out unless you **type up the answers and we therefore recommend you use the on-screen version of this QB**. Ensuring you type up "proper" answers also gives you a good idea of how long an exam standard answer will take you to produce.

We recommend you **allocate 2 minutes per mark** which leaves 14 minutes to be split as you like between some reading time at the start of the exam and some final review time at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it (within the time allocation for that question). We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at the model answer.

Remember the first thing the marker will do is read your answer through as a whole – what overall impression are you giving of your ability? Have you put the marker in a good mood as soon as they see your script or are they going to be dreading marking what you have handed in?

Key **presentation considerations** include using proformas, spacing your answer out, cross referencing your workings and using subheadings and short paragraphs.

You may be able to make some small corrections at this review stage – you may find you have missed out a vital word such as “not” or you may at this stage think of another point or two to add while reading your answer. This approach could increase your marks much more effectively than carrying on with the point you were making before you stopped to do this final review.

Reviewing the model answer

Review critically both your answer and the model answer. Are there points in the model answer which you could have included in your answer to get extra marks? Are there points you have included which, with the benefit of hindsight, you should have left out? You may have included valid points which are not included in the model answer.

LAW AND ETHICS

The ATT Paper 4 syllabus includes Law and Ethics and these topics can be tested either as part of a long question or as a short form question.

The required depth of knowledge is “Principles”, i.e. you will be expected to have an awareness that a principle exists and its main thrust.

To get you familiar with the type of questions that may be examined, elements of law and ethics may appear in some of the questions in this Pre Revision Question Bank and may also be tested in the Pre Revision and Revision mock exams. There will also be some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions will be good preparation for your examinations.

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (6th edition) that are included in the Paper 4 syllabus are:

Chapter 6 Criminal and Civil Law
Chapter 12 Sole traders and partnerships
Chapter 17 Company Law: The Basics
Chapter 18 Company Law: Share and Loan Capital
Chapter 19 Company Law: Sales of Shares and Assets

Ethics:

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (6th edition) that are included in the Paper 1-6 syllabuses are:

PRPG (2018)
Chapter 4 New clients and engagements
Chapter 5 Client service
Chapter 6 Objectivity (including conflicts of interest)
Chapter 7 Other client handling issues
Chapter 8 Charging for services
Chapter 9 Complaints
Chapter 10 Ceasing to act

PCRT (2023)
Chapter 19 The Fundamental Principles
Chapter 20 The Standards for Tax Planning
Chapter 21 Help sheet A: Submission of tax information and 'tax filings'
Chapter 22 Help sheet B: Tax advice
Chapter 23 Help sheet C: Dealing with errors
Chapter 24 Help sheet C2: Dealing with errors - Members in business
Chapter 25 Help sheet D: Request for data by HMRC
Chapter 26 Help sheet E: Members’ personal tax affairs

CONTENTS

ATT EXAMINATIONS
2024
TAX TABLES

INCOME TAX

Rates (Note 1)	**2023/24** %
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	8.75
Dividend upper rate	33.75
Dividend additional rate and trust rate for dividends	39.35

Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	1,000
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000

Scottish Tax Rates and Thresholds (Note 2)

£	%
1 – 2,162	19
2,163 – 13,118	20
13,119 – 31,092	21
31,093 – 125,140	42
125,140+	47

Reliefs	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	2,870
Enterprise investment scheme relief limit (Relief at 30%) (Note 5)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	200,000

Notes:
(1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not-Scottish) taxpayers.
(2) Scottish taxpayers pay Scottish income tax on non-savings income.
(3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(4) The recipient must not be liable to tax above the basic rate. The recipient is eligible for a tax reduction of 20% of the transferred amount.
(5) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

ISA limits	**Maximum subscription** £
'Adult' ISAs	20,000
Junior ISAs	9,000

ATT EXAMINATIONS
2024
TAX TABLES

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note 1) £	Minimum pension age
2023/24	60,000	55

Maximum tax-free lump sum £268,275

Note: (1) The annual allowance is tapered by £1 for every £2 of adjusted income above £260,000 for individuals with threshold income above £200,000. It cannot be reduced below £10,000.

ITEPA mileage rates

Vehicles		
Car or van (Note 2)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (2) For NIC purposes, a rate of 45p applies irrespective of mileage.

Company cars and fuel – 2023/24

	Electric range (miles)	**Car benefit %** (Note 3)	
Emissions			
0g/km	N/A	2%	
1-50g/km	>130	2%	
1-50g/km	70-129	5%	
1-50g/km	40-69	8%	
1-50g/km	30-39	12%	
1-50g/km	<30	14%	
51-54g/km		15%	
55-59g/km		16%	
60-64g/km		17%	
65-69g/km		18%	
70-74g/km		19%	
75g/km or more		20%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%	

Note: (3) 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard (not to exceed maximum of 37%).

Fuel benefit base figure £27,800

Taxable benefits for vans – 2023/24	**£**
Van benefit – No CO_2 emissions	Nil
Van benefit – CO_2 emissions > 0g/km	3,960
Fuel benefit	757

Official rate of interest - 2023/24 2.25%

ATT EXAMINATIONS
2024
TAX TABLES

Childcare

Employer supported childcare – basic rate taxpayer (Note 1)	£55 per week

Note: (1) For schemes joined on or after 6 April 2011 the exempt childcare amounts for higher and additional rate taxpayers (based on the employer's earning assessment only) are £28 and £25 respectively.

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans

	Plan 1	Plan 2	Plan 4
Employee earnings threshold	£1,834 per month	£2,274 per month	£2,305 per month

Rate of deductions is 9% of earnings above the threshold rounded down to the nearest whole pound.

Postgraduate Loans

Employee earnings threshold	£1,750 per month

Rate of deductions is 6% of earnings above the threshold rounded down to the nearest whole pound.

STATUTORY PAYMENTS

Statutory sick pay		Weekly rate
Average weekly gross earnings	£123.00 or more	£109.40

Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £172.48 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £172.48

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2024	£18,140 per year	£375 per week	£450 per week

CHILD BENEFIT

Year to 5 April 2024

Rates	Weekly rate
	£
First child	24.00
Each subsequent child	15.90

Child benefit charge	Withdrawal rate
Adjusted net income >£50,000	1% of benefit per £100 of income between £50,000 and £60,000
Adjusted net income >£60,000	Full child benefit amount assessable in that tax year

HMRC INTEREST RATES

Late payment interest	6.50%
Interest on underpaid corporation tax instalments	5.00%
Repayment interest	3.00%
Interest on overpaid corporation tax instalments	3.75%

ATT EXAMINATIONS
2024
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS **2023/24**

Class 1 limits	**Annual** £	**Monthly** £	**Weekly** £
Lower earnings limit (LEL)	6,396	533	123
Primary threshold (PT)	12,570	1,048	242
Secondary threshold (ST)	9,100	758	175
Upper earnings limit (UEL)	50,270	4,189	967
Upper secondary threshold for U21 (UST)	50,270	4,189	967
Apprentice upper secondary threshold for U25 (AUST)	50,270	4,189	967

	2023/24
Employment allowance	
Per year, per employer	£5,000
Class 1 primary contribution rates	
Earnings between PT and UEL	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 3 & 4)	13.8%

Notes: (3) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(4) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

Other contribution limits and rates

Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.45 pw
Small profits threshold (Note 5)	£6,725 pa
Lower profits limit (LPL) (Note 5)	£12,570 pa

Note: (5) Class 2 NICs are only payable where profits exceed the LPL. However, where profits are between the small profits threshold and the LPL, there will be an entitlement to contributory benefits.

Class 3 contributions	£17.45 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£12,570
Annual upper profits limit (UPL)	£50,270
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

SIMPLIFICATION MEASURES

'Rent-a-room' limit	£7,500
Property allowance/Trading allowance	£1,000

ATT EXAMINATIONS
2024
TAX TABLES

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses	First 10,000 business miles		45p per mile
	Additional business mile		25p per mile
Business use of home	25 – 50 hours use		£10 per month
	51 – 100 hours use		£18 per month
	101+ hours use		£26 per month
Private use of business premises	No of persons living there:	1	£350 per month
		2	£500 per month
		3+	£650 per month

CASH BASIS

Turnover threshold to join scheme	£150,000
Turnover threshold to leave scheme	£300,000

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA) (Note 1)	100%
WDA on plant and machinery in main pool (Note 2)	18%
WDA on plant and machinery in special rate pool (Note 3)	6%
WDA on structures and buildings (SBA)	3%

Notes: (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019.

(2) The main pool rate applies to cars with CO_2 emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).

(3) The special pool rate applies to cars with CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).

100% First year allowances (FYA) available to all businesses
Capital expenditure incurred by a person on research and development.
New zero-emission goods vehicles.
New cars if the car either emits 0g/km of CO_2 or it is electrically propelled.
Electric vehicle charging points expenditure.

Further FYAs available to companies
Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) between 1 April 2023 to 31 March 2026:

FYA for assets in main pool	100% (130% for expenditure 1 April 2021 to 31 March 2023)
FYA for assets in special rate pool	50%

VALUE ADDED TAX

Standard rate	20%	VAT fraction	1/6

Limits

Annual registration limit	£85,000
De-registration limit	£83,000

Thresholds	**Cash accounting**	**Annual accounting**
Turnover threshold to join scheme	£1,350,000	£1,350,000
Turnover threshold to leave scheme	£1,600,000	£1,600,000

ADVISORY FUEL RATES (as at 1 March 2023)

Engine size	**Petrol**	**LPG**	**Engine size**	**Diesel**
1400cc or less	13p	10p	1600cc or less	13p
1401cc to 2000cc	15p	11p	1601cc to 2000cc	15p
Over 2000cc	23p	17p	Over 2000cc	20p

Electricity rate 9p

ATT EXAMINATIONS
2024
TAX TABLES

CORPORATION TAX

Financial year	**2023**	**2022**
Main rate	25%	19%
Standard small profits rate	19%	N/A
Augmented profit limit for standard small profits rate	£50,000	N/A
Augmented profit limit for marginal relief	£250,000	N/A
Standard marginal relief fraction	3/200	N/A
Marginal rate	26.5%	N/A

Research and development expenditure

Financial year	**2023**	**2022**
Total relief for Small & medium enterprises (SMEs) (Note 1)	186%	230%
R&D tax credit for SME losses	10%	14.5%
Large companies – RDEC	20%	13%

Note: (1) SMEs must have < 500 employees and *either* turnover ≤ €100m *or* assets ≤ €86m.

INHERITANCE TAX

Death rate	40% (Note 2)	**Lifetime rate**	20%

Note: (2) 36% rate applies where ≥10% of the deceased's net chargeable estate is left to charity.

Nil rate bands

6 April 1996 – 5 April 1997	£200,000	6 April 2003 – 5 April 2004	£255,000
6 April 1997 – 5 April 1998	£215,000	6 April 2004 – 5 April 2005	£263,000
6 April 1998 – 5 April 1999	£223,000	6 April 2005 – 5 April 2006	£275,000
6 April 1999 – 5 April 2000	£231,000	6 April 2006 – 5 April 2007	£285,000
6 April 2000 – 5 April 2001	£234,000	6 April 2007 – 5 April 2008	£300,000
6 April 2001 – 5 April 2002	£242,000	6 April 2008 – 5 April 2009	£312,000
6 April 2002 – 5 April 2003	£250,000	6 April 2009 – 5 April 2026	£325,000

Residence nil rate bands (Note 3)

6 April 2017 – 5 April 2018	£100,000	6 April 2019 – 5 April 2020	£150,000
6 April 2018 – 5 April 2019	£125,000	6 April 2020 – 5 April 2026	£175,000

Note: (3) An additional nil rate band is available where a main residence is passed on death to a direct descendant. Tapered withdrawal for estates > £2 million.

Taper relief

Death within 3 years of gift	Nil%
Between 3 and 4 years	20%
Between 4 and 5 years	40%
Between 5 and 6 years	60%
Between 6 and 7 years	80%

Quick succession relief

Period between transfers less than one year	100%
Between 1 and 2 years	80%
Between 2 and 3 years	60%
Between 3 and 4 years	40%
Between 4 and 5 years	20%

Lifetime exemptions

Annual exemption		£3,000
Small gifts		£250
Wedding gifts	– Child	£5,000
	– Grandchild or remoter issue or other party to marriage	£2,500
	– Other	£1,000

ATT EXAMINATIONS
2024
TAX TABLES

CAPITAL GAINS TAX

	2023/24
Annual exempt amount	£6,000
CGT rates for individuals (Notes 1 & 2)	
Gains qualifying for business asset disposal relief/investors' relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%
CGT rates for trusts & individuals paying the remittance basis charge	
Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%
CGT Rate for personal representatives (PRs)	
All gains (Note 5)	20%
Business Asset Disposal relief (BADR)	
Relevant gains (lifetime maximum) (Note 6)	£1 million
Investors' relief (IR)	
Relevant gains (lifetime maximum)	£10 million

Notes: (1) For individuals, gains are taxed as if they are the top slice of income.
(2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for BADR/IR first.
(3) The remaining basic rate band is calculated as £37,700 (2023/24) less taxable income less any gains on which BADR/IR has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
(4) The rate is 18% if the gain is in respect of a residential property
(5) The rate is 28% if the gain is in respect of a residential property
(6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

Years	Percentage	Years	Percentage	Years	Percentage
50 or more	100.000	33	90.280	16	64.116
49	99.657	32	89.354	15	61.617
48	99.289	31	88.371	14	58.971
47	98.902	30	87.330	13	56.167
46	98.490	29	86.226	12	53.191
45	98.059	28	85.053	11	50.038
44	97.595	27	83.816	10	46.695
43	97.107	26	82.496	9	43.154
42	96.593	25	81.100	8	39.399
41	96.041	24	79.622	7	35.414
40	95.457	23	78.055	6	31.195
39	94.842	22	76.399	5	26.722
38	94.189	21	74.635	4	21.983
37	93.497	20	72.770	3	16.959
36	92.761	19	70.791	2	11.629
35	91.981	18	68.697	1	5.983
34	91.156	17	66.470	0	0.000

ATT EXAMINATIONS
2024
TAX TABLES

Retail Prices Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982	–	–	79.44	81.04	81.62	81.85	81.88	81.90	81.85	82.26	82.66	82.51
1983	82.61	82.97	83.12	84.28	84.64	84.84	85.30	85.68	86.06	86.36	86.67	86.89
1984	86.84	87.20	87.48	88.64	88.97	89.20	89.10	89.94	90.11	90.67	90.95	90.87
1985	91.20	91.94	92.80	94.78	95.21	95.41	95.23	95.49	95.44	95.59	95.92	96.05
1986	96.25	96.60	96.73	97.67	97.85	97.79	97.52	97.82	98.30	98.45	99.29	99.62
1987	100.0	100.4	100.6	101.8	101.9	101.9	101.8	102.1	102.4	102.9	103.4	103.3
1988	103.3	103.7	104.1	105.8	106.2	106.6	106.7	107.9	108.4	109.5	110.0	110.3
1989	111.0	111.8	112.3	114.3	115.0	115.4	115.5	115.8	116.6	117.5	118.5	118.8
1990	119.5	120.2	121.4	125.1	126.2	126.7	126.8	128.1	129.3	130.3	130.0	129.9
1991	130.2	130.9	131.4	133.1	133.5	134.1	133.8	134.1	134.6	135.1	135.6	135.7
1992	135.6	136.3	136.7	138.8	139.3	139.3	138.8	138.9	139.4	139.9	139.7	139.2
1993	137.9	138.8	139.3	140.6	141.1	141.0	140.7	141.3	141.9	141.8	141.6	141.9
1994	141.3	142.1	142.5	144.2	144.7	144.7	144.0	144.7	145.0	145.2	145.3	146.0
1995	146.0	146.9	147.5	149.0	149.6	149.8	149.1	149.9	150.6	149.8	149.8	150.7
1996	150.2	150.9	151.5	152.6	152.9	153.0	152.4	153.1	153.8	153.8	153.9	154.4
1997	154.4	155.0	155.4	156.3	156.9	157.5	157.5	158.5	159.3	159.5	159.6	160.0
1998	159.5	160.3	160.8	162.6	163.5	163.4	163.0	163.7	164.4	164.5	164.4	164.4
1999	163.4	163.7	164.1	165.2	165.6	165.6	165.1	165.5	166.2	166.5	166.7	167.3
2000	166.6	167.5	168.4	170.1	170.7	171.1	170.5	170.5	171.7	171.6	172.1	172.2
2001	171.1	172.0	172.2	173.1	174.2	174.4	173.3	174.0	174.6	174.3	173.6	173.4
2002	173.3	173.8	174.5	175.7	176.2	176.2	175.9	176.4	177.6	177.9	178.2	178.5
2003	178.4	179.3	179.9	181.2	181.5	181.3	181.3	181.6	182.5	182.6	182.7	183.5
2004	183.1	183.8	184.6	185.7	186.5	186.8	186.8	187.4	188.1	188.6	189.0	189.9
2005	188.9	189.6	190.5	191.6	192.0	192.2	192.2	192.6	193.1	193.3	193.6	194.1
2006	193.4	194.2	195.0	196.5	197.7	198.5	198.5	199.2	200.1	200.4	201.1	202.7
2007	201.6	203.1	204.4	205.4	206.2	207.3	206.1	207.3	208.0	208.9	209.7	210.9
2008	209.8	211.4	212.1	214.0	215.1	216.8	216.5	217.2	218.4	217.7	216.0	212.9
2009	210.1	211.4	211.3	211.5	212.8	213.4	213.4	214.4	215.3	216.0	216.6	218.0
2010	217.9	219.2	220.7	222.8	223.6	224.1	223.6	224.5	225.3	225.8	226.8	228.4
2011	229.0	231.3	232.5	234.4	235.2	235.2	234.7	236.1	237.9	238.0	238.5	239.4
2012	238.0	239.9	240.8	242.5	242.4	241.8	242.1	243.0	244.2	245.6	245.6	246.8
2013	245.8	247.6	248.7	249.5	250.0	249.7	249.7	251.0	251.9	251.9	252.1	253.4
2014	252.6	254.2	254.8	255.7	255.9	256.3	256.0	257.0	257.6	257.7	257.1	257.5
2015	255.4	256.7	257.1	258.0	258.5	258.9	258.6	259.8	259.6	259.5	259.8	260.6
2016	258.8	260.0	261.1	261.4	262.1	263.1	263.4	264.4	264.9	264.8	265.5	267.1
2017	265.5	268.4	269.3	270.6	271.7	272.3	272.9	274.7	275.1	275.3	275.8	278.1

TEST "A"
(40 MARKS)

1. Handicraft Ltd, a trading company, made the following capital disposals in the year ended 31 March 2024:

   a) On 2 May 2023, sold a retail unit for £325,000 before the deduction of 2.5% estate agency fees. The building had originally been acquired for £25,650 in March 1988.

   b) On 21 August 2023, sold an investment property for £36,250. The investment property had originally cost £68,560 in March 2017.

   Calculate Handicraft Ltd's net chargeable gain for the year ended 31 March 2024. (4)

2. Abacus Ltd, a close company, received two loans a number of years ago. For the year ended 30 June 2023, Abacus Ltd had the following interest accruals:

   a) Loan from Zen plc, an unconnected banking business – interest accrued in the year, £15,150. This interest was paid on 15 July 2024.

   b) Loan from Mr Yong, a 10% shareholder in the company – interest accrued in the year, £25,250. This interest was paid on 2 August 2024.

   Explain in which accounting period(s) Abacus Ltd can claim deduction for the loan interest accrued in the year ended 30 June 2023. (3)

3. Bill & Ben Ltd is a trading company with two directors who each own 50% of the company. Salary and dividend payments from the company are the only sources of income for the two directors.

   For the year ended 31 March 2024, the company has £50,000 of taxable profits. This figure is before the deduction of any salary or dividend payments.

   Calculate the Corporation Tax payable by the company and the Income Tax payable by the two directors if on 31 March 2024 there is either:

   1) A dividend payment of £20,000 each; or (2)

   2) A salary payment of £20,000 each. (2)

   Ignore National Insurance.

4. On 1 May 2023, Voxmobile plc sold 125,000 fixed rate preference shares in Bong Ltd, a UK resident trading company, for £867,000. 150,000 shares had been acquired for £352,000 on 1 April 2005 with a rights issue of 1 for 2 taken up at £2 per share on 1 March 2013.

   Calculate Voxmobile plc's chargeable gain in respect of this disposal. (4)

5. Quota Ltd has been trading for a number of years. On 1 August 2022, it commenced a new construction trade.

The company's income and losses in recent periods of account are as follows:

	Year ended 31 Dec 2022	Six months to 30 June 2023	Year ended 30 June 2024
	£	£	£
Construction trade profit/(loss)	52,000	35,350	(178,630)
Other trading income	125,250	11,675	25,380

Calculate the amount of trading loss carried forward as at 30 June 2024 assuming Quota Ltd claims relief as early as possible. (3)

6. Hattie plc is a large company and had a Corporation Tax liability for the year ended 31 December 2023 of £2,000,000.

The company settled this tax liability as follows:

	£
14 July 2023	400,000
14 October 2023	400,000
14 January 2024	400,000
14 April 2024	800,000

Calculate the late payment interest due for the year ended 31 December 2023. (3)

7. Power Rail Ltd, a small company, engages Douglas's services through his personal service company, Doug-IT Ltd.

For the year ended 31 March 2024, Doug-IT Ltd invoiced Power Rail Ltd £36,000 for Douglas's services. Douglas received a gross salary of £12,500 from Doug-IT Ltd and the company made pension contributions of £5,000 to Douglas's personal pension. Douglas is the only employee of Doug-IT Ltd.

Neither Doug-IT Ltd nor Douglas has any other sources of income.

Briefly explain why Doug-IT Ltd may be deemed to pay a salary to Douglas for the year ended 31 March 2024 and calculate this deemed salary payment. (4)

8. Archimedes Ltd is a trading company with a staff of 50 and turnover of £10 million. The company made a trading loss in the year ended 31 March 2024, due to incurring a large amount of research and development expenditure. This has resulted in a cash flow shortage, although the company is still a going concern.

Explain how research and development tax credits could help ease the company's immediate cash flow demands and how the tax credit would be calculated. (4)

9. Trident Ltd's shares are owned by the following individuals:

John (sole director)	42%
John's nephew	1%
John's wife, Jean	1%
John's son	1%
John's grandson	1%
John's business partner	1%
Jean's sister	2%
Unrelated individuals	51% (each individual owning 1%)

Explain whether the company is a close company. (4)

10. On 15 January 2024, Galileo Ltd paid the annual interest due on £250,000 of 15% debentures. The debentures were all held by individuals. Galileo Ltd makes up its accounts to 31 January annually.

1) Calculate the Income Tax due from the company on the debenture interest payment. (1)

2) State how and when this liability is reported to HM Revenue & Customs. (1)

11. Two or more individuals might decide to set up a business as a limited liability partnership.

State three advantages of operating as a limited liability partnership compared to a limited company. You should assume that the 'disguised employment' anti-avoidance legislation does not apply. (3)

12. Robert is the sole director and 100% owner of the trading company, Wreaths Ltd. He wishes to withdraw some funds from the business.

1) State the National Insurance Contributions implications of extracting profits by either dividend or salary. (1)

2) State the maximum annual salary that can be paid to Robert for 2023/24 before National Insurance Contributions become payable by him. (1)

TEST "A"
ANSWERS

1. Handicraft Ltd's chargeable gain for the year ended 31 March 2024

	£	£	
Retail Unit			
Disposal proceeds	325,000		
Less: Cost of disposal (estate agent fees)	(8,125)		**[½]**
		316,875	
Acquisition cost	25,650		
Indexation allowance (March 1988 – Dec 2017)			
(278.1 – 104.1)/104.1 = 1.671 x 25,650	42,861	(68,511)	**[1]**
Gain		248,364	**[½]**
Investment property			
Disposal proceeds		36,250	
Acquisition cost		(68,560)	
(No indexation allowance - cannot increase a loss)			**[½]**
Loss		(32,310)	**[½]**
Chargeable gain = net gain = 248,364 - 32,310		216,054	**[1]**

Total 4

2. Abacus Ltd - deduction for the loan interest accrued in the year ended 30 June 2023.

Loan from Zen plc - deduction for the loan interest is on an accruals basis. **[½]** Deduction of £15,150 is allowed in the year ended 30 June 2023. **[½]**

Loan from Mr Yong – Mr Yong is a participator in the company which is close. As the payment of loan interest is to a participator **[½]** and is paid more than 12 months after the accounting period **[½]** then deduction for interest is in the year of payment **[½]**. So, deduction of £25,250 is allowed in the year ending 30 June 2025. **[½]**

Total 3

3. The corporation tax payable by the company and income tax payable by the two directors

1) A dividend payment of £20,000 each

	£	
Corporation tax		
50,000 of profits are taxable at 19%	9,500	**[1]**
Income tax		
£12,570 covered by personal allowance	1,125	**[1]**
£1,000 covered by dividend allowance		
Income tax (20,000 – 13,570) x 8.75% x 2 directors		

2) Salary payment of £20,000 each

	£	
Corporation tax		
50,000 - 40,000 = 10,000 of profits are taxable at 19%	1,900	**[1]**
Income tax		
(20,000 - 12,570) x 20% x 2 directors	2,972	**[1]**

Total 4

4. Voxmobile plc

Date	Event	Shares, No	Cost	
			£	
1/4/05	Purchase	150,000	352,000	
1/3/13	Indexation			
	(248.7 – 191.6)/191.6 x £352,000		104,902	[1]
1/3/13	Rights issue – 2 for			
	1, £2 each	75,000	150,000	[½]
		225,000	606,902	
1/5/23	Indexation to 12/17			
	(278.1 – 248.7)/248.7 x £606,902		71,745	[1]
			678,647	
1/5/23	Sale			
	(125,000/225,000) x £678,647		(377,026)	[1]

Disposal proceeds	867,000	
Less: Indexed cost	(377,026)	
Gain	489,974	[½]

Total 4

5. Quota Ltd – trade loss for the year ended 30 June 2024

	£	
Loss for the year	(178,630)	
Loss first has to be offset against current year total profit	25,380	[½]
Loss set off against total profit in the 6 months to 30 June 2023	47,025	[1]
Loss carry back to year ended 31 December 2022 is restricted		
½ x (52,000 + 125,250)	88,625	[1]
Balance available to carry forward	(17,600)	[½]

Total 3

6. Late payment interest due for the year ended 31 December 2023.

Date	Payment due	Actual payment	Underpayment	Months late	Interest rate	Late payment interest	
	£	£	£		% pa		
14/7/23	500,000	400,000	100,000	9	5.0	3,750	[1]
14/10/23	500,000	400,000	100,000	6	5.0	2,500	[1]
14/1/24	500,000	400,000	100,000	3	5.0	1,250	[1]
14/4/24	500,000	800,000	-				
Total	2,000,000	2,000,000				7,500	

[Candidates who use an interest rate of 6.5% will be penalised a total of ½]

Total 3

7. Deemed payment for the year ended 31 March 2024

Douglas provides his services through Doug-IT Ltd, his personal service company. If in the absence of Doug-IT Ltd he would be treated as an employee of Power Rail Ltd, the off payroll working legislation will apply. As the client Power Rail Ltd is a small company, the legislation deems Doug-IT Ltd to make a salary payment to Douglas, as computed below. **[1]**

	£	
Total from client	36,000	
Less: 5%	(1,800)	
Less: Pension contributions	(5,000)	**[1]**
Less: Salary actually paid	(12,500)	
Less: Employer's national insurance ((12,500-9,100) @13.8%)	(469)	**[1]**
Excess amount	16,231	
Employer's Class 1 NIC £16,231 x (13.8/113.8)	(1,968)	**[½]**
Deemed salary payment	14,263	**[½]**

Total 4

8. Research and development tax credits

The company qualifies as a small or medium sized company **[½]** for R&D purposes.

As it has a trading loss, it is possible to surrender part of its loss in exchange for a tax credit equal to the lower of **[½]**:

- 10% **[½]** of the surrenderable amount:
- The PAYE Cap of £20,000 plus 3 times the 'relevant expenditure on workers' **[½]**

The surrenderable amount is the lower **[½]** of:

- the unrelieved trading loss, **[½]** and
- 186% of its qualifying R&D expenditure. **[½]**

The tax credit can be used to settle other tax that the company owes **[½]** or will be repaid to the company. **[½]**

This will improve immediate cash flow demands since surrendering the loss to generate a cash payment is a payment to the company now rather than a reduction in a future corporation tax liability **[½]**.

Max 4

9. Trident Ltd

John's rights (his own + wife's + son's + grandson's + business partner's)		**[2]**
= 42+1+1+1+1	46%	
Jean's sister's rights	2%	**[½]**
3 other un-associated shareholders' rights	3%	**[½]**
	51%	

The company is close **[½]** as 5 or fewer participators have control of the company. **[½]**

Total 4

10. Income tax due on debenture interest

The income tax liability	£250,000 x 15% x 20%	£7,500	**[1]**

This liability is reported on form CT61 **[½]** which needs to be filed 14 days after the return period end. In this case the return period is the month to 31 January 2024, so the CT61 is due by 14 February 2024. **[½]**

Total 2

11. Advantages of operating as a limited liability partnership

- Extraction of profits is more flexible than for shareholdings in limited companies.
- Class 2 and 4 National Insurance contributions are less than primary and secondary Class 1 contributions payable on salaries.
- Private use of vehicles not taxed as harshly as under the benefit in kind regime.
- Trading losses can be offset against partners' other income (restricted to the partner's "contribution" to the partnership and subject to the general restriction on loss relief claims against net income). Company losses cannot be offset against a shareholder's other income.
- Greater flexibility in admitting or expelling partners (subject to the partnership agreement), compared to admitting or expelling shareholders of a company.

[1 each for any three valid advantages]

Max 3

12. Robert

1)

No National Insurance Contributions (NIC) payable on dividends. **[½]**

Salaries are subject to both employee and employer class 1 NIC. **[½]**

2)

NIC not payable by Robert provided the annual salary is £12,570 or less. **[1]**

Total 2

TEST "B"
(40 MARKS)

1. Schemmel Ltd incurred the following expenditure in the eight month accounting period ended 31 August 2023.

	£
31 March – Shelving	5,000
15 April – Drinks machine	15,000

The drinks machine replaced an older model purchased in 2015 on which the company received £500 on disposal.

At 1 January 2023 the tax written down value on the general pool amounted to £8,000 and the tax written down value on the special rate pool was £15,000.

Calculate the maximum capital allowance claim for the period ending 31 August 2023. (4)

2. Edgar provides services through his company, Raiders Ltd, in which he owns 100% of the share capital. Although Raiders Ltd provides services to several clients, it is caught by the off payroll working rules relating to personal service companies.

In the tax year 2023/24, Raiders Ltd invoiced clients (all of whom were small) £50,000 in respect of relevant engagements and £30,000 in respect of non-relevant engagements. The company also paid Edgar qualifying travel expenses of £1,800 and made a pension contribution of £5,700.

1) Briefly explain the tax implications of operating as a personal service company. (1)

2) Calculate the deemed employment payment for 2023/24. (3)

3. Business Asset Disposal relief may be available to individuals when they dispose of their shares in a company.

State the conditions that must be met by an individual to qualify for Business Asset Disposal relief on the disposal of shares. (3)

4. Companies within a group may form a loss relief group and/or a chargeable gains group.

State the conditions necessary to form a loss relief group and/or a chargeable gains group. (3)

5. Horace is considering transferring his sole trade business to a limited company. It is anticipated that the business will have the following net assets (market values) at the date of transfer.

	£
Freehold premises (cost £135,000)	235,000
Goodwill (cost £nil)	150,000
Net current assets (excluding cash)	125,000
Cash at bank	90,000
Total assets	600,000

Horace has heard that incorporation relief is available to an individual transferring his business to a limited company.

1) Explain how incorporation relief operates and the conditions that need to be met for incorporation relief to be claimed. (2)

2) Calculate the base cost of the shares in the company assuming Horace retained the cash and received 50,000 shares with a nominal value of £1 each. (2)

6. Limited Liability Partnerships (LLPs) are frequently used as vehicles through which to run businesses.

Explain the fundamental features of an LLP and how profits arising from an LLP are taxed. (3)

7. Dowel Properties Ltd is a close company with property investments. It has no associated companies. It had rental income and expenses in the year ended 31 March 2024 as follows:

Income

	£
Rental income received in the year	58,750
Rental debtor at 1 April 2023	1,500
Rental debtor at 31 March 2024	700

Expenses

	£
Mortgage interest paid in the year	12,000
Bad debts written off in year	1,100
Legal costs of a property purchase	15,650

Calculate Dowel Properties Ltd's Corporation Tax liability for the year ended 31 March 2024. (3)

8. Jones Ltd prepares accounts to 31 January every year. Its Corporation Tax liability for the year to 31 January 2023 was £12,000. The Corporation Tax return for the year is still to be filed but the liability was paid on 21 August 2024.

Determine the penalties that will be due if the Corporation Tax return is filed on 14 September 2024, assuming that the company has never previously filed a return late. (4)

9. A company which is not a member of a group is able to gain relief for trading losses in three ways.

   Explain the three options that are available for utilising losses in these circumstances. (4)

   You should assume that the trade has not become small or negligible.

10. Icarus Ltd makes up its accounts to 31 March every year. A summary of the profit, depreciation charge and capital allowance claim for the year ended 31 March 2024 is set out below.

	£
Profit before depreciation	550,000
Depreciation charge	90,000
Capital allowance claim	200,000

   Calculate the deferred tax adjustment for the year to 31 March 2024 and show the double entry required to record it. (2)

11. An engagement letter should be issued to a new client once instructions have been accepted.

   Explain the importance and purpose of an engagement letter. (3)

12. Enhanced relief is available for companies which incur qualifying Research and Development expenditure.

   State the conditions that need to be met in relation to the expenditure in order to qualify for enhanced relief. (3)

TEST "B"
ANSWERS

1.

8 m/e 31 August 2023	FYA 111.25 %	AIA 100%	General pool	Special rate pool	CAs	
		£	£	£	£	
WDV b/fwd			8,000	15,000		
Additions:						
Drinks machine		15,000				**[½]**
Shelving	5,000					**[½]**
Disposals:						
Old drinks machine			(500)			**[½]**
	5,000	15,000	7,500	15,000		
FYA @ 111.25%	(5,563)				5,563	**[1]**
AIA @ 100%		(15,000)			15,000	**[½]**
WDA @ 18% x 8/12			(900)		900	**[1]**
WDA @ 6% x 8/12				(600)	600	**[½]**
WDV c/fwd			6,600	14,400		
Total allowances					22,063	

Tutorial Note:

Where it is obvious that the additions will be covered by the AIA, as in this question, there is no need to show a working to calculate the maximum AIA.

For additions between 1 April 2021 and 31 March 2023, a super-deduction is available for new P&M eligible for the general pool, and this is used in preference to the AIA. For purchases in accounting periods straddling 1 April 2023, the rate of super-deduction is (100 + (30 × N/AP))%, where N is the number of months of the accounting period before 1 April 2023 (in this case 3), and AP is the length of the accounting period (here, 8 months).

The drinks machine would have also qualified for 100% allowances under full expensing, being purchased after 31 March 2023, however the AIA is preferable (where available) in order to avoid a balancing charge on disposal.

Max 4

2. If you trade as a personal service company, you are effectively taxed as if you are an employee. **[½]**

   Monies received from relevant engagements will be subject to PAYE and national insurance **[½]** with allowances given for employment expenses. **[½]**

Max 1

	£	
Income from relevant engagements	50,000	**[½]**
Less: 5% automatic deduction	(2,500)	**[½]**
	47,500	
Less: Qualifying travel expenses	(1,800)	**[½]**
Less: Employer pension contributions	(5,700)	**[½]**
Gross deemed payment	40,000	
Employer's NIC [(40,000 – 9,100) x 13.8/113.8]	(3,747)	**[½]**
Net deemed payment	36,253	**[½]**

Max 4

Tutorial Note:

As no actual salary is paid to Edgar the secondary threshold of £9,100 is available in the calculation of the employer's NIC on the deemed salary payment.

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

   - For a period of two years up to the date of the disposal, **[½]** the company is the individual's personal company **[½]** and is either a trading company or the holding company of a trading group. **[½]**
   - A personal company is one where the individual holds at least 5% of the ordinary share capital **[½]**, can exercise at least 5% of the voting rights **[½]**, and in addition, the shareholder must either be entitled to at least 5% of the distributable profits and 5% of the assets available on a winding up, and/or be entitled to at least 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company. **[½]**
   - The individual is an officer or employee of the company or another group company **[½]** for a period of at least two years up to the date of the disposal.

   Relief is also available if these conditions are met throughout a period of two years up to the date the company ceases to trade and the individual disposes of the shares within three years of that date. **[1]**

   [TCGA 1992 s.169I(1-7) & s.169S(3)]

Max 3

4. To form a loss relief group, there has to be a 75% direct and indirect relationship between the parent and subsidiary companies. **[½]**

The parent company must hold 75% of the ordinary share capital, **[½]** be entitled to 75% of the distributable profits **[½]** and be entitled to 75% of the assets on winding up of the subsidiary. **[½]**

In order to form a chargeable gains group, there has to be a 75% direct **[½]** and more than a 50% indirect relationship between the parent company and subsidiary **[½]**. For chargeable gains group purposes only 75% ownership of the ordinary share capital is required. **[½]**

Max 3

5. Providing the business is a going concern, **[½]** and all the assets of the business (or all of the assets except cash) **[½]** are transferred to the limited company in return for consideration which is wholly or partly in shares **[½]**, then any gain will be treated as reducing the base cost of those shares **[½]**.

[TCGA 1992 s.162]

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

	£	
Market value (600,000 – 90,000)	510,000	**[½]**
Less: gains (100,000 + 150,000)	(250,000)	**[½]**
Base cost of shares	260,000	

<u>Gain on premises</u>

£235,000 - £135,000 = £100,000 **[½]**

<u>Gain on goodwill</u>

£150,000 - £0 = £150,000 **[½]**

Total 4

6. An LLP is a corporate entity similar in nature to a limited company **[½]** but for tax purposes it operates like a general partnership. **[½]**

An LLP has to be registered at Companies House, **[½]** with annual accounts and an annual return also being required to be filed at Companies House. **[½]** The LLP has members instead of partners or directors/shareholders. **[½]**

For tax purposes, the LLP is usually completely transparent and not subject to tax. **[½]** The members are subject to income tax on their share of profits (similar to how partners are taxed in a general partnership). **[½]**

Max 3

7.

	£	
Income from UK land & property		
Rental income (58,750 – 1,500 + 700)	57,950	**[1]**
Rental expenses:		
Bad debts	(1,100)	**[½]**
Legal costs of a property purchase	-	**[½]**
Property income	56,850	
Less: Deficit on non-trading loan relationship		
Mortgage interest	(12,000)	**[½]**
Taxable total profits	44,580	
Corporation tax at 19%	8,522	**[½]**

Total 3

Tutorial Note:

Although a close company, the company lets property, presumably to unconnected persons, and so is not a close investment holding company. The usual corporation tax rates apply.

8. The due date for the return is 31 January 2024. **[½]**

A flat rate penalty of £200 will be charged as the return is more than 3 months late. **[1]**

A tax geared penalty of 10% will apply as the return is not filed within 18 months of the end of the relevant accounting period. **[1]** The penalty is calculated as 10% of the unpaid corporation tax at 18 months from the end of the relevant accounting period. **[½]** The tax geared penalty will be £12,000 x 10% = £1,200. **[½]**

No penalty is due for late payment of corporation tax. **[½]**

Total 4

9. Trading losses can be:

- Set against total profits in the current accounting period. **[½]**. Total profits are before the deduction of qualifying charitable donations **[½]**.

- Carried back and set against total profits in the preceding 12 months **[½]** (or 36 months on cessation). **[½]** A claim can only be made if a current year claim has already been made. **[½]**

- Carried forward and set against future total profits of periods in which the company continues to trade. **[½]**

  The maximum amount of brought forward trading losses which may be offset is the lower of:

  – The unrelieved loss brought forward **[½]**

  – The deductions allowance of £5 million plus 50% of the company's unrelieved profits above that amount. **[½]**

Total 4

10.

	£	
Capital allowances	200,000	
Less: Depreciation	(90,000)	
Timing difference	110,000	**[½]**

Tax at 25% = £27,500 **[½]**

Accounting double entry for increase in deferred tax provision:

	£	
Dr Deferred tax charge (P&L a/c)	27,500	**[½]**
Cr Deferred tax provision	27,500	**[½]**

Tutorial Note:

Deferred tax is the expected future tax due to the timing difference. Icarus Ltd appears to be a main rate company and so the expected future rate is 25%.

Total 2

11. The importance 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 record the terms of the contract for the provision of professional services. **[1]**

[Professional Responsibilities & Ethics for Tax Practitioners (5th edition) Chapter 4, para 4.9]

Total 3

12. In order to qualify for enhanced relief, the expenditure:

- Must be revenue and not capital in nature. **[½]**
- Must relate to a trade carried on or to be carried on by the company. **[½]**
- Must be incurred on staff costs, software, data licences, cloud computing services, consumables, payments to subjects of clinical trials, subcontracted costs or externally provided workers. **[1]**
- Must not be incurred on activities contracted out to the company by a person. **[½]**
- Must not be subsidised. **[½]**

Total 3

TEST “C”
(40 MARKS)

1. Maestro Ltd sold a factory on 31 August 2023 for £600,000 and incurred selling costs of £2,500. The factory cost £400,000 in February 2008.

   Calculate the chargeable gain arising on the sale of factory. (2)

2. Doorplate Ltd had a 15 month period of account to 31 March 2024 with the following income:

	£
Trading income for the period	312,250
Chargeable gain (disposal made on 1 February 2024)	12,500

   Calculate the taxable total profits for the chargeable periods covered by the period of account ended 31 March 2024. (2)

3. When a business is incorporated there is a disposal for Capital Gains Tax purposes. There are two main reliefs available that wholly or partly defer any resulting chargeable gains.

   Identify both reliefs and explain how they differ. (4)

4. Partnerships can be set up as Limited Liability Partnerships (LLPs).

   Briefly explain the tax implications of operating as an LLP for both the partnership and its members. (2)

5. Shrewberry Ltd draws up accounts to 30 September every year. The last set of accounts has been prepared to 30 September 2023 and the Corporation Tax liability in respect of these accounts amounts to £6,500.

   1) State the deadline for filing the Corporation Tax return and the date for paying the Corporation Tax liability. (1)

   2) Explain and calculate the penalties payable if the Corporation Tax liability was paid on 5 October 2024. (1)

6. Peyton Ltd, a single company, made a trade loss of £7 million in the year ended 31 March 2023. It changed its accounting date to the period ended 31 December 2023, during which it made a trade profit of £6 million and had non-trading gains on intangible fixed assets of £500,000.

   Calculate the taxable total profits for the period ended 31 December 2023, assuming maximum relief is claimed for the brought forward losses. (3)

7. There are several VAT schemes available that have been designed to simplify a trader’s VAT administration. The Flat Rate Scheme is one of those schemes.

   Explain how the Flat Rate Scheme works and calculate the VAT due on an invoice raised for £20,000 (excluding VAT), if the appropriate flat rate percentage is 12%. (3)

8. When a UK resident company operates overseas, it may pay overseas tax on its overseas profits. Those profits will be taxed again in the UK.

   Explain any relief available to mitigate the double tax charge on these profits. (2)

9. On a disposal of a business, whether that is a share disposal or an asset disposal, there will often be a ‘heads of agreement’ drawn up.

   Explain the purpose of a heads of agreement and what the agreement will cover. (2)

10. Kerr Ltd makes up accounts to 31 March of every year and has one associated company. Kerr Ltd had the following results for the year to 31 March 2024:

	£
Profit per accounts	690,000
Depreciation	70,000
Donation to Save the Children charity	15,000

   It had taxable total profits of £689,000 in the year ended 31 March 2023.

   Calculate the Corporation Tax payable by Kerr Ltd for the year ended 31 March 2024 and briefly explain whether the tax is payable via instalments. (4)

11. Murty Ltd owned 20 acres of land and sold 10 acres in July 2023 for £160,000. At that date the remaining land was valued at £240,000. The company acquired the land in June 2003 for £30,000 and incurred expenditure of £20,000 enhancing the land in June 2008.

    Calculate the chargeable gain arising on sale of the land. (4)

12. Jerry worked for Morris Ltd for a number of years. He was made redundant on 31 March 2024, having worked his notice period in full, and received the following payment:

	£
Statutory redundancy payment	10,000
Compensation for loss of office	25,000
Payment into a registered pension scheme	15,000
	50,000

    Calculate the amount of termination payment chargeable to Income Tax and the amount deductible in calculating Morris Ltd’s trading profits. (3)

13. Boris Ltd purchased a patent on 1 June 2017 for £300,000 and sold it for £800,000 on 1 March 2024. At 31 March 2023 the patent had a net book value in the accounts of £180,000.

Boris Ltd has a March year end, and has not made an election under s.730 CTA 2009.

1) Show the debit or credit in respect of the sale of the patent assuming no reinvestment of proceeds. (1)

2) Show the position if Boris Ltd immediately uses some of the sale proceeds to buy a registered trademark from Theresa Ltd for £500,000. (2)

14. Bernie Ltd is a wholesaler who provides frozen foods to food outlets. The company commenced trading on 1 January 2023 and made up its first accounts to 30 September 2023. In the period, the company incurred the following capital expenditure.

		£
25 January 2023	Factory	200,000
1 February 2023	Cold store to store food	24,000
2 February 2023	Air conditioning unit	40,000
12 February 2023	General plant	16,000

Bernie Ltd is a member of a group of companies and the other group companies have also incurred capital expenditure. As a consequence, Bernie Ltd can only claim an Annual Investment Allowance of £34,000.

Calculate the capital allowances that Bernie Ltd can claim for the period to 30 September 2023. Do not calculate or comment on structures and buildings allowance. (4)

TEST "C"
ANSWERS

1.

	£	
Proceeds	600,000	
Selling costs	(2,500)	[½]
Net sale proceeds	597,500	
Cost (Feb 2008)	(400,000)	[½]
Indexation allowance (Feb 2008 – Dec 2017)		[1]
(278.1 – 211.4)/211.4 = 0.316 x 400,000	(126,400)	
Gain	71,100	

Total 2

2. Doorplate Ltd

Taxable total profit for the 12 months ended 31 December 2023

	£	
Trading income = TTP	249,800	[½]
(12/15 x 312,250)		

Taxable total profit for the 3 months period ended 31 March 2024

	£	
Trading income	62,450	[½]
(3/15 x 312,250)		
Chargeable gain	12,500	[½]
TTP	74,950	

[2 correct accounting periods ½]

Tutorial Note:

It is the adjusted trading profits before capital allowances which are time apportioned between the two accounting periods. Capital allowances are then calculated separately for each accounting period.

Sometimes an exam question just provides you with the trading profit in which case you should simply time apportion the figure given.

Total 2

3. The two deferral reliefs available are incorporation relief **[½]** and gift relief **[½]**:

   Incorporation relief – the individual receives shares as some or all of the consideration for the assets transferred, **[½]** with any gain being held over against the base cost of those shares. **[½]** The gain is therefore deferred until the shares are sold. **[½]**

   All assets must be transferred, or all assets except cash **[½]**. The relief is automatic if the conditions are met. **[½]**

   Gift relief – The assets are gifted to the company, or sold at undervalue. The consideration, if any, does not need to be in shares. **[½]** The gain is held over into the base costs of the individual assets for the company **[½]**. It is therefore deferred until the company disposes of the assets. **[½]**

   It is not necessary to transfer all of the assets. **[½]** The relief needs to be claimed. **[½]**

Max 4 [2 per relief]

4. An LLP is transparent and not subject to tax, **[½]** although a partnership tax return is required. **[½]**

   The members of the LLP are subject to income tax and national insurance on their share of the partnership's trading profits **[½]** and capital gains tax on their share of any partnership chargeable gains. **[½]** Members have to complete tax returns showing their share of profits. **[½]**

[Note – credit will be given for any other relevant points.]

Max 2

5.

   1) The corporation tax return should be filed by 30 September 2024. **[½]**

      Payment of the corporation tax liability should be made by 1 July 2024. **[½]**

   2) Late payment of corporation tax is currently subject only to interest. No penalties are due. **[1]**

Total 2

6.

	£	
Trade profit	6,000,000	
Non-trading gains (non-trade IFAs)	500,000	
	6,500,000	
Less: brought forward losses (W)	(5,125,000)	**[1]**
Taxable total profits	1,375,000	

Working

Maximum loss relief

Deductions allowance (£5 million x 9/12)	3,750,000	**[1]**
Add:		
(6,500,000 – 3,750,000) @ 50%	1,375,000	**[1]**
	5,125,000	

Total 3

7. The Flat Rate Scheme allows businesses to calculate their VAT liability in respect of turnover only. **[½]**. Input tax is not deductible, except in respect of capital assets with a VAT inclusive cost of more than £2,000. **[½]**

VAT is calculated on VAT inclusive turnover with the VAT due based on the relevant flat rate percentage. **[1]**

VAT due on the invoice will be £2,880 (£20,000 x 1.2 = £24,000 VAT inclusive x 12%). **[1]**

Total 3

8. Unilateral double tax relief is available **[½]** and is calculated as the lower of **[½]** the UK corporation tax due on that source of income **[½]** and the foreign tax suffered. **[½]** The relief is calculated on a source-by-source basis. **[½]**

Relief may also be available under the terms of a double tax treaty. **[½]**

Max 2

9. The heads of agreement enables the parties to set out the terms of the deal. **[½]**

It will outline the property being sold **[½]** and the price to be paid. **[½]**

It will also identify any commercial issues that might arise. **[½]**.

[Note – credit will also be given for mentioning issues such as confidentiality, exclusivity period and costs.]

[Essential Law for Tax Practitioners Text (6th edition) para 19.4]

Max 2

10.

Y/e 31 March 2024

	£	
Profit per accounts	690,000	
Add: Depreciation	70,000	**[½]**
Add: Donation	15,000	**[½]**
Trading profit	775,000	

Corporation tax computation

Trading profit	775,000	
Less: Qualifying Charitable Donation	(15,000)	**[½]**
TTP (= Augmented profits)	760,000	**[½]**

Corporation tax payable

760,000 x 25%	190,000	**[½]**

2 associated companies
Large company threshold = £1,500,000/2 = £750,000 **[½]**

Kerr Ltd is a large company for quarterly instalment purposes in the year ended 31 March 2024 but was not a large company in the year ended 31 March 2023. **[½]** It is therefore not required to pay Corporation Tax by instalments for the year ended 31 March 2024. **[½]**

Total 4

11.

	£	
Proceeds	160,000	
Cost (June 2003)		
£30,000 x (160k/160k + 240k)	(12,000)	**[1]**
Enhancement cost (June 2008)		
£20,000 x (160k/160k + 240k)	(8,000)	**[1]**
Unindexed Gain	140,000	
Indexation allowance on cost (June 2003 – Dec 2017)		
(278.1 – 181.3)/181.3 = 0.534 x 12,000	(6,408)	**[1]**
Indexation allowance on enhancement (June 2008 – Dec 2017)	(2,264)	**[1]**
(278.1 – 216.8)/216.8 = 0.283 x 8,000		
Indexed Gain	131,328	

Total 4

12.

	£	
Statutory redundancy pay	10,000	**[½]**
Compensation for loss of office	25,000	**[½]**
Payment into registered pension scheme	Exempt	**[½]**
	35,000	
Exemption	(30,000)	**[½]**
Chargeable to income tax	5,000	

The full £50,000 is deductible in calculating Morris Ltd’s trading profits, **[½]** unless the trade is ceasing in which case the deduction will be limited to £40,000 (statutory redundancy pay of £10,000 x 4). **[½]**

Total 3

13.

1) The sale takes place in the accounting period ended 31 March 2024. The income gain, or credit **[½]** will be:

	£	
Proceeds of sale	800,000	**[½]**
Less TWDV (same as net book value in the accounts)	(180,000)	**[½]**
Income gain	620,000	

2) There is a partial reinvestment of the proceeds:

	£	
Amount reinvested	500,000	**[½]**
Less: cost of old IFA	(300,000)	**[½]**
Amount rolled over	200,000	

Note: we use the original cost here, not the TWDV

The gain (credit) for the year will now be:

	£	
Income gain	620,000	**[½]**
Less: amounted rolled over	(200,000)	**[½]**
Taxable IFA income	420,000	

Total 3

14.

9 m/e 30 September 2023	FYA @ 110%	AIA @ 100%	FYA @ 50%	CAs	
	£	£	£	£	
Cold store	24,000				**[½]**
General plant	16,000				**[½]**
Air con units		34,000	6,000		**[1]**
	40,000	34,000	6,000		
FYA @ 110%	(44,000)			44,000	**[½]**
AIA @ 100%		(34,000)		34,000	**[½]**
FYA @ 50%			(3,000)	3,000	**[½]**
WDV c/fwd			3,000		
Total allowances				81,000	

Factory does not qualify for allowances. **[½]**

[Note – Candidates who assumed the £34,000 AIA given in the question needed to be time-apportioned for the 9 month accounting period received equal credit.]

Tutorial Note:

The AIA should be allocated to the air con units because they are integral features which would otherwise only receive an FYA of 50% as special rate expenditure.

For additions between 1 April 2021 and 31 March 2023, a super-deduction is available for new P&M eligible for the general pool. For purchases in accounting periods straddling 1 April 2023, the rate of super-deduction is (100 + (30 × N/AP))%, where N is the number of months of the accounting period before 1 April 2023 (in this case 3), and AP is the length of the accounting period (here, 9 months).

Total 4

TEST “D”
(40 MARKS)

1. Bad debt relief for VAT purposes is available to traders under certain circumstances.

   1) Explain how bad debt relief operates. (2)

   2) Calculate the bad debt relief due if a sales invoice for £10,000 (net of VAT) remains unpaid seven months after payment is due and state when the relief can be claimed. (1)

2. Cartwright Ltd incorporated on 1 January 2023 and opened up an interest bearing bank account on 1 February 2023. The company drew up a first set of accounts to 31 May 2024, having commenced trading on 1 May 2023. Future accounts will be drawn up to 31 May.

   1) State four occasions when an accounting period begins. (2)

   2) State the first four accounting periods for Cartwright Ltd. (2)

3. Gilbert offers professional services through a limited company, Desmond Ltd. Desmond Ltd engages with two clients, both of whom are small, in the year to 5 April 2024. The company is caught by the personal service company regulations.

   Explain the tax implications for both Gilbert and Desmond Ltd of being caught by the personal service company regulations. (2)

4. Sansom Ltd draws up accounts to 31 March every year.

   In the year to 31 March 2024, the company incurred the following capital expenditure:

	£
Zero emission goods vehicle	25,000
Car (CO_2 emissions of 145 g/km)	15,000
Space heating equipment	980,000
General plant and equipment	37,000

   At 1 April 2023, the tax written down value on the general pool was £25,000 and the tax written down value on the special rate pool was £18,000.

   Calculate the capital allowances that Sansom Ltd may claim for the year ended 31 March 2024. (4)

5. Bracewell incorporated his business on 31 December 2023 and transferred all the assets of his business to the new company, Bracewell Ltd. At 31 December 2023, the business was valued at £500,000 and the transfer gave rise to chargeable gains of £400,000 (before any reliefs). In return, Bracewell received shares totalling £450,000 and cash of £50,000.

   1) Briefly explain how a chargeable gain is deferred if incorporation relief is available and calculate the gain after incorporation relief (ignore the annual exempt amount). (2)

   2) Explain whether VAT should have been charged on the transfer of the assets when the business was incorporated. (2)

6. Members of a Limited Liability Partnership (LLP) may claim relief for trading losses incurred by the LLP. However, there are restrictions on the amount of relief available.

   Explain the restrictions on the trading loss relief available to members of a Limited Liability Partnership (LLP). (3)

7. Worthington Ltd drew up accounts for the year to 31 March 2024 which showed a profit before taxation of £150,000. It has one associated company.

   Included within this figure are the following:

	£
Depreciation	10,000
Finance lease costs in respect of a car with CO_2 emissions of 175 g/km	3,000
Legal fees in respect of the acquisition of a new short term lease	1,550
Rents received	7,500

   In addition, capital allowances totalled £13,000 in the year to 31 March 2024 and there were brought forward losses of £2,000 in relation to a UK property business from the year ended 31 March 2023.

   Calculate the Corporation Tax payable for the year to 31 March 2024, assuming all possible claims for relief are made. (4)

8. Mortimer Ltd prepared accounts for the 15 month period to 30 April 2024.

   1) Explain and state the dates by which any Corporation Tax returns in relation to the 15 month period to 30 April 2024 should be filed. (2)

   2) State the dates by which any Corporation Tax liabilities in respect of the same period should be paid, assuming Mortimer Ltd is not classed as a large or very large company. (1)

9. There are two main ways of withdrawing monies from a limited company; one by payment of a salary and the other by the company declaring dividends to its shareholders.

   Explain the advantages and disadvantages of declaring a dividend rather than paying a salary. (4)

10. Group relief allows certain group companies to surrender losses to other group companies.

    State the group structure necessary to benefit from group relief. (3)

11. Group relief may be available when a loss-making company joins or leaves a group.

    Explain how group relief is calculated for the accounting period a company joins or leaves a group. (4)

12. A company registered in the UK may operate overseas by setting up a branch/permanent establishment. Alternatively, it may decide to set up a foreign subsidiary, i.e. a separate legal entity.

    Briefly explain how the choice of entity affects the UK tax treatment of the overseas trading profit. (2)

TEST "D"
ANSWERS

1. Bad debt relief allows traders to reclaim output VAT **[½]** on sales invoices that remain unpaid after six months. **[½]**

   The amount of VAT reclaimed is added to the input VAT (VAT on purchases) on the VAT return. **[½]**

   Suppliers are obliged to repay any input VAT to HMRC that has been claimed on an invoice remaining unpaid after six months. **[½]**

   VAT on £10,000 = £10,000 x 20% = £2,000. **[½]**

   Therefore £2,000 can be reclaimed on the next VAT return. **[½]**

   Total 3

2. An accounting period begins on:

   1) Commencement of trading. **[½]**

   2) Acquisition of a source of income. **[½]**

   3) A company becoming resident in the UK. **[½]**

   4) Immediately after the end of the previous chargeable accounting period. **[½]**

   Total 2

   Accounting periods

   1) 1 February 2023 – 30 April 2023. **[½]**

   2) 1 May 2023 – 30 April 2024. **[½]**

   3) 1 May 2024 – 31 May 2024. **[½]**

   4) 1 June 2024 – 31 May 2025. **[½]**

   Total 2

   Total 4

3. Gilbert

   All monies received by Desmond Ltd will be deemed to have been paid as a salary to Gilbert **[½]** (having taken account of certain allowable expenses). **[½]**

   The monies will be subject to PAYE and National Insurance. **[½]**

   Desmond Ltd

   The gross deemed payment is deductible in arriving at the company's taxable profit. **[½]**

   The deemed payment date is 5 April 2024. **[½]**

   Max 2

4.

	FYA 100%	AIA 100%	General Pool	Special Rate Pool	Allowances	
		£	£	£	£	
WDV b/fwd			25,000	18,000		
Additions:						
Car				15,000		**[½]**
Zero emissions goods vehicle	25,000					**[½]**
Space heating plant		980,000				**[½]**
General plant	17,000	20,000				**[½]**
	42,000	1,000,000	25,000	33,000		
FYA @ 100%	(42,000)				42,000	**[½]**
AIA @ 100%		(1,000,000)			1,000,000	**[½]**
WDA @ 18%			(4,500)		4,500	**[½]**
WDA @ 6%				(1,980)	1,980	**[½]**
WDV c/fwd	-	-	20,500	31,020		
Total CAs					1,048,480	

Tutorial Note:

The goods vehicle is zero-emission, so is eligible for the FYA at 100%. The space heating plant would only qualify for 50% first year allowances, so the AIA is claimed on this in priority to the general plant. The general plant expenditure not covered by the AIA qualifies for 100% FYAs under full expensing.

Total 4

5. Incorporation relief allows a gain or part of a gain to be rolled over into the base cost of the shares issued in the new company **[½]**, providing part of the consideration is in the form of shares. **[½]**

Gain after incorporation relief:

	£	
Total gain	400,000	
Incorporation relief (£400,000 x 450,000/500,000)	(360,000)	**[½]**
Chargeable gain	40,000	**[½]**

VAT should have been charged on the value of assets transferred on incorporation, **[½]** unless the transfer qualified as a Transfer of a Going Concern. (TOGC). **[½]** A TOGC is not a supply of goods and services and is therefore outside the scope of VAT. **[½]**

In order for the transfer to qualify as a TOGC, Bracewell Ltd must be VAT registered or immediately become VAT registered. **[½]** It must carry on the same kind of business **[½]**. There must be no significant break in trading **[½]**.

Max 4

6. ‘Sideways’ loss relief and ‘capital gains relief’ **[½]** is restricted to each member’s ‘contribution’ to the LLP. **[½]**

Relief is only restricted in respect of claims against non-LLP income and gains. **[½]** There is no restriction on the relief available against the member’s share of the LLP’s trading income. **[½]**

The member’s contribution is the amount of capital introduced, **[½]** plus a further amount the member has agreed to pay on the winding up of the LLP. **[½]**

Sideways loss relief is also restricted by the £50,000 cap that applies to income tax reliefs. **[½]** However, non-active LLP members have an annual cap of £25,000 on their sideways loss relief and capital gains relief. **[½]**

Max 3

7.

	£	
Profit before tax	150,000	
Add back:		
Depreciation	10,000	**[½]**
Costs relating to finance lease – high emissions car		
15% x £3,000	450	**[½]**
Legal fees on new lease	1,550	**[½]**
	162,000	
Less:		
Capital allowances	(13,000)	**[½]**
Rents received	(7,500)	**[½]**
Trade profits	141,500	
Trade profits	141,500	
UK property business income	7,500	**[½]**
Property business loss b/fwd	(2,000)	**[½]**
Taxable total profits	147,000	
CT @ 25%	36,750	**[½]**

Total 4

Tutorial Note:

The limit for main rate corporation tax is £125,000 as there are two associated companies.

8. There will be two accounting periods as follows. A return will be required for each period.

   1) 12 months to 31 January 2024 **[½]**

   2) 3 months to 30 April 2024 **[½]**

   Filing dates

   The two returns will be required to be filed 12 months after the end of the period of account **[½]** i.e. 30 April 2025. **[½]**

   Tax payments

   Corporation tax will become payable as follows:

   1) 1 November 2024 (for the accounting period to 31 January 2024). **[½]**

   2) 1 February 2025 (for the accounting period to 30 April 2024). **[½]**

Total 3

9. Advantages

   1) No national insurance charge **[½]**, either for the employee or the employer. **[½]**

   2) No PAYE deducted at source. **[½]**

   3) First £1,000 of total dividends received taxed at 0% (within dividend allowance). **[½]**

   4) Basic (ordinary), higher (upper) and additional rate tax on dividend income is lower than that for non-savings income **[½]**.

   Disadvantages

   1) Not deductible for corporation tax purposes. **[½]**

   2) Does not count as ‘earnings’ for pension purposes. **[½]**

   3) Not paying national insurance may reduce entitlement to state benefits e.g. state pension. **[½]**

   4) HMRC could invoke the National Minimum Wage legislation if there is a contract of employment and insufficient salary has been paid **[½]**.

   5) Can only be paid from distributable profits. **[½]**

   6) Have to pay the dividend to all the shareholders (unless waived). **[½]**

Max 4

10. Group relief is available to companies within a 75% group. **[½]**

    A 75% group means that one company must be a 75% subsidiary of the other **[½]** or they must both be 75% subsidiaries of a third company. **[½]**

    In relation to 75%:

    1) The parent company must own at least 75% of the ordinary share capital. **[½]**

    2) The shares must entitle the owner to at least 75% of the distributable profits. **[½]**

    3) The shares must entitle the owner to at least 75% of the company’s assets on a winding up. **[½]**

    4) The parent company must have an effective interest of at least 75%. **[½]**

Max 3

11. Company joining a group

    Only losses incurred after joining a group may be relieved in the accounting period. **[½]**

    The group relief available is the lower of: **[½]**

    1) Profit (TTP) after company joins the group. **[½]**

    2) Loss after company joins the group. **[½]**

    The profit (or loss) is calculated by time-apportioning the figure for the full accounting period. **[½]**

    Company leaving a group

    A company leaves a group when arrangements come into force to sell its shares. **[½]**

    Only losses incurred before leaving the group may be relieved. **[½]**

    The group relief available is the lower of: **[½]**

    1) Profit (TTP) until arrangement for sale. **[½]**

    2) Loss until arrangement for sale. **[½]**

Max 4

12. Profits from a foreign branch/permanent establishment are normally treated as part of the profits of a UK company and included in its computation of trading profits **[½]**, unless the operations amount to a separate trade carried on wholly outside the UK, in which case the profits are assessed as foreign income. **[½]** It is, however, possible to make an irrevocable election to exempt the branch profits from UK tax. **[½]**

    Providing the foreign subsidiary is non-resident with no UK trade **[½]**, then its trading profits will not be liable to UK tax **[½]**.

Max 2

PAPER 4
LONG QUESTIONS

1. Teresa Noble has been the sole proprietor of "The Nail and Beauty Salon" since qualifying as a beautician. She started the business on 1 January 2005. On 31 March 2024, Teresa transferred the whole of the business to a limited company called Varnish Ltd, for consideration of 50,000 £1 shares valued at par (100% shareholding) and £100,000 cash. The value of the business at this date was £150,000. Teresa's new position is managing director of Varnish Ltd.

The market values of the assets in the business on 31 March 2024 were as follows:

		£
1)	Goodwill This has all been generated by Teresa and does not have any cost.	24,000
2)	Freehold premises This building was acquired on 31 December 2005 for £114,000.	120,000
3)	Plant and equipment No items were sold for more than £6,000.	20,000

Teresa prepared accounts to 31 December each year, except for the final period. The trading income for the past three periods is as follows:

	£
Year ended 31 December 2021	48,000
Year ended 31 December 2022	32,000
15 months ended 31 March 2024	75,000

Teresa has overlap profits of £8,000 and capital losses brought forward at 6 April 2023 of £20,000.

The tax written down value of the general pool at 1 January 2023 was £15,000.

Requirement:

1) State the conditions that must be satisfied in order for incorporation relief to apply. (3)

2) Calculate the Capital Gains Tax, if any, arising on the transfer of the business after all reliefs and state the base cost of Teresa's shares in Varnish Ltd. (5)

3) Advise Teresa of the consequences of disapplying incorporation relief. Your answer should include any relevant calculations. (5)

4) Calculate Teresa's trading income assessment for 2023/24 assuming all appropriate elections are made, and explain any election made. (2)

Total (15)

2. Sarah Hall had been employed by Nextoll Training Ltd ("Nextoll") as a professional skills trainer until she took maternity leave in June 2022. She returned to work in January 2023 but decided thereafter that she wanted to reduce her working hours to give her more time with her family. Sarah duly resigned her employment in March 2023 and set up Sarah Hall Training Ltd ("SHTL") of which she is the sole shareholder and director.

Since April 2023, Sarah (via SHTL) has worked primarily for Nextoll although she has had occasional engagements with other local training colleges. Sarah works (on average) 2½ days a week, 2 days of which are spent on the Nextoll contract at their premises in Leeds. Nextoll is a small company for the purposes of the off-payroll working rules.

In the year ended 5 April 2024, Sarah Hall Training Ltd had the following income and expenses:

Income:	£
Fees invoiced to Nextoll Training Ltd	54,000
Fees for other contracts	13,000
	67,000
Expenses:	
Director's remuneration (paid during the year)	25,000
Employer's class 1 secondary NIC	2,194
Professional indemnity insurance	822
Medical insurance benefit (= cost to SHTL)	450
Office expenses	2,000
Legal and professional fees	600

The legal and professional fees consist of £250 company formation costs and £350 accountancy fees.

The office expenses include £1,500 for the purchase of a phone and a computer which are both used by Sarah 100% for business purposes.

No Class 1A NIC has yet been calculated.

Requirement:

1) **Explain (briefly) why the legislation concerning Personal Service Companies will apply to Sarah and what obligation this imposes on Sarah Hall Training Ltd.** (4)

2) **Calculate the deemed salary payment at 5 April 2024.** (6)

3) **Calculate the corporation tax payable by Sarah Hall Training Ltd for the year ended 5 April 2024.** (6)

Total (16)

3. Assume today's date is 1 February 2024.

You have recently held a meeting with Miss Duke, a new client who is a director and sole shareholder of Hazard Enterprises Ltd. Miss Duke has been running her company successfully for a number of years. The company has always earned profits in the region of £100,000 which has allowed Miss Duke to draw a salary of £60,000 per annum.

Miss Duke came to see you as she wanted to make sure she was drawing monies from her company in the most tax efficient manner. Miss Duke had met Mr Hogg, a business associate, who had told her that he had been drawing dividends, making pension contributions and taking loans from his company for a number of years.

Miss Duke wants to take further monies from the company before its year end (31 March 2024) and has asked about the differences between paying additional salary, a dividend or a pension contribution from the company and how this would affect both the company and her own personal tax situation. Miss Duke also asked whether she could take a loan from her company.

Miss Duke has no other sources of income and is not currently making pension contributions.

Requirement:

1) **Write a letter to Miss Duke giving a summary of the differences between extracting further monies from the company in the form of**

   a) **additional salary,**

   b) **a dividend,**

   c) **a pension contribution, and**

   d) **a loan.**

   You should consider the effect on the tax liability for both the company and Miss Duke. (10)

2) **Calculate the net (i.e. after tax and NIC) funds available to Miss Duke if the company has £16,000 of profits before Corporation Tax available to distribute to her as either a) a bonus or b) a dividend before 31 March 2024.** (3)

3) **State the Corporation Tax implications of drawing £16,000 as a loan before 31 March 2024 and repaying the loan on 1 April 2025. Assume for the purposes of this calculation that no further loans will be made by the company to Miss Duke.** (2)

Total (15)

4. Strand Ltd was formed when Charles Bay incorporated his business on 1 February 2023. Charles transferred all of the assets of the business to Strand Ltd in exchange for ordinary shares in the company. The gains arising were deducted from the base cost of the shares.

You have just had a telephone conversation with Charles who provided you with the following information:

He anticipates that the company will make a trading profit of £55,000 in the year ending 31 January 2024. This is after the payment of a salary of £32,000 to Charles but before deduction of a dividend of £8,000. In your discussion with Charles you agree that the net effect of any tax adjustments will be a deduction from the trading profit of £2,000.

Charles has received an offer of £94,000 for the company's warehouse. Charles paid £61,000 for the warehouse in May 2007 and it was worth £90,000 on 1 February 2023. If the warehouse is sold, the company will rent replacement storage space for the foreseeable future.

Strand Ltd is contemplating the acquisition of another company, Fleet Ltd, from its owner Mr Peterson. The only asset of Fleet Ltd is goodwill worth £200,000. Strand Ltd will either buy all the shares of Fleet Ltd for £200,000 or will simply purchase the goodwill.

Requirement:

1) **Compute the company's Corporation Tax liability for the year ended 31 January 2024 and state when it is due.** (3)

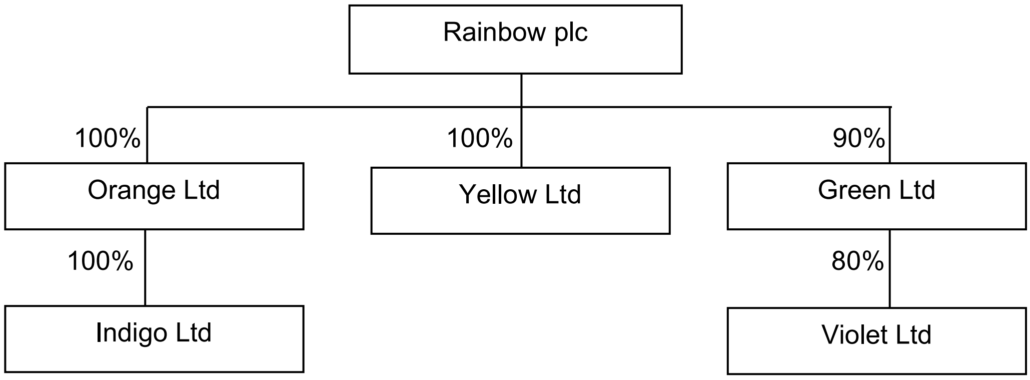
2) **State the date by which the corporation tax return must be filed and the penalties for filing over 6 months late.** (3)

3) **Explain Strand Ltd's capital gains base cost in the warehouse.** (1)

4) **Briefly advise on the tax implications of Strand Ltd either buying the shares of Fleet Ltd or acquiring its goodwill.** (5)

Total (12)

5. Rainbow plc is the parent company of a group which makes paint and associated decorating products. The group is structured as follows:



All companies are UK resident and have a 31 October 2023 year-end. Indigo Ltd has been dormant since 2009.

Your predecessor prepared draft tax computations for the year ended 31 October 2023, which are summarised as follows:

	Rainbow plc	Orange Ltd	Yellow Ltd	Green Ltd	Violet Ltd
	£	£	£	£	£
Adjusted trading profit /(loss)	35,000	15,000	(180,000)	400,000	100,000
UK property business		(12,000)		25,000	
Non trading profits (LR)	10,000			15,000	

Your predecessor was not able to complete the computations before her maternity leave, so she has left you with the following notes to enable them to be completed.

1) Green Ltd sold a paint-making factory on 31 January 2023 for £195,000. It had cost £100,000 when new in June 2003 and had always been used for making paint.

2) On 13 October 2023 Violet Ltd sold some unused office premises to an unrelated party for £109,000. These had originally been acquired in January 2005 for £168,000.

Neither of these sales has been taken into account in the above draft tax computations.

Requirement:

1) Explain, with reasons, the groups that exist for group relief and chargeable gains purposes in the Rainbow plc group structure. (3)

2) Compute the taxable total profits for the year ended 31 October 2023 before group relief, assuming any other appropriate claims are made and explain any claims made. (8)

3) Determine the taxable total profits of the companies for the year ended 31 October 2023 after group relief, assuming losses are relieved in the most beneficial way to minimise the group's corporation tax liability. Explain your use of the trading loss. (4)

Total (15)

6. Bubblefish Ltd has been a 75% subsidiary of Sharkpool Ltd for many years and had the following disposals of assets during its year ended 31 December 2023.

   1) On 15 November 2023 a freehold office building was sold for £400,000. The freehold had been purchased on 31 March 1983 for £50,000. The freehold had been used in the trade for the entire ownership period.

   2) On 1 December 2023 shares in an unquoted investment company were sold for £90,000. The shares were purchased on 1 December 2010 for £25,000.

   Sharkpool Ltd has capital losses brought forward at 1 January 2023 (from a disposal in August 2018) of £200,000 and purchased an office building for £300,000 on 1 September 2023 for use in its trade.

   Bubblefish Ltd has trading losses for the year ended 31 December 2023 of £150,000. Sharkpool Ltd had taxable total profits of £75,000 for that year.

   Requirement:

   1) Calculate the gains arising on the above disposals. (4)

   2) Explain the options available to Bubblefish Ltd and Sharkpool Ltd to reduce the amount of profits or gains chargeable to Corporation Tax for the year ended 31 December 2023 and state the time limits for making any relevant claims or elections. You are not required to compute the taxable total profits of either company. (6)

   Total (10)

7. Tick-Tock Ltd is a small company which manufactures clocks and watches in a factory near Birmingham. The factory cost £400,000 in August 2005.

On 28 November 2023, Tick-Tock Ltd sold the factory for £925,000 and relocated to an out-of-town site bought from a competitor company which is in the process of liquidation. Tick-Tock Ltd paid £775,000 for it in October 2023.

Tick-Tock Ltd made tax-adjusted trading profits of £1,450,000 (excluding capital allowances) for the year ended 31 March 2024. The general pool at 1 April 2023 stood at £1,193,000.

In November 2023 the company spent £880,000 installing new machinery in the new factory, as well as £70,000 installing a new lighting system. A new zero-emission car was purchased for the managing director at a cost of £94,000. The director used the car 80% for business purposes. Two new delivery vans were acquired in December 2023 at a total cost of £59,000. In addition, some computer equipment bought in May 2021 was sold in December 2023 for £4,000, which was less than cost. Amounts stated for these purchases and disposals are VAT-exclusive except for the car cost which is VAT-inclusive.

On 1 December 2023, Tick-Tock Ltd acquired all of the share capital of Wizard Watches Ltd, a watch retailing company based in Wolverhampton. During your review of the files of Wizard Watches Ltd, you note the following:

1) The company draws accounts annually to 30 June;

2) Trading losses for the year ended 30 June 2024 were £(120,000);

3) Wizard Watches Ltd did not incur any capital expenditure in the year to 30 June 2024;

4) Wizard Watches Ltd has capital losses brought forward of £(125,000);

5) Wizard Watches Ltd has trading losses brought forward from 2023 of £(200,000).

Tick-Tock Ltd will use Wizard Watches Ltd as a retail outlet for its products and will expand its product range into selling and repairing clocks. Tick-Tock Ltd has appointed one of its own managers (Mr Doshi) to oversee the new store and is confident that Wizard Watches Ltd will return a trading profit within 2 years.

Requirement:

1) Calculate the taxable total profits for Tick-Tock Ltd for the year ended 31 March 2024, assuming all appropriate claims are made and explain the amount of any claim; (9)

2) Explain whether the capital losses of Wizard Watches Ltd can be used to offset future gains in the group; (3)

3) Explain whether Wizard Watches Ltd will be able to carry forward its trading losses from 2023 against its future profits. (5)

Total (17)

8. Briar Ltd is a trading company which was incorporated on 1 March 1992 when its shareholders subscribed for the 100 £1 ordinary shares at par. Since incorporation the shares have been owned as follows:

Mr Hill	26 shares
Mrs Dale	30 shares
Miss Rush	44 shares

All of the shareholders are resident in the UK and none of them are connected. They each work full time as directors of the company.

The company has no activities other than trading.

Miss Rush would like to retire soon and dispose of her shares in Briar Ltd. As neither Mr Hill nor Mrs Dale has the funds to buy her shares, it has been decided that Briar Ltd will buy back all of Miss Rush's shares to avoid them being sold to a third party.

Briar Ltd will buy all of Miss Rush's ordinary shares back out of its distributable profits on 1 January 2025 and on the same day Miss Rush will retire as a director of the company. The value has been agreed at £500 per share and the company has sufficient distributable profits for this purpose.

Miss Rush will not make any other disposals of chargeable assets during 2024/25 and she will be a higher rate taxpayer.

Requirement:

1) State the criteria that must be met in order for the share purchase to be treated as a chargeable gain and calculate, with brief explanations, the capital gains tax payable by Miss Rush assuming these criteria are met. (6)

2) Explain how the purchase will be taxed if the above criteria are not met and calculate the tax due. (4)

Total (10)

Assume that the 2023/24 tax rates and allowances continue to apply in future years.

9. Marilyn was a sole trader and ran her business 'Sugar Blues' for a number of years. Her adjusted trading profits/(losses) for recent years were as follows:

	£	
Year ended 30 September 2020	26,000	
Year ended 30 September 2021	29,000	
Year ended 30 September 2022	12,000	
Year ended 30 September 2023	10,000	(before capital allowances)
Period ended 31 January 2024	(35,600)	(before capital allowances)

Marilyn had overlap profits carried forward of £13,100.

The tax written down values of her assets at 1 October 2022 were:

	£
General pool	5,673
Car (CO_2 emissions 45g/km), which was used for private use 30% of the time	7,050

There was a disposal of office furniture on 1 May 2023 for proceeds of £896. In addition, Marilyn purchased new office furniture for £3,600 on 17 August 2023 and a computer for £600 on 29 November 2023.

Marilyn sold her entire business to Golden Globe Ltd, a close company, on 31 January 2024 for 10% of the shares in the company, worth £900,000, and cash of £512,500.

The details relating to the disposal of Marilyn's assets were as follows:

	Value at 31 January 2024	Cost of the asset	Enhancement expenditure
	£	£	£
Retail shop	810,000	120,000 on 7 July 2015	60,000 For an extension on 20 February 2017
Warehouse	345,000	85,000 on 1 May 2016	
Goodwill	250,000	Nil	
Office equipment	1,300	8,200 (each item cost less than £6,000)	
Motor car	6,200	11,015	

Marilyn also realised a gain of £243,000 on the sale of a commercial investment property in November 2023. She has capital losses brought forward of £18,640.

Requirement:

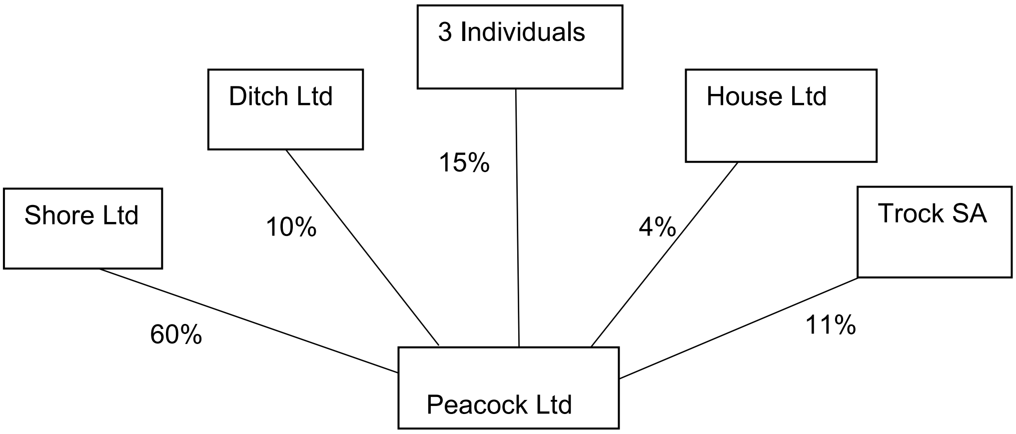
1) **Calculate the tax adjusted profits or losses for the year ended 30 September 2023 and the period ended 31 January 2024 and show the trading income assessments (before loss relief) for the final two tax years of trade.** (5)

2) **State the options available to Marilyn to relieve her loss. Calculations are not required.** (4)

3) **Calculate the Capital Gains Tax payable by Marilyn for 2023/24, assuming a claim is not made to set trading losses against gains.** (6)

Total (15)

10. Peacock Ltd is a UK trading company and its shares are owned as follows:



The following information is also available:

a) Shore Ltd, Ditch Ltd and House Ltd are companies incorporated in the UK.

b) 15% of the shares in Peacock Ltd are held equally by three UK resident individuals.

c) Trock SA is an overseas resident company.

All of the companies prepare accounts to 31 March 2024 and the latest draft results are as follows:

	Peacock Ltd	Shore Ltd	Ditch Ltd	House Ltd	Trock SA
	£	£	£	£	£
Adjusted trading profit	–	140,000	12,000	140,600	65,000
Trading loss	(200,400)	–	–	–	–
Other income	8,400	2,000	–	–	–
Chargeable gain/(loss)	(5,000)	12,000	–	–	–

Peacock Ltd, which has 100,000 ordinary shares in issue, paid a dividend of £3 per share during the year ended 31 March 2024.

Requirement:

1) Explain why Peacock Ltd is a consortium company. (2)

2) Explain, with supporting calculations, the loss relief available to each company and calculate taxable total profits for ALL of the UK companies, on the basis that maximum loss relief is claimed. (8)

3) Explain the Corporation Tax implications for Shore Ltd and House Ltd of the dividend payable by Peacock Ltd. (2)

Total (12)

ANSWERS TO LONG QUESTIONS

1. TERESA NOBLE

1) Conditions for incorporation relief

- The business must be transferred to the company as a going concern. **[1]**
- All of the assets of the business, or all of the assets other than cash must be transferred. **[1]**
- The business is transferred wholly or partly in exchange for shares issued by the company. **[1]**

[TCGA 1992 s.162(1)]

Total 3

2) Calculation of CGT

	Goodwill	Freehold premises	
	£	£	
SP = market values at 31 March 2024	24,000	120,000	**[½]**
Less: Cost	-	(114,000)	**[½]**
Gains before reliefs	24,000	6,000	

	Gains not eligible for BADR	Gains eligible for BADR	
	£	£	
Gain on goodwill	24,000		**[½]**
Gain on premises		6,000	**[½]**
	24,000	6,000	
Less: Incorporation relief			
24,000 x (50,000/150,000)	(8,000)		**[½]**
6,000 x (50,000/150,000)		(2,000)	**[½]**
	16,000	4,000	
Less: Annual exempt amount	(6,000)	(Nil)	**[½]**
Net gains	10,000	4,000	
Less: Capital losses b/f	(10,000)	(4,000)	**[½] + [½]**
Taxable gain	Nil	Nil	

No capital gains tax arises on the transfer of the business.

The base cost of Teresa's shares in Varnish Ltd will be:

	£	
Value of shares received	50,000	
Less: Incorporation relief	(10,000)	
Base cost of shares	40,000	**[½]**

Tutorial Note:

As no item of plant is sold for more than £6,000 it is exempt under the chattels rules.

The value of the business transferred to the company must equal the £150,000 consideration received. The business assets are worth £164,000 in total (£24,000 + £120,000 + £20,000) so the business must have liabilities of £(14,000) at the date of the transfer.
A gain in respect of goodwill is not eligible for Business Asset Disposal Relief where the transfer is to a close company in which the individual holds at least 5% of the shares.

HMRC take the view that incorporation relief should be allocated on a pro rata basis.

3) Disapplying Incorporation Relief

- All of the gains, after capital losses and the annual exempt amount, will be taxed in 2023/24. **[½]**
- The brought forward capital loss will be deducted in full. **[½]**
- The remaining gain on the premises will be taxed at 10% on the assumption that Teresa makes a claim for Business Asset Disposal relief. **[½]**
- Only £400 of capital gains tax will be payable. **[½]**
- The base cost of Teresa's shares in Varnish Ltd will be £50,000, compared to only £40,000 if incorporation relief applies. **[½]**
- This will result in a lower gain on a future disposal of the Varnish Ltd shares. **[½]**

	Gains not eligible for BADR	Gains eligible for BADR	
	£	£	
Gain on goodwill	24,000		
Gain on premises	______	6,000	
	24,000	6,000	
Less: Annual exempt amount	(6,000)	(nil)	**[½]**
Net gains	18,000	6,000	
Less: Capital losses b/f	(18,000)	(2,000)	**[½] + [½]**
Taxable gain	Nil	4,000	
CGT @ 10%		400	**[½]**

Total 10

4) Trading Income Assessment for 2023/24

15 m/e 31 March 2024	General pool	
	£	
Tax wdv b/f	15,000	
Less: Disposal of plant & equipment	(20,000)	
Balancing charge	(5,000)	**[½]**

Therefore, make a s.266 CAA 2001 election to transfer the P&M at its tax written down value of £15,000 to the company to avoid the balancing charge. **[½]**

15 m/e 31 March 2024

	£	
Tax adjusted profits before capital allowances	75,000	
No balancing charge (if s.266 election made)	Nil	**[½]**
Tax adjusted profits after capital allowances	75,000	
15 months ended 31 March 2024	75,000	
Less: Unrelieved overlap profits	(8,000)	**[½]**
Trading income 2023/24	67,000	**[½]**

Max 2

Total for question 15

2. SARAH HALL

1) Personal Service Company Legislation

The Personal Service Company rules (also known as the off payroll working rules) apply where:

i) an intermediary company ("SHTL"); **[1]**

ii) provides services to a client ("Nextoll"); **[1]**

iii) under contracts where the worker (Sarah) would be treated as an employee of the client if the intermediary company did not exist. **[1]**

SHTL is an intermediary company as Sarah owns more than 5% of its shares. **[1]**

As SHTL derives the majority of its fees from Nextoll and Sarah spends around 80% of her working week on Nextoll contracts, it will be difficult to persuade the tax authorities that she would not have been an employee of Nextoll if she had worked for them directly. **[1]**

Since Nextoll is a small company, the effect of being caught by the Personal Service Company rules is that fees which are received by SHTL and which are not paid out to the worker by way of salary are deemed to have been paid as salary at the end of the tax year. **[1]**

Max 4

2) Sarah Hall Training Ltd - Deemed payment for 2023/24

	£	£	
Fees from 'relevant engagements'		54,000	**[½]**
Less: 5% Statutory deduction		(2,700)	**[½]**
		51,300	
Less: Allowable expenses			
Directors' remuneration paid during the year	25,000		**[½]**
Employer's class 1 secondary NIC	2,194		**[½]**
Professional indemnity insurance	822		**[½]**
Medical insurance benefit	450		**[½]**
Class 1A due on medical insurance benefit (450 x 13.8%)	62		**[½]**
Capital allowances – 100% of £1,500 (AIA)	1,500		**[1]**
		(30,028)	
Gross deemed payment		21,272	
Less: NIC within gross payment			
21,272 x 13.8/113.8		(2,580)	**[1]**
Net deemed payment @ 5 April 2024		18,692	**[½]**

Total 6

Tutorial Note:

See ITEPA 2003, s.54 for the calculation of the deemed payment.

The fees for other contracts are not included in the deemed payment calculation as they are not fees from 'relevant engagements'.

The employer's class 1 secondary NIC given in the question is calculated on the directors' remuneration as (25,000 – 9,100) x 13.8% = £2,194. The employment allowance is not available to SHTL Ltd as Sarah is a director and the only paid employee of the company.

3) Sarah Hall Training Ltd - Corporation Tax Payable for the Year ended 5 April 2024

	£	£	
Trading Income:			
Total fee income (54,000 + 13,000)		67,000	**[½]**
Less: Expenses			
Director's remuneration paid during the year	25,000		**[½]**
Net deemed salary payment (Tutorial Note)	18,692		**[½]**
Class 1 Secondary NIC = £(2,194 + 2,580)	4,774		**[½]**
Professional indemnity insurance	822		**[½]**
Medical insurance (cost)	450		**[½]**
Class 1A NIC on medical insurance	62		**[½]**
CAs on phone & computer – 100% AIA	1,500		**[½]**
Office expenses			
(2,000 – 1,500 re phone & computer)	500		**[½] + [½]**
Accountancy fees	350		**[½]**
		(52,150)	
TTP		14,850	
Corporation Tax at 19% (small profits rate)		2,822	**[½]**

Total 6

Tutorial Note:

The deemed salary is treated as paid on 5 April 2024. Corporation tax relief is given in the accounting period that the payment is deemed to be made (i.e. in the accounting period covering 5 April 2024).

Alternatively, the gross deemed salary payment of £21,272 could be deducted in the corporation tax computation as one line instead of showing the net deemed salary payment and the employer's NIC on the net deemed salary payment separately.

The company formation costs are capital expenses and not deductible against trading income.

Total for question 16

3. MISS DUKE

Our address

Your address

Date

Dear Miss Duke

Extraction of profits

I write further to our meeting.

You are quite correct in stating there are a number of ways of extracting money from the company. I will deal with each in turn.

Salary

A salary can be paid commensurate with your duties. The company will receive corporation tax relief on the additional salary payment (and related employer's NIC) at a rate of 19% in the year ended 31 March 2024. **[1]** This is provided there is an obligation to pay the salary at 31 March 2024 and it is actually paid within nine months after the accounting period end, i.e. before 1 January 2025. **[1]**

The company will pay employer's national insurance contributions at the rate of 13.8% on any additional salary paid to you. **[1]**

You will pay income tax at your higher rate of tax (40%) **[1]** and pay national insurance contributions of 2% on the additional salary as you already earn over the upper earnings limit of £50,270. **[1]**

Max 2

Dividend

A dividend can be paid out of distributable reserves, i.e. post-tax profits. A dividend cannot legally be paid if there are insufficient distributable reserves. **[1]**

Dividends are not subject to either employer's or employee's national insurance contributions. **[1]** The first £1,000 of dividend paid will fall within the dividend allowance and be taxed at 0%. **[1]** The balance of the dividend will be taxed at the dividend upper rate of 33.75% (as you are a higher rate taxpayer). **[1]**

The company will not receive any corporation tax relief on the dividend paid. **[1]**

Max 2

Pension contributions

A pension contribution can be made by the company on your behalf. The company will receive corporation tax relief of 19%. **[1]** The pension contribution must be made on or before 31 March 2024 in order to obtain tax relief in the period. **[1]**

You will not be taxed on the contribution made and there are no NIC implications of the pension contribution. **[1]**

Max 2

Loans

A loan can be taken from the company but must be repaid within nine months of the year end, i.e. before 1 January 2025, to avoid a corporation tax charge. **[1]**

If the loan remains outstanding, a s.455 CTA 2010 charge will be payable by the company at the rate of 33.75% of the loan value. **[1]** This tax will become repayable if and when the loan is repaid, unless anti-avoidance provisions apply. **[1]**

The anti-avoidance provisions apply if within a 30 day period at least £5,000 is repaid and you borrow a total of £5,000 or more from the company in a later accounting period than the one in which the original loan was made. **[1]** In this case the repayment of the s.455 tax will be restricted because any repayments made in that 30 day period are treated as repayments of the subsequent loan rather than the original loan. **[1]**

In addition, similar anti-avoidance provisions apply where the original loan was at least £15,000, and at the date of the repayment there are arrangements to borrow further money from the company to replace the amount repaid and the amount borrowed under the arrangements is at least £5,000. **[1]** In this case the restriction applies even if the further amounts are borrowed more than 30 days after the repayment. **[1]**

You will also be deemed to be in receipt of an interest free loan. **[1]** If the loan exceeds £10,000 at any time in the tax year, a benefit in kind will arise. **[1]** This will be calculated as the average balance outstanding multiplied by the official rate of interest. Class 1A NIC will be payable by the company on the value of this benefit. **[1]**

Max 5

Once you have decided on your preferred method of withdrawing funds please give me a call to discuss further.

Yours sincerely,

Tax Adviser

Part 1 Max 10

2)

Bonus = Salary	£		Dividend	£	
Cost to Company	16,000		Cost to Company	16,000	
Employer's NIC 13.8/113.8	(1,940)	**[½]**	Corporation tax – 19%	(3,040)	**[½]**
Gross salary	14,060		Available as dividend	12,960	
Tax via PAYE at 40%	(5,624)	**[½]**	Income tax (W)	(4,037)	
Employee NIC at 2%	(281)	**[½]**			
Net available to shareholder/director	8,155		Net available to shareholder	8,923	

Working

The income tax due on the dividend is calculated as follows:

	£	
Dividend	12,960	
Less: Dividend allowance	(1,000)	**[½]**
Taxable dividend	11,960	
Tax @ 33.75%	4,037	**[½]**

Tutorial Note:

It has been assumed that Miss Duke is the only employee so the NIC employment allowance is not available.

3)

As the loan is to be repaid on 1 April 2025, a s.455 CTA 2010 charge of £5,400 **[½]** (£16,000 x 33.75%) arises and the tax will become payable on 1 January 2025. **[½]**

As the loan is repaid in the year ended 31 March 2026, the tax will be repaid on 1 January 2027 **[1]** (i.e. nine months and one day after the end of the accounting period in which the loan is repaid).

Total for question 15

4. STRAND LTD

1) Corporation tax liability for the year ending 31 January 2024

		£	
Trading profit before adjustments		55,000	
Tax adjustments (given)		(2,000)	**[½]**
Trade profit = Taxable Total Profits		53,000	**[½]**
FY22: 2/12 × £53,000 × 19%		1,678	**[½]**
FY23: 10/12 × £53,000 × 25%	11,042		**[½]**
Less: marginal relief 3/200 × (250,000 - 53,000) × 10/12	(2,463)		**[½]**
		8,579	
Corporation tax liability		10,257	

Due 1 November 2024 **[½]**

Total 3

2) Filing date and penalties for late filing

The corporation tax return must be filed within 12 months after the end of the accounting period, **[½]** i.e. by 31 January 2025. **[½]**

A flat rate penalty of £100 **[½]** will be levied automatically where the return is up to three months late. The penalty applies even where there is no tax outstanding. **[½]** The penalty increases to £200 where the return is more than three months late. **[½]**

A tax geared penalty of 10% **[½]** applies if a return is not filed within 18 months of the end of the relevant accounting period (ie 6 months from the due date). **[½]** The penalty is calculated as 10% of the corporation tax unpaid at that 18-month point. **[½]**

[FA 1998, Sch 18, para 17-18]

Tutorial Note:

As the company is newly incorporated this will be the first return that is due. As such, the increase of the flat rate penalties for the third consecutive offence will not be relevant.

Max 3

3) Strand Ltd's base cost in the warehouse

Charles Bay and Strand Ltd are connected persons **[½]** as Charles controls the company. Accordingly, the transfer of the warehouse to Strand Ltd will have taken place at market value. **[½]**

Strand Ltd's base cost in the warehouse is therefore £90,000, its market value as at the date of incorporation. **[½]**

Max 1

4) <u>Acquisition of shares / goodwill</u>

If Strand Ltd buys the shares of Fleet Ltd, Strand Ltd will have an associated company. **[½]** This is relevant for determining whether or not a company has to pay its corporation tax liability by instalments and, given the current taxable total profits of Strand Ltd, this is unlikely for Strand Ltd. **[½]** However, an extra associated company will affect the rate of tax payable on Strand Ltd's profits. If Strand Ltd continues at this profit level, it will still be a marginal company, but the upper limit being halved will reduce the amount of marginal relief available going forward. **[1]**

No tax relief is available for the purchase price of the shares in Fleet Ltd. **[½]** Relief will only be available when calculating a gain on any future sale of the shares. **[½]** However, on a future sale of the shares in Fleet Ltd, the substantial shareholding exemption may apply **[½]** and therefore there would be no chargeable gain (or allowable loss) anyway. **[½]**
If Strand Ltd buys the goodwill of Fleet Ltd as a separate asset, again no tax relief will be available for the cost of goodwill. **[½]**

On a future sale of the goodwill, any profit made will be an 'income gain' **[½]** subject to corporation tax as part of trade profits (as the goodwill is a trade intangible fixed asset). Any loss made will however be treated as a non-trading debit. **[½]**

Max 5

Tutorial Note: The allowable deduction of 6.5% pa on goodwill is only available for purchases post 1 April 2019 where the goodwill is purchased as part of the acquisition of a business in which the company also acquires qualifying intellectual property.

Total for question 12

5. RAINBOW PLC

1)

For group relief purposes the following groups exist:

Rainbow plc, Orange Ltd, Yellow Ltd, Green Ltd. **[½]** There is a 75% relationship between these companies. **[½]**

Green Ltd, Violet Ltd. **[½]** There is a 75% relationship between the two companies.

The effective holding from Rainbow plc to Violet Ltd is only 72% so these companies are not in a group relief group. **[½]**

For chargeable gains group purposes the following group exists:

Rainbow plc, Orange Ltd, Yellow Ltd, Green Ltd, Violet Ltd. **[½]** There is a 75% relationship between each of the companies and a > 50% effective ownership of Violet Ltd by Rainbow plc. **[½]**

Total 3

2) TTP Before Group Relief

Gain on sale of factory by Green Ltd

	£	
Proceeds (January 2023)	195,000	**[½]**
Less: Cost (June 2003)	(100,000)	**[½]**
Less: Indexation allowance (June 2003 to December 2017)		
(278.1 – 181.3)/181.3 = 0.534 x 100,000	(53,400)	**[1]**
Chargeable gain	41,600	

Loss on sale of office by Violet Ltd

	£	
Proceeds (October 2023)	109,000	**[½]**
Less: Cost (January 2005)	(168,000)	**[½]**
Capital loss	(59,000)	

As Green Ltd and Violet Ltd are in the same gains group, **[½]** they can jointly elect under s.171A TCGA 1992 for all or part of the gain made by Green Ltd to be treated as arising in Violet Ltd **[1]** (or for the loss in Violet Ltd to be treated as arising in Green Ltd) as follows:

	£	
Gain in Green Ltd	41,600	**[½]**
Loss in Violet Ltd	(59,000)	**[½]**
Excess loss	(17,400)	

Tutorial Note:

The excess loss will be carried forward by Violet Ltd (or Green Ltd) to set against future capital gains.

TTP before group relief

	Rainbow plc	Orange Ltd	Yellow Ltd	Green Ltd	Violet Ltd	
	£	£	£	£	£	
Trade profit	35,000	15,000	Nil	400,000	100,000	**[½]**
UK property business		(12,000)		25,000		**[1]**
Non-trading profits (LR)	10,000			15,000		**[½]**
Gain			Nil	Nil		**[½]**
TTP	45,000	3,000	Nil	440,000	100,000	

Tutorial Note:

UK property business losses are automatically offset against total profits of the same period.

Total 8

3) TTP After Group Relief

In order to minimise the group's corporation tax liability, losses should be surrendered in priority to companies whose profits fall between the upper and lower limits (saving some tax at a marginal rate of 26.5%) **[½]**, reducing their profits to the small profits rate (lower) limit. **[½]** Losses should then be surrendered to companies paying tax at the main rate (saving some tax at 25%) **[½]** and finally to any companies paying tax at the small profits rate.

All companies are associated companies, apart from Indigo Ltd which is dormant. There are five companies **[½]** so the upper limit is £250,000/5 = £50,000 **[½]** and the lower limit is £10,000. **[½]**

Therefore, ignoring group relief, Rainbow plc's profits fall between the limits and so this company should be given group relief of £35,000 to reduce its TTP to £10,000 **[½].** The remaining loss of £145,000 should be surrendered to Green Ltd, which will save some tax at 25% **[½].**

	Rainbow plc	Orange Ltd	Yellow Ltd	Green Ltd	Violet Ltd	
	£	£	£	£	£	
TTP	45,000	3,000	Nil	440,000	100,000	
Group relief:						
Yellow to Rainbow	(35,000)					**[½]**
Yellow to Green				(145,000)		**[½]**
Revised TTP	10,000	3,000	Nil	295,000	100,000	**[½]**

Max 4

Tutorial Note:

The accounting period straddles 1 April 2023 so seven months of profits fall into FY 2023 and are taxed at FY 2023 rates. These are the rates quoted in the answer for tax savings. Those losses which relieve profits that fall before 1 April 2023 save tax at 19%.

Total for question 15

6. BUBBLEFISH LTD

1)

	£	
Freehold property		
Proceeds (November 2023)	400,000	**[½]**
Less: Cost (March 1983)	(50,000)	**[½]**
Unindexed gain	350,000	
Less: Indexation allowance (March 1983 to December 2017)		
(278.1 – 83.12)/83.12 = 2.346 x 50,000	(117,300)	**[1]**
Chargeable gain	232,700	
Shares		
Proceeds (December 2023)	90,000	**[½]**
Less: Cost (December 2010)	(25,000)	**[½]**
Unindexed gain	65,000	
Less: Indexation allowance (December 2010 to December 2017)		
(278.1 – 228.4)/228.4 x 25,000 (no rounding as shares)	(5,440)	**[1]**
Chargeable gain	59,560	
Total gains made by Bubblefish Ltd:		
Freehold property	232,700	
Shares	59,560	
	292,260	

Total 4

2)

Bubblefish Ltd and Sharkpool Ltd are in a gains group **[½]** as Sharkpool owns 75% of Bubblefish. **[½]**

Rollover relief is available **[½]** for part of the gain arising in Bubblefish on the sale of the freehold office as this is a qualifying asset **[½]** for rollover relief and Sharkpool has reinvested some of the proceeds in purchasing a property for use in its trade. **[½]**

£100,000 (£400,000 – £300,000) of gains on the freehold will be left after rollover relief. **[½]**

Shares are not qualifying assets **[½]** for rollover relief purposes so the gain on the shares cannot be rolled over. **[½]**

The companies can elect for the remaining £159,560 gains made by Bubblefish to be transferred to Sharkpool (s.171A TCGA 1992). **[½]** This election will allow the set off of the capital losses brought forward in Sharkpool against the above chargeable gains made by Bubblefish. **[½]**

Alternatively, Bubblefish can set its own £150,000 trading losses in the year against its gains. **[½]**

Finally, Bubblefish could surrender £75,000 of its trading losses to Sharkpool to reduce Sharkpool's TTP to nil. **[½]**

Time limits

A valid claim for rollover relief must be made by the fourth anniversary of the last day of the accounting period in which the disposal was made or the new asset is acquired, whichever is later (i.e. by 31 December 2027). **[½]**

An election to transfer gains must be made within two years of the end of accounting period of the disposal (i.e. by 31 December 2025). **[½]**

A claim to set off the trading losses against total income and chargeable gains of the loss making accounting period must be made within two years of the end of the accounting period in which the loss is made (i.e. by 31 December 2025). **[½]**

A claim for group relief must generally be made within two years after the end of the claimant company's accounting period (i.e. by 31 December 2025). **[½]**

Max 6

Tutorial Note:

The amount of brought forward capital losses which can be set against capital gains realised on or after 1 April 2020 is restricted.

To use all the capital losses brought forward sufficient deductions allowance should be claimed.

Total for question 10

7. TICK-TOCK LTD

1) TTP for y/e 31 March 2024

	£	
Trading profit before capital allowances	1,450,000	
Less: Capital allowances (W2)	(1,313,740)	[½]
Trading profit	136,260	
Gain on factory (W1)	150,000	[½]
	286,260	
(120,000) x 4/12 (note)	(40,000)	[½]
TTP	246,260	[½]

Note: Group relief can only be claimed from Wizard Watches Ltd for the four months (1 December 2023 – 31 March 2024) from when it joined the group to Tick-Tock Ltd's year end. **[1]**

Workings

W1) Sale of factory

	£	
Proceeds (November 2023)	925,000	[½]
Less: Cost (August 2005)	(400,000)	[½]
Less: Indexation allowance: (August 2005 to December 2017)		
(278.1 – 192.6)/192.6 = 0.444 x 400,000	(177,600)	[1]
Gain	347,400	
Less: Roll-over relief	(197,400)	[½]
Chargeable gain (Note)	150,000	

Note: Proceeds retained £(925,000 – 775,000) = £150,000 are chargeable to tax. **[½]**

W2) Capital Allowances

Y/e 31.3.24	FYA @100% £	AIA @ 100% £	General Pool £	Allowances £	
TWDV b/f			1,193,000		
Additions:					
Zero-emission car	94,000				[½]
Machinery		880,000			[½]
Lighting		70,000			[½]
Vans	9,000	50,000			[½]
		1,000,000			
FYA @100%	(103,000)			103,000	[½]
AIA @ 100%		(1,000,000)		1,000,000	[½]
WDA @ 18%			(214,740)	214,740	[½]
TWDV c/fwd		-	978,260		
Allowances				1,317,740	

Balancing charge on disposal of computer equipment for which super-deduction would have been claimed = 100% x £4,000. **[½]** Total allowances = £1,317,740 - £4,000 = £1,313,740.

Max 9

Tutorial Note:

VAT is not recoverable on the car purchase as there is private use of the car. Therefore, capital allowances are claimed on the VAT-inclusive cost.

The super-deduction would have been claimed on the computer equipment as it was purchased in the period 1 April 2021 to 31 March 2023. On disposal, a balancing charge arises and the proceeds are not deducted from the general pool.

2) Wizard Watches Ltd – capital losses

The capital loss of £(125,000) is a realised 'Pre-Entry' capital loss. **[½]** This loss can only be set against:

i) Gains on assets held by Wizard Watches Ltd at 1 December 2023; **[½]** or

ii) Gains on assets bought by Wizard Watches Ltd (or Tick-Tock Ltd) after joining the group **[½]** from a non-group company which are used in the trade carried on by Wizard Watches Ltd at the time it joined the group **[½]** and which either Wizard Watches Ltd (or Tick-Tock Ltd) continues to carry on until disposal of the asset. **[½]**

The loss cannot be used to shelter any part of the gain of £150,000 made by Tick-Tock Ltd on the sale of its factory. **[½]**

Total 3

3) Wizard Watches Ltd – trading losses brought forward

The trading losses brought forward by Wizard Watches Ltd can be used against its future total profits. **[½]**

However, as there has been a change of ownership **[½]** of Wizard Watches Ltd, s.674 CTA 2010 will apply if there is a 'major change in the nature or conduct of trade' of Wizard Watches within five years of the change in ownership (i.e. by 1 December 2028). **[1]**

Therefore, if Tick-Tock Ltd makes 'major changes' to the trade of Wizard Watches Ltd before December 2028, the trade losses of Wizard Watches Ltd cannot be carried forward against profits generated after the change in ownership. **[1]**

A "major change" is defined as a major change in customers, outlets, market or products / facilities dealt in. It is possible that HMRC would argue that the move to selling and repairing clocks instead of simply retailing watches should be treated as a "major change". **[1]**

Tick-Tock Ltd may make minor changes to Wizard Watches Ltd's trade without triggering s.674 CTA 2010. These include:

- Increases in efficiency **[½]**
- Rationalisation **[½]**
- Changes to keep pace with new technology **[½]**

Introduction of new management techniques (i.e. the installation of a new manager) would not necessarily be a 'major change'. **[½]**

Max 5

Tutorial Note:
CTA 2010 ss.673-674 & SP 10/91 are helpful for the last part of this question.

Total for question 17

8. BRIAR LTD

1) Capital Treatment **Max 4 for discussion element**

Company

- Briar Ltd must either be:
  - an unquoted trading company that is not a 51% subsidiary of a quoted company, **[½]** or
  - an unquoted holding company of a trading group. **[½]**
- The purchase of the shares must be wholly or mainly for the benefit of the trade **[½]** and must not be part of a scheme the main purpose of which is tax avoidance. **[½]**

Shareholder

- Miss Rush must be resident in the UK in the tax year of the buyback. **[½]**
- Miss Rush must have owned the shares for at least five years prior to the sale. **[½]**
- Miss Rush must either dispose of her entire shareholding **[½]** or her holding must be substantially reduced (ie her interest after the buyback must not be more than 75% of her interest prior to the buyback). **[½]**
- Following the buyback Miss Rush must not be connected with Briar Ltd. **[½]** In other words, Miss Rush must not own more than 30% of the shares in Briar Ltd after the buyback. **[½]**

If the above criteria are met the capital treatment is mandatory. **[½]** The proceeds are treated as a disposal by Miss Rush of the shares for capital gains tax purposes and she will be entitled to deduct the cost price of her shares. **[½]**

As Miss Rush is a director of Briar Ltd until the shares are disposed of, she can claim business asset disposal relief which will result in the gain being taxed at 10%. **[½]**

	£	
Sale proceeds (500 x 44)	22,000	**[½]**
Less: Cost (1 x 44)	(44)	**[½]**
Chargeable gain	21,956	
Less: Annual exempt amount	(6,000)	**[½]**
Taxable gain	15,956	
CGT @ 10% (BADR applies)	1,596	**[½]**

Max 6

Tutorial Note:

The above conditions are contained in CTA 2010 ss.1033(1-3), 1034(1), 1035(1), 1036(1,3), 1037(1,3), 1042(1), 1062(2) & also SP 2/82.

The capital treatment is also mandatory where an unquoted trading company buys back shares from a shareholder who applies substantially all of the proceeds in paying an inheritance tax liability of theirs charged on someone's death.

2) Income Treatment

If the conditions for the capital treatment are not met, the purchase of own shares will be treated as a distribution by the company. **[½]**

Miss Rush will be treated as having received a dividend **[½]** equal to the amount received on the share buyback less the original subscription price of the shares. **[½]**

Dividend:	£	
Amount received on share buyback (500 x 44)	22,000	**[½]**
Less: Original subscription price (1 x 44)	(44)	**[½]**
Dividend received	21,956	

On the assumption that the dividend allowance has not been utilised, the income tax payable is:

IT @ 33.75% x (21,956 – 1,000) = £7,073. **[½]**

The remaining consideration of £44 will be the disposal proceeds for capital gains tax resulting in a chargeable gain of nil: **[½]**

	£	
Sale proceeds = original subscription price (1 x 44)	44	**[½]**
Less: Cost (1 x 44)	(44)	**[½]**
Chargeable gain	Nil	

Max 4

Total for question 10

9. MARILYN

1) Tax adjusted profits and losses:

	Y/e 30 September 2023	P/e 31 January 2024	
	£	£	
Profit/(loss)	10,000	(35,600)	
Less: Capital allowances (W1)	(5,348)	(2,924)	
Tax adjusted profit/ loss for AP	4,652	(38,524)	
Trading income assessments:			
Final tax year = 2023/24			
Y/e 30 September 2023	4,652		[½]
P/e 31 January 2024	(38,524)		
Less: Unrelieved overlap (given)	(13,100)		
Trading loss	(46,972)		
Assessment	Nil		[½]
Previous tax year = 2022/23			
Y/e 30 September 2022	12,000		[½]

Workings:

W1) Capital allowances

Year ended 30 September 2023	AIA@ 100%	General Pool	Car with personal use		CA s	
	£	£	£		£	
Tax wdv b/f		5,673	7,050			
Addition – furniture	3,600					[½]
Less: Disposal		(896)				
	3,600	4,777	7,050			
AIA @ 100%	(3,600)				3,600	[½]
WDA @ 18%		(860)			860	[½]
WDA @ 18%			(1,269)	x70%	888	[½]
		3,917	5,781		5,348	
Period ended 31 January 2024						
Addition - computer (W2)		600				[½]
Disposal values		(1,300)	(6,200)			[½]
Balancing allowance		3,217			3,217	[½]
Balancing charge			(419)	x70%	(293)	[½]
					2,924	

The AIA and WDA are not available in the period of cessation.

Max 5

2) Loss relief options

The following loss relief options are available to Marilyn:

- Claim relief against her net income for 2023/24 and/or 2022/23. **[½] + [½]**
- Claim relief against her net income for 2023/24 and relieve the balance against her chargeable gains for the same year. **[½] + [½]**
- Claim terminal loss relief **[½]** against trading income for 2022/23, **[½]** 2021/22 **[½]** and 2020/21 **[½]** on a last in first out basis. **[½]**

Max 4

Tutorial Note:

No relief is available under s.86 ITA 2007 (i.e. carry the loss forward against the first available income Marilyn receives from the incorporated company) because she does not receive more than 80% of the consideration from the company in the form of shares.

3) The CGT payable by Marilyn for 2023/24 is as follows:

	Eligible for BADR	Not eligible for BADR	
	£	£	
Retail shop (810,000 – 120,000 – 60,000)	630,000		[½]
Warehouse (345,000 – 85,000)	260,000		[½]
Office equipment	0		[½]
Car	0		[½]
Goodwill		250,000	[½]
	890,000	250,000	
Less: Incorporation relief			
890,000 x 900,000/1,412,500	(567,080)		[½]
250,000 x 900,000/1,412,500		(159,292)	[½]
	322,920	90,708	
Investment property		243,000	
		333,708	
Less: Annual exempt amount	-	(6,000)	[½]
Less: Losses brought forward	-	(18,640)	[½]
Taxable gains	322,920	309,068	
Tax at 10%	32,292		[½]
Tax at 20%		61,814	[1]
Total CGT	94,106		

Tutorial **Note:**

The car is not a chargeable asset. No chargeable gain arises on the disposal of the equipment because each piece of equipment cost less than £6,000 and is worth less than £6,000 at the date of incorporation.

Any remaining basic rate band would have been utilised by the gain eligible for Business Asset Disposal relief and therefore the gains on the goodwill and investment property are taxed at 20%.

No Business Asset Disposal relief is available on the transfer of the goodwill to Golden Globe Ltd because Marilyn owns more than 5% of the shares in Golden Globe Ltd following the transfer and Golden Globe Ltd is a close company.

Total for question 15

10. PEACOCK LTD

1)

A consortium exists where 75% of the ordinary shares in a company are held by other companies **[½]**, each holding at least 5%. **[½]**

The shareholding of Trock SA, as an overseas company, is included in satisfying the 75% ownership test **[½].**

Three companies, Shore Ltd, Ditch Ltd and Trock SA, each hold more than 5% and hold 81% of the share capital between them **[½]**. Therefore, Peacock Ltd is a consortium company.

Total 2

2)

Consortium relief is available to Shore Ltd and Ditch Ltd in respect of Peacock Ltd's trading loss **[½]**. However, a current year claim is deemed to be made first to offset Peacock Ltd's other profits of £8,400 **[½]** leaving an available loss for surrender of (£200,400 – £8,400) = £192,000 **[½]**.

As Trock SA is an overseas company, consortium relief is not available to it **[½]**.

House Ltd is not a member of the consortium so cannot claim consortium relief **[½]** because it does not hold at least 5% of the ordinary share capital of Peacock Ltd **[½]**.

No relief is available for the capital loss in Peacock Ltd as it is not in a gains group, which requires a 75% shareholding **[½]**. The capital loss will be carried forward and offset against future chargeable gains in Peacock Ltd **[½]**.

Taxable total profits are as follows:

	Peacock Ltd	Shore Ltd	Ditch Ltd	House Ltd	
	£	£	£	£	
Trading profits	Nil	140,000	12,000	140,600	
Other income	8,400	2,000	-	-	
Chargeable gains	-	12,000	-		**[1]**
	8,400	154,000	12,000	140,600	
Less: Current year offset	(8,400)				**[½]**
Less: Consortium relief (W)		(115,200)	(12,000)		**[½]+[½]**
Taxable total profits	Nil	38,800	Nil	140,600	**[½]**

Working:

Maximum consortium relief

For Shore Ltd: Lower of
- £154,000; and **[½]**
- 60% x £192,000 = £115,200 **[½]**

For Ditch Ltd: Lower of
- £12,000; and **[½]**
- £10% x £192,000 = £19,200 **[½]**

Max 8

3)

The dividend received by Shore Ltd is from a 51% subsidiary as Shore Ltd owns >50% of the shares in Peacock Ltd **[½]** and has no effect for corporation tax purposes **[½].**

The dividend received by House Ltd will be added to taxable total profits to arrive at augmented profits **[½]** in order to determine House Ltd's rate of corporation tax and whether House Ltd is required to pay corporation tax by instalments **[½]**.

Total 2

Total for question 12