

# Tolley<sup>®</sup> Exam Training

## ATT PAPER 4

## CORPORATE TAXATION

## PRE REVISION QUESTION BANK

## FA 2024 & F(No. 2)A 2024

May and November 2025 Sitzings

PQ864

Tolley<sup>®</sup>

Tax intelligence  
from LexisNexis<sup>®</sup>

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the publisher.

This material contains general information only. Whilst every care has been taken to ensure the accuracy of the contents of this work, no responsibility for loss occasioned to any person acting or refraining from action as a result of any statement in it can be accepted by the author or the publishers.

Unless otherwise agreed to by LN in writing, use of the Online Services is permitted only via individual users engaged in an active user session and may not be collected via automated or robotic methods.

Regardless of the data delivery method, content may not be used in conjunction with a generative AI solution.

## INTRODUCTION

This Pre Revision Question Bank contains exam standard questions all with answers updated to Finance Act 2024 and Finance (No. 2) Act 2024. 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 2025** (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** carrying from 15 to 25 marks each, usually split into shorter subsections with marks allocated to each subsection, with no question choice. There are **98 marks for technical content and 2 marks for presentation skills** available.

### Presentation Skills Marks

The presentation skills marks on this paper will be awarded as follows:

**2 marks** - 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.

**1 mark** - Broadly the presentation is acceptable. Full sentences are used where appropriate, although some minor lapses are acceptable. Answers generally flow well and in a logical order. Explanations contain a reasonable reference to the question scenario.

**0 marks** - There is little effort to use full sentences where they would be expected. The answers do not flow well, with ideas not presented in a logical order. Explanations are mainly regurgitation of legislation/ learning materials with limited reference 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 allocated to 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.

## **ETHICS**

From May 2025 onwards ATT Papers 1 to 6 are each expected to each contain questions that have parts testing Ethics topics for between 3 and 7 marks in total across the paper.

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

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
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: Requests for data by HMRC
Chapter 26	Help sheet E: Members' personal tax affairs

The required depth of knowledge is “Principles” ie candidates are expected to have an awareness that a principle exists and its main thrust.

As the exams are open book as copy of the ATT/CIOT Ethics text book can be referred to during the exam and so you should either have a hard copy on your desk or have access to the e-book version in MyLiveBook either on your main screen or on a second screen/device.

To get you familiar with the type of questions that may be examined, elements of 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 are also some short questions for Ethics at the back of this bank. Attempting these questions will be good preparation for the exams.

## CONTENTS

### ATT TAX TABLES 2025

#### QUESTIONS FOR PAPER 4

No	Name	Topic	Marks
1	Teresa Noble	Incorporation	16
2	Sarah Hall	Off payroll working (small client)	16
3	Miss Duke	Extracting funds from close company, s.455 tax	15
4	Strand Ltd	Various CT issues	15
5	Rainbow Plc	Group relief & group gains	16
6	Bubblefish and Krystal	Corp gains, gains groups, POOS, s455, Term payments	18
7	Tick-Tock Ltd	TTP computation, pre-entry loss, change in ownership	17
8	Briar and Opencrest	Purchase of own shares; overseas business structures and disposal to overseas subsidiary	20
9	Marilyn	Incorporation IT & CGT calculations (Bal charges, terminal losses, incorporation relief)	15
10	Peacock Ltd and Cheddar Vale Ltd	Consortium relief & implications of dividend paid by consortium co, CAs for single co, TTP inc use of various losses, CT payable & payment dates.	25
11	Acamb Ltd and Burford Ltd	Residence, Transfer pricing, HMRC enquires, losses, admin	20
12	Pericles Ltd	After tax cost of employing a new director & CT implications of overseas expansion, Adjustments to profit, penalties, Ethics	20
13	Disraeli Plc	Transfer Pricing, R&D, Ethics, and Chattels	16
14	Green Media Ltd and the Ashburton Group	Email re bad debt relief for output VAT, penalties for late CT return & groups	20
15	Four Unconnected Clients	SBAs, Goodwill, Employed v Self Employed, Off-Payroll, Overseas branch v Subsidiary	20

#### ETHICS FOR ATT PAPER 1-6

No	Name	Topic
1-20	n/a	Various short Ethics questions



# ATT EXAMINATIONS

2025

## TAX TABLES

### INCOME TAX

	2024/25
<b>Rates</b> (Note 1)	%
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
<b>Thresholds</b>	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,700
Higher rate band	37,701 – 125,140
Dividend allowance	500
Savings allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
<b>Scottish Tax Rates and Thresholds</b> (Note 2)	
£	%
1 – 2,306	19
2,307 – 13,991	20
13,992 – 31,092	21
31,093 – 62,430	42
62,431 – 125,140	45
125,140+	48
<b>Reliefs</b>	£
Personal allowance (Note 3)	12,570
Transferable tax allowance for married couples and civil partners (Note 4)	1,260
Blind person's allowance	3,070
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
De minimis trusts amount	500

- 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

2025

## TAX TABLES

### Pension contributions

Basic amount qualifying for tax relief	£3,600
<b>Annual allowance</b> (Note 1) £	<b>Minimum pension age</b>
2024/25 60,000	55
Lump sum allowance	£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 – 2024/25

	<b>Electric range (miles)</b>	<b>Car benefit % (Note 3)</b>	
<b>Emissions</b>			
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 – 2024/25

Van benefit – No CO <sub>2</sub> emissions	£ Nil
Van benefit – CO <sub>2</sub> emissions > 0g/km	3,960
Fuel benefit	757

**Official rate of interest - 2024/25** 2.25%



# ATT EXAMINATIONS

## 2025

### 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	£2,082 per month	£2,274 per month	£2,616 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	£116.75
Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £184.03 and 90% of AWE
Statutory shared parental pay/ paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £184.03

#### QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2025	£19,360 per year	£405 per week	£485 per week

#### CHILD BENEFIT

##### Year to 5 April 2025 Rates

	Weekly rate
	£
First child	25.60
Each subsequent child	16.95

Child benefit charge	Withdrawal rate
Adjusted net income >£60,000	1% of benefit per £200 of income between £60,000 and £80,000
Adjusted net income >£80,000	Full child benefit amount assessable in that tax year

#### HMRC INTEREST RATES (assumed)

Late payment interest	7.75%
Interest on underpaid corporation tax instalments	6.25%
Repayment interest	4.25%
Interest on overpaid corporation tax instalments	5.00%

# ATT EXAMINATIONS

2025

## TAX TABLES

### NATIONAL INSURANCE CONTRIBUTIONS

2024/25

#### 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

2024/25

#### Employment allowance

Per year, per employer £5,000

#### Class 1 primary contribution rates

Earnings between PT and UEL 8%  
Earnings above UEL 2%

#### Class 1 secondary contribution rates

Earnings above ST (Notes 1 & 2) 13.8%

**Notes:** (1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.

(2) 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

Rate £3.45 pw  
Small profits threshold (Note 3) £6,725 pa

**Note:** (3) Self-employed individuals with profits below the small profits threshold can pay Class 2 NICs voluntarily to get access to contributory benefits including the State Pension.

**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 6%  
Percentage rate above UPL 2%

### SIMPLIFICATION MEASURES

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

# ATT EXAMINATIONS

2025

## TAX TABLES

### FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

Motoring expenses		
Car or van	First 10,000 business miles	45p per mile
	Additional business mile	25p per mile
Motorcycles		24p 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

### 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).  
 (2) The main pool rate applies to cars with CO<sub>2</sub> 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<sub>2</sub> 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 (until 1 or 6 April 2025).

New cars if the car either emits 0g/km of CO<sub>2</sub> or it is electrically propelled (until 1 April 2025).

Electric vehicle charging points expenditure (until 1 or 6 April 2025).

### Further FYAs available to companies

Additional FYA for companies incurring expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards.

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% (from 1 April 2021)

### VALUE ADDED TAX

Standard rate 20% VAT fraction 1/6

#### Limits

Annual registration limit	£90,000
De-registration limit	£88,000

#### 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 2024)

Engine size	Petrol	LPG	Engine size	Diesel
1400cc or less	13p	11p	1600cc or less	12p
1401cc to 2000cc	15p	13p	1601cc to 2000cc	14p
Over 2000cc	24p	21p	Over 2000cc	19p

Electricity rate 9p

# ATT EXAMINATIONS

2025

## TAX TABLES

### CORPORATION TAX

Financial year	2024	2023
Main rate	25%	25%
Standard small profits rate	19%	19%
Augmented profit limit for standard small profits rate	£50,000	£50,000
Augmented profit limit for marginal relief	£250,000	£250,000
Standard marginal relief fraction	3/200	3/200
Marginal rate	26.5%	26.5%

### Research and development expenditure

Financial year	2024
RDEC (merged scheme RDEC) (Note 1)	20%
Alternative relief for loss making R&D intensive SMEs (Note 2):	
Enhanced R&D Intensive Support (ERIS) - total relief	186%
R&D tax credit for R&D intensive SME losses	14.5%

- Note:** (1) From 1 April 2024 the merged scheme RDEC is available to all companies.  
 (2) SMEs must have < 500 employees and *either* turnover ≤ €100m *or* assets ≤ €86m.

### INHERITANCE TAX

<b>Death rate</b>	40% (Note 3)	<b>Lifetime rate</b>	20%
-------------------	--------------	----------------------	-----

- Note:** (3) 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 4)

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:** (4) 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

2025

## TAX TABLES

### CAPITAL GAINS TAX

Annual exempt amount	<b>2024/25</b> £3,000
----------------------	--------------------------

#### 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

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 (2024/25) 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 24% 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

2025

## 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

## 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 2006. On 31 March 2025, 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 of the business on 31 March 2025 were as follows:

	£
1) Goodwill	24,000
This has all been generated by Teresa and does not have any cost.	
2) Freehold premises	120,000
This building was acquired on 31 December 2006 for £114,000.	
3) Plant and equipment	20,000
No items were sold for more than £6,000.	

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

	£
Year ended 31 December 2023	32,000
15 months ended 31 March 2025	75,000

Teresa had overlap profits of £8,000 on 1 January 2023 and capital losses brought forward at 6 April 2024 of £20,000.

The tax written down value of the general pool at 1 January 2024 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 electing to disapply incorporation relief. Your answer should include any relevant calculations.** (5)
  - 4) **Calculate Teresa's trading income assessment for 2024/25 assuming all appropriate elections are made, and explain any election made.** (3)
- Total (16)

2. Sarah Hall had been employed by Nextoll Training Ltd ("Nextoll") as a professional skills trainer until she took maternity leave in June 2023. She returned to work in January 2024 but decided thereafter that she wanted to reduce her working hours to give her more time to spend with her family. Sarah duly resigned her employment in March 2024 and set up Sarah Hall Training Ltd ("SHTL") of which she is the sole shareholder and director.

Since April 2024, 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 2025, Sarah Hall Training Ltd had the following income and expenses:

<u>Income:</u>	£
Fees invoiced to Nextoll Training Ltd	54,000
Fees for other contracts	<u>13,000</u>
	67,000
<u>Expenses:</u>	
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 2025.** (6)
  - 3) **Calculate the corporation tax payable by Sarah Hall Training Ltd for the year ended 5 April 2025.** (6)
- Total (16)



3. Assume today's date is 1 February 2025.

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 2025) 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. For the purposes of drafting a reply to Miss Duke, assume that Hazard Enterprises Ltd pays corporation tax at the standard small profits rate.

**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 2025.** (3)
- 3) **State the Corporation Tax implications of drawing £16,000 as a loan before 31 March 2025 and repaying the loan on 1 April 2026. 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 2024. Charles transferred all of the assets of the business to Strand Ltd in exchange for ordinary shares in the company. The total gain arising was 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 2025. 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.

Strand Ltd has received an offer from a third party of £94,000 for the company's warehouse. Charles paid £61,000 for the warehouse in May 2008 and it was worth £90,000 on 1 February 2024. If the warehouse is sold, the company will rent replacement storage space for the foreseeable future.

Strand Ltd purchased a patent on 1 March 2024 for £100,000. The patent has 8 years left to run and is being amortised in the accounts on a straight-line basis. The company bought the patent as an investment, and it is licensing the rights to use the patent to an unconnected person for £2,500 per month. The royalties are payable on the last day of a month and the licence was entered into on 1 April 2024.

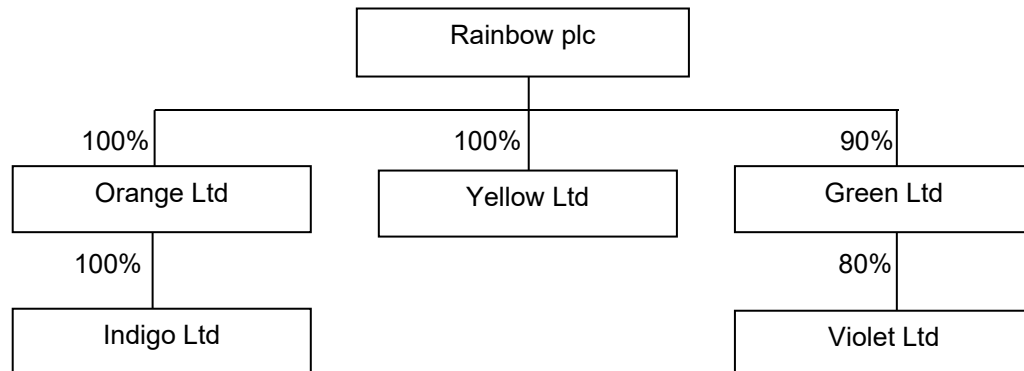
Strand Ltd is contemplating the acquisition of another company, Fleet Ltd, from its owner Mr Peterson. The only asset of Fleet Ltd is goodwill worth £200,000. Strand Ltd will either buy all the shares of Fleet Ltd for £200,000 or will simply purchase the goodwill.

**Requirement:**

- 1) **Compute the company's Corporation Tax liability for the year ended 31 January 2025 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 more than six 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 purchasing the patent.** (3)
- 5) **Briefly advise on the tax implications of Strand Ltd either buying the shares of Fleet Ltd or acquiring its goodwill.** (5)

Total (15)

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 2024 year-end. Indigo Ltd has been dormant since 2009.

Your predecessor prepared draft tax computations for the year ended 31 October 2024, 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.

- Green Ltd sold a paint-making factory to an unrelated party on 31 January 2024 for £195,000. It had cost £100,000 when new in June 2003 and had always been used for making paint.
- On 13 October 2024 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 2024 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 2024 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.** (5)

Total (16)

6. Your manager has requested help with two clients, Bubblefish Ltd and Krystal Ltd.

Bubblefish Ltd

Bubblefish Ltd has been a 75% subsidiary of Sharkpool Ltd for many years and made the following disposals of assets during its year ended 31 December 2024.

- 1) On 15 November 2024 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 its entire ownership period.
- 2) On 1 December 2024 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 2024 (from a disposal in August 2019) of £200,000 and purchased an office building for £300,000 on 1 September 2024 for use in its trade.

Bubblefish Ltd has trading losses for the year ended 31 December 2024 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 2024 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)

Krystal Ltd

Krystal Ltd is a trading company which was incorporated on 1 May 2021 and its shareholders subscribed for 10,000 ordinary shares at par for £1 per share. Krystal Ltd is a close company.

Stephen Black is both a shareholder in and an employee of the company and has decided to sell his shares in Krystal Ltd. He disagrees with plans for the expansion of Krystal Ltd's operations and all of the shareholders have agreed that the company should buy back his shares. Stephen's shares will be purchased for £29 per share in November 2025, with associated legal costs incurred by Krystal Ltd of £1,200. The directors have decided that the repurchase will be from capital, as permitted by Krystal Ltd's Articles of Association.

At the same time as the repurchase of his shares, Krystal Ltd will write off a loan of £24,000 which was made to Stephen and a loan of £1,000 that was made to Alex, who works for Krystal Ltd and is being made redundant at the same time. Both loans were made in May 2024. Alex will also receive statutory redundancy pay and an ex-gratia payment as a gesture of goodwill as he is part of the Black family. Alex has been made redundant before and therefore he understands the Income Tax implications of the redundancy payments. Both Stephen and Alex will work their notice periods in full.

**Requirement:**

- 3) Describe the tax treatment for Stephen and Krystal Ltd of the purchase of Stephen's shares. (4)
  - 4) Explain the Corporation Tax treatment of the write-off of the loans made to Alex and Stephen. (3)
  - 5) Explain the Corporation Tax treatment of the statutory redundancy pay and the ex gratia payment made to Alex. (1)
- Total (18)

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 2024, 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 2024.

Tick-Tock Ltd made tax-adjusted trading profits of £1,450,000 (excluding capital allowances) for the year ended 31 March 2025. The general pool at 1 April 2024 stood at £1,193,000.

In November 2024 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 2024 at a total cost of £59,000. In addition, some computer equipment bought in May 2021 was sold in December 2024 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 2024, 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 2025 were £120,000;
- 3) Wizard Watches Ltd did not incur any capital expenditure in the year to 30 June 2025;
- 4) Wizard Watches Ltd has capital losses brought forward of £125,000;
- 5) Wizard Watches Ltd has trading losses brought forward from 2024 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 2025, 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 2024 against its future profits.** (5)
- Total (17)

8. You have been approached by two clients, Briar Ltd and Opencrest Ltd seeking advice on different matters.

Briar Ltd

Briar Ltd is a trading company which was incorporated on 1 March 1993 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 2026 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 2025/26 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)

Opencrest Ltd

Opencrest Ltd is a UK incorporated and tax resident company whose trade is that of selling and maintaining industrial equipment. Its activities have so far been concentrated in the United Kingdom.

The directors now consider that it is essential that the company expands rapidly into overseas markets where they consider that there are substantial growth opportunities, especially in Africa and Latin America.

Iain Taylor, the managing director, explains that the company wishes to set up servicing and sales facilities in a number of countries. UK personnel will initially be required to go out to manage these facilities and train the local staff while all head office functions will continue to be carried out in the United Kingdom.

Mr Taylor understands that it will be possible to trade in the various locations either as a branch of the UK company or as a locally incorporated subsidiary. Whichever method is used to expand overseas, the UK company will sell the industrial equipment to the overseas branch or subsidiary which will then sell it on to the ultimate client.

Mr Taylor has asked to meet with you to discuss the tax consequences of the company's proposals and to find out the tax issues of which the company should be aware.

**Requirement:**

- 3) **Explain the tax consequences of setting up overseas as either a branch of the UK company or as a locally incorporated subsidiary.** (6)
- 4) **Explain any issues Opencrest Ltd needs to be aware of regarding the sale of the industrial equipment to an overseas incorporated subsidiary.** (4)
- Total (20)

Assume that the 2024/25 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 2021	26,000	
Year ended 30 September 2022	29,000	
Year ended 30 September 2023	12,000	
Year ended 30 September 2024	10,000	(before capital allowances)
Period ended 31 January 2025	(35,600)	(before capital allowances)

Marilyn utilised her overlap profits when calculating her trading profits assessable in 2023/24 and there were no transitional profits for that year.

The tax written down values of her assets at 1 October 2023 were:

	£
General pool	5,673
Car (CO <sub>2</sub> 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 2024 for proceeds of £896. In addition, Marilyn purchased new office furniture for £3,600 on 17 August 2024 and a computer for £600 on 29 November 2024.

Marilyn sold her entire business to Golden Globe Ltd, a close company, on 31 January 2025 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:

	<u>Value at</u> <u>31 January 2025</u>	<u>Cost of</u> <u>the asset</u>	<u>Enhancement</u> <u>expenditure</u>
	£	£	£
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	

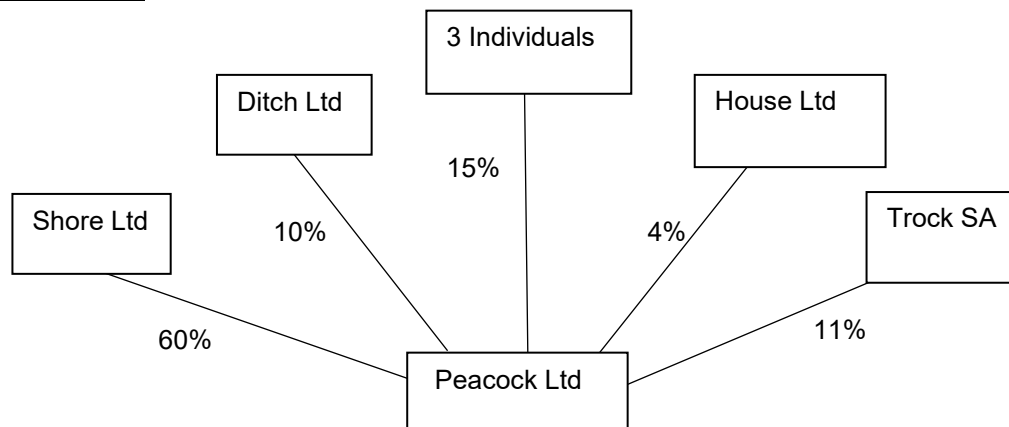
Marilyn also realised a gain of £243,000 on the sale of a commercial investment property in November 2024. She has capital losses brought forward of £18,640.

**Requirement:**

- 1) Calculate the tax adjusted profits or losses for the year ended 30 September 2024 and the period ended 31 January 2025 and show the trading income assessment for the final tax year of trade. (5)
  - 2) State the options available to Marilyn to relieve any trading loss arising. Calculations are NOT required. (4)
  - 3) Calculate the Capital Gains Tax payable by Marilyn for 2024/25, assuming a claim is not made to set trading losses against gains. (6)
- Total (15)

10. Your firm advises both the Peacock Ltd group and Cheddar Vale Ltd.

Peacock Ltd



The following information is also available:

- Shore Ltd, Ditch Ltd and House Ltd are companies incorporated in the UK.
- 15% of the shares in Peacock Ltd are held equally by three UK resident individuals.
- Trock SA is an overseas resident company.

All of the companies prepare accounts to 31 March 2025 and the latest draft results are as follows:

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

Peacock Ltd, which has 100,000 ordinary shares in issue, paid a dividend of £3 per share during the year ended 31 March 2025.

**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. (7)
- 3) Explain the Corporation Tax implications for Shore Ltd and House Ltd of the dividend payable by Peacock Ltd. (2)

Cheddar Vale Ltd

Cheddar Vale Ltd a single company, is a food manufacturer and prepares annual accounts to 31 March. For the year ended 31 March 2025, the following information is relevant for its capital allowances claim:

		£
Main pool written down value as at 1 April 2024		50,175
Special rate pool written down value as at 1 April 2024		18,750
<u>Additions</u>		£
15 June 2024	New vacuum packing machine	32,350
8 August 2024	Sales director's car	33,860
	– CO <sub>2</sub> emissions 75g/km	
	– 40% private use	
12 December 2024	New air-conditioning unit for factory	1,120,750
13 December 2024	New production machinery	126,500
<u>Disposals</u>		£
10 July 2024	Pool car (acquired new on 1 June 2019)	10,875
	– CO <sub>2</sub> emissions 110 g/km	

The company's profits and losses for the year ended 31 March 2025 were:

	£
Trading income (before capital allowances)	1,588,963
Property business loss from UK land and buildings	(59,350)
Deficit on non-trading loan relationship	(210,800)
Chargeable gain	285,000

The company has a non-trading loan relationship deficit brought forward from the year ended 31 March 2024 of £63,750.

The company's taxable total profits for the years ended 31 March 2026 and 2027 are both expected to be £2,750,000. The finance director of Cheddar Vale Ltd would like to budget for the Corporation Tax due for these years.

The company's Corporation Tax liability for the year ended 31 March 2024 was £323,250 and the Corporation Tax charge estimated in the accounts for that year was £308,000.

**Requirement:**

- 4) Calculate the capital allowances for the year ended 31 March 2025. (6)
  - 5) Calculate the taxable total profits for the year ended 31 March 2025, assuming all beneficial claims for relief are made. (3)
  - 6) Calculate the Corporation Tax payable for the years ended 31 March 2025, 31 March 2026 and 31 March 2027 and state the payment dates for each year. (5)
- Total (25)

11. Your tax manager has requested your advice in respect of two clients, Acamb Ltd and Burford Ltd.

Acamb Ltd

We have received the following email from Jemila, who is CEO of our client, Acamb Ltd. This company manufactures microchips and is a large company for all tax and accounting purposes. It is also the holding company of the group of companies.

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

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

Another of our UK companies, Acamb Group Services Ltd, has been notified by HMRC that an enquiry is being opened into its return for the year to 30 June 2023. Surely HMRC are out of time? The return was submitted on 1 September 2024. The notification from HMRC is dated 1 October 2025 and was received by our Company Secretary on 6 October 2025. Can you please advise us on these matters?”

**Requirement:**

**Prepare an email to your manager which explains the following:**

- 1) **The factors which will be taken into consideration when assessing where the company in Ruritania will be resident for tax purposes.** (3)
- 2) **The rules relating to the amount charged to Acamb Ruritania SA by Acamb Ltd for microchips and marketing services.** (4)
- 3) **The time limits that HMRC has to open an enquiry into Acamb Group Services Ltd’s Corporation Tax return for the year to 30 June 2023.** (3)

Burford Ltd

Our client, Burford Ltd currently has a 31 December year end, and is not part of a group.

In the year to 31 December 2024, the company’s results were:

	£
Trading loss	(6,680,000)
Loan Relationship Credit	20,100
Chargeable Gain	250,000
Qualifying donation to a registered charity	(750)

In the six-months ended 31 December 2023, the company’s results were:

	£
Trading profit	1,600,000
Chargeable gain	100,600
Qualifying donation to a registered charity	(750)

In the year to 30 June 2023, the company's results were:

	£
Trading profit	4,400,900
Qualifying donation to a registered charity	(750)

**Requirement:**

- 4) Calculate the loss that can be relieved in Burford Ltd, assuming that the maximum relief is taken as early as possible. Show the loss carried forward and calculate any repayment of tax that can be received by Burford Ltd. (8)
- 5) Explain when HMRC must be notified of the claim(s) for relief of the loss. (2)
- Total (20)

12. Pericles Ltd is a client company. Pericles Ltd is a UK resident company that sells safety equipment and has been looking to expand in both the UK and overseas markets. Pericles Ltd prepares accounts to 31 March each year and has taxable profits in excess of £1 million per year.

Phil Dent is the finance director of Pericles. He contacted your manager today about several issues. Your manager has attached extracts from his email. Your manager has requested that you draft a response for their review.

Extracts from Phil's email

"On 1 April 2023, Pericles Ltd purchased 15% of share capital of Cerimon Ltd, a company incorporated overseas, but centrally managed and controlled by the UK head office of Pericles Ltd. Cerimon Ltd is a profitable company and Pericles Ltd anticipates dividends to be received in the UK each year.

However, in putting together our group accounts, one page of a spreadsheet was accidentally deleted. Therefore, the dividends received from Cerimon Ltd this year were omitted from the Corporation Tax return for 31 March 2024, which was submitted on time. Withholding tax at a rate of 10% was suffered on these dividends. Please can you tell me the correct Corporation Tax treatment and any penalties we may incur?

The bonus pool for our sales directors was quite small for the year ended 31 March 2024. The payment of all bonuses was delayed until 31 January 2025. However, I have deducted the bonus payments in calculating the taxable total profits of Pericles Ltd for the year ended 31 March 2024, as I know that remuneration should be deducted when accrued not paid.

On 1 April 2024, Pericles Ltd also appointed Marina Gower, a UK resident, as their new operations director, with special responsibility for the overseas expansion.

Marina's employment package is as follows:

- a) An annual salary of £90,000.
- b) A company car for business and private purposes. The car has a list price of £16,000 and CO<sub>2</sub> emissions of 127 g/km. Pericles Ltd pays £14,000 per year under the terms of an operating lease for Marina's car. The car benefit assessable on Marina is £4,800.
- c) All private and business fuel which cost £13,800 for the year. The car fuel benefit assessable on Marina is £8,340.

I would appreciate your advice on the issues of the omitted dividends, delayed bonus payment and the after-tax cost of employing Marina."

Kind regards  
Phil

**Requirement:**

**Draft an email to your manager covering the following topics.**

- 1) Explain the correct Corporation Tax treatment including potential penalties in respect of:**
    - a) Omitted dividends (4)**
    - b) Delayed bonus payments (6)**
  - 2) Explain the Corporation Tax implications for Pericles Ltd of the purchase of Cerimon Ltd and the consequences of any future sale of these shares. (4)**
  - 3) Calculate the annual after-tax cost to Pericles Ltd of employing Marina Gower, with a brief explanation of the National Insurance contributions included in your calculations. Use FY 2024 and 2024/25 rates and rules. (6)**
- Total (20)**



13. Your firm advises the Disraeli plc group which manufactures electronic components. Your manager has sent you the following email:

To: Assistant  
From: Manager  
Date: Today  
Subject: Questions from Benjamin – Finance Director of Disraeli plc

Hi

I've received a letter from Benjamin with a few queries. Can you please send me an email by the end of the day, addressing the issues described below:

- a) Disraeli plc has been selling components to a number of group companies, in all of which it owns a majority shareholding. I understand that it sells to Grover Inc, which is a non-UK resident company, at considerably under the market price. Grover Inc is resident in a jurisdiction where the Corporation Tax rate is 10%.

Disraeli plc also charges a management charge to Cleveland Ltd, a UK-resident group company, for dealing with the legal issues regarding UK intellectual property licences. The management fee is calculated as a percentage of profits, although the percentage is considerably below that charged to other UK and non-UK resident members of the Disraeli plc group.

Benjamin now wants to know if there are any tax consequences of these pricing decisions.

- b) In late 2026, Disraeli plc plans to begin researching the development of its components for use in high temperature environments. The company will incur both capital and revenue costs. I presume these will qualify for enhanced relief of some sort, but could you check this please? Whilst there will be extra costs, the company is expanding in other areas and so any credits for R&D are likely to be fully absorbed in the accounting period in which the expenditure is incurred.
- c) Benjamin has told me that the last Corporation Tax return for Disraeli plc omitted some overseas royalties. The royalties were from Winston Inc in which Disraeli plc owns a 2% shareholding. The information regarding the royalties was not provided to us. Clearly this is a problem, so please explain how this should be dealt with. We do not want to get to the stage where we contemplate ceasing to act.
- d) As part of its art collection, Disraeli plc owns a one-third share in a painting which was purchased for a total cost of £93,000 in May 2016. The painting has now been proven to be a forgery, so the owners have decided to sell it in June 2025, for which they will each receive consideration of £3,000. Please prepare a calculation showing the allowable loss for Disraeli plc.

In addition, Disraeli plc intends to sell its half share in the racehorse "Churchill Boy" as it has dropped in value and Benjamin also wants to understand the tax treatment of that disposal.

Please remember that Disraeli plc is neither a small/medium sized entity for any tax purposes, nor is it loss making.

Thanks and regards,

Manager

**Requirement:**

**Prepare the email requested by your manager. Marks will be awarded as follows:**

- |                              |      |
|------------------------------|------|
| 1) Pricing decisions.        | (4)  |
| 2) Research and development. | (5)  |
| 3) Omission of royalties.    | (5)  |
| 4) Capital disposals.        | (2)  |
| Total                        | (16) |

14. You are a tax manager at XYZ Tax consultants. You have been asked to assist with matters relating to two clients, Green Media Ltd and The Ashburton Group.

Extract from an email from the Managing Director of your client Green Media Ltd

"You might be aware that our Finance Director has been off work recently, and as he has been diagnosed with stress, we don't expect him back in for some time. In his absence I have asked the financial controller, Jordan Lendal, to take over as interim Finance Director. Jordan has brought two tax related issues to my attention:

The company has significant debtors and having looked at a detailed analysis we believe that it is unlikely that we will be paid by the majority of them. We have paid HMRC the output VAT on the invoices we raised for these services, despite the fact that we have not been paid by the customers.

I would like to understand if there is anything that we can do about the VAT aspects of these debtors.

Part of the role of Finance Director is to ensure that the Corporation Tax returns for the company are prepared and submitted. Jordan has discovered that this has not been done in recent times but at this point in our review we don't know how many years returns have not been submitted.

I need to know what exposure we have to penalties for the Corporation Tax returns that are outstanding."

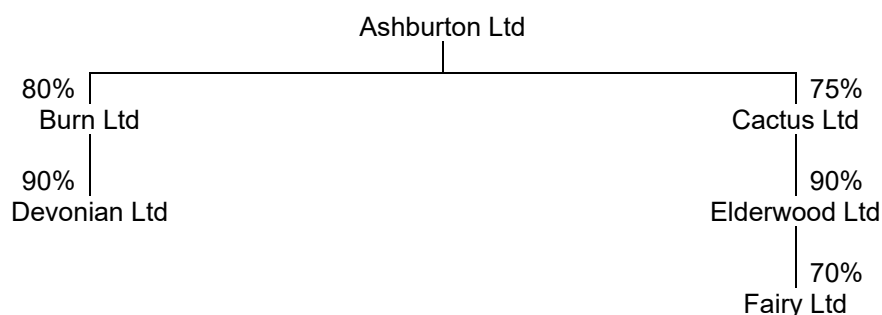
**Requirement:**

**Prepare an email to send to the Managing Director in which you:**

- 1) **Explain what relief is available for the VAT on the outstanding debts, and how the relief is obtained.** (5)
- 2) **Explain the penalties that Green Media Ltd may incur on the late submission of the Corporation Tax returns and in what circumstances a penalty will not be charged.** (5)

The Ashburton Group

The Ashburton Group is made up of the following UK resident companies, with shareholdings as shown below:



All companies in the group prepare accounts to 30 April. In the year to 30 April 2025 Ashburton Ltd had gains and losses as follows:

	£
Gain on property	3,000,000
Trading loss	(250,000)

Burn Ltd has a capital loss of £300,000 in the year. It also has a capital loss brought forward of £1,500,000 from 2021 in respect of which no elections have been made.

Cactus Ltd purchased its shareholding in Elderwood Ltd on 1 September 2021. At that date, Elderwood Ltd had realised capital losses of £600,000 which were still unrelieved at 1 May 2024. Elderwood Ltd also owned a warehouse which was up for sale at a price that would give rise to a capital loss of £400,000. The warehouse finally sold in the year to 30 April 2025 and the capital loss arising was £450,000.

Also, in the year to 30 April 2025 Elderwood Ltd sold a building which was purchased in 2020, realising a chargeable gain of £50,000.

In the year to 30 April 2025, Cactus Ltd had the following results:

	£
Trading profit	15,000,000
Gain on the sale of Building A (purchased 2022)	3,000,000
Gain on the sale of Building B (purchased 2015)	2,000,000

Both Buildings A and B were used in the trade of Cactus Ltd.

The management of the Ashburton Group assume, for historical group reporting purposes, that Ashburton Ltd and Burn Ltd will offset profits/gains and losses; and that Cactus Ltd and Elderwood Ltd will offset profits/gains and losses.

Also, the group deductions allowance is shared as follows Burn Ltd – £2,500,000, Cactus Ltd – £2,500,000.

**Requirement:**

- 3) Explain which companies in the Ashburton Group form a group or groups for capital gains purposes. (4)
  - 4) Assuming that Ashburton Ltd and Burn Ltd only offset each other's profits/ gains and losses, calculate the taxable total profits of Ashburton Ltd and Burn Ltd for the year to 30 April 2025. Explain the use of Burn Ltd's brought forward capital loss. (3)
  - 5) Assuming that Cactus Ltd and Elderwood Ltd only offset each other's profits/ gains and losses, calculate the taxable total profit of Cactus Ltd for the year ended 30 April 2025. Calculate the gain brought into the charge to Corporation Tax for Elderwood Ltd, and state the amount of any unused capital loss. (3)
- Total (20)

15. Your manager has left you a to-do-list, and requested you email your reply for her attention upon her return from holiday.

Barnes Ltd

- 1) Barnes Ltd runs a recruitment and HR services company from Park House, an office building which it owns. Barnes Ltd has a 31 December year end.

On 1 November 2023 Barnes Ltd bought Park House. It was a new building and Barnes Ltd started to use it immediately on purchase. The seller of the building, Broadway Ltd, had bought it from the developer who built it (GME Developments Ltd). However, Broadway Ltd decided not to use Park House and so sold it on to Barnes Ltd.

Broadway Ltd paid GME Developments Ltd £2,500,000 for Park House, of which £200,000 related to the land. Barnes Ltd paid Broadway Ltd £3,000,000 for the property (of which £250,000 nominally relates to the land).

On 1 April 2025 Barnes Ltd incurred £100,000 on renovation works on the building.

Barnes Ltd intends to expand its business and hence needs a bigger office building. Barnes Ltd has recently agreed to sell Park House to Towpath Ltd for £5,000,000. The sale will take place on 1 May 2026.

To assist in the planned expansion of its business, Barnes Ltd is considering buying the trade, assets and business of Lake Ltd. This company develops specialist HR management software and has copyrights over the software.

Among the assets of Lake Ltd which Barnes Ltd will be buying is an amount recognised for goodwill. The directors are concerned that there may not be any tax relief available for the purchase of goodwill.

- 2) Andi, who is the finance director of TVC Products Ltd, asks “Our production department wants to contract with Fred, an engineer who is assisting them with a project. They tell me that Fred is self-employed and that he will invoice us for the work. All the other engineers are on our payroll and I am keen to get this right. Can you help?”
- 3) Lucie is a consultant who in 2024/25 provided her services via her personal service company (Lucie Ltd) to a client, SMC Ltd. SMC Ltd is a small company under the off-payroll working rules. There are no other employees in Lucie Ltd. She says “I understand that the engagement with SMC Ltd will fall under the off-payroll working rules. In the year Lucie Ltd received fees of £61,000 from SMC Ltd; Lucie Ltd paid me a salary of £20,000; and there were no allowable expenses. I need to know what the employment income is. I think the National Insurance Contributions payable by Lucie Ltd will be very small because of the employment allowance that my friend told me about.”
- 4) Jon, the managing director of Hepworth & Moore Ltd informs you that “..... the company has a great opportunity to expand overseas. I am not sure exactly how we will structure the overseas business – that will probably depend on the tax implications. I really don’t understand how income arising overseas will be taxed in our UK company. I’m not an accountant! but if you could give me a simple explanation of that I would be grateful. I am expecting the overseas business to be profitable.”

**Requirement:**

- 1) In respect of Barnes Ltd:
    - i) Calculate the Structures and Buildings Allowance which Barnes Ltd can claim during its ownership of Park House. (5)
    - ii) Explain the potential tax relief available to Barnes Ltd on the purchase of goodwill, including the circumstances in which it is available. (5)
  - 2) Explain the key factors indicated by case law to consider when determining if the relationship between TVC Products Ltd and Fred is one of self-employment. You do not need to state case names. (3)
  - 3) Calculate the net deemed employment income for Lucie in the year 2024/25 and explain the availability of the NIC employment allowance. (4)
  - 4) Briefly explain which income from the overseas business will be taxed in the UK assuming it is remitted to Hepworth & Moore Ltd in the UK. (3)
- Total (20)

## ANSWERS TO 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 must be 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 2025	24,000	120,000	[½]
Less: Cost	<u>Nil</u>	<u>(114,000)</u>	[½]
Gains before reliefs	<u>24,000</u>	<u>6,000</u>	
	Gains not eligible for BADR £	Gains eligible for BADR £	
Gain on goodwill	24,000		[½]
Gain on premises	<u>24,000</u>	<u>6,000</u>	[½]
		6,000	
Less: Incorporation relief			
24,000 x (50,000/150,000)	(8,000)		[½]
6,000 x (50,000/150,000)	<u>16,000</u>	<u>(2,000)</u>	[½]
		4,000	
Less: Annual exempt amount	<u>(3,000)</u>	<u>(Nil)</u>	[½]
Net gains	13,000	4,000	
Less: Capital losses b/f	<u>(13,000)</u>	<u>(4,000)</u>	[½] + [½]
Taxable gain	<u>Nil</u>	<u>Nil</u>	

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	<u>(10,000)</u>	
Base cost of shares	<u>40,000</u>	[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.

**Total 5**3) Disapplying Incorporation Relief

- All of the gains, after capital losses carried forward and the annual exempt amount, will be taxed in 2024/25. The chargeable gains amount to £7,000 [½]
- The brought forward capital loss of £20,000 will be deducted in full. [½]
- The remaining gain on the goodwill of £1,000 (ie £24,000 - £20,000 (Losses) - £3,000 (AE)) will be taxed at 20% and the gain of £6,000 on the premises will be taxed at 10% on the assumption that Teresa makes a claim for Business Asset Disposal relief. [½]
- Capital gains tax of £800 (£200 + £600) will be payable. [½]
- The base cost of Teresa's shares in Varnish Ltd will be £50,000, compared with £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	(3,000)	(nil)	[½]
Net gains	21,000	6,000	
Less: Capital losses b/f	(20,000)	(Nil)	[½] + [½]
Taxable gain	1,000	6,000	
CGT @ 20% and 10%	200	600	[½]

**Total 5**4) Trading Income Assessment for 2024/25

<u>15 m/e 31 March 2025</u>	General pool £	
Tax wdv b/f	15,000	
Less: Disposal of plant & equipment	(20,000)	
Balancing charge	(5,000)	[½]



No WDA are calculated for the final period of account to 31 March 2025. Therefore, make a s.266 CAA 2001 election to transfer the P&M at its tax written down value on 31 March 2025 of £15,000 to the company to avoid the balancing charge. [½]

12 m/e 31 March 2025 (basis for 2024/25)

	£	
Tax adjusted profits before capital allowances (£75,000 x 12/15)	60,000	[½]
No balancing charge (if s.266 election made)	<u>Nil</u>	[½]
Tax adjusted profits after capital allowances	<u>60,000</u>	
Add: balance of transitional profits of 2023/24 (W1)	<u>5,600</u>	[½]
Trading income 2024/25	<u>£65,600</u>	

(W1)

The balance of the transition profits for the 3-month period 1 January 2024 to 5 April 2024 becomes taxable when Teresa ceases to trade on the incorporation of her business. [½] The amount taxable is  $((3/15 \times £75,000) - £8,000) / 5 \times 4 = £5,600$ . [½]

**Max 3**

**Total for question 16**

**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 employment payment for 2024/25**

	£	£	
Fees from 'relevant engagements' (Nextoll contract)		54,000	<b>[½]</b>
Less: 5% Statutory deduction		<u>(2,700)</u>	<b>[½]</b>
		51,300	
Less: Allowable expenses			
Directors' remuneration paid during the year	25,000		<b>[½]</b>
Employer's class 1 secondary NIC	2,194		<b>[½]</b>
Professional indemnity insurance	822		<b>[½]</b>
Medical insurance benefit	450		<b>[½]</b>
Class 1A due on medical insurance benefit (450 x 13.8%)	62		<b>[½]</b>
Capital allowances – 100% of £1,500 (AIA)	<u>1,500</u>		<b>[1]</b>
		<u>(30,028)</u>	
Gross deemed payment		21,272	
Less: NIC within gross payment			
21,272 x 13.8/113.8		<u>(2,580)</u>	<b>[1]</b>
Net deemed payment @ 5 April 2025		<u>18,692</u>	<b>[½]</b>

**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 using an annual earnings period as  $(25,000 - 9,100) \times 13.8\% = £2,194$ . 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 2025

	£	£	
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	<u>350</u>		[½]
		<u>(52,150)</u>	
TTP		<u>14,850</u>	
Corporation Tax at 19% (small profits rate)		<u>2,822</u>	[½]

**Total 6****Tutorial Note:**

The deemed salary is treated as paid on 5 April 2025. 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 2025).

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 2025. **[1]** This is provided there is an obligation to pay the salary at 31 March 2025 and it is actually paid within nine months after the accounting period end, ie before 1 January 2026. **[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, ie post-tax profits. A dividend cannot legally be paid if the company has insufficient distributable reserves. **[1]**

Dividends are not subject to either employer's or employee's national insurance contributions. **[1]** The first £500 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 may 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 2025 in order to obtain tax relief in the accounting period. **[1]**

You will not be taxed on the contribution made and there are no NIC implications for 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, ie before 1 January 2026, to avoid a special tax charge arising on the company. **[1]**

If the loan remains outstanding, a s.455 CTA 2010 tax 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 CTA 2010 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

**Max 10**

2)

Bonus = Salary

	£	
Cost to Company	16,000	
Employer's NIC 13.8/113.8	(1,940)	<b>[½]</b>
Gross salary	14,060	
Tax via PAYE at 40%	(5,624)	<b>[½]</b>
Employee NIC at 2%	(281)	<b>[½]</b>
Net available to shareholder/director	<u>8,155</u>	

Dividend

	£	
Cost to Company	16,000	
Corporation tax – 19%	(3,040)	<b>[½]</b>
Available as dividend	12,960	
Income tax (W)	(4,205)	
Net available to shareholder	<u>8,755</u>	

Working

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

	£	
Dividend	12,960	
Less: Dividend allowance	(500)	[½]
Taxable dividend	<u>12,460</u>	
Tax @ 33.75%	<u>4,205</u>	[½]

**Total 3**

**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 2026, 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 2026. [½]

As the loan is repaid in the year ended 31 March 2027, the tax will be repaid on 1 January 2028 [1] (ie nine months and one day after the end of the accounting period in which the loan is repaid).

**Total 2**

**Total for question 15**

**4. STRAND LTD**1) Corporation tax liability for the year ending 31 January 2025

	£	
Trading profit before adjustments	55,000	
Tax adjustments (given)	<u>(2,000)</u>	[½]
Trade profit = Taxable Total Profits	<u>53,000</u>	[½]
		[½]
£53,000 × 25%	13,250	[½]
Less: marginal relief 3/200 × (250,000 - 53,000)	<u>(2,955)</u>	[½]
Corporation tax liability	<u>10,295</u>	

Due 1 November 2025 [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] ie by 31 January 2026. [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 of the warehouse is therefore £90,000, its market value as at the date of incorporation on 1 February 2024. [½]

**Max 1**

4) Acquisition of patent

The patent is an intangible fixed asset (IFA), and any costs/income are dealt with under the IFA regime as debits (costs) and credits (income). [½] The purchase cost is not an allowable deduction in computing the company's profits [½] but a debit can be taken for the amount of amortisation deducted in the company's accounts (which in this case is  $\text{£}100,000 / 8 = \text{£}12,500$  per annum [½]. Alternatively an annual straight-line deduction of 4% of its cost (ie  $\text{£}100,000 \times 4\% = \text{£}4,000$ ) can be taken instead. [½]

The income from the third party is a non-trading IFA credit as the patent is not used in Strand Ltd's trade. [½] Thus in the current year there will be a non-trading IFA credit of  $\text{£}2,500 \times 10 = \text{£}25,000$  [½].

The non-trading IFA income for the current accounting period is  $\text{£}25,000 - \text{£}12,500 = \text{£}12,500$ . [½]

**Max 3**5) Acquisition of shares / goodwill

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 corporation tax payable on Strand Ltd's profits. If Strand Ltd continues at its current profit level, it will still be a marginal company, but the upper limit will be halved and will reduce the amount of marginal relief available going forward. [1]

No immediate 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, no tax relief will be available for the cost of goodwill under the IFA regime. [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 IFA debit. [½]

**Max 5****Tutorial Note:**

The allowable deduction of 6.5% pa on goodwill is only available for purchases after 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 15**



**5. RAINBOW PLC**

1)

For group relief purposes the following groups exist:

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

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

The effective indirect holding of Rainbow plc in Violet Ltd is only 72% and 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, and Violet Ltd. [½] There is a 75% direct relationship between each of the companies and a > 50% effective ownership of Violet Ltd by Rainbow plc. [½]

**Tutorial Note:**

There is no reason why Indigo Ltd should not be treated as part of the respective groups. The fact that it is dormant has no effect on its membership of a group.

**Total 3**2) TTP Before Group ReliefGain on sale of factory by Green Ltd

	£	
Proceeds (January 2024)	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	<u>41,600</u>	

Loss on sale of office by Violet Ltd

	£	
Proceeds (October 2024)	109,000	[½]
Less: Cost (January 2005)	(168,000)	[½]
Capital loss	<u>(59,000)</u>	

As Green Ltd and Violet Ltd are in the same gains group, [½] they may 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 all of the part of the loss in Violet Ltd to be treated as arising in Green Ltd) as follows:

	£	
Gain in Green Ltd treated as arising to Violet Ltd	41,600	[½]
Less: Loss in Violet Ltd	(59,000)	[½]
Excess loss	<u>(17,400)</u>	

**Tutorial Note:**

The excess loss will be carried forward by Violet Ltd to set against its future capital gains. The same reasoning applies should the loss of Violet Ltd be transferred to Green Ltd, except in that case the loss is carried forward by Green Ltd.

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	Nil	(12,000)	Nil	25,000	Nil	[1]
Non-trading profits (LR)	10,000	Nil	Nil	15,000	Nil	[½]
Gain	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	<u>Nil</u>	[½]
TTP	<u>45,000</u>	<u>3,000</u>	<u>Nil</u>	<u>440,000</u>	<u>100,000</u>	

**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	<u>10,000</u>	<u>3,000</u>	<u>Nil</u>	<u>295,000</u>	<u>100,000</u>	[½]

**Max 5****Total for question 15**

**6. BUBBLEFISH AND KRYSTAL**

1)

<u>Freehold property</u>	£	
Proceeds (November 2024)	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	<u>232,700</u>	
<u>Shares</u>		
Proceeds (December 2024)	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	<u>59,560</u>	
<u>Total gains made by Bubblefish Ltd:</u>		
Freehold property	232,700	
Shares	<u>59,560</u>	
	<u>292,260</u>	

**Total 4**

2)

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

Rollover relief is available [½] for part of the gain arising in Bubblefish Ltd on the sale of the freehold office as it is a qualifying asset [½] for rollover relief and Sharkpool Ltd has, within 12 months before the disposal, reinvested an amount in purchasing a property for use in its trade. [½]

£100,000 (£400,000 – £300,000) of gains on the freehold will be left in charge after rollover relief as this is the amount equal to the proceeds of sale that have not been reinvested. [½]

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

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

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

Finally, Bubblefish Ltd could surrender £75,000 of its trading losses to Sharkpool Ltd to reduce Sharkpool Ltd'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 (ie by 31 December 2028). [½]

An election to transfer gains must be made within two years of the end of accounting period of the disposal (ie by 31 December 2026). [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 (ie by 31 December 2026). [½]

A claim for group relief must generally be made within two years after the end of the claimant company's accounting period (ie by 31 December 2026). [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.

3) Purchase of own shares

As Stephen's shares have been held for less than five years, the capital conditions are not met and the purchase by the company of its shares will be treated as a distribution. [1]

The difference between the purchase price and the par value of £1 at which Stephen subscribed for the shares will be taxed at the dividend rates, taking into account any available dividend allowance. [1½]

For Krystal Ltd, the price paid for the purchase of its own shares is a distribution and therefore not deductible for corporation tax purposes. [1]

In addition, the legal fees of £1,200 are not deductible as they relate to a distribution. [½]

**Total 4**

4) Write-off of loans

As Alex is an employee and does not hold any shares in Krystal Ltd, the amount of the write-off will be treated as employment income. [½]

The write-off will be treated as a debit on a non-trading loan relationship for corporation tax purposes. The deduction will be set against credits on non-trading loan relationships, such as interest receivable. [1]

When the loan to Stephen was made in May 2024, a tax charge equal to 33.75% of the amount of the loan will have been paid by Krystal Ltd, as if it were corporation tax, as the company is close. [½]

When the loan is written off, this tax charge will be repaid to Krystal Ltd. [½]

**Tutorial Note:**

On the assumption that Krystal Ltd does not pay its tax in instalments, the original charge will have been paid 9 months and 1 day after the end of the accounting period in which the loan was made and repayment will be made 9 months and 1 day after the end of the accounting period in which the loan is written off.

The loan write-off will be treated as a distribution for Stephen and no corporation tax deduction is available for this amount for Krystal Ltd. [1/2]

**Total 3**

5)

Statutory redundancy pay is specifically deductible as a trading expense for Krystal Ltd. [1/2]

With regard to the ex gratia payment, as it is non-contractual it is deductible only if it meets the 'wholly and exclusively for the purposes of the trade' test. [1/2]

**Total 1**

**Total for question 18**

## 7. TICK-TOCK LTD

1) TTP for y/e 31 March 2025

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

Note: Group relief can only be claimed from Wizard Watches Ltd for the four months (1 December 2024 – 31 March 2025) from when it joined the group to Tick-Tock Ltd's year end. [1]

WorkingsW1) Sale of factory

	£	
Proceeds (November 2024)	925,000	[½]
Less: Cost (August 2005)	<u>(400,000)</u>	[½]
Less: Indexation allowance: (August 2005 to December 2017) (278.1 – 192.6)/192.6 = 0.444 x 400,000	<u>(177,600)</u>	[1]
Gain	347,400	
Less: Roll-over relief	<u>(197,400)</u>	[½]
Chargeable gain (Note)	<u>150,000</u>	

Note: Proceeds not reinvested £(925,000 – 775,000) = £150,000 are chargeable to tax. [½]

W2) Capital Allowances

	FYA @100% £	AIA @ 100% £	General Pool £	Allowances £	
<u>Y/e 31.3.25</u>					
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%	<u>(103,000)</u>			103,000	[½]
AIA @ 100%		<u>(1,000,000)</u>		1,000,000	[½]
WDA @ 18%			<u>(214,740)</u>	214,740	[½]
TWDV c/fwd		Nil	<u>978,260</u>		
Allowances				<u>1,317,740</u>	

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 2024; [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 also a 'major change in the nature or conduct of trade' of Wizard Watches Ltd within five years of the change in ownership (ie by 1 December 2029). [1]

Therefore, if Tick-Tock Ltd makes 'major changes' to the trade of Wizard Watches Ltd before December 2029, 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 (ie 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 AND OPENCREST****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	(3,000)	[½]
Taxable gain	18,956	
CGT @ 10% (BADR applies)	1,896	[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]

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

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

IT @ 33.75% x (21,956 – 500) = £7,241. [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 (£22,000 - £21,956)	44	[½]
Less: Cost (1 x 44)	(44)	[½]
Chargeable gain	<u>Nil</u>	

**Max 4**

3) Overseas Expansion – branch v subsidiaryOverseas branch

UK resident companies are taxed on their worldwide profits including those from overseas branches, [½] subject to double tax relief. [½]

Where overseas profits are subject to UK corporation tax the amount of double tax relief is limited to the lower of [½]:

- the overseas tax payable [½], and
- the UK tax bill on that source of overseas income. [½]

An overseas branch is part of the UK resident company and is not a separate legal entity. [½]

UK capital allowances are available for expenditure on the plant & machinery in the overseas branch in the same way as for a UK trade. [½]

The trading losses of an overseas branch are normally netted off against the UK company's trading income and the usual loss reliefs are available. [½]

There is an optional exemption from corporation tax for profits arising from overseas branches of a UK company. [½] However, if profits are exempt from corporation tax under these provisions, losses will not be deductible to the extent that they arise from overseas branches. [½] Once made, the election to exempt overseas profits from corporation tax is irrevocable. [½]

Overseas subsidiary

A subsidiary incorporated and managed and controlled overseas will be resident overseas [½] and so will not be liable to UK tax. [½]

In addition, any distributions received in the UK from such a company should be exempt from UK corporation tax. [½]

No relief will be obtained against the UK parent company's profits for any overseas losses except in very limited circumstances. [½]

No deduction will be available under the UK capital allowances regime for capital expenditure on plant and machinery incurred by the overseas subsidiary. [½]

The overseas subsidiary is a separate legal entity and will be an associated company for the purpose of determining whether the parent company has to pay its corporation tax by instalments and for determining the tax rate applicable to its profits. [½]

**Max 6**

4) Sale of equipment to overseas subsidiary

If a foreign subsidiary is set up, transfer pricing considerations may be appropriate in respect of transactions between Opencrest Ltd and the foreign subsidiary. [½]

Opencrest Ltd and the overseas subsidiary will be connected parties [½] since Opencrest Ltd will control the subsidiary by virtue of owning all its shares. [½]

All prices should be at arm's length. [½] Therefore, the selling price of the industrial equipment should be at open market value. [½]

If Opencrest Ltd sells the equipment for less than open market value then a corporation tax adjustment will need to be made at the year end to reflect the profit that would have been made if an open market value price had been charged to the subsidiary. [1]

The transfer pricing rules apply not only to the transfer of the industrial equipment and other goods but also to the provision of management services, financing, etc. [½]

There are regulations which require records and documentation to be maintained to prove that the pricing has indeed been set on an arm's length basis. [½]

If Opencrest Ltd meets the criteria of being a small or medium sized enterprise for transfer pricing purposes, then the transfer pricing rules will not apply. [½]

**Max 4**

**Total for question 20**

## 9. MARILYN

1) Tax adjusted profits and losses:

	Y/e 30 September 2024 £	P/e 31 January 2025 £
Profit/(loss)	10,000	(35,600)
Less: Capital allowances (W1)	(5,348)	(2,924)
Tax adjusted profit/ loss for AP	<u>4,652</u>	<u>(38,524)</u>

Trading income assessment:

Final tax year = 2024/25

6/4/24 – 30/9/24 = 4,652 x 6/12

	2,326	[½]
1/10/25 – 31/1/25	<u>(38,524)</u>	[½]
Trading loss	<u>(36,198)</u>	

Assessment	<u>Nil</u>	[½]
------------	------------	-----

Workings:W1) Capital allowances

	AIA@	General	Car with personal use	CA s	
<u>Year ended 30 September 2024</u>	100%	Pool		£	
	£	£	£		
Tax wdv b/f		5,673	7,050		
Addition – furniture	3,600				[½]
Less: Disposal		<u>(896)</u>			
	<u>3,600</u>	4,777	<u>7,050</u>		
AIA @ 100%	(3,600)			3,600	[½]
WDA @ 18%		<u>(860)</u>		860	[½]
WDA @ 18%			<u>(1,269)</u>	x70% <u>888</u>	[½]
		3,917	5,781	<u>5,348</u>	
<u>Period ended 31 January 2025</u>					
Addition - computer (W2)		600			[½]
Disposal values		<u>(1,300)</u>	<u>(6,200)</u>		[½]
Balancing allowance		<u>3,217</u>		3,217	[½]
Balancing charge			<u>(419)</u>	x70% <u>(293)</u>	[½]
				<u>2,924</u>	

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 2024/25 and/or 2023/24. [ $\frac{1}{2}$ ] + [ $\frac{1}{2}$ ]
- Claim relief against her net income for 2024/25 and relieve the balance against her chargeable gains for the same year. [ $\frac{1}{2}$ ] + [ $\frac{1}{2}$ ]
- Claim terminal loss relief [ $\frac{1}{2}$ ] against trading income for 2023/24, [ $\frac{1}{2}$ ] 2022/23 [ $\frac{1}{2}$ ] and 2021/22 [ $\frac{1}{2}$ ] on a last in first out basis. [ $\frac{1}{2}$ ]

**Max 4****Tutorial Note:**

No relief is available under s.86 ITA 2007 (ie 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 2024/25 is as follows:

	Eligible for BADR £	Not eligible for BADR £	
Retail shop (810,000 – 120,000 – 60,000)	630,000		[ $\frac{1}{2}$ ]
Warehouse (345,000 – 85,000)	260,000		[ $\frac{1}{2}$ ]
Office equipment	0		[ $\frac{1}{2}$ ]
Car	0		[ $\frac{1}{2}$ ]
Goodwill		250,000	[ $\frac{1}{2}$ ]
	890,000	250,000	
Less: Incorporation relief			
890,000 x 900,000/1,412,500	(567,080)		[ $\frac{1}{2}$ ]
250,000 x 900,000/1,412,500		(159,292)	[ $\frac{1}{2}$ ]
	322,920	90,708	
Investment property		243,000	
		333,708	
Less: Annual exempt amount	–	(3,000)	[ $\frac{1}{2}$ ]
Less: Losses brought forward	–	(18,640)	[ $\frac{1}{2}$ ]
Taxable gains	322,920	312,068	
Tax at 10%	32,292		[ $\frac{1}{2}$ ]
Tax at 20%		62,414	[1]
Total CGT	94,106		

**Total 6****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 AND CHEDDAR VALE LTD**

1)

A consortium exists where 75% of the ordinary shares in a company are held by other companies [ $\frac{1}{2}$ ], each holding at least 5%. [ $\frac{1}{2}$ ]

The shareholding of Trock SA, as an overseas company, is included in satisfying the 75% ownership test [ $\frac{1}{2}$ ].

Three companies, Shore Ltd, Ditch Ltd and Trock SA, each hold more than 5% of the share capital of Peacock Ltd and also hold 81% of its share capital between them [ $\frac{1}{2}$ ]. 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 [ $\frac{1}{2}$ ]. However, a current year claim is deemed to be made first to offset Peacock Ltd's other profits of £8,400 [ $\frac{1}{2}$ ] leaving an available loss for surrender of (£200,400 – £8,400) = £192,000 [ $\frac{1}{2}$ ].

As Trock SA is an overseas company, consortium relief is not available to it [ $\frac{1}{2}$ ].

House Ltd is not a member of the consortium so cannot claim consortium relief [ $\frac{1}{2}$ ] because it does not hold at least 5% of the ordinary share capital of Peacock Ltd [ $\frac{1}{2}$ ].

No relief is available for the capital loss in Peacock Ltd as it is not in a gains group, which requires a 75% shareholding [ $\frac{1}{2}$ ]. The capital loss will be carried forward and offset against future chargeable gains in Peacock Ltd [ $\frac{1}{2}$ ].

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	Nil	Nil	
Chargeable gains	<u>Nil</u>	<u>12,000</u>	<u>Nil</u>		<b>[1]</b>
	8,400	154,000	12,000	140,600	
Less: Current year offset	(8,400)				<b>[<math>\frac{1}{2}</math>]</b>
Less: Consortium relief (W)	<u>          </u>	<u>(115,200)</u>	<u>(12,000)</u>	<u>          </u>	<b>[<math>\frac{1}{2}</math>]+[<math>\frac{1}{2}</math>]</b>
Taxable total profits	<u>Nil</u>	<u>38,800</u>	<u>Nil</u>	<u>140,600</u>	<b>[<math>\frac{1}{2}</math>]</b>

Working:

Maximum consortium relief

For Shore Ltd: Lower of

- £154,000; and [ $\frac{1}{2}$ ]
- 60% x £192,000 = £115,200 [ $\frac{1}{2}$ ]

For Ditch Ltd: Lower of

- £12,000; and [ $\frac{1}{2}$ ]
- £10% x £192,000 = £19,200 [ $\frac{1}{2}$ ]

**Max 7**

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**4) Capital Allowance computation for the year ended 31 March 2025

<u>Y/e 31 March 2025</u>	<u>FYA @ 50% £</u>	<u>FYA @ 100% £</u>	<u>AIA @ 100%</u>	<u>Main Pool £</u>	<u>Special rate Pool £</u>	<u>CAs £</u>	
Tax wdv b/f				50,175	18,750		
<u>Additions</u>							
Vacuum packing machine		32,350					[½]
Production machinery		126,500					[½]
Sales director's car (> 50g/km)					33,860		[½]
Air-conditioning unit	120,750		1,000,000				[1]
Disposals	<u>120,750</u>	<u>158,850</u>	<u>1,000,000</u>	(10,875)	<u>52,610</u>		[1]
FYA @ 50%	(60,375)					60,375	[½]
FYA @ 100%		(158,850)				158,850	[½]
AIA @ 100%			(1,000,000)			1,000,000	[½]
WDA @ 18%				(7,074)		7,074	[½]
WDA @ 6%					(3,157)	3,157	[½]
Trf to SRP	<u>(60,375)</u>				<u>60,375</u>		
C/fwd	<u>Nil</u>		<u>Nil</u>	<u>32,226</u>	<u>109,828</u>		
Claim						<u>1,229,456</u>	

**Total 6****Tutorial Note:**

Expenditure on integral features (the air conditioning unit) should be allocated the AIA in priority. Any expenditure on integral features in excess of the AIA will be eligible for the 50% FYA if incurred after 1 April 2021.

Ignore private use for companies.

5) Taxable total profit computation for the year ended 31 March 2025

	£	
Trading income (net of capital allowances)	359,507	[½]
(1,588,963 – 1,229,456)		
Chargeable gain	285,000	[½]
Non trading deficit (LR) b/fwd	(63,750)	[½]
– offset against total profits		
Non-trading deficit from loan relationships	(210,800)	[½]
UK Property business loss	(59,350)	[½]
Taxable total profits	<u>310,607</u>	

[½ for order]

Total 3

**Tutorial Note:**

Non-trading deficits (LR) are used in priority to UK property business losses where both types of loss are made in the same chargeable accounting period.

6) Corporation tax payable for the years ended 31 March 2025, 2026 & 2027Y/e 31 March 2025

	£	
TTP	<u>310,607</u>	
<u>CT payable:</u>		
310,607 x 25%	<u>77,652</u>	[½]
Payable 1 January 2026		[½]

Y/e 31 March 2026

TTP = Augmented profits	<u>2,750,000</u>	
<u>CT payable:</u>		
2,750,000 x 25%	<u>687,500</u>	[½]

Since the company was not 'large' in the previous year (and the augmented profits for this year are less than £10 million) then the tax is payable 9 months and 1 day after the end of the accounting period, ie 1 January 2027. [1]

Y/e 31 March 2027

	£	
TTP = Augmented profits	<u>2,750,000</u>	
<u>CT payable:</u>		
2,750,000 x 25%	<u>687,500</u>	[½]

The company is 'large' for corporation tax purposes in this year and the previous year ended 31 March 2026 and so the corporation tax will be payable by instalments as follows:

14 October 2026	171,875	[1 for figures]
14 January 2027	171,875	[1 for dates]
14 April 2027	171,875	
14 July 2027	<u>171,875</u>	
	<u>687,500</u>	

Total 5

Total for question 25



**11. ACAMB LTD AND BURFORD LTD**

Email

To: Tax manager  
 From: A Tax Advisor  
 Date: XX/XX/XX  
 Subject: Queries re clients

Dear Manager

Thank you for your email. I have the following comments:

1)

A company incorporated in the UK will automatically be resident in the UK  $\frac{1}{2}$  for the purposes of corporation tax. This will not be relevant to you because Acamb Ruritania SA will be established under the laws of Ruritania.  $\frac{1}{2}$  However, it is also possible for a company which is incorporated overseas to be UK tax resident  $\frac{1}{2}$  if the UK is the place of central management and control.  $\frac{1}{2}$  "Central management and control" is not a defined concept and as such its meaning is established through case law. It is generally taken to mean where the highest level of management decisions are taken.  $\frac{1}{2}$  So if Acamb Ruritania SA is controlled by a Ruritanian based board (and management decisions are taken outside the UK) it will not be UK tax resident.  $\frac{1}{2}$  However, if the UK based board of directors of the UK company make the management decisions,  $\frac{1}{2}$  the company would be UK resident  $\frac{1}{2}$ . It is of course possible for Acamb Ruritania SA to be both UK and Ruritania resident for tax purposes.  $\frac{1}{2}$

**Max 3**

2)

You have identified a transfer pricing issue.  $\frac{1}{2}$  For any large companies (such as those in the Acamb group)  $\frac{1}{2}$  all trading with connected companies  $\frac{1}{2}$  must be at an arm's length price.  $\frac{1}{2}$  "Arm's length" effectively means the equivalent price that would be paid by a third party transacting on similar terms.  $\frac{1}{2}$  If an artificially low price is charged to Acamb Ruritania SA in order to realise profits in that low tax jurisdiction  $\frac{1}{2}$ , a transfer pricing adjustment must be made in the tax computations of the UK company (as a tax advantage is being achieved there)  $\frac{1}{2}$ . This adjustment would have the effect of increasing profits to an amount that would have been recognised if the arm's length price had been charged.  $\frac{1}{2}$  It may be possible for an equivalent adjustment to be made in the tax computations of Acamb Ruritania SA to reduce the profits to reflect the sales being at arm's length in Acamb Ltd; however, this would depend on the rules in Ruritania and may not be automatic.  $\frac{1}{2}$  This transfer pricing rule relates to both the sale of goods intercompany and the provision of the services  $\frac{1}{2}$  such as the marketing department.

**Tutorial Note:**

Credit would also be given for stating:

- Two companies are connected where one company controls another, or both companies are controlled by the same person(s).
- The definition of control is the power to secure that the affairs of a company are dealt with in accordance with a person's wishes, by means of shareholdings, voting power or powers conferred by documents regulating the company.

**Max 4**

3)

If the return had been submitted on time (ie 30 June 2024) the enquiry window would have closed on 30 June 2025. [½] However as the return was late [½] ie it was submitted on 1 September 2024, the enquiry window is extended to the 12 months from the quarter day [½] following the date of the filing. [½] HMRC therefore had until 31 October 2025 [½] to open an enquiry. As this was done on 1 October 2025, HMRC was within time. [½]

**Total 3**

4)

The loss arising in the year to 31 December 2024 is relieved as follows

	£	
Chargeable gain	250,000	[½]
NTLR	<u>20,100</u>	[½]
Profit	270,100	
Less:		
Current year trading loss relief	<u>(270,100)</u>	[½]
Donation to charity (unrelieved)	<u>Nil</u>	[½]
TTP	<u>Nil</u>	

A claim for carry back of the trading loss can be made as follows:

Six-month period to 31 December 2023

	£	
Trade profit	1,600,000	
Chargeable gain	<u>100,600</u>	
Total	1,700,600	[½]
Less: Trading loss carried back from 2024	<u>(1,700,600)</u>	[½]
Donation to charity (unrelieved)	<u>Nil</u>	[½]
TTP	<u>Nil</u>	

Year ended 30 June 2023

	£	
Trade profit	4,400,900	[½]
Less: Trading loss carried back from 2024 (6/12)	(2,200,450)	[1]
Donation to charity	<u>(750)</u>	[½]
TTP	2,199,700	[½]

Loss memorandum

	£	
Trading loss incurred in 2024	6,680,000	
Less: Current year offset	(270,100)	
Less: Offset against profits in period to 31 Dec 2023	(1,700,600)	
Less: Offset in year to 30 June 2023	<u>(2,200,450)</u>	
Trading loss carried forward	2,508,850	[½]

The repayment of tax for the 6 months to 31 December 2023 will be  $25\% \times £(1,700,600 - 750) = £424,963$  [½]

The repayment of tax for the year to 30 June 2023 will be  $20.5\%$  [½]  $((9/12 \times 19\%) + (3/12 \times 25\%)) \times £2,200,450 = £451,092$ . [½]

**Total 8**

5)

The claims for current year and carry back  $[\frac{1}{2}]$  offset must be made by notifying HMRC within two years of the end of the accounting period in which the loss arose.  $[\frac{1}{2}]$

As the loss to be offset arose in the year to 31 December 2024  $[\frac{1}{2}]$ , the claim must be made by 31 December 2026.  $[\frac{1}{2}]$

**Total 2**

**Total for question 20**

**12. PERICLES LTD**

To: Manager  
 From: Trainee  
 Date: Today  
 Subject: Email from Phil Dent

Dear Manager,

I have prepared a response regarding the issues raised by Phil Dent in his email:

1a) Missing dividends:

Overseas dividends are not usually subject to corporation tax. However, these dividends form part of augmented profits when determining the payment date(s) for corporation tax. [½]+[½]

The withholding tax in respect of these dividends will be ignored. [½]

Omitting income in these circumstances would appear to be a careless error and should be disclosed to HMRC. [½]+[½]

An unprompted disclosure would result in a maximum penalty of 30% of potential lost revenue, with the minimum penalty being calculated at 0%. [½]

However, there appears to be no lost revenue and therefore no penalty due. [1]

From an ethical standpoint, there appears to be no intention to either avoid or evade tax. The client should be advised to disclose the error. However, such disclosure to HMRC should result in no further action. [1]+[1]

**Max 4**

**Tutorial Note:**

Credit was given if candidates mentioned that the change in augmented profits may have changed the date of payment of tax..

1b) Bonus payments:

The payment of remuneration, including bonus payments, is deductible for corporation tax purposes if paid within nine months of the year end. [1]

The delay to 31 January 2025 means that the bonuses are only deductible when paid i.e. during the year ended 31 March 2025. [½]+[½]

The resulting error in the corporation tax return for the year ended 31 March 2024 results in possible penalties. [½]

The error would appear to be deliberate but not concealed in which case a penalty of up to 70% of potential lost revenue may be payable. [½]

This could be reduced to 20% for unprompted disclosure (or 35% for prompted disclosure). [½]

Phil should be informed in writing of the correct tax treatment as described above. [1]

He should be advised that the corporation tax return should be amended and if not the possibility of you ceasing to act. **[1]+[1]**

**Max 6**

**Total 10**

**Tutorial Note:**

It could be argued that the error for the bonus payment was also careless. This would result in a penalty of up to 30% of potential lost revenue.

This could be reduced to 0% for unprompted disclosure (or 15% for prompted disclosure).

2) Consequences of buying and future sale of shares in Cerimon Ltd

Dividends received from Cerimon Ltd by Pericles Ltd will be exempt from UK corporation tax. **[½]**

As Cerimon Ltd is centrally managed and controlled from the UK, **[½]** despite being incorporated overseas, it is a UK resident company. **[½]**

As Cerimon Ltd is a UK resident company for tax purposes and Pericles Ltd owns at least 75% of the share capital, group relief surrenders may be made between the two companies. **[1]**

A future sale of the Cerimon Ltd shares may benefit from the substantial shareholding exemption **[½]**, meaning that any gain or loss will be exempt from corporation tax. **[½]**

Whilst the 10% shareholding and 12 month holding period is met **[½]**, the exemption will only apply if Cerimon Ltd is a trading company. **[½]**

Otherwise, any gain on disposal will be subject to corporation tax. **[½]**

**Tutorial Note:**

Credit is also available for stating that Pericles Ltd and Cerimon Ltd are in a gains group and that they will be associated companies, making the limit for quarterly instalments lower.

**Max 4**

3) Post-tax cost of employing Marina

<u>Cost of employing Marina</u>	£	
Allowable costs:		
Salary	90,000	<b>[½]</b>
Provision of the car - 85% x £14,000	11,900	<b>[½]</b>
Cost of fuel	13,800	<b>[½]</b>
Class 1 secondary NICs £(90,000 – 9,100) x 13.8%	11,164	<b>[1]</b>
Class 1A NICs £(4,800 + 8,340) x 13.8%	<u>1,813</u>	<b>[1]</b>
Total allowable cost	128,677	
Less: Corporation tax relief		
£128,677 x 25%	(32,169)	<b>[½]</b>
Add: non-deductible element of lease costs of Marina's car 15% x £14,000	<u>2,100</u>	<b>[1]</b>
Total cost of employing Marina	<u>98,608</u>	

Notes on National Insurance contributions:

Class 1 secondary contributions are payable on Marina's salary, but not benefits. [1/2]

Class 1A contributions are payable on the taxable amount of her car and fuel benefit.  
[1/2]

**Tutorial Note:**

As the car's CO<sub>2</sub> emissions > 50g/km corporation tax relief is only available for 85% of the operating lease payments; however, the total operating lease cost must be included in the above calculation which is why it is shown in two parts above.

**Total 6**

**Total for question 20**

**13. DISRAELI PLC**

To: Manager  
From: Assistant  
Date: Today  
Subject: Questions from Benjamin – Finance Director of Disraeli plc

Thank you for the email earlier today. Here are my responses:

1)

Given Disraeli plc has control of these companies (ie owns more than 50% of the shares) [½], transfer pricing issues arise [½].

In the case of Grover Inc, a UK tax advantage arises as a result of the sales at undervalue. [1]

Therefore, an adjustment must be made in Disraeli plc's Corporation Tax computation to reflect an arm's length price, thereby increasing taxable profits in the UK. [1]

In the case of the management charge to Cleveland Ltd, this is not at arm's length so potentially a transfer pricing adjustment would need to be made if a tax advantage has arisen. [½] However, although this would increase Disraeli plc's profits, [½] a corresponding adjustment could be made to increase the deductible expense for Cleveland Ltd as both companies are UK resident. [1]

**Max 4**

2)

Relief will be available for qualifying expenditure [½] by way of a research and development expenditure credit (RDEC). [1]

The credit is calculated as 20% of the qualifying expenditure [½] and treated as taxable income for the accounting period. [½] However, the qualifying revenue research [½] and development costs are still deductible. [½]

The same amount of the credit is then treated as a deduction from Disraeli plc's Corporation Tax liability for the same accounting period. [1]

The capital expenditure will qualify for 100% FYA [½].

There are provisions for the carry forward of excess credits that cannot be absorbed, but if the current year's tax liability is sufficient to utilise the credit, we can look at this issue again once we know the figures for future years. [2 x ½]

**Max 5**

3)

This error should be considered in the context of the Professional Conduct in Relation to Taxation (PCRT) guidance. [½]

It should be ascertained whether the error is trivial. [½] It is reasonable for a member to take no steps to inform HMRC of isolated errors, where the tax effect is no more than minimal. I suspect this error is likely to be material. [½]

Our engagement letter with Disraeli plc should be reviewed to see whether we require specific authorisation to disclose [½]. If not, then this error can be disclosed to HMRC. [½]

If specific authority is required, an initial request should be made to Disraeli plc advising Benjamin of the relevant rules, penalties, surcharges and interest. [½] If this does not result in action on behalf of the client, the position, including consequences of failure to disclose, should be explained orally. [½]

If our client is still not willing to agree to disclosure, then we would need to put our advice, including consequences, into writing [½] and only after this stage may we be forced to consider ceasing to act. [½]

There are also separate obligations under the anti-money laundering legislation [½] and we should consider contacting our MLRO and whether it is necessary to file a SAR. [½] +[½] The client should not be informed [½].

[The text 'Professional Responsibilities & Ethics for Tax Practitioners' (6<sup>th</sup> edition) provides guidance on this in Chapter 23 PCRT – 'Dealing with errors']

**Max 5**

4)

A loss arises on the disposal of the painting, which is a non-wasting chattel, as follows:

	£	
Deemed proceeds	6,000	[1]
Less: Cost (£93,000/3)	<u>(31,000)</u>	[½]
Allowable loss	<u>(25,000)</u>	

The racehorse is a wasting chattel and therefore any gain is exempt and also the anticipated loss is not allowable. [½]

**Total 2**

Best regards

Assistant

**Total for question 16**



**14. GREEN MEDIA LTD AND THE ASHBURTON GROUP**

Email

To: Managing Direct, Green Media Ltd  
From: XYZ Tax consultants

Thank you for your email. I can respond as follows

1)

VAT on bad debts – Green Media Ltd can claim bad debt relief for VAT on any debt which is six months old (ie more than six months have passed since the later of the date of the supply and due date for payment as stated on the invoice). **[2 x ½]**

Further conditions must be met, being:

- Green Media must have supplied the goods/services which have been invoiced. **[½]**
- Green Media must have accounted for and paid the VAT to HMRC. **[½]**
- The debt has been written off in Green Media's accounts, **[½]** and transferred to a separate bad debt account. **[½]**
- The value of the supply must not be in excess of the normal selling price **[½]**
- The debt must not have been sold on **[½]**
- The claim for bad debt relief must be made within 4 years and six months from the later of the date of the supply and due date for payment **[½]**

The relief is obtained by adding the amount of the VAT to the box 4 input tax figure on the VAT return. **[½]**

There is no obligation for Green Media Ltd to tell the customers that it is claiming VAT bad debt relief. **[½]**

**[Marks will be given for any relevant point]**

**Max 5**

2)

The penalties that Green Media Ltd will be subject to will depend on how late the return is and whether any previous returns were filed late. The penalties are as follows:

- There is an initial penalty of £100, **[½]** and this applies even when there is no tax to pay. **[½]**
- This increases to £200 (ie an extra £100) if the return is more than three months late. **[½]**
- The £100 and £200 penalties are increased to £500 and £1,000 **[½]** respectively for a third (or later) consecutive return. **[½]**
- If the return is later than 18 months after the end of the accounting period (ie usually more than 6 months late) **[½]** there is an additional penalty of 10% of the tax unpaid at that point **[½]**

- If the return is later than two years after the end of the accounting period (ie usually more than 12 months late) [½] the tax geared penalty doubles to 20% of the tax unpaid at the 18 month date. [½]
- Penalties can be appealed against and will not be charged if the company has a reasonable excuse for late filing. [½] but what constitutes a reasonable excuse is considered on a case by case basis. [½]

Please contact me if you wish to discuss this further.

Regards

A Tax Advisor

**Max 5**

**[Marks will be given for any relevant points]**

3)

The parent of a chargeable gains group is referred to as the principal company. The general rule is that companies form a chargeable gains group where there is 75% direct ownership [½] and not less than 51% effective ownership by the principal company. [½] Ashburton Ltd is the principal company in this scenario. It owns at least 75% [½] of Burn Ltd and Cactus Ltd [½] and so they are in a corporate gains group. [½]

Companies that are at least a 75% subsidiary of another company cannot generally be the principal company of a group so that companies can only be a member of one chargeable gains group. [½]

Devonian Ltd is an indirect sub – subsidiary of Ashburton Ltd (72% indirect ownership) [½] and so forms a group with Ashburton Ltd. Also, Elderwood Ltd is a sub-subsidiary of Ashburton (67.5% ownership). [½]

However, Fairy Ltd is not in the group with Ashburton Ltd as there is less than a 51% indirect ownership (it is 47%). Fairy Ltd cannot be in a gains group with Elderwood Ltd as Elderwood Ltd is a 75% subsidiary and in any case Elderwood Ltd's direct ownership of Fairy Ltd is less than 75%. [½]

The gains group is therefore Ashburton Ltd, Burn Ltd, Cactus Ltd, Devonian Ltd, Elderwood Ltd but not Fairy Ltd. [½]

**Max 4**

4)

The brought forward loss in Burn Ltd cannot be transferred to Ashburton Ltd as it is out of time to make the election to transfer. [½] This must be done within 2 years of the end of the accounting period in which the loss arose. [½]

Ashburton Ltd should therefore elect to transfer part of its gain to Burn Ltd to use the brought forward loss and the current year loss.

Maximum loss offset for full relief is £2,500,000 (due to the sharing of the group deductions allowance). [½]

Burn Ltd

	£	
Brought forward capital losses	1,500,000	
Current capital year losses	<u>300,000</u>	
Total losses	1,800,000	[½]

Ashburton Ltd should therefore elect to transfer £1,800,000 of its gain to Burn Ltd, and result in Burn Ltd having a taxable total profit of £nil. This will leave (£3,000,000 - £1,800,000) £1,200,000 of the gain chargeable in Ashburton Ltd. [½]

This can be partially offset by the trading loss as follows –

	£	
Gain	1,200,000	
Less current year trading loss	<u>(250,000)</u>	[½]
Taxable Total profits	950,000	[½]

**Tutorial Note:**

More of the gain could have been transferred to Burn Ltd giving a positive taxable total profit in Burn Ltd and a smaller taxable total profit in Ashburton Ltd. The lower limit (for the small profits rate) is £50,000/6 = £8,333 and so if additional gain of £8,333 were transferred to Burn Ltd, this would be taxed at 19% rather than 25% giving a small tax saving.

**Max 3**

5)

Cactus Ltd Taxable total profits

	£	£	
Trade profit		15,000,000	
Chargeable gains	£5,000,000		
Offset – current year loss transferred from Elderwood Ltd	<u>(450,000)</u>		
Gain		<u>4,550,000</u>	[½]
Taxable total profits		19,550,000	[½]

The brought forward loss cannot be offset as it is a realised pre-entry loss. [½]

Elderwood Ltd

	£	
Gain	50,000	
Less brought forward loss	<u>(50,000)</u>	[½]
Gain brought into charge to CT	=	[½]

Capital Loss Memo

Carried forward loss	£600,000	
Less loss utilised	<u>(50,000)</u>	[½]
Carried forward loss	£550,000	[½]

**Tutorial Note:**

Elderwood Ltd is not in a group relief group / deductions allowance group with Ashburton Ltd (Ashburton Ltd's effective interest in Elderwood Ltd is only 67.5%). While Cactus Ltd and Elderwood Ltd do form a group relief group/ deductions allowance group, Cactus Ltd is not entitled to use a part of the deductions allowance of this group as it is the ultimate parent but also a member of another (the Ashburton) group (CTA 2010, s.269ZV). Therefore, Elderwood Ltd has its own £5 million deductions allowance of which it should allocate £50,000 to gains to use its brought forward capital loss against its current period gains.

**Max 3****Total for question 20**

**15. FOUR UNCONNECTED CLIENTS**

- 1i) During its ownership of Park House, Barnes Ltd can claim the following SBA:

Year to 31 December 2023

3%  $\left[\frac{1}{2}\right]$  x qualifying construction cost (£2.5m  $\left[\frac{1}{2}\right]$  less land  $\left[\frac{1}{2}\right]$  £200,000)

= £69,000  $\left[\frac{1}{2}\right]$  x  $\frac{2}{12}$  (1 November to 31 December)  $\left[\frac{1}{2}\right]$  = £11,500

Year to 31 December 2024

Full year allowance of £69,000  $\left[\frac{1}{2}\right]$

Year to 31 December 2025

Annual Allowance of £69,000 plus allowance on renovation cost  $\left[\frac{1}{2}\right]$

£100,000  $\left[\frac{1}{2}\right]$  x 3% x  $\frac{9}{12}$  = £2,250

Total - £71,250

Year to 31 December 2026

Sale on 1 May 2026 - £72,000 (£69,000 = £3,000)  $\left[\frac{1}{2}\right]$  x  $\frac{4}{12}$  = £24,000  $\left[\frac{1}{2}\right]$

**Total 5**

- 1ii) It is possible for Barnes Ltd to obtain tax relief if it is buying a so-called relevant asset - ie goodwill.  $\left[\frac{1}{2}\right]$  To obtain the tax relief the purchase must also be part of the acquisition of a business  $\left[\frac{1}{2}\right]$  in which Barnes Ltd must also acquire qualifying intellectual property.  $\left[\frac{1}{2}\right]$

Qualifying intellectual property includes patents, registered designs and copyrights  $\left[\frac{1}{2}\right]$ . However, there is a maximum to the cost of the goodwill on which relief is given.  $\left[\frac{1}{2}\right]$  The 'cost' is limited to six times  $\left[\frac{1}{2}\right]$  the value  $\left[\frac{1}{2}\right]$  of the qualifying IP (in this case copyrights) acquired.  $\left[\frac{1}{2}\right]$  The annual allowable deduction is 6.5%  $\left[\frac{1}{2}\right]$  of this cost  $\left[\frac{1}{2}\right]$ , which is pro-rated for periods less than one year.  $\left[\frac{1}{2}\right]$

**Max 5**

- 2) When determining if the relationship with Fred is one of employment or self-employment Andi should consider:

- Is there mutuality of obligation  $\left[\frac{1}{2}\right]$  - ie does TVC Products Ltd have to give work to Fred and does Fred have to accept it?  $\left[\frac{1}{2}\right]$
- Does Fred have to personally do the work  $\left[\frac{1}{2}\right]$  or does he have the right of substitution?  $\left[\frac{1}{2}\right]$
- Will TVC Products Ltd have control over what Fred does and when? Or will Fred have control?  $\left[\frac{1}{2}\right]$
- Other factors should be considered, such as –
  - Is Fred taking any financial risk (eg, does he have to rectify poor work in his own time/expense?)  $\left[\frac{1}{2}\right]$
  - Could he be more productive and make more profit?  $\left[\frac{1}{2}\right]$
  - Is he providing services to other different clients?  $\left[\frac{1}{2}\right]$

**Max 3**

- 3) The net deemed employment payment is

	£	
Income from engagement	61,000	
Less 5% deduction	(3050)	[½]
Less NIC on pay (£20,000 - £9,100) x 13.8%	(1,504)	[½][½]
	56,446	
Less Pay	(20,000)	
Gross payment	36,446	
Less Employers NIC £36,446 x 13.8/113.8	(4,420)	[½][½]
Net deemed employment payment	32,026	[½]

The NIC employment allowance is not allowable [½] as Lucie is the worker and a director of Lucie Ltd and the only paid employee. [½]

**Total 4**

- 4) If Hepworth & Moore Ltd established a subsidiary company overseas [½] (which is not UK tax resident) to undertake the work arising from the expansion, then any income arising will not be taxed in the UK. Income will be remitted back via dividends [½] which are generally not chargeable to UK corporation tax. [½]

If the overseas operations are conducted by way of a branch, [½] then the income arising will automatically form part of the UK taxable profits, whether or not they are remitted back to the UK. [½] It is possible for branch profits to be exempted by election from UK corporation tax. [½]

**Total 3**

**Total for question 20**

**ETHICS QUESTIONS**

1. A member must be courteous and considerate to all with whom they come into contact in a professional capacity.

**Courtesy falls within which of the five 'Fundamental Principles' relating to members?**

2. The 'Standards for Tax Planning' are critical to any planning undertaken by members.

**What are the five Standards and provide a brief explanation of them.**

3. You have taken on a new client and wish to agree a contingent fee as the basis of payment for the work required.

**State three of the guidelines in relation to using contingent fees.**

4. A director of a company to which you provide tax advice has asked if you would like to invest in the company.

**Outline the guidance given to members on financial involvement with a client.**

5. **When should engagement letters for tax clients be reviewed?**

6. You receive a call from the bank manager of a client. He requests a copy of the client's latest income tax return in order to support an application for a loan.

**According to the Professional Rules and Practice Guidelines, which of the five 'Fundamental Principles' is threatened in this situation?**

7. The Professional Rules and Practice Guidelines list four examples of ways in which a member can charge for services.

**List the four methods.**

8. **Where a member of the ATT is to pay a commission to a third party for introducing a client, what disclosure must the member make to the client?**

9. **State four matters that you would expect to be dealt with in the covering letter accompanying a typical contract for the provision of tax services.**

10. **What are the three choices available to a member who is asked to act for both parties to a transaction?**

11. You are a tax technician working on a personal tax return for a client. Looking back to last year's return you think you have discovered an error. You are unsure of how to deal with this.

**What steps should you take, according to the flowchart on 'Dealing with Errors'?**

12. The profits of a trade, profession or vocation must be computed in accordance with Generally Accepted Accounting Principles (GAAP) subject to any adjustment required or authorised by law in computing profits for those purposes. This permits a trade, profession, vocation or property business to disregard non-material adjustments in computing its accounting profits.

**How does the accounting concept of materiality apply when making adjustments required to accounting figures so as to arrive at taxable profits?**

13. A member dealing with third parties on a client's behalf must be careful not to inadvertently assume a duty of care towards the third party.

**State four ways in which the member may manage these risks.**

14. A member may sign a tax return in their capacity as a liquidator.

**Name three other ways in which they can sign a return.**

15. The Professional Rules and Practice Guidelines state that a member should request the prospective client's permission to communicate with the client's existing adviser before accepting a new appointment.

**Explain why a member should communicate with an existing adviser.**

16. **Describe briefly four principles set out in the Professional Rules and Practice Guidelines that govern a member accepting a new client.**

17. **According to the Association of Taxation Technician's Professional Rules and Practice Guidelines, what procedures should be put in place to handle complaints from clients?**

18. P Ltd is engaging Dov, a member of ATT, to assist with tax compliance work. The company is offering to pay a monthly fee in return for which its finance department is likely to want between two and five days of work from Dov per month.

**Identify the major areas of concern when accepting a client on a retainer arrangement.**

19. You discover that due to an error by HMRC you have received an excessive repayment of tax, on behalf of a client.

**Briefly state what action you should take.**

20. **When a member delegates work to a junior, or subcontracts it, who takes responsibility for this work, according to the Professional Rules and Practice Guidelines?**



## ETHICS ANSWERS

The references in brackets at the end of the answers are to the 6<sup>th</sup> edition of the text book "Professional Responsibilities & Ethics for Tax Practitioners".

1. Professional behaviour.  
[Chapter 19 section 19.6 para 2.22]
2. The five standards are:
  - Client Specific – it must be specific to the particular client's facts and circumstances
  - Lawful – Members must act lawfully and with integrity at all times and expect the same from their clients
  - Disclosure and transparency – All relevant facts must be disclosed to HMRC
  - Tax planning arrangements – Members must not promote tax planning that is set out to achieve results contrary to the intention of Parliament
  - Professional judgement and appropriate documentation – members must exercise professional judgement on a number of matters and keep timely notes

[Chapter 20 section 20.1 para 3.2]
3. Any three from Chapter 8, section 8.2, for example:
  - Contingent fees can carry increased risks, such as a third party questioning the independence and objectivity of the member. Accordingly, where a contingent fee basis is adopted, a member should take care not only to ensure that their conduct meets, but is seen to meet, the required principles of integrity and objectivity.
  - A member should be aware that there may be legal or regulatory restrictions to having a contingent fee.
  - It is advisable that where contingent fees are used the engagement letter should set out the scope of the work they cover and stipulate the action to be taken should subsequent events cancel all or part of the benefits to the client of the contingent fee arrangement. It should set out clearly and precisely whether part or the entire fee is to be repaid and whether interest is payable.
4. Having a financial involvement with a client may impair or be perceived as impairing a member's ability to act objectively. Members should exercise care before entering into any kind of financial arrangement with a client. This includes, for example, lending money or investing in the business of a client.

[Chapter 6 section 6.5 para 6.5.1]

5. Engagement letters should be reviewed:

- annually; and
- when the scope of services changes significantly.

[Chapter 4 section 4.10 points 1 and 3]

6. Confidentiality

[Chapter 19 section 19.5 para 2.16]

7. Time and expenses

Fixed fees

Contingent (including success) fees

Insurance

[Chapter 8 section 8.1 para 8.1.2]

8. If an ATT member is to pay a commission, they must disclose to the client:

- the amount and nature of the fee, commission or other reward; and
- the identity of the third party recipient.

**[Other valid points will gain credit]**

[Chapter 4 section 4.2 para 4.2.1]

9. Any four from Chapter 4 section 4.11, for example:

- i) Who we are acting for;
- ii) Period of engagement;
- iii) Scope of services;
- iv) AEOL, including FATCA

10. The three choices are:

- To advise both parties of the conflict and to give both the opportunity to consider if they wish to seek alternative representation, or agree that you continue to act for both, if appropriate
- To act for one client only – normally the one who first sought advice
- To act for neither party – if the conflict cannot be managed

[Chapter 6 section 6.4 para 6.4.2]

11. You should:

- 1) Establish the facts – is there an error?
- 2) If there is an error – is it trivial?
- 3) If it is not trivial – is specific authorisation required from the client to disclose the error to HMRC?
- 4) If specific authorisation is required and the client is unwilling to give authorisation, and this is confirmed in writing, you must write to the client explaining the consequences of non-disclosure
- 5) If client still refuses to authorise disclosure, you are required to cease to act, notify HMRC, and your MLRO/NCA.

**[Other valid points will get credit]**

[Chapter 23 section 23.2 - flowchart]

12. The application of GAAP does not extend beyond the accounting profits. Thus, the accounting concept of materiality cannot be applied when completing tax filings, for example, when computing adjustments required to accounting figures so as to arrive at taxable profits.

[Chapter 21 section 21.6 points 16-17]

13. Any four from Chapter 7 section 7.2 para 7.2.5, for example:

- Including a clear notice or caveat in the information stating that the advice has been prepared for the client and that no liability is accepted to any third parties who choose to make use of the information
- Requiring that the client seek consent before information with which the name of member is associated is released by the client to third parties.
- Requiring the third party and/or its advisers to undertake in writing that a member be excluded from liability or held harmless as a consequence of making the information available to them.
- Communicating to the third party the terms upon which the information is released including limitations on scope, stating that the advice was prepared only with the client's interests mind, may not apply in all circumstances, and confirmation that no responsibility is accepted.

14. Any three from:

- receiver
- administrator
- under personal appointment as trustee
- under personal appointment as executor
- under personal appointment as attorney
- under personal appointment as director

[Chapter 21 section 21.11 point 33]

15.

- a) The member is aware of any professional reason why they should not accept the appointment.
- b) The client's affairs are properly dealt with, on a timely basis, and that no filing deadlines, time limits for claims, elections, notices of appeal and other similar matters are missed in the transitional period.

[Chapter 4 section 4.4 paras 4.4.1-4.4.2]

16. Any four from Chapter 4 section 4.3 para 4.3.1, for example:

- Comply with the identification requirements set out in the anti-money laundering/terrorist financing guidance
- Consider whether the potential client will be an acceptable client in terms of the risks which will arise for the practice from acting for that client and whether the member has the capability to manage those risks
- Consider whether the member and firm will have the skills and competence to service the client's requirements during the course of the engagement
- Consider whether there is any conflict of interest in accepting the client and if so whether and how it might be managed

17. The ATT's rules state that the procedures should ensure that:

- Each new client is informed in writing of the name and status of the person to be contacted in the event of the client wishing to complain about the services provided and of the ability to complain to the Taxation Disciplinary Board (TDB). This information should be included in the engagement letter.
- Each complaint is acknowledged promptly in writing.
- Each complaint is investigated thoroughly and without delay by a person of sufficient experience, seniority and competence who preferably was not directly involved in the act or omission giving rise to the complaint and the client is told about investigation.
- If the investigation finds that the complaint is justified, wholly or in part, any appropriate action is taken.
- Consideration is given as to whether to inform the firm's professional indemnity insurer

[Chapter 9 section 9.1 para 9.1.1]

18. One area of concern is what is covered by the arrangement. Therefore, the member should normally set out the retainer arrangement in writing so that the member and the client clearly understand the extent and limitations of the agreement and the point when further charges may be levied.

The other area for concern is that a member should watch out for conflicts of interest, given that under a retainer, the client can call on that member's services at any time, which may mean that the member may not be able to fulfil their obligations to other clients.

[Chapter 8 section 8.4 paras 8.4.2-8.4.3]

19. You should return it to HMRC as soon as practicable.

You do not need your client's authority to return an excessive repayment but should notify your client that you have done so.

[Chapter 23 section 23.5 point 21]

20. If a member delegates work, the member remains primarily responsible for the work so should exercise sufficient supervision to confirm that the work performed is satisfactory and that it is carried out by persons who have been suitably trained to carry out the work involved.

[Chapter 5 section 5.4 para 5.4.1]