Tolley® Exam Training

CTA APPLICATION AND PROFESSIONAL SKILLS

TAXATION OF LARGER COMPANIES & GROUPS (LCG)

PRE REVISION QUESTION BANK

FA 2024 & F(No. 2)A 2024
May and November 2025 Sittings

PQ831

Tolley® Tax intelligence from LexisNexis®

INTRODUCTION

This APS Pre Revision Question Bank contains 2 exam standard questions all with answers updated to Finance Act 2024 and Finance (No 2) Act 2024.

As you answer the questions you may refer to either a hard copy or on-screen version of the **CTA Tax Tables 2025** and your own personalised version of the approved online legislation.

Using this question bank

You should now use this question bank to practise your technique and timing. Practice is the key to passing the APS paper – if you do not approach these practice case studies in the same way as you will the ‘real thing’ you will be reducing your chances of obtaining a pass.

Remember that you can read the pre-seen information in advance of attempting each question - it is always the final Exhibit.

Make sure you have 3.5 hours of uninterrupted time – stopping and starting means you may well take more than the allotted time and will give you a false impression of what can be achieved. 3.5 hours may seem a long time to allocate to practise a case study – but remember developing your exam technique for this paper is just as important as learning the technical detail required.

Do not attempt these case studies by just planning your answer and then reading the suggested answers. It is vital to practice typing up a full answer.

We recommend you complete a “Reflection” sheet each time you have finished a case study as part of the self-review process where you compare your typed up answer to the suggested answer provided and so we have included a copy of this sheet at the end of each answer in this question bank.

Guidance on Approach to APS questions

Over the next few pages there is some general information on how to approach the APS paper in order to be successful in this part of your CTA examination.

There is also some information about the way this case study paper will be marked.

Revision Question Banks

A separate further Revision Question Bank containing six further case studies will be available nearer to the date of your real exam.

CONTENTS

REVISION GUIDANCE

PURPOSE OF THE APS PAPER

The purpose of the Application and Professional Skills paper (APS) is to test your ability **to produce a report or letter which a client would value**.

It does this by focussing on **three skills –** Structure, Identification and Application (I&A) and Relevant Advice and Substantiated Recommendations (RA&SR).

In order to secure a pass, you are required to demonstrate **competence in all three** skills. We shall look at the way these competencies will be assessed in more detail later in this guidance.

The Case Study Question

The question will be drafted in such a way that:

- You need to **apply** your technical knowledge rather than simply regurgitate it
- You need to **weigh up options** and **reach a conclusion** as to which is the best option
- Detailed computations will not need to be prepared in order to answer the question
- Detailed technical analysis of obscure points will not be required
- You need to **communicate** information which may be complex in a clear manner and so the requirement will **always be for a report or letter to a client**
- It tests a **range of material** including topics from the matching Advanced Technical (AT) paper(s) as well as the specified awareness level topics (per the syllabus grids)

The CIOT anticipate that a full answer would be between 3,000 to 3,500 words (3,500 is an absolute limit given to the examiners when they draft their model answers) but there is no need for you to focus on word count in your answer script, this info is just given for guidance.

It is likely that questions will require **planning for a future action** rather than simply commenting on historic events.

It is also likely that consideration will be required of **interaction** between **taxes. Aspects of the law, ethics and accounting** CBE syllabuses may also need to be considered where relevant and appropriate.

The first part of the question will always be the introduction. This will cover key introductory matters but will not contain detailed material. It will be around half a side long, giving an **outline of the scenario** and will provide you with a good idea as to the likely requirements.

The introduction will cover:

- Who you are – eg stating "You are a tax manager in a firm of Chartered Tax Advisers."
- Who the client is
- Outline of the scenario
- Reference to exhibits, for example – "you have recently received a letter **(EXHIBIT A)** from Mr Jones regarding his future plans."

Exhibits

Exhibits will be as similar as possible to **real documents** that may be presented to an adviser in practice.

Types of exhibits may include:

- Letters from clients and other advisers
- Emails from clients, colleagues and other advisers
- Accounts or extracts from accounts
- Extracts from reports from other advisers, eg solicitors, surveyors
- Extracts from legal documents (such as trust deeds)

The final exhibit will always be the pre-seen information.

Pre-seen Information

The pre-seen information will give **background details** relevant to the client in the question, but it will not guide you as to the actual examination question requirements.

It is intended that the pre-seen information will better equip you to deal with the case study in the examination environment and makes the question more aligned to a client situation in which you may be involved.

It will be provided **two weeks in advance** of the examination. You will only receive the pre-seen information for the question you registered for when you sent in your exam entry.

You **may discuss** the pre-seen information with whoever you choose.

The pre-seen information will be provided again with the question, as the final exhibit.

The pre-seen information will comprise information which would typically be found in a client **permanent file**, such as:

<u>Corporate client</u>

- Group Structure
- For each group company, date & place of incorporation, places of business & nature of activity
- Share ownership
- Names of directors

<u>Non-corporate business</u>

- Name of business
- Date of commencement
- Nature of activity
- Ownership details

<u>All businesses</u>

- VAT registration certificate details for each entity or a statement that it isn't registered
- Option to tax (OTT) election details (if registered)
- Copy of last VAT return(s) (if registered)
- Copy of most recent accounts (IND - accounts for property business, IHTTE - trust accounts)

<u>Individuals:</u>

- Date and place of birth
- Name, date & place of birth of spouse (or statement that not married/widowed) plus date of marriage
- Names & dates of birth of children
- Will or statement that there is no Will
- Details of assets and income (if relevant

The intention behind the material is to allow you to become familiar with the background of the client to avoid confusion on the day.

The pre-seen information will not include information on the anticipated transaction or event that is the subject of the question.

As is the case in practice, the pre-seen information may include material which is not required to answer the question.

APPROACHING THE APS PAPER

The Application and Professional Skills (APS) paper will test your ability to **apply** your tax knowledge to a practical case study.

In order to be successful in this paper you will need to have the ability to:

- sift through information, distinguishing between the key elements and those which are less important;

- communicate clearly in a manner appropriate to your client giving clear recommendations and coming to a conclusion;

- apply knowledge to a problem which will involve an understanding of the interaction of several taxes and which may not have a single correct answer.

Whilst the case study may well require you to carry out computations, this will only be in the context of providing results for you to comment on in depth in the written part of your answer.

The case study will require you to prepare a **detailed report or letter for your client** and you should incorporate an **Executive Summary** in your answer.

As this paper is intended to be a practical case study, whilst there will be a clear requirement, the specific content required will not be set out in detail.

In particular, you will be expected to **identify and comment on relevant ethical, professional, legal, accounting, regulatory and commercial issues** although the question requirement may not explicitly mention these.

Similarly, you should **consider the possible application of other taxes** to the scenario, beyond the primary tax being examined. It is important to be able to differentiate between various taxes, whilst considering the impact of one on the other.

The case studies are **not intended to be time pressured**. The aim is to allow you to have time to submit a complete answer, thus demonstrating your ability to deal with practical situations.

Successful candidates should be able to demonstrate a good technical knowledge of the tax topics examined in the **related Advanced Technical syllabus** paper(s) and the **Awareness topics identified as within the syllabus for their chosen APS case study**.

Such students should also have an understanding of aspects of ethics, law and accountancy relevant to a tax practitioner from the CBE text books.

The examiner will be looking for:

- sufficient breadth of knowledge to appreciate all the tax implications of a particular problem

- identification of the key issues

- application of knowledge to arrive at sensible recommendations and coming to a conclusion

- communication skills, using a well-structured pattern

    - use of headings

    - use of good English

    - use of summaries

Good examination technique is essential. It is the **quality** of the work produced that is important – **not** the **quantity.**

Due to the nature of the paper there is unlikely to be a single correct answer.

As you read the following notes which have been produced to help you deal effectively with the case studies, it is important to remember to focus on demonstrating your **professional skills** as well as application of your tax knowledge.

You need to take into account the **format** of the response, whether the style and tone is suitable for the client and whether the response is structured effectively.

Therefore, whilst it may be natural that your initial focus is likely to be on the technical detail required, it is just as important to plan how and to what extent that detail needs to be included in your answer.

Approach to the Case Studies

You should aim to adopt the following approach when attempting a case study:

1. READ

2. ANALYSE

3. PLAN

4. WRITE

5. REVIEW

1. READ (15 mins)

The CTA APS exam is 3.5 hours.

Start by identifying the issues carefully. This is important to establish some key things:

- who you are

- what you are required to do

- who you are writing the report to

These are important facts you must register before you move on to the next stage.

In the real examination you will have already had the pre-seen information but remember this will provided to you again as the final exhibit.

The starting point is to **read the requirement**, which is in bold text usually on the first page of the case study. However, the requirement may be general in nature, for example 'Prepare a report addressing Jane's queries', so a review of all the information provided is necessary at this stage.

Now read the information contained in the body of the question and the exhibits, **highlighting key information** and jotting down notes on a piece of paper. Most of the detail will be in the exhibits so make sure you are comfortable with what is there.

In particular you should consider carefully the issues highlighted in the question and the information that is likely to be important, for example:

- family relationships, ages etc (you may already be familiar with this from the pre-seen info)

- business structures (again possibly already known from the pre-seen info)
- needs of client and any preferences expressed/courses of action ruled out
- actions already undertaken
- reliefs available
- timing issues

Now **re-read the requirement.** It is very easy at this stage to formulate an answer to what you would LIKE the question to ask, rather than what it ACTUALLY asks. Make sure you do not fall into the trap of typing up an answer that is not relevant to the question asked.

During this initial reading time you should have time to look up things in the legislation that will help you answer certain parts of the case study. Leave the legislation open at the relevant pages.

2. ANALYSE

Once you are satisfied you understand the requirement, you can move on to the next stage. Do not rush this part, as it is crucial to the whole process.

In the light of the requirement, re-read the question, decide which facts are important/relevant/not relevant**. Determine the areas to be addressed** in the answer.

Remember that each sentence and exhibit is there for a reason – there should not be much irrelevant information. Information may be included to highlight an issue, to identify a key point or to eliminate a course of action the examiner does not want covered.

There will be certain pieces of information that you either do not understand or cannot see the relevance of. It is possible for example that you will not use all the information provided in the pre-seen information. You need to concentrate on what you know and what you can do. Think positively and do not dwell on the areas you cannot get credit for.

For each issue you have highlighted – unless stated otherwise – you should **consider the implications for all relevant taxes.**

Look up in the legislation any areas of uncertainty, conditions etc.

3. PLAN

Now is the time to **produce a plan of the answer you intend to produce**.

You can either **handwrite or type** your plan but note that it will not be marked by the CIOT so it does not need to be included as part of your answer – the marker will only assess the actual report/letter you are asked to produce. You may decide that you prefer to handwrite your plan for ease of reference. You may decide you prefer to type it so that you can expand it. You need to practice these different approaches to work out whether handwriting or typing your plan works best for you.

For each issue you have highlighted, you should note down the areas which need to be discussed, taking into account the order of importance and considering all the implications. The plan can be in bullet point format but should contain sufficient detail to act as a checklist for when you start writing the actual answer. By producing a useful plan, you should be able to ensure that all points are covered in your final answer in a logical order.

You may have to **perform calculations as part of the plan** so that you can then analyse/comment on the results. These calculations should be typed up straight away as part of your answer – not handwritten. You should include them as an Appendix to the report/letter you will go on to write.

By the time you have finished the plan the hard work is really over – not only do you know what the case study wants you to consider, but you have now also considered all aspects, decided what needs to be included in your answer and know what **recommendations** you will give your client in the report/letter and the conclusion you have come to with regard to any options discussed.

Remember to determine the format of your answer – this is usually specified in the requirement.

You should also consider how you are going to allocate your remaining time to writing your answer to each element of the case study. **Never** overrun on time allocation, as this will have a detrimental effect on your overall answer. Come back to an incomplete section at the end of the exam if you have time.

These first three areas of the approach will take approximately thirty minutes to one hour leaving you between 2 and 2.5 hours of further exam time. The more calculations you have to do the more time you will need to allocate to your plan.

4. WRITE

Only start typing up the formal answer once the analysing and planning stages have been completed.

The format of the answer is very important. If the correct format is not used, there is significant risk that you will not be awarded a pass for the "Structure" competency. You will then fail the paper.

The following formats are recommended:

<u>REPORT</u>

TO:
FROM:
DATE:
SUBJECT:

The report should start with an "Introductory section" (normally no more than half a page) which should say:

- Who the report is intended for.

- What the report is based on (for example, "this report is based on your meeting with Amy Lim on 23 April 2024 and your subsequent letter to Amy dated 24 April …...").

- Who can rely on the report. We suggest you simply remember the following standard wording: "This report is intended solely for use by you. Chartered Tax Advisers LLP accepts no responsibility for any reliance placed on this report by other parties".

- The purpose of the report (summarised briefly).

A contents page is not required.

You can assume that the scope of the report is covered by the engagement letter. Unless it is specifically suggested otherwise in the question, there is no need to refer to the engagement letter in your answer.

If there are any limitations to our advice, these should be stated. Remember we are tax advisers, not lawyers or investment advisers. So any legal or investment advice should be referred to the client's solicitor or IFA.

The Introductory section should be followed by an Executive Summary. Normal practice is to type this up last (but make sure it is inserted after the Introductory section).

The Executive Summary summarises the main advice and recommendations. There should be sufficient information in the Executive Summary that the reader can understand the recommendations without reading the detailed analysis. In effect, the Executive Summary is a snapshot of the key recommendations which can be read as a stand-alone document.

You should not introduce anything new in the Executive Summary. Everything in the Executive Summary should be available in the body of the report.

There is no need for a separate 'Conclusions' section at the end of the report as this is likely to be a repetition of the Executive Summary. [You will not lose marks for this, but you will have wasted time.]

Even though the client will have contacted your Tax Manager / Tax Partner for advice, the report is from your firm to the client. **The report should therefore use "We" throughout**. Alternatively, **you may prefer to use the third person**, eg. "[client name]" instead of "you" and "It is recommended that" instead of "we recommend". Whichever you choose, **you must be consistent** and not jump between the two. The use of "I" is not appropriate in a report.

The body of the report should be divided into sections (each dealing with a separate issue). A numbering system should be established. Keep this simple. Following the layout of the answers in this question bank is recommended.

The report should include appropriate advice, recommendations and conclusions. These are the key points which should be extracted for the Executive Summary.

Where advice is supported by computations, these should generally be in Appendices at the end of the report. Short "one or two line" calculations can be shown in the body of the report as you go along if you think that is beneficial to the reader.

It is important to **include and explain your workings.** This ensures that even where an error is made early on, credit can be given for the method applied to the later parts.

LETTER

Letters should be correctly addressed using the address information in the question. Letters should be headed, finished and signed off (do not use your own name – "Tax Adviser" will do).

[Firm's Name & Address per Q]

[Client Name & Address per Q]

Date

Dear [Client Name per Q] – eg, Dear Alex / Dear Mr Brown

SUBJECT OF LETTER

Introduction

Summary of Key Points (Executive Summary)

Body of letter (divided into sections)

Yours sincerely
Tax Adviser

If the client is referred to by their title throughout the question (for example, Mr Brown) or if the title is used in correspondence between adviser and the client (in the Exhibits), the title should be used in the salutation (for example Dear Mr Brown).

Normally however, the question will use forenames throughout and the salutation should therefore replicate this (for example, Dear Alex).

The first paragraph should briefly set out the background to the letter and the information on which it is based (for example a letter from the client). It should say who can rely on the letter.

Any limitations of advice should be stated here.

At APS, a letter question could require a letter from one individual to another so the **use of first person is acceptable**. For example, “I recommend”, “I advise” etc is normally appropriate. You would then sign off as “Tax Adviser”.

For APS LCG it is more likely that you will be writing to the client in your position as a representative of your firm. In that case “we” is accepted. You would then sign off as “Chartered Tax Advisers LLP”.

It is important that the use of “I” or “we” is consistent. Never jump between the two.

After the Introduction, there should be an ‘Summary of key points’ to set out the key findings/conclusions of the letter. This serves the same purpose as an Executive Summary in a report and could also be called that.

The letter should be divided into sections. A numbering system for those sections is normally helpful.

Supporting computations should generally be in an Appendix.

The letter should include advice, recommendations and conclusions.

The letter should be signed off with “Yours sincerely”.

<u>Advice common to both reports and letters</u>

Always keep in mind that **you are asking a client to pay for the document you are producing**! The examiners are themselves tax advisers and will always have that in mind. Therefore put yourself in your client’s shoes and ask yourself whether you would pay money for the advice you are receiving.

First and foremost, your answer **must be written in a way the client can understand**. Clients do not want a series of options – they want **recommendations** as to which of the options should be adopted or discarded.

Above all else, clients want to know:

1) WHAT they should do; and

2) WHEN they should do it.

It is vital that you **come to a conclusion.** Don’t sit on the fence. You are unlikely to pass this paper unless you make sensible and positive recommendations which your client can understand.

Do not be afraid to state the obvious (credit is often allocated for this) but keep answers short and to the point. Remember “quantity” is not important. The examiner does not want to spend his time reading irrelevant and unnecessary paragraphs.

Try not to put more than one important point in each paragraph. Otherwise your points may get lost and you will not receive credit for them.

Leave a line between each paragraph. “White space” is important and helps the marker. It also helps the product look more professional.

Paragraphs should ideally **not run to more than three or four- lines**. Using short “snappy” paragraphs makes answers easier on the eye, and therefore more likely to attract credit.

A handy tip is to **say the sentence to yourself in your head before you type it**. If it doesn’t make sense, don’t type it!

Always use good grammar and spell words correctly. Do not use slang.

Try not to baffle the reader with technical jargon. Your client is not a tax expert. If they were, they wouldn’t need you. So **keep your language clear and simple**.

Use full sentences, even when any lists or bullet points are being used.

Abbreviations are acceptable as long as they have been previously defined. For example, “The gain on the disposal of your shares will be eligible for Business Asset Disposal Relief (BADR). The effect of BADR is to reduce the rate of tax on the capital gain to 10%....”

The APS paper is testing your professional skills - you need to show the marker that you deserve to be awarded the CTA qualification because you can provide **clear, relevant and reasoned tax advice** to your client.

Whilst in theory it would be possible to score well on professional skills even though the technical standard of your answer was poor, this is a fairly unlikely scenario. To be assessed as competent with regard to your professional skills, it will almost certainly be necessary for you to have demonstrated reasonable technical skills.

Nevertheless, where a technical inaccuracy flows through the remainder of the answer with consequent differences in the conclusions drawn and advice offered, you could still be assessed as a competent with regard to your professional skills.

The CIOT guidance on letters and reports is included in Appendix B later in this section.

5. REVIEW

About 10 minutes before the end of the examination you should sit back and review your answer and fine tune it as needed. Make sure you have produced an **Executive Summary** and that you have included this at the **start** of the report/letter, even if you created it last.

HOW THE APS PAPER IS MARKED

The following information is a copy of the document available on the CIOT website.

Introduction

In order to secure a pass in this paper, candidates are required to demonstrate competence in each of three skills:

- Structure
- Identification and Application
- Relevant Advice and Substantiated Recommendations

Structure

Structure is assessed across the answer as a whole and a pass or fail grade will be awarded. As noted above, a fail in this skill (or in either of the other two skills) will result in an overall fail. In arriving at the result for this skill, each of the following factors will be graded as either No Fault, MINOR Fault or MAJOR Fault (with a single grade for each – i.e. a candidate cannot get multiple MINOR faults on grammar and spellings for example):

- Overall format
- Introduction and conclusion
- Clear layout with headings
- Flow of answer
- Appropriate style
- Grammar and spellings
- Appropriate calculations
- Lack of irrelevant material

A candidate will pass Structure if they have either:

1) No MAJOR faults; or
2) One MAJOR fault and no more than 3 MINOR faults.

A candidate will fail Structure if they have either:

1) Two or more MAJOR faults; or
2) One MAJOR fault and four or more MINOR faults

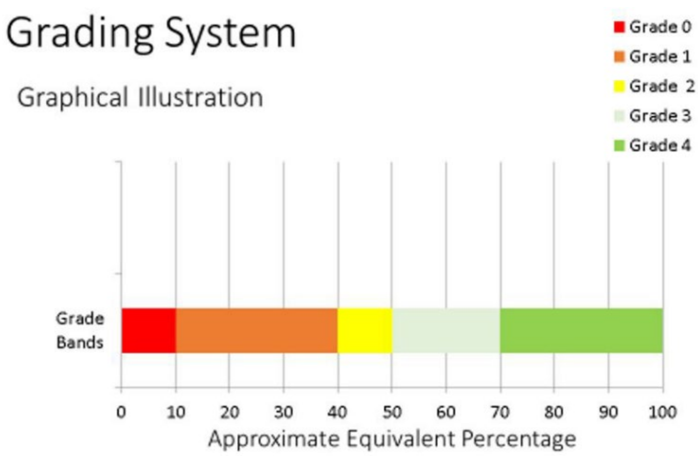
Further narrative on what is expected for each factor is set out in Appendix A. Note that a different, but appropriate style to that adopted by the examiner will not be a fault.

Identification and Application

Identification and Application is assessed for competence across a number of broad topics within the answer. There will typically be four to six topics and a grade will be awarded for performance in that topic of 0,1,2,3 or 4 as follows:

Grade	*Description*
0	Not attempted
1	Competence insufficiently demonstrated
2	Limited competence demonstrated
3	Competent
4	Highly competent

If a perfect answer represents 100%, the above grades may be considered as roughly equal to the following percentages of a perfect answer.



The grades awarded for each topic will be weighted and averaged to produce a weighted average grade for the skill across the whole answer. The weighting will reflect the importance and anticipated time required for each assessment area. The weighted average grade will be converted to a final grade of 0,1,2,3 or 4 as follows:

Weighted Average Grade	Final Grade
0.00 – 0.49	0
0.50 – 1.49	1
1.50 – 2.49	2
2.50 – 3.49	3
3.50 – 4.00	4

As noted above, a final grade of 3 is required to secure a pass, which means that candidates must achieve a weighted average grade of at least 2.5 across their answer.

For each topic the following factors will be considered:

1) Identification of issues (20% to 40%)
2) Application of technical knowledge (50% to 70%)
3) Use of information - Reference to material in question and Use of information (10% to 20%).

The relative weighting of these factors will vary from topic to topic, but typically will be in the ranges set out above.

Further narrative on what is expected for each factor is set out in Appendix A.

<u>Relevant Advice and Substantiated Recommendations</u>

The method of assessment of this skill is the same as for Identification and Application except that there will normally be fewer topics: typically between three and four topics.

For each topic the following factors will be considered:

- Questions posed by client answered AND
  Client advised what to do (20%-30%)
- Options weighed up AND
  Recommendations and conclusions supported AND
  Recommendations & conclusions weighted appropriately (30%-50%)
- Technically correct advice (10%)
- Commercial advice (20%-30%)
- Ethics and law (0%-10%)

Further narrative on what is expected for each factor is set out in Appendix A.

APPENDIX A - NARRATIVE ON ASSESSMENT FACTORS

Structure

Factor	Detail	MAJOR and MINOR faults
Overall format	The answer is set out in the format demanded. Thus, if it is a letter, it will be properly set out as a letter with addresses, date, “Dear X” and conclude “Yours sincerely” etc. If it is a report, it will give some indication as to what it is about and who it is for.	Failure to produce an answer in the required format (for example, producing a letter when a report is required, or vice versa, or producing what is essentially a memo rather than a report) will be a MAJOR fault. Having adopted the correct format, errors in the format (for example, using “Yours faithfully” when the letter starts “Dear Rashid”) will be a MINOR fault. Differences of style are not a fault.
Introduction and Conclusion/Executive Summary	The report or letter should contain an introduction setting out the terms of reference, information being relied on etc. It should also contain a summary of the key findings and recommendations in a Conclusion/ Executive Summary. (the actual content of the Conclusion/Executive Summary is marked under Relevant Advice and Substantiated Recommendations).	Omission of either the introduction or the Conclusion/Executive Summary will be a MAJOR fault. Omission of elements of the introduction will be a MINOR fault.
Clear layout with headings	The body of the letter or report should be laid out in a clear way with appropriate headings so that the reader can navigate around it easily and spot the key areas without reading the entire document to try to find a discussion of, for example, income tax on some employment related shares.	A failure to use appropriate headings will usually be a MINOR fault. If the layout is extremely poor with no headings this will be a MAJOR fault.
Flow of answer	The answer “flows” so that a logical chain of thought is presented to the reader rather than a series of random comments (which may nevertheless be technically correct).	Occasional elements of the answer not in a logical order will be a MINOR fault. An answer which is significantly jumbled will be a MAJOR fault.

Flow of answer (continued)	For example, this means that: 1) A tax rule should be explained first and then applied. 2) It may be ordered so that: all taxes on a particular topic are considered together; all topics for a tax are considered together; or perhaps all topics for a relief are considered together. What is appropriate may depend on the question. It may also be the case that different approaches to the same question could be taken.	
Appropriate Style	The style of writing should be appropriate to what is being produced. For example, a report to a client or lay person should not contain lots of legislative references. The letter/report should not be written in the form of notes.	Extensive use of brief bullet points will be a MAJOR fault. The appropriate use of lists and appropriately numbered and explained points in full sentences will not be a fault. Inclusion of some references will not always be a fault, particularly if there is a discussion (for example) about the application of a key case to the client's situation. Significant numbers of inappropriate references will be a MINOR fault.
Grammar & spellings	The letter or report should be grammatically correct and free of spelling mistakes.	In practice, an adviser is likely to use a spelling and grammar checker and accordingly occasional spelling and grammatical errors will not be a fault. A number of errors such that a client would clearly notice them will be a MINOR fault. Large numbers of errors throughout the answer such that it becomes a significant distraction for the client will be a MAJOR fault.
Appropriate calculations	The answer should contain an appropriate level of calculations. This may mean no calculations, illustrative calculations or specific calculations. Any calculations should be linked to the narrative.	Only the appropriateness of calculations is considered here. The accuracy of calculations is assessed as part of Application of Technical Knowledge Excessive calculations will be a MINOR fault.

Appropriate calculations (continued)		A failure to adequately link the odd calculation to the answer will be a MINOR fault. A failure to provide a minor calculation which might be expected but has not specifically been requested in the question will be a MINOR fault. An absence of calculations or illustrative calculations where required or a failure to link most calculations to the answer will be a MAJOR fault.
Irrelevant material	The answer should not contain large amounts of irrelevant or duplicated material.	Isolated and brief irrelevant material will not be a fault. An element of duplication is expected in that the Executive Summary (or equivalent) will summarise and refer to material elsewhere in the answer. Occasional irrelevant or duplicated material will be a MINOR fault Large quantities of irrelevant or duplicated material will be a MAJOR fault.

<u>Identification and Application</u>

Factor	**Detail**	**Weighting of Factor for each Topic**	**Grading Guidance**
Identification of issues	The issues which are specific to the client and the requirement of the question should be identified. This covers not only the requirements identified by the client but also issues which the candidate should identify from the information as important to the client.	20%-30%	1 = The issues specific to the client and the requirements of the question have not been identified or have only been identified to a very limited extent. 2 = The requirements of the question have been identified and some issues specific to the client have been identified to a very limited extent. 3 = The requirements of the question have been identified and most issues specific or important to the client have been identified including some of those which may not be spelt out in the question or referred to by the client. Explanations are of a satisfactory standard. 4 = All requirements of the question have been identified and all or virtually all issues specific or important to the client have been identified and clearly explained.

Application of technical knowledge	Technical information provided is correct and has been applied correctly to the specific circumstances of the question. As part of this, the accuracy of calculations will also be considered. However the focus is primarily on the method rather than the arithmetical accuracy. The application of knowledge includes its indirect application to other taxes which may be relevant to the scenario	50%-70%	1 = The technical information provided is largely incorrect and it has not been applied to the specific circumstances of the question 2 = The technical information is broadly correct, but it has not been provided for all issues identified or it hasn't been applied to the specific circumstances of the question. 3 = The technical information is correct except for minor points and has been provided for all issues identified and to the circumstances of the question. There may be some minor lack of clarity in explanations or in the quality of explanations. 4 = Technical information is correct except for very minor points, is applied appropriately and is clearly explained. Calculations are largely arithmetically correct as well as correct in their method.
Use of information Reference to question	Information provided to the candidate in the question has been used appropriately. Candidate has referred back to question where appropriate.	10%-20%	1 = Little reference back to material in question nor has information in the question been used appropriately. 2 = Some attempt to refer to information provided or use information appropriately. 3 = A reasonable attempt has been made to use information provided in an appropriate way. 4 = Very good attempt to use information provided in an appropriate way.

Relevant Advice and Substantiated Recommendations

Factor	Detail	Weighting of Factor for each Topic	Grading Guidance
Questions posed by client answered Client advised what to do	Any questions posed by the client must be answered and advice provided. A client comes to a Chartered Tax Adviser to be advised as to what to do. This means that they should not simply be presented with a series of factually correct observations and then left to interpret what they should do, but instead should receive considered and appropriate advice recommending what they should do.	20%-30%	**Key Question - "What should I do?"** The key element of this factor is that the client is advised what to do. Merely answering specific factual questions posed by the client (for example, "Is transaction X taxable?" carries little weight in the assessment as this should be a given in any answer. Open questions like "should I do x or y?" require the client to be told what to do. Questions may also be implied rather than explicitly set out in the question. 1 = Some attempt has been made to answer any specific factual questions posed by the client but no attempt has been made to tell the client what they should do. Implied questions are not answered. 2 = All Specific factual questions posed by the client have been answered and a limited attempt has been made to tell the client what they should do. Some implied questions may have been identified. 3 = All specific factual questions posed by the client have been answered. A reasonable attempt has been made to advise the client what to do. Implied questions have been identified but the advice may not be fully developed. 4 = All questions have been answered and good advice has been provided to the client on what to do.

Options weighed up Recommendations and conclusions supported Recommendations & conclusions weighted appropriately	The various options available to the client should be weighed up for the client so that the client is better able to make an informed decision. This should include the pros and cons. It should also include a consideration of any knock-on effects of the advice on other taxes. Recommendations and conclusions should be supported by the main body of the answer. Recommendations and conclusions should be weighted appropriately for importance. Importance is likely to be financial, but it may be wider than this, for example risk.	30%-50%	**Key Question - "Why should I do it?"** The key element of this factor is demonstration by the candidate of the ability to weigh up options, taking account of the pros and cons. In scoring this, the examiner will ask the question "Do I understand the issues and the rationale for the conclusions given?" 1 = Little attempt to set out the pros and cons of the alternatives nor to weigh them up. 2 = The pros and cons of each alternative have been set out but they have not been weighed up for importance and impact for the client. Recommendations and conclusions are not fully supported by the main body of the answer and knock-on effects of the advice have not been considered except in passing. 3 = Pros and cons have been set out and they have been weighed up for importance and impact for the client. They will be supported by the main body of the report. Some attempt has been made to consider the knock on effect on other taxes, where relevant. The relative weighting of recommendations may not be entirely appropriate. 4 = Pros and cons are set out and weighted appropriately for importance and impact. Good consideration has been given to knock-on effects on other taxes. The relative weighting of recommendations is appropriate and all recommendations are supported by the body of the answer.
Technically correct advice and recommendations	Advice and recommendations provided to the client should be technically correct. That this is a grading of the advice and recommendations provided: the application of technical skills (for	10%	**Key Question - "Is the advice correct?"** 1 = There are material failings in the technical advice provided. 2 = Whilst the advice may largely be technically correct, on key areas there are areas of

Technically correct advice and recommendations (continued)	example to discuss either something which is purely factual or as analysis before advice is covered in Identification and Application. The score will therefore mainly (but not exclusively) relate to the Executive Summary (or equivalent).		contradiction where the candidate seems unclear on the correct position. Alternatively, there may be incorrect technical advice on relatively minor areas which would fundamentally change the recommendations. 3 = In relation to all key areas, the advice provided is technically correct. In some minor and unimportant areas which would not affect the overall recommendations, the advice may not be complete or technically correct. There are no significant contradictions in technical advice. 4 = The advice provided is technically correct.
Commercial and wider advice	Advice provided should not simply provide an answer which produces the best tax outcome, but should also consider the wider position to ensure that the advice is appropriate. It <u>may</u> include a consideration of: i. Commercial/financial outcomes ii. How HMRC may view the advice/transactions. iii. Practical/operational factors iv. Social/environmental/technical /funding issues The above list is not exhaustive as the issues identified should be appropriate to the scenario. Candidates are not expected to go into depth on the above areas but should be evidencing an appreciation that their advice should not be seen in isolation. It is important to recognise that better answers will add value to the client.	20% - 30%	**Key Question – "Has the candidate demonstrated a wider thought process?"** 1 = The advice provided is in isolation and there has been no significant attempt to consider the wider implications. 2 = There has been a limited attempt to consider the wider implications of the advice but this is incomplete or impractical. 3 = There has been a reasonable attempt to consider wider implications, including for example how HMRC may consider the transaction or what further advice from other professionals may be required. There may be minor elements of the advice that are not entirely commercial, or practical 4 = There has been a good attempt to consider the commercial implications of the advice including wider issues. Advice given is commercial. The client is likely to feel that the answer has added value.

Ethics and law	Where the topic contains matters on which candidates are expected to comment on legal or ethical matters, credit will be available. On some topics there may be no expectation of comment and hence no credit available	0%-10%	1 = Some ethical and legal issues identified but with little explanation of the implications nor recommendations. 2 = Ethical and legal issues identified with explanation of implications but little in the way of recommendations. 3 = Ethical and legal issued identified and implications explained with recommendations made. The weighting within the answer may not be appropriate. 4 = All elements covered appropriately.

Although there may or may not be specific information that is expected on ethics and law for which positive credit may be available, it needs to be recognised that unethical or illegal advice is a serious issue and that simply scoring 0 on a maximum of 10% of the score for a topic is not an appropriate penalty. As a result, where a candidate advises a client to undertake an illegal act or to take actions which are clearly not ethical they will be penalised by way of a downward adjustment to the score they would otherwise have achieved for this skill. Depending on the circumstances this may result in a fail irrespective of the quality of the rest of the answer. It is expected that it will be rare that this adjustment is applied.

APPENDIX B - THE FORMAT OF LETTERS AND REPORTS

Introduction

Structure is one of the three skills assessed in the Application and Professional Skills paper. The purpose of this note is to provide some further guidance on letters and reports.

Letters and Reports

The APS questions always either require the candidate to produce a letter or require the candidate to produce a report. Reports and letters are not the same thing and it is therefore vital that candidates produce the correct document.

Whilst it is recognised that candidates will be trained to produce letters and reports in the house style for their firm and therefore there is not a single prescribed format required for the exam, it is also clear that significant numbers of candidates would appreciate guidance from us as to how they may be formatted. A different but appropriate presentation is not penalised. For clarity, we have flagged below comments relating to style which are not penalised using STYLE

General Points for both Letters and Reports

1. Abbreviations may be used in the answer. They should be defined on their first use, for example Business Property Relief ("BPR"). There is no need to produce a separate list of abbreviations (although this will not lose credit, it will not gain credit).

2. Full sentences should be used throughout, including when any lists or bullet points are used.

3. Unless the question provides information to the contrary, candidates may assume that the letter/report is covered by the engagement letter and accordingly there is no need to refer to the engagement letter in their answer.

Letters

1. The requirement to produce a letter will only be used in questions where the candidate is advising their client and not for situations where the candidate is, for example, the in-house tax manager.

2. The letter should include the address of the sender, the name and address of the client and the date. Where the address is given in the question, this should be used in the answer. Where the address is not given, "Your address" and "My address" may be used or an address may be invented. Whilst the address of the client should always be at the top of the letter, candidates may if they wish have the details of their firm elsewhere (e.g. the bottom of the first page) as would be the case for headed notepaper – STYLE. In terms of formatting within the constraints of the exam it is likely to be easier to adopt a normal business format of the firm's address in the top right with the client's address on the left.

3. Candidates may if they wish include a filing reference, however there is no requirement to do so - STYLE.

4. If the client is referred to by their title throughout the question (for example Mr Brown) or if the title is used in correspondence between adviser and the client (in the Exhibits), the title should be used in the salutation (for example Dear Mr Brown). Normally however, the question will use forenames throughout and the salutation should therefore do this (for example, Dear Alex).

5. After the salutation, there should be a heading appropriate for the content/purpose of the letter.

6. There should then be an introduction briefly setting out the background to the letter and the information on which it is based (for example a letter from the client) and any limitations.

7. Where the letter to and about individuals it should use “you” throughout unless there are two clients (for example husband and wife) in which case for clarity it may be necessary to use their names (for example, David should do X while Mary should do Y). Where the client is a company, the letter should say “the Company should” or “G Ltd should” - STYLE. It should not jump between “I” and “we”.

8. As the letter will be from one person to another, it should be written in the first person, thus, “I recommend” not “it is recommended”. STYLE

9. If there are calculations, (for example comparing option A with option B) it may be appropriate for these to be in an enclosure to the letter rather than in the main body of the letter.

10. In the body of the letter, conclusions and recommendations should be drawn out at appropriate points. For example, if a section of the letter considers whether a company should be sold, at the end of that section there should be a conclusion on this point.

11. The letter should include a section summarising the key advice and recommendations. This may either follow the introduction or be at the end of the letter. As the letter is a more personal document than a report, “Conclusions” is likely to be a more appropriate term than “Executive Summary” - STYLE. There should be sufficient information that the recipient can understand the recommendations without reading the detailed analysis. It should not provide new analysis on a particular topic, but may combine or draw together conclusions from the body of the letter. For example, the body of the letter may include sections on two separate points each of which has a conclusion which potentially conflict. The Conclusion may refer to those conclusions and weigh them up in making a final recommendation.

12. There should not be two separate Conclusions sections at the beginning and end of the letter as they are likely to be largely the same and will waste time (although it will not lose credit).

13. The letter should conclude with “Yours sincerely”.

<u>Reports</u>

1. A report will always be required in questions where the candidate is not an adviser in practice (for example, where the candidate is an in-house tax manager). In questions where the candidate is an adviser in practice, a report will often be required.

2. It should start with a heading setting out who the report is to and what is the subject of the report.

3. There is no need to produce a contents page. Although this will not lose credit, it will not gain credit.

4. The introduction should confirm who the report is for and say who may rely on it. It should briefly set out the information on which it is based (for example a letter from the client) and any limitations. The adviser’s name and date of the report may follow this or be at the end of the report. The address may be included.

5. In the body of the report, conclusions and recommendations should be drawn out at appropriate points. For example, if a section of the report considers whether a company should be sold, at the end of that section there should be a conclusion on this point.

6. The Executive Summary summarises the main advice and recommendations. There should be sufficient information so that the recipient can understand the recommendations without reading the detailed analysis. It should not provide new analysis on a particular topic, but may combine or draw together conclusions from the body of the report. For example, the body of the report may include sections on two separate points each of which has a conclusion which potentially conflict. The Executive Summary may refer to those conclusions and weigh them up in making a final recommendation.

7. There should not be a separate Conclusions section at the end of the report as well as the Executive Summary as this is likely to be largely the same and will waste time (although it will not lose credit).

8. Rather than using “you should” the report will normally use the client’s name (for example “Peter should” or “the company should”), particularly where the report is addressed to a group of people (for example the Board of directors) - STYLE.

9. The report may be written in the third person, thus “it is recommended”. Where the report is from a firm of advisers, if the first person is used, “we recommend” will be more appropriate than “I recommend” - STYLE. Whichever form is chosen, it should be used throughout the report.

CTA EXAMINATIONS

2025

TAX TABLES

INCOME TAX - RATES AND THRESHOLDS

	2024/25	2023/24
Rates	%	%
Starting rate for savings income only	0	0
Basic rate for non-savings and savings income only	20	20
Higher rate for non-savings and savings income only	40	40
Additional and trust rate for non-savings and savings income	45	45
Dividend ordinary rate	8.75	8.75
Dividend upper rate	33.75	33.75
Dividend additional rate and trust rate for dividends	39.35	39.35
Thresholds	£	£
Savings income starting rate band	1 – 5,000	1 – 5,000
Basic rate band	1 – 37,700	1 – 37,700
Higher rate band	37,701 – 125,140	37,701– 125,140
Dividend allowance	500	1,000
Savings allowance		
– Taxpayer with basic rate income	1,000	1,000
– Taxpayer with higher rate income	500	500
– Taxpayer with additional rate income	Nil	Nil
Standard rate band for trusts	N/A	1,000
Scottish Tax Rates(1)	%	%
Starter rate	19	19
Scottish basic rate	20	20
Intermediate rate	21	21
Higher rate	42	42
Advanced rate	45	N/A
Top rate	48	47
Scottish Tax Thresholds(1)	£	£
Starter rate	1 – 2,306	1 – 2,162
Scottish basic rate	2,307 – 13,991	2,163 – 13,118
Intermediate rate	13,992 – 31,092	13,119 – 31,092
Higher rate	31,093 – 62,430	31,093 – 125,140
Advanced rate	62,431 – 125,140	N/A
Top rate	125,140+	125,140+

INCOME TAX - RELIEFS

	2024/25	2023/24
	£	£
Personal allowance(2)	12,570	12,570
Married couple's allowance(3)	11,080	10,375
– Maximum income before abatement of relief - £1 for £2	37,000	34,600
– Minimum allowance	4,280	4,010
Transferable Tax allowance for married couples and civil partners(4)	1,260	1,260
Blind person's allowance	3,070	2,870
Enterprise investment scheme relief limit(5)	1,000,000	1,000,000
Venture capital trust relief limit	200,000	200,000
Seed enterprise investment scheme relief limit	200,000	200,000
De minimis trusts amount	500	N/A

Notes:
(1) Scottish taxpayers pay Scottish income tax on non-savings income.
(2) The personal allowance of any individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(3) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
(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.

CTA EXAMINATIONS
2025
TAX TABLES

ISA limits	**2024/25**	**2023/24**
Maximum subscription:	£	£
'Adult' ISAs	20,000	20,000
Junior ISAs	9,000	9,000

Pension contributions

	Annual allowance(1)	**Minimum pension age**
	£	
2023/24	60,000	55
2024/25	60,000	55

Basic amount qualifying for tax relief £3,600

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.

Employer Supported Childcare	**2024/25**	**2023/24**
Exemption – basic rate taxpayer(2)	£55 per week	£55 per week

Note: (2) 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.

ITEPA mileage rates

Car or van(3)	First 10,000 business miles	45p
	Additional business miles	25p
Motorcycles		24p
Bicycles		20p
Passenger payments		5p

Note: (3) For NIC purposes, a rate of 45p applies irrespective of mileage.

INCOME TAX - BENEFITS

Car benefits – 2024/25

Emissions	**Electric range (miles)**	**Car benefit %(4)**	
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: (4) 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	**2024/25**	**2023/24**
	£	£
	27,800	27,800

CTA EXAMINATIONS

2025

TAX TABLES

Van benefits	2024/25	2023/24
	£	£
No CO_2 emissions	Nil	Nil
CO_2 emissions > 0g/km	3,960	3,960
Fuel benefit for vans	757	757
Official rate of interest	2.25%	2.25%

INCOME TAX - CHARGES

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

CAPITAL ALLOWANCES

Annual investment allowance for plant and machinery (AIA)(1)	100%
WDA on plant and machinery in main pool(2)	18%
WDA on plant and machinery in special rate pool(3)	6%
WDA on patent rights and know-how	25%
WDA on structures and buildings (SBA) (4)	3%

Notes: (1) On first £1,000,000 of investment in plant & machinery (not cars).
(2) The main pool rate applies to cars with CO_2 emissions of not more than 50g/km (prior to April 2021 not more than 110g/km).
(3) The special pool rate applies to cars with CO_2 emissions greater than 50g/km (prior to April 2021 greater than 110g/km).
(4) A 10% rate applies in respect of special tax site expenditure.

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 that either emit 0g/km of CO_2 (50g/km prior to April 2021) or are electric (until 1 April 2025).
Electric vehicle charging points (until 1 or 6 April 2025).

First year allowances (FYA) available to companies only

	Main pool assets	Special rate pool assets
Expenditure on new plant and machinery (other than cars) from 1 April 2023 onwards (5)	100%	50%
Expenditure on new plant and machinery (other than cars) in a special tax site	100%	100%

Notes: (5) 130% for main pool expenditure and 50% for special rate pool expenditure between 1 April 2021 and 31 March 2023.

INCOME TAX - SIMPLIFICATION MEASURES

	2024/25	2023/24
	£	£
'Rent-a-room' limit	7,500	7,500
Property allowance/Trading allowance	1,000	1,000

Flat Rate Expenses for Unincorporated Businesses

Motoring expenses			
Cars or vans	First 10,000 business miles		45p per mile
	Additional business miles		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

CTA EXAMINATIONS
2025
TAX TABLES

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits	2024/25 Annual	2024/25 Monthly	2024/25 Weekly	2023/24 Annual	2023/24 Monthly	2023/24 Weekly
Lower earnings limit (LEL)	£6,396	£533	£123	£6,396	£533	£123
Primary threshold (PT)	£12,570	£1,048	£242	£12,570	£1,048	£242
Secondary threshold (ST)	£9,100	£758	£175	£9,100	£758	£175
Upper earnings limit (UEL)	£50,270	£4,189	£967	£50,270	£4,189	£967
Upper secondary threshold for under 21 (UST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Apprentice upper secondary threshold for under 25 (AUST)	£50,270	£4,189	£967	£50,270	£4,189	£967
Special tax sites upper secondary threshold	£25,000	£2,083	£481	£25,000	£2,083	£481

	2024/25	2023/24
Class 1 primary contribution rates		
Earnings between PT and UEL	8%	12%
Earnings above UEL	2%	2%
Class 1 secondary contribution rates		
Earnings above ST (1)	13.8%	13.8%

Note: (1) Rate of secondary NICs between the ST and the UST, AUST & special tax sites upper secondary threshold is 0%.

	2024/25	2023/24
Employment allowance		
Per year, per employer	£5,000	£5,000
Class 1A contributions	13.8%	13.8%
Class 1B contributions	13.8%	13.8%
Class 2 contributions		
Rate	£3.45 pw	£3.45 pw
Small profits threshold (SPL) (2)	£6,725	£6,725
Lower profits limit (LPL)	N/A	£12,570

Note: (2) From 2024/25, 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.

	2024/25	2023/24
Class 3 contributions	£17.45 pw	£17.45 pw
Class 4 contributions		
Annual lower profits limit (LPL)	£12,570	£12,570
Annual upper profits limit (UPL)	£50,270	£50,270
Percentage rate between LPL and UPL	6%	9%
Percentage rate above UPL	2%	2%

OTHER PAYROLL INFORMATION

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
Statutory sick pay	£116.75 per week

CTA EXAMINATIONS

2025

TAX TABLES

Student Loan	Plan 1:	9% of earnings exceeding £24,990 per year (£2,082.50 per month/ £480.57 per week)
	Plan 2:	9% of earnings exceeding £27,295 per year (£2,274.58 per month /£524.90 per week)
	Plan 4:	9% of earnings exceeding £31,395 per year (£2,616.25 per month /£603.75 per week)
Postgraduate Loan		6% of earnings exceeding £21,000 per year (£1,750 per month/£403.84 per week)

National living/minimum wage (April 2024 onwards)

Category of Worker	**Rate per hour** £	**Category of Worker**	**Rate per hour** £
Workers aged 21 and over	11.44	16–17 year olds	6.40
18–20 year olds	8.60	Apprentices	6.40

Accommodation Offset £9.99 per day

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%

CAPITAL GAINS TAX

	2024/25	**2023/24**
Annual exempt amount for individuals	£3,000	£6,000
CGT rates for individuals, trusts and estates		
Gains qualifying for business asset disposal(1)/investors' relief	10%	10%
Gains for individuals falling within remaining basic rate band(2)	10%	10%
Gains for individuals exceeding basic rate band and gains for trusts and estates(3)	20%	20%

Notes: (1) Formerly called entrepreneurs' relief
(2) The rate is 18% if the gain is in respect of a residential property
(3) The rate is 24% (28% in 2023/24) if the gain is in respect of a residential property

Business Asset Disposal relief	**2024/25**	**2023/24**
Relevant gains (lifetime maximum) (4)	£1 million	£1 million
Investors' relief		
Relevant gains (lifetime maximum)	£10 million	£10 million

Note: (4) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million.

Lease percentage table

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

CTA 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

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%
Patent rate	10%	10%

EU definition of small and medium sized enterprises

	Small (2)	Medium (2)	Extended definition for R&D expenditure
Employees(1)	< 50	< 250	<500
Turnover(1)	≤ €10m	≤ €50m	≤ €100m
Balance sheet assets(1)	≤ €10m	≤ €43m	≤ €86m

Notes: (1) Must meet employees criteria and either turnover or balance sheet assets criteria.
(2) Thresholds apply for transfer pricing and distributions received by small companies.

CTA EXAMINATIONS

2025

TAX TABLES

Research and development expenditure

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

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

Note: (1) From 1 April 2024 the merged scheme RDEC is available to all companies.

VALUE ADDED TAX

	Standard rate	**VAT fraction**
Rate	20%	1/6

Limits	**2024/25**	**2023/24**
	£	£
Annual registration limit	90,000	85,000
De-registration limit	88,000	83,000

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

ADVISORY FUEL RATES (as at 1 March 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

OTHER INDIRECT TAXES

	2024/25	**2023/24**
Insurance premium tax(2)		
Standard rate	12%	12%
Higher rate	20%	20%

Notes: (2) Premium is tax inclusive ($^3/_{28}$ for 12% rate and $^1/_6$ for 20% rate).

Landfill Tax (pro rated for part tonnes)		
Standard rate	£103.70 per tonne	£102.10 per tonne
Lower rate	£3.30 per tonne	£3.25 per tonne
Landfill Communities Fund (LCF) (3)	5.3% x landfill tax liability	5.3% x landfill tax liability

Notes: (3) Relief for 90% of qualifying contributions

Aggregates Levy (pro rated for part tonnes)	£2.03 per tonne	£2 per tonne
Plastic Packaging Tax (PPT) (pro rated for part tonnes)	£217.85 per tonne	£210.82 per tonne

CTA EXAMINATIONS

2025

TAX TABLES

Climate Change Levy (CCL)[1]

Electricity	0.775p per kwh	0.775p per kwh
Natural gas	0.775p per kwh	0.672p per kwh
Liquified petroleum gas (LPG)	2.175p per kg	2.175p per kg
Any other taxable commodity	6.064p per kg	5.258p per kg

Carbon Price Support (CPS) rates

Natural gas	0.331 per kwh	0.331 per kwh
LPG	5.28p per kg	5.28p per kg
Coal & other taxable solid fossil fuels	£1.5479 per GJ on GCV	£1.5479 per GJ on GCV

Tobacco products duty	**From 22.11.2023**	**From 15.03.2023**
Cigarettes	16.5% x retail price + £316.70 per thousand cigarettes (or £422.80 per thousand cigarettes [2])	16.5% x retail price + £294.72 per thousand cigarettes (or £393.45 per thousand cigarettes [2])
Cigars	£395.03 per kg	£367.61 per kg
Hand-rolling tobacco	£412.32 per kg	£351.03 per kg
Other smoking/chewing tobacco	£173.68 per kg	£161.62 per kg
Tobacco for heating	£325.53 per kg	£302.93 per kg

Alcohol Duty[3] **From 1 August 2023 to 1 February 2025**

	Duty in £ for each litre of pure alcohol in the product		Duty in £ for each litre of pure alcohol in the product
Beer (ABV)		**Spirits/Spirit based products (ABV)**	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	21.01	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
Cider (not sparkling) (ABV)		**Wine/sparkling wine (ABV)**	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 8.4%	9.67	3.5% to 8.4%	24.77
8.5% to 22%	28.50	8.5% to 22%	28.50
Stronger than 22%	31.64	Stronger than 22%	31.64
Sparkling cider (ABV)		**Other fermented products like fruit ciders (ABV)**	
0 to 1.2%	0.00	0 to 1.2%	0.00
1.3% to 3.4%	9.27	1.3% to 3.4%	9.27
3.5% to 5.5%	9.67	3.5% to 8.4%	24.77
5.6% to 8.4%	24.77	8.5% to 22%	28.50
8.5% to 22%	28.50	Stronger than 22%	31.64
Stronger than 22%	31.64		

Notes: (1) For holders of a Climate Change agreement (CCA), the rate charged is a percentage of the main rate given in the table. For 2024/25 (2023/24 in brackets) for electricity the rate is 8% (8%), for gas it is 11% (12%), for LPG it is 23% (23%) and 11% (12%) for any other taxable commodity

(2) The £422.80/£393.45 per thousand cigarettes is a minimum excise duty (if higher than the first calculation)

(3) There are reduced rates for qualifying draught products

CTA EXAMINATIONS

2025

TAX TABLES

INHERITANCE TAX

Death rate	40%[3]	**Lifetime rate**	20%

Note: (3) 36% rate if 10% or more of the deceased person'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[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 > £2million.

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

ANNUAL TAX ON ENVELOPED DWELLINGS (ATED)

Residential property value	**From 1.4.24**	**From 1.4.23**
>£0.5m - ≤ 1m	£4,400	£4,150
> £1m - ≤ 2m	£9,000	£8,450
> £2m – ≤ 5m	£30,550	£28,650
> £5m – ≤ 10m	£71,500	£67,050
> £10m – ≤ 20m	£143,550	£134,550
> £20m	£287,500	£269,450

STAMP DUTY/SDRT

Stamp duty[1]	- On shares transferred by physical stock transfer form	0.5%
Stamp duty reserve tax (SDRT)[2]	- On agreements to transfer shares[2]	0.5%
	- On shares transferred to depositary receipt schemes	1.5%

Notes: (1) Does not apply to UK securities traded on a recognised growth market (eg AIM).
(2) Does not apply to units in UK unit trust schemes or shares in UK OEICS bought from fund managers.

CTA EXAMINATIONS

2025

TAX TABLES

STAMP DUTY LAND TAX (SDLT)

Qualifying purchases in a Freeport receive full SDLT relief

Stamp Duty Land Tax on purchase price / lease premium / transfer value – England & NI

Basic Rate %(3)(4)(5)(6)	Residential(3)(4)(5)(6)	Rate %	Non-Residential
0	£0 - £250,000	0	£0 - £150,000
5	£250,001 - £925,000	2	£150,001 - £250,000
10	£925,001 - £1,500,000	5	£250,001 +
12	£1,500,001+		

Notes: (3) The basic rates are increased by 3% (the 'higher rates') where the purchase is of an additional residential property for individuals. Companies and trusts pay the additional 3% on all purchases of residential properties, subject to Note 4 below.

(4) Companies (and certain other entities) pay 15% on purchases of residential property valued > £500,000 (subject to exceptions).

(5) First-time buyers purchasing a single dwelling as their only/main residence may benefit from a reduced rate. (This includes qualifying shared ownership properties.) SDLT will not be due on properties up to £425,000. For homes between £425,000 and £625,000, SDLT will be payable at 5% on the amount above the £425,000 threshold. Homes bought for more than £625,000 will incur the rates as per column 1 in above table.

(6) Non-resident individuals and companies will pay an additional 2% surcharge for purchases of residential property. This is in addition to the basic rate, the higher rate (where applicable, in Note 3), and the 15% rate (where applicable, in Note 4).

New leases – Stamp Duty Land Tax on lease rentals – England & NI

Rate (%)	Net present value of rent	
	Residential	**Non-residential**
0	Up to £250,000	Up to £150,000
1	Excess over £250,000	£150,001-£5m
2	N/A	Over £5m

Land and Buildings Transaction Tax (LBTT) on purchase price – Scotland

Basic Rate %(1)(2)(3)	Residential	Rate %(1)	Non-Residential
0	up to £145,000	0	£0 - £150,000
2	£145,001 - £250,000	1	£150,001 - £250,000
5	£250,001 - £325,000	5	£250,001 +
10	£325,001 - £750,000		
12	£750,001 +		

Notes: (1) Rates are charged on the portion of consideration that falls in each band. The same tax is payable for a premium granted for a land transaction, except for residential leases which are generally exempt. Special rules apply to a premium for non-residential property where the rent exceeds £1,000 a year.

(2) The 'Additional Dwelling Supplement' of 6% of the relevant consideration applies broadly to purchases of an additional dwelling by individuals & trusts (over which the beneficiary has substantial rights) & to purchases of a dwelling by certain businesses, companies & other trusts.

(3) There is a relief for first-time buyers where a 0% rate is applied to the first £175,000 of the purchase consideration.

New leases – Land and Buildings Transaction Tax (LBTT) on lease rentals - Scotland

Rate (%)	Net present value of rent(4)
	Non-residential
Zero	Up to £150,000
1%	£150,001 to £2,000,000
2%	£2,000,001+

Note: (4) Residential leases are generally exempt

CASE STUDIES

1. You are the Tax Director of the in-house tax department at Dubfast & Glasburgh Group plc, the parent company of a group of wholly owned UK tax resident subsidiaries.

   The Board recently commissioned a report from external consultants, Berdad Partners, on how to develop the group's business. Berdad Partners recommended the disposal of the group's property portfolio and moving the business into online retailing.

   The Board has accepted the suggestions of Berdad Partners and has identified four ways in which a disposal of the property portfolio might be undertaken:

   1) selling the properties directly;

   2) selling DG Propco Ltd;

   3) transferring the properties to a new subsidiary company, Newco, incorporated by Dubfast & Glasburgh Group plc and then selling Newco; or

   4) transferring the properties to a new subsidiary company, Newco, also incorporated by Dubfast & Glasburgh Group plc and then inviting a share subscription to Newco from external investors.

   The Board has also written an investment plan for the development of an online retail business.

   George Remworth, Chief Financial Officer at Dubfast & Glasburgh Group plc, has asked you to write a report to the Board, based on currently available information, recommending which of the four identified disposal methods will maximise the post-tax sale proceeds and will best meet the Board's commercial objectives.

   The following exhibits are provided to assist you:

   EXHIBIT A: Extracts from the report by Berdad Partners

   EXHIBIT B: Information on DG Propco Ltd

   EXHIBIT C: Extracts from the investment plan for the proposed online business

   EXHIBIT D: Pre-seen information

   Requirement:

   Write a report to the Board of Dubfast & Glasburgh Group plc recommending the disposal method that will maximise the post-tax sale proceeds and best meet the commercial objectives.

   Assume that you are writing in November 2025.

EXHIBIT A

Extracts from the report by Berdad Partners

Overview

It is anticipated that within a period of 10 years, retailing will evolve so that selling in stores (whether "high street" or on retail parks and similar) will decline substantially and online selling will increase to become the dominant retail method.

In consequence of these changes, we expect that the demand for retail premises will decline and rents will fall. Accordingly, the value of retail properties will also decline over this period.

We believe that the long-term future of successful retail is in online selling. The Group should adopt a strategy of moving from high street/retail park selling to online retailing, over a 10-year timeframe.

Online retail involves holding stock in warehouses and delivering that stock directly to customers from those warehouses.

Recommendations

As the capital value of the retail properties will decline, we recommend that all properties are sold as soon as possible. At the same time, you should enter into short leases (of not more than 10 years duration) with the new owners so that you can continue to trade from the properties for up to 10 years.

You should consider selling the properties as a single portfolio because individual sales would take longer, thus reducing sales proceeds and delaying receipts needed for reinvestment. There is likely to be demand from specialist property companies and external investors.

Proceeds from the sale of retail properties should be reinvested in a network of warehouses, and a bespoke IT system, to move towards full online retailing.

Berdad Partners

15 October 2025

EXHIBIT B

Information on DG Propco Ltd

Background

DG Propco Ltd was a trading company until 1979, when it was renamed and became a property holding company. All group properties are currently owned by DG Propco Ltd, and all secured borrowings are held by DG Propco Ltd.

The shares of DG Propco Ltd are owned by Dubfast & Glasburgh Group plc. They have a capital gains base cost at 31 March 1982 of £60 million.

DG Propco Ltd's Statement of Financial Position as at 31 December

	2024 £ million	2023 £ million
Fixed assets:		
Land and buildings	1,700	1,900
Long term debt	(600)	(650)
Net assets	1,100	1,250
Equity:		
Share capital	200	200
Revaluation reserve	850	1,050
Reserves	50	0
Total equity	1,100	1,250

Properties

Category	Total cost £ million	Current total market value (Note 3) £ million	Current borrowings secured against properties £ million
Category A: 23 retail properties acquired before 31 March 1982 (Note 1)	50	750	250
Category B: 37 retail properties acquired between 1 April 1982 and 31 December 2018 (Note 2)	300	980	350

Notes

1. The total market value of Category A properties is estimated to have been £200 million at 31 March 1982.

2. The Category B properties were purchased at regular intervals; approximately one every year.

3. All properties have increased in value by more than the retail price index.

Capital Allowances

No expenditure qualifies for Structures & Buildings Allowance.

DG Propco Ltd's plant & machinery capital allowances pool is all in respect of building fixtures with an original cost of £30 million.

EXHIBIT C

Extracts from the investment plan for the proposed online business

Year of expenditure	Nature of proposed investment	Estimated cost
		£ million
2025	Online trade feasibility studies	20
2026	Software development	10
2026	Warehouses (Note)	225
2027	Software development	30
2027	Warehouses (Note)	525
2028	Warehouses (Note)	230
2029	Warehouses (Note)	100
		1,140

Note

It is estimated that of the total expenditure on warehouses 20% will be to buy land on which the warehouses will be built and 25% will qualify for plant & machinery capital allowances.

EXHIBIT D

Pre-seen information

Group information

Parent company name:	Dubfast & Glasburgh Group plc
Date of incorporation:	1 June 1900
Country of incorporation:	United Kingdom
Ownership:	Quoted company; shares listed on London Stock Exchange; no large or significant minority shareholders.
Chief Financial Officer:	George Remworth
Number of employees in group:	15,000

Nature of business

The business was founded at the start of the 20th century by Mr Dubfast and Mr Glasburgh and has traded continuously ever since.

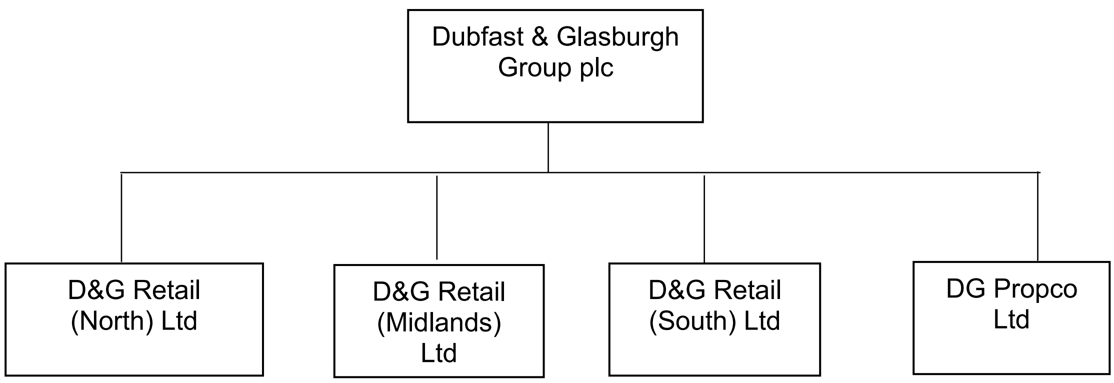
Dubfast & Glasburgh Group plc was listed on the London Stock Exchange in 1996, which provided funds to enable the group to purchase properties, open new stores and buy existing businesses. Since then, the group has borrowed large amounts, much of it secured on its property portfolio, to enable further expansion to be undertaken.

The group trades as a retailer of a wide range of goods sold from 60 department stores. Each of the stores is operated by one of three trading subsidiary companies of Dubfast & Glasburgh Group plc.

The group's freehold properties are all owned by another subsidiary company, DG Propco Ltd. This company charges rents to the trading companies.

All group companies are UK tax resident and wholly owned.

Group structure



Summarised group financial information

Accounts are prepared annually to 31 December for all companies.

Consolidated Income Statement for the year ended 31 December

	2024 £ million	2023 £ million
Revenue	4,844	5,105
Cost of sales	(3,625)	(3,645)
Gross profit	1,219	1,460
Administrative expenses	(1,126)	(1,310)
Operating profit/(loss)	93	150
Finance expense	(43)	(45)
Profit / (loss) before tax	50	105
Tax expense	(10)	(20)
Profit after tax	40	85

Consolidated Statement of Financial Position as at 31 December

	2024 £ million	2023 £ million
Fixed assets		
Land & buildings	1,700	1,900
Plant & machinery	155	173
Intangibles	700	800
Net current assets	1,250	1,200
Current liabilities	(300)	(200)
Long term creditors	(800)	(850)
Net assets	2,705	3,023
Equity		
Share capital	1,300	1,300
Revaluation reserve	850	1,050
Reserves	555	673
Total equity	2,705	3,023

Corporation Tax

All Company Tax returns for the accounting period ended 31 December 2024 were submitted on 10 October 2025. All previous returns were submitted within the statutory deadlines. There are no open enquiries with HMRC into any of the returns.

Capital allowances brought forward amounts at 1 January 2025

Company	Main Pool Tax Written Down Value (TWDV) b/f £ million
Dubfast & Glasburgh Group plc	5
D&G Retail (North) Ltd	5
D&G Retail (Midlands) Ltd	5
D&G Retail (South) Ltd	5
DG Propco Ltd	10

Losses brought forward at 1 January 2025

Dubfast & Glasburgh Group plc has capital losses brought forward at 1 January 2025 of £400 million, which arose in 2021 after the failure of a USA retail business that had been acquired in 2019.

There are no trading or other unutilised losses in the group at 31 December 2024.

Value Added Tax (VAT)

There is a VAT group registration in place for all companies within the group.

All the group's outputs are taxable, so it recovers all input tax.

No options to tax have been made in respect of any of the properties owned by the group.

2. You are Alex Jones, the head of the in-house tax department of Sparkby plc, a large UK tax resident company listed on the London Stock Exchange. The Sparkby plc group's trade is the manufacture and sale of components for the automotive industry, and the provision of professional advice in relation to that industry.

The Board of Sparkby plc has recently reviewed the impact on the group's corporate income tax rate of the Organisation of Economic Cooperation and Development (OECD) proposal (the so-called Pillar Two Model Rules) that a minimum corporate income tax of 15% should effectively be levied in each territory in which a multi-national group operates.

The Board has asked you (**EXHIBIT A**) to advise on the actions that could be taken to minimise the group's overall corporate tax liability.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Group Finance Director

EXHIBIT B: Notes on the tax and grants rules of each overseas territory in which the group operates

EXHIBIT C: Forecast profits/(losses) of each group company

EXHIBIT D: Pre-seen information

Requirement:

Write a report to the Board of Sparkby plc recommending whether and what actions should be taken to change the tax residence of the group's subsidiary companies and/or to move the physical locations of the trades carried on by them so as to keep the overall group corporate tax liability to a minimum over the next four years, taking account of the grant position in Benignland.

Assume you are writing in May 2025 and that the rate of UK Corporation Tax is 25% for all periods to be considered.

EXHIBIT A

Email from Group Finance Director

From: jaysmith@sparkby.co.uk
To: alexjones@sparkby.co.uk
Date: 28 April 2025
Subject: Corporate taxes on global profits

Alex

At the board meeting earlier this week, we decided to review the impact on our group tax liabilities of the OECD's proposed, global minimum 15% corporate income tax. We understand that this is imposed in respect of each territory in which we operate where the effective corporate income tax rate is less than 15%. The review concluded that our group will be subject to these rules and so we want to consider whether we should move the corporate residence of our subsidiaries and/or the actual physical location of manufacturing operations carried on by them to the UK so as to minimise the group's overall corporate tax liability.

Factors to be considered are as follows:

1) The trades in Arcadia and Benignland will require significant capital investment in new plant and machinery in the next few years. Our external capital allowances consultants have calculated that this expenditure would qualify for capital allowances of £50 million in each of Anwood Ltd and Broadton Ltd for each of the next four years if the trades were within the charge to UK Corporation Tax.

2) The trade in Benignland was originally set up to supply parts to Benign Autos Inc, a state-owned vehicle manufacturing business in Benignland. Benign Autos Inc remains committed to sourcing supplies from local enterprises wherever commercially viable. Although the trade of Broadton Ltd has since expanded to service other non-Benignland located customers, the business with Benign Autos Inc still represents a large part of Broadton Ltd's profits.

3) Tax-free grant aid of £8 million for each of the next four years (£32 million in total) would be available in Benignland if capital expenditure was made in respect of a trade located in that country. We would have to commit to the Benignland government to keep the trade located there for at least 10 years in order to receive the grants. They would be repayable in full, along with interest at 10% per annum if the trade ceased in Benignland within those 10 years. Grant aid is not available in the UK or in Arcadia.

4) Relocation costs of any overseas trades are not material.

5) As the group debt is secured over all group assets it is not possible to move the debt to subsidiary companies.

Please provide a written report for the Board with your recommended course of action, taking into account the factors set out above. You do not need to consider the impact of deferred tax or of VAT. Nor do you need to consider the technical application of the UK's multinational top-up tax. For the purposes of your report, simply assume that corporate income tax of 15% will effectively be charged on the accounting profits of all overseas trades. Also at this stage, we do not need details of the financial transactions to be undertaken to achieve your recommendations. For the purposes of your advice, assume that the necessary transactions will have taken place by 1 April 2026.

Regards

Jay

EXHIBIT B

Notes on the tax and grants rules of each overseas territory in which the group operates

Country	Basis of taxation and corporate tax rate	Availability of capital allowances	Tax treaty with UK	Grant aid
Arcadia	On trades located in Arcadia, at 10%	Corporate income tax is charged on accounting profits with no deductions for capital allowances.	Yes – standard OECD	No
Benignland	On all trades, wherever located, of Benignland tax-resident companies, at 5%	Corporate income tax is charged on accounting profits with no deductions for capital allowances.	No	Yes
Candyland	On trades located in Candyland, at 10%	Corporate income tax is charged on accounting profits less deductions for capital allowances on qualifying expenditure.	Yes – standard OECD	No

There are no exit charges on assets leaving any of the three countries.

There are no withholding taxes on dividends paid from any of the three countries.

EXHIBIT C

Forecast profits/(losses) of each group company

Year ended 31 March	Notes	2026	2027	2028	2029
		£ million	£ million	£ million	£ million
Sparkby plc	1	(90)	(90)	(90)	(90)
Anwood Ltd	2, 3	100	100	100	100
Broadton Ltd	2	100	100	100	100
Croxhume Ltd	2	100	100	100	100

Notes:

1. The losses are non-trade debits, being interest on external loans. There is no other external debt in the group.

2. The accounting profits of the subsidiary companies are stated before interest, tax, depreciation, and amortisation (EBITDA) and approximate to taxable profit before capital allowances computed under UK tax rules.

3. An election has been made for Anwood Ltd's permanent establishment's activities not to be subject to Corporation Tax in the UK.

EXHIBIT D

Pre-seen information

Company Name:	Sparkby plc
Date of incorporation:	1 April 1972
Country of incorporation:	UK
Ownership:	Listed on London Stock Exchange. No shareholder holds more than 5% of the shares.

Board members:

John Hunter – Chief Executive Officer
Jay Smith – Chief Financial Officer
Clare Cousins – HR Director
Jane Henderson – Operations Director
Sir William Teller – Non-executive Chairman
Lynne Longfellow – Non-executive Director
Marlon Barrowfield – Non-executive Director

Number of group employees: 20,000

Background

Sparkby plc was admitted to the London Stock Exchange in 1987. It was previously a successful, family-owned manufacturer of components for the automotive industry, based in Birmingham, England. The group then expanded in the UK and overseas, setting up or buying automotive component manufacturing operations and consultancies in several overseas territories.

Sparkby plc is the parent company of the group. Its activities comprise:

1) Provision of management services to subsidiary companies. It charges arms-length fees for those services making a small, and thus immaterial, profit.

2) Holding and servicing the group's external debt, which has been taken on to finance its investments in subsidiary companies. Dividends are received from subsidiary companies to enable interest costs to be paid.

3) Owning all the shares of the following subsidiary companies:

Name	Residence	Activity
Anwood Ltd	Incorporated and tax resident in UK	Manufacturing trade through a permanent establishment in Arcadia
Broadton Ltd	Tax resident in Benignland by reason of being incorporated there	Manufacturing trade in Benignland
Croxhume Ltd	Tax resident in Candyland by reason of being incorporated there	Consultancy business in Candyland

None of the profits earned overseas are subject to UK Controlled Foreign Company charges.

On 1 April 2024, Sparkby plc sold a UK wholly owned subsidiary company. The sale proceeds were used to reduce group debt and to pay a special dividend to shareholders.

Financial information for Sparkby plc group

Income statement for the year ended 31 March

	2025	2024
	£million	£million
Revenue	3,230	5,230
Cost of sales	(2,400)	(3,850)
Gross profit/(loss)	830	1,380
Profit on sale of subsidiary	2,000	
Administrative expenses	(620)	(780)
Profit before tax	2,210	600
Tax	(200)	(55)
Profit after tax	2,010	545

Balance Sheet as at 31 March

	2025	2024
	£million	£million
Fixed assets	5,800	6,700
Cash at bank and debtors	750	800
(Liabilities)	(5,300)	(6,800)
Net assets	1,250	700
Equity		
Share capital	200	200
Reserves	1,050	500
Total equity	1,250	700

Corporate Tax

Company tax returns for all territories have been submitted on time and there are no open enquiries.

There are no unutilised tax losses in the group.

VAT

Sparkby plc is the representative member of a group VAT registration in the UK. No options to tax have been made on any properties.

ANSWERS TO CASE STUDIES

1. DUBFAST & GLASBURGH GROUP PLC (NOV 2021)

REPORT

To:	The Board of Dubfast & Glasburgh Group plc
From:	Valerie Johnson, D&G Group Tax Director
Date:	November 2025
Subject:	Proposed Disposal of the Group's Retail Properties

INTRODUCTION

This report has been prepared to advise the Board of Dubfast & Glasburgh Group plc ('D&G') of how the D&G group should dispose of its retail properties. The Board has decided to realise value from the disposal of all of those properties but continue to trade from them as tenants for the next ten years. Over a period of ten years, the group will withdraw from high street retailing and invest in developing a new online retail business model.

This report considers four different options for disposing of the retail properties, being: a direct sale of the properties; a sale of DG Propco Ltd ('DG Propco'); transferring the properties to a new subsidiary of D&G and then selling this newco; and, transferring the properties to a new subsidiary of D&G which is then funded by external investors. A comparison of the tax impact of the different options is provided for ease of reference at section E.

A recommendation is also made as to the method that will maximise the post-tax sale proceeds and best meet the group's commercial objectives.

This report has been prepared using the information in Berdad Partner's report of 15 October 2025 and information available to the group's tax department on the profile of the group and the tax and commercial history of its properties.

The tax law contained in this report applies at the time of writing.

EXECUTIVE SUMMARY

The D&G group's objective is to dispose of its retail properties as quickly as possible before the anticipated, gradual decline in the value of retail properties generally and to maximise post-tax proceeds which will be used to fund the proposed investment programme in the on-line business while gradually exiting from High Street retailing. Four options are being considered to achieve the objective.

None of the transactions give rise to any VAT consequences and all four options result in the D&G group realising at least £1,130 million before tax and other expenses to fund its investment in the switch to online retailing. However, each option has different tax consequences and gives rise to different after-tax amounts.

Option 1: Sale of properties

The simplest method of disposing of all the retail properties is to sell them directly, either to a single buyer or to several buyers. As shown in the comparative analysis at section E, a gain of £22.5 million and a balancing charge (ie additional profit) of £20 million would result, giving rise to a total tax liability for DG Propco of approximately £10.6 million, leaving the D&G group with an after-tax amount of approximately £1,119 million. D&G would also have capital losses carried forward of £372.5 million.

£85 million of Stamp Duty Land Tax ('SDLT') also arises but would be payable by the purchaser.

Option 2: Sale of DG Propco Ltd

As shown in section E, the disposal of DG Propco itself would generate significantly higher capital gains of £520 million but no balancing charge would arise. D&G would therefore face a corporation tax liability of £130 million and realise an after-tax amount of £1,000 million. D&G would also have no capital losses to carry forward, all of its carried forward losses being used to shelter some of the gain arising on DG Propco.

£5.65 million of Stamp Duty would also arise but is payable by the purchaser.

Option 3: Transfer of properties to Newco and sale of Newco

Transferring the properties to a Newco and selling Newco would, as shown in section E, give rise to total capital gains of £267.5 million and a balancing charge of £20 million. The corporation tax liability faced by the D&G group would be about £72 million, leaving the group with an after-tax amount of £1,058 million. D&G would also have capital losses carried forward of £127.5 million.

£85 million of SDLT would also arise but would be payable by Newco. An additional liability to Stamp Duty of £5.65 million also arises, payable by the purchaser of Newco.

Option 4: Transfer of properties to Newco subsequently funded by external investors

Transferring the properties to Newco and then inviting share subscriptions to Newco from external investors, would, as shown in section E, generate the same gain and balancing charge and overall corporation tax liability for the D&G group as for Option 3. The group would similarly realise an after-tax amount of £1,058 million and have capital losses carried forward of £127.5 million.

£85 million of SDLT would be payable by Newco but no Stamp Duty would be payable when the investors subscribe for their shares in Newco.

RECOMMENDATIONS

Option 2

Although each option would generate pre-tax sale proceeds of £1,130 million after paying off outstanding secured debt, there is the possibility that Option 2 might yield an extra £40 million of proceeds by sharing the SDLT saving that accrues to the buyer from their acquiring shares instead of the properties. Under Option 2, the purchaser is liable to Stamp Duty only, amounting to £5.65 million, a saving of approximately £80 million over the other Options where a liability of £85 million to SDLT arises. Under Option 2, the D&G group might reasonably expect in negotiations to share that saving, say £40 million with the purchaser. That saving would increase the proceeds realised on the disposal of DG Propco by £40 million.

However, a chargeable gain of at least £560 million (inclusive of the additional £40 million proceeds and subject to additional possible value-shifting and depreciatory transaction adjustments) arises under Option 2 and this would create an immediate Corporation Tax liability on the gain which is approximately £63 million higher than Options 3 and 4 and £125 million higher than Option 1. This would be partly set off by the saving due to not having a capital allowances' balancing charge of up to £20 million (representing tax of approximately £5 million). Nevertheless, the additional net tax of £58 million more than absorbs the anticipated additional sale proceeds of £40 million.

Even without sharing any SDLT saving, Option 2 is further unattractive because it yields lower after-tax proceeds of about £1,000 million (as compared with £1,058 million under Options 3 and 4 and £1,119 million under Option 1). Furthermore, in effecting Option 2 the D&G group would have to give extensive, and potential costly, warranties and indemnities to any purchaser. It is not recommended therefore that the D&G group pursue Option 2.

Option 1

Option 1 has the disadvantage that a balancing charge of £20 million would arise in respect of the disposal of the fixtures in the properties (representing tax of about £5 million). Another disadvantage comes from the deferred, rolled over gain of approximately £122 million against fixed plant and machinery which might become liable to tax at a future point in time. However, the £372.5 million of capital losses carried forward in D&G, assuming they have not subsequently been used, should be available to cover any such gains (subject to the restriction on carried forward losses calculated by reference to the deductions allowance). Assuming the deductions allowance is claimed and allocated to D&G on a subsequent crystallisation of the £122 million deferred gain, a maximum of £58.5 million of chargeable gains, and tax of approximately £15 million, would arise at some future point. Even taking these additional tax charges into account the post-tax profits arising from Option 1 are £1,104 million (which is higher than the comparative amounts under the other Options)

Accordingly, from a tax perspective it appears that Option 1 would be the most favourable one to adopt as it maximises post-tax profits available to fund the proposed investment programme in the on-line business.

From a commercial perspective, Option 1 would also be the most straightforward to effect. However, all the properties would need to be sold quickly to avoid holding any assets that are falling in value as that would jeopardise funding of the investment programme. It might be difficult to sell all of the properties quickly. Buyers are likely to want to acquire only the more attractive sites, leaving the D&G group with the others. The group would then be exposed to a falling market and may be unable to generate sufficient proceeds to fund the investment programme (thus jeopardising its overriding commercial objective). Therefore, if a quick sale of all the properties cannot be achieved, a sale of a company owning all the properties should be considered.

Options 3 and 4

Although each of these Options would generate pre-tax sale proceeds of £1,130 million after paying off outstanding secured debt, they would each give rise to a total Corporation Tax liability of tax £72 million. Even though they do not involve any future, potential deferred liability in respect of rolled-over gains, their immediate Corporation Tax charge exceeds that of Option 1. The after-tax amounts realised by the D&G group under both Options is about £1,058 million which is about £61 million less than the comparative amount arising under Option 1.

Considering non-tax factors, Option 4 has a good prospect of success given that there is a market for investment in commercial property portfolios.

Final recommendation

In conclusion, an initial attempt should be made to sell all the properties direct (Option 1), ideally to a single purchaser. If that cannot be achieved quickly, the D&G group should move to undertake Option 4 (rather than Option 3). Although from the group's perspective the after-tax proceeds in relation to both Options 3 and 4 will be about £61 million lower than for Option 1, Option 4 is likely to be more attractive to potential investors than Option 3 because they will realise a total Stamp Duty saving of £5.65 million by not having to pay Stamp Duty in respect of the shares issued to them.

In short, it is therefore recommended that the D&G group first try to sell all the properties direct, and if that cannot be achieved, to transfer them to a Newco and invite investment from external investors.

It is not anticipated that HMRC will raise any objections to carrying out the above recommendation. The D&G group is at liberty of choosing how it conducts its business affairs and the recommendations do not involve anything that may be regarded as aggressive tax planning. It is not open to HMRC to argue that the transactions be undertaken in a different way to increase the amount of tax payable by D&G or any other party. There are also no specific anti-avoidance rules that HMRC could invoke to negate the effect to the transactions.

SECTION A: SALE OF PROPERTIES

(A1) Transaction (Option 1)

Under this first option, DG Propco, as owner, will dispose of the group's properties. Following their sale, the group would continue to occupy the premises as tenants for up to ten years, under leases entered into with the new owners. The group will realise total net proceeds of £1,130 million from the sale of the properties (being gross proceeds of £1,730 million less repayments of £600 million of the loans secured on the properties).

(A2) Corporation Tax consequences

<u>Corporation Tax on chargeable gains</u>

Detailed individual property computations would be required as each property is sold in due course, but based on information currently available, an aggregate position can be estimated as per Appendix 1. This gives chargeable gains on the Category A properties of around £50 million, and gains on the Category B properties as £490 million.

The properties have been used by the group for the purposes of a trade. Therefore, the gains realised by DG Propco (which as a member of the D&G group is deemed to carry on a trade) could be rolled over against the cost of new qualifying assets to be used in a trade, being land and buildings and depreciating assets such as fixed plant and machinery. Rollover relief is not available in respect of intangible assets such as software or the cost of the feasibility studies in 2025. For a gain to be rolled over in full, all the sale proceeds must be reinvested in the period beginning one year before and ending three years after the sale.

A gain rolled into a non-depreciating asset reduces its base cost for a future disposal, whereas a gain rolled into depreciating asset is deferred until the earlier of the date of disposal of the new asset or ten years from its acquisition. Gains so deferred under the latter form of the relief can be rolled over into non-depreciating assets acquired before the deferred gain crystalises.

All the sale proceeds of the Category B properties, £980 million, could be reinvested in the proposed warehouse developments totalling £980 million in 2026, 2027 and 2028, thus sheltering £490 million of capital gains.

The remaining gains of £50 million on the category A properties could by joint election be transferred to D&G to access its capital losses carried forward of £400 million. Relief for those losses would be restricted to £27.5 million (ie £5 million + ½ x (£50 million – £5 million)) (assuming that the group's deductions allowance has been claimed and allocated to D&G), leaving £22.5 million liable to Corporation Tax.

<u>Capital allowances</u>

As the buyers would be property investors, they would want to maximise the capital allowance element of their purchase price to obtain immediate tax deductions. Amounts attributed to building fixtures would be deducted from DG Propco's capital allowances pool, so that any amount over £10 million will trigger a balancing charge liable to Corporation Tax. An election, binding on both parties, can specify any amount up to original cost of £30 million. Elections at original cost would trigger a £20 million (£30 million cost less pool £10 million) balancing charge liable to Corporation Tax.

(A3) Value Added Tax (VAT)

Insofar as the buyers intend to carry on the same letting businesses, provided they and DG Propco opt to tax the properties prior to sale and the buyers are or will become VAT registered, the sales of the properties occupied by the existing tenants are transfers of going concerns and as such VAT is not chargeable on the transfers.

(A4) Stamp Duty Land Tax (SDLT)

SDLT would be due on the gross consideration payable of £1,730 million. Assuming that each of the 60 properties is worth more than £250,000 most of the consideration would be liable to SDLT at 5%, giving a total liability of about £85 million (£1,730m – ((60 x £250,000)) x 5%). SDLT will be an additional cost of the transaction, but it would be payable by the purchaser(s) of the properties.

SECTION B: SALE OF DG PROPCO LTD

(B1) Transaction (Option 2)

Under this second option, the shares in DG Propco will be sold by D&G. Following its sale, the D&G group would continue to occupy the premises as tenants. New leases might be required to limit the term of each tenancy to 10 years, and to set rents at market value (insofar as they are not already). The company will be sold for its market value and so the group will realise proceeds of £1,130 million (being the net values of the properties at 31 December 2024 of £1,100 million plus an increase of £30 million in the value of the properties to the current time),

(B2) Corporation Tax consequences

<u>Corporation Tax on chargeable gains</u>

The capital gain on the sale of DG Propco would be £920 million, see Appendix 2.
Because of its long history, this company might have undertaken earlier transactions that could result in value-shifting or depreciatory transaction adjustments to increase the gain.

Shares are not qualifying assets for reinvestment relief purposes, so the gain could not be rolled over. Furthermore, because DG Propco is an investment company, the substantial shareholdings exemption (SSE) could not be claimed to exempt the gain.

The capital losses of £400 million carried forward by D&G could be utilised in full because they are less than 50% of the total gains, leaving a gain of £520 million liable to Corporation Tax.

<u>Capital allowances</u>

Plant and machinery allowances in respect of building fixtures would continue to be claimed by DG Propco and as there is no disposal of any plant and machinery, no balancing charge would arise.

(B3) Value Added Tax (VAT)

A sale of shares is exempt from VAT, so that no VAT liability would arise on this transaction.

(B4) Stamp Duty

Stamp Duty is payable at 0.5% on the consideration for the sale of shares. On a sale of DG Propco for £1,130 million, a liability of £5.65 million would arise, payable by the purchaser. No SDLT would be payable.

SECTION C: TRANSFER OF PROPERTIES TO NEWCO AND SALE OF NEWCO

(C1) Transaction (Option 3)

Under this third option, D&G would incorporate Newco with a nominal amount of share capital, say £100. The properties, together with the debt secured on them, would then be transferred to Newco and new ten-year leases entered into between Newco and the group's trading subsidiaries, at market rents.

If the properties were transferred to Newco at their current market value, the consideration given by Newco could be debt of £1,130 million (market value of properties of £1,730 million less secured debt of £600 million), or an issue of shares worth £1,130 million to DG Propco, or a mixture of debt and equity.

Alternatively, the properties could be transferred to Newco at their current book value of £1,100 million (book value of properties of £1,700 less secured debt of £600 million), again for debt or equity of £1,100 million or a mixture thereof.

If Newco acquired the properties at their market value, Newco could be:

(a) sold for a nominal amount of £1, with the buyer injecting £1,130 million cash into Newco (probably by way of share subscription) to enable it to repay the £1,130 million debt owed to DG Propco; or

(b) sold for its market value (which will be up to £1,130 million) to the extent Newco has issued shares, with the buyer injecting sufficient cash to enable Newco to repay to DG Propco any debt element of the property purchase price.

If Newco acquires the properties at book value, an additional £30 million would be payable for a sale of Newco's shares to reflect the increase in market value of the properties to £1,730 million over book value of £1,700 million.

The group would realise cash of £1,130 million in total however the sale of Newco is structured.

(C2) Corporation Tax consequences

<u>Corporation Tax on chargeable gains</u>

The intra-group transfer of properties by DG Propco to Newco would be deemed for tax purposes to be at no gain/no loss, so that no chargeable gains/losses arise.

The shares issued by Newco would be deemed to have a capital gains base cost equal to their market value. This would be either £nil, if the consideration given by Newco for the properties transferred were debt; £1,130 million if the consideration were wholly shares; or £1,130 million less the debt element if the consideration were mixed shares and debt.

When Newco leaves the group, it would be deemed to have disposed of and reacquired the transferred properties at the date of their transfer at market value, thus realising capital gains within Newco. Those de-grouping gains would be as shown in Table 1 in Appendix 1 below (and total £540 million).

The chargeable gains position of D&G on the disposal of the Newco shares would be as follows:

(a) The consideration at market value, assuming the sale takes place shortly after Newco acquires the properties, would be the same as the base cost of Newco's shares so that no chargeable gain arises to D&G.

(b) The deemed property gains would be added to the consideration received for the shares in computing the gain on the share disposal. Therefore, D&G would realise a total chargeable gain of £540 million on the share disposal.

(c) The gain cannot be rolled over (as shares are not a qualifying asset for the purposes of rollover relief) or relieved by substantial shareholding exemption (SSE) (as Newco is not a trading company for SSE purposes).

The gain can be sheltered by the losses carried forward by D&G. The amount of those losses that can be relieved would be restricted to £5 million plus 50% of the chargeable gains less £5 million (again assuming, as in section A2 above, that the group's deductions allowance has been claimed and allocated to D&G). This leaves £267.5 million (£540 million – [£5 million + ½ x (£540 million - £5 million)]) of the gain liable to Corporation Tax in D&G.

<u>Capital allowances</u>

Building fixtures are disposed of when the properties are transferred to Newco, requiring disposal proceeds to be brought into account in DG Propco plant and machinery pool. Newco's new owners would want to maximise the capital allowances claimable by Newco so that, as discussed in section A2 above, a balancing charge of £20 million arises in DG Propco.

(C3) Value Added Tax (VAT)

The intra-group transfer of properties to Newco can be undertaken within the D&G VAT group so long as Newco is brought within the VAT group, so that no VAT is chargeable.

The sale of shares is exempt from VAT and so does not give rise to any VAT liabilities.

(C4) Stamp Duty Land Tax (SDLT) and Stamp Duty

SDLT is not payable on the intra-group transfers of the properties to Newco unless there are already arrangements in place at the time of the transfers for Newco to leave the D&G SDLT group. Even where no SDLT arises on the intra-group transfers, where the transferee company leaves the group within three years of the transfers, the exemption is withdrawn and an SDLT liability arises in the transferee company. Newco would therefore become liable in respect of the property transfers when it leaves the group. An SDLT liability of about £85 million (computed as in section A4 above) would arise in Newco (effectively funded by a purchaser of Newco).

Stamp Duty would be is payable by the purchaser at 0.5% of the consideration paid for the transfer of the shares in Newco and this might be as high as £5.65 million (½% x £1,130 million). This can be minimised if Newco buys the properties for debt rather than equity.

SECTION D: TRANSFER PROPERTIES TO NEWCO SUBSEQUENTLY FUNDED BY EXTERNAL INVESTORS

(D1) Transaction (Option 4)

Under this fourth option, D&G would incorporate Newco with a nominal amount of share capital, say £100. The properties would then be transferred to Newco at their market value for a net amount of £1,130 (£1,730 million less £600 million secured debt) left owing to DG Propco on loan account.

Investors would then be invited to subscribe for £1,130 million of new shares in Newco. The investors would then own almost all the share capital of Newco. Newco would use the cash of £1,130 million subscribed to pay the consideration owing to DG Propco. The group would therefore realise cash of £1,130 million (ie the net value of the properties).

Before investors subscribe for shares in Newco, new ten-year leases would be entered into between Newco and the group's trading subsidiaries, at market rents.

(D2) Corporation tax consequences

Corporation Tax on chargeable gains

The intra-group transfer of properties to Newco would, as discussed in section C2 above, be deemed for tax purposes to be at no gain/no loss, so that no chargeable gains/losses arise.

Newco would leave the group as the investors are issued new shares; the degrouping of Newco occurring as soon as D&G's interest in Newco falls below 75%.

There is no disposal of the original Newco shares still owned by D&G and so there is no chargeable gain to consider in respect of those shares.

However, as with the sale of Newco, there are the same de-grouping gains in respect of the transferred properties as described in section C2 above. However, as there is no share disposal of Newco, those gains of £540 million are not treated as arising in D&G but are charged in Newco itself. No roll-over relief is available to defer them (as they arise by reason of a deemed disposal of the properties rather than an actual disposal of the properties followed by a re-investment of the actual proceeds received).

As is the case under section C2 above, however, the gain of £540 million may be sheltered (in part) by the capital losses carried forward in D&G so that £267.5 million of the gain is left in charge to Corporation Tax. This will require D&G and Newco to enter into an election for D&G to transfer the relevant amount of loss to Newco before Newco leaves the D&G group.

Capital allowances

The capital allowances position would be as described above on the sale of Newco in section C2 above (so that a balancing charge of £20 million arises in DG Propco).

(D3) Value Added Tax (VAT)

The VAT consequences of the transfers of the properties to Newco will be as in section C3 above. No VAT arises on a subscription for new shares in Newco.

(D4) Stamp Duty Land Tax (SDLT) and Stamp Duty

SDLT of £85 million would arise on the transferred properties, as explained in section C4, as Newco will leave the D&G group once D&G's interest in Newco falls below 75%.

Stamp Duty is not payable on the issue of new shares and so no duty would be payable on a share subscription.

SECTION E: COMPARATIVE TAX SUMMARIES

(E1) Corporation Tax Summary

	Option 1 £million	Option 2 £million	Option 3 £million	Option 4 £million
Sale proceeds	1,730	1,130	1,130	-
Internal debt repaid	-	-	-	1,130
External debt repaid	(600)	-	-	-
Net proceeds	1,130	1,130	1,130	1,130
Chargeable gain	22.5	520	267.5	267.5
Corporation Tax thereon	5.6	130	66.9	66.9
Possible balancing charge (max)	20	Nil	20	20
Corporation Tax thereon	5	Nil	5	5
Net proceeds after tax	1,119	1,000	1,058	1,058
Capital losses to carry forward	372.5	Nil	127.5	127.5

All four options produce the same pre-tax net proceeds of £1,130 million. Option 1 gives rise to the smallest chargeable gain (£22.5 million) compared to much larger chargeable gains on Option 2 (£520 million) and the gains on Options 3 and 4 (approximately £268 million in both cases).

Option 1 results in the smallest chargeable gain because of the ability to rollover £490 million of the total £540 million gains arising. Up to £122.5 million of the deferred gain (being 25% of the amount of warehouse expenditure attributed to fixed plant and machinery) relates to the reinvestment in plant and machinery, and so will crystallise when building fixtures are replaced. Other gains might crystallise if the warehouses are sold. However, under Option 1, D&G has preserved £372.5 million of its capital losses carried forward which (subject to the available limitation on the relief of such losses) should be available in future to shelter any such crystallising gains.

Option 2 has the advantage that it will not trigger a capital allowances' balancing charge of up to £20 million, but that is far outweighed by the much larger chargeable gain of £520 million arising, which could yet be increased by possible depreciatory transactions or the application of the value-shifting legislation.

(E2) VAT and Stamp Taxes Summary

	Option 1 £million	Option 2 £million	Option 3 £million	Option 4 £million
VAT	Nil	Nil	Nil	Nil
SDLT	85	Nil	85	85
SD	Nil	5.65	5.65	Nil

APPENDIX 1

Option 1

An approximate aggregate calculation of the gains on the properties is as follows, subject to any deductible incidental disposal costs:

Table 1

	Category A Properties (acquired before March 1982) £ million	Category B Properties (acquired after March 1982) £ million
Sale proceeds	750	980
Less market value at 31 March 1982	(200)	-
Less cost	-	(300)
Less indexation	(Note 1) (500)	(Note 2) (190)
Chargeable gains	50	490

Note 1: Indexation allowance from March 1982 to December 2017 is about 2.5 times March 1982 value. No further indexation accrues after December 2017.

Note 2: Taking the average acquisition date as July 2000, indexation allowance for the period July 2000 to December 2017 would be about 0.63 times cost.

Tutorial Note:

Any reasonable approximation of the indexation allowance arising on the disposal of the Category B properties is acceptable.

APPENDIX 2

Option 2

The capital gain on the sale of the D&G Propco shares would be as follows, subject to any deductible incidental disposal costs:

	£ million
Sale proceeds	1,130
Less value at March 1982	(60)
Indexation (2.5 x March 1982 value)	(150)
Chargeable gain	920

ASSESSMENT BASIS FOR DUBFAST & GLASBURGH GROUP PLC (NOV 2021)

Structure

A simple pass or fail will be awarded.

Identification and Application

The following are the relevant topics for assessment with their weightings:

1	25%	Identify the sale proceeds of each of the four possible options (subject to SDLT saving)
2	45%	Corporation Tax and capital allowances implications of each transaction method
3	15%	VAT implications of each transaction method
4	15%	Stamp duties implications of each transaction method

A grade of 0, 1, 2, 3, or 4 is awarded to each topic. The weighting is applied to that grade to produce a weighted average grade. This is then converted to a final absolute grade by rounding up or down to the nearest grade. In order to secure a pass, a final grade of 3 or 4 is required.

Relevant Advice and Substantiated Recommendations

The following are the relevant topics for assessment with their weightings:

1	50%	Rate the four options 1-4 on the basis of their after-tax proceeds and conclude that Option 1 is the most tax effective while Options 2, 3 and 4 give rise to much higher tax liabilities.
2	30%	Rate the four options 1-4 on the basis of their ability to achieve the stated business objectives and reach a reasonable conclusion.
3	20%	In the light of Option 1 risks, conclude that Option 1 should be pursued only if a quick sale of all properties can be achieved, and if not that one or more other options should be pursued.

The final grade will be determined for this skill in the same way as for Identification and Application.

CANDIDATE SCRIPT FROM NOVEMBER 2021

A real candidate script for this case study that scored a clear pass can be found on the CIOT website here:

https://www.tax.org.uk/november-2021-past-exam-papers-scripts-suggested-answers

Don’t forget that the paper was set in November 2021 when the syllabus included tax law up to and including FA 2020 and so the candidate script answer will not be based on up-to-date tax law.

Examiner's report:
[Being reproduced with the permission of The Chartered Institute of Taxation]

CHIEF EXAMINER'S COMMENTS

General Comments on November 2021 sitting

Overall, this session was very pleasing because the pass rates were fairly consistent and at the levels we would expect across all papers. We had no papers with a pass rate below 40%. It was also a good session for the best performing candidates, with 36 gaining a distinction in one of their papers.

Open Book Papers

A number of examiners commented that candidates had copied chunks of material from their study manuals. Whilst the papers are currently open book and candidates can therefore use material from their manuals when writing their answers, it has been interesting to see that this hasn't resulted in a general improvement in the quality of answers.

It seems that the better candidates are generally not using their manuals, except perhaps as a quicker way of checking a small point than going to the legislation. Weaker candidates however appear to think that open book means there is less need to revise because they can pull out the information during the exam. Generally this has not worked because they have often failed to apply it to the question or have wasted time coping more material than is required for the answer.

Application and Professional Skills

It is important for candidates to be aware that the requirement will not always be for a report from the external tax adviser to their client. This session the OMB question required a letter and the TOLC question required an internal report. It was noticeable this session that a number of candidates did not read the requirement. Thus:

- On the OMB question some produced reports rather than letters as required.
- On the TOLC question, candidates included a disclaimer, which would clearly not be appropriate for an internal report.
- On the VAT question some candidates produced letters rather than reports as required.

Whilst these mistakes will not automatically result in a candidate failing on structure (as we assess the answer as a whole), it will make it significantly harder to pass. This is a simple point and candidates must be alert to the required form of output and the target audience.

Beyond the basic point as to whether a letter or report is required, candidates need to ensure that the style of what they produce is appropriate. Therefore, if an internal report is required, as for the TOLC question, it is not appropriate to include disclaimers of liability.

Turning to a couple of presentational points:

- If abbreviations are used we would expect them to be defined either when the term being abbreviated is first used, for example "…. Business Asset Disposal Relief ("BADR")……." or in a list of abbreviations. The examiner on the Individuals question noted that some candidates were using non-standard definitions which they had not defined: clearly this would not be suitable for a client.
- We have been asked about whether a table of contents is required; it isn't required.

Finally, it is important that candidates appreciate that this paper isn't simply about providing technically correct advice. It is also about providing advice that is commercially sound (don't let the tax tail wag the commercial dog!) and meets any wider objectives that may be set out in the question. It requires candidates to step back and look at the entire scenario to assess whether their advice really is appropriate

SPECIFIC COMMENTS ON APS TOLC PAPER

General comments

The question required candidates to write a report on the proposed divestment by a retail group of its property portfolio and move into on-line trading. Candidates were invited to consider four possible structuring options and to recommend the solution that maximised the after- tax proceeds of sale and which best met the commercial objectives.

All candidates approached the question by discussing each of the four structuring options separately, and the tax consequences of each one. Another approach could have been to discuss each of the possible taxes and the four structuring options under each tax.

Many candidates took the opportunity to demonstrate their tax technical knowledge but some wasted time by either providing more detail than was required (for example, on Substantial Shareholdings Exemption) or considering irrelevant issues that were not called for by the requirements of the question (for example, on available capital allowances on the proposed investment expenditure, and sale and leaseback anti-avoidance rules).

The consideration of advice and recommendations was less successful, and many candidates who had correctly identified and discussed the tax issues failed to make balanced and commercial judgements leading to good advice and recommendations.

Structure

The majority of candidates produced a report in a broadly suitable format, and thus nearly all candidates passed on the Structure skill. However, future candidates should bear in mind that there should be a difference between reports provided by an external adviser and reports provided by an in-house tax department. In particular, an in-house department would not normally include disclaimers to its own Board.

Identification and Application

The tax technical issues to be brought out, while numerous, were relatively straightforward. Nevertheless, few candidates managed to identify them all and deal with them effectively, though about half did enough to pass on this skill area. Unfortunately, some candidates completely overlooked some of the relevant taxes other than Corporation Tax (that is VAT and Stamp Taxes) or these indirect taxes were considered for only some of the structuring options rather than all of the options.

The approach to rollover relief was particularly poor. Most candidates either rejected the possibility of rollover relief outright or allowed too little relief. Hardly any candidates realised that the whole of the gain on the ‘Category B’ properties, being by far the biggest gain on property sales, could be rolled over in full before having to access capital losses to shelter the remaining gains.

The commercial issue of correctly identifying the expected proceeds, and how they would be received, under each structuring option proved challenging. In particular:

- very few candidates demonstrated the basic commercial awareness that the pre-tax cash raised would be the same under all four structuring options.

- many candidates failed to understand that the loans were secured on the properties and could not be separated from them, and many were confused between gross and post-loan sale proceeds, some even deducting the loan repayments from proceeds in computing capital gains.

- in dealing with the third structuring option (creation and sale of Newco), many candidates failed to demonstrate an understanding of the different ways the properties could be transferred to Newco and the impact on the split of proceeds between share consideration and loan repayment, though by referencing 'fair and reasonable' adjustments, some manged to arrive at a broadly correct tax treatment.

- the fourth structuring option (share subscription into Newco) was clearly beyond the experience of almost all candidates. Only one or two candidates recognised that the same proceeds as under the other options could be achieved by share subscriptions and then using those proceeds to repay inter-company loans.

- application of sense checks to calculations would identify, and thus enable correction of some obvious errors, such as miscalculating SDLT by a factor of 10, estimated indexation allowance calculations being hugely over- or under-stated, proceeds being double-counted, etc.

<u>Relevant Advice and Substantiated Recommendations</u>

Most candidates weighed up the suitability of the four structuring options by reference to computed after-tax proceeds. For the reasons stated above, those proceed were frequently not calculated at all (especially for options 3 and 4) or were miscalculated, leading to incorrect judgements on suitability.

The majority of candidates decided which option to recommend mainly on the grounds of which generated the greatest after-tax proceeds. Unfortunately, many candidates failed to go on to demonstrate commercial judgement on the likelihood of achieving a particular structuring option.

Where commercial factors were taken into account, they were frequently not fully thought through. For example, the third and fourth options were often dismissed because they were considered to be administratively complicated, but candidates should have recognised that any administrative inconvenience was hugely outweighed by the sums of money involved.

Overall few candidates scored highly in weighing up the options from the perspective of meeting the group's commercial objectives, as was required by the question. Future candidates should bear in mind that this examination is not just about crunching numbers to see which approach results in the lowest tax burden, but also requires an application of common-sense and commercial acumen to arrive at well-balanced advice and recommendations.

APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
GENERAL:		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
STRUCTURE:		
Did you use the correct report (or letter) format?		
Did you include an introduction?		
Does your executive summary contain key issues only?		
Does your executive summary read as a stand-alone document?		
Did you use headings and subheadings to help navigation?		
Does your answer flow in a logical order?		
Did you use style/language appropriate for the reader?		
Are there only a few spelling/grammatical mistakes?		
Did you include appropriate calculations in an Appendix?		
Are your calculations linked to the narrative?		
Did you avoid including irrelevant material?		
I&A:		
Did you identify all the issues? If not, go back to the Question and see where that issue was and try to work how you missed it?		
Is the technical information you provided correct? Has it been applied correctly to the scenario? Is it easy for a lay person to understand?		
Did you use the information provided in the question in appropriate way?		
RA&SR:		
Have you told the client what to do?		
Have you explained to the client why they should do what you have recommended? Did you set out the pros and cons and weigh them up? Is your advice in relation to key areas technically correct?		
Did you consider the wider implications of your advice (such as commercial considerations and legal/ethical issues)?		
Having reviewed your answer, do you think that if you were the client, you would be happy paying for this advice?		

2. SPARKBY PLC (MAY 2023)

REPORT TO THE BOARD OF SPARKBY PLC

From:	Alex Jones
To:	Jay Smith, Chief Financial Officer, Sparkby plc
Date:	14 May 2025
Subject:	Restructuring of the Sparkby plc Group

INTRODUCTION

This report has been prepared for the Board of Sparkby plc ('Sparkby') to consider what actions should be taken to change the tax residence of its subsidiary companies and/or to move the physical locations of the trades carried on by them to keep the group's overall corporate tax liability to a minimum over the next four years, specifically taking account of the grant position in Benignland.

The report should not be relied on for any other purposes or by any other persons.

The report is based on our current understanding of:

a) the corporate tax and grant regimes in the UK, Arcadia, Benignland and Candyland; and

b) the projected taxable profits/(losses) of Sparkby and each of its three subsidiary companies.

We have assumed that:

a) without any actions being taken, 15% corporate income tax will be suffered in respect of the accounting profits of all overseas trades for each of the four accounting periods in respect of which forecast information has been provided; and

b) there will be no material changes to the tax law, or the availability of, or the conditions attaching to any grants in any of the UK, Arcadia, Benignland and Candyland in the four years to 31 March 2029.

Before implementing any advice, it is recommended that independent tax advice is taken in each of Arcadia, Benignland and Candyland and that we, the tax department, are asked to advise on changes to, or new, UK tax legislation that would impact on the advice given in this report.

Alex Jones
Head of in-house tax department of Sparkby plc
14 May 2025

EXECUTIVE SUMMARY

The Sparkby group's projected tax liabilities over the next four years are as follows, comparing the position where the status quo is maintained with that where the activities of the overseas subsidiaries are brought within the UK tax net:

	Effective Overseas Tax Liability	UK Corporation Tax Liability
	£ million	£ million
y.e. 31.3.2026	45	27.5
y.e. 31.3.2027	45	27.5
y.e. 31.3.2028	45	27.5
y.e. 31.3.2029	45	27.5
Total	180	110

Although the proposed overseas minimum tax rate of 15% is higher than current rates in our overseas locations and lower than the UK rate of 25%, nevertheless there are significant tax reliefs available in the UK that are not available against profits taxed overseas. Those reliefs comprise capital allowances of £50 million a year for four years in relation to Anwood Ltd ('Anwood') and Broadton Ltd ('Broadton') (so £100 million per annum in total), and interest expense deductions of up to £90 million per annum in total in relation to those companies and Croxhume Ltd ('Croxhume') as well. It is these reliefs (and the use of double tax relief in relevant cases) that would account for the reduction in the tax burden of the group should the trading activities and profits of the subsidiaries be repatriated to the UK.

We could bring the trading activities and profits of the overseas subsidiaries to the UK by a number of means, none of which gives rise to a tax liability for the company concerned.

RECOMMENDATIONS

Having considered the group's comparative tax total liabilities as set out above and the different methods of repatriating the respective companies' trading activities and profits to the UK, it is recommended that:

a) We should physically relocate the trade of Anwood to the UK.

b) We should not move the trade of Broadton in the short term but should claim the grant aid that is available there for new capital expenditure. We should, however, seek to broaden that company's client base to reduce dependency on Benign Autos Inc ('Benign Autos'), with a view to moving the trade to the UK at a future point to take advantage of tax reliefs in the UK.

c) We should not move the trade of Croxhume to the UK.

Although interest expense relief is available to Croxhume should its trade be brought within the UK tax net, nevertheless the differential in the overseas tax rate of 15% and the UK corporation tax rate of 25% still results in its paying less tax if it remains resident in Candyland.

Despite the tax payable by Broadton being lower should its trade be transferred to a new company incorporated in the UK as a new subsidiary of Sparkby, the final recommendation made is motivated by wider commercial considerations (namely the availability of grant aid in Benignland). If Broadton's trade is left overseas, although the group's annual tax liability increases to £35 million, the company would receive £8 million grant aid per annum, thus reducing the total annual tax liability to £27 million. The £2 million difference is almost certainly less than the profits the company would lose by moving the trade to the UK. This is because of the loss of the Benign Autos business that is likely to result from such a move. Therefore, Broadton's trade should be kept in Benignland for the time being.

Broadton should seek to build up new business contracts to replace that with Benign Autos (on which it is currently commercially reliant) and take a future decision on when would be the financially beneficial time to move the trade to the UK, bearing in mind the financial loss (repayment of grant) and legal and reputational risks of doing so within the 10 years qualifying period from receipt of the grant aid.

It is not anticipated that HMRC will raise any objections to carrying out the above recommendations. Sparkby and its subsidiaries are at liberty of choosing how they conduct their business affairs and the recommendations do not involve anything that may be regarded as aggressive tax planning. It is not open to HMRC to argue that the transactions be effected in a different way to counter the tax efficiency of the advice given. There are also no specific anti-avoidance rules that HMRC could invoke to negate the effect to the proposed transactions.

SECTION A: BACKGROUND

The OECD has proposed that there be a minimum rate of corporate income tax of 15% throughout the world. Under the current structure of the Sparkby plc group, all its profits (without deductions for capital allowances and interest) will effectively be subject to tax at 15% in each of the territories in which it operates.

As the projected levels of profits, losses, capital allowances (if available) and grants of all group companies are the same for each of the next four years, we have based our considerations and calculations on a single year that will be representative of each of the four years.

We have discussed the following matters in reaching our recommendations:

1) Potential benefits of locating trades in the UK;
2) Repatriation of trading activities and profits into the UK tax regime;
3) Projected group tax liabilities; and
4) Impact of grant availability in Benignland.

Our analysis discusses whether the availability of capital allowances and relief for the losses of Sparkby (which will be realised in the UK) are more advantageous than leaving profits outside the scope of UK tax, and instead being effectively taxed at the proposed minimum 15% rate in the overseas territories where those reliefs are not available.

SECTION B: POTENTIAL BENEFITS OF LOCATING TRADES IN THE UK

Bringing the group companies' trades within the scope of UK corporation tax means that access is had to UK loss relief, capital allowances and relief for the group's financing costs.

(B1) Relief for losses

Sparkby realises losses in the UK. They are non-trading loan relationship ('NTLR') losses in respect of interest on external borrowings. We have assumed that the small profits from the company's trade of provision of management services are relieved by a very small amount of these losses, and that amount does not materially reduce the amount of losses otherwise remaining available for relief.

The NTLR losses may, by way of group relief, reduce the profits within the group that are chargeable to UK corporation tax (see section (B3) below). They cannot however be relieved against profits that are outside the scope of UK tax.

(B2) Capital allowances

Capital expenditure on new plant and machinery to be incurred by Anwood and Broadton will qualify for capital allowances of £50 million a year for each company, if the trades carried on by them are within the charge to UK corporation tax. Those allowances are deductible in computing their UK taxable profits. The trades in question do not have to be carried on by them in the UK for the expenditure incurred to qualify for capital allowances. However, if a trade is not subject to UK corporation tax, then allowances are not available. Furthermore, it is noted no allowances are available in Arcadia or in Benignland under the tax law of those countries.

Accordingly, if the trades of the group companies are subject to UK corporation tax, the UK taxable profits of each subsidiary after capital allowances will, for each of the four accounting periods concerned, be as follows:

a) Anwood: £100 million - £50 million = £50 million
b) Broadton: £100 million - £50 million = £50 million
c) Croxhume: £100 million

(B3) Financing costs

The amount of finance costs that can be relieved against profits taxable in the UK (ie the interest capacity of the group) is limited to the greater of:

a) 30% of UK taxable profits before interest, tax, depreciation and amortisation ('tax EBITDA') – under the so-called fixed ratio method; and

b) the group ratio percentage of the tax EBITDA (where the group ratio percentage is the worldwide external net interest expense divided by the group's EBITDA profits) – under the so-called group ratio method.

Under the Sparkby group's current structure, there are no UK taxable profits (and so no tax EBITDA). Therefore, applying either of the above methods means that the group has no interest capacity and so none of the interest payable by Sparkby on the external loans may be deducted in computing taxable profits.

However, the profits of Anwood, Broadton and Croxhume of £100 million each, represent one-third of the group's global profits (before relief for interest and capital allowances). So if the trade of each company were brought within the UK tax regime, £30 million of interest relief for each trade would be generated under both of the above methods (30% x £100 million = £30 million (under the fixed ratio method) and £90 million/£300 million x £100 million = £30 million (under the group ratio method).

Therefore, each company, if within the UK tax corporation tax regime, would be liable to UK tax on the following total profits (as further reduced by relief for financing costs):

a) Anwood: £50 million (as above) - £30 million interest = £20 million
b) Broadton: £50 million (as above) - £30 million interest = £20 million
c) Croxhume: £100 million (as above) - £30 million interest = £70 million

In summary, for every trade that is brought into the UK corporate tax regime, an additional £30 million of interest relief per annum can be accessed by way of group relief.

Consequently, by locating the trades of its subsidiaries in the UK, the group achieves a dual benefit and reduces the amount of its overall taxable profits. The question that is now addressed is how the profits of the trades of the overseas companies may be brought within the scope of UK corporation tax.

SECTION C: REPATRIATION OF TRADING ACTIVITIES AND PROFITS

(C1) Territorial scope of UK Corporation Tax regime: General

UK Corporation Tax is charged on the global profits of UK tax-resident companies (subject to an election to exempt profits of overseas permanent establishments ‘OSPE’) and on the UK profits of non-UK tax resident companies that arise from trades carried on in the UK through UK permanent establishments (‘UKPE’).

A company is UK tax resident if it is incorporated in the UK, or its central management and control is exercised in the UK. ‘Central management and control’ means the place where strategic business decisions are taken. This typically would be where board meetings take place. If a company is tax resident in the UK and in some other country by reason of the tax laws of that other country, a tie-breaker clause in the standard OECD treaty establishes that the residence of the company is to be determined by agreement between the competent authorities of both states, having regard to the company’s place of effective management (‘POEM’), its place of incorporation and other relevant factors. POEM is determined by taking into account various factors, including where board meetings are held, where the CEO and other senior executives usually carry on their activities, where the senior day-to-day management of the company is performed, where the company’s headquarters are located, and where the accounting records are maintained.

A non-UK resident company has a UKPE if it has a fixed place of business in the UK or conducts its activities there through a dependent agent located there.

(C2) Application of these tests to the overseas subsidiaries of Sparkby

Taking each subsidiary in turn, the above tests apply in the following ways.

<u>Anwood</u>

Anwood is already UK tax resident, but its profits are taxed only in Arcadia by reason of the election made by the company in the UK to exempt the profits its OSPEs from UK tax. As the election is irrevocable, Anwood cannot reverse it so as to bring the profits of the trade carried on in Arcadia back into the UK tax regime.

Nevertheless, the profits of the trade may yet be brought within the scope of the UK corporation tax regime by Anwood:

a) physically moving the place from which the Arcadia trade is carried on in Arcadia (ie the Arcadia fixed place of business) to the UK, at which point the election lapses as there are no OSPE activities subject to the election; or

b) continuing to carry on the trade in Arcadia, but transferring it to a UK tax-resident group company (say a new subsidiary of Sparkby) which would not make the election for exemption in respect of what would be its OSPE in Arcadia.

No tax would be payable in Arcadia insofar as the trade ceases to be physically located there, or comes to be owned by a UK entity, as Arcadia levies no exit tax charges. There are no UK tax consequences for Anwood in respect of either of the above possible transactions by virtue of the rules that apply to transactions between UK group companies.

Broadton

Broadton is resident in Benignland. Its trading profits may be brought within the scope of UK corporation tax by:

a) moving the place from which the trade is carried on in Benignland to a fixed place of business the UK so as to create a UKPE; or

b) moving the company's central management and control to the UK.

In both cases the company's profits would also continue to be taxed in Benignland, at 5%, because Broadton would continue to be tax-resident in Benignland and taxed there on its worldwide income (there being no UK/Benignland tax treaty under which the company might be treated as located only in the UK).

Exposure to Benignland taxation could be avoided however by transferring the trade to a UK resident company (say a new subsidiary of Sparkby) which would carry on the trade in the UK rather than Benignland. No tax would be payable in Benignland insofar as the trade comes to be owned by a UK resident company, as Benignland levies no exit tax charges. There are no UK tax consequences for Broadton (having been brought with the scope of UK corporation tax) in respect of such a proposed transfer by virtue of the rules that apply to transactions between UK group companies.

Croxhume

Croxhume which is resident in Candyland can be brought with the scope of UK corporation tax by:

a) moving its central management and control to the UK so as to make it UK resident. As long as the company's effective management is also exercised within the UK, under the tie-breaker article of the UK/Candyland double taxation agreement, Croxhume is likely to be UK tax resident only, though its profits would still be taxed in Candyland (as they would arise to a permanent establishment now located in Candyland).

   As already intimated, it should be remembered that achieving treaty residence in the UK is subject to agreement between the tax authorities of both the UK and Candyland (which may be a drawn-out process, take time to achieve and incur additional expense); or

b) transferring the trade to a UKPE of Croxhume, or to a newly incorporated UK tax-resident company. The profits of the trade would be taxed only in the UK as Candyland does not tax trades located outside Candyland.

No tax would be payable in Candyland insofar as the trade ceases to be physically located there, or comes to be owned by a UK entity, as Candyland levies no exit tax charges. There are no UK tax consequences for Croxhume in respect of the transfer of a trade within the scope of UK corporation tax to a new UK company by virtue of the rules that apply to transactions between UK group companies.

Comment

As there are no exit tax charges in any of the overseas territories, physically relocating trading activities to the UK or effecting the migration of an overseas resident company to the UK would not expose the group to any such charges. Similarly there are no adverse UK corporation consequences of transferring trades within the scope of UK corporation tax to newly incorporated UK companies as such intra-group transfers are tax neutral under the provisions applicable to UK groups.

SECTION D: PROJECTED GROUP TAX LIABILITIES

Accordingly, as it is possible, without undue negative tax consequences, to bring the profits of the trade of each company in the Sparkby group within the UK tax regime so as to take advantage of the potential benefits offered by being so, we now discuss whether the repatriation should take place or whether the status quo should be maintained. We consider the group's projected tax liabilities.

(D1) Continuing with the status quo

Each of Arcadia, Benignland and Candyland tax the profits of trades carried on within their territories. Additionally, Benignland also taxes global trading profits of Benignland-incorporated companies. Currently, the profits of each subsidiary in each of Arcadia, Benignland and Candyland are taxed only in those territories respectively giving rise to following tax liabilities:

a) Anwood: £100 million at 10% = £10 million
b) Broadton: £100 million at 5% = £5 million
c) Croxhume: £100 million at 10% =£10 million

However, under the proposal to effectively tax overseas profits at a minimum of 15%, if no action is taken, the group's overseas profits will suffer tax of £45 million (£100 million at 15% = £15 million) for each company) in total.

(D2) Repatriation of trades to UK

If profits are brought within the UK tax regime, the respective companies would be liable to UK Corporation Tax as follows (the respective profits of the companies being derived from the discussion in Section A above):

a) Anwood: £20 million at 25% = £5 million
b) Broadton: £20 million at 25% = £5 million
c) Croxhume: £70 million at 25% = £17.5 million

Insofar as the profits are also taxed overseas, either because the trade continues to be carried on in the relevant territory or, in the case of Benignland, because it taxes global profits, the UK corporation tax regime gives double tax relief (DTR) for the overseas tax suffered. Relief is given by way of credit against the UK tax, up to the amount of the UK tax arising, either under double tax agreements or by way of unilateral relief in UK domestic law. Therefore, the maximum tax payable by each company is the greater of the amount of UK tax and the amount of overseas tax.

(D3) Suggested way forward

Considering the above results, if the trades of Anwood and Broadton are brought within the UK tax regime, but that is Croxhume is left in Candyland, the annual tax liability is minimised as follows:

a) Anwood: £20 million at 25% = £5 million (UK only; no Arcadia tax liability)

b) Broadton: £20 million at 25% = £5 million (UK tax £5 million if trade transferred to a UK tax-resident Newco) or UK tax £5 million less DTR £5 million (i.e. no UK tax), plus Benignland tax £5 million (if trade remains in Broadton)

c) Croxhume: £100 million at 15%= £15 million (Candyland 10% rate effectively increased to15%)

Therefore, from a tax perspective, the best option is to move the trades of Anwood and Broadton within the UK tax regime (the latter being transferred to a UK Newco) and leave

Croxhume and its trade in Candyland, to give total tax liabilities for the group of £25 million. This contrasts with a total tax bill of £45 million if the status quo is maintained.

SECTION E: IMPACT OF GRANT AVAILABILITY IN BENIGNLAND

Notwithstanding the tax rationale for making the above recommendation, the impact of grants being available in Benignland must also be taken into account.

Grant aid of £8 million is available in Benignland for each of the four years under discussion if the proposed capital investment is made in respect of a trade located in Benignland. The grants are repayable, with 10% annual interest, if the trade ceases to operate in Benignland within ten years of the grant being made.

Therefore, if we kept the trade of Broadton in Benignland and located only the trade of Anwood to the UK, our annual group tax liability would increase from £25 million (as shown in section (D3) above) to £35 million. This is represented by £5 million UK corporation tax payable by Anwood), £15 million payable in Candyland by Croxhume and £15 payable by Broadton in Benignland (as Broadton's profits of £100 million would be taxable at 15% rather than the current 5% rate). However, the grant aid of £8 million per annum in Benignland would, in part, effectively offset the additional tax liability, thus reducing the group's annual total tax liability to £27 million per annum. This is still higher than £25 million if both Anwood's and Broadton's trades were transferred to the UK and, of itself, would not justify keeping the trade in Benignland.

However, Benign Autos is committed to buying parts from Benignland-based businesses wherever commercially viable. Therefore, there is a significant risk that we would lose our trading relationship with that company if we moved the trade to the UK. The contract with Benign Autos is an important part of the overall trade and profits of Broadton, and the possible loss of that business, in the event of our moving the trade to the UK, is likely to outweigh the small tax advantage of moving the trade to the UK.

We could leave the trade in Benignland and claim the grant aid. In the meantime, we could expand the business by entering into new contracts with other entities. If we could replace, at least in part, the Benign Autos business, we could then relocate the trade to the UK to take advantage of the lower UK tax payable and repay, with interest, the grants so far received. An appraisal would be required of the overall advantage of lower UK taxes as compared with the need to repay grants and interest and potential loss of profits should the Beinin Autos business be lost.

If a relocation to the UK were to take place within ten years of the first grant being received, we would be reneging on our undertaking that the Benignland government requires, as a condition of the grant aid being made available, that we would remain in Benignland for at least ten years. At the very least, that would damage the group's reputation for integrity, which in turn could reduce our ability to do business successfully in the future. As the undertaking is likely to be contractual, it is also likely to lead to a legal dispute with the Benignland government, which could be costly in monetary and reputational terms.

ASSESSMENT NARRATIVE FOR SPARKBY PLC (MAY 2023)

Structure

A simple pass or fail will be awarded.

Identification and Application

The following are the relevant topics for assessment with their weightings:

1	25%	Availability of losses and capital allowances in the UK.
2	15%	Reliefs in the UK under the UK Corporate Interest Restriction (CIR) rules.
3	25%	How to bring trading activities and profits into the UK tax regime.
4	20%	Projected group tax liabilities.
5	15%	Impact of grant availability in Benignland.

A grade of 0, 1, 2, 3, or 4 is awarded to each topic. The weighting is applied to that grade to produce a weighted average grade. This is then converted to a final absolute grade by rounding up or down to the nearest grade. In order to secure a pass, a final grade of 3 or 4 is required.

Relevant Advice and Substantiated Recommendations

The following are the relevant topics for assessment with their weightings:

1	40%	Which trades to move to UK.
2	40%	Whether to move residences of existing companies or transfer trades to other (including new) companies.
3	20%	Advice on if, and when, to move the Benignland trade.

The final grade will be determined for this skill in the same way as for Identification and Application.

CANDIDATE SCRIPT FROM MAY 2023

A real candidate script for this case study that scored a clear pass can be found on the CIOT website here:

https://www.tax.org.uk/may-2023-past-exam-papers

Don't forget that the paper was set in May 2023 when the syllabus included tax law up to and including FA 2022 and so the candidate script answer will not be based on up to date tax law.

Examiner's report:
[Being reproduced with the permission of The Chartered Institution of Taxation]

GENERAL COMMENTS

The question set a scenario of a multi-national group faced with possible increases in corporate income taxes under the OECD proposed minimum 15% tax rate. Candidates were not required to have any knowledge of the OECD proposal beyond that which was set out in the question. Details of large unutilised tax reliefs in the UK and possible grants for capital expenditure were provided. Candidates were required to write a report on the actions to be taken to move the tax residences of subsidiary companies and/or to move physical locations of trades to the UK to keep the overall group corporate tax liability to a minimum. Candidates were not asked to consider specific areas, but some areas were explicitly excluded (VAT, deferred tax and the details of the financial transactions required to effect moves).

Most candidates made a reasonable attempt at answering the question and covered most of the essential elements. In nearly all cases, the key consideration of the need to move corporate residences and/or trades if UK tax reliefs were to be accessed was addressed. Variations in the quality of answers arose from the extent that information in the question was used and whether an answer addressed all the issues and relevant possibilities, rather than any paucity of basic tax technical knowledge.

Few candidates explained the basis on which company residence determines the extent to which the company is liable to UK Corporation Tax. Instead, most candidates proceeded on the assumption that the reader of the report would understand that UK corporate residence was coterminous with UK taxation.

A sizeable minority of candidates strayed into areas which were not relevant (for example, dividend routes, controlled foreign companies, stamp duties) but only a small number wasted significant amounts of time and space on such areas.

STRUCTURE

Nearly all candidates produced a report in a suitable format that was well structured and well sign- posted with appropriate headings. Most candidates avoided the use of tax-technical jargon. Introductions varied in quality, particularly in terms of mentioning (or not mentioning) the sources of the information on which the report was based. Most candidates used the Executive Summary to discuss and weigh up the options and make recommendations. Candidates who do this should not repeat this discussion in the body of the report. Some Executive Summaries were overly long, running to four or more pages.

Most candidates approached the question by discussing each of the three overseas entities separately. As most of the issues were common to all of them, this often led to unnecessary and time-consuming repetition. Those that adopted an issues-based approach of discussing specific areas, for example, the availability of UK tax relief, as applicable to each overseas entity, produced a report that flowed better. However, either approach was acceptable.

IDENTIFICATION AND APPLICATION

Most candidates identified the same four of the five issues being tested, but many overlooked the Corporate Interest Restriction (CIR) issue.

The areas tested were:

Availability of losses and capital allowances in the UK

This issue was correctly identified by almost all candidates and was generally dealt with appropriately. Some candidates mis-read the information in the question and therefore undertook laborious and incorrect calculations of capital allowances writing down allowances on reducing balances, when in fact the amount of capital allowances (£50 million per annum per qualifying company) was given in the question so that no calculations were required.

<u>Disallowances under the UK Corporate Interest Restriction (CIR) rules</u>

Large numbers of candidates either overlooked this issue completely or failed to undertake any calculations to assess the possibility of disallowance. Only a minority of candidates correctly identified that £30 million of relief per annum was available for each imported company/trade. There were many instances of all the potentially available relief being allocated across the UK group without any consideration of possible restrictions.

<u>How to bring trading profits into the UK tax regime</u>

Most candidates identified that the profits of a trade could be exposed to UK taxation, and thus qualify for capital allowances and interest deductions by way of group relief, either by making the trading company resident or by siting the trade in the UK. However, some candidates failed to apply the tests comprehensively across the three overseas subsidiary companies.

<u>Projected group tax liabilities of different scenarios</u>

Nearly all candidates undertook calculations of corporate income tax liabilities. These calculations varied significantly in quality, depending on whether each possible residence/trade situs scenario was properly explored, and whether the correct treatments of capital allowances and interest deductions were adopted. Many candidates produced calculations for each company for each of the four years when one year would suffice as they were all the same. Only a minority of candidates looked at the aggregate position across the group. The treatment of the tax-free grant in Benignland was often incorrectly treated as part of the reported pre-tax profits, which distorted calculations and conclusions.

<u>Impact of grant availability in Benignland</u>

This area was identified by most candidates though few undertook a quantitative analysis of its impact compared to available capital allowances and interest deductions. Some candidates sought to obtain UK deductions as well as the grants by making Broadton Ltd UK resident but leaving the trade in Benignland. This was acceptable so long as the after-tax impact across both territories was analysed.

<u>RELEVANT ADVICE AND SUBSTANTIATED RECOMMENDATIONS</u>

Most candidates discussed the evidence elicited from consideration of the identified issues, reached conclusions, and made recommendations in response to the client's questions. The weaker candidates reached a conclusion based purely on tax analyses but overlooked commercial issues, even to the extent of favouring solutions because they utilised the available UK tax reliefs but exposed the group to higher tax liabilities overall. Some candidates made multiple suggestions but failed to arrive at a clear conclusion and recommendation.

<u>Which trades to move to UK</u>

Some candidates arrived at the recommended solution by a correct analysis of the issues, while others arrived at the correct solutions even with incomplete or incorrect tax analysis. There were also instances of the wrong conclusions being reached, largely due to solely considering the objective of utilising available UK tax reliefs, and failing to consider the wider after-tax impact and wider commercial considerations (especially in connection the Broadton Ltd's trade).

<u>Whether to move residences of existing companies or transfer trades to other (including new) companies</u>

Where a proper analysis of the options had been undertaken, candidates were able to address this area and make appropriate and supported recommendations. Where the original analysis was incomplete, the ability to give correct advice was compromised.

Advice on if, and when, to move the Benignland trade

Nearly all candidates discussed this area and made a recommendation. The best answers weighed up the after-tax effect of moving to the UK, the availability of grant aid and the commercial impact on the trade of moving, while others based their recommendations on only one or two of those considerations. Very few candidates discussed the ethical issues and risks/rewards of claiming the available grants and subsequently moving the trade from Benignland.

APS REFLECTION SHEET

	Yes/No	Comments: What should I do differently next time?
GENERAL:		
Did you finish in time?		
Did you do a plan?		
Did you use your plan when you wrote up the report (or letter)?		
STRUCTURE:		
Did you use the correct report (or letter) format?		
Did you include an introduction?		
Does your executive summary contain key issues only?		
Does your executive summary read as a stand-alone document?		
Did you use headings and subheadings to help navigation?		
Does your answer flow in a logical order?		
Did you use style/language appropriate for the reader?		
Are there only a few spelling/grammatical mistakes?		
Did you include appropriate calculations in an Appendix?		
Are your calculations linked to the narrative?		
Did you avoid including irrelevant material?		
I&A:		
Did you identify all the issues? If not, go back to the Question and see where that issue was and try to work how you missed it?		
Is the technical information you provided correct? Has it been applied correctly to the scenario? Is it easy for a lay person to understand?		
Did you use the information provided in the question in appropriate way?		
RA&SR:		
Have you told the client what to do?		
Have you explained to the client why they should do what you have recommended? Did you set out the pros and cons and weigh them up? Is your advice in relation to key areas technically correct?		
Did you consider the wider implications of your advice (such as commercial considerations and legal/ethical issues)?		
Having reviewed your answer, do you think that if you were the client, you would be happy paying for this advice?		