Tolley® Exam Training

ATT PAPER 4

CORPORATE TAXATION

PRE REVISION QUESTION BANK

FA 2020

May and November 2021 Sittings

PQ964

Tolley® Tax intelligence from LexisNexis®

INTRODUCTION

This Pre Revision Question Bank for ATT Paper 4 contains 4 SFQ tests and 10 exam standard long questions (all with answers updated to Finance Act 2020).

Marking guides have been included in the answers where these were provided by the ATT but some answers date from the sittings prior to when the ATT started publishing their marking guides and so these answers do not include marking guides.

This question bank forms an important part of your preparation for the examination - question practice is the key to passing exams.

Format of the exam

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

Part I consists of “short form” questions (“SFQs”) worth between 2 and 4 marks each, which account for 40% of the paper. There will be between 10 and 20 such questions in a paper.

In Part II the remaining 60% of the paper will be between 3 and 5 **longer questions** carrying from 10 to 20 marks each, usually split into shorter subsections with marks allocated to each subsection.

Using this question bank

You should attempt each question as if you were in the real exam. Try to **avoid just reading the answers** to questions - it is all too easy to nod as you read our answer saying “yes I know that point, yes I understand that advice given” - the test is would you have actually put those points in your answer? You won’t find this out unless you **type up the answers**.

Ensuring you type up “proper” answers also gives you a good idea of how long an exam standard answer will take you to type.

We recommend you **allocate 1.9 minutes per mark** which allows 10 minutes reading time at the start of the exam and 10 minutes for a final review at the end of the exam.

Reviewing your answers

It is essential to read through your answer when you have finished typing it. We thought it might be useful at this stage to pass on some tips about how to review your answers effectively – before you look at our model answer.

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

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

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

Reviewing the model answer

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

LAW AND ETHICS

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

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

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

Law:

The chapters from the ATT/CIOT Law text book “Essential Law for Tax Practitioners” (5th edition) that are included in the Paper 4 syllabus are:

Chapter 7 Criminal Law and Tort
Chapter 13 Sole traders and partnerships
Chapter 18 Company Law: The Basics
Chapter 19 Company Law: Share and Loan Capital
Chapter 20 Company Law: Sales of Shares and Assets

Ethics:

The chapters from the ATT/CIOT Ethics text book “Professional Responsibilities and Ethics for Tax Practitioners” (5th edition) that are included in the Paper 1-6 syllabuses are:

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

PCRT (2019)
Chapter 19 The fundamental principles
Chapter 20 The standards for tax planning
Chapter 21 Help sheet A: Submission of tax information and 'tax filings'
Chapter 22 Help sheet B: Tax advice
Chapter 23 Help sheet C: Dealing with errors
Chapter 24 Help sheet D: Request for data by HMRC
Chapter 25 Help sheet E: Members’ personal tax affairs

CONTENTS

SHORT FORM QUESTIONS

LONG QUESTIONS

ATT EXAMINATIONS
2021
TAX TABLES

INCOME TAX

	2020/21
Rates (Note 1)	%
Starting rate for savings income only	0
Basic rate for non-savings and savings income only	20
Higher rate for non-savings and savings income only	40
Additional and trust rate for non-savings and savings income only	45
Dividend ordinary rate	7.5
Dividend upper rate	32.5
Dividend additional rate and trust rate for dividends	38.1

Thresholds	£
Savings income starting rate band	1 – 5,000
Basic rate band	1 – 37,500
Higher rate band	37,501 – 150,000
Dividend Allowance	2,000
Personal Savings Allowance	
– Taxpayer with basic rate income	1,000
– Taxpayer with higher rate income	500
– Taxpayer with additional rate income	Nil
Standard rate band for trusts	1,000

Scottish Tax Rates and Thresholds (Note 2)

£	%
1 – 2,085	19
2,086 –12,658	20
12,659 – 30,930	21
30,931 – 150,000	41
150,000 +	46

Reliefs	£
Personal allowance (Note 3)	12,500
Married couple's allowance (Note 4)	9,075
– Maximum income before abatement of relief - £1 for £2	30,200
– Minimum allowance	3,510
Transferable tax allowance for married couples and civil partners (Note 5)	1,250
Blind person's allowance	2,500
Enterprise investment scheme relief limit (Relief at 30%) (Note 6)	1,000,000
Venture capital trust relief limit (Relief at 30%)	200,000
Seed enterprise investment scheme relief limit (Relief at 50%)	100,000
Social investment relief limit (Relief at 30%)	1,000,000

Notes:
(1) Welsh taxpayers pay income tax using the same rates and thresholds as other UK (but not-Scottish) taxpayers.
(2) Scottish taxpayers pay Scottish income tax on non-savings income.
(3) The personal allowance of an individual with adjusted net income above £100,000 is reduced by £1 for every £2 of adjusted net income above the £100,000 limit.
(4) Only available where at least one partner was born before 6 April 1935. Relief restricted to 10%.
(5) 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.
(6) The limit is £2 million, where over £1 million is invested in knowledge-intensive companies.

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

ATT EXAMINATIONS
2021
TAX TABLES

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note)	Lifetime allowance	Minimum pension age
	£	£	
2020/21	40,000	1,073,100	55

Note: The annual allowance is tapered by £1 for every £2 of adjusted income above £240,000 for individuals with threshold income above £200,000. It cannot be reduced below £4,000.

ITEPA mileage rates

Vehicles

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

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

Company cars and fuel – 2020/21

Emissions	Electric range(miles)	Car benefit % Pre 6 April 2020 registration (note)	Car benefit % On/after 6 April 2020 registration (note)	
0g/km	N/A	0%	0%	
1-50g/km	>130	2%	0%	
1-50g/km	70-129	5%	3%	
1-50g/km	40-69	8%	6%	
1-50g/km	30-39	12%	10%	
1-50g/km	<30	14%	12%	
51-54g/km		15%	13%	
55-59g/km		16%	14%	
60-64g/km		17%	15%	
65-69g/km		18%	16%	
70-74g/km		19%	17%	
75g/km or more		20%	18%	+ 1% for every additional whole 5g/km above 75g/km
160g/km or more		37%		
170g/km or more			37%	

Note: 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 £24,500

Taxable benefits for vans – 2020/21	**£**
Van benefit – No CO_2 emissions	2,792
Van benefit – CO_2 emissions > 0g/km	3,490
Fuel benefit	666

ATT EXAMINATIONS
2021
TAX TABLES

Childcare

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

Note: 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.

2020/21 Official rate of interest	2.25%

STUDENT AND POSTGRADUATE LOAN RECOVERY

Student Loans
Plan 1 (loan taken out pre 1.9.12 or at any time if taken out in Scotland)

Employee earnings threshold at which repayment begins is £1,615 per month.

Plan 2 (loan taken out in England and Wales on/after 1.9.12)

Employee earnings threshold at which repayment begins is £2,214 per month.

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

Postgraduate Loans
Employee earnings threshold at which repayment begins is £1,750 per month.

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

STATUTORY PAYMENTS

Statutory sick pay		**Weekly rate**
Average weekly gross earnings	£120.00 or more	£95.85

Statutory maternity/adoption pay	First 6 weeks @ 90% of AWE Next 33 weeks @ the lower of £151.20 and 90% of AWE
Statutory shared parental pay /paternity pay/parental bereavement pay	For each qualifying week, the lower of 90% of AWE and £151.20

QUALIFYING CARE RELIEF

	Flat rate	**Placement < 11**	**Placement ≥ 11**
Year to 5 April 2021	£10,000 per year	£200 per week	£250 per week

CHILD BENEFIT

Year to 5 April 2021

Rates	**Weekly rate**
	£
First child	21.05
Each subsequent child	13.95

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

ATT EXAMINATIONS
2021
TAX TABLES

HMRC INTEREST RATES

Late payment interest	2.6%
Underpaid corporation tax instalments interest	1.1%
Repayment interest	0.5%
Credit interest	0.5%

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits		**2020/21**	
	Annual	**Monthly**	**Weekly**
	£	£	£
Lower earnings limit (LEL)	6,240	520	120
Primary threshold (PT)	9,500	792	183
Secondary threshold (ST)	8,788	732	169
Upper earnings limit (UEL)	50,000	4,167	962
Upper secondary threshold for U21 (UST) (Note 1)	50,000	4,167	962
Apprentice upper secondary threshold for U25 (AUST) (Note 2)	50,000	4,167	962

	2020/21
Employment allowance	
Per year, per employer	£4,000
Class 1 primary contribution rates	
Earnings between PT and UEL	12%
Earnings above UEL	2%
Class 1 secondary contribution rates	
Earnings above ST (Notes 1 & 2)	13.8%
Other contribution limits and rates	
Class 1A contributions	13.8%
Class 1B contributions	13.8%
Class 2 contributions	
Normal rate	£3.05 pw
Small profits threshold	£6,475 pa
Class 3 contributions	£15.30 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£9,500
Annual upper profits limit (UPL)	£50,000
Percentage rate between LPL and UPL	9%
Percentage rate above UPL	2%

Notes: (1) The rate of secondary NICs for employees under the age of 21 on earnings between the ST and UST is 0%.
(2) The rate of secondary NICs for apprentices under the age of 25 on earnings between the ST and AUST is 0%.

ATT EXAMINATIONS
2021
TAX TABLES

SIMPLIFICATION MEASURES

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

FLAT RATE EXPENSES FOR UNINCORPORATED BUSINESSES

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

CASH BASIS

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

CAPITAL ALLOWANCES

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

Notes: (1) 100% on the first £1,000,000 of investment in plant and machinery (except cars) from 1 January 2019 to 31 December 2020 (£200,000 from 1 January 2021).
(2) The main pool rate applies to cars with CO_2 emissions of not more than 110 g/km.
(3) The special pool rate applies to cars with CO_2 emissions greater than 110 g/km.
(4) The SBA rate was 2% prior to April 2020.

First year allowances available to all businesses
1) Capital expenditure incurred by a person on research and development.
2) New zero-emission goods vehicles.
3) New cars if the car either emits not more than 50 g/km of CO_2 or it is electrically propelled.
4) Electric vehicle charging points expenditure.

VALUE ADDED TAX

Standard rate	20%
VAT fraction	1/6

Limits	**From 1.4.20**
Annual registration limit	£85,000
De-registration limit	£83,000

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

ADVISORY FUEL RATES (as at 1 June 2020)

Engine size	**Petrol**	**LPG**	**Engine size**	**Diesel**
1400cc or less	10p	6p	1600cc or less	8p
1401cc to 2000cc	12p	8p	1601cc to 2000cc	9p
Over 2000cc	17p	11p	Over 2000cc	12p

Electricity rate 4p

ATT EXAMINATIONS
2021
TAX TABLES

CORPORATION TAX

Financial year	**2020**	**2019**
Patent box	10%	10%
Main rate	19%	19%

Research and development expenditure

SMEs (Note)	230%
Large companies – RDEC	13% (12% prior to 1 April 2020)

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

INHERITANCE TAX

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

Note: A lower rate of IHT of 36% applies where 10% of 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 2021	£325,000

Residence nil rate bands (Note)

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 2021	£175,000

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

Taper relief

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

Quick succession relief

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

Lifetime exemptions

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

ATT EXAMINATIONS
2021
TAX TABLES

CAPITAL GAINS TAX

	2020/21
Annual exempt amount	£12,300
CGT rates for individuals (Notes 1 & 2)	
Gains qualifying for business asset disposal relief	10%
Gains falling within remaining basic rate band (Notes 3 & 4)	10%
Gains exceeding basic rate band (Note 5)	20%
CGT rates for trusts & individuals paying the remittance basis charge	
Gains qualifying for business asset disposal relief/investors' relief	10%
Other gains (Note 5)	20%
CGT Rate for PRs	
All gains (Note 5)	20%
Business Asset Disposal relief	
Relevant gains (lifetime maximum) (Note 6)	£1 million
Investors' relief	
Relevant gains (lifetime maximum)	£10 million

Notes: (1) For individuals, gains are taxed as if they are the top slice of income.
(2) Capital losses and the annual exempt amount may be offset in the most beneficial manner, ie against gains not qualifying for business asset disposal relief/investors' relief first.
(3) The remaining basic rate band is calculated as £37,500 (2020/21) less taxable income less any gains on which business asset disposal relief has been claimed. The remaining basic rate band can be allocated in the most beneficial manner.
(4) The rate is 18% if the gain is in respect of a residential property
(5) The rate is 28% if the gain is in respect of a residential property
(6) For qualifying disposals made before 11 March 2020 the lifetime limit was £10 million

Lease percentage table

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

Retail Prices Index

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

TEST “A”
(40 MARKS)

1. Walton Ltd changed its accounting date and prepared its accounts for the six months ended 31 March 2021. The general pool brought forward at 1 October 2020 was £12,000.

   On 1 November 2020 the company bought some machinery for £605,000. On 1 December 2020 it sold some office furniture for £3,500. There were no other additions or disposals.

   Calculate the maximum claim for capital allowances for the period ended 31 March 2021. (3)

2. During the year ended 31 March 2020 Beckham Ltd made a loan of £120,000 to David, its controlling shareholder. The loan was repaid as follows:

	£
11 July 2020	40,000
19 March 2021	40,000
30 April 2021	40,000

   This is the only loan that Beckham Ltd has ever made to David.

   State the tax liabilities payable by the company on the loan and the dates when any such liabilities will be repayable. (4)

3. Wood Ltd, a company involved in the manufacture of furniture, also owns a rental property let to an unconnected third party.

   During the year ended 31 January 2021 it incurred interest on the following loans:

   - Loan to purchase new van for delivery of goods manufactured
   - Loan to build extension to rental property

   Briefly explain how the interest payments on these loans should be treated for Corporation Tax purposes. Your answer should include the treatment of any deficit. [You are not required to refer to the operation of the deductions allowance.] (3)

4. House Ltd commenced to trade as an estate agency on 1 August 2020 preparing its first accounts to 31 March 2021. On 1 August 2020 the company entered into a 10-year lease on the following terms:

   Legal fees incurred on drawing up lease £2,000

   Premium paid to landlord on granting of lease £10,000

   Annual rent £24,000 payable quarterly in advance

   Calculate the tax deductions available for these items of expenditure in the period ended 31 March 2021. (3)

5. Orchid Ltd has taxable total profits of £1,400,000 for the year ended 30 September 2020. The company received a dividend of £90,000 on 1 August 2020 from a company in which Orchid Ltd owns 5% of the shares. It was a large company for the year ended 30 September 2019.

   Calculate the Corporation Tax payable for the year ended 30 September 2020 and state the due date(s). (2)

6. Arch Ltd owns 100% of Stone Ltd and 60% of Marble Ltd. All companies prepare accounts to 31 January each year.

   On 10 September 2020 Stone Ltd disposed of a property for net sale proceeds of £280,000. It had acquired the property for £60,000 in April 1985.

   In the year ended 31 January 2021, Marble Ltd made a capital loss of £50,000 and Arch Ltd made a capital loss of £40,000.

   Calculate the net chargeable gain arising on the property disposal assuming all relevant claims and elections are made. (3)

7. Busted Ltd ceased trading on 31 March 2021. The tax written down values brought forward at 1 September 2020 were £56,000 on the general pool and £14,000 for a short life asset which was purchased in 2018. The company bought the following capital asset in November 2020:

	£
Cutting machine	40,000

   On 31 March 2021 the plant and machinery was sold for £89,000 and the short life asset was sold for £9,000.

   Calculate the capital allowances for the period ended 31 March 2021. (2)

8. Andy and Jamie are 50% shareholders in Murray Ltd.

   Andy is managing director and works full-time on a salary of £50,000. Jamie is neither a director nor an employee and holds his shares for investment purposes. He is a higher rate taxpayer.

   Andy and Jamie are each provided with a flat by Murray Ltd, available for their private use. The taxable benefit of each flat is £10,000.

   Explain how both Andy and Jamie will be taxed on the use of their flats. (2)

9. Elephant Ltd had the following income for the years ended 31 March 2020 and 2021:

	2020	2021
	£	£
Trading profit	400,000	200,000
Bank interest	30,000	10,000
Rental income		20,000

In April 2020 the company took out a loan to buy an investment property. Interest payable on the loan in the year ended 31 March 2021 was £12,000.

Calculate the taxable total profits for the year ended 31 March 2021 assuming all appropriate claims are made to obtain relief as early possible. (2)

10. Karin started a retail business in 2000. On 1 June 2020 Karin transferred her business to a company, Kuka Ltd. In exchange she received 10,000 £1 ordinary shares (100% shareholding) valued at £20,000 and £80,000 left on a director’s loan account. Incorporation relief applies.

The only chargeable asset transferred was goodwill which had been generated by Karin when she set up the business. The market value of the goodwill on 1 June 2020 was £60,000.

Karin made no other disposals in 2020/21. Her taxable income for that tax year was £50,000.

Calculate Karin’s 2020/21 capital gains tax liability and the base cost of her new shares after all reliefs. (4)

11. Box Ltd bought 75% of the shares in Stamp Ltd for £600,000 in May 1990. In March 1993 Box Ltd purchased a building for £350,000. It sold the building to Stamp Ltd for £600,000 in December 2020 when the building was actually worth £800,000.

In January 2021, Box Ltd sold all of its shares in Stamp Ltd to the Warminster Group plc for £1,450,000. The building was then worth £950,000.

All companies are trading companies and prepare accounts to 31 December each year.

Explain the tax consequences of the disposal of the Stamp Ltd shares and calculate any gains arising. (3)

12. Green Ltd had the following results for the year ended 31 March 2021:

	£
Trade profit	600,000
UK interest	150,000
Income from an overseas property (net of 40% withholding tax)	60,000
Donation to charity	(50,000)

Calculate the Corporation Tax liability for Green Ltd for the above year end. (3)

13. The following information relates to Tulip Ltd and its wholly owned subsidiary, Snowdrop Ltd.

Tulip Ltd	£
Trading loss for year ended 31 March 2022	(120,000)
Snowdrop Ltd	
Trading profits for year ended 31 December 2021	100,000
Donation to charity	(5,000)
Trading loss brought forward at 1 January 2021	(10,000)

Calculate the maximum amount of group relief that Snowdrop Ltd may claim for the year to 31 December 2021. (3)

14. On 1 October 2020 Pepper plc paid corporation tax of £128,000 in respect of the agreed liability for the year ended 31 December 2019. The company had provided £126,000 for corporation tax at 31 December 2019.

The provision for corporation tax for the year ended 31 December 2020 is estimated at £189,700.

Set out in debit/ credit format the double entries to record the above information in the accounts of Pepper plc for the year ended 31 December 2020. (3)

TEST "A"
ANSWERS

1.

<u>6 m/e 31 March 2021</u>	AIA	General Pool	Allowances
	£	£	£
General Pool b/f		12,000	
<u>Additions</u>			
Machinery	500,000	105,000	
Disposals		(3,500)	
		113,500	
AIA @ 100% (W)	(500,000)		500,000
WDA @ 18% x 6/12		(10,215)	10,215
			510,215

<u>Working</u>

Maximum AIA = 1,000,000 x 6/12 = 500,000

<u>Tutorial Note:</u>

The ATT have confirmed that following the announcement in November 2020 that the Annual Investment Allowance will remain £1 million until 1 January 2022, they will accept answers that reflect this or the original reduction to £200,000 enacted in FA 2019.

2. The s.455 tax is calculated as 32.5% x lower of:

- loan outstanding on last day of the accounting period, or
- loan outstanding on normal due date for tax.

	£	£
Loan o/s @ 31.3.20	120,000	
Loan o/s @ 1.1.21	80,000	
S.455 tax due 1.1.21		
80,000 x 32.5%		26,000
S.455 tax repayable when loan repaid		
Repayable 1.1.22 (re repayment in y/e 31 March 2021)		
40,000 x 32.5%		13,000
Repayable 1.1.23 (re repayment in y/e 31 March 2022)		
40,000 x 32.5%		13,000

3. Interest on the loan to acquire the van will be treated as a trading expense and will be deductible against trading income.

Interest on the rental property loan will be treated as a non-trade deficit and relieved against other non-trade credits from loan relationships.

Any excess non-trade deficit can be set against current year profits, carried back against non-trading profits (loan relationships) in the previous 12 months or carried forward against total profits of the next accounting period (or later periods for any deficit still remaining).

4.

		£	£
1)	Legal fees (not allowed as new short lease)		Nil
2)	Lease premium	10,000	
	Less: 2% x 10,000 x (10 – 1)	(1,800)	
	Income element	8,200	
	Allowable: 8,200/10 x 8/12		547
3)	Rents: 24,000 x 8/12		16,000
	Total allowed		16,547

5.

	Total
	£
TTP	1,400,000
Corporation tax rate - 19% for both FY 2019 & FY 2020	
CT payable:	
£1,400,000 x 19%	266,000
CT payable	

CT due date:

Augmented profit: £(1,400,000 + 90,000) = £1,490,000, which is below the threshold (£1,500,000) for paying in quarterly instalments

Due 1 July 2021

Tutorial Note:

As the rate of CT did not change between FY 2019 and FY 2020, there is no need to apportion the TTP between two notional accounting periods. Dividends are not taxable but do form part of augmented profits and therefore affect whether a company has to pay its tax in instalments (dividends from 51% subsidiaries are ignored).

6.

	£
Proceeds (September 2020)	280,000
Less: Cost (April 1985)	(60,000)
Less: Indexation allowance (April 1985 to December 2017)	
(278.1 – 94.78)/94.78 = 1.934 x 60,000	(116,040)
Gain	103,960
Less: Capital loss of Arch Ltd (note)	(40,000)
	63,960

Note:

S.171A TCGA 1992 claim is made to transfer the capital loss of Arch Ltd to Stone Ltd.

Tutorial Note:

Marble Ltd is not in the same gains group as Stone Ltd hence no claim is available in order to use the capital loss in Marble Ltd.

7.

	General Pool	Short Life Asset	Allowances
Final AP	£	£	£
Tax wdv b/f	56,000	14,000	
Additions – machine	40,000		
	96,000		
Disposals	(89,000)	(9,000)	
Balancing allowance	7,000		7,000
Balancing allowance		5,000	5,000
			12,000

No AIA or WDAs in period of cessation, balancing adjustments only.

8. Andy has received a taxable benefit of £10,000, which will be taxed at 40% as part of his employment income.

Jamie is taxed as if he had received a dividend. The dividend is £10,000, taxable at 0% to the extent that the dividend allowance of £2,000 is available and otherwise at 32.5%.

9.

Year ended 31 March 2021	£	£
Trade profit		200,000
Non-trade loan relationship		
Credits	10,000	
Debits	(12,000)	
Net deficit (note)	(2,000)	Nil
UK property business		20,000
TTP		220,000

Note:

A claim should be made to carry back the deficit against non-trading profits (LRs) in 2020.

10.

Goodwill	£
Market value = proceeds	60,000
Less: Cost	(Nil)
Chargeable gain	60,000
Less: Incorporation relief	
60,000 x 20,000/100,000	(12,000)
Chargeable gain after relief	48,000
Less: AEA	(12,300)
Taxable gains	35,700
CGT liability:	
35,700 x 20% =	7,140
Base cost of shares:	
Market value of shares received	20,000
Less: Incorporation relief	(12,000)
Base cost of shares	8,000

Tutorial Note:

Incorporation relief is automatic.

Business Asset Disposal relief is not available in respect of any gain arising on the transfer of goodwill by a sole trader to a close company in which they hold at least 5% of the shares.

11. The sale of the shares in Stamp Ltd by Box Ltd is exempt under the substantial shareholding exemption because Stamp Ltd is a trading company and Box Ltd has owned ≥ 10% of the ordinary shares in Stamp Ltd throughout a 12-month period within the six years prior to the disposal in January 2021.

Consequently, the degrouping gain is also exempt since it would increase the sale proceeds in the calculation of the gain on the sale of the shares by Box Ltd.

12.

Y/e 31 March 2021	Total	UK	Non-UK
	£	£	£
Trade profit	600,000	600,000	
Non trading profits (LRs)	150,000	150,000	
Overseas property business (£60,000 x 100/60)	100,000		100,000
Donation to charity	(50,000)	(50,000)	
TTP	800,000	700,000	100,000
CT @ 19%	152,000	133,000	19,000
Overseas tax		-	40,000
Less: DTR (note)	(19,000)		
CT due	133,000		

Note:

DTR restricted to UK tax on foreign income as it is lower than the overseas tax.

13. Snowdrop Ltd's available TTP for y/e 31 December 2021:

	£
Trade profit	100,000
Less: b/f trading losses	(10,000)
	90,000
Less: Qualifying charitable donation	(5,000)
TTP	85,000

Snowdrop Ltd may claim group relief from Tulip Ltd of an amount equal to the lower of:

9/12 x £120,000 = £90,000 (Tulip Ltd's loss for the corresponding AP) or

9/12 x £85,000 = £63,750 (Snowdrop Ltd's TTP for the corresponding AP)

ie £63,750

14. Journals

	£	£
Dr Corporation tax creditor	128,000	
Cr Bank		128,000

To record the payment of the corporation tax liability for y/e 31 December 2019

Dr Corporation tax charge (128,000 – 126,000)	2,000	
Cr Corporation tax creditor		2,000

To record the under provision for corporation tax made in the y/e 31 December 2019

Dr Corporation tax charge	189,700	
Cr Corporation tax creditor		189,700

To provide for the corporation tax liability for the y/e 31 December 2020

TEST "B"
(40 MARKS)

1. Deco Ltd (a paint-making company) started trading on 1 June 2020, preparing accounts for the period to 31 January 2021.

   The company bought:

   a) a paint-mixing machine on 1 June 2020 for £18,000; and

   b) a BMW car on 1 July 2020 for £35,000, for use by the sales director. Private use by the director is 30% and CO_2 emissions are 138 g/km.

   Calculate Deco Ltd's capital allowances for the period to 31 January 2021. (3)

2. Reeves Ltd and Mortimer Ltd have the following results:

Reeves Ltd		£
Year ended 31 December 2019	Augmented profits	1,000,000
Year ended 31 December 2020	Augmented profits	2,000,000

   Reeves Ltd has no related 51% group companies.

Mortimer Ltd		£
Year ended 31 December 2019	Augmented profits	1,400,000
Year ended 31 December 2020	Augmented profits	7,500,000

   Mortimer Ltd acquired 100% of the shares of Doors Ltd on 1 November 2020.

   Discuss whether either of the above companies should pay Corporation Tax by instalments for the year ended 31 December 2020. (3)

3. The shares of Amber Ltd are owned as follows:

	%
Jet Ltd	30
Jade Ltd	30
Lapis Ltd	40
	100

   The results of Amber Ltd and Jet Ltd are as follows:

			£
Amber Ltd	Year ended 31 March 2021	Trading loss	(120,000)
Jet Ltd	Year ended 31 December 2020	Trading profit	80,000

   Calculate the maximum loss of Amber Ltd that can be claimed by Jet Ltd in the year ended 31 December 2020. (3)

4. Burrell Investments Ltd is jointly owned by Mr & Mrs Burrell. Results for the year ended 31 March 2021 are as follows:

	£
Interest income	12,000
Chargeable gains	28,000
UK dividends received	4,500
Management expenses	(25,000)
Excess management expenses brought forward from previous year	(3,000)

Calculate the Corporation Tax payable for the above year end. (3)

5. Lead Ltd and its wholly owned subsidiary, Steel Ltd, prepare accounts to 31 October.

The results for the year ended 31 October 2020 are as follows:

	£
<u>Lead Ltd</u>	
Trading profit	100,000
Chargeable gain (May 2020)	30,000
<u>Steel Ltd</u>	
Trading profit	800,000

Steel Ltd has a capital loss brought forward at 1 November 2019 of £10,000.

Calculate the Corporation Tax liabilities of Lead Ltd and Steel Ltd for the year ended 31 October 2020. Outline any beneficial elections that should be made. (3)

6. Bird Ltd's profit and loss account for the year ended 31 March 2021 showed the following expenses:

	£
Salaries	100,000
Pension contributions to registered pension scheme	30,000

Included in salaries was an accrued amount of £15,000, £10,000 of which was paid on 6 October 2021 and £5,000 of which was paid on 6 January 2022. Included in pension contributions was an accrued amount of £4,000 which was paid on 1 May 2021.

State the amount to be added back in the tax computation for the year ended 31 March 2021 giving reasons for your answer. (2)

7. Robin, a sole trader, incorporated his business on 31 March 2020 in exchange for shares. The loss realised in his final 12 months of trading was £30,000. He does not wish to claim terminal loss relief or relief under s.64 ITA 2007.

Robin received the following income from the company in 2020/21:

	£
Dividends	5,000
Salary	12,000

The company's taxable profits for the year to 31 March 2021 are £25,000.

Outline how the loss can be relieved in 2020/21. (2)

8. The following happened in 2021:

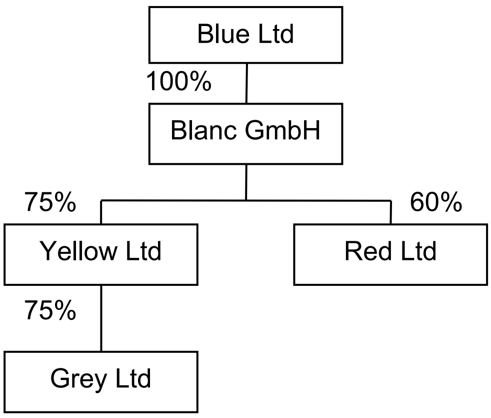
Getaway & Go Ltd, a travel company, commenced trading on 1 January. Turnover is £11,000 per month for the first six months.

On 9 July, an order was received for work totalling £25,000 to be invoiced by 31 July.

Show the date by which the company should notify HMRC of its requirement to be registered for VAT, and the date from which VAT should be charged on sales. (2)

9. **State the reliefs available to a medium-sized company which incurs qualifying research and development expenditure of £50,000 in the year ended 31 March 2021**. (3)

10. The Blue group is structured as follows:



Blanc GmbH is resident in Germany.

State (with brief reasons) which companies are in a capital gains group for UK Corporation Tax purposes. (4)

11. Jane Draper (aged 41) was made redundant on 15 February 2021. Jane worked her notice period and was paid for it as normal. She also received a termination package, which included the following:

	£
Ex-gratia award	120,000
Statutory redundancy	6,000
Payment to registered pension scheme	20,000
	146,000

Show how much of the above payment is chargeable to income tax. (2)

12. Bragg Ltd has the following results for the year ended 30 June 2020:

	£
Trade profit	600,000
Debenture interest received from UK company	200,000
Patent royalties received from an individual	80,000
Dividend from wholly owned UK subsidiary	90,000

The patent is held as an investment.

Calculate Bragg Ltd's Corporation Tax payable for the above year end. (3)

13. On 1 December 2020, Platinum Ltd sold 9,000 shares in Riches plc for £57,000. 1,000 shares had been acquired on 23 November 2020 for £4,000 and an original investment of 16,000 shares had been acquired in June 2013 for £13,500.

Platinum Ltd has never owned more than 1% of Riches plc's issued share capital.

Calculate the chargeable gain on Platinum Ltd's share disposal in December 2020.

(4)

14. During the quarter ended 30 June 2020 NDX Ltd, a VAT registered company, made VAT inclusive purchases of £100,200 and VAT inclusive sales of £350,880. The company also bought a delivery van for use in its trade for £24,960 (VAT inclusive).

The company's VAT return for the quarter ended 31 March 2020 showed VAT payable of £53,200 which was paid electronically on 7 May 2020.

Show the VAT ledger account ('T' account) in NDX Ltd's accounts, including the amount payable for the quarter ended 30 June 2020. (3)

TEST "B"
ANSWERS

1.

8 m/e 31 January 2021	AIA	Special rate pool	Total
	£	£	£
Additions:			
- paint mixing machine	18,000		
- BMW car (> 110 g/km)		35,000	
AIA @ 100% *(tutorial note)*	(18,000)		18,000
WDA @ 6% x 8/12		(1,400)	1,400
		33,600	19,400

Tutorial Note:

AIA is not available for cars and private use is not relevant for companies.

It is obvious here that the additions will be covered by the AIA .

2. Neither company should pay Corporation Tax by instalments.

Reeves Ltd's augmented profits for y/e 31 December 2020 exceed the large company threshold of £1.5m. However, it was not large in the previous period and current augmented profits do not exceed £10m.

Mortimer Ltd's augmented profits for y/e 31 December 2020 exceed the large company threshold of £1.5m. However, it was not large in the previous period and current augmented profits do not exceed £10m (£10m limit adjusted for number of related 51% group companies at end of the immediately preceding accounting period, i.e. at 31 December 2019).

3. Maximum consortium relief is lower of:

- Jet Ltd's share of Amber Ltd's loss, and
- Jet Ltd's available TTP

for corresponding accounting period (= 9 months 1 April 2020 to 31 December 2020)

Lower of:

- 30% x £120,000 x 9/12 = £27,000
- £80,000 x 9/12 = £60,000

ie maximum consortium relief = £27,000

4.

<u>Y/e 31 March 2021</u>

	£
Non-trading profits (LRs)	12,000
Chargeable gains	<u>28,000</u>
	40,000
Less: Management expenses	(25,000)
Less: Excess management expenses b/fwd	<u>(3,000)</u>
TTP	<u>12,000</u>
CT @ 19%	<u>2,280</u>

5. An election should be made under s.171A TCGA 1992 so that £10,000 of the gain arising in Lead Ltd is treated as being incurred by Steel Ltd.

Steel Ltd can then set off the capital losses b/f of £10,000 against this gain.

The remaining £20,000 of gain will stay in Lead Ltd.

<u>Steel Ltd</u>

	£
TTP	<u>800,000</u>
CT liability:	
800,000 x 19%	152,000

<u>Lead Ltd</u>

Trading profit	100,000
Chargeable gain (30,000 – 10,000)	<u>20,000</u>
TTP in Lead Ltd	<u>120,000</u>
CT liability:	
120,000 x 19%	<u>22,800</u>

<u>Tutorial Note:</u>

As the gain arose post 1 April 2020 the amount of brought forward capital losses that may be offset could be restricted. Sufficient deductions allowance should be claimed to utilise all the brought forward capital losses.

6. Accrued salaries are allowed provided they are paid within nine months after the year-end.

Accrued pension contributions are not allowed.

	£
Accrued salaries not paid within nine months of year end	5,000
Accrued pension contributions	<u>4,000</u>
Amount to be added back	<u>9,000</u>

7. Loss relief is available against the first available income Robin receives from the company under s.86 ITA 2007:

	£
Salary	12,000
Dividends	5,000
	17,000
Available to c/fwd (to next tax year etc) (£30,000 – £17,000)	13,000

Tutorial Note:

For s.86 ITA 2007 loss relief to be available Robin must have received more than 80% of the consideration on incorporation in the form of shares and he must still own these shares throughout each tax year s.86 ITA 2007 loss relief is claimed.

8. Taxable supplies will exceed £85,000 at the end of July 2021 (£91,000).

The company must notify HMRC of its requirement to register for VAT by 30 August 2021 and should charge VAT on sales from 1 September 2021.

9. The company can claim an allowable deduction in total of 230% of the expenditure incurred,

ie £50,000 x 230% = £115,000.

If the company has made a loss it can claim an R&D tax credit of 14.5% of the surrenderable loss.

Surrenderable loss is the lower of:

- 230% x qualifying R&D costs = £115,000, and
- Unrelieved trading loss for the AP.

Assuming £115,000 is the surrenderable loss, the cash payment made to the company is 14.5% x £115,000 = £16,675.

10. Blue Ltd, Blanc GmbH, Yellow Ltd and Grey Ltd form a capital gains group.

Blue Ltd owns at least 75% of Blanc GmbH, Blanc GmbH owns at least 75% of Yellow Ltd and Yellow Ltd owns at least 75% of Grey Ltd. Blue Ltd indirectly owns > 50% of the shares in Yellow Ltd and Grey Ltd. Therefore, all of these companies are in the same capital gains group.

Blanc GmbH's direct holding in Red Ltd is < 75% and therefore Red Ltd is not in the same capital gains group.

Blanc GmbH is a member of the gains group even though it is not UK resident; but it cannot benefit from the various capital gains reliefs available to group companies.

11.

	£
Ex-gratia award	120,000
Statutory redundancy	6,000
Payment to pension scheme	Exempt
	126,000
Less: Exemption	(30,000)
Chargeable to income tax	96,000

12.

Y/e 30 June 2020	£
Trade profit	600,000
Non-trading income (IFAs) (80,000 x 100/80)	100,000
Non-trading profits (LRs) (received gross)	200,000
TTP	900,000
CT liability:	
900,000 x 19%	171,000
Less: IT suffered (20% x 100,000)	(20,000)
CT payable	151,000

13.

Shares matched:	£
1) Previous 9 days – acquisition on 23 November 2020	1,000
2) S.104 pool (= June 2013 acquisition)	8,000
	9,000

Disposal of 1,000 shares acquired on 23 November 2020

Sale proceeds (57,000 x 1,000/9,000)	6,333
Less: Cost	(4,000)
Chargeable gain	2,333

Disposal of 8,000 shares from s.104 pool

Sale proceeds (57,000 x 8,000/9,000)	50,667
Less: Cost (13,500 x 8,000/16,000)	(6,750)
Less: Indexation allowance (June 2013 to December 2017)	
(278.1 – 249.7)/249.7 (no rounding) x 6,750	(768)
Chargeable gain	43,149
Total gains (2,333 + 43,149)	45,482

Tutorial Note:

The indexation factor is not rounded when calculating the gain on the sale of the shares from the s.104 pool.

14.

VAT control account

Bank	53,200	Balance b/d	53,200
Purchases – Input VAT 100,200 x 1/6	16,700	Sales – Output VAT 350,880 x 1/6	58,480
Delivery van – Input VAT 24,960 x 1/6	4,160		
Balance c/d	37,620		
	111,680		111,680
		Balance b/d	37,620

£37,620 is owed to HM Revenue & Customs at 30 June 2020.

Tutorial Note:

VAT is recoverable on the purchase of a van for use in the business.

TEST "C"
(40 MARKS)

1. Handicraft Ltd, a trading company, made the following capital disposals in the year ended 31 March 2021:

   a) On 2 May 2020, sold a retail unit for £325,000 before the deduction of 2.5% estate agency fees. The building had originally been acquired for £25,650 in March 1988.

   b) On 21 August 2020, sold an investment property for £36,250. The investment property had originally cost £68,560 in March 2017.

   Calculate Handicraft Ltd's net chargeable gain for the year ended 31 March 2021. (4)

2. Abacus Ltd, a close company, received two loans a number of years ago. For the year ended 30 June 2020, Abacus Ltd had the following interest accruals:

   a) Loan from Zen plc, an unconnected banking business – interest accrued in the year, £15,150. This interest was paid on 15 July 2021.

   b) Loan from Mr Yong, a 10% shareholder in the company – interest accrued in the year, £25,250. This interest was paid on 2 August 2021.

   Explain in which accounting period(s) Abacus Ltd can claim deduction for the loan interest accrued in the year ended 30 June 2020. (3)

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

   For the year ended 31 March 2021, the company has £50,000 of taxable profits. This figure is before the deduction of any salary or dividend payments.

   Calculate the Corporation Tax payable by the company and the Income Tax payable by the two directors if on 31 March 2021 there is either:

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

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

   Ignore National Insurance.

4. On 1 May 2020, Voxmobile plc sold 125,000 fixed rate preference shares in Bong Ltd, a UK resident trading company, for £867,000. 150,000 shares had been acquired for £352,000 on 1 April 2005 with a rights issue of 1 for 2 taken up at £2 per share on 1 March 2013.

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

5. Quota Ltd has been trading for a number of years. On 1 August 2019, it commenced a new construction trade.

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

	Year ended 31 Dec 2019	Six months to 30 June 2020	Year ended 30 June 2021
	£	£	£
Construction trade profit/(loss)	52,000	35,350	(178,630)
Other trading income	125,250	11,675	25,380

Calculate the amount of trading loss carried forward as at 30 June 2021 assuming Quota Ltd claims relief as early as possible. (3)

6. Hattie plc is a large company and had a Corporation Tax liability for the year ended 31 December 2020 of £2,000,000.

The company settled this tax liability as follows:

	£
14 July 2020	400,000
14 October 2020	400,000
14 January 2021	400,000
14 April 2021	800,000

Calculate the late payment interest due for the year ended 31 December 2020. (3)

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

For the year ended 31 March 2021, Doug-IT Ltd invoiced Power Rail Ltd £36,000 for Douglas's services. Douglas received a gross salary of £12,500 from Doug-IT Ltd and the company made pension contributions of £5,000 to Douglas's stakeholder pension. Douglas is the only employee of Doug-IT Ltd.

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

Briefly explain why Doug-IT Ltd may be deemed to pay a salary to Douglas for the year ended 31 March 2021 and calculate this deemed salary payment. (4)

8. Archimedes Ltd is a trading company with a staff of 50 and turnover of £10 million. The company made a trading loss in the year ended 30 April 2021, due to incurring a large amount of research and development expenditure. This has resulted in a cash flow shortage, although the company is still a going concern.

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

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

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

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

10. On 15 January 2021, Galileo Ltd paid the annual interest due on £250,000 of 15% debentures. The debentures were all held by individuals. Galileo Ltd makes up its accounts to 31 January annually.

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

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

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

1) State two advantages of operating as a limited liability partnership compared to a limited company. You should assume that the 'disguised employment' anti-avoidance legislation does not apply. (2)

2) State the tax returns required for a limited liability partnership and its individual partners. (1)

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

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

2) State the maximum monthly salary that can be paid to Robert for 2020/21 before National Insurance Contributions become payable by him. (1)

TEST "C"
ANSWERS

1. Handicraft Ltd's chargeable gain for the year ended 31 March 2021

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

Total 4

2. Abacus Ltd - deduction for the loan interest accrued in the year ended 30 June 2020

Loan from Zen plc - deduction for the loan interest is on an accruals basis. *[½]* Deduction of £15,150 is allowed in the year ended 30 June 2020. *[½]*

Loan from Mr Yong – Mr Yong is a participator in the company which is close. As the payment of loan interest is to a participator *[½]* and is paid more than 12 months after the accounting period *[½]* then deduction for interest is in the year of payment *[½]*. So, deduction of £25,250 is allowed in the year ending 30 June 2022. *[½]*

Total 3

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

1) A dividend payment of £20,000 each

Corporation tax	£	
50,000 of profits are taxable at 19%	9,500	*[1]*
Income tax		
£12,500 covered by personal allowance	825	*[1]*
£2,000 covered by dividend allowance		
Income tax (20,000 – 14,500) x 7.5% x 2 directors		

2) Salary payment of £20,000 each

Corporation tax	£	
50,000 - 40,000 = 10,000 of profits are taxable at 19%	1,900	*[1]*
Income tax		
(20,000 - 12,500) x 20% x 2 directors	3,000	*[1]*

Total 4

4. Voxmobile plc

Date	Event	Shares, No	Cost	
			£	
1/4/05	Purchase	150,000	352,000	
1/3/13	Indexation			
	(248.7 – 191.6)/191.6 x £352,000		104,902	*[1]*
1/3/13	Rights issue	75,000	150,000	*[½]*
		225,000	606,902	
1/5/20	Indexation to 12/17			
	(278.1 – 248.7)/248.7 x £606,902		71,745	*[1]*
			678,647	
1/5/20	Sale			
	(125,000/225,000) x £678,647		(377,026)	*[1]*

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

Total 4

5. Quota Ltd - loss for the year ended 30 June 2021

	£	
Loss for the year	(178,630)	
Loss first has to be offset against other current year income	25,380	*[½]*
Loss set off against all income in the 6 months to 30 June 2020	47,025	*[1]*
Loss carry back to year ended 31 December 2019 is restricted		
½ x (52,000 + 125,250)	88,625	*[1]*
Balance available to carry forward	(17,600)	*[½]*

Total 3

6. Late payment interest due for the year ended 31 December 2020

Date	Payment due	Actual payment	Underpayment	Months late	Interest rate	Late payment interest	
	£	£	£		% pa		
14/7/20	500,000	400,000	100,000	9	1.1	825	*[1]*
14/10/20	500,000	400,000	100,000	6	1.1	550	*[1]*
14/1/20	500,000	400,000	100,000	3	1.1	275	*[1]*
14/4/20	500,000	800,000	-				
Total	2,000,000	2,000,000				1,650	

[Candidates who use an interest rate of 2.6% will be penalised a total of ½]

Total 3

7. Deemed payment for the year ended 31 March 2021

Douglas provides his services through Doug-IT Ltd, his personal service company. If in the absence of Doug-IT Ltd he would be treated as an employee of Power Rail Ltd, the IR35 legislation will apply. This would deem Doug-IT Ltd to make a salary payment to Douglas, as computed below. *[1]*

	£	
Total from client	36,000	
Less: 5%	(1,800)	
Less: Pension contributions	(5,000)	*[1]*
Less: Salary actually paid	(12,500)	
Less: Employer's national insurance ((12,500-8,788) @13.8%)	(512)	*[1]*
Excess amount	16,188	
Employer's Class 1 NIC £16,188 x (13.8/113.8)	(1,963)	*[½]*
Deemed salary payment	14,225	*[½]*

Total 4

8. Research and development tax credits

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

As it has a trading loss, *[½]* it is possible to surrender part of its loss in exchange for a tax credit equal to 14.5% *[½]* of the surrenderable amount.

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

- the unrelieved trading loss, *[½]* and
- 230% of its qualifying R&D expenditure. *[½]*

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

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

Max 4

9. Trident Ltd

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

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

Total 4

10. Income tax due on debenture interest

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

This liability is reported on form CT61 *[½]* which needs to be filed 14 days after the return period end. In this case the return period is the month to 31 January 2021, so the CT61 is due by 14 February 2021. *[½]*

Total 2

11. Advantages of operating as a limited liability partnership

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

[1 each for any two valid advantages]

Max 2

The tax return filing requirements for a limited liability partnership and its individual partners

- The partnership needs to file a partnership tax return each tax year. *[½]*
- Each partner needs to file their own tax return each year. *[½]*

Total 3

12. Robert

1)

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

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

2)

NIC not payable by Robert provided the monthly salary is £792 or less. *[1]*

<u>Or</u>

As Robert is a director, NIC will not become payable by Robert until his aggregate salary for 2020/21 exceeds £8,788. *[1]*

Total 2

"TEST D"
(40 MARKS)

1. Schemmel Ltd incurred the following expenditure in the eight month accounting period ended 31 December 2020.

	£
New shelving	15,000
Drinks machine	5,000

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

At 1 May 2020 the tax written down value on the general pool amounted to £8,000 and the tax written down value on the special rate pool was £15,000.

Calculate the maximum capital allowance claim for the period ending 31 December 2020. (4)

2. Edgar provides services through his company, Raiders Ltd, in which he owns 100% of the share capital. Although Raiders Ltd provides services to several clients, it is caught by the IR35 rules relating to personal service companies.

In the tax year 2020/21, Raiders Ltd invoiced clients £50,000 in respect of relevant engagements and £30,000 in respect of non-relevant engagements. The company also paid Edgar qualifying travel expenses of £1,800 and made a pension contribution of £5,700.

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

2) Calculate the deemed employment payment for 2020/21. (3)

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

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

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

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

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

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

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

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

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

6. Limited Liability Partnerships (LLPs) have increased in popularity in recent years.

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

7. Dowel Properties Ltd is a close company with property investments and had rental income and expenses in the year ended 31 March 2021 as follows:

<u>Income</u>

	£
Rental income received in the year	58,750
Rental debtor at 1 April 2020	1,500
Rental debtor at 31 March 2021	700

<u>Expenses</u>

	£
Mortgage interest paid in the year	12,000
Bad debts written off in year	1,100
Cost of building extension	15,650

Calculate Dowel Properties Ltd's Corporation Tax liability for the year ended 31 March 2021. (3)

8. Jones Ltd prepares accounts to 31 January every year. Its Corporation Tax liability for the year to 31 January 2020 was £12,000. The Corporation Tax return for the year is still to be filed but the liability was paid on 21 August 2021.

Determine the penalties that will be due if the Corporation Tax return is filed on 14 September 2021, assuming that the company has never previously filed a return late.

(4)

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

   Describe the three options that are available for losses incurred after 1 April 2017. (4)

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

10. Icarus Ltd makes up its accounts to 31 March every year. A summary of the profit, depreciation charge and capital allowance claim for the year ended 31 March 2021 is set out below.

	£
Profit before depreciation	55,000
Depreciation charge	9,000
Capital allowance claim	20,000

   Calculate the deferred tax adjustment for the year to 31 March 2021 and show the double entry required to record it. (2)

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

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

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

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

TEST "D"
ANSWERS

1.

8 m/e 31 December 2020	AIA	General pool	Special rate pool	CAs	
	£	£	£	£	
WDV b/fwd		8,000	15,000		
Additions:					
New shelving	15,000				*[½]*
Drinks machine	5,000				*[½]*
Disposals:					
Old drinks machine		(500)			*[½]*
	20,000	7,500	15,000		
AIA @ 100%	(20,000)			20,000	*[½]*
WDA @ 18% x 8/12		(900)		900	*[1]*
WDA @ 6% x 8/12			(600)	600	*[1]*
WDV c/fwd		6,600	14,400		
Total allowances				21,500	

Tutorial Note:

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

Total 4

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

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

Max 1

	£	
Income from relevant engagements	50,000	*[½]*
Less: 5% automatic deduction	(2,500)	*[½]*
	47,500	
Less: Qualifying travel expenses	(1,800)	*[½]*
Less: Employer pension contributions	(5,700)	*[½]*
Gross deemed payment	40,000	
Employers NIC [(40,000 – 8,788) x 13.8/113.8]	(3,785)	*[½]*
Net deemed payment	36,215	*[½]*

Total 4

Tutorial Note:

As no actual salary is paid to Edgar the secondary threshold of £8,788 is available in the calculation of the employer's NIC on the deemed salary payment.

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

- For a period of two years up to the date of the disposal, *[½]* the company is the individual's personal company *[½]* and is either a trading company or the holding company of a trading group. *[½]*

- A personal company is one where the individual holds at least 5% of the ordinary share capital *[½],* can exercise at least 5% of the voting rights *[½]*, and in addition, the shareholder must either be entitled to at least 5% of the distributable profits and 5% of the assets available on a winding up, and/or be entitled to at least 5% of the proceeds of a disposal of the whole of the ordinary share capital of the company. *[½]*

- The individual is an officer or employee of the company or another group company *[½]* for a period of at least two years up to the date of the disposal.

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

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

Max 3

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

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

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

Max 3

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

[TCGA 1992 s.162]

Base cost of shares in new company

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

Gain on premises

£235,000 - £135,000 = £100,000 *[½]*

Gain on goodwill

£150,000 - £0 = £150,000 *[½]*

Total 4

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

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

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

Max 3

7.

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

Total 3

8. The due date for the return is 31 January 2021. *[½]*

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

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

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

Total 4

9. Trading losses can be:

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

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

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

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

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

Total 4

10.

	£	
Capital allowances	20,000	
Less: Depreciation	(9,000)	
Timing difference	11,000	*[½]*

Tax at 19% = £2,090 *[½]*

Accounting double entry for increase in deferred tax provision:

	£	
Dr Deferred tax charge (P&L a/c)	2,090	*[½]*
Cr Deferred tax provision	2,090	*[½]*

Total 2

11. The importance of an engagement letter is to define the terms and limitations of the engagement and to agree these with the client. *[1]*

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

It will record the terms of the contract for the provision of professional services. *[1]*

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

Total 3

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

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

Total 3

PAPER 4
LONG QUESTIONS

1. Teresa Noble has been the sole proprietor of "The Nail and Beauty Salon" since qualifying as a beautician. She started the business on 1 January 2005. On 31 March 2021, Teresa transferred the whole of the business to a limited company called Varnish Ltd, for consideration of 50,000 £1 shares valued at par (100% shareholding) and £100,000 cash. Teresa's new position is managing director of Varnish Ltd.

The market values of the assets in the business on 31 March 2021 were as follows:

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

Teresa has always prepared accounts to 31 December each year. The trading income for the past three years is as follows:

	£
Year ended 31 December 2018	48,000
Year ended 31 December 2019	32,000
15 months ended 31 March 2021	75,000

Teresa has overlap profits of £8,000 and capital losses brought forward of £13,000.

The tax written down value of the general pool at 1 January 2020 was £15,000.

Requirements:

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

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

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

4) Calculate Teresa's trading income assessment for 2020/21 assuming all appropriate elections are made. (2)

Total (15)

2. Sarah Hall had been employed by Nextoll Training Ltd ("Nextoll") as a professional skills trainer until she took maternity leave in June 2019. She returned to work in January 2020 but decided thereafter that she wanted to reduce her working hours to give her more time with her family. Sarah duly resigned her employment in March 2020 and set up Sarah Hall Training Ltd ("SHTL") of which she is the sole shareholder and director.

Since April 2020, Sarah (via SHTL) has worked primarily for Nextoll although she has had occasional engagements with other local training colleges. Sarah works (on average) 2½ days a week, 2 days of which are spent on the Nextoll contract at their premises in Leeds.

In the year ended 5 April 2021, Sarah Hall Training Ltd had the following income and expenses:

Income:	£
Fees invoiced to Nextoll Training Ltd	54,000
Fees for other contracts	13,000
	67,000
Expenses:	
Directors' remuneration (paid during the year)	25,000
Employer's class 1 secondary NIC	2,237
Travel expenses reimbursed	1,400
Professional indemnity insurance	822
Medical insurance benefit (= cost to SHTL)	450
Office expenses	2,000
Legal and professional fees	600

Of the reimbursed travel expenses £1,100 relate to travel to the Nextoll premises in Leeds and the remainder relates to travel to other local training colleges.

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

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

No Class 1A NIC has yet been calculated.

Requirements:

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

2) **Calculate the deemed salary payment at 5 April 2021.** (6)

3) **Calculate the corporation tax payable by Sarah Hall Training Ltd for the year ended 5 April 2021.** (6)

Total (16)

3. Assume today's date is 1 February 2021.

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

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

Miss Duke wants to take further monies from the company before its year end (31 March 2021) and has asked about the differences between paying a salary, a dividend or a pension contribution from the company and how this would affect both the company and her own personal tax situation. Miss Duke also asked whether she could take a loan from her company.

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

Requirements:

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

   a) **a salary,**

   b) **a dividend,**

   c) **a pension contribution, and**

   d) **a loan.**

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

2) **Calculate the net (i.e. after tax and NIC) funds available to Miss Duke if the company has £16,000 of profits before Corporation Tax available to distribute to her as either a) a bonus or b) a dividend before 31 March 2021.** (3)

3) **State the Corporation Tax implications of drawing £16,000 as a loan before 31 March 2021 and repaying the loan on 1 April 2022. Assume for the purposes of this calculation that no further loans will be made by the company to Miss Duke.** (2)

Total (15)

4. Strand Ltd was formed when Charles Bay incorporated his business on 1 June 2020. Charles transferred all of the assets of the business to Strand Ltd in exchange for ordinary shares in the company. The gains arising were deducted from the base cost of the shares.

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

He anticipates that the company will make a trading profit of £45,000 in the year ending 31 May 2021. This is after the payment of a salary of £32,000 to Charles but before deduction of a dividend of £8,000. In your discussion with Charles you agree that the net effect of any tax adjustments will be a deduction from the trading profit of £2,000.

Charles has received an offer of £94,000 for the company's warehouse. Charles paid £61,000 for the warehouse in May 2007 and it was worth £90,000 on 1 June 2020. If the warehouse is sold, the company will rent replacement storage space for the foreseeable future.

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

Requirements:

1) **Compute the company's Corporation Tax liability for the year ended 31 May 2021 and state when it is due.** (2)

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

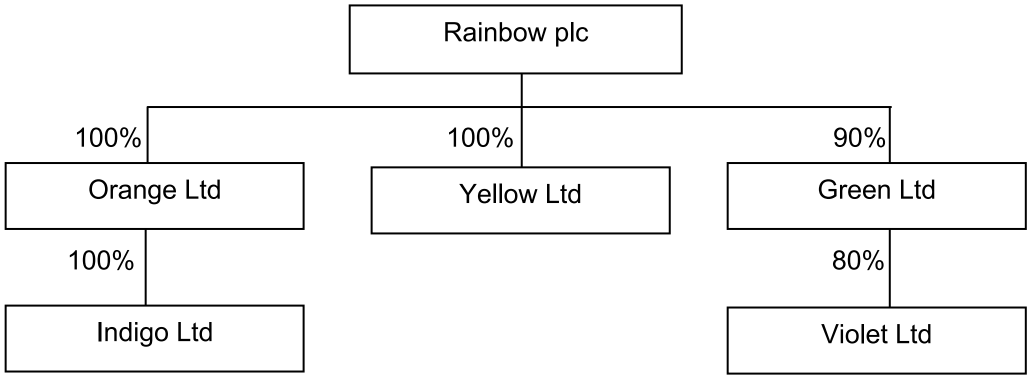
3) **Explain Strand Ltd's capital gains base cost in the warehouse.** (1)

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

Total (10)

Assume that the Financial Year 2020 tax rate continues to apply in future years.

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



All companies are UK resident and have a 31 October 2020 year-end. Indigo Ltd has been dormant since 2009.

Your predecessor prepared draft tax computations for the year ended 31 October 2020, which are summarised as follows:

	Rainbow plc	Orange Ltd	Yellow Ltd	Green Ltd	Violet Ltd
	£	£	£	£	£
Adjusted trading profit /(loss)	85,000	15,000	(180,000)	400,000	100,000
UK property business		(12,000)		25,000	
Non trading profits (LR)	10,000			15,000	

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

1) Green Ltd sold a paint-making factory on 31 January 2020 for £195,000. It had cost £100,000 when new in June 2003 and had always been used for making paint.

2) On 13 October 2020 Violet Ltd sold some unused office premises to an unrelated party for £109,000. These had originally been acquired in January 2005 for £168,000.

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

Requirements:

1) Explain, with reasons, the groups that exist for Corporation Tax purposes in the Rainbow plc group structure. (3)

2) Compute the taxable total profits for the year ended 31 October 2020 before group relief, assuming any other appropriate claims are made. (8)

3) Determine the taxable total profits of the companies for the year ended 31 October 2020 after group relief, assuming losses are relieved in the most beneficial way to improve the group's cash flow position. (3)

Total (14)

6. Bubblefish Ltd has been a 75% subsidiary of Sharkpool Ltd for many years and had the following disposals of assets during its year ended 31 December 2020.

1) On 15 November 2020 a freehold office building was sold for £400,000. The freehold had been purchased on 31 March 1983 for £50,000. The freehold had been used in the trade for the entire ownership period.

2) On 1 December 2020 shares in an unquoted investment company were sold for £90,000. The shares were purchased on 1 December 2010 for £25,000.

Sharkpool Ltd has capital losses brought forward at 1 January 2020 (from a disposal in August 2015) of £200,000 and purchased an office building for £300,000 on 1 September 2020 for use in its trade.

Bubblefish Ltd has trading losses for the year ended 31 December 2020 of £150,000. Sharkpool Ltd had taxable total profits of £75,000 for that year.

Requirements:

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

2) Explain the options available to Bubblefish Ltd and Sharkpool Ltd to reduce the amount of profits or gains chargeable to Corporation Tax for the year ended 31 December 2020 and state the time limits for making any relevant claims or elections. You are not required to compute the taxable total profits of either company. (6)

Total (10)

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

On 28 November 2020, Tick-Tock Ltd sold the factory for £925,000 and relocated to an out-of-town site bought from a competitor company which is in the process of liquidation. Tick-Tock Ltd paid £775,000 for it in October 2020.

Tick-Tock Ltd made tax-adjusted trading profits of £1,450,000 (excluding capital allowances) for the year ended 31 March 2021. The general pool at 1 April 2020 stood at £132,000.

In November 2020 the company spent £880,000 installing new machinery in the new factory, as well as £70,000 installing a new lighting system. Two new delivery vans were acquired in December 2020 at a total cost of £59,000. In addition, some old computer equipment was sold in December 2020 for £4,000.

On 1 December 2020, Tick-Tock Ltd acquired all of the share capital of Wizard Watches Ltd, a watch retailing company based in Wolverhampton. During your review of the files of Wizard Watches Ltd, you note the following:

1) The company draws accounts annually to 30 June;

2) Trading losses for the year ended 30 June 2021 were £(120,000);

3) Wizard Watches Ltd did not incur any capital expenditure in the year to 30 June 2021;

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

5) Wizard Watches Ltd has trading losses brought forward from 2020 of £(200,000).

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

Requirements:

1) **Calculate the taxable total profits for Tick-Tock Ltd for the year ended 31 March 2021, assuming all appropriate claims are made;** (8)

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

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

Total (16)

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

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

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

The company has no activities other than trading.

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

Briar Ltd will buy all of Miss Rush's ordinary shares back out of its distributable profits on 1 January 2022 and on the same day Miss Rush will retire as a director of the company. The value has been agreed at £500 per share and the company has sufficient distributable profits for this purpose.

Miss Rush will not make any other disposals of chargeable assets during 2021/22 and she will be a higher rate taxpayer.

Requirements:

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

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

Total (10)

Assume that the 2020/21 tax rates and allowances continue to apply in future years.

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

	£	
Year ended 30 September 2017	26,000	
Year ended 30 September 2018	29,000	
Year ended 30 September 2019	12,000	
Year ended 30 September 2020	10,000	(before capital allowances)
Period ended 31 January 2021	(35,600)	(before capital allowances)

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

The tax written down values of her assets at 1 October 2019 were:

	£
General pool	5,673
Car (CO_2 emissions 100g/km), which was used for private use 30% of the time	7,050

There was a disposal of office furniture on 1 May 2020 for proceeds of £896. In addition, Marilyn purchased new office furniture for £3,600 on 17 August 2020 and a computer for £600 on 29 November 2020.

Marilyn sold her entire business to Golden Globe Ltd, a close company, on 31 January 2021 for 10% of the shares in the company, worth £900,000, and cash of £512,500.

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

	Value at 31 January 2021	Cost of the asset	Enhancement expenditure
	£	£	£
Retail shop	810,000	120,000 on 7 July 2015	60,000 For an extension on 20 February 2017
Warehouse	345,000	85,000 on 1 May 2016	
Goodwill	250,000	Nil	
Office equipment	1,300	8,200 (each item cost less than £6,000)	
Motor car	6,200	11,015	

Marilyn also realised a gain of £243,000 on the sale of a commercial investment property in November 2020. She has capital losses brought forward of £18,640.

Requirements:

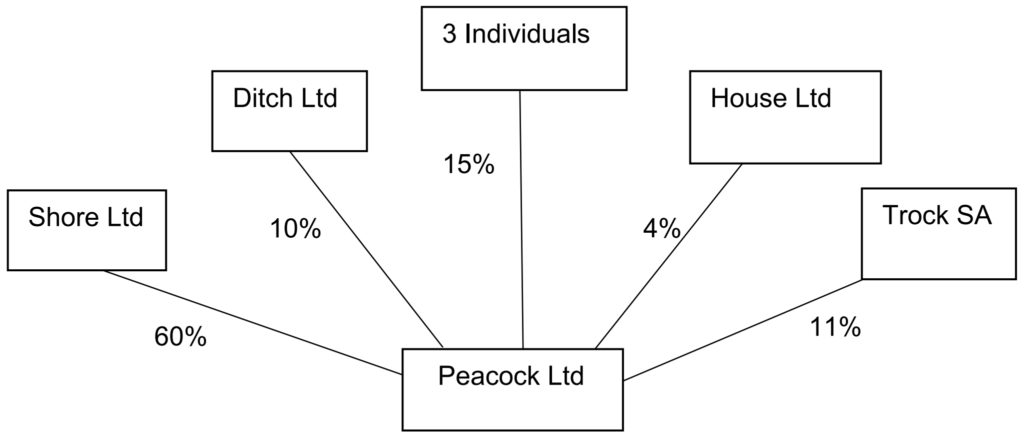
1) **Calculate the tax adjusted profits or losses for the year ended 30 September 2020 and the period ended 31 January 2021 and show the trading income assessments (before loss relief) for the final two tax years of trade.** (5)

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

3) **Calculate the Capital Gains Tax payable by Marilyn for 2020/21, assuming a claim is not made to set trading losses against gains.** (6)

Total (15)

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



The following information is also available:

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

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

c) Trock SA is an overseas resident company.

All of the companies prepare accounts to 31 March 2021 and the latest draft results are as follows:

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

Peacock Ltd, which has 100,000 ordinary shares in issue, declared a dividend of £3 per share in respect of the year ended 31 March 2021.

Requirements:

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

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

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

Total (12)

Assume FY 2020 rules continue to apply.

ANSWERS TO LONG QUESTIONS

1. TERESA NOBLE

1) Conditions for incorporation relief

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

TCGA 1992 s.162(1)

2) Calculation of CGT

	Goodwill	Freehold premises
	£	£
SP = market values at 31 March 2021	24,000	120,000
Less: Cost	-	(114,000)
Gains before reliefs	24,000	6,000

	Gains not eligible for BADR	Gains eligible for BADR
	£	£
Gain on goodwill	24,000	
Gain on premises		6,000
	24,000	6,000
Less: Incorporation relief		
24,000 x (50,000/150,000)	(8,000)	
6,000 x (50,000/150,000)		(2,000)
	16,000	4,000
Less: Annual exempt amount	(12,300)	(Nil)
Net gains	3,700	Nil
Less: Capital losses b/f	(3,700)	(4,000)
Taxable gain	Nil	Nil

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

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

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

Tutorial Note:

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

The value of the business transferred to the company must equal the £150,000 consideration received. The business assets are worth £164,000 in total (£24,000 + £120,000 + £20,000) so the business must have liabilities of £(14,000) at the date of the transfer.

A gain in respect of goodwill is not eligible for Business Asset Disposal Relief where the transfer is to a close company in which the individual holds at least 5% of the shares.

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

3) Disapplying Incorporation Relief

- All of the gains, after capital losses and the annual exempt amount, will be taxed in 2020/21.
- The brought forward capital loss will be deducted in full.
- The remaining gain on the premises will be taxed at 10% on the assumption that Teresa makes a claim for Business Asset Disposal relief.
- Only £470 of capital gains tax will be payable.
- The base cost of Teresa's shares in Varnish Ltd will be £50,000, compared to only £40,000 if incorporation relief applies.
- This will result in a lower gain on a future disposal of the Varnish Ltd shares.

	Gains not eligible for BADR	Gains eligible for BADR
	£	£
Gain on goodwill	24,000	
Gain on premises		6,000
	24,000	6,000
Less: Annual exempt amount	(12,300)	(nil)
Net gains	11,700	6,000
Less: Capital losses b/f	(11,700)	(1,300)
Taxable gain	Nil	4,700
CGT x 10%		470

4) Trading Income Assessment for 2020/21

15 m/e 31 March 2021	General pool
	£
Tax wdv b/f	15,000
Less: Disposal of plant & equipment	(20,000)
Balancing charge	(5,000)

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

15 m/e 31 March 2021	£
Tax adjusted profits before capital allowances	75,000
No balancing charge (if s.266 election made)	Nil
Tax adjusted profits after capital allowances	75,000
15 months ended 31 March 2021	75,000
Less: Unrelieved overlap profits	(8,000)
Trading income 2020/21	67,000

2. SARAH HALL

1) Personal Service Company Legislation

The Personal Service Company rules (also known as the 'IR35' rules) apply where:

i) an intermediary company ("SHTL");

ii) provides services to a client ("Nextoll");

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

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

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

The effect of being caught by the Personal Service Company rules is that fees which are received by SHTL and which are not paid out to the worker by way of salary are deemed to have been paid as salary at the end of the tax year.

2) Sarah Hall Training Ltd - Deemed payment for 2020/21

	£	£
Fees from 'relevant engagements'		54,000
Less: 5% Statutory deduction		(2,700)
		51,300
Less: Allowable expenses		
Directors' remuneration paid during the year	25,000	
Employer's class 1 secondary NIC	2,237	
Professional indemnity insurance	822	
Medical insurance benefit	450	
Class 1A due on medical insurance benefit (450 x 13.8%)	62	
Capital allowances – 100% of £1,500 (AIA)	1,500	
		(30,071)
Gross deemed payment		21,229
Less: NIC within gross payment		
21,229 x 13.8/113.8		(2,574)
Net deemed payment @ 5 April 2021		18,655

Tutorial Note:

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

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

The employer's class 1 secondary NIC given in the question is calculated on the directors' remuneration as (25,000 – 8,788) x 13.8% = £2,237. The employment allowance is not available to SHTL Ltd as Sarah is a director and the only paid employee of the company.

Relief is not available for costs of travel to and from Nextoll. The workplace cannot be a temporary workplace by virtue of s.339A ITEPA 2003 (which treats each engagement as a separate employment) therefore the costs of travel relate to ordinary commuting and are not allowable.

3) <u>Sarah Hall Training Ltd - Corporation Tax Payable for the Year ended 5 April 2021</u>

		£	£
Trading Income:			
Total fee income (54,000 + 13,000)			67,000
Less:	Expenses		
	Directors' remuneration paid during the year	25,000	
	Net deemed salary payment (Tutorial Note)	18,655	
	Class 1 Secondary NIC = £(2,237 + 2,574)	4,811	
	Travel expenses reimbursed	1,400	
	Professional indemnity insurance	822	
	Medical insurance (cost)	450	
	Class 1A NIC on medical insurance	62	
	CAs on phone & computer – 100% AIA	1,500	
	Office expenses		
	(2,000 – 1,500 re phone & computer)	500	
	Accountancy fees	350	
			(53,550)
TTP			13,450
Corporation Tax at 19%			2,556

<u>Tutorial Note:</u>

The deemed salary is treated as paid on 5 April 2021. Corporation tax relief is given in the accounting period that the payment is deemed to be made (i.e. in the accounting period covering 5 April 2021).

Alternatively, the gross deemed salary payment of £21,229 could be deducted in the corporation tax computation as one line instead of showing the net deemed salary payment and the employer's NIC on the net deemed salary payment separately.

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

3. MISS DUKE

Our address

Your address

Date

Dear Miss Duke

Extraction of profits

I write further to our meeting.

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

Salary

A salary can be paid commensurate with your duties. The company will receive corporation tax relief on the salary payment (and related employer's NIC) at the rate of 19% in the accounts to 31 March 2021. This is provided there is an obligation to pay the salary at 31 March 2021 and it is actually paid within nine months after the accounting period end, i.e. before 1 January 2022.

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

You will pay income tax at your higher rate of tax (40%) and pay national insurance contributions of 2% on the additional salary as you already earn over the upper earnings limit of £50,000.

Dividend

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

Dividends are not subject to either employer's or employee's national insurance contributions. The first £2,000 of dividend paid will fall within the dividend allowance and be taxed at 0%. The balance of the dividend will be taxed at the dividend upper rate of 32.5% (as you are a higher rate taxpayer).

The company will not receive any corporation tax relief on the dividend paid.

Pension contributions

A pension contribution can be made by the company on your behalf. The company will receive corporation tax relief of 19%. The pension contribution must be made on or before 31 March 2021 in order to obtain tax relief in the period.

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

Loans

A loan can be taken from the company but must be repaid within nine months of the year end, i.e. before 1 January 2022, to avoid a corporation tax charge.

If the loan remains outstanding, a s.455 CTA 2010 charge will be payable by the company at the rate of 32.5% of the loan value. This tax will become repayable if and when the loan is repaid, unless anti-avoidance provisions apply.

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

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

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

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

Yours sincerely,

Tax Adviser

2)

Bonus = Salary	£	Dividend	£
Cost to Company	16,000	Cost to Company	16,000
Employer's NIC 13.8/113.8	(1,940)	Corporation tax – 19%	(3,040)
Gross salary	14,060	Available as dividend	12,960
Tax via PAYE at 40%	(5,624)	Income tax (W)	(3,562)
Employee NIC at 2%	(281)		
Net available to shareholder/director	8,155	Net available to shareholder	9,398

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

	£
Dividend	12,960
Less: Dividend allowance	(2,000)
Taxable dividend	10,960
Tax @ 32.5%	3,562

Tutorial Note:

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

3)

As the loan is to be repaid on 1 April 2022, a s.455 CTA 2010 charge of £5,200 (£16,000 x 32.5%) arises and the tax will become payable on 1 January 2022.

As the loan is repaid in the year ended 31 March 2023, the tax will be repaid on 1 January 2024 (i.e. nine months and one day after the end of the accounting period in which the loan is repaid).

4. STRAND LTD

1) Corporation tax liability for the year ending 31 May 2021

	£
Trading profit before adjustments	45,000
Tax adjustments (given)	(2,000)
Trade profit = Taxable Total Profits	43,000
CT liability @ 19%	8,170

Due 1 March 2022

2) Filing date and penalties for late filing

The corporation tax return must be filed within 12 months after the end of the accounting period, i.e. by 31 May 2022.

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

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

FA 1998, Sch 18, para 17-18

Tutorial Note:

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

3) Strand Ltd's base cost in the warehouse

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

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

4) Acquisition of shares / goodwill

If Strand Ltd buys the shares of Fleet Ltd, Strand Ltd will have a related 51% group company. This is only relevant for determining whether or not a company has to pay its corporation tax liability by instalments and, given the current taxable total profits of Strand Ltd, this is unlikely for Strand Ltd.

No tax relief is available for the purchase price of the shares in Fleet Ltd. Relief will only be available when calculating a gain on any future sale of the shares. However, on a future sale of the shares in Fleet Ltd, the substantial shareholding exemption may apply and therefore there would be no chargeable gain (or allowable loss) anyway.

If Strand Ltd buys the goodwill of Fleet Ltd as a separate asset, again no tax relief will be available for the cost of goodwill.

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

Tutorial Note:

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

5. RAINBOW PLC

1) For group relief purposes the following groups exist:

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

Green Ltd, Violet Ltd. There is a 75% relationship between the two companies.

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

For chargeable gains group purposes the following group exists:

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

2) TTP Before Group Relief

Gain on sale of factory by Green Ltd

	£
Proceeds (January 2020)	195,000
Less: Cost (June 2003)	(100,000)
Less: Indexation allowance (June 2003 to December 2017)	
(278.1 – 181.3)/181.3 = 0.534 x 100,000	(53,400)
Chargeable gain	41,600

Loss on sale of office by Violet Ltd

	£
Proceeds (October 2020)	109,000
Less: Cost (January 2005)	(168,000)
Capital loss	(59,000)

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

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

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

TTP before group relief

	Rainbow plc	Orange Ltd	Yellow Ltd	Green Ltd	Violet Ltd
	£	£	£	£	£
Trade profit	85,000	15,000	Nil	400,000	100,000
UK property business (Note)		(12,000)		25,000	
Non-trading profits (LR)	10,000			15,000	
Gain			Nil	Nil	
TTP	95,000	3,000	Nil	440,000	100,000

Note: UK property business losses automatically offset against other profits of same period.

3) <u>TTP After Group Relief</u>

In order to improve the group's cash flow position, we look at which companies pay tax by instalments to determine which companies should receive the losses. If we can reduce profits so that no companies are large for instalment payment purposes this will improve the group's overall cash flow position.

All companies are related 51% group companies, apart from Indigo Ltd which is dormant.

Five companies, so the large instalment payment threshold is £1,500,000/5 = £300,000.

Therefore, ignoring group relief, Green Ltd would be a large company for instalment payment purposes and would be required to make instalment payments in respect of the year ended 31 October 2020 (unless it was the first year it was large). The loss should therefore be allocated to Green Ltd.

	Rainbow plc £	Orange Ltd £	Yellow Ltd £	Green Ltd £	Violet Ltd £
TTP	95,000	3,000	Nil	440,000	100,000
Group relief:					
Yellow to Green				(180,000)	
Revised TTP	95,000	3,000	Nil	260,000	100,000

<u>Tutorial Note:</u>

Provided Green Ltd's TTP is reduced to £300,000, the remaining loss of £40,000 could be allocated to any group company.

Even if the year ended 31 October 2020 is the first year Green Ltd is large it is still beneficial from a cash flow perspective to allocate the loss to Green Ltd – as instalment payments would then not be payable for the year ended 31 October 2021, even if Green Ltd was large in that year.

6. BUBBLEFISH LTD

1)

Freehold property	£
Proceeds (November 2020)	400,000
Less: Cost (March 1983)	(50,000)
Unindexed gain	350,000
Less: Indexation allowance (March 1983 to December 2017)	
(278.1 – 83.12)/83.12 = 2.346 x 50,000	(117,300)
Chargeable gain	232,700

Shares	
Proceeds (December 2020)	90,000
Less: Cost (December 2010)	(25,000)
Unindexed gain	65,000
Less: Indexation allowance (December 2010 to December 2017)	
(278.1 – 228.4)/228.4 x 25,000 (no rounding as shares)	(5,440)
Chargeable gain	59,560

Total gains made by Bubblefish Ltd:	
Freehold property	232,700
Shares	59,560
	292,260

2)

Bubblefish Ltd and Sharkpool Ltd are in a gains group as Sharkpool owns 75% of Bubblefish.

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

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

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

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

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

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

Time limits

A valid claim for rollover relief must be made by the fourth anniversary of the last day of the accounting period in which the disposal was made or the new asset is acquired, whichever is later (i.e. by 31 December 2024).

An election to transfer gains must be made within two years of the end of accounting period of the disposal (i.e. by 31 December 2022).

A claim to set off the trading losses against total income and chargeable gains of the loss making accounting period must be made within two years of the end of the accounting period in which the loss is made (i.e. by 31 December 2022).

A claim for group relief must generally be made within two years after the end of the claimant company's accounting period (i.e. by 31 December 2022).

Tutorial Note:

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

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

7. TICK-TOCK LTD

1) TTP for y/e 31 March 2021

	£
Trading profit before capital allowances	1,450,000
Less: Capital allowances (W2)	(1,024,660)
Trading profit	425,340
Gain on factory (W1)	150,000
	575,340
Less: Group relief	
(120,000) x 4/12 (note)	(40,000)
TTP	535,340

Note:
Group relief can only be claimed from Wizard Watches Ltd for the four months (1 December 2020 – 31 March 2021) after it joined the group.

Workings

W1) Sale of factory

	£
Proceeds (November 2020)	925,000
Less: Cost (August 2005)	(400,000)
Less: Indexation allowance: (August 2005 to December 2017)	
(278.1 – 192.6)/192.6 = 0.444 x 400,000	(177,600)
Gain	347,400
Less: Roll-over relief	(197,400)
Chargeable gain (Note)	150,000

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

W2) Capital Allowances

Y/e 31.3.21	AIA @ 100% £	General Pool £	Allowances £
TWDV b/f		132,000	
Machinery	880,000		
Lighting	70,000		
Vans (max AIA = £1,000,000)	50,000	9,000	
Disposals:			
Computer equipment		(4,000)	
	1,000,000	137,000	
AIA @ 100%	(1,000,000)		1,000,000
WDA @ 18%		(24,660)	24,660
TWDV c/fwd		112,340	
Allowances			1,024,660

Tutorial Note:

The ATT have confirmed that following the announcement in November 2020 that the Annual Investment Allowance will remain £1 million until 1 January 2022, they will accept answers that reflect this or the original reduction to £200,000 enacted in FA 2019.

2) <u>Wizard Watches Ltd – capital losses</u>

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

i) Gains on assets held by Wizard Watches Ltd at 1 December 2020; or

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

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

3) <u>Wizard Watches Ltd – trading losses brought forward</u>

The trading losses brought forward by Wizard Watches Ltd arose after 1 April 2017 and therefore could ordinarily be used against its future total profits.

However, as there has been a change of ownership of Wizard Watches Ltd, s.674 CTA 2010 will apply if there is a 'major change in the nature or conduct of trade' of Wizard Watches within five years of the change in ownership (i.e. by 1 December 2025).

Therefore, if Tick-Tock Ltd makes 'major changes' to the trade of Wizard Watches Ltd before December 2025, the trade losses of Wizard Watches Ltd cannot be carried forward against profits generated after the change in ownership.

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

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

- Increases in efficiency
- Rationalisation
- Changes to keep pace with new technology

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

<u>Tutorial Note:</u>

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

8. BRIAR LTD

1) Capital Treatment

Company

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

Shareholder

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

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

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

	£
Sale proceeds (500 x 44)	22,000
Less: Cost (1 x 44)	(44)
Chargeable gain	21,956
Less: Annual exempt amount	(12,300)
Taxable gain	9,656
CGT @ 10% (BADR applies)	966

Tutorial Note:

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

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

2) Income Treatment

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

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

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

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

IT @ 32.5% x (21,956 – 2,000) = £6,486.

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

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

9. MARILYN

1) Tax adjusted profits and losses:

	Y/e 30 September 2020	P/e 31 January 2021
	£	£
Profit/(loss)	10,000	(35,600)
Less: Capital allowances (W1)	(5,348)	(2,924)
Tax adjusted profit/ loss for AP	4,652	(38,524)

Trading income assessments:	
Final tax year = 2020/21	
Y/e 30 September 2020	4,652
P/e 31 January 2021	(38,524)
Less: Unrelieved overlap (given)	(13,100)
Trading loss	(46,972)
Assessment	Nil
Previous tax year = 2019/20	
Y/e 30 September 2019	12,000

Workings:

W1) Capital allowances

Year ended 30 September 2020	AIA@ 100%	General Pool	Car with personal use		CA s
	£	£	£		£
Tax wdv b/f		5,673	7,050		
Addition – furniture	3,600				
Less: Disposal		(896)			
	3,600	4,777	7,050		
AIA @ 100%	(3,600)				3,600
WDA @ 18%		(860)			860
WDA @ 18%			(1,269)	x70%	888
		3,917	5,781		5,348
Period ended 31 January 2021					
Addition - computer (W2)		600			
Disposal values		(1,300)	(6,200)		
Balancing allowance		3,217			3,217
Balancing charge			(419)	x70%	(293)
					2,924

W2) The AIA and WDA are not available in the period of cessation.

2) Loss relief options

The following loss relief options are available to Marilyn:

- Claim relief against her net income for 2020/21 and/or 2019/20.
- Claim relief against her net income for 2020/21 and relieve the balance against her chargeable gains for the same year.
- Claim terminal loss relief against trading income for 2019/20, 2018/2019 and 2017/18 on a last in first out basis.

Tutorial Note:

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

3) The CGT payable by Marilyn for 2020/21 is as follows:

	Eligible for BADR	Not eligible for BADR
	£	£
Retail shop (810,000 – 120,000 – 60,000)	630,000	
Warehouse (345,000 – 85,000)	260,000	
Goodwill		250,000
	890,000	250,000
Less: Incorporation relief		
890,000 x 900,000/1,412,500	(567,080)	
250,000 x 900,000/1,412,500		(159,292)
	322,920	90,708
Investment property		243,000
		333,708
Less: Annual exempt amount	-	(12,300)
Less: Losses brought forward	-	(18,640)
Taxable gains	322,920	302,768
Tax at 10%	32,292	
Tax at 20%		60,554
Total CGT (32,292 + 60,554)	92,846	

Note:

The car is not a chargeable asset.

No chargeable gain arises on the disposal of the equipment because each piece of equipment cost less than £6,000 and is worth less than £6,000 at the date of incorporation.

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

Tutorial Note:

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

Total for question 15

10. PEACOCK LTD

1)

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

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

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

Total 2

2)

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

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

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

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

Taxable total profits are as follows:

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

Working:

Maximum consortium relief

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

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

Max 8

3)

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

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

Total 2

Total for question 12