Tolley® Exam Training

ATT PAPER 4

CORPORATE TAXATION

PRE REVISION QUESTION BANK

FA 2019

May and November 2020 Sittings

PQ764
ATT

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 2019).

Format of the exam

All the ATT exams are **3¼ 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.

Part I is printed as a **question and answer booklet** with each short form question (SFQ) at the top on the left hand side of the page – the rest of that page and the whole of the next page will be lined paper for you to write your answer to that SFQ. This booklet will be **green.**

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.

The Part II questions will be printed separately and there will be a Part II answer booklet which will be **orange** with lined paper for you to write your answers in.

Pre exam reading time

The initial 15 minutes of the exam are pre examination reading time (PERT). During this time you are permitted to **read and annotate the questions for Part II only** and read the legislation**,** but you **may not write in the orange answer booklet for Part II** and you **may not read/annotate the green question and answer booklet for Part I.**

Calculators may be used during this 15 minute period. There will be an announcement at the end of the 15 minutes reading time after which you may start writing in the answer booklets.

During the 3 hour writing period we recommend you initially **allocate 1.7 minutes per mark** to allow time for a final review stage at the end of each question.

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 **write the answers out** yourself.

Writing "proper" answers also gives you a good idea of how long an exam standard answer will take you to write.

Reviewing your answers

It is essential to read through your answer when you have finished writing 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? You want those red ticks to be flowing freely onto your page!

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

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. We have also included some short questions for Law and Ethics at the back of your Revision Question Bank. Attempting these questions is 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

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SHORT FORM QUESTIONS

Test A
Test B
Test C
Test D

LONG QUESTIONS

1	Teresa Noble	Incorporation
2	Sarah Hall	Personal service company
3	Miss Duke	Extracting funds from close company, s.455 tax
4	Strand Ltd	Various CT issues inc acquisition of shares v trade & assets
5	Rainbow Plc	Group relief & group gains
6	Bubblefish Ltd	Group relief & group gains
7	Tick Tock Ltd	TTP, group gains & change in ownership
8	Briar Ltd	Purchase of own shares
9	Limited Liability Partnerships	LLPs
10	Corporation Tax Queries	Investment co's, rental income & CTSA

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TAX TABLES

INCOME TAX

Rates (Note 1)	2019/20
	%
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 – 2,049	19
2,050 – 12,444	20
12,445 – 30,930	21
30,931 – 150,000	41
150,000 +	46

Reliefs	£
Personal allowance (Note 3)	12,500
Married couple's allowance (Note 4)	8,915
– Maximum income before abatement of relief - £1 for £2	29,600
– Minimum allowance	3,450
Transferable tax allowance for married couples and civil partners (Note 5)	1,250
Blind person's allowance	2,450
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 Welsh income tax on non-savings income from 6 April 2019. For 2019/20, 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.

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ISA limits	**Maximum subscription**
	£
'Adult' ISAs	20,000
Junior ISAs	4,368

Pension contributions

Basic amount qualifying for tax relief £3,600

	Annual allowance (Note)	**Lifetime allowance**	**Minimum pension age**
	£	£	
2019/20	40,000	1,055,000	55

Note The annual allowance is tapered by £1 for every £2 of adjusted income above £150,000 for individuals with threshold income above £110,000. It cannot be reduced below £10,000.

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 – 2019/20

Emissions	**Car benefit %** (Note)	
0 – 50g/km	16%	
51 – 75g/km	19%	
76 – 94g/km	22%	
95g/km or more	23%	+ 1% for every additional whole 5g/km above 95g/km
165g/km or more	37%	

Fuel benefit base figure £24,100

Note 4% supplement for diesel cars, excluding those that meet the Real Driving Emissions Step 2 (RDE2) standard.

Taxable benefits for vans – 2019/20	**£**
Van benefit – No CO_2 emissions	2,058
Van benefit – CO_2 emissions > 0g/km	3,430
Fuel benefit	655

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.

2019/20 Official rate of interest 2.5%

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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 £1,577 per month.

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

Employee earnings threshold at which repayment begins is £2,143 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 SICK PAY

		Weekly rate
Year to 5 April 2020		**£**
Average weekly gross earnings	£118.00 or more	94.25

STATUTORY MATERNITY PAY

Period	First 6 weeks	Remaining weeks
From 6 April 2019	90% average weekly earnings	Lower of 90% of weekly earnings & £148.68

QUALIFYING CARE RELIEF

	Flat rate	Placement < 11	Placement ≥ 11
Year to 5 April 2020	£10,000 per year	£200 per week	£250 per week

CHILD BENEFIT

Year to 5 April 2020

Rates	Weekly rate
First child	£20.70
Each subsequent child	£13.70

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

HARMONISED INTEREST REGIME – HMRC INTEREST RATES

Late payment	3.25%
Underpaid corporation tax instalments	1.75%
Repayment	0.5%

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NATIONAL INSURANCE CONTRIBUTIONS

Class 1 limits

	2019/20		
	Annual	**Monthly**	**Weekly**
Lower earnings limit (LEL)	£6,136	£512	£118
Primary threshold (PT)	£8,632	£719	£166
Secondary threshold (ST)	£8,632	£719	£166
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

	2019/20
Employment allowance	
Per year, per employer	£3,000
Class 1 primary contribution rates	
Earnings between PT and UEL (Note 3)	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	£3.00 pw
Small profits threshold	£6,365 pa
Class 3 contributions	£15.00 pw
Class 4 contributions	
Annual lower profits limit (LPL)	£8,632
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%.
(3) The married women's reduced rate payable with a valid reduced rate election is 5.85%

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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 (Notes 3 & 4)	6%
WDA on structures and buildings allowance (SBA) (Note 5)	2%

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 prior to 31 December 2018 and 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 special pool rate was 8% prior to 6 April 2019 (1 April 2019 for companies).

(5) The SBA rate of 2% applies to expenditure from 29 October 2018 on new qualifying non-residential structures and buildings on a straight-line basis.

First year allowances available to all businesses

1) New energy-saving plant and machinery and water efficient plant and machinery (until April 2020).
2) Capital expenditure incurred by a person on research and development.
3) New zero-emission goods vehicles (until April 2021).
4) New cars registered before 31 March 2021 if the car either emits not more than 50 g/km of CO_2 or it is electrically propelled.
5) Electric vehicle charging points expenditure incurred from 23 November 2016 until April 2023.

CORPORATION TAX

Financial year	**2019**	**2018**
Patent box	10%	10%
Main rate	19%	19%

Research and development expenditure

SMEs (Note)	230%
Large companies - RDEC	12%

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

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VALUE ADDED TAX

Standard rate	20%
VAT fraction	1/6

Limits	**From 1.4.19**
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

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

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CAPITAL GAINS TAX

	2019/20
Annual exempt amount	£12,000

CGT rates for individuals (Notes 1 & 2)

Gains qualifying for entrepreneurs' 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 entrepreneurs' relief/investors' relief	10%
Other gains (Note 5)	20%

CGT Rate for PRs

All gains (Note 5)	20%

Entrepreneurs' 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 entrepreneurs' relief/investors' relief first.
(3) The remaining basic rate band is calculated as £37,500 (2019/20) less taxable income less any gains on which entrepreneurs' 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

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

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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 2020. The general pool brought forward at 1 October 2019 was £12,000.

   On 1 November 2019 the company bought some machinery for £605,000. On 1 December 2019 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 2020. (3)

2. During the year ended 31 March 2019 Beckham Ltd made a loan of £120,000 to David, its controlling shareholder. The loan was repaid as follows:

	£
11 July 2019	40,000
19 March 2020	40,000
30 April 2020	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 2020 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 2019 preparing its first accounts to 31 March 2020. On 1 August 2019 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 2020. (3)

5. Orchid Ltd has taxable total profits of £1,400,000 for the year ended 30 September 2019. The company received a dividend of £90,000 on 1 August 2019 from a company in which Orchid Ltd owns 5% of the shares. It was a large company for the year ended 30 September 2018.

   Calculate the Corporation Tax payable for the year ended 30 September 2019 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 2019 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 2020, 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 2020. The tax written down values brought forward at 1 September 2019 were £56,000 on the general pool and £14,000 for a short life asset which was purchased in 2017. The company bought the following capital asset in November 2019:

	£
Cutting machine	40,000

   On 31 March 2020 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 2020. (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 2019 and 2020:

	2019	2020
	£	£
Trading profit	400,000	200,000
Bank interest	30,000	10,000
Rental income		20,000

In April 2019 the company took out a loan to buy an investment property. Interest payable on the loan in the year ended 31 March 2020 was £12,000.

Calculate the taxable total profits for the year ended 31 March 2020 assuming all appropriate claims are made to obtain relief as early possible. (2)

10. Karin started a retail business in 2000. On 1 June 2019 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 2019 was £60,000.

Karin made no other disposals in 2019/20. Her taxable income for that tax year was £50,000.

Calculate Karin's 2019/20 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 2019 when the building was actually worth £800,000.

In January 2020, 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 2020:

	£
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 2021	(120,000)
Snowdrop Ltd	
Trading profits for year ended 31 December 2020	100,000
Donation to charity	(5,000)
Trading loss brought forward at 1 January 2020	(10,000)

Calculate the maximum amount of group relief that Snowdrop Ltd may claim for the year to 31 December 2020. (3)

14. On 1 October 2019 Pepper plc paid corporation tax of £128,000 in respect of the agreed liability for the year ended 31 December 2018. The company had provided £126,000 for corporation tax at 31 December 2018.

The provision for corporation tax for the year ended 31 December 2019 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 2019. (3)

TEST "A"
ANSWERS

1.

6 m/e 31 March 2020	AIA	General Pool	Allowances
	£	£	£
General Pool b/f		12,000	
Additions			
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

Working

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

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 @ 31.3.19	120,000	
Loan o/s @ 1.1.20	80,000	
S.455 tax due 1.1.20		
80,000 x 32.5%		26,000
S.455 tax repayable when loan repaid		
Repayable 1.1.21 (re repayment in y/e 31 March 2020)		
40,000 x 32.5%		13,000
Repayable 1.1.22 (re repayment in y/e 31 March 2021)		
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 2018 & FY 2019	
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 2020

Tutorial Note:

As the rate of CT did not change between FY 2018 and FY 2019, 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 2019)	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.

Final AP	General Pool £	Short Life Asset £	Allowances £
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 2020	£	£
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 2019.

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	(12,000)
Taxable gains	36,000
CGT liability:	
36,000 x 20% =	7,200
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.

Entrepreneurs' 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 2020.

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 2020	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 2020:

	£
Trade profit	100,000
Less: b/fwd 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 2018

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 2018

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 2019

TEST "B"
(40 MARKS)

1. Deco Ltd (a paint-making company) started trading on 1 June 2019, preparing accounts for the period to 31 January 2020.

   The company bought:

   a) a paint-mixing machine on 1 June 2019 for £18,000; and

   b) a BMW car on 1 July 2019 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 2020. (3)

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

<u>Reeves Ltd</u>		£
Year ended 31 December 2018	Augmented profits	1,000,000
Year ended 31 December 2019	Augmented profits	2,000,000

   Reeves Ltd has no related 51% group companies.

<u>Mortimer Ltd</u>		£
Year ended 31 December 2018	Augmented profits	1,400,000
Year ended 31 December 2019	Augmented profits	7,500,000

   Mortimer Ltd acquired 100% of the shares of Doors Ltd on 1 November 2019.

   Discuss whether either of the above companies should pay Corporation Tax by instalments for the year ended 31 December 2019. (3)

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

	%
Jet Ltd	30
Jade Ltd	30
Lapis Ltd	<u>40</u>
	<u>100</u>

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

			£
Amber Ltd	Year ended 31 March 2020	Trading loss	(120,000)
Jet Ltd	Year ended 31 December 2019	Trading profit	80,000

   Calculate the maximum loss of Amber Ltd that can be claimed by Jet Ltd in the year ended 31 December 2019. (3)

4. Burrell Investments Ltd is jointly owned by Mr & Mrs Burrell. Results for the year ended 31 March 2020 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 2019 are as follows:

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

Steel Ltd has a capital loss brought forward at 1 November 2018 of £10,000.

Calculate the Corporation Tax liabilities of Lead Ltd and Steel Ltd for the year ended 31 October 2019. Outline any beneficial elections that should be made. (3)

6. Bird Ltd's profit and loss account for the year ended 31 March 2020 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 2020 and £5,000 of which was paid on 6 January 2021. Included in pension contributions was an accrued amount of £4,000 which was paid on 1 May 2020.

State the amount to be added back in the tax computation for the year ended 31 March 2020 giving reasons for your answer. (2)

7. Robin, a sole trader, incorporated his business on 31 March 2019 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 2019/20:

	£
Dividends	5,000
Salary	12,000

The company's taxable profits for the year to 31 March 2020 are £25,000.

Outline how the loss can be relieved in 2019/20. (2)

8. The following happened in 2020:

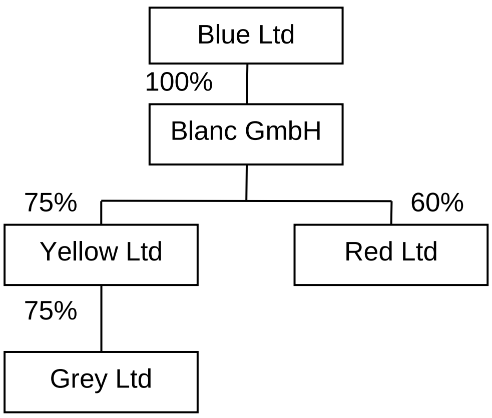
Getaway & Go Ltd, a travel company, commenced trading on 1 January. Turnover is £11,000 per month for the first six months.

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 2020**. (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 2020. 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 June2019:

	£
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 2019, Platinum Ltd sold 9,000 shares in Riches plc for £57,000. 1,000 shares had been acquired on 23 November 2019 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 2019. (4)

14. During the quarter ended 30 June 2019 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 2019 showed VAT payable of £53,200 which was paid electronically on 7 May 2019.

Show the VAT ledger account ('T' account) in NDX Ltd's accounts, including the amount payable for the quarter ended 30 June 2019. (3)

TEST "B"
ANSWERS

1.

8 m/e 31 January 2020	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 of £666,667 (£1,000,000 x 8/12).

2. Neither company should pay Corporation Tax by instalments.

Reeves Ltd's augmented profits for y/e 31 December 2019 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 2019 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 2018).

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 2019 to 31 December 2019)

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.

Y/e 31 March 2020

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

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.

Steel Ltd

	£
TTP	800,000
CT liability:	
800,000 x 19%	152,000

Lead Ltd

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

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	4,000
Amount to be added back	9,000

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 2020 (£91,000).

The company must notify HMRC of its requirement to register for VAT by 30 August 2020 and should charge VAT on sales from 1 September 2020.

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 2019	£
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 2019	1,000
2) S.104 pool (= June 2013 acquisition)	8,000
	9,000

Disposal of 1,000 shares acquired on 23 November 2019	
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 2019.

Tutorial Note:

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

TEST “C”
(40 MARKS)

1. Morono plc prepares accounts to 31 December. The return for the year ended 31 December 2017 was filed on 31 January 2020. The tax liability for the year of £55,000 was paid at the same time. The company has not deliberately withheld information.

   State the maximum penalties due for late filing of Morono plc’s return. (2)

2. Razor Ltd, a manufacturing company, sold a factory in July 2019 for £900,000. The chargeable gain on the sale was £485,000. In May 2019, its wholly owned subsidiary purchased a fixed embroidery machine for £775,000.

   Assuming the appropriate relief is claimed, calculate the chargeable gain for the year ended 31 August 2019 and show the effect of the claim on the base cost of the replacement asset. (3)

3. Shadowplay Ltd has opted for cash accounting for VAT purposes. In the VAT quarter ended 31 May 2020 the following transactions took place:

   1) Receipt of £5,000 as payment on account of an invoice for £10,000 plus VAT which was issued on 30 March 2020.

   2) Write off of a debt of £6,000 plus VAT which was due on 31 October 2019.

   3) Payment of £350 against an invoice for £2,000 plus VAT dated 30 April 2020 which was received from a supplier.

   Calculate the VAT payable by/repayable to Shadowplay Ltd in respect of the above VAT quarter. (3)

4. Seymour is the managing director of Skinner plc earning £45,000 per annum. His employment benefits for 2019/20 are as below:

	£
Cheap taxable loan (cash equivalent)	1,700
Home telephone (no business use)	1,000
Contribution to occupational pension scheme	5,000

   The telephone is in Seymour’s name.

   Calculate the Class 1A NIC payable by Skinner plc in respect of Seymour for the year ended 5 April 2020. (2)

5. Land Ltd is a wholly owned subsidiary of Megatron Holdings plc. Land Ltd owns a small portfolio of investment properties. In the year ended 31 December 2019, the property income computations show that the company made a loss of £100,000.

   Show the options available to Land Ltd to utilise this property loss. [You are not required to refer to the operation of the deductions allowance.] (2)

6. Black Ltd started trading on 1 June 2019 and acquired the following equipment in the period ended 31 March 2020:

	£
Machinery (cash price)	4,000
Car (CO_2 emissions 104 g/km)	16,000
Delivery van	15,000

The machinery was purchased under hire purchase in November 2019 and hire purchase instalments paid in the year were £1,800.

The car was purchased for cash in December 2019.

The van was acquired under a 3-year finance lease and lease payments are £500 per month.

Calculate the capital allowances due for the period ended 31 March 2020. (4)

Use the following information for questions 7 and 8.

Krest Ltd owns 90% of Spang Ltd and 100% of Trigger Inc, which is resident overseas.

Spang Ltd owns 75% of Orlov Ltd.

Trigger Inc owns 80% of Zorin Ltd. Zorin Ltd owns 60% of Max Ltd and 95% of Electra Ltd.

7. **Explain which of the above companies are in a group for group relief purposes.** (3)

8. **Explain which of the above companies are in a chargeable gains group.** (3)

9. **State the main features of the annual accounting VAT scheme and the advantages of using the scheme.** (3)

10. If a business is transferred as a going concern for VAT purposes, the supply is outside the scope of VAT.

List three conditions which must be met in order for a transfer to be treated as a transfer of a going concern. (3)

11. In 2020 the following happened:

On 1 May Kite Ltd received an order for a machine. The company issued an invoice on 6 June and delivered the machine on 8 July.

Kite Ltd received payment on 25 July.

Explain the tax point which Kite Ltd must enter onto the invoice. (2)

12. When a company buys back its shares from individual shareholders the capital treatment will apply to the buy-back if certain conditions are met.

    One of those conditions is that the purchase of the shares must be wholly or mainly to benefit the trade carried on by the company.

    Give two examples of when the share buy-back would benefit the trade carried on by the company. (2)

13. On 1 July 2019 Smith Ltd disposed of its shareholding in a trading company, Daly Ltd, for £200,000.

    State one condition that Smith Ltd must satisfy and one condition that Daly Ltd must satisfy, in order to qualify for the substantial shareholding exemption in respect of this disposal. (2)

14. Snow Ltd acquired goodwill for £300,000 on 1 January 2017. The company’s accounting policy is to amortise the goodwill at 20% per annum on a straight-line basis, calculated monthly. Snow Ltd sold this goodwill on 1 October 2019 for £350,000.

    On 1 February 2020 Snow Ltd bought the goodwill of a different unrelated business for £320,000.

    Snow Ltd prepares accounts to 31 December each year.

    Assuming all beneficial claims and elections are made, calculate the amount of the income gain on the disposal of the original goodwill that will remain chargeable in Snow Ltd and the revised base cost of the goodwill acquired. (4)

15. Charm 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 2020 is set out below.

	£
Profit before depreciation	120,000
Depreciation charge	24,000
Capital allowance claim	32,000

Calculate the deferred tax adjustment for the above year end and show the double entry required to record it. (2)

TEST "C"
ANSWERS

1. The return is due 12 months after AP end, i.e. 31 December 2018 so the return is over 12 months late.

	£
Initial penalty	100
Daily penalties – maximum = £10 x 90 days	900
Tax geared penalties:	
≥ 6 months late = 55,000 x 5% (as greater than £300)	2,750
≥ 12 months late = 55,000 x 5% (as greater than £300)	2,750
	6,500

FA 2009 Sch 55 paras 3-6

2.

	£
Gain on factory	485,000
Less: Rollover relief	(360,000)
Chargeable gain = Proceeds not reinvested (900,000 – 775,000)	125,000

As the new asset is a depreciating asset, the deferred gain is 'frozen' and is not rolled over against the base cost of the machine.

The base cost of the machine will remain at £775,000.

3. VAT only accounted for when cash is received or paid. Amounts received or paid are deemed to be VAT inclusive.

		£
1)	Amount received is £5,000	
	5,000 x 1/6	833
2)	No cash involved	-
3)	Amount paid is £350	
	350 x 1/6	(58)
	∴ VAT payable	775

4.

	£
Cheap loan	1,700
Home telephone	Nil
Pension contribution	Exempt
Total	1,700
Class 1A @ 13.8%	235

Tutorial Note:

The £1,000 paid by Skinner plc in respect of Seymour's home telephone is 'earnings' subject to secondary Class 1 NIC (not Class 1A) because it is the settlement by an employer of an employee's personal liability.

5. Land Ltd must first set the property loss against its total profits (i.e. other income and gains) in the same accounting period (ie y/e 31 December 2019). This is automatic.

   Any excess property losses may then either be:

   - carried forward and set against total profits of the next period in Land Ltd; or
   - surrendered to a fellow group company such as Megatron Holdings plc.

6.

10 m/e 31 March 2020	AIA @ 100%	General pool	Allowances
	£	£	£
Additions:			
- Machinery on HP	4,000		
- Car (CO_2 <110 g/km)		16,000	
AIA @ 100%	(4,000)		4,000
WDA @ 18% x 10/12		(2,400)	2,400
TWDV c/fwd		13,600	
			6,400

No CAs on van as held under a finance lease.

Tutorial Note:

CAs given on the cash price of assets acquired under hire purchase. Instalment payments are irrelevant.

AIA not available for cars.

It is obvious here that the additions will be covered by the AIA (£1,000,000 x 10/12 = £833,333).

7. The group relief structure is:

   Krest Ltd

   Spang Ltd – because 75% direct ownership test is met

   Trigger Inc – because 75% direct ownership test is met; however this company will not be able to benefit from group relief as it is an overseas resident company

   Zorin Ltd – because 75% direct ownership test is met and Krest Ltd has indirect ownership of 100% x 80% = 80%

   Electra Ltd – because 75% direct ownership test is met and Krest Ltd has indirect ownership of 100% x 80% x 95% = 76%

   (NB: Max Ltd and Orlov Ltd are not in this group relief group as Max Ltd is not sufficiently owned directly or indirectly by Krest Ltd and Orlov Ltd is not sufficiently owned indirectly by Krest Ltd.)

   There is also a second group of companies for group relief purposes:

   Spang Ltd and Orlov Ltd as there is a direct ownership of 75% between them.

   There is no such group between Zorin Ltd and Max Ltd however as Zorin Ltd owns only 60% of Max Ltd.

8. The chargeable gains group structure is:

   Krest Ltd (the principal company)

   Spang Ltd – is a 75% subsidiary of Krest Ltd

   Orlov Ltd – this is a 75% subsidiary of Spang Ltd and Krest Ltd owns >50% of the company indirectly

   Trigger Inc – is a 75% subsidiary of Krest Ltd even though it will not be able to benefit from any of the capital gains advantages within the group as it is an overseas company

   Zorin Ltd – this is a 75% subsidiary of Trigger Inc and Krest Ltd owns >50% of the company indirectly

   Electra Ltd – this is a 75% subsidiary of Zorin Ltd and Krest Ltd own >50% of the company indirectly

   (NB: Max Ltd is not in the gains group as Max Ltd is not a 75% subsidiary.)

9. Only one VAT return is required per annum. The return is due for submission two months after the end of the VAT year.

   Nine monthly payments on account are made during the year starting at the end of month four and through to month 12. Each payment on account is 10% of the VAT due for the previous 12 months (or the estimated VAT due for the year if the business has not been registered for 12 months).

   Any balance of VAT is payable when the return is submitted.

   Annual accounting reduces the compliance burden for the business and makes it less likely that penalties will arise for late/incorrect returns.

   Cash flow is also more certain.

   Tutorial Note:

   Credit would also be given for stating that a business may apply to make only three interim payments instead of nine. If this request is approved the business will pay 25% of the relevant tax on the last day of months four, seven and ten and the balance when the VAT return is submitted.

   Orange book – Part 1, VAT Regulations SI 1995/2518, regulations 49-55 (starts on page 1,303 of the 18/19 version)

10. The conditions are: *[3 required]*

- The business must be transferred as a 'going concern';
- The assets must be used by the transferee in carrying on the same kind of business as that carried on by the transferor;
- The transferee must be or will immediately become a taxable person (where the seller is VAT registered);
- There should be no significant break in the normal business activities before or immediately after the transfer.

11. The basic tax point is the date of delivery on 8 July.

    However, as an invoice was issued prior to the basic tax point, then the invoice date will become the actual tax point and 6 June should be shown on the invoice.

12. If there is a disagreement between the shareholders over the management of the company and the disagreement is expected to have an adverse effect on the company's trade, the buy-back will satisfy the trade benefit test if the dissenting shareholder is removed entirely.

    If the purpose of the buy-back is to ensure that an unwilling shareholder who wishes to end his association with the company does not sell shares to someone who may not be acceptable to the other shareholders.

    Tutorial Note:

    Guidance is in SP 2/82, which starts on page 382 of the 2019/20 version of the Yellow Part 2b Handbook

13. Smith Ltd must have owned at least 10% of the ordinary share capital of Daly Ltd throughout a 12 month period within the six years prior to the disposal on 1 July 2019.

    Daly Ltd must be a trading company or holding company of a trading group from the start of the latest 12-month period for which the above 10% shareholding test is satisfied and ending with the time of the disposal.

    TCGA 1992 Sch 7AC paras 7, 8 & 18 (All relevant points will gain credit)

14. Income gain on sale of goodwill by Snow Ltd:

	£
Proceeds of sale	350,000
Less: Cost	(300,000)
Income gain	50,000
Less: Roll over relief (W)	(20,000)
Income gain taxable	30,000

Working

Amount rolled over:	
Proceeds reinvested by Snow Ltd	320,000
Less: Cost of original goodwill	(300,000)
Amount rolled over	20,000

Base cost of goodwill acquired = £320,000 – £20,000 rolled over = £300,000

Tutorial Note:

As the goodwill was acquired after 8 July 2015, no tax relief is available for the amortisation of goodwill and therefore the full cost is deducted when calculating the income gain.

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.

Of the £50,000 income gain £30,000 remains taxable in y/e 31 December 2019. This equals the £30,000 of sale proceeds not reinvested.

15. Timing differences

	Y/e 31 March 2020 £
Capital allowances	32,000
Depreciation	(24,000)
Timing difference	8,000
Deferred tax @ 19%	1,520

The deferred tax provision will increase by £1,520.

Journal

	£	£
Dr Deferred tax charge (P&L a/c)	1,520	
Cr Deferred tax creditor (i.e. provision))		1,520

To record the increase in the deferred tax provision.

TEST "D"
(40 MARKS)

1. On 7 June 2005, Francis Shelley subscribed, at par, for 15,000 £1 ordinary shares in Stitch Ltd, an unquoted trading company. This represented 25% of the ordinary share capital and Francis became a director of the company. On 1 May 2019, Francis gifted half of his shares in Stitch Ltd, estimated to be worth £52,000, to his daughter Maria. At that time, a rental property comprised 25% of the value of Stitch Ltd's chargeable assets.

   1) Calculate Francis' capital gain assuming a claim for gift relief is made. (2)

   2) Show the base cost of the shares for Maria. (1)

   3) State the deadline for claiming gift relief and who should make the claim. (1)

2. Pucci Ltd owns 65% of the shares in Scarf Ltd. Of the remaining shares in Scarf Ltd, 10% are held by Long Ltd, the remainder being held equally by four individuals. For the year ended 31 December 2019, Scarf Ltd generated a trading profit of £85,000, Pucci Ltd incurred a trading loss of £120,000 and Long Ltd incurred a trading loss of £7,000.

   1) Describe the conditions for a consortium to exist for loss relief purposes. (1)

   2) Calculate the trading loss that may be surrendered to Scarf Ltd for the year ended 31 December 2019. (2)

3. On 2 May 2010 Stark Ltd purchased 100% of the shares in Tully Ltd, an investment company, for £122,800. On 2 May 2010, Tully Ltd had a capital loss brought forward of £19,000 which was generated by the disposal of a building in May 2005. On 12 August 2019, Stark Ltd sold 25% of its shares in Tully Ltd for £180,000.

   1) Calculate the chargeable gain arising on the sale of the Tully Ltd shares. (2)

   2) Explain how Tully Ltd's capital loss of £19,000 may be relieved. (2)

4. Casey Ltd has a draft tax adjusted trading profit of £900,500 for the year ended 31 March 2020. However, due to a computer error, this figure is **before** any deductions for the following items:

   (a) Staff costs of £26,000 on a qualifying research and development project, Project Alpha. This figure includes £5,000 of administrative support which is not specific to the project.

   (b) Expenditure of £1,200 on software and £800 on consumables used up in the R&D process for Project Alpha.

   (c) Amortisation of £12,000 on goodwill purchased for £60,000 in May 2017.

   Casey Ltd is a small company for research and development purposes.

   Calculate the tax adjusted trading profit for Casey Ltd for the year ended 31 March 2020, briefly explaining your treatment of each of the above items. (4)

5.

1) **State two conditions that must apply in order for a company to join the VAT annual accounting scheme.** (2)

2) **State one circumstance in which a company will be required to withdraw from the scheme.** (1)

6. On 31 January 2020, Mandy Bailey transferred her unincorporated business "MB Toys" to a newly formed company, Warren Ltd, in exchange for shares. The recent results for MB Toys are as follows:

	£
Profit for the year ended 30 September 2019	9,000
Loss for the four months ended 31 January 2020	(17,000)

Mandy has overlap profits from commencement of £6,000.

Mandy's taxable income for the previous three tax years has been fully offset by a combination of the personal allowance and start-up losses. Mandy is a director of Warren Ltd and anticipates receiving a salary and dividends from the company in the future.

1) **Calculate Mandy's trading income assessment and any loss arising for 2019/20**. (2)

2) **Explain how any unrelieved losses of Mandy's business may be utilised.** (2)

7. Mercy Ltd purchased the following items during the year ended 29 February 2020:

(a) A painting for Mercy Ltd's head office reception area which cost £4,500.

(b) A half share in a champion greyhound named "Speedy Pete". The half share cost £6,200.

(c) New computer equipment for the design department, each item costing no more than £3,000.

Explain the chargeable gains consequences of the future sale of each of these items. (3)

8. Steve, Jim and Charlie are partners in a limited liability partnership. On 3 April 2020 they sold the freehold of a building owned by the partnership and used in its trade for £300,000, generating a capital gain of £60,000.

All profits and capital gains are shared equally between the partners. Steve and Jim each have taxable income for 2019/20 of £20,000. Charlie is a higher rate taxpayer and in July 2019 purchased the freehold of No. 3 Wire Mews for £120,000 which is used 80% for business purposes in a separate business. All the partners made other capital gains in 2019/20 exactly equal to their annual exempt amount.

Explain the Capital Gains Tax implications of the limited liability partnership's disposal, assuming all available reliefs are claimed. (4)

9. In January 2000, Thor Ltd purchased 80,000 ordinary shares in Loki Ltd for £50,000. Loki Ltd has 100,000 ordinary shares in issue. On 12 December 2013, Thor Ltd transferred a building to Loki Ltd for an agreed price of £360,000. The building cost £200,000 in April 2000 and had a market value in December 2013 of £440,000. On 3 May 2019, Thor Ltd sold 10,000 shares in Loki Ltd for £30,000.

    1) Calculate the chargeable gain arising in respect of the transfer of the building as a result of the sale of the shares of Loki Ltd. (2)

    2) Explain how this chargeable gain will be treated for Corporation Tax purposes, assuming:

    a) The disposal of the Loki Ltd shares qualifies for the substantial shareholding exemption;

    b) The disposal of the Loki Ltd shares does not qualify for the substantial shareholding exemption. (2)

10. Kirk Ltd is an unquoted trading company that prepares accounts to 31 March each year and whose shares are held equally by four shareholders. Scott is one of the shareholders but is not employed by Kirk Ltd. He only source of income is rental income of £15,000 per year. During 2019/20, Scott received the following from Kirk Ltd:

    (a) Dividends of £5,500.

    (b) An interest-free loan of £17,000 made on 6 April 2019. No loan repayments have been made and it is anticipated that it will eventually be written off.

    1) Explain the Corporation Tax consequences for Kirk Ltd of the dividends and the making and writing off of the loan. (2)

    2) Explain the Income Tax consequences for Scott of the dividends and the writing off of the loan, assuming he received no other dividends in the year. (2)

11. Gemini plc filed its CT600 Corporation Tax self assessment return for the year ended 30 June 2019 on 17 July 2020.

    1) State the deadline for HM Revenue & Customs to correct any obvious errors in the return. (1)

    2) State the deadline for Gemini plc to make any amendments to the return. (1)

    3) State the deadline for HM Revenue & Customs to raise an enquiry into the return. (1)

TEST "D"
ANSWERS

Tutorial Note:

When this test was set the ATT published marking guides with their model answers and so the marks have been included here. Please note that the other SFQ tests and the long questions in this bank were set before the ATT agreed to publish their marking guides.

1.

1) Gift in May 2019

	£	
Deemed proceeds (MV)	52,000	
Less: Cost (£15,000 x ½)	(7,500)	
	44,500	*[1]*
Less: Gift relief £44,500 x 75%	(33,375)	*[1]*
Capital gain	11,125	

2) Base cost of the shares gifted

Market value	52,000	
Less: Gift relief claim	(33,375)	
	18,625	*[1]*

3) The deadline for the gift relief claim is 4 years after the end of the tax year of the gift i.e. 5 April 2024. *[½]* The claim should be made jointly by Francis and Maria. *[½]*

Tutorial Note:

Gift relief is restricted because the company holds a rental property which is a 'non business asset' (i.e. an asset which does not help the company generate trading income). The gain eligible for gift relief is calculated as:

Gain before relief x $\dfrac{\textit{market value of chargeable business assets}}{\textit{market value of chargeable assets}}$

Total 4

2.

1) A consortium exists where 75% of the shares in a consortium-owned company are owned by two or more consortium members. *[½]* Consortium members are companies (including overseas companies) owning at least 5% of the shares. *[½]*

2) The loss that may be surrendered is:

	£	
From Pucci Ltd, the lower of:		
Pucci Ltd's loss = £120,000		*[½]*
65% of Scarf Ltd's profit of £85,000 = £55,250	55,250	*[½]*
From Long Ltd, the lower of:		
Long Ltd's loss = £7,000		*[½]*
10% of Scarf Ltd's profit of £85,000 = £8,500	7,000	*[½]*
Total	62,250	

Total 3

3. 1) Gain on sale of the Tully Ltd shares:

	£	
Proceeds	180,000	
Less: Cost (May 2010) (122,800 x 25%)	(30,700)	
Unindexed gain	149,300	*[1]*
Less: Indexation allowance (May 2010 – Dec 2017)		
(278.1 – 223.6)/223.6 x 30,700	(7,483)	*[½][½]*
Chargeable gain	141,817	

2) Tully Ltd's capital loss is a pre-entry capital loss and is therefore restricted in its use. It can be used to offset:

- Gains on assets held at the time Tully Ltd entered the group on 2 May 2010 *[1]*

- Gains on assets bought by Tully Ltd (or another group company) after 2 May 2010 from a non-group company, as long as the assets are used in the business carried on by Tully Ltd at the time it joined the group, *[1]* (or by the other member of the Stark group that now carries on that business). *[1]*

Tutorial Note:

The disposal of the shares in Tully Ltd is not exempt under the substantial shareholding exemption because Tully Ltd is an investment company.

There is no rounding of the indexation factor on a disposal of shares.

Max 4

4.

	£	
Profit before adjustments	900,500	
Less:		
Qualifying R&D staff costs (26,000 – 5,000) x 230%	(48,300)	*[½][½]*
Administration staff wages	(5,000)	*[½]*
Other qualifying R & D expenditure (1,200 + 800) x 230%	(4,600)	*[½][½]*
Tax adjusted trading profit	842,600	

- The staff costs described as not specific to Project Alpha do not qualify for the enhanced 230% deduction available to SMEs *[½]*

- Expenditure on the software and consumables qualifies for the enhanced R&D deduction *[½]*

- As the goodwill was purchased after 8 July 2015, no deduction is available for the amortisation charged in the accounts *[1]*

Max 4

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. A company may join the annual accounting scheme if:

- Its annual taxable supplies are expected to be no more than £1.35m (VAT exclusive)
- It has not withdrawn from the annual accounting scheme in the past 12 months
- It is not a member of a VAT group registration
- It is up to date on its VAT payments

*[1 each, **Max 2**]*

A company must leave the scheme if:

- Its turnover of taxable supplies exceeds £1.6m for the previous year
- Its taxable supplies for the current year are expected to exceed £1.6m
- It becomes insolvent
- It ceases to trade

*[1 each, **Max 1**]*

Orange book Part 1 - SI 1995/2518 Reg 52 & 53

Total 3

6.

1)

2019/20 Basis period

1 October 2018 – 31 January 2020:	£	
Year ended 30 September 2019	9,000	*[½]*
+ Loss for the 4 months ended 31 January 2020	(17,000)	*[½]*
	(8,000)	
Less: Overlap relief	(6,000)	*[½]*
Loss arising	(14,000)	

The income chargeable for assessment year 2019/20 is therefore £nil. *[½]*

2)

The £14,000 loss arising may be offset against Mandy's total net income in 2019/20. *[½]*

No further carry back is possible as there is no residual taxable income in the previous three tax years. *[½]*

However, any unrelieved losses may be carried forward and used against earned income (e.g. salary) *[½]* and unearned income (e.g. dividends) received by Mandy Bailey from Warren Ltd *[½]* provided she continues to hold her shares in the company in the year that the relief is taken. *[½]*

Tutorial Note:

Due to the size of the loss there is no need to mention the potential restriction in loss relief claims against net income.

Max 4

7.

Painting	•	The painting is a non-wasting chattel that is not plant and on sale any gain is chargeable to corporation tax, subject to the chattels rules.	*[½]*
	•	If the painting is sold for £6,000 or less, then any gain is exempt from tax and any loss is not an allowable loss.	*[½]*
	•	If the painting is sold for more than £6,000 a chargeable gain will arise. However the chargeable gain is limited to an amount equal to £[5/3 x (gross sales proceeds – 6,000)].	*[1]*
Greyhound	•	The greyhound is a wasting asset (having an expected life of 50 years or less) and therefore any gain on sale of the share in the greyhound is exempt from corporation tax.	*[½]*
Computer equipment	•	The computer equipment qualifies as plant and machinery for capital allowances purposes. Therefore, if it is sold for a loss, the loss will not be an allowable capital loss for tax purposes.	*[½]*
	•	However, if it is sold for an amount in excess of the original cost, a capital gain will arise. The gain will be treated in the same way as a gain arising on the painting.	*[½]*

Max 3 *[but must deal with all three disposals]*

8. In an LLP, capital gains are shared in the agreed ratio and so each partner will be allocated a capital gain of 1/3rd *[½]* of the total gain on the sale of the freehold i.e. £20,000 each. *[½]*

Steve and Jim's gains:	Part of the allocated gain (i.e. 37,500 - 20,000 = 17,500) will be taxed at 10% as it falls within the basic rate band.	*[½]*
	The balance of £2,500 (20,000 - 17,500) is taxed at 20%.	*[½]*
Charlie's gain:	The gain of £20,000 may be rolled over against the cost of No 3 Wire Mews.	*[½]*
	However, Charlie's share of the proceeds on the disposal (£300,000/3 = £100,000) is not fully invested in Wire Mews (£120,000 x 80% = £96,000).	*[½]*
	The proceeds not re-invested of £4,000 are chargeable immediately at 20%.	*[½]*
	The balance of the gain of £16,000 may be rolled over against the cost of Wire Mews.	*[½]*

Total 4

9.

1) There is no chargeable gain at the time of the transfer of the building as both companies are members of a chargeable gains group. However, the sale of the 10,000 Loki Ltd shares will trigger a degrouping charge re the building as follows:

	£	
Deemed proceeds (MV @ Dec 2013)	440,000	
Less: Cost (April 2000)	(200,000)	
	240,000	*[1]*
Less: Indexation (Apr 2000 – Dec 2013)		
(253.4 – 170.1)/170.1 = 0.490 x 200,000	(98,000)	*[1]*
Degrouping gain	142,000	

2) If the substantial shareholding exemption applies to the sale of the Loki Ltd shares, then the degrouping gain will be added to the proceeds on the sale of the Loki Ltd shares and both the gain on the shares and the degrouping gain will be exempt. *[1]*

If the substantial shareholding exemption does not apply, then the gain on the Loki Ltd shares will again be added to the proceeds on the disposal of the Loki Ltd shares and Thor Ltd will be subject to corporation tax in respect of both. *[1]*

Tutorial Note:

The sale by Thor Ltd of 10,000 Loki Ltd shares reduces Thor Ltd's ownership to 70% which means that Thor Ltd and Loki Ltd are no longer in a capital gains group. As Loki Ltd is leaving the group within 6 years of an intra-group transfer a degrouping charge arises.

Total 4

10.

	Corporation tax	Income tax
Dividends:	The dividends are not deductible in calculating the company's taxable profits. *[½]*	The first £2,000 of dividends received by Scott will fall within the dividend allowance and there will be no tax to pay. *[½]* As Scott is a basic rate tax payer, the balance of £3,500 will be subject to tax at the dividend ordinary rate of 7.5%. Scott will therefore need to pay tax of £3,500 x 7.5% = £263. *[½]*
Loan:	A tax charge of 32.5% of the loan (32.5% x £17,000 = £5,525) *[½]* is payable 9 months and one day after the end of the accounting period i.e. by 1 January 2021. *[½]*	The write off of the loan will be treated as a distribution *[½]* for Scott of £17,000 *[½]*
	This tax charge will be repaid when the loan is written off. *[½]*	As a basic rate taxpayer, he will be taxed at the dividend ordinary rate on the value of the distribution less any available dividend allowance in the year the loan is written off. *[½]*
	No tax relief for the loan write off *[½]*	

Tutorial Note:

The requirements of the question only asked for the income tax consequences for Scott of the loan write off which is why there is no discussion of the income tax consequences of the benefit of the interest free loan in the answer.

Max 4

11.

1) Nine months from the actual filing date of 17 July 2020 i.e. 17 April 2021. *[1]*

2) Twelve months from the due date for filing i.e. 30 June 2021. *[1]*

3) The next quarter day following the first anniversary of the date the return was delivered i.e. 31 July 2021. *[1]*

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 2020, 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 2020 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 2017	48,000
Year ended 31 December 2018	32,000
15 months ended 31 March 2020	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 2019 was £15,000.

You are required to:

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 2019/20 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 2018. She returned to work in January 2019 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 2019 and set up Sarah Hall Training Ltd ("SHTL") of which she is the sole shareholder and director.

Since April 2019, 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 2020, 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	2,259
Travel expenses reimbursed	1,400
Professional indemnity insurance	800
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.

You are required to:

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 2020.** (6)

3) **Calculate the corporation tax payable by Sarah Hall Training Ltd for the year ended 5 April 2020.** (6)

Total (16)

3. Assume today's date is 1 February 2020.

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 2020) 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.

You are required to:

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 2020. (3)

3) State the Corporation Tax implications of drawing £16,000 as a loan before 31 March 2020 and repaying the loan on 1 April 2021. 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 2019. 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 2020. 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 2019. 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.

You are required to:

1) Compute the company's Corporation Tax liability for the year ended 31 May 2020 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)

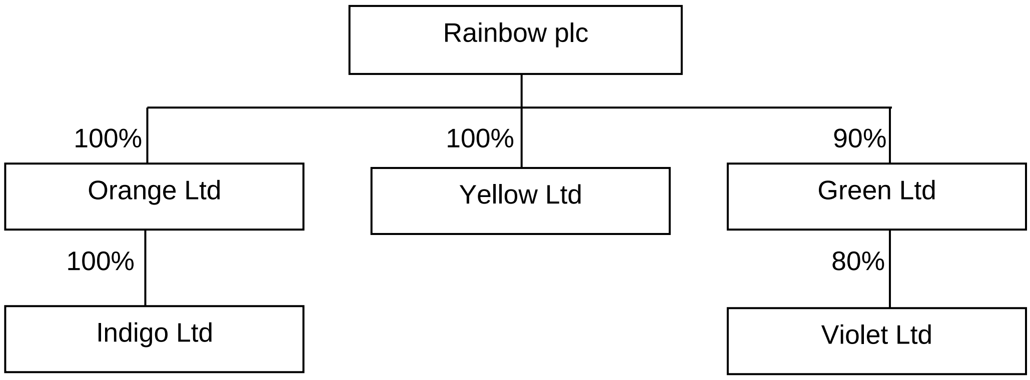
3) Explain Strand Ltd's capital gains base cost in the warehouse. (1)

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 2019 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 2019 year-end. Indigo Ltd has been dormant since 2009.

Your predecessor prepared draft tax computations for the year ended 31 October 2019, 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 2019 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 2019 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.

You are required to:

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 2019 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 2019 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 2019.

   1) On 15 November 2019 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 2019 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 2019 (from a disposal in August 2015) of £200,000 and purchased an office building for £300,000 on 1 September 2019 for use in its trade.

   Bubblefish Ltd has trading losses for the year ended 31 December 2019 of £150,000. Sharkpool Ltd had taxable total profits of £75,000 for that year.

   You are required to:

   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 2019 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 2019, 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 2019.

   Tick-Tock Ltd made tax-adjusted trading profits of £1,450,000 (excluding capital allowances) for the year ended 31 March 2020. The general pool at 1 April 2019 stood at £132,000.

   In November 2019 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 January 2020 at a total cost of £59,000. In addition, some old computer equipment was sold in January 2020 for £4,000.

   On 1 December 2019, 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 2020 were £(120,000);

   3) Wizard Watches Ltd did not incur any capital expenditure in the year to 30 June 2020;

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

   5) Wizard Watches Ltd has trading losses brought forward from 2019 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.

   You are required to:

   1) Calculate the taxable total profits for Tick-Tock Ltd for the year ended 31 March 2020, 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 2021 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 2020/21 and she will be a higher rate taxpayer.

You are required to:

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 2019/20 tax rates and allowances continue to apply in future years.

9. The accountancy firm for which you work is considering changing from the traditional partnership structure to a limited liability partnership (LLP).

   Your managing partner has requested that you provide him with briefing notes for the partnership meeting next week at which the possibility of forming an LLP will be on the agenda.

   Your notes should cover the tax and legal consequences of forming an LLP and how the partners' tax position will change if an LLP is formed.

   All of the partners have voting rights in making partnership decisions and this will continue when the LLP is formed. You do not therefore need to consider the rules on disguised employment within LLPs.

   You are required to draft briefing notes covering the above. (10)

10. A local solicitor has written to you requesting advice to assist with the handling of the affairs of one of her clients:

"An entrepreneur is thinking of setting up a company to acquire various investments such as shares in listed companies and property investments.

There will be a number of management expenses relating to the property and also relating to the management of the investments. Are these allowable deductions in calculating profits for corporation tax purposes?

If the company's property activities result in a rental loss, how can these losses be utilised against the company's income and gains?

In addition, there are a number of property rental expenses. Could you let me know if the following expenses are allowable deductions in calculating the company's property income?

1 Legal costs in drawing up tenancy agreements for first lettings and renewal of leases.

2 Valuation fees.

3 Subscriptions to The National Association of Residential Landlords.

When the shareholdings in listed companies pay out dividends, will these dividends received be liable to corporation tax? Also, when these shareholdings are sold in the future will any future gain be liable to corporation tax?

The company's first set of accounts will be for the nine months to 31 March 2021. Could you let me know the filing requirement for the Corporation Tax return for that period?

Finally, when my client comes to sell his shares in this investment company in the future, will he be entitled to claim entrepreneurs' relief on the disposal?"

You are required to write a letter setting out your reply to the above enquiries. Your letter needs to cover the following advice:

1)	**The Corporation Tax treatment of management expenses and rental losses.**	(3)
2)	**The tax treatment of the specific rental expenditure mentioned in the solicitor's letter.**	(3)
3)	**The tax treatment of the dividends received from the listed shareholdings and any future gains made on selling these listed shares.**	(1)
4)	**The filing requirements for the company's first Corporation Tax Return, indicating the precise documents that require to be lodged.**	(2)
5)	**The availability of entrepreneurs' relief on a future disposal of the investment company shares.**	(1)
	Total	(10)

Assume Financial Year 2019 and 2019/20 rates and allowances continue to apply for future years.

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 2020	24,000	120,000
Less: Cost	-	(114,000)
Gains before reliefs	24,000	6,000

	Gains not eligible for ER	Gains eligible for ER
	£	£
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	(12,000)	(Nil)
Net gains	4,000	Nil
Less: Capital losses b/f	(4,000)	(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 entrepreneur's 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 exemp amount, will be taxed in 2019/20.
- 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 entrepreneurs' relief.
- Only £500 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 ER	Gains eligible for ER
	£	£
Gain on goodwill	24,000	
Gain on premises		6,000
	24,000	6,000
Less: Annual exempt amount	(12,000)	(nil)
Net gains	12,000	6,000
Less: Capital losses b/f	(12,000)	(1,000)
Taxable gain	Nil	5,000
CGT x 10%		500

4)

Trading Income Assessment for 2019/20

15 m/e 31 March 2020	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 2020	£
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 2020	75,000
Less: Unrelieved overlap profits	(8,000)
Trading income 2019/20	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 2019/20

	£	£
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	2,259	
Professional indemnity insurance	800	
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 2020		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 – 8,632) x 13.8% = £2,259. 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) Sarah Hall Training Ltd - Corporation Tax Payable for the Year ended 5 April 2020

	£	£
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 = £(2,259 + 2,574)	4,833	
Travel expenses reimbursed	1,400	
Professional indemnity insurance	800	
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

Tutorial Note:

The deemed salary is treated as paid on 5 April 2020. 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 2020).

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

1)

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 2020. This is provided there is an obligation to pay the salary at 31 March 2020 and it is actually paid within nine months after the accounting period end, i.e. before 1 January 2021.

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 2020 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 2021, 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 2021, a s.455 CTA 2010 charge of £5,200 (£16,000 x 32.5%) arises and the tax will become payable on 1 January 2021.

As the loan is repaid in the year ended 31 March 2022, the tax will be repaid on 1 January 2023 (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 2020

	£
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 2021

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 2021.

An initial penalty of £100 will apply if the return is late. If the return is more than three months late, daily penalties of £10 per day may be levied for up to 90 days.

If the return is more than six months late there will be an additional penalty of 5% of the liability to tax for the return period, or £300 if greater.

FA 2009 Sch 55, paras 3-5

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 2019)	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 2019)	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 2019 (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 2019 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 2020, even if Green Ltd was large in that year.

6. BUBBLEFISH LTD

1)

Freehold property	£
Proceeds (November 2019)	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 2019)	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 2023).

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 2021).

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 2021).

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 2021).

7. TICK-TOCK LTD

1) TTP for y/e 31 March 2020

	£
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 2019 – 31 March 2020) after it joined the group.

Workings

W1) Sale of factory

	£
Proceeds (November 2019)	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

	AIA @ 100%	General Pool	Allowances
Y/e 31.3.20	£	£	£
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

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 2019; 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 2024).

Therefore, if Tick-Tock Ltd makes ‘major changes’ to the trade of Wizard Watches Ltd before December 2024, 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 entrepreneurs' 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	(12,000)
Taxable gain	9,956
CGT @ 10% (ER applies)	996

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. LIMITED LIABILITY PARTNERSHIPS

BRIEFING NOTES

To: A Partner
From: An Adviser
Date: […………]
Subject: Limited Liability Partnership (LLP)

Legal Consequences

An LLP is a separate legal entity, owned by the members. The members of the LLP will be the current partners.

The LLP will be registered at Companies House and formation procedures are similar to those for a limited company.

The rights and duties of the members of an LLP will be governed by a partnership agreement (or in the absence of this the LLP Regulations 2001).

The Limited Liability Partnerships Act 2000 allows limitation of liability for members of the LLP to the amount of their capital contribution. Therefore, members should have limited liability for the debts of the business. As a separate entity the LLP is liable for its own debts.

Tax Consequences

LLPs that carry on trades are taxed in the same way as a conventional partnership (and not as a company).

When the LLP is formed there will be no cessation of the 'old' partnership or commencement of a new business (providing all partners become members of the LLP and the same business is carried on).

As there is no cessation of trade, there will be no balancing adjustments on plant and machinery nor any relief for overlap profits.

The transfer of assets from an existing partnership to an LLP will not give rise to a capital gain.

The partners/members will continue to be taxed separately on their respective profit share under the current year basis of assessment.

The members of the LLP will pay NIC under Class 2 and Class 4 as before.

Loss relief claims under s.64 ITA 2007 and s.72 of ITA 2007 (sideways loss relief) and s.261B TCGA 1992 (capital gains relief) are restricted to the amount of a member's contribution to the LLP, being the capital introduced to the LLP plus any further amount that the member would have to pay in the event of the LLP being wound up.

This is in addition to the restriction which applies to trading losses and certain other reliefs that any individual can claim against their net income.

Assets of the LLP are treated as assets of the members. Therefore, members of the LLP, rather than the LLP itself, will be liable to capital gains tax on the disposal of any LLP assets.

Tutorial Note:

There is a restriction on the total amount of certain reliefs that an individual can claim against net income. Total relief is limited to the greater of £50,000 and 25% of the individual's adjusted total income for the tax year.

Trading losses which are relieved against net income which is not trading income are one of the reliefs subject to this overall restriction. This restriction does not apply to trading losses which are set against chargeable gains.

10. CORPORATION TAX QUERIES

Our Address

Your Address

Date

Dear Mrs Rose

Tax advice

Thank you for your letter. I have set out below, my responses to the queries raised in the letter.

Management expenses and rental losses

Management expenses are deductible in calculating profits for corporation tax purposes. Excess management expenses (is those that cannot be deducted in the current period) will be carried forward and offset against total profits of future periods.

Management expenses relating to property income are deducted from that income. Other management expenses are deducted from the total profits of the company for the period.

Rental losses must first be offset against total profits of the accounting period in which the loss is incurred. If there are losses remaining, these can be carried forward and offset against total profits of the next (or a later) accounting period.

The use of brought forward property losses and management expenses is restricted to the amount of the ‘deductions allowance’ of £5 million (for a 12 month period for a standalone company) plus 50% of the remaining profits after deduction of the allowance.

Rental expenditure

The rental expenses you mentioned are treated for tax purposes as follows:

- Legal costs in drawing up tenancy agreements for first lettings and renewal – the legal costs of the drawing up of a lease for longer than one year is capital in nature and therefore not allowable against income.

  But provided the lease is not more than 50 years, the legal costs of a re-letting are deductible against income.

- Valuation fees – valuations for insurance purposes are allowable against income, but valuations relating to a purchase or sale of the property are capital in nature and therefore not deductible. (Note, however, they would be allowable in calculating any chargeable gain arising when the property is eventually sold.)

- Subscriptions to The National Association of Residential Landlords – since the association represents the interest of landlords the expense is allowable against property income.

Dividends received and gains on sale of shares

Dividends received by companies are exempt from corporation tax.

Any gains made on the sale of the shares (being sale proceeds less cost together with incidental costs of acquisition and disposal) will be chargeable to corporation tax. The substantial shareholding exemption is unlikely to apply to the sale of these shares since your client's company is unlikely to own at least 10% of the share capital of the listed companies.

Corporation Tax Return

The company's first corporation tax return for the 9 month period ended 31 March 2021 will need to be filed on-line together with a full copy of the company accounts suitably "tagged" in iXBRL format.

These documents will need to be filed within 12 months of 31 March 2021, i.e. by 31 March 2022.

Availability of ER on disposal of investment company shares

Entrepreneurs' relief will not be available on a future disposal of the investment company shares because it is not a trading company.

I trust the above information is useful. If you should have any queries, please do not hesitate to contact me.

Yours sincerely

S Taylor