Institution **CIOT - CTA**
Course **Adv Tech Tax of Larger Comps**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**1498**	**7350**	**8572**
Section 2	**1385**	**6484**	**7860**
Section 3	**978**	**4573**	**5551**
Section 4	**1233**	**5873**	**7043**
Section 5	**1259**	**6035**	**7230**
Section 6	**404**	**2014**	**2413**
Total	**6757**	**32329**	**38669**

Answer-to-Question-_1_

Corporation tax liability for the year ended 31 March 2025 for Jomar Ltd

PBT	434,000,000					
depreciation	10,000,000	(w1)				
Bonus	150,000	(W3)				
Pension	50,000	(w4)				
Gifts and entertainment	2,500,000	(w5)				
Website running cost	0	(W6)				
Charity	1,000,000	(W6)				
Regulatory penalties	1,000,000	(w6)				
Bad debt	0	(w6)				
Advertising	0	(W6)				
RDEC	500,000	(W7)				
less CA	-1,760,000	(w8)				
Interest receivable	-1,000,000	(w9)				
Dividend income	-10,000,000	(w9)				
Trading profits	427,440,000					
NTLR credit	1,000,000	(W9)				
QCD	-1,000,000	(W6)				
TTP	427,440,000					
CT @ 25%	106,860,000					
Partner 1 DTR	-12,500,000	(W2)				
Partner 2 DTR	-18,750,000	(W2)				
RDEC	-500,000	(w7)				
Partner 3 DTR	-5,250,000	(W2)				
CT due	69,860,000					
(w2) (£'000)	Partner 1	Partner 2	Partner 3			
Gross royalty inc	50,000	75,000	35,000			

Foreign tax	12,500	22,500	5,250		
UK tax on Gross @ 25%	12,500	18,750	8,750		
Lower of above: ('£000)	12,500	18,750	5,250		
Unrelieved foreign tax c/f (Foreign tax - UK tax)	0	3,750	0	No UFT for partner 3 as UK tax > foreign tax	
(w4)					
Deductible pension	200,000				
Pension accrued	5,000,000				
Pension paid this year	4,750,000				
pension last year	4,350,000				
Excess is <210%	9.1%	400k/4,350			
Disallowable amount	250,000	5,000k-4750k			
Summary					
Deductible pension	-200,000				
Disallowable pension	250,000				
Net	50,000				
(w5)					
Staff entertainment	0				
Third party entertainment	500,000				
Branded gifts	0				
Alcohol	2,000,000				
Total	2,500,000				
(w7)					
Personnel	1,000,000				

Consummables	500,000				
Repairs	500,000				
Total	2,000				
RDEC @ 20%	500,000				
(W8)	AIA	FYA @ 100%	MP	SRP	CA
TWDV b/f			2,500,000	1,000,000	
Equipment		200,000			
Air conditioning	250,000				
New lift	750,000				
machinery on long-funding lease		50,000			
AIA	-1,000,000				1,000,000
@ 100%		-250,000			250,000
Revised	0	0	2,500,000	1,000,000	
WDA @ 18%			-450,000		450,000
WDA @ 6%				-60,000	60,000
TWDV c/f			2,050,000	940,000	
				Total CA	1,760,000

W1

Depreciation is capital expenditure therefore is not deducible within the tax computation.

W2

With respect to the royalties, these were incurred in respect of the trade hence no adjustment to the trading profits are required for the gross amount.

Unilateral tax credit is available in respect of these royalties based on the lower of the UK tax on the gross or the foreign tax paid.

Because there is no double tax treaty, there is no relief available to reduce the WHT incurred.

This credit is deducted from the corporation tax liability of Jomar.

W3

Staff costs including salaries and NI will be fully deductible as these are part of the ordinary staff costs incurring in carrying out the trade.

Bonuses that are accrued at year end will be deductible if they are paid within 9 months from the end of the accounting period.

With respect to the 31 March 2024 bonus, the £25k bonus would have been deductible in the 2024 accounting period as it was paid within 9 months from the end of the 2024 accounting period. The residual £75k (£100k -£25k) will be deductible therefore when paid.

For the year ended 31 March 2025 bonus, £30k was paid on 15 april 2025, within 9 months from the end of 31 March 2025 therefore that amount will be deductible in the year.

The amount to be paid of £150k (180k - 130k) is expected to be paid more than 9 months from the 31 March 2025 therefore is not deductible in this accounting period.

As such for the 2025 Accounting period, £150k needs to be added back.

(W4)

Pension contributions are ordinarily deductible when paid.

Thus, The £200k pensions paid on the 15 April 2024 will be deductible in the 2025 accounting period.

The £4.75m pensio paid during the year ended 31 March 2025 will be fully deductible in the year.

The pension spreading provisions do not apply here as the amount paid in the year compared to last year did not exceed 210% and this excess was less than £500k.

(W5)

Staff entertainment is fully deductible since it is incurred exlclusively and wholly for the trade.

Third party hospitality reflects client entertaining and so is disallowable in full.

The branded gifts with a logo should be fully deductible as their value each is worth less than £50.

By comparison, gifts of alcohol are not deductible tus we add this back in the tax computation.

(w6)

The website running costs reflect revenue expenditure and not an overall improvement to the website hence are fully deductible within the tax computation.

The donation to a national charity is treated as a qualifying charitable donation. Hence, it is taken out of trading profits and deducted from the taxable total profits.

Regulatory penalties are not incurred exclusively and wholly for the trade as they are effectively a punshiment for wrongdoing. Thus, this expense is added back.

The specific bad debt customer write-off should be fully deductible as this reflects a specific provision which is in line with UK GAAP (which we have assumed to be the case).

The advertising costs will also be deductible since these are incurred directly to benefit the trade form part of the marketing activities of the company.

(W7)

R&D costs which are directly incurred in relation to qualifying R&D activity should be eligible for the RDEC scheme. The SME scheme is not in point here given the company does not have a trading loss.

The personnel costs, consummable costs as well as repairs are all directly incurred in relation to qualifying R&D activity hence should be fully qualifying for RDEC.

RDEC is calculated as 20% of the qualifying R&D which is added as a trade receipt. The equivalent amount is then also deducted from the CT liability.

(w8)

The equipment acquired shoud be treated as main pool expenditure which is entitled to the FYA @ 100% and AIA.

Given the fact there is special rate expenditure additions within the year, AIA should be allocated in respect of this expenditure first in priority. The FYA on the aboev equipment should therefore be claimed as the AIA is restricted to £1m of expenditure.

This assumes that Liamie ltd, a group company, has not claimed AIA in respect of any of its qualifying expenditure which applies as it has no fixed assets.

The air conditioning unit reflects an integral feature benefitting from the special rate allowance. As such, AIA should be claimed in priority.

The new lift in the office building also an integral feature therefore AIA should be claimed in priority to this amount.

The long-funding lease should be entitled to the FYA @ 100% due to being main pool expenditure.

(w9)

The interest receivable we have assumed is a non-trading loan relationship. As such, it will be treated as a non-trade loan relationship credit hence is adjusted for in the trading profits.

The dividends received from the subsidiary are not taxable due to being exempt distributions received from a controlled subsidiary (Jomar controls Liamie).

However, the dividend income does increase the overall augmented profits of Jomar ltd for QIPS purposes.

The dividends of £50k paid per year are not deductible from the above profits. No adjustment is needed in the computation in respect of these dividends as they are not deducted from the profit before tax but rather from the retained earnings.

<u>Corporation tax payments due for the year ended 31 March 2025</u>

Jomar ltd is a very large company under the QIPS regime as it exceeds the £20m threshold limit as shown below.

The upper and lower threshold are reduce by the number of associated companies which

is two companies in this came, Jomar and Liamie.

	(£'000)					
TTP	427,440					
Dividends	10,000					
Aug profits	437,440					
Lower threshold	750	1,500/2				
Upper threshold	10,000	20,000/2				

The corporation tax payments are due 3 months and 14 days from the start of the accounting period, followed by another 3 months three times over culminating in four CT payments. These are due 14 June 2024, 14 September 2024, 14 December 2024 and 14 March 2025.

	(£'000)					
14 June 2024	26,715	427,440/4 @ 25%				
14 September 2024	26,715	427,440/4				
14 December 2024	26,715	...				
14 March 2024	26,715	...				
Total	106,860					
POA made	-60,000					
CT due	46,860					

The CT due should be paid as soon as above otherwise QIP interest of 6.25% will apply on the amount due.

<u>Total tax charge and closing deferred tax balance for the year ended 31 March 2025</u>

	P/M + fixtures					

	(excluding land) (£'000)					
TWDV opening	3,500					
NBV opening	37,000	30k + 7k				
Diff	-33,500					
CT @ 25%	-8,375					
Opening DTL	8,375					
TWDV closing	2,990	(940 + 2,050) - see CA comp above				
NBV closing	31,250					
Diff	-28,260					
Diff @ 25%	-7,065					
Closing DTL	7,065					
Dr tax charge	1,310					
Cr DTL	1,310					
	Pension					
Opening pension	200					
CT @ 25%	50					
Opening DTA	50					
Closing pension	250					
CT @ 25%	62.5					
Closing DTA	62.5					
Dr DTA	12.5	62.5 -50				
Cr tax charge	12.5	62.5 - 50				
	Bonus					
Opening balance	100					
Tax @ 25%	25					

Opening DTA	25					
Closing balance	180					
Tax @ 25%	45					
Closing DTA	45					
Dr DTA	20					
Cr tax charge	20					
	Pension	Bonus	Plant and Machinery	Total		
DTA/(DTL) closing	62.5	45	-7,065	-6,957.5		
Total (charge)/credit	12.5	20	-1,310	-1,277.5		
Deferred tax charge	-1,277.5					
CT charge	69,860					
Total tax charge	68,582.5					

----------ANSWER-1-ABOVE----------

----------ANSWER-2-BELOW----------

Answer-to-Question-_2_

Permanent establishment

A permanent establishment is deemed to arise if either or both of the following conditions are met:

1. There is a fixed place of business (e.g. an office, a branch, a factory)
2. There is an agent that habitually concludes contracts in that territory

With the agent being a dependent agent (typically dependent in the form of being an employee).

Ultimately, in determining whether a PE arises, the degree of permanence is crucial in determining whether a PE is deemed to arise.

Contract 1

The provision of 300 staff would implies that offices and a fixed place of business would be required to support those local staff. Moreover, such staff are likely to be hired and used for a contract of 4 years in length which is a signficant amount of time.

In this respect, it seems likely that a fixed place of business would arise in this case since the trade is situated within Barcello with multiple staff as if it were able to complete its trade independently of LEG ltd.

Moreover, the trade in Barcello expects to develop its own IP which further supports its ability to complete its trade independently from Leg.

The degree of permanence is quite high here thus a PE would be likely to arise in Barcello.

Contract 2

A fixed place of business is deemed not to arise where the activities to be performed are preparatory or auxiliary in nature.

This includes activities of maintenance and storage and their rental. As such, the activities in Mumbar are likely to constitute such activities particularly as there are no staff to carry this out (presumably sub-contracted to third parties).

Moreover, the contracts are concluded within the UK hence no contracts are habitually concluded in Mumbar which further implies the degree of permanence is quite weak here combined with the fact no income is expected to arise.

It seems likely in this instance that this would reflect a reprentative office rather than a PE.

Contract 3

The length of the contract itself is not signficant and is less than a year which would suggest a low degree of permanence in the territory of Barcello by Philo ltd.

Moreover, the employees provided will be from the UK and not from Barcello on this short-term engagement. On top of this, it is not apparent that they will be concluding any contracts in the territory.

The MD has stated that the object of this contract is to establish future business opportunities. Developing customer relationships and marketing is not likely to provide a degree of permanence that is signficant enough to warrant a PE.

Hence, there does not appear to be a likelihood of a PE arising here.

Contract 4

The engagement by Dugo, in Barcello, is similar to contract 3 in that UK staff will be provided except that it will be for a period of 12 months instead of the above 4 months.

A question arises here as to whether Dugo ltd is trading with Barcello or trading in Barcello given a 12 month tenure could imply a signficiant period.

It needs to be determined whether the staff are able to habitually conclude contracts in the UK as dependent agents which is unclear here and more information is needed to determine this.

It needs to be determined the proportion of the contract profits and revenues relative to Dugo's to identify the proportion that draws from the Barcello territory. If it would be a

high proportion then it would be likely that a PE risk arises here.

Without further information, for sake of prudency, it would seem likely that a PE would arise in Barcello from Dugo in the absence of any further information.

UK corporation tax consequences of a PE arising

Based on the above, we expect a PE to arise in Barcello from both Dugo and Leg ltd.

A Permanent Establishment ("PE") of a UK resident company is subject to UK corporation tax on its worldwide income and gains.

The profits of a PE are determined based on the seperate enterprise principle which are that its profits are determined on the assumption that it were an independent enterprise.

This assumes that the PE has the same credit rating as the relevant company and has such reasonable equity and loan capital that it could reasonably be expected to have.

Unilateral credit relief

It will also suffer foreign tax, in this case 15%. However, Unilateral credit relief will be available based on the lower of the foreign tax and UK tax. Since the UK tax, 25%, is higher than the foreign tax of 15%, the double tax relief will be restricted to 15%.

On that basis with the PE profits arising from contract 4 with Dugo, DTR will be available at 15% on those profits thereby avoiding double taxation.

With respect to the future PE profits in Leg Ltd, this DTR of 15% will be in point when the PE starts to become profit making.

Losses

We understand that the PE of Leg ltd is expected to be loss making in its first three years. On that basis, these losses will be available for offset within Leg ltd against total profits.

Similarly, these losses could also be surrendered via group relief to the other UK resident group companies.

If one of the UK resident companies e.g. Leg ltd were loss making, a claim could be made for expense relief whereby the foreign tax could be deducted to increase the trading loss to carry forward which could be more beneficial.

PE exemption election

Alternatively, a PE exemption election could be entered into with regard to the two PEs above.

A PE exemption acts to exempt the PE from UK corporation tax. This election is irrevocable and starts from the beginning of the next accounting period in which the election was made.

Such an election applies with respect to all PEs, thus if e.g. Leg Ltd were to form another PE, that PE would also fall within the exemption.

This exemption has the effect of producing exemption adjustments within the tax computations of the relevant UK resident companies, Leg and Dugo.

Such an election is unlikely to be fruitful for the PE in Leg ltd as it is expected to be loss making. As such, this would not allow these losses to be used by Leg ltd if the exemption were made nor group relieve them.

Hence, the benefit would only be seen once the PE started to become profit making.

Moreover, due to the Opening negative amount that will accrue in the first 3 years of trade, the exemption election will not come into effect until these have been extinguished.

Hence, the exemption election will be deferred even further once the PE started to become profit making and Leg ltd wished to make the exemption election immediately.

Such an election however, is likely to be beneficial for Dugo ltd's PE as this would save tax at 10% (25%-10%) due to CT no longer applying under such an exemption.

Incorporation

With regard to the PE of Dugo ltd, operating as a PE gives flexibility in that it can be incorporated into a company at a future date.

This would then result in that company only being subject to foreign tax and not UK corporation tax again saving tax at 10%. Moreover, any distributions from that company will be exempt distributions by virtue of the controlled company exemption.

This is not likely to be beneficial for the PE in Leg ltd, as such losses will effectively be ring-finced in that company unavailable for use by Leg ltd.

Such profits within a foreign company can be distributed up to the UK Resident

companies as an exempt distribution due to being controlled by a UK company.

However, WHT may apply here in respect of the dividends which can be reduced to the double-tax treaty rate. But then, the WHT incurred can be used as credit relief for the relevant UK company.

Moreover, any future disposal of shares in the company is likely to benefit from SSE which will exempt the chargeable gain accruing to the UK resident company.

However, with respect to the above, the CFC legislation would then be in point which could see profits of the CFC diverted (in this case to Dugo) at 25%.

----------ANSWER-2-ABOVE----------

----------ANSWER-3-BELOW----------

Answer-to-Question-_3_

Place of effective management

Peralta Ltd, as a UK incorporated company is UK tax resident by virtue of being UK-incorporated.

Another test involved is its place of effective management which is covered within the OECD treaty to which we expect any territory that the company will migrate to, will have. In moving to a territory it should be checked whether the place of management overrides the UK incorporation rule.

Assuming a territory has this, the place of effective management will need to change from the UK and thus the directors will likely have to move to that new territory and establish effective management from there.

This will likely require the directors to move there, hold their board meetings there as well as conduct all signficant decision making and managerial decisions from there.

UK PE

It seems likely that given the activity in the UK, it may be possible that there may be sufficient UK assets e.g. the land and computers which may imply a signficant degree of permanence in the UK.

As such, this may constitute a fixed place of business and as such warrant a UK permanent establishment arising.

As a result, the corporation tax compliance requirements will still continue with a CT600 return, accounts and ixrbl tagging required within 12 months from the end of the accounting period, in this case 31 March 2027.

Moreover, the company will still be liable to UK corporation tax in respect of that PEs profits hence the migration will not be as effective.

Corporation tax consequences

The migration of the company from the UK to overseas results typically in a chargeable

disposal or IFA disposal at market value because such assets cease to be within the remit of the UK corporation tax net.

With regard to any trading stock, these are sold for market value and added as a trade receipt for the company.

An IFA gain will be expected to arise in respect of the internally generated goodwill (assuming it is a post april 2002 asset) which will be based on the difference of the market value and its Tax written down value.

The derivative reflects a contract for differences which we expect to have been treated as a derivative in its accounts (accounting condition met).

As such, any migration will result in a receipt or expense recognised within the trading receipt or expense (due to the derivative being used for a trading purpose: expanding the trade)

On migration, the trade is deemed to cease and so with it the accounting period. Since the company wishes to migrate by 31 March 2026, we have assumed that this accounting period is the migration period.

Since the company's businss activity has been declining we expect the company to have accrued losses.

Any losses within the company will be unavailable for carry forward from the point of the cessation of the trade in the UK.

However, where such assets continue to fall within the UK tax net particularly if a PE arises then no chargeable disposal is deemed to arise.

This is particularly the case with respect to the UK land and computers since these will continue to be situated in the UK.

Regardless, UK land is always deemed to be subject to UK corporation tax regardless of the residency of the company due to the transactions in UK land rules.

This is particularly the case here as a non-resident company will hold UK land presumably with the main purpose of realising a gain on the disposal of the land at a future date.

Hence, any future disposal of the asset will be subject to UK corporation tax.

Admin

A requirement for migration of the company is that the company must give notice to HMRC which includes the time in which it will migrate.

This notice must also include a statement of the amount of corporation tax that is payable for periods prior to the migration as well as any arrangements to be made with respect to payments of a CT exit charge plan.

This assumes that the territory to be moved to is a non EEA state.

CT exit charge plan

The above does not apply however, where the payment of corporation tax is expected to be recovered via a CT exit charge plan.

This requires that the company ceases to be resident in the UK and becomes so resident in an EEA state (otherwise this does not apply) and it has to pay corporation tax in respect of the migration accounting period.

There are some conditions that need to be met in order so that a CT exit charge can be applied:

1. within the period of 9 months after the migration accounting period, an application is made to HMRC to enter into a CT exit charge. In this case 01 January 2027.
2. The company ceases to be resident in the UK and becomes resident in an EEA state and carries on the trade/business there.

The corporation tax payable with respect to the CT exit charge plan only applies if the corporation tax the company is liable to pay for the migration accounting period exceeds the corporation tax that would arise ignoring the IFA gains, chargeable gains arising from the migration.

Under this plan, the exit charge is payable in 6 equal installments beginning as follows:

1. 9 months and 1 day from the end of the accounting period of migration, thus 1 January 2027.
2. The other 5 installments are due on one of each of the first 5 anniversaries of the above date.

Where the following event occurs: company becoming insolvent, appointment of a liquidator, ceasing to be resident in EEA state or the company failing to make payment for 12 months after a charge was due; then the outstanding balance of the CT exit charges becomes due on the next installment of the CT exit charge.

----------ANSWER-3-ABOVE----------

----------ANSWER-4-BELOW----------

Answer-to-Question-_4_

Tax administration requirements relating to the incorporation of Cloverleaf for 30 June 2026

Because, the company has recently been incorporated, this will be the first accounting period in which it be within the charge to tax.

As such, it is required to give notice to HMRC of its first accounting period which needs to be done within 3 months from the start of the accounting period, i.e. 1 January 2026.

For chargebility of corporation tax (assuming a notice has not been provided by HMRC) the notice of chargeability would be required within 12 months from the end of the accounting period, being the 30 June 2027.

The company will be required to file a CT600, accounts and IXRBL tags to HMRC within 12 months from the end of the accounting period. i.e. 30 June 2027.

The company is required to preserve such records for at least 6 years, hence 30 June 2032.

Payment of corporation tax will be due 9 months and 1 day from the end of the accounting period, thus 1 April 2027. However, given it forms part of a group, it seems likely that the company will fall within the QIP regime (on the basis it has lots of associated companies).

Failure to file on time will warrant flat rate penalties of £100 if the return is delivered within 3 months after the filing date followed by £200 otherwise.

Tax geared penalties may then be applied if the failure continues for two years from the end of the accounting period, 30 June 2028 at 10% of the unpaid tax and 20% otherwise.

The above applies unless the company has a reasonable excuse.

SBAs

The expenditure on the new facility will be expenditure on a commercial property post October 2018 which will be used in the trade.

As such, part of the expenditure will be qualifying for structures and Buildings ('SBA') allowances at 3% per annum on cost.

Such allowance is only available when the asset is brought into use for the trade. Hence, because it will be completed on the 1 June and brought into the trade then, only 1 month of SBA allowance will be available for the year ended 30 June 2026 (1 June 2026 - 30 June 2026).

This allowance is only available in respect of qualifying expenditure that forms part of the structure or building.

The land is not qualifying expenditure for SBAs nor capital allowances. The cost is included as part of any future disposal of the building for corporate gain purposes.

The structure and Mezzanine flooring will constitute expenditure on the building since they form part of the setting rather than fufilling any function.

	SBA					
Structure	1,000,000					
Flooring	150,00					
Total	1,150,000					
SBA @ 3%	34,500					

An allowance statement should be prepared by the company to show the qualifying expenditure it has incurred.

Capital allowances

The lift to the offices, electrical works, thermal insulation and hot and cold water supplies are integral features. Thus machinery is subject to the WDA at 6% due to being part of the special rate pool.

FYA should be claimed in respect of such expenditure at 50%. The residual 50% will then be transferred to the special rate pool to be written off at 6% in the following accounting periods.

The solar panels also reflect integral features as above and FYA @ 50% should be claimed in respect of it.

With respect to the machinery, capital expenditure is ordinarily incurred when an unconditional obligation arises (ussually delivery).

However, where the payment is more than 4 months after the delivery occurred, then the capital expenditure is deemed to occur at that payment date.

Hence, the final installment will be recognised in 31 November 2026. Thus, the other two installments will be recognised by the year ended 30 June 2026.

This expenditure should be entitled to the FYA at 100% allowing for full relief as seen below.

	AIA	FYA @ 50%/100%	MP	SRP	CA	
Lift		50,000				
electrical		250,000				
thermal		50,000				
hot and cold		150,000				
solar panels		75,000				
Machinery 150k/3 x 2		100,000				
FYA @ 100%		-100,000			100,000	
FYA @ 50%		-337,500			337,500	
Revised		337,500				
Transfer to SRP		-337,500		337,500		
TWDV c/f		0		337,500		
				Total CA	437,500	

Interest on loan

With respect to the loan creditor, this reflects a loan relationship due to being a money debt arising from a transaction for the lending of money.

The loan was used to finance the construction of the building hence will have a trading purpose and thus will be a trade-loan relationship debit.

Losses and deficit

	30 June 2026 (9 mths)	30 June 2027				
Budgeted turnover (1/9 x 1m)	1,000	0				
Less CA	-437,500	-70250	Future CA on third installment, 150/3 + 337,500 @ 6%			
Less SBA (1/9 x 34,500)	-3,833.3	-34,500				
interest	-200,000	-266,666	200,000/9 x 12			
Trading loss/profit	-640,333	-371,416				

The company will be deemed to have a trading loss as per above which can be offset against the small interest income it generates till the 1 June 2026.

Such interest income will have been treated as NTLR credit interest due to the interest being held on deposit which is a non-trade purpose.

This would still leave a signficant amount of trading losses within the company as we expect the NTLR credit to be negligable.

The company could carry forward the trading loss for offset against the total profits that will arise in the future. However, given the uncertainty around future profits it may be some time before such losses can be used which defers the tax benefit into the future. We also note the trading loss forecasted in June 2027 as above.

This assumes that the deductions allowance is available in full which will need to be allocated by the group to Cloverleaf. This allowance is £5m and any profits in excess are restricted for offset at 50%.

It is also not possible to carry back the trading loss due to the 30 June 2026 period being the company's first accounting period.

Alternatively, cloverleaf can consider group relieving its losses to group companies since it is part of a loss group by virtue of being a 75% direct subsidiary of Moss-side plc.

With respect to the group companies, a group loss claim requires that the the surrendering and claimant company have coterminous year ends. As such, any profits available for loss offset will be restricted between the period of 1 October 2025 to 30 June 2026.

There may be an option to disclaim capital allowances to preserve the capital allowance pools with respect to the additions of capital expenditure. This in turn, results in lower trading losses. However, this is not likely to be beneficial given the availability of group relief for trading losses.

Given the product is expected to be developed in its first year, it appears possible that it may be undertaking R&D activity since it is performing technological development to remove a scientific uncertainty.

Moreover, it has to have some commercial basis wherein the company has a view to make profit which is the case here as the company was able to begin sales in June 2026 of £1,000.

It seems likely that the company will be able to claim RDEC under the all-company regime on this basis. It is unlikely to be qualifying for the SME scheme due to the size of the group.

Hence, an RDEC credit could be available on 20% of the qualiying R&D expenditure.

----------ANSWER-4-ABOVE----------

----------ANSWER-5-BELOW----------

Answer-to-Question-_5_

Disposal of the Norwood lease

The lease in respect of the former head office is a long lease by virtue of having a life greater than 50 years.

As such, the disposal of the lease will be treated as a normal capital disposal.

Proceeds	220,000					
Less cost	-200,000					
IA	0	Acquired post-dec 2017				
Indexed Gain	20,000					

Grant of lease

The grant of the lease would have been a short-lease due to having a life of less than 50 years.

Part of the premium will be capital and part will be property income. The property income will be immediately chargeable as business property income in Norwood's tax computation.

The capital element of the premium will result in a chargeable disposal as shown below which will give rise to a capital gain as shown below. The capital element of the premium would need to be added back in its computation to reflect this.

The cost is apportioned for the reversionary interest and the capital element of the premium as shown below.

The legal costs are part of the costs of disposal on the grant of the lease hence are deductible but no indexation allowance is available in respect of this as incurred post Dec-2017.

The cost does benefit from indexation allowance but this is capped as it cannot increase a loss.

Premium	50,000					
property element of premium	21,000	50k x (50-29)/50				
Capital	29,000	Balancing figure				
Capital premium	29,000					
less legal	-2,000					
Cost	-17,400	(capital premium/(total premium + reversionary interes) x cost = (29k/(50k+200k) x £150k				
Gain	9,600					
IA	-9,600	(278.1-149.6)/149.6, r.d to 3 dp = 0.859, then 0.859 x cost but restricted to gain as cannot increase a loss.				
Indexed gain	0					

Disposal of old factory

The disposal of the old factory will be treated as a capital disposal based on proceeds less cost.

This cost however is subject to the nil gain nil loss provisions as explained below.

When the property acquired by Norwood, for £1m, was transferred to Southpool ltd, both

companies formed part of a gains group (due to the former having at least 75% direct or 51% indirect interest in the latter).

As such, the transfer would have been at nil gain and nil loss resulting in the consideration on the disposal being the £1m. Hence, the market value is ignored.

The refurbishment cost on the factory will be including as part of the cost of the building in any future disposal.

	(£'000)					
Proceeds	5,000					
Cost	-1,000					
refurbishment	-1,200					
gain	2,800					
IA on cost	-451	(278.1-191.6)/191.6, r.d to 3 dp = 0.451, 0.451 x 1,000				
IA on refurbishment	0	constructed post Dec-2017				
Indexed gain	2,349					

The goodwill which was transferred for £0.5m would have been an IFA due to being acquired post april 2002. At the time, Norwood and Southpool were part of an IFA group as Norwood had at least a 75% interest in Southpool.

SBAs and capital allowances

When the asset was originally constructed in January 1995, no SBAs would have been available at that time.

However, for construction work on a building post October 2018 in which it is used in the trade, thus expenditure would be qualifying for SBAs based on the refurbishment cost of £0.6m (£1.2m-£0.6m) since the asset has been and continues to be used in the trade.

As such, SBAs would be available from July 2024 to april 2025 at 3% per annum (apportioned for those months).

On the disposal, the allowance statement should have been prepared and provided to the

new owner so they can continue to claim SBAs on the original cost. This can be provided within two years from the disposal i.e April 2027.

Since capital allowances where claimed in respect of the integral features on the building, the company should ensure that it completes a s.198 claim with the new buyer as the new buyer will wish to be able to claim capital allowances on these integral features

This requires that the integral features have been allocated to a pool and have received a fixed value (this value not being able to exceed cost). I.e. the fixed value and pooling requirement have been met.

As such, the value attributed to these fixtures should be as low as possible to avoid any potential balancing charges and to potentially give balancing allowances.

This election should be made no later than two years after the interest in the factory has swapped hands, i.e 25 April 2027.

Roll-over relief on non-depreciating assets

Roll-over relief is available where there has been a disposal of a business asset which has been replaced with another business asset 12 months before the disposal and 3 years after.

A business asset constitutes an asset used in the trade.

Group-wide roll-over relief is available where one group company disposes of an asset in which another group company buys a replacement asset within the above time limits.

Thus, roll-over relief is available in respect of the the new factory acquired by Norwood plc with regard to the disposal of Southpool of the old factory because it was acquired within 12 months prior to the disposal of the old factory.

Because £500k of the proceeds were not reinvested as shown below, this gain will be immediately chargeable however the rest will be treated as roll-over relief.

This reduces the base cost for Norwood on the new factory by the amount of the roll-over relief which effectively defers the gain until the new factory is sold.

	Old factory					
Indexed gain	2,349					
ROR	-1,849					
Chargeable disposal	500		£5m - £4.5m			

	New factory					
Cost	5,000					
ROR	-1,849					
New cost	3,151					

With respect to the new factory, SBAs are likely to be available in respect of it since it appears new at 3%. Thus, £135k of SBAs are available in respect of it.

Moreover, similar to the old factory, a S.198 election should be made with the vendor for any integral features which the company will be able to claim. In this case, the highest possible value should be attributed to this expenditure so as to provide the highest possible amount of capital allowances.

Roll-over relief on depreciating assets

With respect to the fixed plant and machinery within Southpool, this also reflects a replacement business asset.

Roll-over relief is available here as the asset was acquired within 12 months prior to the disposal of the old factory.

However, because the asset is a depreciating asset (with a useful life of < 60 years), the roll-over relief is not deferred but rather held over until the earlier of:

1. The asset ceasing to be used in the trade
2. The asset being disposed of or
3. 10 years from the date in which the asset was acquired, i.e. December 2034.

Hence, the gain is frozen until the latest of December 2034.

	Old factory					
Indexed gain	2,349					
ROR	-1,849	as above				
Frozen gain	-150	balancing figure				
Chargeable disposal	350	500-150				

Thus, on the basis of the above the standard roll-over relief on a non-depreciating asset is preferred compared to the roll-over relief available in respect of a depreciating asset.

It may be possible in the future to consider 'Parking' the above frozen gain by disposing of the fixed plant and machinery and acquiring another non-depreciating asset. Then the gain will effectively be deferred indefinately until that future asset is then sold.

With regard to this, a provisional claim could be made for such future expenditure within 4 years from the end of the accounting period in which the disposal took place. Hence, with the old factory, this would be the 31 July 2029.

----------ANSWER-5-ABOVE----------

----------ANSWER-6-BELOW----------

Answer-to-Question-_6_

Hybrid entity

An entity is hybrid if it meets the following conditions:

1. the entity is regarded as being a person for tax purposes under the law of any territory.

and,

2. Some or all of the entity's income or profits are treated for the purposes of the tax charged under the law of any territory as the income or profits of a person or persons other than the entity

or,

3. The entity is not regarded under a territory as a distinct and separate person.

A hybrid financial insrument typically means a repo, stock lending arrangement or other arrangement that meets the any of the two conditions:

1. The arrangement is regarded as the equivalent, in substance to a transaction for the lending of money or

2. a stubstitute payment could be made under the arrangement which typically consists of an amount being paid or benefit given.

Hybrid counter-action

The hybrid legislation is in point if the following conditions are met:

1. A payment is made in connecttion with a financial instrument - such payment is likely to be interest.
2. The payer is within the charge to corporation tax (this applies).
3. It is reasonable to suppose that there would be a hybrid or otherwise impermissable

deduction/non-inclusion mismatch in relation to the payment (interest). This applies as Subco is a hybrid entity.
4. Both companies are related to each other at any time during the period. EastDene and Subco are connected and therefore related by virtue of the former controlling the latter.

It should be noted that the mismatch will still be impermissible where the loan was designed originally for a commercial purpose.

The risk here is of an excessive deduction within Subco which is likely to be signficant as the tax rate is marginally lower than the UKs for Subco.

It may be the case therefore, that the sum of the deduction within Subco exceeds the the amount of ordinary income recognised by EastDene plc on the loan.

As such, it may be the case that HMRC increase the non-trade loan relationship credit recognised within EastDene to offset the excessive deduction recognised within Subco.

Alternatively, the Ruritanian territory may reduce the excessive deduction within Subco.

Administrative requirements

Where hybrid arrangements are in place, HMRC have to be notified within the CT600 return that hybrid arrangement are in place and provided with other information surrounding the nature and basis of the arrangement.