



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

November 2020

Suggested solutions

---

## **Module C Corporation Tax**

---

25)

	£	
Pension contributions paid during the year	33,000	1
Expensive leased car (£2,400 x (100%-15%))	2,040	1
Premium on lease:		
£60,000 x ((50 – 29)/50) = £25,200		1
£25,200/30 = £840		1
£840 x (6/12)	420	1
Total amount deductible	£35,460	

Note:

An alternative method to calculate the lease deduction is as follows:

Premium	60,000	
Less: 2% x (30-1) x 60,000	<u>(34,800)</u>	
Landlord taxable premium	25,200	divided by 30 years = £840 deduction per annum
Deduction this period 6/12 x £840		= £420

26)

	Main pool £	Special rate pool £	Short life asset £	Capital allowances £	
TWDV bfw	347,000				
New fleet electric cars FYA 100%	145,000 (145,000)			145,000	1
Computer equipment			29,000		1
Air conditioning unit AIA 100%		63,000 (56,000)		56,000	1
	347,000	7,000	29,000		
WDA 18%	(62,460)		(5,220)	67,680	
WDA 6%		(420)		420	1*
	£284,540	£6,580	£23,780	£269,100	
TWDV cfwd					
Capital allowances					

**\*1 mark awarded for correct application of rates of WDA**

27)

	£	
Property income	10,000	
Dividends (exempt)	Nil	1
Total profits	<u>10,000</u>	
Less management expenses	(2,000)	1
Less qualifying charitable donation (Note 1)	(8,000)	
Total taxable profits (TTP)	<u>£Nil</u>	

Note 1: qualifying charitable donation

	£	
Relievable amount = market value	15,000	
Offset in current year (restricted to TTP after deduction of the management expenses)	(8,000)	1+1*
Extinguished	(7,000)	1
Carried forward	<u>£Nil</u>	

Note 2: management expenses

	£	
Incurred for the year	2,000	
Offset in current year (see above)	(2,000)	
Carried forward	<u>£Nil</u>	

**\*1 mark for deduction against total profits plus 1 mark for correct amount**

28)

[As a close company, Norlo Ltd must pay tax under s.455 CTA 2010 in respect of loans made to participators during the year ended 30 June 2020 that are outstanding 9 months and 1 day from the end of the period (i.e. 1 April 2021).]

The loan to Maria was not made during the year ended 30 June 2020. However, it came within the scope of s.455 tax on 1 September 2019 (i.e. during the year ended 30 June 2020) when she first held a material interest in the company (i.e. more than 5% of the share capital). 1

The relevant amount of the loan is the balance outstanding on 30 June 2020: £10,000 - £2,000 = £8,000. The s.455 tax is £8,000 x 32.5% = £2,600. 1+1\*

Tom does not own shares in the company and so is not a participator. Therefore, there is no liability to s.455 tax in respect of the loan to Tom. 1

The relevant amount of the loan for Alice takes into account the repayment made within nine months and 1 day of the year end. Therefore, the s.455 tax payable in respect of the loan made to Alice is ((£20,000 - £3,000) x 32.5%) = £5,525. 1

**\*1 Mark awarded for correct application of the rate of tax**

29)

	YE 30 September 2018 £	YE 30 September 2019 £	YE 30 September 2020 £	
Trading income	15,000	6,000	26,000	
Overseas property business income:				
Current year profit	4,200	1,000		
Less loss bfwd		<u>(1,000)</u>	Nil	1
Non-trade profit (LR)				
Current year profit	900		1,400	
Less deficit carried back	<u>(900)</u>	Nil		1
Capital gains:				
Current year gains		46,000		
Less loss bfwd		<u>(25,000)</u>	21,000	1
Total profits	<u>19,200</u>	<u>6,000</u>	<u>48,400</u>	
Non-trade deficit (LR) CY	Nil	(6,000)	Nil	1
Non-trade deficit (LR) bfwd	Nil	Nil	(1,300)	1
Taxable total profits	<u>£19,200</u>	<u>Nil</u>	<u>£47,100</u>	

[The following workings are provided for the purposes of clarity; they are not expected to be provided by candidates.]

Loss memo: Overseas property business  
income

	£
Incurred YE 30 September 2019	1,200
Utilised YE 30 September 2020	<u>(1,000)</u>
Carried forward	<u>200</u>

Loss memo: non-trade deficit (LR)

	£
Incurred YE 30 September 2019	8,200
Utilised YE 30 September 2019	(6,000)
Utilised YE 30 September 2018	(900)
Utilised YE 30 September 2020	<u>(1,300)</u>
Carried forward	<u>Nil</u>

Loss memo: capital loss

	£
Incurred YE 31 September 2019	25,000
Utilised YE 31 September 2020	<u>(25,000)</u>
Carried forward	<u>Nil</u>

30)

The company may surrender the lower of: 1

Unrelieved trading loss:	£		
Trading loss per question		43,000	
Additional deduction: £41,782 (below) x 130%		54,317	1
Less potential loss relief		(4,000)	1
		£93,317	
Total R&D deduction			
£41,782 (below) x 230%		£96,099	1

Therefore, £93,317

Qualifying R&D expenditure

Salary + NICs		£55,709	1
Qualifying proportion: 75%		£41,782	1

**Maximum of 5 marks**

31)

An adjustment is required under the transfer pricing rules with regard to the management charge because:

- Lapple Inc controls Puttles Ltd 1
- There is a UK tax advantage as Puttles Ltd's taxable profits are reduced by the excessive charge 1
- The UK tax advantage arises as a result of a non-arms length provision 1
- The exemption for SMEs does not apply as the combined figure for employees (357) exceeds 250. 1+1\*

**\*1 mark for using the combined figure plus 1 for applying the test correctly**

32)

	£	£	
Proceeds		1,800,000	
Cost	700,000		
Indexation allowance ((278.1-193.4/193.4) = 0.438 x £700,000)	306,600		1
		(1,006,600)	
Enhancement expenditure	200,000		1
Indexation allowance (£nil as after 31 December 2017)	Nil		1
		(200,000)	
Gain before rollover relief		593,400	
Rollover relief (balancing figure)		(293,400)	1+1*
Chargeable gain (£1,800,000 - £1,500,000)		£300,000	

**\*1 mark for including rollover relief plus 1 mark for correct amount**

33)

The transfer is deemed to take place on a no-gain-no loss basis (i.e. proceeds equal indexed cost of £280,000) if Cullercoats Ltd and Dunstanburgh Ltd are part of a gains group. 1

Cullercoats Ltd is part of Alnwick Ltd's gains group as: (1) Alnwick Ltd has a direct interest in Bamburgh Ltd of at least 75% and Bamburgh Ltd has a direct interest in Cullercoats Ltd of at least 75%, and (2) Alnwick Ltd has an indirect interest in Cullercoats Ltd of greater than 50% ( $80\% \times 75\% = 60\%$ ).

Dunstanburgh Ltd is not part of the Alnwick Ltd group as Alnwick Ltd does not have an indirect interest in Dustanburgh Ltd of greater than 50% ( $80\% \times 75\% \times 80\% = 48\%$ ). 1+1\*

Cullercoats Ltd and Dunstanburgh Ltd cannot form a capital gains group as Cullercoats Ltd is already part of the Alnwick Ltd group. 1

Therefore, no-gain-no-loss treatment does not apply.

As the transfer was not made on an arms' length basis, proceeds are equal to the market value of the asset, £600,000 1\*\*

**\*1 mark for correctly identifying Alnwick Ltd group companies plus 1 mark for correct explanation.**

**\*\*Mark awarded if market value is used because the companies are connected.**

34)

There was a change in the ownership of Pator Ltd on 1 November 2017 as on that date, Aclus acquired more than 50% of Pator Ltd's share capital. 1

Therefore, it is necessary to consider if, within the 8-year period beginning 3 years before the change in ownership, there is a major change in the nature or conduct of Pator Ltd's trade. 1

A 'major change in the nature or conduct' of the trade includes a major change in the customers of the trade. Pator Ltd's customer based changed from businesses to consumers within the 8-year period and so this condition is met. 1

Trading losses incurred by Pator Ltd before 1 November 2017 (i.e. the date of change in ownership) cannot be offset against the company's profits incurred from 1 November 2017 onwards. 1+1

**\*1 mark for effect of the restriction plus 1 mark for correct date**

35)

Maximum group relief is the lower of the relevant proportion of the surrendering company's loss and the claimant company's taxable total profits.

Tuesat Ltd:	£	
UK property business losses	52,000	
Non-trade IFAs losses	16,000	
Available losses	<u>68,000</u>	1
Profit-related threshold	(4,000)	1
Losses in excess of threshold	<u>£64,000</u>	
Restrict to overlapping period (Note): 5/12 x £64,000	£26,667	
Frimon Ltd:	£	
Trade income	65,000	
Qualifying charitable donation	(5,000)	
Total taxable profits	<u>£60,000</u>	1
Restrict to overlapping period (Note): 5/12 x £60,000	£25,000	
Therefore, the maximum possible claim is £25,000		1*

Note: the overlapping period is 5 months from 1 October 2019 to 29 February 2020 (group relief ceases when there are arrangements in place for Tuesat Ltd to leave the group) 1

**\*Mark awarded for correct application of the 'lower of' test.**

36)

1) The company is large for these purposes as its profits of £6m fall between the lower limit of £1.5m and the upper limit of £20m

The amount of each instalment is £1,140,000 / 4 = £285,000	1
2) Due date of Instalments:	
14 May 2020 (14 <sup>th</sup> day of month 7)	1
14 August 2020 (3 months from date of previous payment)	1
14 November 2020 (3 months from date of previous payment)	1
14 February 2021 (3 months and 14 days from the end of the period)	1