


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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	813	3598	4338
Section 2	705	3098	3782
Section 3	700	3085	3771
Section 4	742	3473	4162
Section 5	495	2293	2747
Section 6	229	1082	1305
Total	3684	16629	20105

Answer-to-Question-_1_

Corporation tax liability for Jomar for 31 March 2025

		£000's				
Profit before tax		434,000				
Depriciation	a	10,000				
Dividends from sub	b	-10,000				
Other income	c					
Long term incent	d	150,000				
Pension adju	e	-50				
Entertaining	f	2,500				
RDEC	g	4,000				
Capital allowances	e	-1,010				
Donation QDC		1,000	see below			
Total trade profits		590,440				
QCDs		-1,000				
TTP		589,440				

Total liability is £589,440,000 x 25% = £147,360,000

Very large company, profits over £10m (20m divided by associated companies)

Deduction to be made being

-RDEC at 400k

-DTR at 30.25k

Total liability = £107,562,500.

Payments due June 14 2024, September 14 2024, December 14 2024, and March 14 2025. Interest will accrue on any amounts that are later than these dates. 25% of the

liability should be paid on each date. As it is an estimation, once the final computation is submitted there may be a top up amount required or repaid.

Total tax charge for the P&L would be...
Total year CT charge being £147,360,000

Deferred tax will only be on temporary differences. It is an accounting adjustment to consider the timing.

The closing DT will be:

Bonus not paid in 9m = 75k + 180k = 255k. At 25% the DT is £63.75 asset

Pension not paid = £250k at 25% = 62.5k asset

Fixed assets c/f=
TWDV = 2,990,000
NBV = 123,250,000

Fixed asset b/f
TWTV = 3,500k
NBV = 132,000k
Gross DT 128,500k 25

Difference being = £120,260k at 25% is £30,035k this would be a liability, more relief has been claimed through capital allowances compared to depreciation.

Charge for the year will be the difference between the opening and the closing.

- a) Depreciation is not tax deductible, the tax relief is claimed from capital allowances.
- b) The dividend from the 100% subsidiary is not taxable under the control exemption.
- c) Other income. As there is no double tax agreements with any of the franchise partners,

the maximum withholding tax will be at 20%. Where the income has WHT the maximum amount will be 20%. Double tax relief will be available on this income, being the lower of the UK CT rate 25%, and the WHT suffered.

This means that the double tax relief available will only be at the 20% rate of the WHT, as its lower than the UK CT rate.

$$F1 \text{ WHT} = 50 \times 20\% = 10\text{k}$$

$$F2 \text{ WHT} = 75 \times 20\% = 15\text{k}$$

$$F3 \text{ WHT} = 35 \times 15\% = 5.25\text{k}$$

$$\text{DTR} = \text{£}30.25\text{k}$$

Admin expenses...

d) Long term incentive plan. For the bonus amounts in the year, £30k is expected to be paid within 9m and allowable expenditure. The amount paid over 9 months from the period end will be disallowed until the next period.

In the prior year, the amount paid was allowed in the 2024 comp, the remaining amount has still not been paid and no deduction due until paid.

e) Pension. Total deduction in the 2025 year is for the contributions paid which is £200k + £4750k = £4,950k

As the current year pension was under 210% of the prior period contribution no pension spreading adjustment is required.

f) Gifts.

Staff entertaining and brand gifts under £50 each are allowable expenses in the comp. Third party entertaining and gifts which are alcohol are disallowed no matter the cost.

g) Jomar is large for R& D purposes so will qualify for the RDEC scheme.

The R&D expenditure will qualify for a 20% credit. This will be added back to the trade profit, and the amount deducted from the total final liability.

If it is not all utilised then a repayment can be obtained, or group relief can be used.

The repayment would be the lower of the

1 unused RDEC

2 81% x total RDEC

3 20k + 3xPAYE amount

RDEC to add back = 20% of 2,000 = 400.

g) Fixed assets - capital allowances

	AIA	Main 18%	SRP 6%	CAs
TWDV bf		2,500	1,000	
Additions	500			500
CA at 18%		450		450
CAs at 6%			60	60
			Total	1,010
TWDV cf		2,050	940	
				2990

Additions

The full AIA allowance of £1m is available with Liamie having not fixed assets.

All the plant and machinery will qualify for the AIA.

The equipment, machinery would qualify for 100% FYA if this wasn't available and the Air con, an integral feature, would qualify for 50% FYA.

AIA is preferred for the integral feature as it's a larger relief, and for the main pool items as there is no balancing charge if the disposal happens in the near future.

The lift is classed as part of the building and therefore no capital allowances would be available on this. Instead SBAs can be claimed at 3% from the later of the date paid for or the brought into use date. No detail of this date has been given in the question so no relief added in this year.

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

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

Answer-to-Question- 2

Part 1

Barcello

Early in 2025 the engagement of an independent agent, which will likely have other clients, on a basis of only 6 months, which is deemed temporary. This would not indicate a permanent establishment.

The rental of an office, would indicate a permanent place of business however this again was only on a 2 month period being less than 6 months. Where the contracts are negotiated is fine, however a PE is likely to arise once the contracts are finalised overseas, which it appears they have been.

With contract 1, the four year basis is permanent, and the employees will be providing services on LEGs behalf only, so therefore would appear to be dependent agents.

Contract 2, the rental of storage does not indicate it would be an overseas PE, the fact that the contracts are negotiated in the UK and finalised in the UK would suggest that the place of effective management is within the UK. It would be very unlikely hear that this contract would constitute an overseas PE.

Contract 3, UK employees working overseas on a temporary basis, no indication of a PE.

Contract 4, UK employees being sent to Barcello for a period of 12months would be a more permanent project, and it would be likely to be seen as a PE.

Tax consequences of an overseas PE

An overseas PE will be subject to both UK corporation tax and overseas tax. The overseas tax will be subject to the PE trade only, and it would be treated as if it were its own separate legal entity.

Double tax relief will be available for this in the UK, with the relief being the lower of the UK CT, and the OS tax. In the case of Barcella and Mumbar, the 15% credit would be recoverable overseas.

The PEs will still have the same credit ratings as the UK entities, and this may make it

easier to source financing.

The overseas PE can still share losses with the UK company, providing it is of the same trade. From the contracts mentioned they appear to be a similar trade to the UK entities themselves, therefore they would still benefit from the trade.

To avoid the double tax, and to benefit from the overseas PE tax rates of 15%, the Lucia group could make an election for the PE to not be taxed in the UK.

The election needs to be made in advance, as it will be applicable for the following accounting period. The election is irrevocable and will apply to all the PEs within that company.

It would be sensible for Lucia to put the profit making PEs under one company, and the loss making entities under another. They can then benefit from the loss making PEs (contracts such as contract 3) and share the losses with the UK, whilst also benefit from the lower tax rates in the profitable entities such as contract 4.

An obstacle with the election would be when considering the net position of the PE within the UK. HMRC will need to make sure that they have a break even position before the election can be made, rather than them making losses in the UK then only being taxed when profitable abroad.

Dungo has the profitable entity so this would be an issue.

Philo had a loss making PE, and it may be that even if the election is made it might be into year 4 before HMRC say its fine to no longer suffer UK CT and the net CT position has been made.

As with all the PEs they will need to make sure they adhere to transfer pricing rules, to and from the UK companies as the PE is treated as a separate entity for this instance. They will need to be on an arms length basis, be able to be benchmarked preferably to a controlled unconnected party, and disclosed on the relevant local and master files. If any transactions are deemed not at arms length, and give the UK a tax advantage then HMRC may impute an arms length adjustment.

It might be worth considering incorporating one for the PEs if they are expecting to be abroad for a long time.

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

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

Answer-to-Question- 3

Migration of Peralta

As Peralta was UK incorporated it is automatically subject to UK corporation tax. If the company was to continue to operating, but move central management and control abroad then if the CM&C was moved to a country with a OECD DTT treaty with the UK, and it was agreed by the OECD that the CM&C was carried out in the overseas country then no UK incorporation tax would be incurred. If the UK activities were not to cease however there would be a risk that the activities in the UK could be seen to be part of a PE, and therefore subject to both UK & overseas tax.

If they were to choose to move to a country in which there is no DTT, then as the company was incorporated in the UK, they would still be subject to UK corporation tax. To avoid this Peralta would need to incorporate a new entity in the chosen jurisdiction and to migrate the UK incorporated company across.

Peralta would need to give HMRC written notice of this, and make them aware of the date of the migration. The accounting period would cease the day before the migration. Peralta would need to discuss with HMRC the plan to pay of any of the tax amount due on the migration, and to also have a designated person within the UK who would be the go to contact to deal with any outstanding UK tax issues/liabilities.

An aspect to also consider when choosing the new location would be if the new jurisdiction is in the EEA. If so Peralta Ltd will benefit from a delay in the migration CT liabilities due in the UK. The total amount due will be split over a 6 year period, interest free, with the first payment being 1/6 of the balance 9 months and 1 day after the migration date. If the liability is to be significant this would be very useful for cashflow purposes of the group.

As the migration is taking place with a new entity which would be outside of a capital gains UK group, charges will arise.

Intangible assets - the internally generated goodwill will be subject to a trading profit or loss on the disposal. The amortised value in the account will be used to calculate this gain or loss.

Land purchase in 2020. A capital gain (or loss) will arise on the deemed disposal of the land, this will be at the market rate of the land. As the land is likely to be a significant

cost, HMRC do have in place a rule which allows the CT due on the gain here to be deferred for up to 2 year, or the actual date of the land sale whichever is sooner. Without this Peralta may have struggled with cashflow to pay this off.

The computers will be classed as plant and machinery. In Peralta UK there will be no capital allowances in the final period before migration, and no AIA allowed. The market value of the computers here will be disposed of any a balancing charge or allowance will be made in relation to these, along with any other items they had claimed capital allowances on.

Hardware stock. On migration a trading profit or loss would be recognised on the stock. The profit for this would be recognised in the UK based on the market value at the point of disposal.

Interest rate swap

This swap would be considered a derivative. The treatment of this would need to be accessed at the migration date.

The derivative would be initially recognised in the accounts as a relevant contract, and a recognised financial instrument at fair value through the profit and loss.

Assuming that Peralta Ltd had made the election, and used the disregarded regulation to account of the interest rate swap on an accrual basis (as they would then avoid the volatility of the interest rates for tax purposes); they would still need to consider the value of the swap at the date of migration.

At this date the swap would be deemed to be considered disposed of and the taxable gain up until this point would be recognised.

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

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

Answer-to-Question- _4_

Requirement to incorp Cloverlead

The incorporation would mean that the company is subject to corporation tax.
They should make HMRC aware that they are trading, HMRC should then send a notice to submit a corporation tax return within 12m of the period end.

The period of accounts will initially be 1 October 2025 - 30 June 2026 9months.
They will need to make HMRC of thier intentions to have this short period and to then align with the group period ends.
Certain relief would need to be pro rated - such as AIA, WDAs

Any costs incurred prior to the incorporation of the company can be considered to have been incurred on day 1 of the period.

New facility expenditure

SBAs	£,000					
Land	£650					
Building	£1,600	minus thermal				
Total	£2,250					
at 3% 1/12m	£5.625					

a) land. No capital allowances are available on the land. Relief is available in the form of structure and buildings allowances, which are available at 3% per year, from the later of the date bought into use and the date paid for.

The same can be said for the building structure, mezzanine floors, lifts, electrical works and the water supplies.

On disposal of the property, the SBAs will be added back against the selling price of the facility and will increase the gain.

b) within the building, the only item that is eligible to qualify for capital allowances is the thermal insulation. This will qualify for 100% first year allowances.

c) Solar panels will also qualify for 100% FYAs in the period the building was brought

into use.

d) Machinery

In the first period to 30 June 2026, capital allowances will be available on the £50k paid on delivery, and the £50k paid within 4m of the delivery. As the final payment is 6 months after the delivery, capital allowances for this can only be recognised when paid. First year allowances are available on the machinery costs being at 100% deduction.

CAs	100% FYAs					
Solar	75k					
Machinery 2 payments	100k					
Thermal insulation	50k					
Total	225k					

Interest relief.

The £200k interest arises from the lending of monies. The loan is for a non trade purpose, building the facility to then trade out of. It can therefore be pooled in the period against other non trade debits and credits, so if any credit have arisen then these are able to offset.

Relieving losses & deficits

Trading losses of £1k income - £225k CAs - £5.625k SBAs

NTLR being £200k of interest costs.

Trading losses. As per the above a currency year claim has been made to relieve the trading profits. The other options here would be:

PY claim - not available as this is the first year of incorporation of Cloverleaf.

CF claim. The losses can be carried forward for use against future profits. A deferred tax asset can be recognised in the accounts to show that the future relief is available however it may be uncertain as to whether Cloverleaf will become profitable. Cloverleaf can choose how much of their c/f losses they use against future profits on an annual basis.

The CY and PY are all or nothing claims.

Moss-side plc, assuming that they are UK resident, would be in a loss group with Cloverleaf, and therefore if they had the profits in which Cloverleaf's loss could offset this could be done.

The group relief claim would need to be jointly submitted, with details of the claimant and surrender along with consent submitted to HMRC. No consideration has to be paid for these losses.

NTLR. This could be carried forward and used against total profits. The amount used each year can be chosen.

CY can be used against the total profits, and the amount used can also be chosen

A PY claim can only be used to offset NTLR credits, however there is not a prior period here.

Moss-side plc, assuming that they are UK resident, would be in a loan relationship group with Cloverleaf, and therefore if they had the profits in which Cloverleaf's LR could offset this could be done.

The group relief claim would need to be jointly submitted, with details of the claimant and surrender along with consent submitted to HMRC. No consideration has to be paid for these losses.

When carrying either trade losses or NTLR losses forward, the group will need to take into account that the deductions restriction exists, limiting all b/f losses over £5m to 50% of the excess.

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

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

Answer-to-Question- 5

1.) Lease disposal

55 year lease 1 July 2018

1 July 2018 to 31 March 2025 is 6 years and 9 months.

As Norwood have disposed of the lease for a profit, a gain will be taxable here.

Sales price £220k.

Deemed disposal price would be:

$(\text{years at grant} - \text{years at disposal}) / \text{years at grant} = (48.25 - 55) / 55 = -12.27\%$

12.27% of £200k is £24.5k. Disposal costs therefore are £175.5k.

Gain on disposal is therefore £220k - £175.5k = £44.5k. CT at 25% on gain being £11.125k.

2.) 30 year lease.

Of the premium paid, the following is related to property income...

$(50 - (30 - 1) / 50 \times \text{premium} = 21 / 50 \times £50,000 = 21k.$

Legal costs incurred of £2k are capital in nature, short lease renewal legal costs are allowable expense deductions.

Of the remaining premium, £29k is capital income. In essence its a partial disposal of an item.

For the deemed capital gain to be calculated in full we would need the reversionary interest cost of the future lease payments.

To calculate the cost we would do £29k / (£50k being full premium + Revesionary interest costs) X (May 95 cost of £150k + indexation)

Indexation on the £150k would be $\text{£}150\text{k} \times (278.1 - 149.6) / 149.6 = \text{£}128,843$

3.)

The total costs for the old factory are:

£1.5m MV at transfer From Norwood, this will need to be indexed up to Dec 2017.
£1.2m refurbishment works, of which £0.6m worth of integral features were claimed. No indexation due. £0.6m doesn't qualify for capital allowances so I have assumed it is structural costs.

Total cost:

	£m					
Base	1.5					
Indexation	0.677	April 05				
Refurb	0.6					
Total	2.777					

Gain is therefore $\text{£}5\text{m} - \text{£}2.777\text{m} = \text{£}2.223\text{m}$

Gain in April 2025 as above.

New factory purchased July 2024 purchased by Norwood.

Norwood owns Southpool Ltd 100% and therefore they are in a gains group as they are also both subject to UK CT.

As this is the case the group may then opt to utilise group rollover relief. If the acquisition of the new property is within the 12 months before the sale or 36 months after the gain can be deferred.

Proceeds received from Sale 5m

Cost of new property 4.5.

Difference £0.5m this is the amount not reinvested. Of the £2.223m gain, 0.5 is to be realised immediately and the remainder can be deferred until the sale of the new asset.

The sale of the property from Southpool there is the option to also submit a S198 within 2 years of the sale taking place. In this election an agreed fee can be made for the immovable fixtures and fittings within the property. The value cannot exceed the cost of the items, and must be agreed and signed off by the buyer and the seller. The items must

have been pooled. Ideally for Southpool they would want to agree CAs of £1 then they would benefit from the balancing allowances on disposal.

The fixed plant and machinery purchased by Southpool, if new, will qualify for 100% first year allowances.

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

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

Answer-to-Question- 6

A hybrid entity is one where the treatment of the investments is tax beneficial to both the entity being invested in and the investment entity.

A hybrid financial instrument is an instruments that has two elements to it, this could be debt and equity. For instance this could be a convertible loan note. The loan (debt initially raised) and then there is an option to conver this into equity.

UK legislation such as the controlled foreign companies legislation, will assess the profits of entities under the control of UK persons. As this entity is over 50% owned it would qualify.

The gateways would then need to be considered to

Hybrid mismatches are where transaction are treated differently in different jurisdictions. This can cause a mismatch and a potential loop hole for some entities to pay less tax.

If a company is aware that it may be subject to this they could report any profits which may be captured by the diverted profits tax to HMRC. If caught then these profits may be subject to tax at 31%.

In UK tax there is a double deduction hybrid entity amount, this legislation looks at where costs and income within hybrid entities are treated differently for each party.

As in the UK and all tax jurisdictions they are looking to work together to ensure that the correct tax amount is paid overall.