

Candidate Number

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Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

9 May 2019

AWARENESS

Module C – Corporation Tax

2. Manpool Ltd had the following results for the 15-month period ended 31 March 2019:

	Note	Income £
Tax-adjusted trading profit	1	300,000
Non-trade loan relationship credits	2	9,000

Note 1: This is before the deduction of available capital allowances. The tax written down value on the general pool at 1 January 2018 was £55,000.

Note 2: This relates to a loan made on commercial terms on 1 July 2018.

Calculate the Corporation Tax liability for the 15-month period ended 31 March 2019, clearly showing your treatment of all items.

	12mths to 31/12/18 £	3mths to 31/03/19. £
Tax adj. Trade Profits	240,000	60,000
¹ (less) Capital Allowances	<u>(9,900)</u>	<u>(2,030)</u>
Tax Adjusted Trade Profit	230,100	57,970
² Non-Trade Profit (LR)	<u>6,000</u>	<u>3,000</u>
TTP	236,100	60,970.
Corporation Tax @ 19%	44,859	11,584.
Total CT for 15 mth end 31/03/19 :	£56,443.	
¹	$£55,000 \times 18\% = £9,900.$	
	$(£55,000 - £9,900) = 245,100 \times 18\% \times \frac{3}{12} = £2,030.$	
²	£9,000 over 9 mths = £1,000 p/mth.	
	Y/E 31/12/18 = $6 \times £1,000 = £6,000$	
	31/03/19 = $3 \times £1,000 = £3,000.$	

4. Edgew Ltd's results are as follows:

	<u>Year ended</u> <u>31 December</u> <u>2016</u> £	<u>Three months ended</u> <u>31 March</u> <u>2017</u> £	<u>Year ended</u> <u>31 March</u> <u>2018</u> £	<u>Year ended</u> <u>31 March</u> <u>2019</u> £
Trade profit/(loss)	120,000	30,000	(202,000)	40,000
UK property business income	Nil	Nil	12,000	12,000
Capital gain/(loss)	Nil	25,000	Nil	(20,000)

Calculate Edgew Ltd's taxable total profit for all periods assuming that relief for losses is claimed as early as possible and show any losses carried forward at 31 March 2019.

	<u>Y/E</u> <u>31/12/16</u>	<u>3mth</u> <u>31/03/17</u>	<u>Y/E</u> <u>31/03/18</u>	<u>Y/E</u> <u>31/03/19</u>
Trade Profit	120,000	30,000	-	40,000
UK Property Business	-	-	12,000	12,000
Capital gain	-	25,000	-	-
	<u>120,000</u>	<u>55,000</u>	<u>12,000</u>	<u>62,000</u>
(less): cur. yr relief			(12,000)	(20,000)
'carry back relief'	(90,000)	(55,000)		
carry forward				<u>(42,000)</u>
TTP	30,000	-	-	-
Loss Memo -	£			
Total Trade loss	202,000			
(less): current yr	(12,000)			
carry back (55,000+90,000)	(145,000)			
carry forward	<u>(42,000)</u>			
Loss available to c/f	3,000			

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carry back: restricted to lower of

$$9/12 \text{ of } £175,000 = £101,250$$

$$9/12 \text{ of available profit} = £120,000 \times 9/12 = £90,000.$$

6. On 1 July 2018, Mildon Ltd bought 100% of the issued share capital of Londale Ltd. Both companies prepare accounts to 31 March. The companies' results for the year ended 31 March 2019 were as follows:

	<u>Mildon Ltd</u>	<u>Londale Ltd</u>
	£	£
Trade profit/(loss)	(200,000)	180,000
Non-trade loan relationship debits	Nil	(10,000)

Londale Ltd had trade losses brought forward at 1 April 2018 of £30,000.

Calculate Londale Ltd's taxable total profits for the year ended 31 March 2019, assuming that all beneficial claims are made.

<p>As 75% subsidiary holding is met, companies are in loss relief group.</p>	
	£
Trading Profit	180,000
(less): non-trade deficit	(10,000)
losses bff	<u>(30,000)</u>
	140,000
(less): group relief: lower of	<u>(105,000)</u>
available loss - $200,000 \times 9/12 = 150,000$	
available profit - $140,000 \times 9/12 = 105,000$	
 Taxable Total Profits	 35,000.
<p>Group relief group only started on 01/07/18 - therefore only losses incurred in this period can be surrendered for group relief. - 100% of shares, therefore change in ownership.</p>	

7. Eddie is a director and shareholder of Kilee Ltd, a close company. Kilee Ltd makes up its accounts to 31 January.

On 1 June 2017, Kilee Ltd made a loan of £40,000 to Eddie. Eddie repaid the loan as follows:

<u>Date of repayment</u>	<u>Amount repaid</u> £
30 November 2017	10,000
31 May 2018	10,000
30 November 2018	10,000
31 May 2019	10,000

Calculate the tax payable by/repayable to Kilee Ltd under s.455 CTA 2010 for the years ended 31 January 2018 and 31 January 2019, stating the due date.

- s.455 tax will be payable on lower of tax outstanding at:
 - accounting period end - 31 January, or
 - the tax due date.

APE 31 January 2018 -

- amount outstanding at 31/01/18 = £30,000.
- amount outstanding at due date: 01/11/18 = £20,000.

Amount payable = $£40,000 \times 32.5\% = £13,000 - (£20,000 \times 32.5\%) = £6,500$ - payable by 01/11/18.

APE 31 January 2019 -

- amount outstanding at 31/01/19 - £10,000.
- amount outstanding at 01/11/19 - £0.

Amount repayable = $£20,000 \times 32.5\% = £6,500$ - repayable by 01/11/19.

8. On 1 March 2009, Darland Ltd bought 20,000 ordinary shares in Birford Ltd, a company with an issued share capital of 100,000 ordinary shares. Birford Ltd began trading on 1 January 2010.

Darland Ltd sold 12,000 shares on 28 February 2015 and the remaining 8,000 shares on 28 February 2019.

Briefly explain whether the substantial shareholdings exemption will apply to the disposal of 8,000 shares on 28 February 2019.

- Substantial Shareholding Exemption will apply where 10% of share capital is held in a qualifying trading company.
- The disposal of 8,000 shares equates to 8% shareholding.
- It may look like this disposal will not qualify for SSE.
- However, as Darland had held at least 10% of the share capital for a minimum of 12 mths in 6 years prior to sale of 8,000 shares, SSE will be available on this disposal.
- I.e., between 28 Feb 2013, and 28 Feb 2014, Darland held 20% of shares in Birford Ltd.

9. Newley Ltd is a trading company. On 1 October 2018, it sold a building that it had occupied as office space for £800,000, realising a gain of £400,000. On 1 April 2019, it bought a warehouse for use in its trade, paying £500,000.

Briefly explain whether rollover relief is available for the gain arising on the disposal of the building, and the effect of making a claim.

- Rollover relief will be available on gain arising as the building is being replaced with qualifying asset.
- The proceeds of £800,000 are not fully reinvested; £500,000. Therefore, £300,000 of the gain will be chargeable immediately.
- The gain available for rollover is reduced from £400,000 to £100,000.
- This £100,000 will be rolled over against the base cost of the warehouse, reducing it from £500,000 to £400,000.
- This rollover gain will effectively be taxed when warehouse is eventually sold; i.e., tax on £100,000 is deferred.

11. Kesdal Ltd trades mainly in the UK. It has an overseas permanent establishment and it owns 80% of the issued share capital of Hartbury Co., a Controlled Foreign Company.

For the year ended 31 December 2018, Kesdal Ltd had the following results:

	£
UK trade profit	480,000
Overseas permanent establishment trade profit (after deduction of foreign tax of £30,000)	60,000

Hartbury Co. had profits of £160,000 for the year ended 31 December 2018 that passed through a Controlled Foreign Company gateway. No tax was paid overseas on these profits.

Calculate the Corporation Tax liability for Kesdal Ltd for the year ended 31 December 2018.

	Total	UK	Overseas
	£	£	£
Trade Profit	570,000	480,000	90,000
(less): DTR			
UK @ 19%	108,300	91,200	
Foreign - 17,100			17,100.
30,000			
	108,300	91,200	17,100
Add: CFC profit			
$160,000 \times 80\% \times 19\%$	<u>24,320.</u>		
Corporation Tax	132,620.		

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