

THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Larger Companies and Groups

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2025/26 legislation (including rates and allowances) continues to apply for 2026/27 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Hanreg plc is the parent company of a UK group, and Belroy GmbH is the parent company of a European group with some UK subsidiaries. Both groups are involved in construction and have 31 December year-ends. On 1 January 2025 the two groups merged under a newly incorporated UK holding company, Newco plc. The shareholders of both Hanreg plc and Belroy GmbH exchanged their shares for newly issued shares in Newco plc.

Consolidated financial statements, including all companies, were prepared by Newco plc for the year ended 31 December 2025.

In January 2025 a successful bid was made by Newco plc to construct and then lease several buildings to a local authority in the UK. A new UK tax resident company, Julkel Ltd, was set up to undertake the contract and completed the buildings' construction in June 2025. It will have a reliable source of income for many years to come but will need to fund the construction cost with debt, and in 2025 it had interest expense of £20 million and Tax-EBITDA of £15 million for CIR purposes.

A transfer pricing review identified the following necessary adjustments to the 31 December 2025 Corporation Tax returns for the following UK companies relating to their transactions with Belroy GmbH.

| | |
|------------------------|--|
| Belroy UK Holdings Ltd | £20 million of interest disallowed |
| Belroy UK Trading Ltd | £10 million of management services charges, disallowed |

The net interest expense in Newco plc's consolidated accounts was £100 million.

The group's corporate interest restriction calculations before any transfer pricing or public infrastructure exemption adjustment are:

| | |
|------------------------------------|--------------|
| Aggregate net tax interest expense | £110 million |
| Tax-EBITDA for the worldwide group | £225 million |

It can be assumed that the fixed ratio method of calculating the group's interest allowance for corporate interest restriction purposes is preferable to using the group ratio method and that the debt cap rules will not restrict that allowance.

Requirement:

- 1) **Explain the administrative requirements of the corporate interest restriction rules for Newco plc.** (8)
- 2) **Describe the conditions that a company carrying on a UK property business must satisfy to qualify for the public infrastructure exemption.** (6)
- 3) **Assuming that Julkel Ltd is a qualifying infrastructure company for the period, calculate with explanations, the corporate interest restriction for the group, if any, for the year ended 31 December 2025.** (6)

Total (20)

2. Shellnic Ltd is a successful wholesale and distribution company, which has traded for many years and prepares accounts to 31 December. During the year ended 31 December 2025, Shellnic Ltd acquired and equipped an additional warehouse, acquired an additional office building and expanded its transport fleet. Details of this expenditure and other relevant information are shown below.

Warehouse

- 1) The warehouse was built by a developer at a cost of £7 million, which did not include the cost of the land or integral features. Shellnic Ltd bought the warehouse from the developer for £12 million, of which £3 million was the cost of land and £1 million was the cost of integral features. The warehouse was first used in Shellnic Ltd's trade on 1 September 2025.
- 2) Shellnic Ltd bought new plant for £3 million and second-hand plant from a competitor business that had ceased to trade for £2 million. The purchase price of the second-hand plant was less than the vendor's original cost.
- 3) After the warehouse was acquired from the developer, a further £300,000 was incurred on alterations to install the new plant. No alterations were required in connection with the installation of the second-hand plant.

Offices

- 1) Shellnic Ltd bought an existing office building in March 2025 for £3 million. The building had been constructed in 2010 and needed significant structural alterations in order to be suitable for use in Shellnic Ltd's trade.
- 2) Those alterations cost £2.1 million, which included £100,000 to obtain planning permission and £200,000 on integral features. Shellnic Ltd began using the offices on 1 July 2025.
- 3) Shellnic Ltd spent a further £500,000 on new office equipment.

Transport

On 1 July 2025, Shellnic Ltd acquired additional vans under a hire-purchase contract, under which it paid a £600,000 deposit with 48 monthly instalments of £50,000 each. Of the total payment to be made, £500,000 is treated for accounting purposes as related to finance costs with the balance treated as the fair value of the vehicles at the start of the lease.

Capital allowances

- 1) The tax written down values as of 1 January 2025 of the main pool and special rate pool were £6 million and £1 million respectively.
- 2) The full amount of annual investment allowance is available to Shellnic Ltd as there has been no other capital expenditure in the year.

Plant and machinery disposals in the year ended 31 December 2025

- 1) Plant A, which was acquired in 2018 and had an accounts net book value of £250,000. Shellnic Ltd made a loss on disposal of £100,000.
- 2) Plant B, which was acquired in 2022 for £1million and had an accounts net book value of £500,000. Shellnic Ltd claimed the maximum capital allowances available and made a profit on disposal of £100,000.

Requirement:

Calculate, with explanations, the maximum capital allowances Shellnic Ltd can claim for the accounting period ended 31 December 2025. (15)

3. Floell Ltd is a UK company operating in the sports equipment sector. Initially it was mainly a wholesale distributor.

In 2012, it decided to diversify into manufacturing. In June 2012, it bought a freehold factory, a leasehold office next to the factory and specialised plant and machinery for use in the factory. Although initially the project had some success, in 2025 it decided to dispose of these assets so it could focus on its core activity. These disposals were:

Freehold factory

This cost £20 million with £100,000 of incidental costs of acquisition. A new workshop was added in April 2013 at a cost of £2 million but it proved inadequate for its purpose and was demolished in May 2015. A second workshop was built, which was completed in June 2016 at a cost of £3 million. The factory was sold to a third party for £30 million in July 2025. The incidental costs of sale were £250,000.

Leasehold Office

Floell Ltd acquired a 40-year lease of the office, for £4 million. It sold this lease to a third party in June 2025 for £5 million.

Specialised plant and machinery

Floell Ltd sold the plant in the factory for a total of £2 million in June 2025. All items of plant were moveable and, except for one item of plant, all were sold for less than their cost. The one item of plant that was sold for more than its cost (£200,000, in January 2018) was sold for £250,000.

Most of the proceeds of these disposals were used for working capital or to reduce debt. However, in December 2025, £4.5 million was spent on acquiring a new office building, which was immediately used for the purpose of the company's trade.

Requirement:

Calculate, with explanations, Floell Ltd's chargeable gains position in respect of the above transactions assuming the company makes all beneficial claims to reduce its liability. (15)

4. Ayleswood Ltd is a UK resident company with one 100% subsidiary, Binley Ltd, which is also UK resident. Ayleswood Ltd owns several investment properties, some of which are let to third parties with the others leased to and used in the trade of Binley Ltd.

The market value rent that Binley Ltd pays to Ayleswood Ltd together with the income from investment properties means Ayleswood Ltd has made taxable profits each year. Due to challenging economic conditions, Binley Ltd has been loss-making. Sufficient of its losses have been group relieved to Ayleswood Ltd to eliminate all taxable profits each year, with the remaining £500,000 of trading losses (all of which arose after 1 April 2017) carried forward in Binley Ltd.

The group decided to rationalise operations, and one of the warehouses owned by Ayleswood and occupied by Binley Ltd was vacated on 1 April 2025. Following this, the reduced rental costs have significantly improved Binley Ltd's results and it is anticipated that its future results will be at a comparable level.

On 30 June 2025, Ayleswood Ltd granted a third-party a 55-year lease over this warehouse (see Note 1 below). The additional external income arising from the grant of the lease has significantly improved the group's cashflow position and minimising costs in the longer term is now a higher priority than short-term cashflow savings.

Extract from the Income Statements of Ayleswood Ltd and Binley Ltd for the year ended 31 March 2026

| | <u>Note</u> | <u>Ayleswood Ltd</u> £000 | <u>Binley Ltd</u> £000 |
|--|-------------|------------------------------|---------------------------|
| Turnover | | | 51,250 |
| Cost of sales | | | (45,500) |
| Gross profit | | | 5,750 |
| Profit on grant of lease | 1) | 100 | |
| Interest income | | 50 | |
| Rental income | | 650 | |
| Revenue expenditure on rental properties | | (375) | |
| Administrative costs | 2) | (350) | (5,150) |
| Profit before tax | | <u>75</u> | <u>600</u> |

Notes

- 1) On 30 June 2025, Ayleswood Ltd granted a 55-year lease over a warehouse to a third party for a premium of £150,000. Ayleswood Ltd had bought the property for £300,000 in January 1991. The value of the freehold reversion in 30 June 2025 was £200,000. It was agreed that the value of the fixtures in the property was £10,000.

- 2) Administrative costs comprise:

| | <u>Note</u> | <u>Ayleswood Ltd</u> £000 | <u>Binley Ltd</u> £000 |
|---------------------------------|-------------|------------------------------|---------------------------|
| Staff costs | | 150 | 3,000 |
| Premises costs | | 0 | 1,500 |
| Legal and professional costs | 3) | 100 | 0 |
| Depreciation | | 50 | 250 |
| Office costs | 4) | 50 | 100 |
| Marketing and advertising costs | 5) | <u>0</u> | <u>300</u> |
| | | <u>350</u> | <u>5,150</u> |

- 3) Ayleswood Ltd's legal and professional costs comprise:

| | £000 |
|--|------------|
| Audit and accountancy fees | 50 |
| Employee related advice | 23 |
| Advice in connection with shareholders agreement | 25 |
| Grant of lease | <u>2</u> |
| Total | <u>100</u> |

- 4) Binley Ltd's office costs include £7,500 for the cost of the staff Christmas party at £100 per head.

- 5) Binley Ltd's marketing and advertising costs include:

| | £000 |
|---|------|
| Travel and subsistence costs for marketing team | 50 |
| Marketing team conference | 10 |
| Client entertaining | 20 |
| Promotional gifts handed out at external events: | |
| Pens and notebooks showing the company's name | 15 |
| Chocolate bars wrapped in promotional wrapping including the company's name | 5 |
| Bottles of wines with company logo | 26 |

- 6) During the year, Binley Ltd placed an order for new machinery as part of the plan to modernise its production process. It paid a £50,000 deposit when the order was placed, £75,000 on delivery (on 1 March 2026) and the £25,000 balance is payable three months after delivery.

- 7) Capital allowances:

On 1 April 2025, the tax written down value of the pools were as follows:

| | | £ |
|-------------------|---------------|-----------|
| General pool | Binley Ltd | 2,750,000 |
| Special rate pool | Ayleswood Ltd | 50,000 |
| | Binley Ltd | 100,000 |

Requirement:

Calculate, with explanations including details of carried forward amounts, the amount of the Corporation Tax payable by Ayleswood Ltd and Binley Ltd for the year ended 31 March 2026, assuming claims are made to achieve their objective of minimising long-term costs. (20)

5. Doncar Ltd is a construction business that has been operating solely in the UK for approximately 10 years. The directors are considering expanding overseas and plan to tender initially for a single overseas contract. They may fulfil the contract through a subsidiary incorporated in the overseas jurisdiction or through Doncar Ltd.

The overseas country has a Double Tax Treaty with the UK which follows the OECD model treaty and determines residence on the same basis as the UK.

Requirement:

Discuss the tax consequences of taking on and performing the overseas construction contract. You are NOT required to consider the transfer pricing rules, the funding of the overseas expansion nor the basis of the computation of taxable profits. (20)

6. SquareBlue Ltd is a newly incorporated trading company, which is a wholly owned UK subsidiary of a multinational group which prepares its accounts under IFRS. There are no other UK companies in the group.

SquareBlue Ltd's draft tax computation for the year ended 31 December 2025 is shown below.

| | | | |
|-----------------|------------------------------|-----------|----------------|
| | | £000 | £000 |
| Loss before tax | | | (1,000) |
| Add | Depreciation | 300 | |
| | Unpaid pension contributions | 5 | |
| | Legal fees | <u>50</u> | |
| | | | 355 |
| Less | Capital allowances (Note) | | <u>(2,000)</u> |
| Taxable loss | | | <u>(2,645)</u> |

Note

| | <u>General pool</u> | <u>Special rate pool</u> | <u>Allowances</u> |
|-----------------------------|---------------------|--------------------------|-------------------|
| | £000 | £000 | £000 |
| Additions | 1,500 | 500 | |
| Annual investment allowance | (500) | (500) | 1,000 |
| Full expensing | <u>(1,000)</u> | <u>0</u> | <u>1,000</u> |
| Carried forward | <u>Nil</u> | <u>Nil</u> | |
| Total Allowances | | | <u>2,000</u> |

All capital expenditure in the period qualified for allowances in either the general pool or special rate pool.

Requirement:

Explain SquareBlue Ltd's deferred tax position as at 31 December 2025 and detail any further information that might be required to conclude on the position. (10)