

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Larger Companies and Groups

May 2026

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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.

You are a senior tax manager at Mine & Pitt LLP, a firm of Chartered Accountants. Nuevo Pharmaceuticals plc is a non-audit client of the firm.

Your firm was provided with a paper, "Project Arcadia" (**EXHIBIT A**), prepared by Nuevo Pharmaceuticals plc, . Subsequently you and your tax partner, Jenny Smith, attended a meeting with the Chief Financial Officer of Nuevo Pharmaceuticals plc. You prepared notes of that meeting (**EXHIBIT B**).

Jenny has asked you to prepare a draft report for her review on the proposed expansion into Arcadia.

The following exhibits are provided to assist you:

EXHIBIT A: Client paper "Project Arcadia"

EXHIBIT B: Minutes of meeting on 28 April 2026

EXHIBIT C: Pre-seen information

Requirement:

Write a report to the Board of Nuevo Pharmaceuticals plc recommending how to proceed in relation to the expansion into Arcadia.

Continued

EXHIBIT AClient paper "Project Arcadia"

The scientific know-how leading to the development of our influenza vaccine, Respriaid, was developed in 2023. No special tax reliefs were or are available. The sale of this product created significant additional revenue streams for the group. Volumes were initially limited by available production capacity and sales were therefore concentrated in those high-income countries with well-resourced health systems that were able to pay full market rates for the vaccine. In the following years we, and our competitors, have increased capacity so that those countries can now readily access all the product it needs, at prices that have fallen significantly, so that there is little or no opportunity for further growth of Respriaid sales in those markets.

However, there are opportunities to generate additional sales in emerging economies, because such countries are now better able to afford the product at its reduced price. There is no need for further product development so additional sales, at the now reduced price, can be a profitable business stream for us.

One such country is Arcadia, where we have negotiated a contract with the local, Government-owned national health authority which will give us exclusive rights to supply that authority with new influenza vaccines. We currently have no business activity in Arcadia. The contract can be met initially by manufacturing capacity in our existing UK factories, but we will need to increase manufacturing capacity as soon as possible to meet the expected demand.

The Arcadian authorities have indicated that the product should be manufactured either in Arcadia or the UK, to satisfy their regulatory requirements. Accordingly, we have decided that increased manufacturing capacity should be met by the construction of a new factory either in the UK or in Arcadia. A UK factory might also be expanded or extra shifts added, at some future time, to supply our network of private hospitals that supply VAT-exempt medical services.

Estimated construction costs are as follows (the local currency, has been converted to £ sterling):

	<u>In UK (excluding VAT)</u> £ millions	<u>In Arcadia</u> £ millions
Purchase of land	10	3
Construction of factory	20	15
Plant & machinery (not integral features)	<u>10</u>	<u>10</u>
Totals	<u>40</u>	<u>28</u>

It is anticipated that all capital costs of construction would be financed out of existing group cash resources currently held in the UK.

Projected annual financial results of the new factory are as follows:

	<u>Factory situated in UK</u> £ millions	<u>Factory situated in Arcadia</u> £ millions
Sales	20.0	20.0
Operating costs (excluding depreciation)	(10.0)	(10.0)
Depreciation	(2.0)	(2.0)
Additional shipping costs to Arcadia	<u>(0.4)</u>	<u>-</u>
Operating profits	<u>7.6</u>	<u>8.0</u>

It is anticipated that the business will operate at these profitability levels for at least 10 years (which will keep pace with inflation, so no inflation adjustments are required). Thereafter, we believe that competitor and imitator products, and the reduction in the incidence of this strain of influenza, will make the business no longer viable. At that point, the factory will either be sold or re-purposed for other manufacturing activity.

Continued

EXHIBIT B

Minutes of meeting on 28 April 2026

At Nuevo Pharmaceuticals plc head office at Easttown, Lincolnshire.

Present:

Lynne Roberston (Chief Financial Officer - Nuevo Pharmaceuticals plc)
Jenny Smith (Tax partner - Mine & Pitt LLP)
You (Senior tax manager - Mine & Pitt LLP)

Nuevo Pharmaceuticals plc's internal paper "Project Arcadia" (**EXHIBIT A**) had previously been provided to Mine & Pitt LLP. The purpose of the meeting was to discuss this paper, learn of subsequent developments and agree next steps.

Discussion

Lynne Roberston advised that she has obtained some further information about Arcadia from independent legal and tax advisors in Arcadia, as follows:

1. Arcadian law requires that foreign owned businesses physically present in Arcadia (beyond merely shipping goods to customers in Arcadia) must operate through a limited company registered and tax resident in Arcadia.
2. The commercial and tax regimes in Arcadia prohibit the direct ownership of commercial premises by non-residents.
3. There are no stamp taxes or capital duties, value added tax or similar duties or taxes in Arcadia.
4. Apart from differences between the Arcadian and UK capital allowances, losses, interest and royalties deduction regimes (all referred to below), taxable profits in Arcadia are computed in the same way as in the UK tax system.
5. The corporate income tax rate on profits earned by companies resident in Arcadia is 25%.
6. The Arcadia:UK double tax convention follows the OECD model convention subject to the following provisions of Arcadian tax law:
 - a. a 25% withholding tax on dividends paid to all shareholders who are non-tax resident in Arcadia;
 - b. interest relief is limited to interest on debt equal to equity investment (1:1 debt: equity ratio);
 - c. no withholding tax on interest paid; and
 - d. no withholding tax on royalties payable for the use of intellectual property owned by non-residents, but these are deductible only up to 5% of sales.
7. Research suggests that other multi-national groups typically charge around 7% interest on UK: Arcadia inter-company loans.
8. Tax relief is given in Arcadia on all capital expenditure incurred on commercial premises and plant and machinery (including land), at 25% per annum of the initial expenditure on a straight-line basis.
9. There are no grants or other tax incentives available in Arcadia.

Lynne has been advised that Arcadian tax rules allow existing Arcadian registered and tax-resident companies with pre-existing tax losses to carry forward those losses and relieve them against the profits of a new business commenced in the company by a new owner of the company. A company agent in Arcadia has brought to Lynne's attention a dormant company available for purchase that has unrelieved trading losses (that are not yet finalised pending agreement of its most recent Arcadia tax return), which could be used to shelter the profits of manufacturing Respriaid in Arcadia. The purchase price would be £0.10 per £1.00 of the losses.

Nuevo Pharmaceuticals plc has been in discussion with the UK Government who have indicated that grant aid at 20% of the overall capital cost (other than the land) would be available if the new factory were built in the UK.

Nuevo Pharmaceuticals plc needs to decide whether to build the new factory in the UK or in Arcadia. Lynne requested that Mine & Pitt LLP write a paper, that she can present to her Board, setting out the tax consequences of building the factory either in the UK or in Arcadia. We should assume that the business will have a 10-year lifespan. The paper must include consideration of how an investment in Arcadia would be structured to optimise the tax position and include a final recommendation on location.

Continued

EXHIBIT C

Pre-seen information

Client name

Nuevo Pharmaceuticals plc and subsidiary companies.

Parent company

Nuevo Pharmaceuticals plc

Date of incorporation

1 June 1968

Country of incorporation and tax residence

UK

Ownership

Listed on London Stock Exchange. No shareholder holds more than 5% of the shares.

Board members

Lord Nottsford (Chair)
Joseph Barnwell (Chief Executive Officer)
Lynne Roberston (Chief Financial Officer)
Stephanie Loughlin (Chief Scientific Officer)
Riva Bestwood (Head of Human Resources)
Pedro Velasquez (Non-executive director)
Danielle McAndrews (Non-executive director)
Chandra Badawi (Non-executive director)

Total number of worldwide employees in the Nuevo Pharmaceuticals group: 75,000.

Background and history

Windsor Chemical Products Ltd was founded in the late 1940s to supply chemicals to industry in the UK. In 1966, it merged with a Spanish company, Nuevo Industrias Spa of Valencia, and shortly thereafter consolidated the combined head office functions into a single site in Lincolnshire. In 1968 a new holding company, Nuevo Chemicals plc, was formed which immediately floated on the London Stock Exchange.

The group's business has evolved over the years from being a manufacturer and supplier of industrial chemicals to being a creator, manufacturer and supplier of pharmaceuticals for the treatment of a wide variety of medical conditions. It changed its name to Nuevo Pharmaceuticals plc in 1971. The group has grown by acquisition, often of pharmaceutical-based university spin-offs, as well as by the creation of new businesses based on successful internal research projects. In recent years, the group has expanded into the provision of private healthcare and owns and operates a number of private hospitals in the UK.

The head office, a research and development operation and several manufacturing sites are situated in the UK. All the group's intellectual property is held in the UK.

In addition, it has manufacturing subsidiaries in several strategic global locations which supply pharmaceuticals to health care providers in North America, Europe, Australia, Asia and South America. It is group policy to repatriate all available overseas profits to the UK.

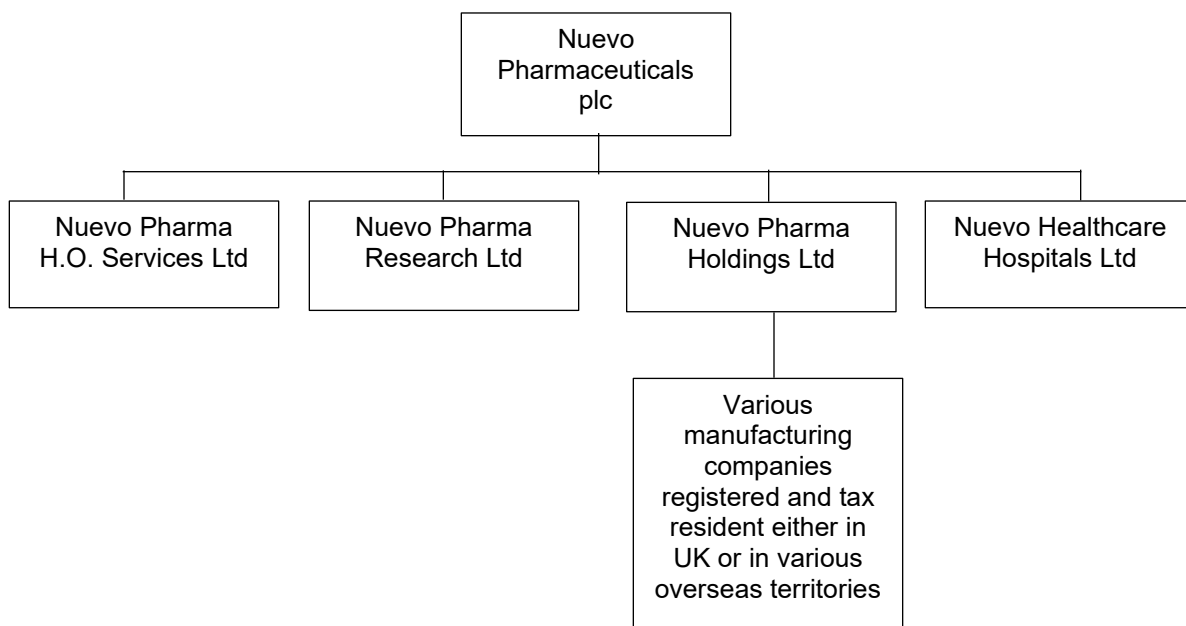
Nuevo Pharmaceuticals plc developed a vaccine against a new influenza strain in 2023. Since then, it has manufactured and distributed the vaccine under the trade name Respriaid. The product has undergone continuous refinement and has been distributed mainly to those countries that have well-resourced health systems.

Continued

Group structure

All subsidiary companies are 100% owned.

All named subsidiaries on the diagram are UK registered and UK tax resident.

Financial information for Nuevo Pharmaceuticals plc groupIncome statement for the year ended 31 December

	<u>2025</u>	<u>2024</u>
	£million	£million
Revenue	475	464
Cost of sales	<u>(120)</u>	<u>(124)</u>
Gross profit/(loss)	355	340
Administrative expenses	<u>(92)</u>	<u>(86)</u>
Profit before tax	263	254
Tax	<u>(65)</u>	<u>(61)</u>
Profit after tax	<u>198</u>	<u>193</u>

Balance Sheet as at 31 December

	<u>2025</u>	<u>2024</u>
	£million	£million
Fixed assets	245	276
Cash at bank and debtors	167	87
(Liabilities)	<u>(73)</u>	<u>(69)</u>
Net assets	<u>339</u>	<u>294</u>
Equity:		
Share capital	130	130
Reserves	<u>209</u>	<u>164</u>
Total equity	<u>339</u>	<u>294</u>

Continued

Continuation

Corporate Tax

Company tax returns for all territories have been or will be submitted on time for all periods to 31 December 2025.

There are no ongoing disputes with any tax authorities.

There are no unrelieved tax losses anywhere in the group.

VAT

Nuevo Pharmaceutical Manufacturing Ltd (a subsidiary of Nueva Pharma Holdings Ltd) is the representative member of a group VAT registration in the UK, which includes all UK resident companies. The group is partially exempt.