

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	1029	5066	6011
Section 2	1066	4930	5994
Section 3	829	3953	4777
Section 4	1056	5001	6038
Section 5	863	4182	5015
Section 6	391	2003	2394
Total	5234	25135	30229

Answer-to-Question-_1_

Computation

		£000
Profit before tax		434,000
Dividends - Exempt AGBH		(£10,000)
Interest recieved	NTLR	(£1,000)
Depreciation		£10,000
Pensions		
	Bfwd amount	(£200)
	Cfwd amount	£250
Long term incentive		£150
Gifts		£2,500
RDEC	Income gross up	£365
Donations	QCD	£1,000
Capital allowances		(£1,760)
Total trading profits		£435,305
Non trading loan relationship credits		£1,000
QCDs		(£1,000)
Total taxable profits		£435,305
Tax	25%	£108,826
RDEC		(£365)
Adjusted payment		£108,461
Payments made to date		(£60,000)
Payment due		£48,461

Payments

The company is large and therefore should be paying its tax in quarterly installments over the course of the financial year. The final payment is more than a quarter and therefore interest will likley be due on this payment.

Notes

Other income and royalties

The royalty income which has been received from the overseas companies has incurred withholding tax. There is no DTT in accordance with the OECD, and therefore relief for the tax will be justified as the lower of the UK tax and the overseas tax. In order to calculate this, the net income received will be grossed up, with tax at the lower of UK and overseas rates.

The UK tax rate is 25%, meaning the following double tax relief will be allowed:

	Gross	WHT RATE	UK RATE	DTR
f1	£50,000	25%	25%	£12,500
f2	£75,000	30%	25%	£18,750
f3	£35,000	15%	25%	£5,250
				£36,500

Pension contributions

The pension contributions allowable as what has been paid as at the year end.

Payable in the year - £200k + £4,750k = £4,950k. The total amounts arising for the year where £5,000k, meaning there is an add back £250k. The £200k which was disallowed last year is able to be utilised, meaning a net adjustment of £50k.

There is no requirement for pension spreading as the excess contributions were less than £500k more than the prior year.

Long term incentive plan

Bonuses which are unpaid within 9 months of the year end are not allowed to be deducted. From the 2024 year end, a total of £75,000 is still unpaid and therefore deductions are not allowed.

The £150k which is expected to be paid on 1 January 2026 is added back to the profits and not an allowable deduction in the year.

Gifts and entertainment

Staff entertainment is allowable business expense, it should be noted that entertainment exceeding £150 per person, should be reported on a PSA/P11d.

The third party hospitality is not allowed as this is non staff entertaining as well as the alcohol.

The gifts to suppliers are allowed as these are under £50 per item, and deemed advertising in nature, due to the branding.

Research & Development

The new merged R&D scheme took place from 24/25, known as the RDEC scheme. Allowable expenditure on qualifying work can lead to a corporation tax reduction.

The expenditure is first however treated as income, by way of 20%, after taxable profits have been calculated, the grossed up amount then reduces the taxable profit, leading to a lower tax payment/repayment.

The calculation of this is as follows

Personnel	£1,000	100%	£1,000
Consumables	£500	100%	£500
External equip	£500	65%	£325
Total			£1,825
RDEC		20%	£365k

Other notes

Dividends

Dividends received from wholly owned subsidiaries are exempt and outside the scope of corporation tax.

Donations

Donations to regulatory charities are allowed, however are not used in calculating the businesses trading profits, and deducted after total taxable profits.

Penalties

Penalties are not allowable in respect of missed regulatory dates.

Bad debt

The bad debt is specific and therefore this is an allowable trading business expense, and should not adjust profits.

Advertising costs

The cost of advertising is wholly and exclusively for the purposes of trade and therefore no deduction is allowed for this.

Website running

This is a wholly allowable trading expense.

Capital allowances

		MRP	SRP	Allowances
Bfwd		2,500	1,000	
Additions	Air con		250	
	Lift		750	
	Machinery	50		
	Equipment	200		
Allowance				
	AIA @ 100%		(1,000)	1,000
	FYA @ 100%	(250)		250
Cfwd		2,500	1,000	
WDA	6%		(60)	60
	18%	(450)		450
Cfwd		2,050	940	1,760

Additions in the year can benefit from capital allowances.

The additions in respect of plant and machinery are as follows, and will benefit from the following relief:

As Liame (the other group company), has no fixed assets, the annual investment allowance of £1m is allowable in full for the year to 31 March 2025. The AIA should be

used in priority of the FYA, this is due to the FYA leading to balancing charges on sale.

Air conditioning

This is an integral feature, which will be allocated to the special rate pool, allowances of 50% FYA are allowable, however due to the reduced allowance in comparison to main rate pool, AIA should be prioritised.

Fixtures and fittings

The lift is also an integral feature, and alike the air con should prioritise the AIA over FYA. The two combined equal £1m and therefore the AIA should be used against these assets.

Equipment

£200k - FYA @ 100% on basis this is new expense, this is due to the AIA being used by the special rate pool assets.

Machinery

Long funding lease (greater than 7 years), FYA @ 100% on basis this is new expense, this is due to the AIA being used by the special rate pool assets

Deferred tax & Tax charge

The corporation tax charge for the year should be £108,826, this is then reduced by the RDEC of £365k.

The deferred tax is the difference between the accounting treatment for timing differences, and is calculated on fixed assets and the temporary differences which are caused as a result of calculating the tax. Permanent differences are not considered.

The Land and buildings are ineligible and therefore not included in the below.

The pension and long term investment add backs are deferred tax assets as they will lead to a tax reduction in the next year. The accounts present a higher accounts value for the fixed asset than the TWDV meaning more relief has been received and therefore a liability will be due in the future when the assets are sold.

	Accounts	Tax WDV	Difference	DTL / (DTA)
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Fixed assets	£31,250	£2,990	£28,260	£7,065
Pensions		£250		(£62.50)
LTI		£225		(£56.25)
Deferred tax liability				£6,946,250

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

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

Answer-to-Question- 2

Analysis of contracts

Permanent establishments are where a UK resident company sets up an operation in an overseas jurisdiction. It is in itself an extension of the UK company, and will therefore be taxed and compliance will be needed in the UK. However the entity will also need to consider the local jurisdiction and ensuring compliance with local laws.

Permanent establishments derive when an agent or a fixed establishment acts on behalf of the business.

The fixed establishment needs to have a degree of permanence, and not provide an 'auxillary' function to the UK company, like marketing or a warehouse. This in itself will not be a permanent establishment.

The managing director of LEG Ltd rented an office in Barcello for two months, this does not seem to be a permanent establishment as it isnt a period of at least 6 months, however the contracts following this may be deemed as such:

Contract 1

The contract is for a period of 4 years, uses the local staff in Barcello and is expected to create intellectual property. This will be a permanent establishment as the staff will have contracts of employemtn with LEG and be in Barcello on a permanent basis providing services for the group. The losses will be able to be utilised in the UK by way of a Ct reduction and group relief.

It should be noted that the creation of IP or work in respect of IP and royalties are excluded from being PE.

Contract 2

The renting of a unit as a warehouse for the simple use of storing and selling goods to external third parties is not a permanent establishment. This is an auxillary function of the UK entity. There is no PE as a result in Mumbar.

Contract 3

The contract between Philo and a third party for provision of staff to install equipment is a short term contract. The individuals are already employed by the UK entity and will likely return after this. They do not seem to be a fixed permanence of this contract as it is less than that of 6 months. Because of this, the employees are not acting as dependent agents and therefore no PE will arise as a result of this contract.

Contract 4

This contract has a period of 12 months, and will utilise UK staff within the local area of Barcello. There is a degree of permanence of this contract as it lasts for a period of more than 6 months, the employees are providing a service in Barcello as an extension of the UK company. Dugo therefore has a PE with Barcello.

Summary

- Contract 1 - Yes - PE with LEG and Barcello
- Contract 2 - No
- Contract 3 - No
- Contract 4 - Yes - PE with Dugo and Barcello.

Uk tax consequences

The consequences of having a permanent establishment overseas is that of you will need to comply with the local rules and file respective tax returns and follow compliance proceedings in each of the jurisdictions. This will follow the OECD model treaty.

The consequences will be an added compliance and administration burden for the LEG Group. They will also need to apportion and split out the financial results for each of the permanent establishments, this may mean setting up a new accounting or bookkeeping software.

In respect of the corporation tax issues, these are as follows:

Double taxation, the local tax rate is 15% and therefore the profits and losses will be required to pay local taxes. In respect of the contracts for LEG, this may not be an issue for the contract 1 as it is expected to be loss making and therefore unlikely to have taxation, however the contract 4 will be profitable and therefore tax will need to be paid locally.

Double tax relief will be able to be recovered in the UK when the tax returns are prepared, however this does add to being a cashflow and timing burden.

The profits from the PE in Barcello will be taxed at higher rates than the local, leading to

additional taxation on this contract of 10%.

Transfer pricing is also something which should be considered, where trading within a group (or ones self), there needs to be an arms length consideration for transactions, and therefore the deduction of costs needs to be consistent of this and follow OECD model conventions.

The sales are not the issue as these are with third parties however the split of costs should be consistent, a functional analysis may be required and benchmarking of local staffing costs. This may lead to further compliance too which the need to prepare local and master transfer pricing files to support any arms length transactions.

In terms of minimising any issues with the UK company, they may like to file the permanent establishment election, this excludes the profits from the UK taxation and therefore double taxation. If a company has multiple permanent establishments however and an election is made, they will have to make all PEs exempt which means if they set up in a new territory they will not benefit from losses. TONA should also be considered, which is where an entity can only be exempt from UK taxation when it has effectively paid back all the losses created in the last 6 years.

Permanent establishment elections however will not be able to occur if they do not meet the CFC protocols and fail any of the exemptions and gateways, this is mainly to block anti avoidance of UK tax. Further consideration would be required, however the tax exemption would not be excluded as this is more than 75% less than the UK tax rate.

Other considerations could be to create a new subsidiary in the territory, losses would not be able to be remitted, however dividends paid up would be exempt through the AGBH dividend exemption, and excluded from UK taxation. This would be effective in Barcello for the Contract 4 whereby it is making profits. The LEG contract could stay within Leg and mean that the company can utilise the losses created to reduce the UK tax burden.

If the company is set up after the PE is working, then incorporation releif would be allowed, which would defer any UK tax payment for 6 years. This would hwoever be accelerated if any assets are sold crystalising any gains.

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

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

Answer-to-Question- 3

The migration of a company from the UK to overseas for Peralta will need to have considerations in terms of location, as depending on where the directors chose to establish the entity, will mean different tax consequences.

If the directors chose a country where there is no double tax treaty with the UK, then the OECD guidelines will mean that the central management and control cannot simply relocate, a new company will need to be set up.

The entity could set up a new company in the local jurisdiction, they can partake in a paper for paper exchange with the shareholder of Peralta Ltd, in order to make the UK company a wholly owned subsidiary of the overseas company and then transfer any assets.

- Bona fide commercial reasons
- Transfer of shares and only shares
- Same shareholders

If they then decide to liquidate the UK company, a liquidator will need to be appointed and any capital distributions of assets could be made.

Double tax treaty

Should there be a double tax treaty in the location which the directors wish to relocate the company to, then in accordance with the OECD guidelines, the company is resident in the place where the place of effective management is. This is where the directors are based and where the business is effectively managed and controlled from. If the directors move the business and operations, however the effective management is still within the UK, then the company will still remain to be UK resident, being a dual resident company.

Should it come to this, the model treaty explains the tie breaker clauses will follow and an agreement between the jurisdictions may be required to agree on the residence of the newly formed dual resident company.

Migration - Exit plans

Should the Place of effective management relocate away from the UK, then there will be

an effective trade and asset disposal of the UK business, the accounting period will end on the date which migration is agreed to occur. In reviewing the balance sheet, the following will occur:

Intangible fixed assets

The internally generated Goodwill, if from pre April 2002, will be a capital asset, capital gains will be chargeable on this. Should the intangible fixed asset be from after 2002, then trading profits and losses will follow. Any amortisation will need to be calculated up to the date of sale.

The goodwill is revalued at market value on the date of disposal.

Land

If the land is not sold then a capital gain will arise on the land, this being the difference in the proceeds and the base cost of the land. However if the land is not expected to be sold and the company migrates, a permanent establishment will be created and profits and losses deriving from this asset will be payable to HMRC, tax returns will be due for filing still and there will be a requirement to publish accounts with HMRC.

Computers

Computers which have had the benefit of receiving capital allowances will have balancing charges, this will be at the value of the tax written down pools, being the main rate and special rate pools.

Stock

Stock which is held by the business will give rise to trading profits, these will be valued at the market value on disposal, and profits and losses will follow thereon.

Derivative & loan

This is a relevant contract, which is in order to match the interest charges upon the loan. The derivative will be effectively sold on the date of the migration, with non trading loan relationship credits following from the disposal.

The loan within the entity will be disposed of at the market value on the date of sale, this will give rise to non trading loan relationship credits.

Exit charges

The disposal of the UK companies trade and assets will give rise to a potentially large tax liability, this will allowed to be payable over a period of 6 years, known as the exit charge plan. The exit charge plan payments will start 9 months and 1 day after the year end of the entity.

Peralta has been a declining business and therefore it is assumed there may be large losses carried forward which could be used to reduce any potential exit charges.

Admin

The following administration requirements will be needed by Peralta in order to faciliate this to occur legally.

- HMRC clearance, pre notification of the intended plans will need to be raised with HMRC and ultimatley clearance for any migration procedure.
- Anti avoidance - The migration cannot be for anit avoidance purposes and non commercial reasons - HMRC may block any potential migration if there is not wholly and exclusivley trade related reasons to the migration.
- Appoint a representative - Peralta would need to appoint a UK representative in order to correspond with HMRC and any enquires and issues.
- Tax compliance - They will need to ensure that all tax liabilities have been cleared

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

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

Answer-to-Question- 4

Incorporation of UK company

The incorporation of a UK company will have tax administrative requirements. This including the enrolment with HMRC of a company, this application of a company would be to receive a UTR.

Including the notification of chargeability to HMRC. This is required within 3 months of the company starting to trade (being 1 January 2026). Should this not be done, then tax geared penalties may arise on the potential lost revenue. The calculation of this is done by the behaviour and whether the disclosure is prompted or unprompted.

The tax return for the 9 month period to 30 June 2026 will be due for filing on 30 June 2027, with the payment of taxation for this period being 9 months and 1 day after the period end, being 1 April 2027. If the group is considered large with the number of associated companies, then quarterly installment payments made be required.

Tax relief

The company would be able to obtain capital allowances from the spend incurred on the new facility.

The annual investment allowance has been used within the rest of the group, however the company can still benefit from First year allowances of 100% on qualifying plant and machinery. Which is equipment used in a function and not a setting, and first year allowances of 50% for special rate pool items, such as integral features which have a longer economic useful life.

Land

The land would not be able to benefit from any tax relief as this is not a qualifying asset.

Machinery

The machinery would be qualifying plant, which is going to be used in the setting of the building, this would benefit the trading operations and therefore on the basis it is new and not second hand, FYA @ 100% would be allowable.

The capital allowances would be allowable on the payment of the item as this has been

split over the course of an accounting period. The instalment dates are that of the following:

- £50k - 31 May 2026
- £50k - 31 August 2026
- £50k - 30 November 2026

£100k would be allowable as the payment on 31 August 2026 is within 4 months of the previous. The £50m would be relieved in the next accounting period.

Building

The structure and flooring are eligible for structural and building allowances, this is relief at 3% per annum on qualifying building costs. The relief is received from the completion of the facility (1 June 2026), and therefore calculated as follows for the period to 30 June 2026

$$£1,150k \times 3\% \times 1/12 = £2,875$$

The structural and building allowances will need to be disclosed on a statement and the allowances are included in the cost of the asset upon sale.

The Electric, Life, Thermal and Water although are based in the setting of the building are qualifying for plant and machinery allowances as they will benefit and function of the trade through the use in the facility.

These will benefit from FYA of 50%, leading to relief of the following:

$$£500k \times 50\% = £250k.$$

Structure	Flooring	Lift	Electric	Thermal	Water
£1,000	£150	£50	£250	£50	£150
SBAs	SBAs	IF	IF	IF	IF

The total relief is therefore as follows:

SBAs			£2,875
FYA @ 50%			£250,000
FYA @ 100%			£100,000
Total			£352,875

This would be an allowable reduction to the company's trading profit for the period to 30 June 2026 of £1,000.

Meaning that there will be an allowable loss for the period of **£351,875**. This will be able to be group relieved and allocated against any non trade loan relationship credits.

Loans

The company has also incurred costs on the expenditure by way of funding the works, through the use of loans.

The company deposited funds to finance the construction, the interest received will be accounted within the tax computations as non trading loan relationship credits, and offset with respective non trade loan relationship debits.

Loss relief

Loss Group

The Moss_Side PLC loss group will include entities which are 75% directly or indirectly controlled by the entity. Losses will be able to flow between entities by way of elections and agreements made by Moss-Side, to reduce other subsidiary company's trading profits, or non trade loan relationship credits.

Moss-Side PLC may also have consortiums, which are entities which are owned no more than 75% by any one party, Moss PLC can take its share of the entities profits and use this as a link company to share any losses through the group.

Disclosure to HMRC is required for any claims and surrenders within two years of the accounting period.

Trade losses

The company will have trade losses for the year to 30 June 2026 as a result of the capital allowance expenditure and potentially the beginning of trading following the completion of the factory on 1 June 2026. The trading losses will be able to be group relieved with other group company's whom are in Moss-Side PLCs loss group within a 75% loss group.

As the company has been set up post April 2017, there will be no restriction to the utilisation of these losses.

Trade losses are able to surrendered and reduce other company's trade profits.

Non trade loan relationships

The non trade loan relationship credits and deficits which arise within the company from the deposit of funds will be able to be first relieved by trading losses which are incurred within the company. After this any excess can be relieved by other group entities which are within a 75% loss group, to other entities total profits.

Non trading loan relationships post April 2017 are flexible losses and able to reduce total profits both within an entity and by way of group relief.

Should there be NTLR Deficits, these will also be able to be relieved with group company's in a 75% loss group.

Carry forward

If there is any excess trading losses or non trading loan relationship deficits, these can be carried forward to the AP 30 June 2027.

They can also be group relieved, however a group £5m deduction allowance will be in place, and the group will only be able to relieve up to 50% of the total profits after this deduction allowance.

Should the entity expect to make profits next year, then they may elect to carry these forward to reduce the future periods taxable profits.

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

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

Answer-to-Question- _5_

Transfer of Properties to Norwood PLC

The transfer of properties within a 75% gains group occurs at no gain and no loss, meaning that the transaction is effectively tax neutral and Norwood would occupy the properties at the base cost which they where originally acquired at.

This is also relevant for Stamp Duty land tax, non would be payable by Norwood on the allocation of properties within a 75% gains group.

Market payment of rent

The payment of rent needs to be at a market rate and deemed at arms length, this is in order to avoid any transfer pricing issues. As the group is large and transactions are occuring between group entities, a robust review of the market to ensure a comparable uncontrolled price is set for the rent to avoid HMRC imputing any adjustment to the tax computations.

Local and master files should also be set up to protect Norwood PLC and its subsidiaries in these intra group transactions.

Sale of lease (1)

The sale of the former head office would give rise to a chargeable gain.

The lease was started in 1 July 2018, and has therefore been held for a period of 6 years and 8 months. There is therefore a period of 49 years and 4 months left.

No indexation as acquisition post December 2017.

The lease had a period of more than 50years and therefore on start is 100% denominator

The pro-rate of the lease tables will therefore be as follows:

$$4/12 \times (99.657) + 8/12 \times (100.000) = 99.885$$

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Proceeds			£220,000
Cost	£200,000 x	99.885% / 100.00%	(£199,700)
Gain			£20,300

Grant of lease

The grant of a lease for a period which is less than that of 50 years will include a premium which is partly chargeable to rental income, which the rest residing in capital. This is calculated as follows:

$£50,000 \times 2\% \times (30-1) = £29,000$ - rental income - this will be allocated to rental income in the computations.

Capital element - £21,000.

Cost of the lease: $£150,000 \times a / A+B$

$£21,000 / £50,000 + £200,000 = £12,600$

Indexation allowance : $£12,600 \times 149.6-278.1 / 278.1 = £5,822$

Proceeds			£21,000
Cost			(£12,600)
Indexation			(£5,822)
Gain			£2,578

Sale of factory

The factory which was sold by Norwood PLC in April 2025, was initially owned and controlled by Southpool. The transfer of trade and assets within the group is known as a hive down and would not be considered a chargeable event as they are within a 75% gains group and therefore the cost of the asset disposed is deemed to be the initial £1m cost in 1995. The goodwill transferred and market value transferred are there tax neutral and not considered for this sale.

The refurbishment costs incurred in November 2018, recieved capital allowances of £0.6m meaning that they are qualifying plant and machinery and qualified for 50% first year allowances. (£1.2m cost and £0.6m allowance)

On the basis that this expenditure incurred is wholly and exclusively capital in nature this would increase the base cost, this is restricted by the 50% FYAs however as capital allowances have been received.

Calculation as follows;

Proceeds		£5,000,000
Cost		(£1,000,000)
Refurbishment		(£600,000)
Indexation	$(278.1-146)/278.1 \times \text{£1m}$	(£475,180)
Gain		£2,924,820

Rollover relief is able to be used in order to reduce chargeable gains. Rollover relief is allowed within a group when qualifying assets which are also depreciating (60 years or less), are acquired. The new factory is a replacement, being like for like and therefore matches this and therefore available to reduce a chargeable gain.

The relief is available on assets purchased 12 months prior or 36 months after. The election is required to be informed to HMRC 4 years after the date of the expenditure is incurred.

The plant and equipment is also available to reduce the relief, as this is qualifying, a depreciating asset and within the time frame. The plant and equipment would receive capital allowances. The plant and equipment would likely benefit from AIA and therefore provide a reduction in the company's trading profit for the year of £150k.

July 2024 is within the 12 months prior. Election can be made on the computation and informed HMRC of this on submission of the computation for the year ended 31 July 2025. The cost of the new building is £4.5m, the gain calculated is deemed to be the gains which are not reinvested. The recalculation is therefore as follows:

Proceeds			£5,000,000
Reinvested		Factory	(£4,500,000)
		Plant	(£150,000)
Gain			£350,000
Initial gain			£2,924,820
Rollover relief claimed		Balancing figure	(£2,574,820)

Gain			£350,000

The base cost of the new factory therefore reduces from the £4.5m paid to a value of £1,925,180. £4.5m minus the above rollover relief claim.

This reducing the base cost and therefore increasing the potential charge when it is eventually sold.

Stamp duty tax

Stamp duty taxes would also be payable on the new building in July 2024, this would be calculated at the commercial rates of tax as follows:

£150k @ 0% = £Nil
£100k @ 2% = £2,000
£4,250k @ 5% = £212,500

The stamp duty taxes increases the base cost of the asset further, this would be payable 14 days following acquisition.

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

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

Answer-to-Question- _6_

Hybrid Entities and financial instruments

Hybrid entities also known as opaque or transparent entities are companies which do not align with the same corporate accounting treatment as the UK.

Hybrid entities may be such things as an overseas LLP, where the local jurisdiction may not recognise the entity as being taxable within that country. This may lead to mismatches in accounting treatment and thereon hybrid mismatches, whereby transactions lack economic substance.

Another example seen frequently is US companies which have the check the box election, seeing them as an extension of the UK company and thereby not considered for local US taxation.

Hybrid financial instruments are legal documents and agreements which treat certain transactions in jurisdictions differently. This may include dividends. In the UK (if within a large group and a wholly owned subsidiary or small group and a DTT is in place), dividends are outside the scope of corporation tax. However in certain jurisdictions, deductions may be taken for dividends which would lead to hybrid mismatches.

For EastDene, the use of a Hybrid company may lead to hybrid mismatches where transactions are not treated and aligned with the UK leading to a tax advantage.

Diverted profit tax

The planned use of a hybrid entity can be countered through the OECD guidelines via the hybrid mismatch legislation. In the UK, this is known as the diverted profit tax, which looks to target avoidance of UK corporation tax.

Where there is a tax advantage gained in an overseas entity, leading to an advantage of 80%, the diverted profit tax legislation kicks in.

The calculation for the DPT is as follows:

$(31\% \times \text{Diverted profits (DP)}) + (31\% \times \text{DP} \times n/365).$

Administrative requirements

HMRC can issue a notice within 24 months of an accounting period, and a further payment notice 6 months after this date. Should they deem there is diverted profits, payment will be due within 30 days.

It would be advised that if EastDene are aware there is a tax mismatch of 80% between the jurisdictions, they inform HMRC immediatley. The timeframe is 3 months from the initial transaction. If this is delayed, potentially penalties may be issued, this would be geared via the potential lost revenue and fall within the % geared penalties too.

The diverted profit tax is seperate from the corporation tax regmime and administered via self assessmenet.

