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Chartered
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Excellence in Taxation

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- Tick box if you have answered in accordance with Scots Law
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Please tick which Advisory Paper you have attempted (if not already ticked below)

- | | |
|--|--|
| <input type="checkbox"/> Taxation of Owner-Managed Businesses | <input type="checkbox"/> Taxation of Individuals |
| <input type="checkbox"/> VAT on UK Domestic Transactions, IPT & SDLT | <input type="checkbox"/> VAT on Cross-Border Transactions & Customs Duties |
| <input type="checkbox"/> Inheritance Tax, Trusts & Estates | <input checked="" type="checkbox"/> Taxation of Major Corporates |
| <input type="checkbox"/> Human Capital Taxes | |

Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advisory

You must ensure that the Advisory Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

- For those candidates on the Indirect Tax Route you must sit the VAT on UK Domestic Transactions, IPT & SDLT Advisory Paper.
- For those candidates on the Indirect Tax Route you must sit the VAT on Cross-Border Transactions & Customs Duties Advisory Paper.

Instructions

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- Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
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Barley Group is large, trading group.

~~Barley Group~~

Generally disposals of shares to external parties are chargeable disposals subject to UK CT at 19%.

Disposals may ~~be~~ be exempt if SSE applies:

SSE conditions:

- ~~The~~ The vendor [Barley] must ~~be~~
- hold at least 10% ~~share~~ stake (share cap, voting rights, assets on winding up, distributable profits)
 - held for 12 months consecutively
 - ~~be~~ within last 24 months
 - ~~be~~ both companies must be trading immediately before & after disposal.

If SSE is met, the gain is exempt

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the loss is disallowed and SSE applies automatically.

If SSE applies, any degrouping charge is also exempt.

Barley is the holding company of a trading group \therefore trading conditions met.

Sweet corn Lease

Sweetcorn and Grandola - both 100% held by Barley \therefore within 75% gains group.

The HVR of a business premise within a gains group is at NAINL

- $\frac{7.5m}{\text{cost}} + \text{indexation} = 7.5m$
- ignore Sales proceeds or MV of 11m.
- automatic

For Grandola - HVR of lease is at NAINL

\therefore no chargeable disposal will arise.

~~Grouping~~
 De grouping charge may arise on
 NANL tfr of lease if Sweetcorn
 sold within 6 years
 and Sweetcorn leaves the group with
 the premises.

$$DC = MV \quad 11m$$

$$\text{less cost at tfr} = 7.5m$$

$$DC - \text{subject to } \underline{3.5m.}$$

Asset DC. UK CT chargeable unless SSE applies.
 - would arise on transferor company - Barley.

Soya

Soya, Sweetcorn & Barley within 75% gains group
 Internal sale of shares to Barley

- at NANL

$$\text{- cost + indexation} = 8m$$

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Sale of Sweetcorn

- Barley held 100% [$>10\%$] of Sweetcorn's shares
 - SSE conditions met
 - held for 12 mths, of past 24 mths
 - both trading
- Gain on disposal is exempt for Barley

$$\begin{array}{r} \text{SP} = 35\text{m} \\ \text{Cost Base} = 15\text{m} \\ \text{Ind}^x = x \\ \hline 20\text{m} \end{array}$$

~~exam~~ Rye Ltd

- external sale of shares for shares
- sale of 40% of 100% stake.
- SSE conditions met
- SSE takes priority over paper for paper exchange
- SSE will exempt the gain
- Barley's new shares in Clementine will be uplifted to market value 7m.

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Sale proceeds 7m
 cost base 40% x 8m (3.2m)
 chargeable gain 3.8m
 is exempt for Barley.

But new shares worth 7m.

Barley and Rye no longer in a 75% gains & loss group.

Muesli GmbH

- incorporated with 500,000 share cap
= cost base.
- = overseas company 100% controlled by Barley's CFC.
- sale of Muesli is external sale of shares and the disposal is chargeable.

General position: SSZ cannot apply because Muesli is not trading.

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Consider Second subsidiary exemption but also cannot apply as it won't meet the SSE main exemption within 2 years.

∴ SSE cannot apply to exempt disposal.

- The sales proceeds are ~~less~~ at different periods ∴ earnout.
- must include sales proceeds in calc if they are ascertainable.

$$\begin{aligned} SP &= 6m + 2m \text{ contingent consideration} \\ &= 8m \end{aligned}$$

Contingent consideration is still ascertainable and Marhen v Ingles
 - the right to receive it is a separate amount/asset and included in calculation.

$$\begin{array}{r} \text{Barley} = SP \quad 8m \\ \text{less cost} \quad 500,000 \\ \hline 7,500,000 \end{array}$$

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Barley should be chargeable on 7.5m and prepare its ~~cost~~ a compⁿ on this basis.

If 2m doesn't arise, then it can amend its CT computation.

Wheat

- SSE cannot apply
- only 5% shareholding [min is 10%]
- again earnout on flotation.
9m upfront is ascertainable but the payout on valuation must be independently valued and the "unascertainable" amt should also be part of consideration.

SP --	9m
Cost	(6m)
Payout	(x)
	<u>3m</u>

Barley

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Barley is chargeable on Bm
gain on sale of wheat.

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Emma Scarlett
FD - Paddle
< address >

Tax Adviser
TTLLP
< address >

Dear Emma.

The CT consequences are set out below.

- appointing a liquidator &
commencing liquidation process
will

- a) end the current accounting period
- b) start a new accounting period
that can last upto 12 mths or
on winding up [about 9mths]

- Any distributions made from Crown/
to Paddle pre liquidation
will be exempt dividends as
Paddle owns 100% \therefore controls >50%.

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Distributions made after liq commences are capital in nature and may be chargeable gains, subject to ET.

Draft Steps

i) Sale of L & B to external party is chargeable disposal

$$SP = 35m$$

$$\text{less cost } 25m$$

$$\hline 10m$$

This is a significant chargeable gain within the group.

~~It~~ more efficient to sell this before liquidation and have a pre-liq div to Paddle.

2) Butterfly

- Internal tfr of shares to Splashing
- Splashing & Butterfly are within 75% gain group with Paddle
- tfr occurs at ~~cost~~ - NANL
- cost + indexⁿ
- Splashing acquires shares at cost + indexⁿ.
- PAM tfrs at NANL - but no CA claimed in final A.P.
- Stock tfrs at mv = NBV

3) Trade Receivables if written off as bad debts will get a QT deduction. -

~~representative of~~

4) Excess cash

- pre liq - dividend that is exempt from tax to Paddle (owns >50%)
- post liq - capital distⁿ that is chargeable to tax.

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The capital dist may be exempt if SSE applies.

SSE conditions - ~~Paddle~~

- i) held ^{Paddle} 10% ~~by Paddle~~
- ii) for 12 mths consec
- iii) within last 24 mths
- iv) both trading companies.

main exemption

This will not apply once ~~£~~ Crawl is in liqⁿ & not trading.

But second subsidiary exemption could apply

- i) as ~~Paddle~~ Crawl is a UK resident
- ii) Paddle controls Crawl
- iv) main SSE exemption ~~is~~ would have been met w/in last 2 yrs.

~~For~~ Accounting periods will end when trade ceases or if lqn commences.

If lqn commences and trade ~~ceases~~ ceases after - this will not end an AP.

When lqn commences Crawl will be within a 75% gains group but will no longer be within 75% loss group.

Within gains group - it could fr the gains on sale of L&B to another 75% group member s171A - joint election within 2 years of end of AP.

If trade ceases before lqn, any trading losses could be group relieved (before ET claims).

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Terminal loss relief is ~~not~~ unlikely to be available as Crowl was loss-making in last 3yrs. ~~For~~ This is only available ~~at~~ going back 3yrs LIFO basis, and obtains CT refunds at higher rates.

5) Dissolved - lign admin dissolution with companies course.

Recommendation

- cease trading first & group relieve any losses
- ~~trf~~ gains within group
- make a pre-lign distⁿ to Paddle
- dissolve crowl within 2 years to get second sub exemption on the ~~disposal~~ disposal of shares.

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To: <Katie Murray @ Bikes>
From: <Charlie Green @ CTA>
Date: 1 May 2018
Subject: Share Schemes.

Hi Katie

Generally share schemes set up costs are allowed unless they are unapproved schemes.

- If unapproved setup costs are not allowed, no CT deduction
- the maintenance of the schemes is allowed as a CT deduction
- Generally all companies can get a CT deduction under CTA 09 unless they are the limited ~~co~~ sub of a limited parent company.

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CT deduction

Calculated as

$$\begin{aligned} & \text{market value at exercise} \\ & \text{less price paid at exercise} \\ & = \text{CT deduction.} \end{aligned}$$

The deduction only arises at MV at exercise [not at grant]

At grant ~~there~~ of options there are no CT implications

To get the deduction - must meet two stat conditions

- employee is a UK employee
UK resident
- the relevant employment is within ^{performed} the UK.
- employee with Bikes, the employing company, in relation to the qualifying business
- acquires the option to acquire shares because of relevant employment.

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The shares being granted are:

a) ordinary shares, fully paid up
& not redeemable

b) - listed on stock exchange

- not under control of another co
- shares under control of listed company.

The company ~~is~~ Bikes,

- must be shares in Bikes.

Bikes must also be within charge to corporation tax.

~~is~~

Therefore likely that Bikes will get a CT deduction on the shares.

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Shares exercised

a)

mv @ Exercise x

less price paid by ee (x)

CF deduction x

When 2 to 1 shares granted, the price paid is nil. ~~£~~

When listed in the future, the shares are readily convertible assets RCAs

as it will be listed company and its subs will also be within definition of Condition 2

~~£~~ In future, ^{options} shares could be granted in the listed parent or its subs.

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Briefing Note

To: Tax Partner

From: Tax Manager

Date: 1 May 2018

Subject: Theta Group

1) Alpha 1 & Alpha 2

- UK companies incorporated in UK
- UK resident
- ~~taxed~~ taxed on worldwide income & gains
- CT rate at 19%

Their membership interest in co-op partnership is chargeable to UK tax on profits it receives.

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2) The CFC rules

- a CFC is a ~~an~~ overseas company that is controlled by UK resident companies and individuals

control is if it owns over 50% or at least 40% [and o/s Co owns 55% max]

In this case - Alpha 1 & Alpha 2 own together the full 100%.
∴ Alpha Co-Op & Alpha BV are CFCs.

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Alpha Co - is a partnership in UK,
 ∴ consider look through p'ship
 to the Alpha BV company.

∴ Alpha BV is a CFC.

Generally, a CFC has 5 exemptions
 which if they apply, the UK co.
 owning over 25% will not get
 a CFC charge.

1. 12mth period - acquires a CFC & has 12mth
 grace period, no CFC will arise
2. Low Profits - less than 500K, NT element \leq 500K
3. Low Profits Margin - less than 10% margins
4. Excluded territories - listed
5. Tax Exemption - CFC tax territory rate is
 less than 75% of UK tax
 rate. i.e. less than 14.25%.

It is unclear if ~~the~~ the exemptions will
 apply. The tax exemption, low profits, 12mth
 period won't apply.

Unlikely that low profits margin will
 apply.

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Must review excluded territories to see if Netherlands is on list.

~~If the~~ Assumption - no exemptions apply.

Consider Gateways

1. Profits attributable to UK
2. Non-Trading Finance Profits Gateway [NTFFPG]
3. Trading Finance Gateway
4. Captive Insurer
5. Solo Consol.

- Likely gateway to apply is NTFFPG

- Generally interest income is 100% taxed if from the UK companies or o/s unconnected company

75% exemption can apply if

- the Qualifying loan is
 - to an overseas connected companies ie. its French subs and Alpha BV.
- the CFC must have a physical presence in the territory
- the ~~etc~~ borrower would have failed to meet the CFC exemptions

-- A 100% exemption will also be available if

a) there is a qualifying loan and the funds are from

a

- Qualifying Resource ie. not a UK parents injection
- the CFC must have a physical presence
- the borrower uses the funds in its territory of residence.

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Therefore the $\$300,000m \times 5\% = 15m$
interest income from
- French subs to Alpha BV
may be 100% from the
CFC charge as they fall outside
the NTFP Gateway.

However

- the dividend income from
Alpha BV to Alpha Co-Op
may be chargeable to UK.

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3) Several challenges

- HMRC may consider the Alpha Co-op to be an O/S PE.

- must prove that it has a fixed place of business or dependent agents

- if so, its an extension of UK operations & subject to ^{UK} tax on worldwide income & gains.

- Diverted Profits Tax may arise

- if transfer-pricing is not appropriately applied.

- Transfer Pricing

- large company, & connected.

- the loans must be arms length

-

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Calculations

Opening Deferred tax Bal. - 1 Jan 2017

NBV	109,370,000
Less: Gen Pool Gen Pool	(73,295,000)
SRP	(12,512,000)
SLA	(221,000)
DTL Balance.	23,342

Long periods of accounts

for CA - must split between 2

~~separate~~ separate periods to calc.

12 mths - 1 Jan 2017 - 31 Dec 2017

4 mths - 1 Jan 2018 - 30 Apr 2018.

Costing only entered group 1 Nov 2017
 & until this date used all of the
 AIA.

AIA is 200K $\times 100\% \times \frac{10}{12}$ mths = ~~200K~~ 167,000

Used in 12 mths to 31 Dec 2017.

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Following 4mths - no AIA available to use.

AIA - allocated to SRP additions first.

Additions

- Thermal insulation - 328 CA allowance at 18%.

- Improvements to ceiling is L&B, no CA allowed. capital expenditure

- Air con - generally 8% SRP but within FYA - 100% claimed ^{CA}

- Lifts - integral features 8%.

- Distⁿ equipment - brought into CA pool at GP 18%. when obⁿ to pay becomes unconditional.

- delivery date. ∴ 1 May 2017.

- dispute is not relevant.

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- Shortlife assets - under 8 yrs
- separate pool to accelerate CA in
- year of disposal

$$\text{Bal adj} = \text{SP} - \text{TWDV}$$

$$\begin{aligned} \text{Original acqn} &= 200 \times 2000 = 400,000 \\ \times 150 \text{ comp} &= 300,000 \text{ cost.} \end{aligned}$$

Sales proceeds are nil = 0.

$$\text{Bal adj} = 0 - [300 - 120] = 180$$

Ammonia

NEW Sales Proceeds	£ 750
- NEW NBV - Cost - Depn	[650 - 400]
= Gain/Loss	500

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QUESTION NUMBER

		166K available			
<u>CA Calc</u>	FYA	FYA AIA	GP	SRP	SLA
Opening TWDV		-	73,295	12512	221
<u>Additions</u>					
- Thermal			600		
- Air Con	732				
- Dist ⁿ			1834		
- Distⁿ				1834	
- Comp		167			1135 (167)
<u>Disposals</u>					
- Amonia			(500)		
- Computers					(180)
Total	732	167	- 73229	12512	1009
TWD at 100%	(732)	(167)			
at 18%			(1354)		(182)
at 8%				(1000)	1135
Closing TWDV - 31 Dec 2017.		-	61,688	11,512	827

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QUESTION NUMBER

CA Calc - 30 April 2018

~~2018~~

	GP	SRP	SLA
Op TWDV	61688	11512	827

Additions

Lift 175

NOAIA available

~~Total~~ 61688 11687 827

~~TWD = 18% x 4/12 (21108)~~ (149)

~~8% x 4/12 (935)~~

~~Clas TWDV 50585 10752 678~~

TWDV 18% x 4/12 (3701) (50)

8% x 4/12 (312)

Clas TWDV 57,987 11375 777

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Closing DT Bal

NBV	95,596
Less: GP	(57,987)
SRP	(11,375)
SLA	(777)
DTL Bal.	<u>25,457</u>

Increase in DTL Bal

$$25,457 - 23,342 = 2,115$$

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Computation - 30 Sept 2017

	<u>FCL</u>	<u>FPLC</u>
Net Profit	9390	5870
Adjustment	27700	
Bonus	3500	
Bad Debt	600	
Fines	20	
Ent ⁿ	730	
		(180)
		4459,000
TTP		10,49
GR Losses Bfid.		

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FPLC

60m excess losses can be group relieved
as FCL & FPLC are within 75%
loss group

But only for overlapping periods.

Asset Sale

Sale proceeds		12m
Cost		3.4m
Index ⁿ	$\frac{269.3 - 121.4}{121.4}$	4.141m
	= 1.218	
Chargeable gain		4,599,000 4,599,000

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Workings

a) Staff Bonus - only allowed if paid within 9 mths of end of AP.
 \therefore add back.

b) Ireland is O/S PE - extension of UK ops - taxed on WW I & G.

c) lease premium - short lease split into inc & cap.

Income

$$2m - 360k \\ = 1640, \text{ ~~000~~ } k$$

Capital

$$p \times 2\% \times (n-1) \\ 2m \times 2\% \times (10-1) \\ = 360,000 = \text{sales proceeds}$$

~~tenant~~

\therefore ~~disallow~~ X

d) leased car over 130g/km
 - disallow 15% of ~~lease~~ lease pmts if finance
 but this is operating lease - no adjustment required.

- if finance lease $5000 \times 15\% = 750$ - disallow

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- Lease premium - as tenant - allowable deduction of 200k.

- Computers - finance lease arrangement under 5yrs
- allow depn.

- impairment only allowed if debt is written off → add back 600,000.

- expenses for family are allowed ^{in CT.}
↳ taxed as employee benefits

~~•~~ Fine for health & safety must be disallowed, no dedn.

- All client entertainment is disallowed ∴ add back = 730k

- Donations are allowed as QCD.
- UK charity

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- FCL is UK Co, functional ~~the~~ currency sterling

\therefore all transactions are in sterling as if prepared in sterling

- A m exchange gain would not arise, ~~and~~ deduct from comp.
In OCT, no adjustment req.

- ~~Accounting for~~ ~~part~~ 0

Tax paid is €140,000 @ 1.05

£ 133,333

Fx gain

- No O/S PE Election \therefore DTR is available to offset UK tax

DTR - lower of UK tax or
~~the~~ O/S tax paid.

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