Institution **CIOT - CTA**
Course **Adv Tech Tax of Larger Comps**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID [redacted]

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**844**	**4260**	**5079**
Section 2	**895**	**4235**	**5060**
Section 3	**392**	**2109**	**2450**
Section 4	**846**	**4187**	**4934**
Section 5	**828**	**3934**	**4756**
Section 6	**284**	**1427**	**1671**
Total	**4089**	**20152**	**23950**

Answer-to-Question-_1_

Corporate interest restriction requirements:

As Newco Plc is newly incorporated, and this is the first year for financial statements, the company will have not submitted a corporate interest restrcition return before, it will therefore have no brought forward amounts.

The administrative requirement is for the worldwide group to appoint a reporting company for the period ended 31 December 2025. This notice must specify the first period of account for the group in relation to which the apppointment will have effect and this will be effective for the period ending 31 December 2025, and subsequent periods.

This notice must be submitted to HMRC within 12 months of the year end, being 31 Decemeber 2026, and must list all UK group companies, and a statement confirming that it is authorised by at least 50% of the elgible companies. Dormant companies do not need to be included. The appointment is effective, until it is revoked.

The appointment of a reporting company must occur before Newco Plc is able to submit a corporate interest restriction return.

Newco Plc must then submit the corporate interest restriction return (IRR)
within 12 months of the financial year end, being 31 Decemebr 2026.
If Newco wishes to make an election for the year ended 31 Decemeber 2025, then this is done via the IRR (for example, group ratio or alternative calculation).
The statements of calculation within the IRR, must include the relevant information for all UK group companies, for example net tax interest expense, tax-EBITA etc.

There is an option to submit a full IRR or an abbreviated IRR.

Where a full IRR is submitted, Newco Plc must show where the disallowance has been allocated.

If Newco fails to deliver the IRR the company will be liable to a penalty of £500 if delviered in 3 months or £1,000 in any other case. The penalty must be paid within 30 days of the company recieing the notice to pay.

Conditions that a company must satisfy for the Public infrastructure exemption:
Under TIOPA 2010, Section 433, a company is a qualyfing infasturcture company in the period where :
- it meets the infrastructure income test
- it meets the infrastructure asset test
- it is fully taxed in the United Kingdom
- it has made the elction

A company meets the infrastructure income test if all of its income is dervied from qualyfing infrastructure activities, shares in a qualyfing infasturcture company, loan relationships to which the other party is a qualyfing infasturcture company.

A company meets the infasturcture asset test where the total value of the company assets recognised on the balance sheet at the year end derives from tangible assets that are related to qualyfing infrastructure activities, service congression arrangements which relate to qualyfing infrastructure activities, financial assets for carrying on qualyfing infrastructure activities, shares in a qualyfing infasturcture company,and loan relationships to which the other party is a qualyfing infasturcture company.

For the purposes of above, qualyfing infrastructure activity is if the company provides an asset to public infrastruture which is a tangible asset forming part of the UK infrastructure, the asset meets public benefit test, the asset has econimic lfie of at least 10 years, and the asset meets group balance sheet test.

The public benefit test is whereby the asset procured by a relevant body or used int he course of a regulated activity.

Corporate interest restrction for the group:

Step 1 - Worldwide group

The worldwide group would consist of Newco Plc and all UK-group companies.

Step 2 - ANTIE

The aggregated net tax interest expense is £110,000,000

We will need to disallow the £20m of interest in Belroy UK Holdings.

110m - 20m = £90,000,000

Step 3 - Tax-EBITDA

Tax EBITA is £225,000,000

We will need to adjust for the disallowed managed service charges:

225m +10m = £235,000,000

However, where a company is a qualyfing infrastrute company for the period, the Tax-EBITA is nil for than company, so therefore a further £15m must be removed.
235m - 15m = £220,000,000

Step 4 - Interest allowance

The interest allowance has been calcuated under the fixed ratio on the basis the group ratio is not preferred.

Fixed ratio basic interest allowance is lower of:
- 30% of Tax-EBITDA
= 30% * 235m= £70,500,000
- Fixed ratio debt cap = adjusted group interest expense plus excess debt cap. This would be ANTIE, as there is no excess debt cap.
= £90,000,000

Therefore, the interest allowance is the 30% as this is lower - £70.5m

Step 5 - Interest capacity

If a wordwide group comtains a qualyfing infrastructure company for the period, the interest capacity is calculated as if there is no de minimis provisions**.**

Interest capacity = higher of de minimis of £2m or the interest allowance.
Therefore, the interest allowance is £70.5m

Step 6 - Disallowance

The disallownce is the ANTIE less the interest allowance.

£90m - 70.5m = £19,500,000

The corporate interest restcrtion is £19,500,000

Step 7 - Allocate the disallowance

Newco Plc can decide how it would like to allocate the disallowance accross group companies.

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

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

Answer-to-Question-_2_

	AIA	FYAs	Main Pool	Special rate pool	SBA	Notes
Tax written down value brought forard			6,000,000	1,000,000		
Warehouse	1,000,000				8,000,000	N1
New plant and machinery		3,000,000				N2
Second-hand plant			2,000,000			N3
Alterations for new plant		300,000				N4
Alteration costs to office					1,800,000	N5
Offices - integral features		100,000		100,000		N6
New office equipment		500,000				N7
Vans		2,500,000				N8
Disposals - Plant A			(150,000)			N9
						N10
Total for WDas			7,850,000	1,100,000		

WDAs			1,413,000	66,000	80,000 + 27,000 = 107,000	N1, N5, N 11
Total Capital allowances claimed	1,000,000	6,400,000	1,413,000	66,000	107,000	**8,986,000**
Tax written down value acrruied forward			6,437,000	1,034,000	9,693,000	

N1) Shellnic acquired the warehouse which had been constructed by the developer. Structures and Buildings allowances (SBAS) are available to be claimed where the construction eings on or after 29 October 2018 and it is used for non-residential use. Section 270BD of the CAA 2001 applied where expenditure is incurred by the developer, and the interest in the building is sold by the developer before the building is first used. If the sale by the developer is the only sale before use and a capital sum is paid by the pruchaser (being Shellnic in this scenario), then the capital sum is qualifying expenditure. This means that the company can claim SBAs on the cost of the building they paid. This would be £8m, being £12m paid less £3m cost of land and £1m integral feautres.
The integral features will be part of the special rate pool. As Shellnic has AIA availablity, the full £1m has been allocated to claim AIA AS IT IS MORE BENEFICIAL to claim SRP assets rather than MRP.

SBA WDA can be claimed from the date in which the warehouse came into non-residential use, which is 1 September 2025, therefore 4 months of the year.
SBA WDAs = £8,000,000 * (4/12) * 3% = 80,000

N2) The new plant and machinery acquired will qualify for First year allowances (FYAs) at 100%, as it is new and not second hand.

N3) The second hand plant from competitor will not qaulify for FYAs as it is not new, therefore this must be added to the main rate pool and claim writing down allowances ay 18% per annum. It could be allocated to the annual investment allowance (AIA), however it is more benefial to claim items from special rate pool, as the WDA is lower at 6%, so this results in maximising the claim for capital allowances.

N4) The costs that that were incurred for the alterations to install the new plant, will also

qualify for the FYAs on the basis that this expenditure was incurred on the provision of the plant and machinery and the works representing the expenditure formed part of the plant and machinery under Section 25 of the CAA 2001.

N5)The office building was constucted in 2010, so this was before 29 October 2018 for SBAs, which mean that SBAs cannot be claimed on the original construction. As such, the costs of £3m is not eligble for capital allowances.

However Section 270BJ of the CAA 2001, states that expenditure incurred on the renovation or conversion costs of a building or repairs to part of the building, are treated as if it was expenditure on the construction of the building for the first time.
Under Section 270BG of the CAA 2001, planning permission is an excluded cost and can therefore not claim CAs on this.
As such, the alterations sum to £1.8m (being £2.1m less planning costs and integral features), and these are elgible for SBAs.
SBA WDA can be claimed from the date in which the offcies came into non-residential use, which is 1 July 2025, therefore 6 months of the year.
SBA WDAs = £1,800,000 * (6/12) * 3% = 27,000

N6) The integral features included in the alteration costs will qualify for 50% FYAs, as they would have been allocated to the special rate pool. The remaining £100,000 will be allocated to the SRP and claim WDAs at 8% annually.

N7) The new office equipment will qualify for FYAs at 100% as it is new and not second hand, and is consider plant for the purposes of capital allowances.

N8)Vehicles purchased under hire-purchase contracts can claim capital allowances. = 48 payments * 50,000 = £2,400,000 plus deposit of £600,000 = £3,000,000
Less £500,000 of finance costs = £2,500,000

Vans qualify for FYAs, therefore 100% relief is available on the £2,500,000 this year.

N9) The plant A disposed of will need to be removed from the pool. The proceeds amount is what shoud be removed from the main rate pool.
Proceeds = NBV - loss on disposal
Proceeds = 250,000 - 100,000 = £150,000

N10) As Plant B was acquired in 2022, when 130% superdeduction was available on main pool expenditure, it is likely that 130% allowances were claimed. As such this is not removed from the pool, but instead a balancing charge must be added to the tax computation in relation to this disposal.

Where the disposal is after 31 March 2023, this balancing charge is equal to proceeds.
Proceeds = NBV + profit on disposal
Proceeds = 500,000 + 100,000 = £600,000

Therefore the balancing charge is £600,000

N11)
WDAs are 18% for main rate pool and 6% for special rate pool

MRP = 7,850,000 * 18% = 1,413,000
SRP = 1,100,000 * 6% = 66,000

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

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

Answer-to-Question-_3_

Freehold Factory

Proceeds	30,000,000	July 2025	
Indicental costs	250,000		n1
Total Proceeds	29,750,000		
Historical cost + acquisition costs	(20,100,000)	June 2012	N2
Second workshop	(3,000,000)	June 2016	
Cost before indexation	(23,100,000)		
Indexation - historical	(3,017,492)	278.1-241.8)/241.8	
indexation - workshop	(171,038)	(278.1-263.1)/263.1	
Chargeable gain	3,461,470		

N1)The incidental costs of sale can be deducted from the proceeds, to reduce the chargeable gain as they are directly associated with the disposal of the asset.

N2) The incidental costs of acquisition are included in the historical cost, as they are directly associated with the acquisition of the asset.

N3) The enhancement expenditure for the new workshop has not been included as this was later demolished, so is no longer part of the asset.

N4) The nhancement expenditure for the second workshop is included as enhancement expenditure.

N5) Indexation was frozen on 31 December 2017, so is only included to this point.

Leasehold office
As the lease is less than 50 years this is a short lease. As such a proprtion would have been treated as income when acquired.
£4m * 2% * (40-39) = 800k

Therefore the chargeable gain cost is £3,200,000

Proceeds	5,000,000		
Cost	(3,200,000)		
Indexation	(480,397)	278.1-241.8)/241.8	
Chargeable gain	1,319,603		

Indexation is charged from June 2012, to Dec 2017 when it was frozen.

Specialised plant and machinery
Moveable plant and machinery is chattels, and these are not included for chargeable gains purposes.

Proceeds	250,000		
Cost	200,000		
Gain	50,000		

No indexation applied as it was acquired after Decemeber 2017.

Rollover relief
As the company has reinvested £4.5m into a new office building, rollover relief may be available in respect of this reinvestment.

Rollover relief is available where the companny reinvests the proceeds of an asset 12 months before or 36 months after the disposal, which this is the case as the new office was acquired Decemeber 2025.

The asset disposed of and new asset acquired must be used in the trade.

Rollover relief can only be claimed on the proportion reinvested, which means that the amount not reinvested must be chargeable to a gain immedietly.

Proceeds recived:
- £30,000,000 for factory
- £5,000,000 for Leasehold office
- £2,000,000 for plant and machinery

Total = 37.5m

As only £4.5m of this has been reinvested, therefore £33.5m must be chargeable now, which means rollover relief is not available, as the chargeable gains are less than this amount.

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

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

Answer-to-Question-_4_

Ayleswood rental income should be computed as UK property business income in the tax computation.

For the year ended 31 March	Notes	Ayleswood	Binley	Total	
		£	£	£	
Profit before tax		75,000	600,000	675,000	
Add back:					
Profit on grant of leasE	N2	100,000			
Depreciation	N3	50,000	250,000		
Client entertainment	N5		20,000		
Promotional gifts	N6		31,000		
Deduct:					
Capital allowances	N7, 8, 9	7,200	651,000		
Interest income	N11	50,000			
Taxable profits			250,000		
UK property business		167,800			
Non trading lan relationship income		50,000			
b/f losses			(250,000)		
b/f Group relief		(217,800)			
Taxable profits		nil	nil		
Chargeable loss carried forward		(126,621)			
Trading losses carried forward			(32,200)		

N1) The grant of the 55-year lease is a long lease, as it is greated than 50 years, therefore

no element of the premium should be consider 'income' for the period. Instead, there is a chargeable gain, on the part disposal of land by Alyeswood.

Part disposal costs = costs * (A/(A+B) , where B = the reversionary interest

Costs = 300,000 * (150,000/(150,000+200,000) = 128,571

Lease	148,000	The lease premium less the cost to Alysewood to grant the lease			
Costs	(128,571)				
Indexation	(146,050)	278.1-130.2/130.2	Jan 1991 to Dec 2017		
Chargeable loss	(126,621)				

N2) The profit of grant of lease has been added back as this is capital in nature.

N3) Depreciation is capital in nature so must be added back, and instead capital allowances will be calculated on the capital expenditure.

N4) The legal and professional fees in relation to the audit and accountnacy fees, and the employee related avice are allowable, as they relate to day-to-day operations, however they must be allocated to the UK property business trade.
The advice in relation to the shareholders agreement is capital in nature, and is therefore non-deductible.
The grant of the lease is non-deductible in the tax computation, as capital in nature, however this can be brought in as indicidental cost in the chargeable gains calculation as this is wholly and exclusievly in relation to that lease.

N5) As the offices costs staff christmas party are staff costs, and are less than £150 per head, this is an allowable deduction.

N6) Travel costs and the marketing team conference are allowable deductions for corporation tax, as they are wholly and exclusevly for the trade.
The client entertainment is non-deductible as this is third party entertainment.

N6) The pens and notepads are allowable as this is advertising as it shoes the company's name, however the chocolate bars and wine are non-deudcitble on the basis they are food and drink items. As such, £31,000 will need to be added back.

N7) As the new machinery has been delivered, the unconditional obligation to pay the cost has come into being, and as such, the full amount of £150,000 can be claimed in the capital allowances calculation. This is because it is not more than 4 months from the date of delivery that the final amount is due. The new machinery will qualify for 100% FIRST YEAR ALLOWANCES (FYAs) as it is new and not second hand, and would be added to the general pool.

N8) The group will have the annual investment allowance (AIA) of £1,000,000, which can be used to claim 100% allowances in the first year. This is more favourable than FYAs as there is no balancing charge on disposal, therefore the machinery has claimed AIA over FYAs.

Binley

	AIA	**FYA**	**General Pool**	**Special rate pool**	**Total CAs**
Opening tax written down value			2,750,000	100,000	
New machinery	150,000				
WDAs			495,000	6,000	651,000

Ayleswood

N9) As there has been a part disposal of the warehouse in Ayleswood, due the fact it has been leased out to a third party under a long lease, the fixtures in the property need to be removed from the pool which is £10,000.
The remaining general pool can continue claiming WDAs at 18%

	AIA	**FYA**	**General Pool**	**Special rate pool**	
Opening tax written down value			50,000		
Lease part disposal			10,000		
			40,000		
WDAs			7,200		

N10) As Binley is 100% owened by Ayleswood, they are in a group relief group as the 75% ownership test is met. This means they can relieve profits by surrendering losses. However, brought forward losses are restricted when they exceed £5m due to the deductions allowance, however this does not apply to this scenario as the profits are less than £5m.
The UK property business income and the non-trading loan relationship income can be releived via group releief as there are no restrictions to this as the companies are in a group relief group.

N11) The interest income is a non-trading loan relationship receipt, as it is not wholly and exclusely. Therefore this has been categorised as such.

No corporation tax is therefore payable in either of the companies.

The capital losses carried forward can only be utilised again capital gains in Ayleswood in future periods, however they could be transferred to Binley using a s171 election, should Binley make a capital gain in the future. The company would need to elect to do this.
The trading losses carried forward are not restricted on the basis they occured post-April 2017

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

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

Answer-to-Question-_5_

The two options which are to be discussed are the incorpration of an overseas subsidiary or through a pernament establishment.

Pernament establishment (PE)
If the contract is fulilled through Doncar Limited, this woulld be considered apernament establishment.

A pernamnet establishment is when a company has a fixed place of business through which the business is carried on, or an agent acting on behalf of the company. A fixed place of business is a place of management, an office , a branch, a factory, a workshop. If the business activities being carried out are preparatory or auxiliary in character, then the company is deemed to not have a PE.

However, in the case of Doncar, the expansion overseas is going to be for an overseas contract, therefore it would not be considered preparatory or auxiliary in nature, as they will be concluding a contract abroad.

Where a company has a PE, they are taxable to corporation tax on all profits wherever they arise. It will also be chargeble to chargeable gains on the disposal of assets.

Expenses are treated in the same way they would for corportion tax purposes, and transactions are considered to have been at arm's legnth.

A PE can claim capital allowances in respect of the assets used in the PE.

Releief for losses would be available between Doncar and PE, for example, if the PE made a loss, Doncar would be able to use the loss against taxable profits.

Double tax releif may be available where Doncar has had to pay foriegn tax in the overseas country. This DTR would be equal to the lower of corporation tax suffered in the UK or overseas tax paid.

The company can elect to exclude the taxable profits from the charge to corporation tax through a CTA 2009 s.18A election, however this election is irrevocable, and would apply to all branches in the future, so therefore may not be beneficial in Doncar's case, should it it have other overseas contracts in the future.

The election is effective from the first day of the next accounting period. If the PE has surrendered losses to Doncar in prior to this election, then there will be a clawback for the losses, and there will be an opening negative amount in respect of the election which means that the PE will need to pay tax on the amount equal to the losses before the election becomes effctive.

Whether an election would be worthwile would depend on the tax rate payable in the overseas jurisdiction, and whether Donacr expects the PE to be profitable in the future or loss making.

Therefore, taking on the overseas construction contract would result in potentially tax being paid in both the overseas jurisidction and the UK.

Overseas subsidiary
If Doncar sets up an overseas subsidiary to fufil the overseas, they would not automatically be chargeable to corporation in the UK on profits, however there are different provisions which the ocmpany must consider.

The overseas subsidiary would prepare their financial statements following the jurisdiction guidelines, and pay tax at the foreign country rate.

The company would need to assess whether HMRC may deem them to be resident in the UK. This is based off whether the company is centrally managed and controlled (CMC)in te UK. The CMC is the highest level of decision making and control for the company.

As the overseas country has a double tax treaty with the UK and follows the OECD model treaty, it is likely that the overseas subsidiary will determine residency on the place of effective management, which is in line with CMC for the UK.

Therefore, if the board are based in the UK, and decisions are made in the UK, then it is likely that HMRC would consider the overseas subsidiary to be resident in the UK, and as such it would be chargeable to corporation tax in the UK.

If Doncar ensures that the decisions for the overseas subsidiary and the board are based in that jurisdiction, then the place of effective management would not be deemed to be the UK.

There may be a contorlled foreign companies (CFC)charge in Doncar even if the overseas subsidiary is not deemed to be UK resident, if none of the five exemptions apply. A CFC is a non-UK company which is controlled by a UK person. This would be the case for Doncar, as it will be a 100% subsidiary so the contorl test will be met. As it is a single overseas contract it is likely that either the low profits, excluded terrotories or tax

exemption may apply. If the exemption applies, then no CFC charge will arise in Doncar, however if the exemptions do not apply, then Doncar will need to assess whether the profits would go through one of the five gateways, and be chargeable in the UK.

Group relief would not be available between Doncar and the foreign entity as group relief cannot be surrendered/claimed to foreign companies.

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

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

Answer-to-Question-_6_

Deferred tax asset/(liability) position

	Fixed assets	**Losses**	**Unpaid pensions**	**@25%**		
Brought forward	0	0	0			
Pensions unpaiD			5,000	1,250		
Losses		2,645,000		661,250		
Fixed assets timing difference	1,700,000			(425,000)		
Deferred tax asset				**237,500**		

Fixed assets - deferred tax

		@25%			@25%
NBV b/f	0	nil	NBV c/f (N1)	1,700,000	425,000
TWDV b/f	0	nil	TWDV c/f	0	0
Deferred tax liability on FAs					425,000

N1) NBV c/f = £2,000,000 additions less depreciation of £300,000

Explanation
Deferred tax must be accounted for where there is a timing differences between the tax charge and the financial statements.

For fixed assets, the company has claimed acceletated capital allowances, which means there is a timing difference between the net book value in the accounts, and the tax written down value. As such, there is a deferred tax liability of £425,000 on this difference which must be recognised in the accounts.

For the unpaid pensions contributions, there is legislation which states that pension contriutions are only allowable for a deduction in the tax computation, where they have been paid. As £5,000 has not been paid, this must be carried forward and deferred tax asset will be recognised on this as a deduction will be allowable when the pension contributions are paid.

For lossses, a company should only recognise a deferred tax asset, where it expects to make a profit (to utilise the losses against) in the near future. It is assumed that SquareBlue is expecting to make a profit, and as such the deferred tax asset has been recognised in respect of losses. Should this not be the case, and the company expects to be loss making for the foreseeable, then this asset should not be recognised in the financial statements.