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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Answer-to-Question-_1_

1)

Argon plc is a company with investment business, as it is not carrying on a trade and holds investments in subsidiary comapnies, and therefore deductions can be made when preparing the corporation tax return for management expenses.

Management expenses are deductible from total taxable profits in teh year that they are incurred or they can be carried forward and offset against total taxable profits of future periods, subject to the 50% maximum offset and the deductions allowance.

The internal costs which include appraising requests for futher equity funding and making recommendations to the board are deductible as management expenses as they are informing the decision that will be made by the board.

The fee paid to investment bank for finding a purchaser is a capital cost and would therefore be deductible from the proceeds of the sale when preparing the chargeable gains computation.

The legal fees relating to the execution of the sale of Neon BV are a capital cost and therefore are deductible from the proceeds of the sale when preparing the chargeable gains computation.

A wrongful dismissal of an employee is no longer incurred wholly and exclusively as the employee is no longer an employee of the business and therefore will not be deductible. Under s.1240 CTA 2009, the employment is not being carried on wholly in the

employer's business and therefore will not be deductible as a management expense.

2)

A loan relationship is a money debt arising from the transaction of the lending of money. Interest debits and credits follow the accounting treatment under GAAP. Interest can either be categorised as trading or non-trading. As Argon plc does not carry on a trade, the interest receivable / payable will be classified as non-trading.

Non-trade loan relationship debits and credits are pooled. If there is a net credit position then this is taxable and if there is a net debit position then this can be deducted from:

1. total taxable profits of the accounting period in which they arise
2. total taxable profits of future accounting periods (subject to the 50% maximum offset and the deductions allowance);
3. group relieved against total taxable profits of other companies that are a member of the loss relief group; and/or
4. carried back against NTLR credits of the previous accounting period.

Argon plc's current interest position is as follows:

	£		

Argon Pte Ltd	0	£400m * 0%	
Argon SA	15,000,000	£200m * 7.5%	
Payable to third parties	(200,000,000)		
	(185,000,000)		

There are anti-avoidance provisions however which can impact the deductibilty of the interest debit and change the interest debit / credit.

Firstly, it must be established if any of the loans are held for an unallowable purpose under s.442 CTA 2009. This means that the loan is not held for a commercial reason and the main or one of the main reasons for the loan is for the avoidance of tax. This does not appear to be the case and therefore, it has been assumed that there is no restriction under the unallowable purpose provisions.

Secondly, if Argon plc was incurring related party interest expense then this would be more relevant to determine if there is a hybrid mismatch, for example where the income is not taxable overseas so therefore the primary response is to deny the interest deduction in the UK.

Transfer pricing

Then transfer pricing must be considered, before any corporate interest restriction (CIR). Loans held and interest payable on loans held between related parties must be held at arm's length. This means that the quantum of the loan and the interest rate payable is the same as would be received and interest payable if the loan was made between two independent enterprises transacting under similar conditions. There is an exemption for SMEs however this is unlikely to apply as this only applies where turnover is less than or equal to EUR 50m or balance sheet assets are less than or equal to EUR 43m and there are less than 250 employees.

Connected parties are those that are 51% subsidiaries by control and management of the parent and therefore Argon Pte Ltd and Argon SA are both connected and therefore these loans should be arm's length.

As a result of transfer pricing, there may be adjustments

required where the interest payable is not on an arm's length basis.

It appears that the loan held between Argon plc and Argon SA is arm's length.

The loan held between Argon plc and Argon Pte Ltd does not appear to be arm's length and as a result, a UK tax advantage has been obtained. An adjustment will therefore be required, at 7.5% of the loan quantum. Therefore, non-trade loan relationship credit of £30m should be recognised, which is £400m * 7.5%. This adjustment will be required in the corporation tax return. There is no certainty that they will be allowed a corresponding adjustment in Singapore, no physical payment is required to be made and no adjustment is required to be made in the accounts.

As a result, the interest position for Argon plc is now as follows:

	£		
Argon Pte Ltd	30,000,000		
Argon SA	15,000,000		
third party	(200,000,000)		
	(155,000,000)		

Corporate interest restriction

A group for CIR purposes is its ultimate parent entity and its consolidated subsidiaries. Therefore, the group is Argon plc, Neon BV, Argon Pte Ltd and Argon SA. However, it is likely that Neon Ltd will fall out of this group from the year ended 31 March 2025 as it will not have been a group member during this time.

Once this has been established, the net interest position for all UK entities must be established. The only UK entity is Argon plc. CIR is considered after transfer pricing and therefore the adjustment must be included in the net position.

There is no CIR disallowance where the UK aggregate net total interest expense (ANTIE) is less than the de minimus of £2m. This does not appear to be the case for Argon plc.

As withholding tax has been deducted from the interest payable by

Argon SA, this needs to be considered when determining the ANTIE, as follows:

WHT: (£15,000,000 - (£15,000,000 * 10%)) / 25% = £54,000,000

The tax EBITDA for the UK needs to be determined, which makes adjustments for capital allowances, amortisation, interest and taxation. The tax EBITDA for the UK will be as follows:

	£m		
PBT	665		
Interest from third parties	200		
Interst from group companies	(15)		
	850		

Depreciation has already been adjusted for, as have the exempt dividends, when calculating the TTP for Argon plc.

The group tax EBITDA is:

	£m		
PBT	800		
Interest payable	200		
	1,000		

The interest capacity is calculated using the fixed ratio rule or if by election, the group ratio rule.

the fixed ratio is determined as the lower of:
1. 30% * tax EBITDA = 30% * £850m = £255m
2. Fixed ratio debt cap for the group = ANTIE + b/f disallowed interest = £155,000,000 + £45,000,000 = £195,000,000

the lower is £195m

the group ratio is determined as the lower of:

1. (QNGIE/group tax EBITDA) * tax EBITDA = (200m/1,000m) * 850m = 20% * £850m = £170m
2. Group ratio debt cap = QNGIE + excess debt cap = £200m + £45m = £245m

the lower is £170m

The QNGIE does not include related party interet, only third parties and therefore the QNGIE is £200m.

Therefore, an election should not be made to use the group ratio as this generates a lower interest capacity of £170m as opposed to the fixed ratio which generates an interest capacity of £195m.

The ANTIE is £155m and therefore there is no interest disallowance as there is excess interest capacity of £45m.

3)

Argon plc must submit a interest restriction return for the year ended 31 March 2024 by 31 March 2025, 12 months after the end of the period of account.

A return should still be made even if there is no disallowance.

There is no disallowed interest to carry forward as this has been utilised.

An IRR can only be submitted after a reporting company has been notified to HMRC. It appears that as there has been previous disallowances, this will likely have already been done. As Argon plc is the only UK entity, Argon plc should therefore be the reporting company and the entity that makes the IRR's to HMRC for each accounting period.

A reporting company is notified to HMRC for the accounting period in reference and any subsequent accounting periods.

Either a full or abbreviated return can be made to HMRC. It would be recommended that Argon plc file a full return as they have interest disallowacne and the only way that this can be used in future periods is to submit a full return. Interest disallowances

do however expire after five years.

Therefore, for the periods whereby the interest disallowance has been carried forward from, the originating periods, it is imperitive that these periods have a full IRR and therefore any abbreviated IRRs may need to be withdrawn and a full IRR submitted so that the interest disallowance can be utilised.

An abbreviated return could also be filed and then replaced in a future period with a full return, so that the disallowance can be utilised.

The return should contain:
1. Name and UTR (where relevant, which it is for Argon plc) of the UPE;
2. Return period of 1 April 2023 to 31 March 2024;
3. Names of entities in the group and UTRs, however they will not have UTRS, along with whether it is a consenting or non-consenting company
4. Statement of calculations of Argon plc's net interest position, company's tax EBITDA for the period, ANTIE, interest capacity of the group etc...
5. Whether the group is subject to an interest disallowance

As there is excess interest capacity of £40m when comparing ANTIE to the fixed ratio method, this amount can be carried forward. It must be stated in the return.

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

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

Answer-to-Question-_2_

1)

Capital allowances can be claimed on qualifying plant and machinery expenditure and on any structures and buildings allowances at a rate of 3% per annum.

Period: 1 January 2023 - 31 December 2023 therefore straddle year for first year allowances purposes.

	AIA @ 100% (£)	FYA @ 107.5% / 100%	FYA @ 50%	General pool (£)	Special rate pool (£)	CA (£)
TWDV b/f				4,000		
Kitchen equipment (1)		1,150				
Strengthening floor (3)		30				
Furniture (4)	600					
TVs (5)	400	300				
Painti		800				

ngs (7)						
Cars (8)					500	
AIA @100%	(1,000)					1,000
FYA @ 107.5 %		(1268 .5)				1,268.5
FYA @ 100%		(1,10 0)				1,100
WDA @ 18%				(720)		720
WDA @ 6%					(30)	30
CA						4,118.5
TWDV c/f				3,280	470	

The annual investment allowance of £1,000,000 per annum appears to be unused by other group entities and therefore Monck Ltd will qualify for this. Special rate expenditure should be given AIA in priority of general pool expenditure.
AIA should be used in priority of FYA where avialable as no balancing charge arises on disposal of assets where AIA has been claimed.

The first year allowances can be claimed on new plant and machinery. Where the expenditure is incurred between 1 January 2023 and 31 March 2023, the rate is 107.5% for general pool expenditure as (100% + (30% * 3/12)) as only 3 months of the accounting period fall into the FYA @ 130% regime available in 1 April 2020 to 31 March 2023. Any general pool expenditure incurred post 31 March 2023 will qualify for 100%.

The rate for special pool expenditure on new equipment is FYa @ 50% irrespective of when the expenditure is incurred.

General pool qualifies for writing down allowances of 18% and the special rate pool for 6%.

1. The new kitchen equipment qualifies for CA's under List C which allows capital allowances for cookers, wash basins etc and other kitchen equipment. As per above, it qualifies for FYA @ 107.5%

2. The fees for transporting and installing the equipment will not qualify as even though they are a capital cost of the kitchen equipment, they are not qualifying costs for capital allowances purpo

3. Strengthening the kitchen floor to instal equipment is also listed in List C and therefore is eligible for FYA @ 107.5%.

4. Restoring the furniture. It has been assumed that as it is dilapidated, it is therefore no longer useable and this expense has been incurred to make the furniture useable again. thereire ut will qualify for capital allowances either FYA @ 100% or AIA @ 100%. AIA should be given in priority.

5. TVs qualify for FYA @ 100% or AIA @ 100%. AIA should be given in priority. This is because they are an asset with which the trade is carried on and not in which the trade is carried on.

6. Wall insulation for guests room is not qualifying for plant and machinery allowances. This is because it is not an asset with which the trade is carried on. As it is also not qualifying expenditure for structures and buildings allowance, it is not eligible for 3% per annum structures and buildings allowances.

7. The paintings to decoraote the lobby and rooms are listed in List C as they are decorative assets for the use of the public in a hotel and therefore qualify for CA.

8. The cars have emissions over 50g/km and therefore are special pool expnediture. Cars do not qualify for FYAs or AIA.
As the car dealership retains legal ownership until the final payment is made, this appears to be a hire purchase contract. Therefore, when the cars are first brought into use, the capital cost of the assets qualifies in full.

The total CAs that can be claimed are £4,118,500 for the accounting period ended 31 December 2023.

2)

A deferred tax asset / liability can be recognised when it is probable that the temporary difference will reverse in the foreseeable future and that there will be profits against which the temporary difference will be able to reverse/

	NBV	TWDV	
1 January	-	-	-
31 December	300	470	170
CT @ 25% (note below)			42.5

There will be no requirement to reverse out the deffered tax asset / liability recognised at the commencement of the accounting period as the vehicles were only purchased during the accounting period.

The corporation tax rate for the period will be 23.5% ((19% * 3/12) + (25% * 9/12)). However, it has been assumed that Monck Ltd will recognise the deffered tax asset based on a tax rate of 25% as this will be the rate at which they are paying in the future.

A deferred tax asset will therefore be recognised of £42,500, as the tax written down value exceeds the net book value.

The entries required will be:

Dr deferred tax asset 42,500

Cr deferred tax income 42,500

If the rate were to be calculated at 23.5% by the company then the relevant amount would be £39,395.

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

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

Answer-to-Question-_3_

1)

Zutroy plc will have a chargeable gain arising on the disposal of the shares in Rukim Ltd.

The chargeable gain will be determined as follows:

	£		
Proceeds	100,000,000		
Ordinary shares cost	(2,000,000)		
Preference shares cost	(1,000,000)		
Indexation on cost (W1)	(5,625,039)		
	91,374,961		

W1

Indexation is not rounded to 3dp as the shares were acquired after 1 March 1985.

((278.1 - 96.73) / 96.73) * £3m = £5,625,039

As Zutroy plc holds 100% of the ordinary share capital in Rukim Ltd, they will be in a capital gains group. A capital gains group is made up of the parent company and its 75% direct subsidiaries and 51% indrect subsidiaries.

This means that the intra-group asset transfer of the office building will have occured at no gain / no loss.

As Zutroy plc diposes of the shares within 6 years of the no gain / no loss transfer, a degrouping charge will arise which is added to the gross proceeds for Zutroy plc on the disposal of the shares.

The degrouping charge will be as follows:

	£		
Deemed MV on transfer	5,000,000		
Cost	(200,000)		
Indexation	(192,000)		
	4,608,000		

The degrouping charge is calculated as at the date of the no gain / no loss transfer which is 1 October 2023.

W2

Indexation is rounded to 3dp

(278.1 - 141.9) / 141.9 = 0.960

0.960 * £200,000 = £192,000

A degrouping charge can be reduced on a just and reasonable basis, with agreement from HMRC, under s.179ZC TCGA 1992. This will occur where the sale of the asset to the related party has been made at undervalue.
The sale was at undervalue as it were made at its book value of £500,000 and not at its market value of £5,000,000.
Therefore, a just and reasonable adjustment would be to reduce the degrouping charge by £4.5m which is the difference between the MV at the date of transfer and the consideration paid.

The degrouping charge will now be reduce to £108,000.

The chargeable gains calcualtion will now be:

Proceeds	100,000,000		
Degrouping	108,000		
Ordinary cost	(2,000,000)		
Preference cost	(1,000,000)		
Indexation	(5,625,039)		
	91,482,961		

The chargeable gain will be reporable in the year ended 30 September 2024 and CT of £22,870,740 payable.

The chargeable gain will not be exempt from the charge to corporation tax under the substantial shareholding exemption. The conditions for this are as follows:
1. the investee company must be a trading company or the holding company of a trading group.
2. a substnatial shareholding (10% ordianry share capital) must have been held for a continuous 12 month period in the 6 years prior to the disposal of the shares.

As the entity carries on a business of providing wealth management services to individuals and is generating trading profits / (losses), the gain is exempt under the SSE and the shareholding has been held since March 1986. The degrouping charge will also be exempt and in Zutroy plc, the asset will be uplifted to its MV of £5m.

The substantial test must be carried out which HMRC view as 80% trading when looking at balance sheet assetsm turnover and directors time spent. There is no indication as to why this would not apply.

The s.179ZA election would not need to be made as there would be no benefit for the company to do so when the entire gain is covered by the SSE.

2)

Rukim Ltd has £10m of trading losses brought forward prior to its entry into the Pinchon group.

Firstly, there is a restriction from group relieving these losses for 5 years for the Pinchon group post acquisition. This rule applies irrespective.

There is alos an indefinite restriction on the use of pre acquisition losses where in a five year period, commencing no more than three years prior to the change in ownership, there has been a major change in the nature or conduct of the trade.

A major change in the nature or conduct of the trade is a major change to the type of property dealt in, services or facilties provided, major change to customers, outlets or markets, or to the nature of investments for investment businesses.

Therefore, if any of the changes proposed following the change in ownership constitute a major change in the nature or conduct of the trade then the £10m of trade losses brought forward from pre acquisition will be blocked indefinitely.

HMRC have set out guidance is SP 10/91 of what is not a major change in the nature or conduct of the trade and this would be where there has been an improvement in efficiencies or developments to keep pace with technology or rationalisation of the product range.

All of the changes proposed must be considered as a whole and one of the changes in isolation could be considered a major change.

The provision of generic advice could not be considered a major change as it might only be a small aspect of the business. If this becomes the entire trade of the company then this would be consdiered a major change.

The online platform referrals could be viewed as an improvement in efficiencies to keep pace with technological developments and therefore may not constitute a major change.

The brand name will not be a major change as this will not be a major change to markets, products, customers etc.. unless the brand is significantly different to what is being carried on curretnly by rukim Ltd.

Individually, the changes do not appear to be major changes to

the nature or conduct of the trade however together, HMRC may view them this way.

Advance clearance can be sought from HMRC on whether the changes proposed are major changes to the nature or conduct of the trade.

3)

HMRC can enquire into a tax return within 12 months of the actual filing date, unless the return were submitted late and then it is 12 months from the quarter date following the date of filing.

The return for the period to 30 September 2023 were due on 30 September 2024, as a return is due 12 months after the end of the period of account.

Rukim Ltd submitted the return early on 30 April 2024 and therefore the window for HMRC enquiry is 1 May 2024 to 30 April 2025.

HMRC can also make a discovery assessment within four years of the end of the accounting period where an error is not careless or deliberate, 6 years from the end of the AP where it is careless and 20 years where it is deliberate. A discovery assessment can be made where HMRC believe that there is an amount which ought to have been assessed which has not been assessed, an assessment to tax has become insufficient or relief has been given which is excessive.

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

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

Answer-to-Question-_4_

Companies undertaking qualifying R&D which is the advancement of science and technology can qualify for R&D relief, either under the small and medium enterpise (SME) regime or the R&D expenditure credit (RDEC) credit under the large regime.

A SME is one with less than 500 employees and turnover of less than or equal to EUR 100 or balance sheet assets of less than or equal to EUR 86m.

Therefore Hazdan UK Ltd is a large entity under the RDEC regime obtainting a tax credit of 20% and Hazdan Innovations Ltd is a SME which obtains enhanced relief of 186% deduction for the year ended 31 March 2024.

Under the SME regime, a total deduction of 186% is allowable when determining trading profits. Therefore, there is a deduction for all £9,000,000 of the qualifying expenditure incurred plus an additional £7,740,000 (£9,000,000 * 86%).

Trading profits for Hazdan Innovations Ltd can therefore be determined as follows:

	£		
Turnover	10,000,000		
R&D exp	(9,000,000)		
Enhanced deduction	(7,740,000)		
Other exp	(3,000,000)		
	(9,740,000)		

A SME can surrender their losses to HMRC equal to 10% of the unrelieved loss generated or 186% of the qualifying expenditure if lower.

Group relief is available as they Innovations is a 100% subsdiairy of UK Ltd. So that the RDEC can be used of £200,000, the TTP should be reduced no lower than £800,000. The amount of group relief is not all or nothing and can be chosen. Therefore, £1,400,000 of the loss should be group relieved.

The lower amount therefore must be determined between:

1. £9,740,000 - £1,400,000 = £8,340,000

2. £16,740,000

Therefore, the surrenderable amount is £8,340,000.

They could also keep their losses to carry forward against TTP in innovations or group relive to UK Ltd.

Therefore the surrenderable loss is £8,340,000 * 10% = £834,000.

There is a PAYE/NIC cap however as this is £1,500,000, this is not exceeded.

A large company qualifies for a tax reducer equal to 20% of the qualifying R&D expenditure. This amount must also be disallowed and added back to the trading computation.

The RDEC is therefore £1,000,000 * 20% = £200,000

Trading profits can be determined as follows:

	£		
Turnover	150,000,000		
R&D exp	(1,000,000)		
RDEC	200,000		
Other exp	(147,000,000)		
	2,200,000		
Group relief	(1,400,000)		
	800,000	Balancing figure: £200,000 0.25	
CT @ 25%	200,000		
RDEC	(200,000)		
	0		

No tax is therefore payable for Hazdan UK Ltd.

A claim notification must be made by both companies to qualify for R&D relief during the year ended 31 March 2024. It must be made within 12 months of the end of the period of account, by 31 March

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

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

Answer-to-Question-_5_

A controlled foreign company (CFC) is a non-UK resident company that is under the control of a UK company. Control is exercised by being either a 51% subsidiary of a company, by virtue of ownership of the ordinary share capital. Control can also be exercised by being a major participator with greater than 40% of the ordinary share capital.

Tripletree (UK) Ltd (T UK Ltd) has five subsidiaries and only controls four of these. As Tripletree (Deo) Ltd is only owned 25% by T UK Ltd, it is not a CFC.

However, the other four companies are - Ena, Tria, Tesera and Pende.

The CFC rules have been created to prevent the artificial movement of profits to overseas controlled companies which therefore reduces the UK tax base. If any of the CFCs profits are not exempt under one of the exempts and their profits pass through one of the gateways then these profits will be chargeable to UK tax for T UK Ltd in the year ended 31 December 2023, at a rate of 23.5% ((19% * 3/12) + (25% * 9/12)).

There are five exemptions, which will each be considered in turn:
1. Exempt period;
2. Exempt territories;
3. Tax exemption;
4. Low profits exemption; and
5. Low profit margin exemption.

The CFC does not need to meet all five exemptions, it only needs to meet one so that their profits do not become charged to UK corporation tax.

Exempt period

As each of the companies have been in operation or trading for at least 5 years and it does not appear that any were recently acquired by T UK Ltd, this exemption will not apply to any of the four CFCs. This exemption usually would apply where an overseas subsidiary is purchased and is exempt for the first 12 months so

that it can get its affairs in order for future periods.

Exempt territories

It has been stated that none of the entities are located in a jurisdiction listed on the exempt territories list and therefore this exemption does not apply to any of the entities.

Tax exemption

the tax exemption applies where the local tax is at least 75% of the correspoding UK tax. As stated above, the UK tax rate for the year ended 31 December 2023 will be 23.5% and therefore this number has been used for the purposes of determining whether the tax exemption applies.

	UK tax (£)	Overseas tax (£)	
ENA	£90,000 * 23.5% = £21,150	£90,000 * 12% = £10,800	(£10,800 / £21,150) * 100% = 51.06%
TRIA	£600,000 * 23.5% = £141,000	£600,000 * 22% = £132,000	(£132,000 / £141,000) * 100% = 93.62%
Tesera	23.5%	20%	(20% / 23.5%) * 100% = 85%
Pende	£2m * 23.5% = £470,000	£23m * 0% = £0	(£0 / £470,000) * 100% = 0%

Therefore, Tria is exempt under the tax exemption. Ena, Tesera and Pende however are not.

It could be that Tesera is exempt as the tax rate is 85% however this is not the corresponding local tax being taken into account vs the UK tax payable. There is insufficient information to

therefore determine the whether the tax exemption would apply to Tesera.

Low profits exemption

The low profits exemption applies where the company has accounting profits or taxable total profits of less than £50,000 in an accounting period, adjusted for periods that are less than 12 months.

Or, if they have accounting profits or taxable total profits of less than £500,000 and less than £50,000 of that amount is made up of non-trading profits.

Therefore, this exemption will apply to Ena as they have taxable total profits of £90,000, made up of their trading profits and their interest income, and only £10,000 of this is non-trading profits.

As the trading profits of Tria are £600,000 and of Pende are £2m, this exemption does not apply.

Low profits margin exemption

The low profits margin applies if a CFC's accounting profits are no more than 10% of the operating expenditure incurred.

There is insufficient information to determine whether this would apply for Ena or Tria. However, as Tesera makes a 7% cost plus margin then this would be exempt. The transfer pricing rules however would need to be applied to ensure that this is an arm's length mark up.
As they are routine support services, cost plus 7% does not appear unreasonable however benchmarking would need to be prepared and a functional analysis to support this mark up.
If the mark-up ended up being greater than 10% then this would mean that Tesera would no longer be exempt.

As Pende is making a margin of around cost plus 12% to cost plus 20%, therefore this is greater than 10% and this exemption will not apply.

Summary of exemptions

Ena is exempt under the low profits exemption.

Trua is exempt under the tax exemption.

Tesera is exempt under the low profits margin exemption, subject to the mark-up not being arm's length.

CFC gateways

As it has been determined that Pende is not exempt under any of the CFC exemptions, it must be determined if any of their profits pass through one of the five gateways:

1. Profits attributable to UK activities;
2. Trading finance profits;
3. Non-trading finance profits;
4. Solo consolidation; and
5. Captive insurance business.

We understand the Pende only has trading profits and therefore its profits cannot pass through the non-trade finance profits as it does not generate these.

Pende is providing management and high value tech services to other group companies. Therefore, it is not generating finance profits when it receives its remuneration from the group companies. As a result, its profits cannot pass through the trading finance profits gateway.

Pende is also not carrying on a captive insurance business or a solo consolidation banking business and therefore will not be caught by either of these gateways.

The only gateway that therefore needs to be considered is the profits attributable to UK activities. If any of the following apply then no profits will pass through the gateway:

1. At no time during the accounting period does Pende hold assets or bear risks under an arrangement where the main purpose or one of the main purposes is the avoidance of tax.
2. At no time during the accounting period does Pende hold UK managed assets or bear any UK managed risks.
3. Pende has the capability to operate as a standlone business if the UK managed assets and UK managed risks stopped being UK managed during the accounting period.
4. Pende only has non-trading finance profits and / or property

business profits.

It does not appear that Pende therefore has any UK managed assets or UK managed risks however further information may be required to determine this.

Even if there were, it appears that there is a stable management in Pendeland as all management is in Pendeland and only occasional visits are made by senior UK management to company's offices and thefore the significant people functions are likely carried on in Pendeland.

Therefore, it does not appear that any of the profits of Pende would pass through the gateway. In addition, as the charges are at arm's length, this would therefore show that the transfer pricing in place is sufficient and the payments being made reflect the functions performed, assets held and risks borne by Pende.

Conclusion

Deo is not a CFC as it is only 25% subsidiary of T UK Ltd.

Ena is exempt under the low profits exemption.

Trua us exempt under the margin.

Tesera is exempt under the low profits margin however further work may need to be done if the mark-up is not arm's length and an adjustment is required which increases its margin to above 10%.

Pende is not exempt under any of the exemptions however they do not appear to have any UK managed risks or assets and all SPFs are carried on in Pende. Therefore, no profits would pass through the gateway and be charged to UK corporation tax at 23.5% for T UK Ltd.

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

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

Answer-to-Question-_6_

Stepclive Trading Ltd is a trading company and therefore the profits have been determined in this way.

Stepclive Finance Ltd is a company with investment business and carries on a small trade in addition.

Period: 1 January 2023 to 31 December 2023 (Straddle year for CT purposes)

Stepclive Trading Ltd

	£	**Notes**	
PBT	9,337,000		
Depreciation	2,000,000	1	
Bad debt provision	(3,000,000)	2	
	8,337,000		
Capital allowances	(9,005,000)	3	
	(668,000)		

1. Depreciation is an accounting adjustment and therefore must be disallowed. Relief for qualifying capital expenditure can be given by the capital allowances pool.
2. The debt is held between connected parties. Therefore, the write off of a loan were not taxable for Stepcliv Trading and were not deductible for Stepclive Finance when it were written off. Therefore, now on the reversal of the bad debt write off, it will not be deductible for Stepclive Trading and not be taxable for Stepclive Finace, therefore it must be reversed. For Stepclive Trading, it is therefore deducted.

Capital allowances

	AIA @ 100% £(£)	**FYA @ 100% (£)**	**FYA @ 50% (£)**	**General pool (£)**	**Special rate pool (£)**	**CA (£)**
TWDV b/f				10,000,000	500,000	
Plant		4,100,000				
Integral features	1,000,000		2,000,000			
Vans		1,075,000				
	1,000,000	5,175,000	2,000,000	10,000,000	500,000	
AIA @ 100%	(1,000,000)					1,000,000
FYA @ 100%		(5,175,000)				5,175,000
FYA @ 50%			(1,000,000)			1,000,000
WDA @ 18%				(1,800,000)		1,8000,000

WDA @ 6%					(30,000)	30,000
Transfer to SRP			(1,000,000)		1,000,000	
TWDV c/f				8,200,000	1,470,000	
CA						9,005,000

Qualifying expenditure incurred between 1 April 2020 and 31 March 2023 is eligibel for FYA @ 130% or 50%, whether it is general pool or special rate pool, respectively.

Qualifying expenditure incurred between 1 April 2023 and 31 March 2026 is eligible for FYA @ 100% or 50%, whether it is general pool or special rate pool, respectively.

Any work certified within the accounting period or within one month following the end of the accounting period, can be included in the capital allowances pool for the year ended 31 December 2023. Therefore, the work that were certified on 20 November 2023 and 5 February 2023 is eligible for capital allowances. The work certified on 5 February 2024 will be eligible during the accounting period that the work is certified, likely the year ended 31 December 2024.
Total of £4,100,000 is therefore eligible. The plant has been assumed to be new and therefore qualifies for FYA @ 100%. A balancing charge will arise on disposal.

The AIA should be allocated to the integral features in priority of general pool expenditure, the plant. Therefore £1m of the £3m has been allocated to the AIA. The remaining £2m can be allocated to the FYA @ 50%, assuming the integral features are new. The balance will attract WDA @ 6% in future accounting periods.

The vans are not cars and therefore are eligible for FYA @ 100% in the year of acquisition.

As Stepclive finance Ltd carries on a small trade, their profits have been determined as if it is a trading company.

	£	**Notes**	
PBT	2,500,000		
UK property income	(700,000)	1	
Bad debt provision	3,000,000	2	
Pension	2,000,000	Pension spreading below	
Interest payable	4,000,000	3	

TTP	**£**		
Trading profits	10,800,000		
UK property income	700,000	1	
Management expenses	(2,950,000)	Pension spreading	
NTLR deficit	(4,000,000)		
	4,550,000		
B/f group relief	(4,000,000)		
CY group relief	(550,000)		
	0		

1. There is UK property income within turnover with a net position of £700,000 (£800,000 - £100,000).

2. The debt is held between connected parties. Therefore, the write off of a loan were not taxable for Stepcliv Trading and were not deductible for Stepclive Finance when it were written off. Therefore, now on the reversal of the bad debt write off, it will not be deductible for Stepclive Trading and not be taxable for Stepclive Finace, therefore it must be reversed. For Stepclive finance, it is therefore added back.

3. The interest is payable on a loan that is held for a non-trading purpose and therefore should be treated as a non-trade loan relationship deficit.
Relief can be given for an NTLR deficit.
As there is a brought forward disallowance, it has been assumed that there is no restriction under the CIR regime.

4.

Pension spreading

Stated that the excess contribution is £3m.

The normal contribution is £2,000,000 and therefore 110% of this can be deducted during the year:

£2m * 110% = £2,200,000

As the excess contribution is £3m and therefore exceeds £2m, pension spreading will therefore apply which will mean that only 1/4 of the payment will be deductible during this accounting period and the rest will be deductible over the next three accounting periods, assuming that they are all 12 months.

The total deductible is therefore:

£2,200,000 + (£3,000,000 * 25%) = £2,950,000

Therefore, an additional deduction for £950,000 is allowed to be made in the profit calculation for Stepclive finance.

The group pension scheme management is classfied as a management

expense. therfore the £2m deduction in PBT has been added back and the management expenses total £2.95m.

Loss offset

Trading profits seem high for small trade business but assumed these numbers are correct for purposes of loss relief.

£668,000 trading loss in Stepclive trading which can be group relieved to Stepclive finance as it is in a group relief group, as Stepclive trading is a 100% subsidiary of stepclive finance and therefore meets the 75% direct subsidiary test.

£668,000 can be offset against total taxable profits.

Post 17 trading losses b/f in Stepclive trading can also be group relieved against total taxable profits, as long as they have been utilised as much as possible in the entity under which they arose. As Stepclive trading has no TTP, they can therefore be group relieved to Stepclive finance.
This is subject to 50% maximum offset and deductions allowance. After all in year reliefs, the TTP is £4,550,000. Allocating the full deductions allowance of £5m, the max loss offset possible is £4,550,000. A deductions allowance statement should be made.

The b/f trading losses have been utilised in full.

There is £668,000 - £550,000 = £118,000 of losses remaining in Stepclive trading to carry forward to future accounting periods.