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	**686**	**3247**	**3882**
Section 2	**505**	**2289**	**2725**
Section 3	**477**	**2404**	**2820**
Section 4	**722**	**3659**	**4280**
Section 5	**1055**	**4851**	**5891**
Section 6	**411**	**1956**	**2320**
Total	**3856**	**18406**	**21918**

Answer-to-Question-_1_

1) Admin requirements

Acompany within the group must be nominated as the reporting compny within teh group. They must be UK resident or if not, company refrences must be given to backup their information. As the group is new a reporting company will need to be appointed.

A CIR return will need to be filed in realtion to the UK companies due to the level of interest exempse in teh UK elemment of the group. Group with aggregate net tinterets expenses over £2m need to file an IR return, even comanies with less may wish to do so for prudency and to better track their potentail interest restrictions in future years.

The IR return requires teh following informtion:

The nominated company
The companies within teh UK group (including their UTRs)
The year ends of all teh companuies.
The calculation to show the agrregate tax EBITDA of then group
The fixed ratio calculation (as told in question) showing hpw to D/A has been calculated.
The allocation of this disallowed amount

The IR return in due to be file within 12 months of year end(31 december 2026).

2) there are sveral conditions for a UK property buisness comany to qualify for QIC exemption.

It qualifies as public infastructure company if it fully taxable in UK, meets the income

and assets tests and has made an election for this purposes.

To qualify for the exemption, the property business must meet cetain conditions that show its activity relates to public infasture, therefore exempting it from being included in the period for potential IR disallowance.
As the leases in the company are to a local authority this shows the activoity to relate to public infastructure and will qualify for the exmeption. It must submit this to HMRC wiwthin the year (before 31 december 2025) to be eligible, stating the name of company, the IR group it relates to and the UTR. This means that teh £20m interest expense and £15m tax-ebitda must be adjusted fo rto not be included in the groups IR return.

3)CIR calc for group - Y/E 31 december 2025

1 - Period
This relates to the UK companies in the group for Y/E 31 december 2025

2 - ANTIE

Here, the net of the interst payable and interest recieved is calculated. Only relevnat amounts are included so any TP adjustemnts, diallowances, exemptiosn etc and taken into consideration before calculation.

ANTIE per question: £110 m
D/A interest expense in Belory: £(20m)
QIC exemption element: £(20m)

= £170m

3 Aggregate Tax EBITDA

Here, the Aggregate tax ebitda is calculated for the UK group. The has been adjusted already for interest, depreciation, ammortisation in the accounts etc, and should only relat eto the UK companies. *using WW group EBITDA for question.

Tax EBITDA: £225m
management services D/A: £10m
QIC exempt tax EBITDA: (£15m)
= £220m

4 Interest Allowance:

Here you normally choose bettwen fixed and group method, but we ar to follow the fixed method here. This means that interest allowance is lower of:

30% of aggregate tax-EBITDA: 0.3*220m = 66m

Or

FRDC, being ANTIE + EDC = 170m + 0 = £170m

There is no excess debt cap hence 0.

The lower is £66m

5 Interest Capacity.

The interest capiaty is the lower of:

£2m

or

£170m + and b fwd interest capacity (£0) = £170m

Being £170m as larger.

The group is new and so there is no b fwd interest capacity.

6 Disallowance

The amount of IR disallowance is calulculated using the following:

ANTIE (part 2) - Interest capacity (part 5) = D/A amount.

=£170m - £66m = £104m

therefore the disallowance in teh group is £104m as this is the amount in which the net interest expense of teh UK group is larger than teh interest capacity that was calculated.

7 Allocate

thsi disallowance of £104m is to be allocate within the UK groupo, given a disallowance in the corporation tax computation for that company(s) in the year.

newco is exempt so will be another UK group compamny.

Shoudl nothave been worldwide tax edbitda is calc, shoudl have been UK, we were using fixed ratio method.

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

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

Answer-to-Question-_2_

Capital Allowance Claim for y/e 31 December 2025

	Note	**MP**	**SRP**	**AIA**	**100% FYA**	**Allowances**
TWDV		6,000,000	1,000,000			
Plant A Disp	1	(150,000)				
IF	2			200,000		
second hand	3	1,200,000		800,000		
new furniture	4				300,000	
new equipment	5				500,000	
new fleet	6				3,000,000	
AIA				(1m)		1m
100% FYA					(3.8m)	3.8m
At Y/E		7,050,000	1,000,000	-	-	
18/6% WDAs		(1,269,000)	(60,000)			1,329,000
TWDV c fwd		5,781,000	940,000			**6,129,000**

Capital Allowance: 6,129,000
SBA: 97,000
Balancing charge (Note 7): (100,000)
Total: 6,126,000

Total SBA: 70,000 (warehouse) + 27,000 (Office) = 97,000

Warehouse:

As purchased new from a developer, the expenditure (cost) that the developer incurred can be claimed by the company that purchases it.
This means that £7m can be claimed. It was first used in trade at 1 Sept, being 4 months of the period.

SBA: (7,000,000*0.03)* (4/12) = 70,000

3) the second hand plant, as £3m was paid for ,t his is the amount that gets allowances. Second hand plant wont get FYAs but will get AIA, sonndarily to the IFAs as the 18% WDA allowance is favourible to 6%. The full amount cant get AIA as only 1m available so £1.2m balance is WDAs while 800k gets AIA.

4) new ususssed furniture of £300k get 100% FYA, it wold get AIA but not used as cant still get full relief if first year.

Office:
Alteratins to make eligible for trade also qualify for SBA. however planning permission costs cannot be inluded and the £200,000 IF will get CAs instead of SBA. Meaning an amout of £1,800,000 (2.1m - 100k - 200k) is eligible. It was brought into use 1 July 2025 meaning was used for 6 months. The planning costs will get no relief.

SBA: (1.8m*0.03) *(6/12) = 27,000

2)The £200,000 of integral features will qualify for capital allowances. They are special rat epool items but also qualify for the AIA 100% allowance. The SRP items get priority of AIA as they only get 50% FYA and then 6% relief as opposed to wither 100% or 18% from MP additions.

5) 500,000 new office equipment alos gets 100% FYAs and would qualify for AIA but can strill get 100% relief.

Transport:
6) Under HP, the initial cost and also the monthly amount payable are leigible for CAs when recieved and thereofre the full amount of £3m (600k +(48*50k)) id eligible in tgis periof for relief. Vand are treated as plant and would get AIA and 100% FYA so 100% FYA is used getting full relief for future payments also thsi year.

P&M:
1) Plant A: as proceeds £150k is lower than cost (250k) than this amount (100k) is

deducted form the main pool.

7) Plant B: as max capital allowances of £1m have already been claimed on this, the £100k proceeds is a BC as it was acquired between 1 April 2021 and 31 march 2023 and will have got the super dedcution at 130% and so any proceeds are a balancing charge.

Full 1m AIA can be utilised for the company in the year.

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

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

Answer-to-Question-_3_

**** please note, in this question I had trouble inputting te tables due to the software, the answers have stilll been laid out so that they are fully visible. Thank you**

Freehold:

Proceeds: 30m
Incedential costs: (250,000)
net proceeds: **29,750,000**

Cost (1): (23,100,000)

Unindexed Gain: 6,650,000
Indexation: (3,465,000)
Indexed gain: 3,185,000

indexation (278.1-241.8)/241.8 = 0.15
0.15*23,100,000 = 3,465,000

As there is a gain and the asset was purchased before December 17, indexation can be calalcuated to reduce thsi gain. indexation can only reduce a gain and not increase a loss.

1) Cost
Onlythe completed cost of £3m can be added to cost, initial £2m workshop will not qualify, not part of building and was dmeolished.

Cost: 20m + 3m = 23m
Add incidental costs: 100,000
Cost: 23,100,000

leasehold Office:

Sale of a short lease:

Proceeds: 5m

Cost (1): 3,512,199

Unindexed gain: 3,012,199

Indexation: (526,830)

indexed gain: 2,485,369

indexation (278.1-241.8)/241.8 = 0.15
0.15*3,512,199 = 526,830

As there is a gain and the asset was purchased before December 17, indexation can be calalcuated to reduce thsi gain. indexation can only reduce a gain and not increase a loss.

1) Cost:

this has been calclated withn the no % for years of leases in teh tax tables

4m * (% at sale/% at purchase of lease)
= 4m * (83.816/95.457) = 3,512,199

40 year lease in 2012: % = 95.457
Sale 13 years later, 27 years % = 83.816

Specialist P&M:

the plant in the factory taht qualified for capital allowance as most plant would, will have an effect on the capital allowance computation.

the items that was not moveable howveer, will qualify for gains instead of capital allowance. a gain of £50k ariss for this being:

250,000 - proceeds
200k - cost
gain: 50,000

Rollover relief:
As proceeds have been reinvested into a new building for the companys trade, rollover relief can be claimed. This election must be made by 4 years of the end of teh accounting period after disposal being being 31 december 2029.
Rolover elief allows for gains to be deffered by reducing the base cots of the neew asset acquired. Thsi means when the new asset is eventually disposed of, the gain will be higher as cost is lower.

The asset is used in trade and was purchasded iwthin 12 months before and 36months after dispsoal so meets conditions.

The relief can be allocated to the asset which the company would like.

Rollover relief on freehold property:

calc per above:

Proceeds: 30m
Incedential costs: (250,000)
net proceeds: 29,750,000

Cost: (23,100,000)

Unindexed Gain: 6,650,000
Indexation: (3,465,000)
Indexed gain: 3,185,000
Rollover elief: (2,150,000)
gain after RR: £2,970,000

proceeds not fully reinvested as new property cost of 4.5m compared to proceeds of 30m
RR: 6,650,000 - 4,500,000 = 2,150,000

base cost of new asset:
4.5m
less RR: (2,150,000)
New base cost: £6,650,000

gains will be payable at 25%

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

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

Answer-to-Question-_4_

tax Payable w/ c fwwd amounts and claims to reduce long - term costs

Y/E 31 march 2026 for Ayleswood

property business: (78,000)
management expenses: (27,000)
NTLRC: 50,000
capital Loss: (107,143)

taxable profits: 50,000
Less property losses: (50,000)
= nil

property losses, cannot be carried back, but can be used against total profits in the year to reduce the tax laibility. Therefore, the losses c fwd are as follows:

property business: (28,000)
management expenses: (27,000)
capital Loss: (107,143)

As analysed below

Property business profits:

		Note	
Turnover	650,000	1	
Costs	(375,000)	2	
Admin expenses	(200,000)	3	

CAs	(153,000)	4	
Trade loss	(78,000)		

1)Turnover for property busniess trade
2) Expenses in relation to the property business are allowable in the property trade and they are reveune in nature and not capital. they are related to the trade.

3) Some of these costs relate to proprty busniesa and some are menagemnt expenses

Staff costs: 150,000 - property business as related to running of the trade.
Legal: 100,000 - managemnet expenses, not for running of property business.
Depreciation: always D/A not included in trade.
office costs: 50,000 - in relation to proprty ubunisess and an allowable expense

Related to proprty business: 150k + 50k = **200k**

4) Capital Allowances
MP: Addition of (50k + 75k + 25k) 150k @100% FYA/AIA
SRP: 50k *0.06 = 3,000
= 153,000
Full amount of machinery gets relief in year becuase was paid for 3 months after year end. 4 months would mean not fully included.

managment expenses:

	Total	**Allowed**	**D/A**	
Legal	**100k**	**73k**	**27k**	

Audit and accountancy cost are allowable as complaince cost and related to running the business and allowable as management expenses.

Employee related advice is also generaly allowable as managemnt expense as often needing for running of busniess.
Shareholder agreement is capital in nature and not an allowable managenbt expenese.
Lease garnting is capital, even thougha short lease. oinly the renewal of a short leas ein allowable

NTLR:

Interest income: 50,000 = 50,000 NTLR C

Lease grant:

the grant of a long lease (over 50 years) is as below:

Premium: 150,000
Cost (1): (257,143)
Loss: (107,143)

capital losses and offset future acpital gains but cannot be used to offset total profits for company/group

1)(ost/ (premium + reversionary interest))*cost
= 300,000/(150,000+200,000) *300,000 = 257,143

Y/E 2026 for Binley Ltd

		Note	
PBT	**600,000**		
depreciation	**250,000**	**1**	
CAs	**(49,500)**	**2**	
marketing	**51,000**	**3**	
Trade profit	**851,500**		

1) reciatiom is capitall and is accouting adjustment so d disallowed.

2) Capital Allowances
GP: 2,750,000 *0.18 = 49,500
3)marketing D/A amounts

Client entertaining is always disallowed: 20,000
Travel and team conference cost are allowable and assumed wholly trade related.
Pens: 15,000 - this can be seenas promotion and will be under £50 and also has firm logo and so is allowable for tax, large cost as tehy miust have made a very large amount of them.
Chocolate bars: 5,000 - gifts/promotion of food/drink are D/A for tax
Wine: £26,000 - alcahol as gist is disallowable for tax
=51,000 total D/A

Binley taxable profit: 851,500
less trade losses: (500,000)
Total taxable profits: 351,500

C fWD amounts:
500k c fwd post 17 amounts, can be usued against teh compnies profits in the year. If Ayleswood had significantly more taxable profits in the year, group relief would hvae been avaiable subject to teh restriction of the deduction allowance and the 5m allocation rule.

the losses that can be relieved in eth group are:

5m + (0.58 (TTP over 5 m))

An amount of the 5m would have to be allocated to the claimant company. Page 15 of teh CT600 woudl have to be signed for CY losses or in this case pafe 17 for c fwd losses.

reducing long term costs:

As future results will be at acomparable level, alternatively, in order to keep losses in both companies at a similar level. The £50,000 prfoit in Ayleswood coudl be offset via group relief b fwd claim and teh Deductions Allowance, if 50k was allocated to Ayleswood.

It would increase the tax payable in Bibley by £50k to £401,500 and also increase the property losses c fwd in Ayleswood by £50k to £78,000.

A deductions allowance needs to be signed and attached at submission along with IXBRL

account and group rleief surrender page. The deductions allowance allocates losses between group companies. Being companies with 75% common ownership.

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

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

Answer-to-Question-_5_

Consequences of taking on and performing O/S construction contract.

Double Tax Treaty
As the O/S country has a double tax treaty and follows OECD along with the UK we are able to make a judegemnt better on the implications of this.

Under OECD model there are 2 things that determine residence, being the place of incorporation and the central cnaagemnet and control of the company. Where a company has been UK incorporated, as apprears to be the case here, it will be a UK resident esp[ecially as up until this point it was managemnnt from the UK. Up until expension it is a UK reisendt company.

PE if no incorporation

if the expension if not done threough an o/s subsidiary then there will be a perment establishment o/s. There is aperminnat establishment if there is a fixed place of business overseas. Ths can be decide by several things such as if there are permenant staff that work overseas, there is an office, and most relevant to the question, if contracts are fulfilled overseas. If Doncar Ltd has directors that stay overseas and/or the contract fo rthis overseas exansion are fulfilledoverseas then this would constitiute an overseas permenant establishemnt.

This means that the profits from overseas activities are still of course payable in the UK, but also payable i teh overseas terriroy. tax advice for the tax return for the overseas terriroy will have be be sought as although the tax residence rules are the same as the UK the are most liekly other rules will differ. As profits are taxable overseas Doncar Ltd will get double tax relief in eth UK for the taxbal eprofits from overseas activities. The relief is the lower fo teh tax payable overseas and the UK tax payable on teh sae profits in the UK. thsi is done in order to stop the double tation of profits.

There is a PE election that can be made by Doncar Ltd. The company can elect for all PE profits to be exempt from UK tax, this election comes into effect the period after it is made and is irrevocable. this means that any profits made or losses incurred cannot be shared with the compnay. the elction relates to all PEs taht the compan has.

If the PE is loss making, and looks liekl it will be for at least a while into thefuture, the

election is not reccomended and without the election, any losses that are made overseas (especially while starting up) can reduced the taxbale pfits of the company. If it is liekly to be quickly profitable then the election will be beneficial to reduce the taaxable profits the coipmay has to pay. Generally, if the o/s company has a ower corporation tax rate then the UK (25% for large companies) then the election is a good idea, as DTR will not fully offset the tax liabilty in the UK, menaing there will be a degree of doubekl taxation fo rthe company.

The electionnca also be used to spread losses between several PEs before making them exempt in order to make it has tax effeicient as possible for Doncar Ltd. This being dsaid, the compamy doesnt currently have any other PEs, but if it was to wait until the future when maybe it does, then this streaming election coudl be beneficial before election is used.

Incorporation consequences

if the company incorporates an o/s subsidiary to fullfil the contract, it is liekly not a UK reisdnet company. This is becuase, as above residence comes down t incorporation and CMC. The company will be O/S incorporated. The tie-breaker between these two usually leans on teh side of where the control of the company is undert his treaty. The central management and control of a company usually comes down to the place of effective managennt (POEM), this is where the business deciions are made, where directors meeting are, and where the trade meetings are. there are sveeral other factors that can determine this. If the directors stay UK resiednt, board meetings are in the UK, and effective managemht stays here, it will likely stay a UK resident comany, wiinning the tie breaker test and menaing that it is fullly UK resident. if this was not the case, and sirectors moved to this terrirory, had a fixed place of business, board meetings were overseas and the general managemnnt of the company was overseas, then it woudl most liekly be an O/S resident subsidiary and not in the scope of UK corporation tax.

There are further implications to this, as it wold become a contolled foreign company. These rules ar ein place to make sure that any UK attrityutable profits are not diverted to an overseas terriroy out the scope of UK CTAX. There are several expemption being low profits exmeption, low net profit exmeption, the excluded territory exemption (very possible as there is a DTT between countries and they follow OECD so liely not a large risk), the exempt terriroy exemption and the first year exempotion, the first year exemption allows for Doncar Ltd to get their tax affaors in order for teh forst year it owns the subsidairy to allow them time to get out of these rules. If none of the apply,some of its

profits will be taxed in teh UK if they fall withihn one of the 5 gateways, most liekly profits attributable to the UK, fi any of the company profits relate to Uk acivities. Any amount payable in the UK, can also get double tax relief and relieve the amount that was paid overeas. (the lower of overseas tax paid and UK tax payable on same income).

WHT make have tyo be made on payment of dividends and interest as going to an overseas terriory. AHpowever, under the double tax treaty between the nations, this could be reduced to nil. The basic rate unde rthis model is 20%, but as said coudl be reduced to 0%. If any payment are witheld, thsi will have to be recorded on a CT61 for any amounts deducted at source and file within 14 days of the end of the quarter in which it relates to.

If a loan is taken out to finace the subsisiary,m CIR rules will have to be in effect, and possible an IR reyurn will need to be filed.

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

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

Answer-to-Question-_6_

Deferred Tax

Defrerred tax is a timing difference, and for tax purposes is journaled into teh accounts to give HMRC a more accurate reflection of the companies future profitability. the company prepares under IFRS. deferred tax effectstemporary timing differences.

Year ended 31 december 2025

depreciation: depreciation is always added back and disalowed as it is a capital and accounting adjustemnt, not tax relief. I have dealt with ist DT implication in the CA section.

Unpaid Pension: £5,000 - htis is included in teh calculation as it is a temporary timing difference. As the penisons is unpaid at the year end, this will be disallowed in teh computation. However, when everntually paid it will be adjusted for again and relief will be given so a temporary timing difference.

Legal fees: £50,000 - we would need to know more about what the legal fees relate to, and if they are correctly categorised. We do not know if they are capital in nature or if they will recieved a tax dedcution, if they relat eto the purchase of a capital asset they coudl be disallowed and later relief is rewarded in the gains calculation. We woudl need to know more but for the time being, left out of the calculation

Capital Allowances:

newly incoprorated so no TWDV or NBV b fwd.
For capital allowances, the deferred tax movement will be the difference between teh TWDV and the net book value. Basically, the amount that has been deprected on the asset (cost per the accounts) and the amount of relief that has been claim for tax trhough capital allowances. This will be the movement for teh year.

As all general and special rate pool, they are all qualifying and no buildings have been included. the get an even more accurate picture, would be required to see what the depreciation split id bettwen the assets/pools.

Tax	GP/SRP	Total		

Addition	2m	2m		
Allowance claimed	2m	2m		
TWDV c fwd	nil	nil		
Accounts				
Additions	2m	2m		
depreciaion	(0.3m)	(0.3m)		
NBV c fwd	1.7m	1.7m		
Diff between TWDV and NBV	(1.7m)	(1.7m)		
Temporary timing diff on pensions	5,000	5,000		
Total	1,695,000	1,695,000		
@25%	423,750	423,750		

This means taht th company is carrying forward a deferred tax asset of £423,750. This is show on teh profit and loss in teh accounts and also as an asset in eth B/S.

The journal to be included in the accounts is as follows:

Dr DTAX Debtor (B/S) 423,750
Cr DTAX Creditor (P+L) 423,750