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

Event **NA**

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Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**875**	**4164**	**5023**
Section 2	**535**	**2529**	**3017**
Section 3	**570**	**2762**	**3269**
Section 4	**783**	**3687**	**4417**
Section 5	**901**	**4259**	**5148**
Section 6	**262**	**1194**	**1450**
Total	**3926**	**18595**	**22324**

Answer-to-Question-_1_

a) explain admin requirements of the CIR rules for Newco Plc

NewCo plc is a newly incorporated company.

Prior to incorpation, Hanreg plc and Belroy GMBH were both parent companies of their own separate groups. As Hanreg was the parent co of a UK group, it is likely that that this was the reporting co should the group have been subject corporate interest restriction previously. As Belroy was the parent co of a European group and UK subsidiares, it may not have been a reporting co previously but one of its UK subsidiaries might have been. Hanreg should no longer be the reporting company as only one group member that is a UK CT paying company has this responsibility and as the new parent company, NewCo should take on the responsibility. HMRC must be notified that Hanreg will no longer do this and that another company will instead.

In order to be a reporting company (RC), the company must be a UK corporation tax paying entity. As NewCo plc is tax resident, it meets the criteria.

A reporting company must be appointed and HMRC must be notified within 6 months of the AP in which the return will relate to. The return should specify the first period in which the appointment is to have effect.

An interest restriction return (IRR) must be completed and submitted by the reporting company as part of the company's tax return which is due 12 months following the end of the accounting period. NewCo plc, if chosen as the RC, is responsible for this IRR.

The IRR can either be a full or abbreviated return. A full return is typically used when the group has chosen to use the group ratio method, however this is not the case here.

The return (full and abbreviated) should generally contain the following details:

- state the name and Unique Taxpayer Reference of the ultimate parent of the worldwide group, i.e. Newco plc
- the return period
- the UK companies in the group
- statement of calculations

If there is an interest restriction, it should also specify the disallowed amount and how this is allocated amongst the group companies.

An abbreviated return is generally prepared when there is no interest disallowance required.

b) Describe conditions that a UK property business has to meet to qualify for PIE

A UK property business is not a trading company. It derives its income from dealing in property. It is a company with an investment business.

Julkel Ltd, a UK tax resident company, constructed a new building for the benefit of a local authority in the UK.

Julkel Ltd was funded with debt to be able to construct the building.

A public infrastructure asset is one that is 1) a tangible asset built for the UK infrastrcutre that meets a public benefit test, or 2) building that is part of a UK property business and is let on a short term basis to an unrelated party.

The public infrastructure asset must have an expected economic life of at least 10 years and is shown in the balance sheet of a member of the UK group that is fully taxed in the UK, i.e., on Julkel Ltd's balance sheet.

Newco Plc's contract is to construct and lease buildings to a local authority in the UK.

We do not know the building is for except for that it is for the local authority. "Infrastructure" would be considered water, sewage facilities, health or education facilities, courts or prisons, but also buildings occupied by an relevant public body. Should the building be for any of these purposes, and above conditions are met (re. 10 years and balance sheet inclusion) it is a public infrastructure asset. The building must also be let on a short term basis, i.e., less than 50 years. We do not know this and would need this infromation to better determine if the exemption is met.

c) If qualifying infrastructure company, explain CIR, if any for y/e 31 December 2025

First step would be to determine the UK companies involve - Hanreg, NewCo, Belroy UK Holdings and Belroy UK Trading. We would not include Julkel as it is a qualifying infrastrcture company and there is no interest restriction for it.

Then calculate the aggregate net tax interest expense for the UK CT paying entities. The net tax interest expense would include the interest disallowed by Belroy UK Holdings as this transfer pricing adjustment is considered before CIR.

ANTIE = 100m (Newco) + (20m) (TP adjustment) = 80m

The ANTIE would not include Julkel's interest.

We would exclude interest expense that is payable to any third parties.

The fixed ratio method is the default method for determining interest capacity and considers the lower of 1) aggregate net group tax interest expense (ANGIE) and 2) 30% x tax EBITDA for the UK companies.

Again ANGIE would exlude the Julkel's interest and include the TP adjusmtnet --> 110m + (20m) = 90m

Tax EBITDA of the qualifying infrastructure company is considered to be nil.

There is in general no interest restriction for qualifying infrastructure companies.

The group's disallowance would be the ANTIE less the total interest capacity.

If there's any unused interest capacity, this can be brought forward or group relieved.

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

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

Answer-to-Question-_2_

Structure and Buildings Allowances

Acquired from a developer so can continue claiming SBAs provided it was constructed after 29 October 2018.

First used in trade on 1 September 2025. Therefore can claim for only September 2025 to December 2025 = 4 months.

SBAs are available at 3%.

SBAs do not include the cost of the land nor the cost of integral features as capital allowances are available on these instead.

No SBAs are available on the exisitng office building bought, this is only for buildings constructed after 29 october 2018. The cost of the alterations to bring is not an improvement or enhancement it's actually to make the asset usable.

Obtaining planning permission does not qualify for SBAs and will be considered part of the costs of acquistion when the asset is sold in the future.

P&M Capital Allowances

		main p	srp	CA claim	
twdv b/f	1,2	6,000,000	1,000,000		
warehouse plant	6	3,000,000			
FYA @ 100%		(3,000,000)		3,000,000	
warehouse 2nd hand plant	7	2,000,000			
building alteration warehouse	9	300,000			
office integral feature	8		200,000		
AIA @ 100%			(200,000)	200,000	
new office equipment	10	500,000			
FYA@100%		(500,000)		500,000	
transport	11	900,000			
FYA @ 100%		(900,000)		900,000	
disposal pA	4	(250,000)			
disposal pB		(100,000)			
balancing charge		30,000		(30,000)	

1. TWDV of general pool will get 18% writing down allowance

2. TWDV of special rate pool will get 6% writing down allowance

3. Full AIA of £1m is available. This should be allocated to special rate items first as the writing down allowance, or first year allowance is lower than the full relief available via AIA.

4. Disposal of plan A - disposal at the lower of cost and sale proceeds.

5. Disposal of plant B - acquired in 2022 for £1m. Disposal is at the lower of cost and sale proceeds which is 100k. This would have got 130% super deduction in 2022 if maximum capital allowances were claimed. Therefore there will be a balancing charge on disposal.

6. New plant for the warehouse acquired for £3m, gets 100% FYA relief.

7. Second-hand plant acquired for £2m does not qualify for FYA but it would get AIA. This would otherwise be main pool items and get writing down allowance at 18%. As the AIA is going to be used on special rate items instead, we won't allocate the 2m here to AIA.

8. £200,000 spent on integral features - this would get AIA first at full 100%

9. Building alterations connected with installing plant is able to get P&M allowances. Main pool item.

10. New office equipment is normal plant and machinery - 100% FYA is available.

11. The vans were purchased under hire-purchase contract- £600,000 deposit paid and 48 monthly instalments. The obligation to

In general capital expenditure is treated as incurred as soon as there's an unconditional obligation to pay it, i.e., date of delivery. There is a 4 month rule for this where it expendture does not need to yet be paid. Therefore we can have from 1 July - 31 December = 6 monthgs of 50k instalments as expenditure in this AP. The rest will get

releif in future periods when paid. This will be 6 x 50k + 600k deposit = 900,000

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

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

Answer-to-Question-_3_

Floell Ltd is UK resident company and is subject UK corporation tax of 25% on its worldwide income and gains.

During the year, Floell made 3 disposals, each of which are considered in turn.

1. Freehold factory

Gross Proceeds	30,000,000		
Cost of sale	(250,000)		
Net Proceeds		**29,750,000**	
Cost	20,000,000		
Incidental Cost	100,000		
		(20,100,000)	
less IA (June 2012- Dec2017)		(2,620,000)	
cost workshop 2		(3,000,000)	
less IA (Jun16-Dec17)		(162,000)	
Gain		3,868,000	

1. Indexation working (June 2012- Dec2017)

(278.1-241.8)/278.1 = 0.131 (3dp)
0.131 x 20,000,000 = 2,620,000

2. Indexation working (June 2016- Dec2017)

(278.1-263.1)/278.1 = 0.054 (3dp)

0.054 x 3,000,000 = 162,000

3. The cost of the new workshop that was built and demolished is not considered in the factory's costs.

The gain will be subject to corporation tax at 25% or if possible relieved against capital losses elsehwere in Floell Ltd.

2. Leasehold Office

Disposal of a 40 year lease for £4million.

Sold for £5m million.

Acquired lease in 2012 and would have run until 2052.

At the time of disposal in 2025, it had run for 13 years and 27 years on the lease left to run.

We would consider the lease percentage table to determine the gain on disposal of the lease.

proceeds	5,000,000		
less cost			

This is effectively a part disposal given the full lease hasn't run.

The cost will be apportioned between what's left to run.

3. Specialised plant and machinery

The sale of plant will not result in a chargeable gain on disposal and will generally be included as part of the capital allowances computation to the extent capital allowances were claimed.

However, fixed plant and machinery is considered a chargeable asset.

There was a capital gain on the sale of the fixed plant and machinery of £50,000

Total Gains

Factory	3,868,000		
P&M	50,000		
Lease	1,000,000		
Total	4,918,000		

The tax impact for Floell would have been 4.9m x 25% = 1.2m CT liability payable for the year ended 2025.

Consideration for rollover relief

During the year, Floell Ltd made some disposals resulting in chargeable gains. In order to minimise Floell's tax liability, it is possible to claim rollover relief.

Rollover relief is available to defer the gain arising on qualifying business assets so that the gain is not chargeable now but deferred until a newly acquired qualifying asset is sold in the future.

Fixed plant and machinery and a lease with less than 60 years to run are considered a depreciating asset.

Floell Ltd acquired a new office building for use in the company's trade. This is a qualifying business use asset and the asset was bought within the 12months before to 36 months after windown of the disposal of the other assets.

For rollover relief to apply, we will only consider the sale of the fresshold factory, which was used in the trade, the fixed plant and machinery and the sale of the lease.

All three of these assets result in a chargeable gain.

For depreciating assets, the gain is not deferred but instead frozen. The gain crystallises on the earliest on one of 3 events,

1) disposal of the new building
2) cease to be used in the trade
3) 10 years since the new building was acquired

Not all the sales proceeds were used in acquiring in the new building, therefore there will be an element that is chargeable now.

Sale proceeds not reinvested = 30m + 5m + 250k - 4.5m = 30,750,000.

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

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

Answer-to-Question-_4_

Calculate CT payable and carried forward amounts

There are two associated companies. This means the threshold for the augmented profit limit is reduced from 250k to 125k. As the companies exceed this threshold, they will pay UK corporation tax at the main rate of 25%. If they fell within the small profits and marginal threshold (25k and 125k respetively) they would pay tax at the marignal rate of 26.5%.

Full accounting period no apportionment needed.

Ayleswood

Ayleswood is not a trading company but a company with an investment business.

PBT		75,000	
depreciation	2	50,000	
L&P grant fee	1	2,000	
advice	3	25,000	
interest	5	(50,000)	
NTLR credit	5	50,000	
less capital allowances	7	(3,000)	
TTP		149,000	

1. Grant of lease is capital in nature so the legal and professional costs of 2,000 are not allowable.

2. Depreciation is capital in nature and 50k should be disallowed.

3. Advice in connection with the shareholders agreement is to do with the capital

structure of Ayleswood and wouldn't be considered a management expense of the property business. Therefore we should disallow the 25,000.

4. Grant of a long lease - this lease is 55 years, and more than 50. Premium

5. interest income is treated as non-trading loan relationship credit.

6. revenu expense on rental properties is part of the company's business.

7. 50,000 x 6% = 3,000

Binley

PBT		600,000	
depreciation	1	250,000	
client ent	5	20,000	
gifts	6	31,000	
less CAs	2	(651,000)	
TTP		250,000	

CT due at 25% =

1. Depreciation is capital in nature and should be disallowed.

2. Capital allowances: 2,750,000 x 18% (writing down allowance for generla pool)+ 100,000 x 6% (writing down allowance for special rate pool) + 150,000 (new machinery 100% FYA) = 651,000

Capital allowances will be deducted in arriving at trade profits.

New machinery - 50,000 deposit and was delivered on 1 March 2025. Balance was paid within 4 months of the delviery date, therefore the whole expense is considered as incurred in the year ended 31 March 2026.

This machinery will get 100% FYA as it's new. We do not know about availability of AIA hence will allocate FYA.

3. Staff entertaining is an allowable business expense

4. Travel and substinence for the marketing team is an employee cost and therefore allowable, same with the conference.

5. Client entertaining is not allowable trade expense and should be 20k should be added back.

6. Food and drink gifts are not an allowable business expense so should be added back (31k). THe pens and notebooks to the extent they cost under £50 per gift and as they bear the company's logo these are allowable.

Losses

Binley Ltd has brought forward post Apr 17 trade losses of 500k.

As Binley Ltd has made a total profit of 250k, it is most beneficial to make a current year claim against Binley's total profits. This claim is all or nothing and has to be made within 2 years of the end of the AP to which it relates, i.e., 31 March 2028.

This leaves 250k of bf trade loss remaining.

Once a CY claim has been made it could make a PY claim but this is unlikely given Binley has historically been loss-making.

Binley could also carry forward the 250k trade loss. We expect Binley to be profitable in future years so this would mean the loss can potentially be utilised next year. However, we do not know what could change in a year eocnomcially and it would be best to claim relief as early and as soon as we can. It will also help to minimise the group's CT liability for the current period if we do.

Binley Ltd and Aylesowod Ltd are in a 75% loss group as Ayleswood has a 100% direct shareholding in Binley (which is more than 75%). The benefit of being in a loss group is that group relief enables the transfer of losses between 75% loss group companies.

The brought forward trade losses can be used against total profits. Therefore, we can surrender the losses in Binley to Ayleswood and therefore only have (250-149k) = 101,000 trade losses carried forward to the next period. A claim must also be made within 2 years, ie., 31 March 2028.

We should also consider the deductions allowance of £5million. As the losses brought forward are well within this limit, there is no restriction on the brought forward losses

that can be relieved. The deductions allowance would otherwise have to be allocated to group companies according to how loss relief should be structured.

Overall, after taking into account the loss relief, the total CT payable for the year is nil as there are no taxable profits.

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

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

Answer-to-Question-_5_

There are two options for Doncar to expand overseas:

1) via a new subsidiary to be incoporated overseas, or
2) via Doncar Ltd, i.e., an overseas permanent establishment

Option 1 - New subsidiary

If a new subsidiary is incorporated overseas it will be subject to tax in the overseas jurisdiction.

If a company is deemed resident in that country it will be either because of 1) the company is incorporated there, but also 2) the central management and control for that company sits overseas too.

The new subsidiary will be incorporated overseas so will be resident there. However, we must consider where the central management and control of that company is. This includes the Board of Directors and key senior stakeholder who make strategic level decisions for the business.

Doncar Ltd is a UK business and the directors appearingly sit in the UK. Should a new subsidiary be incorporated overseas, it is important for the new subsidiary to have its own Board of Directors who sit in the overseas country. They should also have board meetings in the overseas country. If it becomes evident that the strategic level decisions for the overseas subsidiary are not being made overseas, there could be a residency issue.

The overseas country has a double tax treaty with the UK that follows the OECD model treaty.

If a company is potentially tax resident in both the UK and overseas country, we can rely on the DTT and the OECD model convention's tie breaker clause. This stipulates that the place of residence is where the place of effective management is.

The place of effective management is where the day-to-day decisions are being made and who's running the daily operations - this differs to the board level management. Doncar should ensure that there is a sufficient team on the ground in the overseas country who

are responsible for fulfilling the contract. If they are seen to be fulfiling the contract via senior mangeemnt deicison making in the UK, then the UK may be considered the place of effective management and therefore the overseas subsidiary will be resident in the UK. Doncar should engage the competent authorities in the UK and overses to engage in a Mutual Agreement Procedure to decide residency overall. Typically, these MAPs are lengthy and challenging procedures so it would be better to resolve the risk of dual residency before and establsihing proper management team in the overseas country.

The main consquence of dual residency is double taxation. Double tax relief works by granting relief for the lower of UK tax paid vs. foreign tax suffered. This means that if the subsidiary is dual resident, they will obtain some relief via DTR.

Incorporating overseas has additional administrative burden compared to establishing a permanent establishment which would just be a branch of the UK company.

Migration from the UK to overseas could also result in an exit charge. This would be where Doncar Ltd ceases to trade in the UK and the business is migrated overseas. This doesn't seem like what Doncar Ltd is planning to do as it appears they will still need the UK business.

Option 2 - Overseas PE

Alternatively an overseas PE of Doncar Ltd may be established.

A permanent establishment exists where there is 1) a fixed place of business and/or 2) a dependent agent conducting trade on behalf of Doncar Ltd.

There is no PE for tax purposes where activities are auxiliary or preparatory in nature, e. g., market research, warehousing etc.

Doncar is looking to fulfil a construction contract so it is likely there will be people on the ground fulfilling the contract.

A PE will be subject to UK corporation tax at 25%. It is not a separate legal entity and forms part of Doncar Ltd.

A PE may be an option for Doncar Ltd if it is looking to fulfil a single overseas contract first of all.

HMRC must be notified of the overseas PE and that it will be subject to UK corporation tax within 3 months of the start of the accounting period.

If the contract will mean that the overseas PE is loss-making, it could be benefical to have

a PE over an overseas subsidiary. This is because any losses arising in the PE can be offset against profits arising in the UK company. This will therefore minimise the overall tax liability.

There is also another aspect to having a PE, which is that if it becomes profitable in the future, you can make the oversesa PE election to tax profits overseas and not in the UK anymore. This is particularly beneficial where the overseas CT rate is lower than that of the UK's tax rate. However, the downside is that any future losses arising cannot be used against the UK trade and are stuck in that PE. Also the election is irrevocable and if any future PEs are set up the election applies to all of them.

Also if you are loss-making at the start and become profitable in the future and this election is going to be made, any of the losses in the last 6 years must be matched against future profits to clawback any of the losses relieved. If you have more than one PE you can elect to do territorial streaming, however, Doncar is unliekly to do this anytime soon given it's only looking at one contract in the interim.

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

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

Answer-to-Question-_6_

Square Blue is a newly incorporated company which is loss making. Therefore there will have been no tax paid in the current year.

Deferred tax is not a "real" tax and is an accounting concept. The aim is to ensure a company's profits aren't overstated.

Deferred tax assets / liabilities arise due to temporary timing differences between accounting concepts vs tax concepts.

Pension contributions are allowed when paid but 5,000 has had to be added back as they were unpaid. Any unpaid pension contributions will reduce the tax due in the next accounting period as this is when they will be deducted. There will be a deferred tax asset for £5,000 @ 25% = £1,250 for the unpaid pension contributions.

This will be DR Deferred Tax Asset 1,250.

This will be similar for the capital allowances claimed. Where the net book value is less than the tax written down value for an asset there will be a deferred tax asset, and where the NBV exceeds the TWDV there will be a deferred tax liability.

The difference between the two figures @ 25% will be the deferred tax asset or liability that goes into the accounts.

We need to know the net book value of the additions made during the year. 2m of cost less the 300k of deprecation = 1.7m of net book value. This exceeds the tax written down value of the assets (which is nil).
Therefore we will have a deferred tax liability of 1.7m @ 25% = 425,000.

SquareBlue Ltd needs to retain cash to settle any future liability.