



Chartered  
Institute of  
Taxation  
Excellence in Taxation

# **The Chartered Tax Adviser Examination**

May 2017

Suggested solutions

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## **Module C Corporation Tax**

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1.

	£	£	£	
TWDV b/wd		76,000		
Additions:				
Machine (note)	270,000			
AIA	<u>(200,000)</u>		200,000	1
		70,000		
Disposals		(50,000)		1
		<u>96,000</u>		
WDA at 18%			17,280	1
Max. claim			<u>£217,280</u>	
Note			YE 31/03/2017 £	YE 31/03/2018 £
Expenditure incurred on 1 February 2017 (being amounts paid on and within 4 months of delivery date)			270,000	1
Expenditure incurred on 1 August 2017			0	110,000
			<u>270,000</u>	1*

**\*1 mark for not including £110,000 paid on 1 August 2017 in claim for y/e 31/03/2017**

2.

	Jesmond Ltd	Heaton Ltd	Gosforth Ltd	
Year ended	31/03/2017	31/03/2017	31/12/2016	
	£	£	£	
Trade income	-	64,000	-	
Loan relationship credit	5,000	-	-	
Current year trade loss	(5,000)	-	-	1
Current year UK property loss		(4,000)		1
Group relief claimed (see note 1)	-	(27,000)	-	
<b>Taxable total profits</b>	<b>-</b>	<b>£33,000</b>	<b>-</b>	
Loss memo: Trade loss				
Current year trade loss	100,000	-	36,000	
Used in current year	(5,000)	-	-	
Group relief surrendered (see note 1)	-	-	(27,000)	
<b>Trade loss carried forward (see note 2)</b>	<b>£95,000</b>	<b>-</b>	<b>£9,000</b>	

Note 1

Heworth Ltd and Gosforth Ltd form a group for group relief purposes.

Trade losses for the common period – 1 April 2016 to 31 December 2016 – can be group relieved; i.e. 9/12.

The maximum claim to group relief is the lower of:

- (A) the common available profit:  $(9/12) \times (£64,000 - £4,000) = £45,000$ ; and
- (B) the lower of the common available loss:  $(9/12) \times £36,000 = £27,000$ .

Therefore, £27,000.

2\*

Note 2

Jesmond Ltd does not form part of a group for group relief purposes with Heworth Ltd and Gosforth Ltd. Therefore, its surplus trade losses cannot be group relieved.

1

**\*1 mark awarded if group relief claimed but 9/12 restriction missed.**

**3.**

Part 1

Companies which are part of Byker Ltd's capital gains group are:

- Walkergate Ltd (75% direct subsidiary); and **1**
- Howdon Ltd (75% direct subsidiary of Walkergate Ltd and 51% indirect subsidiary of Byker Ltd).

Bede Ltd is not part of the Byker Ltd capital gains group as it does not meet the 75% direct subsidiary test. **1**

Part 2

	£	£	
Gains	650,000		
Less gains rolled over against purchase made by Howdon Ltd (note 1)	<u>(220,000)</u>		
Capital losses reallocated from Walkergate Ltd		430,000 (18,000)	<b>1</b>
Gains less losses		<u>£412,000</u>	

Note1:

	£	
Gain	320,000	
Rollover (balancing figure)	<u>(220,000)</u>	<b>2*</b>
Chargeable gain = proceeds not invested	<u>100,000</u>	

**\*1 mark for claiming rollover relief plus 1 mark for correct amount**

4.

Cullercoats Ltd is entitled to claim a deduction against its trading profits equal to 230% of the qualifying revenue expenditure: £50,000 x 230% = £115,000. 1

This will give a trading loss of £150,000 (£35,000 + £115,000) to carry forward against trading profits of future accounting periods. 1

Alternatively, the company could surrender all or part of the loss for a payable tax credit from HMRC. 1

The maximum amount of losses which may be surrendered is the lower of:

- (A) The loss for the period: £150,000; and
- (B) 230% of the qualifying R&D expenditure: £115,000.

Therefore, £115,000. 1

The payable credit is given at the rate of 14.5%. If the company surrendered losses of £115,000, it would be entitled to a tax credit of £16,675. 1

This would reduce the company's trading losses carried forward for relief against future periods to £35,000.

5.

	Total £	UK source £	Foreign source £	
Profit	680,000			
Add:				
Accrued pension contributions	12,500			1
Taxable total profit	692,500	638,000	54,500	
Corporation Tax at 20%	138,500	127,600	10,900	
DTR (lower of foreign tax £9,500 and UK tax £10,900)	(9,500)	-	(9,500)	2*
	129,000	127,600	1,400	
CFC charge (£130,000 x 90% x 20%)	23,400			2**
Total liability to tax	£152,400			

**\*1 for deducting foreign tax plus 1 for correct amount**  
**\*\*1 for adding CFC charge plus 1 for correct amount**

6.

	Total	12m ended 30/09/2016 (12/18)	6m ended 31/03/2017 (6/18)	
	£	£	£	
Tax-adjusted profit	183,000	122,000	61,000	1
Capital allowances (working)		(14,040)	(32,756)	
Trading income		107,960	28,244	
Charitable donation			(12,000)	1
Taxable total profit		<u>£107,960</u>	<u>£16,244</u>	

Working

	12m ended 30/09/2016	6m ended 31/03/2017	
	£	£	
TWDV brought forward	78,000	63,960	
Addition		27,000	
FYA		(27,000)	1
	<u>78,000</u>	<u>63,960</u>	
Writing down allowance (£78,000 x 18%)	(14,040)		1
(£63,960 x 18% x (6/12))		(5,756)	1
TWDV carried forward	<u>63,960</u>	<u>58,204</u>	
Total CAs claimed	<u>14,040</u>	<u>32,756</u>	

7.

Part 1

A UK-resident company is chargeable to UK Corporation Tax on its worldwide income. A non-UK resident company is chargeable to UK Corporation Tax in respect of its UK income and gains only. 1

Part 2

A company is UK resident if it is incorporated in the UK. Chillingham SA is incorporated in Ruritania and so this test is not met. 1

However, there is a second test of UK residence: If the company is centrally managed and controlled in the UK then it is UK resident. 1

It is the highest level of control that is relevant here, and not where the day-to-day operations of the company are carried out (i.e. the factory in Ruritania). 1

It is a question of fact by whom and where the highest level of control is exercised, i.e. the location of the company's Board meetings is not in itself a deciding factor. 1

As the highest level of control over the company is exercised by the shareholder from the UK, the company is UK resident for tax purposes. 1

**Max. 4 marks for Part 2**

8.

Part 1

	£	
Loss for AP ended 31 March 2017	200,000	
Loss for 9m of AP ended 31 December 2016 ((9/12) x £12,000)	9,000	
Terminal loss	<u>£209,000</u>	1

Part 2

Loss for AP ended 31/12/2016 is used before loss for AP ended 31/03/2017.	1
Loss for AP ended 31/12/2016 may be carried back 3 years from the start of the AP (ie against APs ended 31/12/2015, 31/12/2014 and 31/12/2013).	1
Loss for AP ended 31 March 2017 may be carried back 3 years from the start of the AP (ie against APs ended 31/12/2016, 31/12/2015 and 31/12/2014).	1
Relief is given against total profits.	1
Relief is given against later periods before earlier periods; ie on a last-in-first-out basis.	1

**Max. 4 marks for Part 2**

9.

	£	
Trading profits per question	110,000	
Add: income gain on goodwill (Note 2)	<u>116,500</u>	2*
Trading income	226,500	
Capital gain (Note 1)	<u>144,150</u>	
Taxable total profits	<u>£370,650</u>	1**

\*1 mark for including income gain plus 1 for correct amount

\*\*1 mark for not including dividend

Note 1: Capital gain on office building

	£	
Proceeds	330,000	
Cost	(145,000)	
Legal expenses	<u>(2,500)</u>	
Unindexed cost	182,500	1
Indexation allowance (262-208)/208 = 0.26 x £147,500	<u>(38,350)</u>	1***
Gain	<u>£144,150</u>	

\*\*\*mark awarded if IA calculated by reference to £145k rather than £147.5k

Note 2: Income gain on goodwill

	£
Proceeds	120,000
TWDV	<u>(3,500)</u>
Gain	<u>£116,500</u>

**10.**

	£	£	
Profit per accounts		69,065	
Less, deemed employment payment:			
Income from Gateshead Ltd only	87,000		1
5% deduction	(4,350)		1
Salaries and ERs NICs paid	(15,951)		1
Pension contributions	(3,000)		1
Gross deemed payment	<u>(63,699)</u>	(63,699)	
Trading profit		<u><u>£5,366</u></u>	1

**11.**

The transfer pricing rules will apply if a person has secured an advantage in respect of UK taxation as a result of entering into a transaction with a connected party in circumstances where an exception does not apply.

Tynemouth Ltd has secured an advantage in respect of UK taxation as its profits chargeable to UK Corporation Tax have been reduced as a result of the transaction. **1**

Tynemouth Ltd and Millfield Inc are connected for these purposes if one of the following applies: **1**

A: Millfield Inc directly participates in the management, control or capital of Tynemouth Ltd – No, as Millfield Inc does not control Tynemouth Ltd; and

B: Millfield Inc is one of the major participants in Tynemouth Ltd – Yes, as Millfield Inc and Pallion Inc together control Tynemouth Ltd and both have at least a 40% interest in Tynemouth Ltd. **2\***

Tynemouth Ltd's taxable trading profits for the year ended 31 March 2017 are increased by £1,400,000 (£3,500,000 - £2,100,000). **1**

**\*1 mark for stating test and 1 mark for correct applying test**

12.

Part 1

	Amount £	
First instalment ((3/10) x £400,000)	120,000	[
Second instalment ((3/10) x £400,000)	120,000	[
Third instalment ((3/10) x £400,000)	120,000	1
Fourth instalment (balance)	40,000	1
	<u>£400,000</u>	

Part 2

	Due date	
First instalment (6m 13d from start of period)	14/12/2016	1
Second instalment (3m from first payment)	14/03/2017	[
Third instalment (3m from second payment)	14/06/2017	1
Fourth instalment (3m 14d from end of period)	14/07/2017	1