



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

May 2019

Suggested solutions

Module C Corporation Tax

1)

Pension contributions are deductible in calculating trading profit for the accounting period in which the contributions are **paid**. 1

However, relief is spread where both of the following conditions are satisfied:

Condition 1: **The increase in contributions exceeds 110%** of the prior year's contributions – Yes as £1,500,000 (£2,700,000 - £1,200,000) exceeds £1,320,000 (£1,200,000 x 110%). 1

Condition 2: The excess over 110% of the prior year's contributions is **more than £500,000** – Yes as £1,380,000 (£2,700,000 - £1,320,000) exceeds £500,000. 1

As the excess amount - £1,380,000 – is between £1,000,000 and £2,000,000 it is spread equally over 3 years. Therefore, relief is given as follows:

	£	
110% x £1,200,000	1,320,000	1
1/3 x £1,380,000	460,000	1
	£1,780,000	
Deduction for year ended 31 December 2018		
	£460,000	1
Deduction for each of years ended 31 December 2019 and 31 December 2020		

Maximum of 5 marks

2)

	12 months ended 31/12/2018 £	3 months ended 31/03/2019 £	
	240,000	60,000	
Trade income before capital allowances (12:3)			1
Capital allowances (Working)	(9,900)	(2,030)	1+1*
Taxable trade profit	230,100	57,970	
Non-trade loan relationship credits (6:3)	6,000	3,000	1
Taxable total profits	£236,100	£60,970	
Corporation Tax (19%)	£44,859	£11,584	1
Working: Capital allowances			
	£	£	
TWDV b/fwd	55,000	45,100	
WDA at 18%			
- Full year	(9,900)		
- 3 months (3/12)		(2,030)	
TWDV c/fwd	£45,100	£43,070	

***1 mark for 12 month/3 month calculation plus 1 mark for correct capital allowances claim**

3)

Income and salary	Income is taxable as trading income, and salary is deductible from trading income on an accruals basis.	1
5% deduction	Not allowable in calculating trading income.	1
Gross deemed payment (Employer's NIC plus net deemed payment)	Deductible in calculating trading income on paid basis The payment is treated as made on 5 April 2019. Therefore, relief is given for the year ended 31 December 2019.	1+1 1

4)

	Year ended 31 December 2016 £	3 months ended 31 March 2017 £	Year ended 31 March 2018 £	Year ended 31 March 2019 £	
Trade profit	120,000	30,000	Nil	40,000	
UK property business income	Nil	Nil	12,000	12,000	
Capital gain	Nil	25,000	Nil	Nil	
	120,000	55,000	12,000	52,000	
Current year relief			(12,000)		1
Carry back		(55,000)			1
Carry back (9/12 only)	(90,000)				1
Brought forward				(45,000)	1
Taxable total profit	<u>£30,000</u>	<u>£Nil</u>	<u>£Nil</u>	<u>£7,000</u>	
Loss memo:					
	Trade loss £	Capital loss £			
	202,000	20,000			
Utilised:					
Year ended 31 March 2018	(12,000)				
Period ended 31 March 2017	(55,000)				
Year ended 31 December 2016	(90,000)				
Year ended 31 March 2019	(45,000)				
Carried forward	<u>£Nil</u>	<u>£20,000</u>			1

5)

	£	
Loss before additional deduction	220,000	
Additional deduction: Qualifying expenditure £46,757 (see below) x 130%	60,784	
Trade loss after additional deduction	<u>£280,784</u>	
Surrender lower of:		1
Loss: £280,784; and		
230% of qualifying expenditure: £107,541.		1
Therefore, £107,541		
R&D tax credit £107,541 x 14.5%	<u>£15,593</u>	1
Working: Qualifying expenditure	£	
Employee: (£40,357 + £4,357) x 100%	44,357	1
Director: £8,000 x 30%	2,400	1
	<u>£46,757</u>	

6)

	Year ended 31 March 2019 £	
Trade profit	180,000	
Trade losses b/wd	(30,000)	1*
Trade income after b/wd losses	<u>150,000</u>	
Non trade loan relationship debits	(10,000)	1
Profits before group relief	140,000	
Group relief (Working)	(105,000)	
Taxable total profits	<u>£35,000</u>	
Working: Group relief		
Lower of:		1
(9/12) x loss of £200,000 = £150,000		1
(9/12) x profits of £140,000 = £105,000		1
Therefore, £105,000		

7)

	Year ended 31 January 2018 £	
Loan made during period	40,000	
Amount repaid during period	(10,000)	1
Outstanding at year end	<hr/> 30,000	
Repaid before Corporation Tax due date	(10,000)	1
Amount chargeable to s.455 tax	<hr/> 20,000	
s.455 tax at 32.5%	<hr/> £6,500	1
Due date for payment	01/11/2018	1*
	Year ended 31 January 2019	
s.455 tax repayable in respect of amount repaid in period (£10,000 x 32.5%)	<hr/> £3,250	1
Due date for repayment	01/11/2019	1*

1 mark for both correct due dates

8)

For SSE to apply, the shares must meet two conditions:

- 1) Substantial shareholding:
- Darland Ltd held **at least 10%** of the shares 1
 - throughout a **12 month period** 1
 - beginning within **6 years** of the date of the disposal 1

Yes – Darland Ltd held a 20% interest in Birford Ltd between 01/03/2013 and 28/02/2015.

- 2) Trading company:
- Birford Ltd was a **trading company ...** 1
- ...throughout the period beginning with the start of the latest 12-month period in which the substantial shareholding requirement was met and ending with the date of disposal. 1

Yes – Birford Ltd became a trading company on 1 January 2010 and continued to be so until 28 February 2019.

9)

Rollover relief is available provided the following conditions are met:

Both assets are used for the purposes of the company's trade - Yes. 1

Both assets are qualifying assets – Yes. 1

The replacement asset (the warehouse) was bought within the specified period of 1 year before and three years after the date of disposal - Yes. 1

An amount of the gain equal to the amount of proceeds not reinvested (£300,000) is immediately chargeable to Corporation Tax. 1

The remaining amount of the gain (£100,000) is rolled over against the base cost of the warehouse, and will become chargeable on disposal of the warehouse in the future. 1

10)

Part 1: No election

Note: A capital gain arises on the appropriation to trading stock based on the market value on 1 October 2018. Indexation is available to set against the gain, but only up to December 2017.

	£	£	
Deemed proceeds		2,800,000	1
Cost	(1,300,000)		
Indexation $[(278.1-238/238) = 0.168] \times \text{£}1.3\text{m}$	(218,400)		1
Indexed cost	(1,518,400)		
Capital gain		£1,281,600	

Note: The increase in value from 1 October 2018 to 1 May 2019 is then treated as a trading profit.

Trading income on sale (£2,950,000 – £2,800,000)	£150,000		1
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Part 2: Election made

An election can be made to treat the appropriation to stock as being made on a **nil gain/nil loss** basis. 1

	£	£	
Proceeds	1,518,400		
Indexed cost (as above)	(1,518,400)		
Gain		£Nil	
Trading income on sale (£2,950,000 – £1,518,400).		£1,431,600	1

11)

	Total £	UK source £	Foreign source £	
UK trade income	480,000	480,000		
Foreign trade income (£60,000 + £30,000)	90,000		90,000	1
Taxable total profits	<u>£570,000</u>	<u>£480,000</u>	<u>£90,000</u>	
Corporation Tax at 19%	108,300	91,200	17,100	
DTR: Lower of				
(i) overseas tax £30,000				
(ii) UK tax £17,100 (19% x £90,000)	(17,100)		(17,100)	1+1
	<u>91,200</u>	<u>£91,200</u>	<u>£Nil</u>	
CFC charge ((80% x £160,000) x 19%)	24,320			1+1
Corporation Tax liability	<u><u>£115,520</u></u>			

12)

Bofield Ltd will be required to complete and submit a form **CT61** to report any Income Tax deductions made from interest payments. 1

The CT61 is completed quarterly so for payments made on 31 May 2019, this will need to be entered on a form for **the quarter to 30 June 2019**. 1

The Income Tax deducted is due to be paid by the same deadline as the return needs to be filed, which is **on or before 14 July 2019** (within 14 days of the end of the quarter). 1

Income Tax only needs to be deducted from payments made to individuals – **interest paid to companies is not subject to any deduction of tax**. 1

The Income Tax is deducted at basic rate, so the £5,000 interest due to Mr Sanders will be subject to a deduction of **£1,000 of Income Tax** (5,000 x 20%). 1