Tax Knowledge Paper: Corporation Tax

Question 1

Zelvane Ltd is a UK resident trading company with one wholly owned UK resident trading subsidiary, Orvesa Ltd.

Zelvane Ltd's results for the year ended 31 March 2026 include the following:

	£
Tax adjusted trading profit	92,000
Net rental income from letting UK investment property (Note 1)	12,000
Bank interest receivable	4,000
Interest paid on a loan to purchase investment property	(2,000)
Chargeable gain	11,000
Dividend received from Orvesa Ltd	20,000
Dividend received from a UK company in which it holds a 2% interest	8,000
Qualifying charitable donation paid	(1,000)

Note 1:

	£
Gross rental income from property A (residential)	7,000
Gross rental income from property B (residential)	6,000
Replacing a toilet	(300)
Management and agents' fees	(200)
Insurance	(500)
Net rental income	12,000

Capital expenditure of £3,000 was incurred during the year to improve the heating system in property A

Zelvane Ltd had brought forward capital losses of £2,000 at 1 April 2025.

Calculate, with explanations, Zelvane Ltd's Taxable Total Profits for the accounting period ended 31 March 2026.

(10 marks*)*

Question 2

Corvane Ltd is a UK resident manufacturing company that prepares accounts to 31 March. The tax written down values of its capital allowances pools at 1 April 2025 were:

	£
Main pool	60,000
Special rate pool	24,000

Corvane Ltd undertook the following transactions with third parties in the year ended 31 March 2026:

Date in 2025	Transaction	£
10 May	Purchased machinery	1,150,000

1 July	Purchased second-hand packing equipment	40,000
1 September	Installed lighting and air conditioning systems in its factory	80,000
1 October	Purchased a car (CO2 emissions 0g/km) for the sales director, who uses it 30% for private journeys	45,000
1 November	Purchased a car (CO2 emissions 120g/km) for the finance director	18,000
1 December	Sold main-pool machinery (this had cost £30,000 in 2022; Annual Investment Allowance claimed in full and no first-year allowance claimed)	15,000

Calculate, with explanations, the maximum capital allowances that Corvane Ltd can claim for the year ended 31 March 2026.

(10 marks)

Question 3

Pelmora Ltd, a UK resident company with no associated companies, was not a large company in the year ended 31 March 2025.

For the year ended 31 March 2026, it had augmented profits of £2.4 million, and a Corporation Tax liability of £560,000.

Its augmented profits are expected to remain at a similar level for the year ending 31 March 2027, and its Corporation Tax liability is estimated to be £600,000 for that year.

Explain when Pelmora Ltd's Corporation Tax liability for the year ending 31 March 2027 will be payable, and how this differs from the payment position for the year ended 31 March 2026.

(5 marks)

Question 4

Neravia Ltd is a UK resident trading company that prepares accounts to 31 March. It is not required to pay Corporation Tax by instalments.

Neravia Ltd's shareholders are as follows:

Shareholder	Shareholding %	Notes
Ms Hart	55	Full-time director of Neravia Ltd
Mr Hart	37	Full-time director of Neravia Ltd; Ms Hart's brother
Other individuals	8	Unconnected parties

On 1 August 2025, Neravia Ltd lent £30,000 to Mr Hart. He repaid £10,000 on 1 March 2026 and intends to repay a further £8,000 on 1 February 2027. Neravia Ltd plans to write off the remaining £12,000 on 1 April 2027.

Explain the Corporation Tax consequences for Neravia Ltd of the loan of £30,000 it provided to Mr Hart.

(5 marks)

Question 5

Saldira Ltd, a UK trading company, has deducted the following items in arriving at its operating profit for the year ended 31 March 2026:

- A £50,000 bonus for the managing director accrued at 31 March 2026 and to be paid on 30 April 2027.
- Pension contributions of £20,000 accrued at 31 March 2026 and paid on 20 April 2026.
- Lease rentals of £6,000 for a car with CO2 emissions of 128g/km, leased in 2024.
- Trade debts of £3,200 written off as irrecoverable.
- One desk diary costing £18, embossed with the company logo, given to each of 60 customers. No other gifts were made to those customers during the accounting period.
- £2,400 spent entertaining customers at a trade show.

Explain the treatment of each item in calculating Saldira Ltd's trade profit for the year ended 31 March 2026.

(4 marks)

Question 6

Tervessa Ltd is a UK resident manufacturing company that is a wholly owned subsidiary of an overseas parent company. The overseas parent company is resident in a jurisdiction with a corporate tax rate of 10%. The companies are part of a large multinational group. The group has over 500 employees and revenues in excess of £750 million.

During the year ended 31 March 2026, Tervessa Ltd sold components at £100 per unit to its overseas parent company while it sold the same components to independent customers at £500 per unit. The sales were on otherwise comparable terms.

All transfer pricing record-keeping requirements are met by the group.

Explain how the transfer pricing rules apply to Tervessa Ltd for the year ended 31 March 2026.

(3 marks)

Question 7

Wesora Ltd has one wholly owned subsidiary, Valdren Ltd.

Wesora Ltd also owns 75% of Yandrel Ltd, while the remaining 25% of Yandrel Ltd is owned by unconnected investors.

For the year ended 31 March 2026, Valdren Ltd made a profit while Yandrel Ltd made a trading loss. All companies are UK resident. Throughout the year, Wesora's holdings gave it the stated percentages of ordinary share capital, distributable profits, and assets available on a winding-up.

Explain why Yandrel Ltd may surrender its trading loss to Valdren Ltd and the procedure and deadline for a claim.

(3 marks)