Tax Knowledge Paper: Corporation Tax

Answer to Question 1

Calculating Taxable Total Profits

	Note	£
Tax adjusted trading profit		92,000
UK property business income	1	12,000
Non-trading profits (loan relationships)	2	2,000
Net chargeable gain	3	9,000
Profits		115,000
Less: Qualifying charitable donations	4	(1,000)
Taxable total profits	5	114,000

Notes

1) Income from property situated in the UK is taxed as profits from a UK property business, with profits and losses from all UK property treated as a single source of business income. Expenses that are incurred wholly and exclusively for the purposes of the business are deductible against rental income. These include repairs, which include replacing the toilet; management and agents' fees; and insurance. However, capital expenditure is non-deductible.

2) The £4,000 bank interest receivable is a non-trading loan relationship credit. The £2,000 interest on the borrowing used to acquire the investment property is a non-trading loan relationship debit because the borrowing is for an investment asset rather than the company's trade. It is not deducted in calculating the UK property business profit. Non-trading loan relationship credits and debits are pooled producing a net non-trading loan relationship profit of £2,000.

3) Brought forward capital losses of £2,000 are set against the chargeable gain of £11,000 such that a net chargeable gain of £9,000 is included in taxable total profits.

4) The £1,000 qualifying charitable donation is not deducted in arriving at the trading profit, rather it is deducted from total profits in calculating taxable total profits, subject to the restriction that a qualifying charitable donation cannot create or augment a loss.

5) The £20,000 dividend from Orvesa Ltd and the £8,000 dividend from the unrelated UK company are exempt distributions and are, therefore, excluded from taxable total profits.

Marking guide	**Marks**
Both rental properties treated as single source of business income	1.0
Replacing a toilet treated as a repair, deductible	1.0
Deductible expenditure (fees, insurance)	2.0
Non-deductible expenditure (capital expenditure)	1.0
Non-trading loan relationship credit	1.0
Non-trading loan relationship debit	1.0

Marking guide	Marks
Qualifying charitable donation	1.0
Inclusion of net chargeable gain	1.0
Dividends excluded from TTP	1.0
Total	**10.0**

Answer to Question 2

Capital allowances computation

	Notes	Main pool	Special rate pool	Allowances
		£	£	£
TWDV brought forward		60,000	24,000	-
New machinery	1	-	-	1,150,000
Zero-emission car	2	-	-	45,000
Second-hand packing equipment	3	-	-	40,000
Lighting and air conditioning system	4	-	-	80,000
Car with CO2 emissions 120g/km	5	-	18,000	-
Disposal of machinery	6	(15,000)	-	-
		45,000	**42,000**	-
WDA at 18%	7	(8,100)	-	8,100
WDA at 6%	7	-	(2,520)	2,520
TWDV carried forward		**36,900**	**39,480**	-
Total capital allowances		-	-	**1,325,620**

Notes

1) The machinery is new and unused main rate plant, so Corvane Ltd, as a company, can claim full expensing at 100% with no monetary limit. Claiming full expensing leaves the £1 million annual investment allowance (AIA) available for other expenditure.

2) The new zero-emission car qualifies for a 100% first year allowance. There is no private use restriction because a company's capital allowances are not reduced for private use by a director; the private use is instead taxed on the director as a benefit.

3) The second-hand packing equipment does not qualify for full expensing, which requires new and unused plant, so the AIA is claimed instead.

4) The lighting and air conditioning systems are integral features and so special rate expenditure. New special rate expenditure qualifies for a 50% first year allowance, but the AIA gives 100% relief, so the AIA is allocated to this expenditure in priority. Total AIA of £120,000 (£40,000 per note 3 above plus £80,000) is well within the £1 million limit.

5) The car with CO2 emissions above 50g/km does not qualify for the AIA or a first-year allowance. It is added to the special rate pool and attracts a 6% writing down allowance.

6) On the sale of the machinery, the lower of the proceeds and the original cost, i.e. £15,000, is deducted from the main pool.

7) Writing down allowances of 18% on the main pool, and 6% on the special rate pool, are given on the remaining balances.

Marking guide	**Marks**
Full expensing at 100% on new machinery; no monetary limit; company only	1.0
Second-hand equipment not eligible for full expensing; AIA claimed	1.0
Integral features are special rate expenditure; AIA allocated in priority rather than 50% FYA	2.0
Zero-emission car: 100% first year allowance	1.0
No private use restriction for a company	1.0
Car above 50g/km added to special rate pool	1.0
Disposal: lower of proceeds and cost deducted from main pool	1.0
Main pool WDA at 18%	1.0
Special rate pool WDA at 6%	1.0
Total	**10.0**

Answer to Question 3

Pelmora Ltd is a large company because its augmented profits of £2.4 million exceed the £1.5 million large-company threshold. Since Pelmora Ltd has no associated companies, the full threshold applies. Its profits are below the £20 million very-large-company threshold, so the large-company quarterly instalment rules apply.

For the year ending 31 March 2027, Pelmora Ltd must make quarterly instalments because it was large in the previous accounting period, and the first-year exception is no longer available. Based on the estimated liability of £600,000, the four instalments are initially £150,000 each. They are due on 14 October 2026, 14 January 2027, 14 April 2027, and 14 July 2027.

For the year ended 31 March 2026, Pelmora Ltd was large for that accounting period, but it was not large or very large in the preceding 12 months, and its augmented profits did not exceed £10 million. The first-year exception therefore applied, so no quarterly instalments are required for 2026. The full £560,000 liability is payable nine months and one day after the year end, on 1 January 2027.

Marking guide	**Marks**
Large company definition applied to augmented profits	1.0
2027 instalments of 1/4 of the estimated liability	1.0
2027 quarterly instalment due dates	1.0

Marking guide	Marks
First-year exception: profits of £10 million or less and not large in the previous 12 months	1.0
Year ended 31 March 2026 payable in full on 1 January 2027	1.0
Total	**5.0**

Answer to Question 4

Neravia Ltd is a close company because Ms Hart controls it through her 55% holding. Mr Hart is a participator, so the loan falls within s.455 CTA 2010.

The charge is based on the £20,000 outstanding at 31 March 2026, the £10,000 repaid on 1 March 2026 having been deducted. Nothing further is repaid within nine months of the year end, so s.455 tax of £6,750 (33.75%, the rate for loans made before 6 April 2026) is payable on 1 January 2027.

The £8,000 repayment on 1 February 2027 is after that date, so relief is claimed under s.458 CTA 2010. Tax of £2,700 is repayable nine months and one day after the end of the accounting period of repayment, 1 January 2028. The claim deadline is four years from the end of that period, 31 March 2031.

The £12,000 write-off on 1 April 2027 falls in the year ending 31 March 2028, so a further £4,050 is repayable from 1 January 2029. The write-off is not deductible in computing Neravia Ltd's trading profits.

Marking guide	Marks
Close company; Mr Hart is a participator; s.455 applies	1.0
Charge on £20,000 outstanding at the year end at 33.75%: £6,750 payable 1 January 2027.	1.5
Repayment after nine months: s.458 relief of £2,700 repayable from 1 January 2028; claim within four years	1.5
Write-off: relief of £4,050 repayable from 1 January 2029; write-off not deductible for the company	1.0
Total	**5.0**

Answer to Question 5

- As the £50,000 managing director's remuneration remained unpaid nine months after the period end, it is added back for the year ended 31 March 2026 and deducted instead in the year of payment.
- Pension contributions are deductible only when paid. The £20,000 accrual is added back for 2026 and relieved in the year ending 31 March 2027.
- The leased car has CO2 emissions above 50g/km, so £900 (15% of £6,000) rentals is disallowed.
- The £3,200 trade debt is specifically written off as irrecoverable. A bad debt arising from the trade is allowable, so no adjustment is required.
- The desk diaries are allowable since each cost below the £50 limit, carries a conspicuous advertisement, and is not food, drink, tobacco, or an exchangeable voucher.

- Customer entertaining is disallowed even when incurred at a trade show, so £2,400 is added back.

Marking guide	Marks
Bonus: unpaid nine months after the period end, so added back; relief in the year ended 31 March 2028	1.0
Pension: paid basis, accrual added back, relief in the year ended 31 March 2027.	1.0
15% of the lease rentals disallowed (emissions above 50g/km): £900	0.5
Trade bad debts allowable	0.5
Diaries allowable: £50 limit, advertisement, not food, drink, or tobacco	0.5
Entertaining disallowed s1298 CTA 2009	0.5
Total	**4.0**

Answer to Question 6

The transfer pricing rules apply because Tervessa Ltd and its overseas parent are connected and their controlled transaction is not on arm's length terms. Tervessa Ltd's revenue is understated by £400 per unit (£500 versus £100).

The group is too large for the transfer pricing SME exemption, so Tervessa Ltd must apply the UK transfer pricing rules.The parent's 10% tax rate indicates a potential tax advantage but does not determine the arm's length price.

Tervessa Ltd must self-assess an upward adjustment in its Corporation Tax computation, recognising an additional £400 of revenue for each unit sold to the parent, increasing its taxable profits accordingly.

Marking guide	Marks
Connected companies, not an arm's length price	1.0
SME exemption will not apply	1.0
Tervessa Ltd must self-assess using the arm's length price in its tax computation	1.0
Total	**3.0**

Answer to Question 7

Valdren Ltd and Yandrel Ltd are members of the same group relief group since both are at least 75% owned by Wesora Ltd, with entitlement to at least 75% of the ordinary share capital; the distributable profits; and assets on a winding-up.

Yandrel Ltd may surrender its current period trading loss to Valdren Ltd for use against Valdren Ltd's taxable total profits of the corresponding accounting period. The 25% minority interest in Yandrel Ltd does not affect the amount that can be surrendered.

Valdren Ltd should make the group relief claim with Yandrel Ltd's consent within two years after the end of Valdren Ltd's accounting period.

Marking guide	Marks
Group relief shareholding requirement.	1.0
Set against TTP of the corresponding period.	1.0
Claim by the claimant with consent, normally within two years.	1.0
Total	**3.0**