

May 2019 Module C CT

1. Carbrough Ltd made pension contributions in connection with its trade as follows:

	£
Year ended 31 December 2017	1,200,000
Year ended 31 December 2018	2,700,000

Briefly explain, with supporting calculations, how the deduction for Corporation Tax purposes will be given for the pension contributions made for the year ended 31 December 2018.

2. Manpool Ltd had the following results for the 15-month period ended 31 March 2019:

	<u>Note</u>	<u>Income</u>
		£
Tax-adjusted trading profit	1	300,000
Non-trade loan relationship credits	2	9,000

Note 1: This is before the deduction of available capital allowances. The tax written down value on the general pool at 1 January 2018 was £55,000.

Note 2: This relates to a loan made on commercial terms on 1 July 2018.

Calculate the Corporation Tax liability for the 15-month period ended 31 March 2019, clearly showing your treatment of all items.

3. Yarham Ltd is a personal service company. The following deemed salary calculation was prepared for the year ended 5 April 2019:

	£
Income from relevant engagements	88,000
Statutory 5% deduction	(4,400)
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	83,600
Salary paid to Mike, the sole director	(8,424)
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Gross deemed payment	75,176
Employer's National Insurance (£75,176 x (13.8/113.8))	(9,116)
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Net deemed payment	<u>£66,060</u>

The company prepares accounts to 31 December.

Briefly explain how each item in the deemed salary calculation will be treated for Corporation Tax purposes.

4. Edgow Ltd's results are as follows:

	<u>Year ended</u> <u>31 December</u> <u>2016</u>	<u>Three months</u> <u>ended</u> <u>31 March</u> <u>2017</u>	<u>Year ended</u> <u>31 March</u> <u>2018</u>	<u>Year ended</u> <u>31 March</u> <u>2019</u>
	£	£	£	£
Trade profit/(loss)	120,000	30,000	(202,000)	40,000
UK property business income	Nil	Nil	12,000	12,000
Capital gain/(loss)	Nil	25,000	Nil	(20,000)

Calculate Edgow Ltd's taxable total profit for all periods assuming that relief for losses is claimed as early as possible and show any losses carried forward at 31 March 2019.

5. Edinbury Ltd is a small enterprise for the purposes of Research and Development (R&D) tax relief.

For the year ended 30 April 2019, the company had a trading loss of £220,000 and no other income. The loss takes into account the following R&D expenditure:

	<u>Salary</u>	<u>Employer's National</u> <u>Insurance</u> <u>Contributions</u>
	£	£
Research assistant, engaged entirely on R&D	40,000	4,357
Director, engaged 30% of the time on R&D	8,000	Nil

Calculate the maximum payable R&D tax credit that Edinbury Ltd may claim.

6. On 1 July 2018, Mildon Ltd bought 100% of the issued share capital of Londale Ltd. Both companies prepare accounts to 31 March. The companies' results for the year ended 31 March 2019 were as follows:

	<u>Mildon Ltd</u> <u>£</u>	<u>Londale Ltd</u> <u>£</u>
Trade profit/(loss)	(200,000)	180,000
Non-trade loan relationship debits	Nil	(10,000)

Londale Ltd had trade losses brought forward at 1 April 2018 of £30,000.

Calculate Londale Ltd's taxable total profits for the year ended 31 March 2019, assuming that all beneficial claims are made.

7. Eddie is a director and shareholder of Kilee Ltd, a close company. Kilee Ltd makes up its accounts to 31 January.

On 1 June 2017, Kilee Ltd made a loan of £40,000 to Eddie. Eddie repaid the loan as follows:

<u>Date of repayment</u>	<u>Amount repaid</u> £
30 November 2017	10,000
31 May 2018	10,000
30 November 2018	10,000
31 May 2019	10,000

Calculate the tax payable by/repayable to Kilee Ltd under s.455 CTA 2010 for the years ended 31 January 2018 and 31 January 2019, stating the due date.

8. On 1 March 2009, Darland Ltd bought 20,000 ordinary shares in Birford Ltd, a company with an issued share capital of 100,000 ordinary shares. Birford Ltd began trading on 1 January 2010.

Darland Ltd sold 12,000 shares on 28 February 2015 and the remaining 8,000 shares on 28 February 2019.

Briefly explain whether the substantial shareholdings exemption will apply to the disposal of 8,000 shares on 28 February 2019.

9. Newley Ltd is a trading company. On 1 October 2018, it sold a building that it had occupied as office space for £800,000, realising a gain of £400,000. On 1 April 2019, it bought a warehouse for use in its trade, paying £500,000.

Briefly explain whether rollover relief is available for the gain arising on the disposal of the building, and the effect of making a claim.

10. Petergate Ltd and Kenrith Ltd are members of the same capital gains group.

On 31 January 2012, Kenrith Ltd bought a factory for £1,300,000. It transferred the factory to Petergate Ltd on 1 October 2018 at its cost price. The market value at that time was £2,800,000. On 1 May 2019, Petergate Ltd sold the factory to a third party for £2,950,000.

Kenrith Ltd had held the factory as a capital asset and Petergate Ltd had held it as trading stock.

You are required to calculate Petergate Ltd's capital gain and/or trading income in respect of the transfer of the factory and its sale on the basis that:

- 1) Petergate Ltd does not make an election under s.161 TCGA 1992.
- 2) Petergate Ltd does make an election under s.161 TCGA 1992.

11. Kesdal Ltd trades mainly in the UK. It has an overseas permanent establishment and it owns 80% of the issued share capital of Hartbury Co., a Controlled Foreign Company.

For the year ended 31 December 2018, Kesdal Ltd had the following results:

	£
UK trade profit	480,000
Overseas permanent establishment trade profit (after deduction of foreign tax of £30,000)	60,000

Hartbury Co. had profits of £160,000 for the year ended 31 December 2018 that passed through a Controlled Foreign Company gateway. No tax was paid overseas on these profits.

Calculate the Corporation Tax liability for Kesdal Ltd for the year ended 31 December 2018.

12. On 1 June 2018, Bofield Ltd borrowed £100,000 from Mr Sanders and £200,000 from Middbury Ltd. Neither Mr Sanders nor Middbury Ltd have any other connection with Bofield Ltd.

Bofield Ltd is due to make the following interest payments on 31 May 2019:

	£
Mr Sanders	5,000
Middbury Ltd	10,000

Bofield Ltd prepares its accounts to 31 December.

Briefly explain, with supporting calculations, how Bofield Ltd is required to account for Income Tax on these interest payments.