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Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**1156**	**5569**	**6659**
Section 2	**497**	**2592**	**3004**
Section 3	**700**	**3730**	**4350**
Section 4	**900**	**4680**	**5439**
Section 5	**1606**	**7949**	**9486**
Section 6	**352**	**1819**	**2140**
Total	**5211**	**26339**	**31078**

Answer-to-Question-_1_

Requirement 1

The corporate interest restriction (CIR) rules exist to prevent worldwide groups from obtaining excessive interest deductions for corporation tax.

A worldwide group for these purposes is an ultimate parent company and its IAS consolidated subsidiaries, so Newco plc and all its direct and indirect subsidiaries in this scenario.

Groups with a UK aggregate net tax interest expense (ANTIE) of at least £2 million will have to consider CIR and make appropriate adjustments.

Given the significant net interest expense of £100 million in Newco plc's consolidated accounts, CIR will need to be considered.

CIR adjustments are made after any other interest restriction adjustments such as transfer pricing (TP), hybrid mismatches or unallowable purpose rules.

Therefore, necessary TP adjustments for the transactions with Belroy GmbH should be made before preparing CIR calculations.

As Newco plc and its subsidiaries form a new group structure from 1 January 2025, assuming not already done, a reporting company (RC) must be nominated.

The nomination should be sent to HMRC by 12 months following the accounting period end, i.e. by 31 December 2026.

The nomination should include the written consent of at least half of the UK companies in the worldwide group, other than the RC.

The RC then has the obligation to inform all of the other group companies that it has been appointed the RC.

The RC must file an annual interest restriction return (IRR) with HMRC by 12 months following the period end.

The IRR may be full or abbreviated, but in order to carry forward interest disallowances (carried forward indefinitely and potentially reactivated in future periods) and interest allowances (carried forward for up to 5 years and potentially allowing greater deductions in future periods), a full IRR should be prepared.

The IRR should state the name and unique taxpayer reference of the ultimate parent of the worldwide group and of any UK companies which were members of the worldwide group throughout the period, and specify the return period.

The full IRR will also set out the calculation of the UK group's interest capacity (IC), the overall disallowance (i.e. the excess of ANTIE over this amount) and how the disallowance has been allocated among the UK group companies.

The group uses the fixed ratio method, which is the default, so no claim for the group ratio method needs to be included in the IRR.

The RC must also maintain records for at least 6 years and engage in communications with HMRC on behalf of the UK group.

If no RC is nominated and/or no IRR is filed by 12 months following the accounting period end, HMRC will calculate the interest restriction and allocate it among the UK companies according to a process set out in the legislation.

Requirement 2

Companies carrying on a UK property business which meet the definition of being a qualifying infrastructure company (QIC) may qualify for the public infrastructure exemption (PIE).

In order to qualify a company must:

- Be taxed fully in the UK;

- Make an appropriate election; and

- Satisfy the requirements to be a QIC, i.e. that its income and assets are referable to activities in relation to public infrastructure assets (PIAs).

A PIA is an asset which has had an economic life of at least 10 years, is held on the balance sheet of a member of the group that is taxed fully in the UK, and is either:

- A tangible asset forming part of UK infrastructure that is, or is to be, procured by a relevant public body or used in the course of an activity regulated by an infrastructure authority; or

- Buildings or parts of buildings that are part of a UK property business and are let on a

short-term basis (less than 50 years) to unrelated parties.

A company satisfies the requirements to be a QIC if all of the following apply:

(1) Public infrastructure income test:

The company has no income, or all or all but a significant proportion of its income derives from:

- qualifying infrastructure activities (i.e. provision of PIAs);

- shares in a QIC; or

- loan relationships with a QIC only.

(2) Public infrastructure assets test:

The company has no assets, or all or all but a significant proportion of the value of its assets derives from:

- qualifying infrastructure activities (i.e. PIAs);

- shares in a QIC; or

- loan relationships with a QIC only.

(3) It is fully taxed in the UK and has made the election referred to above.

Fully taxed in the UK, as referenced above, means all income sources are chargeable to corporation tax, no branch exemption election has been made, and no double tax relief claim is made.

The PIE election mentioned above must be made before the end of the relevant accounting period, and takes effect for all accounting periods subsequently.

The election is revoked if the QIC conditions above are no longer met.

Following 5 years of the start of the first accounting period that the PIE election takes effect, a company may elect to revoke the PIE election before the start of the relevant accounting period.

A fresh election may be made any time starting 5 years after the accounting period in which the revocation took effect.

Requirement 3

The interest expense and tax-EBITDA of Julkel Ltd are ignored for the CIR calculation. The steps are then as follows.

1) Identify worldwide group - as above i.e. Newco plc and its consolidated subsidiaries, but with Julkel Ltd exempted.

2) Calculate ANTIE - given as £110m.

An adjustment should be made for the TP adjustment and for Julkel Ltd's interest expense.

Hence ANTIE is £110m - £20m - £20m = £70m.

3) Calculate aggregate tax-EBITDA - given as £225m.

An adjustment should be made for the TP adjustment and for Julkel Ltd's tax EBITDA.

Hence aggregate tax-EBITDA is £225m + £10m - £15m = £220m.

4) Calculate interest allowance (IA).

As the group is in an ANTIE position, the IA is the basic interest allowance - this is given by the fixed ratio method as assumed.

There is no adjustment for debt cap, and as the group is new it has no brought forward attributes.

IA is the lower of 30%*£220m=£66m and the aggregate net group interest expense (ANGIE), which is £100m.

Note no adjustment to ANGIE is needed for Belroy UK Holdings' TP adjustment as the interest nets off at a group level.

Hence IA is £66m.

5) Calculate IC.

IC is the higher of £2m and IA, hence £66m.

6) Disallow excess of ANTIE over IC.

£70m - £66m = £4m, which is the UK group disallowance for the period.

7) Allocate CIR disallowance among UK group companies.

As set out above, the £4m should be allocated in the full IRR submitted by the RCD by 31 December 2026.

The £4m can be carried forward indefinitely, if full IRRs continue to be submitted, and potentially reactivated in future periods.

----------ANSWER-1-ABOVE----------

----------ANSWER-2-BELOW----------

Answer-to-Question-_2_

Shellnic Ltd	AIA/FYA	MP	SRP	CAs
TWDV b/f		6,000,000	1,000,000	
Additions to AIA/FYA:				
Integral features	1,000,000			
AIA	(1,000,000)			1,000,000
New plant	3,000,000			
Alterations to bring into use	300,000			
New office equipment	500,000			
Vans	3,000,000			
FYA 100%	(6,800,000)			6,800,000
Integral features	200,000			
FYA 50%	(100,000)			100,000
	100,000			
Addition not to AIA/FYA:				
Plant		2,000,000		
Disposals:				
Plant A		(150,000)		
Plant B				(1,000,000)

		7,850,000	1,000,000	
WDA 18%		(1,413,000)		1,413,000
WDA 6%			(60,000)	60,000
Transfer to SRP	(100,000)		100,000	
TWDV c/f		6,437,000	1,040,000	
SBA - warehouse				70,000
SBA - office alterations				27,000
Total CAs				8,470,000

Warehouse

1) Assuming the warehouse was built on or after 29 October 2018, and a written allowance statement (pre-approved by HMRC) was passed by the developer to Shellnic Ltd, structures and buildings allowance (SBA) can be claimed.

SBA is claimed at 3% straight-line on the original cost of constructing the warehouse (£7m), from the date it was first brought into use (1 September 2025).

Hence SBA is £7m*3%*4/12 = £70,000.

The £1 million spent on integral features qualifies for capital allowances as a special rate pool (SRP) item.

As they are second-hand no first-year allowance (FYA) is available. Shellnic Ltd should therefore allocate the annual investment allowance (AIA) of £1m in priority against this expenditure.

The land does not qualify for capital allowances but instead the cost is deductible from a chargeable gain on a future disposal.

2) The new plant of £3m qualifies for 100% FYA.

The second-hand plant does not qualify for FYA. AIA is utilised against the SRP items in priority as they attract a smaller writing down allowance (WDA) per annum when pooled.

Hence the second-hand plant is pooled and a WDA of 18% is claimed.

3) The alterations required to install the new plant also qualifies for 100% FYA.

Offices

1) The building was constructed prior to 29 October 2018, meaning no SBA is available.

2) The alterations qualify for SBA from 1 July 2025.

The planning permission expenditure does not qualify for capital allowances.

The integral features qualify for 50% FYA.

The SBA is therefore £1.8m*3%*6/12 = £27,000.

3) The new office equipment qualifies for 100% FYA.

Transport

The vans qualify for 100% FYA.

Under the hire-purchase rules, the full lifetime expenditure qualifies for relief in the current period, i.e. £600k + 48*£50k = £3m.

Regardless of the accounting treatment, the lease is less than 7 years meaning the long-funding lease rules do not apply.

Disposals

1) The disposal of plant A results in a deduction from the general pool for the lower of proceeds and original cost.

Proceeds were £250,000 - £100,000 = £150,000, which must have been less than the original cost (£250,000 add any accumulated depreciation).

2) As plant B was acquired in 2022, it qualified for the super-deduction of 130%, and Shellnic Ltd claimed the maximum allowance possible.

The disposal results in a balancing charge equal to the higher of proceeds and original cost, i.e. £1m (which is higher than proceeds of £500k + £100k = £600k).

----------ANSWER-2-ABOVE----------

----------ANSWER-3-BELOW----------

Answer-to-Question-_3_

Freehold factory

The disposal results in a chargeable event:

	£	Notes
Proceeds	30,000,000	
Base cost	(20,000,000)	
Incidental costs of acquisition	(100,000)	
Enhancement expenditure	(3,000,000)	Allowed on the second workshop, but not the first given it was demolished prior to sale.
Unindexed gain	6,900,000	
Indexation allowance - base cost	(3,015,000)	Indexation allowance is available up to December 2017 (frozen on this date). Indexation factor Jun '12 to Dec '17: (278.1-241.8)/241.8 = 0.150 to 3 decimal places. So indexation allowance is 0.150*£20,100,000 = £3,015,000.
Indexation allowance - enhancement	(171,000)	Indexation factor Jun '16 to Dec '17: (278.1-263.1)/263.1 = 0.057 to 3 decimal places. So indexation allowance is 0.057*£3,000,000 = £171,000.
Taxable gain	3,714,000	

Leasehold office

The sale of a short lease results in a chargeable event as follows:

	£	Notes	
Proceeds	5,000,000		
Base cost	(3,512,199)	Lease life at June 2012 is 40 years. Hence lease life at June 2025 is 27 years. Cost apportioned by lease wasting percentage: £4,000,000 * 83.816% / 95.457% = £3,512,199.	
Unindexed gain	1,487,801		
Indexation allowance	(526,830)	Indexation allowance (Jun '12 to Dec '17) is 0.150*£3,512,199 = £526,830.	
Indexed gain	960,971		
Rollover relief	(460,971)	Balancing figure	
Taxable gain	500,000	W	

Specialised plant and machinery

Moveable plant and machinery is a wasting chattel for tax purposes, which is exempt from chargeable gains except where a profit arises with both the proceeds and original cost exceeding £6,000.

Therefore, the sale of the plant which was for more than its cost results in a chargeable gain:

	£	Notes	
Proceeds	250,000		
Cost	(200,000)	No indexation as it was purchased after December 2017.	

Taxable gain	50,000		

W: Rollover relief

As Floell Ltd is a UK trading company which purchases and sells qualifying chargeable assets, it qualifies for replacement of business asset (rollover/holdover) relief.

The relief applies to purchases of trading assets made within a qualifying time period around a disposal of a trading asset.

The qualifying time period is from 12 months prior to the disposal date, up to 36 months after the disposal date.

The gain on the disposal can then be deferred, with the amount taxable in the current period being the amount of proceeds not reinvested into the new asset.

The type of relief given (between rollover and holdover) depends on the nature of the asset reinvested into, in particular if it is depreciating (useful life less than 60 years) or non-depreciating.

Floell Ltd's sales of the freehold factory (July 2025) and the leasehold office (June 2025) qualify for rollover/holdover relief as they were both used in its trade. The moveable plant and machinery is not a qualifying asset for the relief.

As Floell Ltd purchased a new office building in December 2025, i.e. within 36 months of both disposals, and this is a qualifying non-depreciating asset used in its trade, rollover relief is available to potentially defer both gains.

As the proceeds from the disposal of the factory were £30m, the amount not reinvested, and thus taxable in the current period, would be £25.5m. As the indexed gain is already less than this amount, there is insufficient reinvestment to make a rollover relief claim on this disposal.

However, a rollover relief claim can be made in respect of the leasehold office disposal.

The proceeds not reinvested are £5m less £4.5m, being £500k. The difference (£460,971) is claimed as rollover relief.

The rollover relief reduces the carried forward tax base cost of the new office building, now being £4,039,029. This increases a future gain on disposal of the new office building, effectively deferring the tax on this amount until the disposal.

Floell Ltd should review its expected future plans for acquiring qualifying assets, which may include fixed plant and machinery used in its core sports equipment trade.

If any qualifying purchases are expected to take place before June/July 2028, a provisional claim for rollover/holdover relief could be included in the current period tax return.

Claims for rollover/holdover relief must be made within 4 years following the end of the accounting period in which the disposal or acquisition (whichever is later) occurs.

Hence the rollover relief claim above must be made by 4 years following the end of the accounting period which includes December 2025 (no accounting year end dates given).

----------ANSWER-3-ABOVE----------

----------ANSWER-4-BELOW----------

Answer-to-Question-_4_

Year ended 31 March 2026	£Ayleswood Ltd	£Binley Ltd	Notes
Profit per accounts	75,000	600,000	
Adjustment for trading profits	(75,000)		1
Depreciation		250,000	3
Client entertaining		20,000	3
Chocolate bars		5,000	3
Wine		26,000	3
Capital allowances		(651,000)	5
Tax adjusted trading profits	0	250,000	
UK propery profits	272,000		5
NTLR profits	50,000		1
EOM	(273,000)		4
Total taxable profits	49,000	250,000	
Trading losses arising on or after 1 April 2017 - brought forward claim		(250,000)	6
Trading losses arising on or after 1 April 2017 - brought forward group relief claim	(24,000)		6
Taxable total profits	25,000	Nil	
Corporation tax liability at 19%	4,750	Nil	

Ayleswood Ltd's corporation tax payable is £4,750, payable by 9 months and 1 day from

the end of the accounting period, i.e. by 1 January 2027.

Notes

1) Ayleswood Ltd is an investment company as its business involves letting/leasing investment properties.

Therefore, it does not have a trading profit.

It can deduct expenses of management ("EOM") from total taxable profits provided they relate to the investment business and are not capital in nature.

Its interest income of £50,000 is a non-trading loan relationship (NTLR) credit.

2) The grant of a long term (more than 50 year life) lease results in a chargeable part disposal for tax.

The chargeable gain is calculated as follows:

	£	Notes
Proceeds	150,000	Premium
Allowable costs incurred to grant lease	(2,000)	
Base cost (part disposal)	(128,571)	£300,000 * £150,000 / £(150,000 + 200,000)
Unindexed gain	19,429	
Indexation allowance	(19,429)	Indexation allowance is available up to December 2017 (frozen on this date). Indexation factor Jan '91 to Dec '17: (278.1-130.2)/130.2 = 1.136 to 3 decimal places. So indexation allowance is 1.136*£128,571 = £146,057. But cannot create a loss, so capped at unindexed gain. Capital allowances claimed on the fixtures would reduce any allowable capital loss.

Chargeable Gain	Nil		

3) Staff costs, including costs for the Christmas party, travel and subsistence costs, and the team conference; and costs of maintaining business premises are incurred wholly and exclusively for trade purposes and are therefore deductible.

Depreciation is disallowed by statute.

Client enertaining is disallowed.

Assuming the pens and notebooks were worth less than £50 per item, given they show the company name they are allowable deductions.

The chocolate bars and bottles of wine are not allowable deductions as they relate to food and drink, regardless of the presence of a logo/name.

4) Ayleswood Ltd's staff costs, office costs, audit and accountancy fees, and employee related advice, are allowable EOM.

The advice in connection with the shareholders agreement is a capital item and is therefore disallowed.

The costs for granting the lease are relieved in the disposal calculation above.

Therefore total EOM is £273,000.

5) As Binley Ltd was the only group company with qualifying capital expenditure, assume it was allocated the full annual investment allowance (AIA) of £1m.

Expenditure on assets qualify for capital allowances (CAs) where payment is made within 4 months of the obligation to pay becoming conditional.

Therefore, in the year ended 31 March 2026 Binley Ltd can claim CAs on the new machinery for the full expenditure (£150,000) as the full balance is paid within 3 months of payment being unconditional (delivery on 1 March 2026).

As the machinery is new it qualifies for 100% relief under the first year allowance, but AIA should be allocated in priority to prevent a balancing charge on future disposal.

Binley Ltd	AIA	General pool	Special rate pool	CAs

TWDV b/f		2,750,000	100,000	
Additions to AIA:				
Machinery	150,000			
AIA	(150,000)			150,000
WDA 18%		(495,000)		495,000
WDA 6%			(6,000)	6,000
TWDV c/f		2,255,000	94,000	
Total CAs				651,000

Ayleswood Ltd can claim a 6% writing down allowance (WDA) on its special rate pool (SRP) and deduct this from its UK property profits.

6%*£50,000 = £3,000.

So property profits are £650,000 less £375,000 less £3,000, being £272,000.

Ayleswood Ltd's carry forward value of the SRP is then £47,000.

Both companies can claim WDA on the carry forward tax written down value amounts in future periods.

6) Binley Ltd has a brought forward trading loss which arose after 1 April 2017. This type of loss may be relieved against future total taxable profits.

As the group is prioritising longer term cashflow savings, it will be preferable to reduce both companies to lower rate taxpayers using the brought forward losses, then carry forward the remainder in order to save future cash at 25%.

The threshold for paying corporation tax at 19% is £50,000 total taxable profits.

This is reduced by the number of associated companies, being 2 in this scenario, so the threshold is £25,000.

Binley Ltd and Ayleswood Ltd form a loss group as Ayleswood Ltd owns more than 75% direct ownership over Binley Ltd.

Therefore, Binley Ltd can surrender its brought forward trading loss as group relief to Ayleswood Ltd, but the loss must be offset against its own total taxable profits as far as

possible first.

Therefore, Binley Ltd will utilise its brought forward trading loss to fully shelter its own taxable profits first, then surrender a sufficient amount to Ayleswood Ltd as to make it a small profits rate taxpayer.

The remaining losses carried forward are:

	£		
Trading losses brought forward	500,000		
In-company relief	(250,000)		
Group relief surrender	(24,000)		
Trading losses carried forward	226,000		

All claims mentioned above must be made by 2 years following the accounting period end, i.e. by 31 March 2028.

----------ANSWER-4-ABOVE----------

----------ANSWER-5-BELOW----------

Answer-to-Question-_5_

Contract fulfilled through Doncar Ltd

Residency

As Doncar Ltd is a UK-incorporated company, HMRC will consider it UK tax resident, regardless of its overseas activities, unless agreed otherwise.

UK tax resident companies are taxable on their worldwide income and gains, meaning Doncar Ltd would be charged to UK corporation tax on any profits arising overseas as a result of the contract.

Given the overseas country determines residence on the same basis as the UK, while Doncar Ltd is not incorporated in the overseas territory, it will be deemed tax resident there if its central management and control (CM&C) is deemed to reside there.

CM&C refers to the place of key strategic decision-making undertaken by senior directors at board level.

If Doncar Ltd is deemed resident overseas, it will become dual tax resident.

Given the overseas country has a Double Tax Treaty (DTT) with the UK which follows the OECD model treaty, the DTT will include a tie-breaker clause to determined residency in the case of dual taxation.

The tie-breaker clause allows the competent authorities to mutually agree a place of residency based on a variety of factors including place of incorporation, place of effective management (POEM), and other factors such as the location of where accounting records are held.

POEM is an international concept which refers to the place of key management and commercial decision-making undertaken by senior directors at board level. HMRC considers POEM to be interchangeable with CM&C.

Doncar Ltd could seek a mutual agreement procedure (MAP) to request the competent authorities to mutually agree on its residency, which will likely reside where POEM/CM&C is considered to be located.

Further information is required regarding the planned activities of the directors in respect of fulfilling the contract.

If the directors plan on substantially moving to the overseas territory and conducting board meetings there, for example, residency will be a key issue to consider.

Assuming the directors largely remain in the UK, CM&C will remain in the UK and Doncar Ltd will remain solely UK tax resident.

Permanent establishment (PE)

However, Doncar Ltd may still be subject to tax overseas through a PE.

A PE is created by:

- A fixed place of business; or

- A dependent agent with the authority to conclude contracts on behalf of the company, and who habitually exercises the authority to do so.

However, a PE is not created if activities are wholly of a preparatory or auxiliary character, or if the overseas activities are carried out by an independent agent in the course of carrying out the company's business.

If the contract is concluded overseas by a dependent agent of Doncar Ltd, there is potential a PE would be created.

A level of permanence is required for a PE to be created, typically meaning activities take place over at least 12 months and that dependent agents are active in the overseas jurisdiction for at least 183 days out of these 12 months.

Hence further detail would be required about the nature of the contract to conclude if a PE will be created.

If Doncar Ltd act over a shorter time frame and/or conduct only preparatory or auxiliary activities such as research or maintaining a warehouse, a PE may not be created.

However, if Doncar Ltd rent out an office space, hire local staff to perform the work, continue to conclude contracts overseas, etc. and all over a period of more than 12 months, it is likely a PE will be created.

Assuming a PE is created as the intended activities seem to align closer to the description above, Doncar Ltd will be required to follow local administrative requirements overseas

such as registering with the relevant authorities and filing local tax returns.

Doncar Ltd's PE will be taxed locally overseas.

From a UK corporation tax perspective, profits of Doncar Ltd should be attributed to its PE where they arise as a result of the overseas activities, treating the PE as a separate enterprise.

The profits of the PE will continue to be subject to UK corporation tax, but double taxation relief (DTR) is available as a credit against the UK corporation tax liability equal to the lower of the UK tax and overseas tax suffered on the same profits.

To the extent the PE is loss-making initially, its losses can be offset against UK profits in Doncar Ltd, provided they are offset against any profits overseas in priority.

Exemption election

A branch exemption election is available to exempt all current and future overseas PEs from UK tax.

This may be advantageous where Doncar Ltd's PE is profit-making (i.e., no losses available to surrender to the UK) and tax resident in a jurisdiction with a lower corporate income tax rate than the UK (i.e., resulting in additional UK tax on the overseas profits which is not sheltered by DTR).

The exemption election takes effect from the start of the accounting period following the period in which the election is made.

The election may be withdrawn prior to this date but it is irrevocable once effective.

Transitional rules exist to defer the exemption where a PE has generated more losses than profits over the previous 6 years (being the opening negative amount, ONA).

The ONA is offset against future profits until fully utilised, at which point the exemption takes effect.

A streaming election is available to be made at the same time as the exemption election in order to stream the ONA against profits of the same PE only.

Incorporation

Doncar Ltd may adopt a hybrid approach, i.e. fulfilling the contract initially through a PE of the UK company and subsequently incorporating the PE.

This may be a preferable (i.e. not affecting future PEs) alternative to the exemption election above, i.e. keeping the PE while it is loss-making, then incorporating it when it becomes taxable in a lower tax jurisdiction.

Transferring the trade and assets of the PE to a company will result in gains and profits on the deemed disposal of stock and fixed assets for market value.

Incorporation relief can be claimed as Doncar Ltd is a UK company carrying out a trade through a PE, in the case where the consideration for the assets is wholly or partly shares and following this Doncar Ltd holds at least 25% in the transferee company.

Then the gain on the disposals is deferred by the proportion of the market-value consideration which was shares (i.e., if it was wholly shares, the whole gain is deferred).

The deferred gains arise where the subsidiary disposes of any of the assets within 6 years of the transfer, or where Doncar Ltd disposes of any shares in the subsidiary at any time after the transfer.

Alternatively, if the overseas contract is in the EU, a notional tax credit can be claimed in the UK as though the deemed gain arose in the overseas PE and was not sheltered by the EU Directive.

Doncar Ltd would have to consider the application of the EU Directive first. If applicable, this relief should be claimed in priority as the relief is permanent rather than deferred (only one of the two reliefs can be claimed).

Contract fulfilled through subsidiary

Dividends

A key advantage of operating through a subsidiary company is that cash repatriation can occur tax-neutrally through a dividend.

Dividends received from a controlled subsidiary are exempt from UK corporation tax.

The overseas jurisdiction will likely deduct tax from the dividend at source (withholding tax, WHT).

As the DTT follows the OECD model treaty, the maximum WHT from a controlled subsidiary is 5%.

Doncar Ltd should seek treaty relief by applying for a treaty clearance/passport to apply

the treaty rate of 5%.

DTR is available, but if the overseas jurisdiction applies WHT above treaty rate, the DTR is capped as though only 5% was deducted.

Controlled foreign company (CFC)

If Doncar Ltd incorporates a foreign subsidiary, it will become in scope of the CFC rules.

The CFC rules are designed to prevent UK companies from diverting profits out of the UK through controlled foreign subsidiaries.

The foreign company will be under control of Doncar Ltd (e.g., with Doncar Ltd owning at least 50% of its ordinary share capital) meaning it meets the definition of a CFC.

Assuming Doncar Ltd will hold at least a 25% ownership over the CFC, a CFC charge may apply.

The CFC charge is added to Doncar Ltd's corporation tax liability and equals the ownership percentage Doncar Ltd holds over the CFC, times the calculated UK corporation tax liability on the CFC's profits 'falling through gateway'.

There are a number of exemptions which must be reviewed on a yearly basis to determine if a CFC's profits are subject to a CFC charge.

The key entity-level exemptions are:

- Exempt period: not relevant as the CFC will be incorporated rather than acquired.

- Excluded territories: if the CFC is incorporated in a territory included in a list of excluded territories, subject to additional conditions on the CFC's IP and income, the CFC's profits are exempted from a charge.

- Tax: if the CFC's overseas tax liability is at least 75% of what the UK corporation tax liability would have been on the same profits, those profits are exempted.

- Low profits: if the CFC has less than £50,000 accounting profits, or less than £500,000 accounting profits with less than £50,000 relating to non-trading income, the profits are exempted.

- Low profitability: if the CFC's accounting profits are less than 10% of its operating expenditure, the profits are exempted.

If all of the above exemptions are failed, the gateway tests and safe harbours will need to be considered.

----------ANSWER-5-ABOVE----------

----------ANSWER-6-BELOW----------

Answer-to-Question-_6_

SquareBlue Ltd's deferred tax arises on timing differences between accounting and tax treatment which will reverse in future periods.

The legal fees are a permanent difference, meaning no deferred tax balance is recognised.

The deferred tax on fixed assets is summarised as follows:

	£	Deferred tax (asset)/liability at 25%	Notes
Net book value at 1 January 2025	Nil		
Notional tax value at 1 January 2025	(Nil)		
Opening net value	Nil		
Movement in the year	1,700,000	425,000	Capital allowances (£2,000,000) less depreciation (£300,000)
Net book value at 31 December 2025	1,700,000		
Notional tax value at 31 December 2025	(Nil)		
Closing net value	1,700,000	425,000	

In addition, SquareBlue Ltd has a gross timing difference of £5,000 in respect of unpaid

pension contributions.

At 25%, the corresponding deferred tax asset is £1,250.

Deferred tax assets may be recognised where there is sufficient evidence to demonstrate that they will unwind in the future, i.e. that the company will have sufficient profits to offset by the deferred tax asset.

As SquareBlue Ltd has a deferred tax liability of £425,000 in the year relating to fixed assets, a deferred tax asset could be recognised up to this amount, meaning the full £1,250 can be recognised in respect of the unpaid pension contributions.

Hence the overall deferred tax position is a deferred tax liability of £423,750, which is added to SquareBlue Ltd's current tax charge in the profit and loss for accounting.

However, note that deferred tax should be recognised at the substantively enacted tax rate at which the timing difference is expected to unwind.

It is assumed above that this is 25%, i.e. the main rate of UK corporation tax. While it is possible SquareBlue Ltd's timing differences may unwind when it is a lower rate (19%) taxpayer, the total taxable (augmented) profits threshold for this rate to apply is only £50,000, reduced by the number of associated companies throughout the period. Given SquareBlue Ltd is part of a multinational group, it is likely that when it becomes profitable it will pay corporation tax at 25%.

SquareBlue Ltd's forecast future profits should be reviewed to confirm this position.