

Institution **CIOT - CTA**  
Course **Adv Tech Tax of Larger Comps**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID 

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>979</b>	<b>4538</b>	<b>5376</b>
Section 2	<b>759</b>	<b>3407</b>	<b>4148</b>
Section 3	<b>332</b>	<b>1551</b>	<b>1875</b>
Section 4	<b>1013</b>	<b>4847</b>	<b>5774</b>
Section 5	<b>678</b>	<b>3202</b>	<b>3839</b>
Section 6	<b>380</b>	<b>1866</b>	<b>2240</b>
Total	<b>4141</b>	<b>19411</b>	<b>23252</b>

Answer-to-Question-\_\_1\_\_

Jomar Ltd

Corporation Tax Computation

For the year ended 31 March 2025

	Notes	£'000	
Trading profits		436,220	
NTLR credit		1,000	
QCD	2	(1,000)	
TTP		436,220	
Corporation tax @ 25%		109,055	
WHT		(36,500)	
RDEC		(225)	
CT liability		72,330	

Notes

1. Double Tax Relief is available for the withholding tax from the overseas franchise partners is. This will be relievable at the lower of the foreign tax paid and the UK tax paid on the gross amount.

Franchise partner 1 - deduction is £12,500k

Franchise partner 2 - deduction is £18,750K

Franchise partner 3 - deduction is £5,250K

2. QCD - £1,000k

3. RDEC - £300k

Step 2 - deduct notional tax @ 25% = £75k

Credit - £225k

Step 3 - 6 - company has no outstanding taxes to pay and have neither has Liamie.

Step 7 - credit is £225k

	Notes	£	
PBT		434,000	
Add back:			
Depreciation	1	10,000	
Charity donation	3	1,000	
Fines and penalties	4	1,000	
Customer bad debt write-off	5	0	
Bonus	7	130	
Pensions unpaid	8	50	
Gifts and entertainment	9	2,500	
RDEC	10	300	
Less			
Dividends	2	(10,000)	
Capital allowances	11	(1,760)	
Interest receivable	14	(1,000)	
Trading profits		436,220	

#### Notes

1. Depreciation is capital and must be added back.
2. Dividends from a controlled company are exempt from tax.
3. Donation to national charity are not allowed as a trading deduction. If there are sufficient profits, can deduct these as a qualifying charitable donation.
4. Regulatory penalties are not allowed under policy.
5. Specific bad debts are tax deductible. In any event, it is assumed the accounts have been prepared under GAAP so the bad debt provision would have been calculated on tax deductible grounds.

6. Advertising costs for branded boards are in relation to the trade so would be tax deductible.
7. Long term incentive plan - bonuses unpaid 9 months after the year end are not deducted until they are paid. As £25k of the bonus last year was paid within 9 months, this would have been tax deductible in the PY. However, the £75k would not have been tax deducted. £30k of the current year's bonus was paid within 9 months of the year end is tax deducted. However, the bonus paid on 1 Jan 2026 will not be deducted until 31 March 2026 as it is later than 9 months. As such, £150k of the bonus should be added back.
8. Pensions - unpaid pensions are not tax deductible and must be added back. As such, the £200k of unpaid pensions last year, will be tax deductible this year as they were paid in the year. In the current year, £250k was left unpaid at the year end. As such, an add back of £50k should be made. As the contributions are only £400k higher than the previous year, there will be no spreading of the relief as this is less than £500k.
9. Gifts and entertainment - staff entertainment is allowed. Third party hospitality is not in relation to the trade and must be adjusted for. The branded costs are worth less than £15 and not in relation to food, drink or tobacco are allowed. The prosecco is not allowed.
10. RDEC - a research and development (R&D) credit is given for qualifying R&D expenditure. This includes personnel costs and consumables. The credit is 20% of the qualifying expenditure:  
 $£1,500k * 20\% = £300k$ .
11. Capital allowances calc - see below
12. No adjustment required for dividends paid as these are not included in the pre-tax accounting profits.
13. Website running costs are allowed as a tax deduction, only set-up costs are capital.
14. Interest receivable is a non-trade loan credit as the company's trade is not in the lending of money - as such, it should be deducted from trading profits.

Capital allowances

	Notes	Main pool (£, 000)	Special rate (£, 000)	FYAs (£, 000)	AIA (£, 000)	CAs (£, 000)
TWDV b/fwd		2,500	1,000			
Equipment	1			200		
Machinery	1			50		

Air con	2				250	
Lift	2				750	
WDAs		(450)	(60)			(510)
FYAs				(250)		(250)
AiAs					(1,000)	(1,000)
Total						1,760
TWDVs c/fwd		2,050	940	0	0	

1. Equipment and machinery on long funded lease (lease with a useful life of > 7 years) are items of plant and machinery and would qualify for relief under the main rate. As these items are new and unused, these will be eligible for First Year Allowances at 100%.
2. Air conditioning unit and the new lift would qualify for relief under the special rate pool as they are integral features. As these items were new and unused they would qualify for First Year Allowances at 50% relief. However, as Liamie has claimed no capital allowances, Jomar would be able to claim the Annual Investment Allowance. It should do this in priority of the FYAs, as they provide relief at 100% Jomar would have AIAs on £1m for the year ended 31 March 2025.
3. WDAs eligible on the TWDVs brought forward at 18% and 6% for the main pool and special rate pools respectively

## Part 2

Total tax charge = current CT liability + deferred tax

$$72,330 - 1,286.25 = \text{£}71,043.75\text{k}$$

Deferred tax - difference between the timing differences between accounting profits and taxable profits.

The timing differences relate to the difference in the capital allowances + qualifying net book value.

The pension adjustments.

The bonus accruals.

### Prior year

Qualifying NBV brought forward = £37,000k

TWDVs brought forward = £3,500k

Difference £33,500k @ 25% = £8,375 liability

Pension

In the PY the adjustment was £200k

@25% = £50k DTA

Bonus

In the PY the adjustment was £75k

@ 25%  
= £18.75k DTA

Deferred tax liability in the PY = £8,306.25k

**Current year**

Capital allowances vs NBV

£2,990k versus £31,250k

£7,065k DTL

Pension

In the CY the adjustment was £50k

@25% = £12.5k DTA

Bonus

£130k \* 25% = £32.5 DTA

DTL = £7,020

Decrease in liability of £1,286.25k

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

#### Requirement 1

A permanent establishment (PE) arises where either there is a fixed place of business in another territory (for example, an office, factory or branch) or if an agent who is not independent is habitually concluded contracts in that territory.

PEs are created on a company basis - just because one company may have a PE in a territory, does not then mean that all of the companies will have a PE.

#### Barcello

The group has engaged with an independent agent to source contracts. The fact this is an independent agent, who will be doing this type of work for many different clients, does not itself suggest that there is a PE in Barcello.

Further the agent is only sourcing contracts over a six-month period. HMRC suggest anything that anything which is less than six-months does not create the idea of permanence and this further suggests that there is not a PE in Barcello.

The renting of an office in itself does not create a permanent establishment. For there to be a PE, there must be the idea of permanence. Given the office was only rented out for 2 months, it would not in itself create a PE.

Contract 1 does suggest that a PE would be created given that the contract with the Barcello government is longer than 12 months, and given that the activities will be for those in Barcello and they are not auxillary or complimentary in nature to the overall trade of the UK companies.

Further, it is exepcted that the work that the employees do in Barcello will create an intellecual property asset. Again, this suggests that is it more than preparatory and auxillary in nature.

As such if LEG were to go ahead with Contract 1, a PE is likely to be created in Barcello for LEG Ltd.

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For Contract 2, given that it is only four months in length and requires the special skills of the UK employees at a third-party contraction firm would not in itself bring about a PE for Philo Ltd.

For contract 4, the construction of a bridge that is less than 12 months in length, would not create a PE for Dugo. Contruction would constitute a PE if it was more than 12 months in length.

### Mumbar

Contact 2, being an activity that is auxillary and preparatory in nature would not result in there being a PE in Mumbar.

### Requirement 2

UK companies are taxed on their worldwide income.

As such, if it is found that a UK company has an overseas PE then it will be taxed on the income of the overseas PE.

Based on the different contracts, it appears that only LEG would have a PE in Barcello.

This means that the activites in Barcello will be taxed both in Barcello (@15%) and in the UK (@25%).

Double tax relief will be available for the tax LEG pays for the activities in Barcello. As Barcello has a lower rate of tax, the relief likely available will be the tax paid in Barcello.

As Contract 1 is predicted to initially be loss making, LEG will be able to benefit from the PE's losses for those first three years.

However, if it does become profitable after year 3, LEG will have to pay UK tax on the profits generated from the PE in Barcello.

LEG could however make an 18A CTA 2009 election prior to the Barcello PE becoming profitable.

This election means that none of the profits of the PE will be taxable in the UK. It does however mean that none of the losses will be avaiable.

Further, if LEG were to set up any further PEs, they would automatically not be taxed.

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The election is irrevocable and must be made prior to when the company wants the election to become effective.

If the election was made for the Barcello PE, as it was loss making during those first three years of trading, the election would not become effective until those losses had been matched with the PE's future profits even if those losses had been utilised against LEG's UK profits.

This would mean that LEG would have to pay UK CT until there were sufficient profits in the PE.

This could happen part way through a year.

Alternatively, LEG could incorporate the Barcello PE.

The issue with this is that the PE would be treated as having disposed of all of its assets on incorporation. There is however incorporation relief available which means that the tax would not be payable on incorporation.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- 3

Migration of Peralta from the UK to overseas jurisdiction

If Peralta were to be migrated overseas then it would be treated as having disposed of all of its assets and will incur an Exit Charge.

Prior to Peralta leaving the UK, it will have to notify HMRC to receive approval for the arrangements for arrangements of payment of the company's liability.

Peralta should provide the intended date of migration on the notice.

The internally generated goodwill would be disposed of at Market Value. As it is internally generated goodwill, it will be in the Intangible Fixed Asset regime and will be disposed of as a non-trading profit.

As the UK land will remain in the UK, it will not be treated as having been sold until the land is sold. At that point, it will be subject to corporation tax on the chargeable disposal.

Presuming that Peralta would have claimed capital allowances on the computers, these will generate balancing charges on the disposal. These balancing charges will be subject to corporation tax.

The stock will be treated as being disposed of at its market value.

The interest rate swap is a derivative contract.

To be a derivative contract, it must be: a relevant contract and its meets any of the accounting conditions for the period.

The interest rate swap would be a contract for difference so would meet the relevant contract condition. It is assumed that it would be treated as a derivative contract for accounting purposes.

The derivative would be treated as being disposed of at fair value and the gain would be treated as a non-trade loan relationship credit.

The exit charge of Peralta could be paid in 6 equal instalments if it decides to migrate to a

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company in the EEA. The first of these payments would be due 9 months and 1 day after the end of Peralta's year end - assuming this is 31 March 2026, then the first payment would be due on 1 January 2027.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- \_4\_

#### Requirement 1

Cloverleaf was incorporated on 1 October 2025

Its first accounting period is for the 9 month period 1 October 2025 - 31 May 2026.

It will have interest income and costs in its first 8 months.

Its second accounting period will be for the period when it started to trade 1 June 2026 - 30 June 2026.

It will be required to notify HMRC of it coming into the charge of tax within 3 months from the start of its accounting period i.e., by 1 January 2026.

It will be required to submit 2 corporation tax returns by 30 June 2027 (i.e., 12 months after its period of account). These should be submitted in iXBRL format, along with supporting accounts and corporation tax computations.

It will also be required to pay any corporation tax by 1 May 2027, assuming that it is not large.

#### Requirement 2 and 3

Cloverleaf Ltd  
Corporation Tax Computation  
For the period ended 30 June 2026

	£	Note	
Sales	1,000		
Interest costs	(200,000)		

LBT	(199,000)		
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	£		
LBT	(199,000)		
Capital allowances	(390,375)	2	
NTLR deficit	200,000	1	
Trading loss	(388,375)		

	£		
Trading loss	(388,375)		
NTLR deficit	(200,000)		

Notes

1. The interest prior to the loan being used to purchase the factory would not be a trading loan as the trade had not commenced. As such, the interest would be treated as a non-trade loan relationship debit.

The interest income would have been treated as a non-trade loan relationship credit as the company's business is not in the making of loans. These would be netted together. It has been assumed that the net of the is the £200,000. This would be a non-trade loan relationship deficit.

2.

Capital allowances calculation

	Notes	General pool	Special rate pool	FYAs @100%	FYAs@50%	Capital allowances
Lifts	1				50,000	
Electric works	1				250,000	

Thermal insulation					50,000	
Hot and cool water supplies					150,000	
Solar panels					75,000	
Machinery				100,000		
FYAs				(100,000)	(287,500)	387,500

1. Solar panels, lifts, electrical works, thermal insulation and hot & cold water supplies are all integral features and would be eligible for relief at the special rate (6% on a Written Down Allowance). As these assets have been presumably been bought new and unused, they would be eligible for the First Year Allowances at 50%. 50% relief will be available for the period ended 30 June 2026. The remaining 50% will be added to the pool and WDAs at 6% would be eligible for that expenditure going forward. Other companies have used the AIA so the FYA is the best relief available for these items. FYAs are not pro-rated.

2. Machinery - expenditure that is not due to be paid until after 4 months after the period end would not be eligible for capital allowances as it would not be treated as incurred. As such only the 2 instalments being on 31 May 2026 and 31 August 2026 would be eligible for capital allowances. Capital allowances on the other £50k would only be claimed in the year ended 30 June 2027. Two-thirds of the machinery would be eligible for the FYAs at 100% on the assumption the machinery was purchased new and unused.

### Structures and buildings allowance

Structures and building allowances (SBA) are allowed on the construction costs of a commercial building or structure. This will be available to Cloverleaf as it is building a production facility and all contracts will have been entered into by 29 October 2018.

The structures and buildings allowance are available on the construction of the actual building, and also include flooring (as well as windows, ceilings and fixed partitions).

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	£		
Structure	1,000,000		
Mezzanine flooring	150,000		
Total	1,150,000		

No SBAs are available for the land.

SBAs are available to be claimed from the date the building has been brought into use. As the building was brought into production on 1 June 2026, Cloverleaf will be able to claim one month's SBA for the year ended 30 June 2026.

SBA is available at 3% per annum. This is on a straight line basis.

Cloverleaf should create an allowance statement when it starts to claim the SBA.

$$\text{SBA} = \text{£}1,150,000 * 3\% * 1/12 = \text{£}2,875.$$

### Requirement 3

£  
Trading loss (388,375)  
NTLR deficit (200,000)

The trading loss was generated in the month ending 30 June 2026.

It has been assumed that the NTLR deficit would have been created evenly throughout the 2 periods.

As such, £177,778 would have been generated in the period 1 Oct 25 - 31 May 26

The remaining £22,222 would have been generated in the month ending 30 June 2026.

As Cloverleaf is a newly incorporated company, carrying losses back is not available. It is also not possible to carry back losses for group relief.

It could carry these losses forward and use them against its next available profits.

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Both the trading losses and the NTLR deficit could be used against total profits of future years.

As these would be brought forward losses, there is a restriction on how these losses could be utilised. The restriction is that a maximum of any of the deductions allowance which is allocated to the company plus 50% of future profits net of the deduction allowance can be used.

The deductions allowance is £5 million for the year, and applies to the whole group.

A group being a parent and its 75% subsidiaries.

It must be allocated accordingly to the members in the group and the amount allocated to it must be disclosed in the company's corporation tax return.

Alternatively, Cloverleaf could group relieve its losses in the current period.

For the trading losses, these could be group relieved to other UK group members at the lower of £388,375 and the other group member's profits for that month.

For the NTLR deficit, the £200,000 could be group relieved at the lower of £200k and the total profits of another group member for 9/12 of the year.

Cloverleaf could also carry the losses forward and group relieve them in future periods.

These would be restricted to the restriction mentioned above for utilising the brought forward losses in the company.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

### **Transaction 1**

This is the assignment of a short lease because it has less than 50 years left. 6 years and 9 months have past so the lease is now a 48 year and 3 month lease.

When a short lease is sold, the cost of the lease is restricted using the lease depreciation tables.

Proceeds - £220,000

Cost  $[(99.657-99.289)/12*3 + 99.657]/100 * £200k - £199,498$

Gain - £20,502

No indexation as the lease was acquired after 31 Dec 2017.

### **Transaction 2**

This is the grant of a short lease from a freehold. As the grant of a lease is the creation of a new asset, the grant will be treated as a part disposal.

Part of the premium received will be treated as property income, as follows:

Net proceeds = £48k

$£48k \times (50-29)/50 = £20,160.$

The remaining £27,840 will be the proceeds in the part disposal.

As it is a short lease, the cost will be restricted using the formula

$a/(A+B)$

where 'a' is the part of the lease premium which is subject to chargeable gains tax.

'A' is the original premium.

'B' is the reversionary interest

Proceeds - £20,160

Cost -  $(20,160/48,000+200,000) * 150,000 = (12,193)$

Gain before IA - £7,967

Indexation -  $(278.1-149.6)/149.6 = (0.859 * 12,193) = (10,473)$

Gain - nil

Indexation cannot create a loss so there is no gain.

### **Transaction 3**

The old factory would have transferred to Southpool at no gain, no loss under section 171 TCGA 1992. This is automatic and is compulsory between members of a gains group.

Norwood and Southpool are in the same gains group as Norwood owns at least 75% of Southpool's ordinary share capital directly (Southpool is Norwood's wholly owned subsidiary).

For it to be a no gain, no loss transfer, it would have transferred to Southpool at cost + IA.

This would have been  $£1m + £312,000 = £1,312,000$

$(191.6-146)/146 = 0.312 * £1m$

As the companies are connected (Norwood owns at least 50% of Southpool), the goodwill would have been transferred at its market value.

Proceeds - £5,000,000

Cost - (1,312,000)

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Enhancement expenditure - (600,000)

Gain before IA - 3,088,000

Indexation - cost  $(271.1-191.6)/191.6 = 0.415 * 1,312,000 - (544,480)$

Indexation - enhancement expenditure - none as was after 31 Dec 2017

Gain - £2,543,520

Rollover relief - (£2,193,520)

Gain - £350,000

For the capital allowances that were claimed on the integral features, a section 198 CAA 2001 election should be entered into to the third party the Southpool is selling the factory to. This is an agreement of the amount that the third party can claim on the fixtures of the factory. The agreed amount would also be deducted from Southpool's capital allowances pool.

Rollover relief is available on a group basis provided the asset acquired is used within the trade. As the new factory will be used by Southpool, rollover relief (ROR) may be available.

ROR is available when a group sells a qualifying asset and either within the last 12 months or the following 36 months purchases a new qualifying asset.

The new factory that Norwood purchased in July 2025 would be eligible because Southpool is using the factory in its trade.

In addition, the fixed plant and machinery purchased by Southpool of £150k would be eligible for holdover relief.

Thus, of the £5,000,000 proceeds received for the new factory, £4,650,000 of those proceeds have been reinvested within 36 months of the disposal of the old factory.

A claim should be made for both reliefs within 4 years of the accounting periods in which either the disposal or acquisition occurred (whichever it later). As the disposal event is later, the group have until 31 July 2029 to make the claim. It would be recommended to make it earlier so that the full gain does not become chargeable.

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It would be advised for the rolled over gain to be against the base cost of the new factory as gain will be crystallised in the next 10 years.

The new factory's based cost would therefore be:

$$£4,500,000 - £2,193,520 = £2,306,480$$

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- 6

#### Requirement 1

Hybrid entities are entities that are treated differently in different territories.

For example, if an entity is treated as opaque then it is treated as independent from its members.

However, if an entity is transparent then it is not independent from its members and any profits or losses from the entity will be allocated to its members. This will be based on how much each member owns of the entity.

As EastDene owns all of Subco then it would be allocated a share of 100% of Subco's profits or losses.

Hybrid financial instruments are where the income and expenses cancel one another out. For example, an intercompany loan with income in one entity and interest in another will cancel each other out.

#### Requirement 2

There are anti-avoidance rules against hybrid companies called the anti-hybrid rules.

These rules set out to eliminate any advantage derived from how different territories can treat entities. They will eliminate either a double deduction or a deduction in one entity and an income non-inclusion in the other.

The rules are not based on motive so even though EastDene has set this company up to minimise any tax cost of loan funding, the anti-hybrid rules would still come into effect.

As the UK would treat this entity as transparent, it would mean that any interest that Subco pays to third parties would be attributed to EastDene and it would receive a deduction for this interest.

Subco itself would also receive a deduction for this interest.

In this scenario, there would be a double deduction.

The anti-hybrid rules would then come into effect and would not allow EastDene to receive this deduction.

Further, the interest that Subco would pay for the intercompany loan with EastDene would be cancelled out.

### Requirement 3

The UK admin requirements would come in to eliminate the advantage either by not allowing a deduction for the interest or by making the UK company include the income.

This would be effected in EastDene's corporation tax computation by adding back the interest it would have received a deduction for from Subco.

The rules are to ensure that income is taxed in at least one country and that companies cannot avoid tax by setting up entities that will be treated as transparent in the UK.