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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Answer-to-Question-_1_

A company is deemed UK tax resident by 3 routes. Case Law, Statue and by dounble tax treaty. Different countries will have their own laws surronding tax residency and where there is a conflict. The company can ask the compenetent authorities of the contracting states to make a mutual agreement on the tax reisence. This is a bilaterial procedure between the two states. HMRc can do unilateral process, but this is not preferred.

THe relevant factors are place of incorporation, place of effective management and control and any other factors which may be relevant to each case.

As Dujon PLC's has 75% of its board members resident in Belgian, it is likely to assume that the control of the descisions are made in Belgian. This would lend itself to Dujon being Belgian tax resident. As such Dujon is consider tax resident in Belgian by the authorisities.

After dujon amended it articles of association on 01/07/2022, it required that 2/3rds of the directors be UK resident. This means that the place of effective management has not changed to the UK. The CEO, CFO and the other direcotrs that rellocated will spend the vast majority of their time working and making desicision in the UK. By spending a nominal amount of time in Belgian and working via answering emails, this does not change that the control excercised by these individuals is in the UK.

The board meetings now occur in the UK. This also lends to a change of the place of control.

The incorporation of Dujon PLC is in the UK. Normally this would mean that the company is subject to UK corporation tax on its worldwide profits. However, it seems likely the company was previously not UK resident for tax purposes.

Since 01/07/2022, HMRc would strongly agree that the company has change its tax residency to the UK and will therefore be subject to UK corproation tax on its profits.

The fact that the majority of the employees do not work in the UK might be a relevant factor, but is unlikle to override the place of incorporation and place of effective management being in the UK.

The compenent authoirtis can meet to agree the new tax residency. HMRc will likley win the tax residency of Dujon PLC.

On 01/01/2023, Finco Inc was incorporated by Dujon in Utopia. It contributed share capital of £1,000 Million. The corporate interest rate is 1%, being very low and much lower than the UK.

Finco Inc is a controlled foriegn company ("CFC"). This is because it is a non-uk resident company which is controlled by persons in the UK. There are 4 tests for determining control in the UK. The over 50% test, where it looks ate whether indiviudally or togethher, connected or unconnect persons control the foreign company. THis is the case here as the company's share capital is wholly owned by Dujon, which became UK Tax resident on 01/07/2022.

The other tests are the 40% test for joint ventures, the accounting test for companies consolidated in the group accounts and the associated test for combined ownership of companies with 25% investment/ownership.

The CFC's profits will be subject to a CFC charge if it is not expemted by the 5 expemtions and the profits pass through the 5 gates ways.

The exemptions are consider below:
The low profits exemption is not mets that the profits of the company exceed £50,000, and also exceed £500,000 where £50,000 relates to non-trading profits. THe company has a net profit of £30.2Million, which is more than the £50,000 of non-trading profits of £50,000.

The low profit margin are not mets as the gross proft exceeds the operting expenses by 10%.

The excluded territories exemption is not available as we are told that it is not an excluded territory.

THe Tax exmeption is not met as 1% is less that 80% of the UK tax rate and all the tax in Utopia is less than 80% of the corresponding tax in the UK. The Utopisan tax is £300,000. Tax in the UK is 19% of £30.5 Million which is £5,795,000. 80% of this is £4,636,000 which is greater than the Utopisan tax, therefore this exmption is not applicable.

The exmpt period exemption also does not apply as the company is no in operation in the 12 month period before and as such will not qualify.

As none of the exemption apply, we will need to consider the gateways. This is a finance company and therefore the relevant gateway is the non-trading finance profit gate.

The funds have been recieved by the UK and as such the finance profits from this will fall into the gateway. None of the safehabours will excluded this profits.

75% of this profits will be exempt from the CFC is there is a qualifying loan relation, being not on made to the UK. THe company has a fixed place of business in Utopia so this condition is met. The income on the Chile Loan will qualify for this

reductions. 100% of the profits are excluded if the loan is made from qualifying resouce, IE the funds do not require any assitance from the group and the loan is made in the same territory. As the loan is made to another country, only 75% is exempted.

The deposit interest will be caught by the CFC charge as the profits are earned on UK funds.

Therefore, 75% of £28 million, being £21 Million, and £3million, totaling to £24 Million will be subject to the CFC charge on Dujon.

Dujon has more than 25% of the shares in Finco, actually being 100%, and therefore will be assessed on £28 Million cfc profits.

THis will need to be reported on the CT600, Dujons company tax return. It is subect to tax at the main rate of corporation tax, being an 19% X 9/12 + 25% X 3/12 = 20.5%.

No loss in Dujon can offset this amount and it is payable by the normally coporation tax payment dates.

The dividend paid by Finco to Dujon will not be tax in the UK as it falls into the controlled company exemption for dividends and distriubtions. If the shares are ordinary share capital, then this would also mean that the dividends are exempt from UK tax. Any WHT would be wasted, if there was any.

The Belgian tax treaty notes that the place of effective management of control is the place of deemed residency. HMRC should conrespond witht he relevant authorities in Beligan by mutal agreemnt to determine that tax residency.

Corporation tax returns are due to HMRC 12 months after the accounting period end, being 30/06/2024 for the accounting period ended 30/06/2023. iXBRL formatted accounts need to be submitted with the tax return, along with the supplemntary pages for CFCs, being CT600B.

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

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

Answer-to-Question-_2_

RZ Ltd's busines was providing financial infomraiton to specilist customer. It does not own any investment assets and is therefore a trading company.

The shares in RZ ltd were pruchased on 17/01/2017. Therefore, indexation will be avaiable up to 31/12/2017.

Zeal has purhcased the shares in RZ ltd for a cash sum of £75 Million which is immediatley payable and also an unascertaibale deferred consideration . The deferred consideration is a chose in action and has a value of £31 Million on the date of sale. This amount is added to the consideration of share sale.

Proceeds:			
Cash	75,000,000		
Deferred consideration Value	31,000,000		
		106,000,000	
Cost - £100 X 500,000		50,000,000	
Indexation			
RPI @ 17/01/2017 - 265.5			
RPI @ 31/12/2017 - 278.1			
(278.1 - 265.5) / 265.5 = 0.0474..			
0.047457.. X 50,000,000		(2,372,881)	
		53,627,118	
Gain			

Subsequently, on 30/06/2023, there is a reciept of £36,000,000 for the deferred consideration. THis becomes a capital gain with

the base cost being the deemed value of the deferred consideration, being £31,000,000. No indexation will apply as the deemed consideration amount occurs after 31/12/2017.

Proceeds		36,000,000	
Cost		(31,000,000)	
Gain		5,000,000	

This gain is taxable in the accounting period of the reciept of the defered consideration. The date in 30/06/2023, so will fall in the year ending 31/12/2023 and need to be reported on this tax return and tax accoringly.

Rutak Estates, the wholly owned subsidary. It is an investment company as it lets out office buildings in London and no trade to talk about. Therefore, SSE will not apply to the share sale, even if the 12 month ownership in the previous 6 years condition is mets. It owns more than 10% of the share capital, being 100%.

The disposal consideration recieved is shares in Wyke PLC and £3million cash. The cash is immediatley chargable to corporation tax. The shares will 'stand in the shoes' of the old shares.

The total share capital of Wyke after the purchase, the total share capital was 100Million shares at 21p each, being £26,000,000. The transfer of the shares in the consideration was only 1 million shares. It already held 2.5 million shares in the company, bring the total to 3.5 million shares Therefore only 3.5% of the shares in Wyke are transfered. For the share for share rule to apply, I.E. the shares stand in the shoes of the old shares, the company must hold over 25% of the shares in the new company. Therefore, the consideration for the disposal is £3million cash + (21P X 1,000,000) £210,000, totaling £3,210,000.

The base cost of the shares is 1,000,000 X 20 = 20,000,000

Indexation is allwoable as teh pruchase of the shares. However, indexation cannot be used to create a further loss.

Proceeds			
Cash	3,000,000		
share value	210,000		
		3,210,000	
Cost		(20,000,000)	
Loss		(16,790,000)	

There are three tranches of share acquired in Wyke and there will need to be share pooling calcution.

Description	Number of shares	Cost	Total	
1,000,000 on 01/06/2017	1,000,000	£1	1,000,000	
Indexation up to 31/12/2017				
RPI@01/06/2017 - 272.3				
RPI @ 31/12/2017 - 278.1				
(278.1-272.3)/272.3 = 0.02130003672			21,300	
1,500,000 on 01/06/2018	1,500,000	4	6,000,000	
Total	2,500,000		7,021,300	

Share sales are first allocated against shares bought on the same day.

Next they are considered against shares bought in the previous 9 days.

Finally, the shares are then used from the share pool.

As the Wyke shares are sold on 10/07/2023, this is 9 days after the shares are aquired as part of the share pruchase of the Rutak Estate shares. Therefore, these are deemed to have been sold first before the sahre pool.

Rutak PLC sold £1,500,000 of it share. Therefore £1,000,000 of

these shares are deemed to be from the prevous 9 days.

Proceeds for the total 1,500,000 shares are £20 X 1,500,000 = 30,000,000

Relating to the previous 9 day sale, proceeds are £30,000,000 X (1,000,000/1,500,000) = £20,000,000

Proceeds		20,000,000	
Cost		(21,000,000)	
Loss		(1,000,000)	

Next is the share pool

Proceeds		10,000,000	
Cost		(7,021,300)	
Gain		2,978,770	

These will be aggregate to a capital gain of £1,978,770 and this will be tax in the year ended 31/12/2023, there year of the disposal of the shares.

Stamp duty is payable at 0.5% on the share purchase consideration. Stamp duty group relief is avaialbe for cmopany is a stamp duty group, which is largely similiar to the considers for capital gains groups. BEing 75% direct and indirect onwsher, entiltment to profits and assets on winding up.

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

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

Answer-to-Question-_3_

Pulu Ltd did not formally designate the hedge for the futures contract. As such the hedging treatment does not apply. This would mean that any profit or loss on the derivative contract would be allocated to other comprhensive income and only be brought into the P&L when the underliying asset comes into account.

Therefore, the profit and loss on the futures contract is taxable in the tax return. When the fuel is purchased, the futures contract will result in the fixed price being paid.

A future contract is an agreement to pay a fixed price for an asset, or recieve a fixed price for an asset at some point in the future. There is not normally an upfront cost for futures and it is a must that the buy/sell occurs. Options, on the other hand, do normally have an upfront cost but do not have to be followed through if the owner of the options deriviate so chooses.

The value of the future on 01/01/2022, when the contract was entered into wsa £63 per barrel. The cmpany wants 1,000,000 barrels, so the futures value is 63,000,000 at this date. At the end of the accounting period, the value is £142,000,000. There will be a derivatives profit recognised in the accounts being 142,000,000 - 63,000,000 = £79,000,000. This will be taxable in the 31/03/2022 tax return.

When the asset in purchased in 30/06/2022, the futures rate is 125 per barrel. Therefore there is a deriviate loss in the year of £125,000,000 - £142,000,000 = -£17,000,000. THis is allowable in the tax return.

On the sale of futures contract.

There are rules in the disregard regulations that allow for the fair value profit and losses on deriviate contracts on certain asset to be disregarded for tax purposes. REgulation 7 surronds commodities. However, this is not applicate where the contract is accounting as a fair value hedge.

Structures and buildings allowances is available where there is the constrution of new commercial building, or the conversion/improvement to an existing buildng after 29/10/2018. AS the new training facility begain in early 2019, this will mean that is can qualfy for Structures and bulidng allowance.

Note 1) Land does not qualify for capital allowances, not even structures and buldings allowances.

Note 2) Consultants fees relating to lanning permission is an associated cost and allowable for structures and buildins.

Note 3)Levelling the land to allow builidngs is part of buling the structure and allowable for structures and builings allowane.

Note 4) The construction of three bulidngs needs to consider if the bulings are commercial or residential. THe trainee accomondation is residential and therefore not allwoable for structures and bulings allowable. AS a result, 1/3 of the other asscoaited costs will not be allowable for structures and bulidings allowances.

Note 5) the date of qualify use of the buliding is 31/05/2022 and will start to attract the 3% annual allwoance from this date.

Note 6) New computers systems for simulator will qualify for the main pool and the super deduciton first year allowance at 130%. IT was purchases between 01/04/2021 and 31/03/2023 and qualifies for main pool and is new. COmputer systems qualifies for main pool.

Note 7) The used simulator will qualify for the main pool but will not qualify for the FYA 130% super deduction as it is not new. AIA is avaialbe up to the annual limit of £1,000,000.

CApital Allowance COMputation 31/03/2023

Description		AIA 100%	FYA 130%	Main Pool	SR Pool	Total CAs
				£	£	£
TWDV				4,320,000		
Additions						
New computer			100,000			

software						
Used simulator		800,000				
Total		800,000	100,000	4,320,000		
WDA @ 18%				(777,600)		777,600
AIA @ 100%		(800,000)				800,000
FYA 130%			(100,000)			130,000
Total CAs						1,707,600

Structures and builidings allowances

Description			
COnsutants fees (2/3 X 30,000		20,000	
Levelling (2/3 X 75,000		50,000	
Construction (2/3 X 900,000		600,000	
Total		670,000	

Came into qualifying use on 31/05/2022, therefore it had 10 months:

3% X 10/12 X 670,000 = £16,750.

Total CApital allowances in the Year ending 31/03/2023 is:

CAs		1,707,600	
SBA		16,750	
Total		1,724,350	

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

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

Answer-to-Question-_4_

Year ended 31/03/2023

Note 1) Depreciation is capital in nature and not allowable for tax purposes. Instead, HMRc allow capital allowances to obtain relief for certain assets.

Note 2)Gain on the sale of the freehold property is added back in the trade profit calcuation and dealt with under ther chargeable gains rules.

Note 3) Lose on sale of share is also added back in the trade profit calculation. SSE may apply.

Note 4) Fine for breaching national minimum wages is not allowable for tax purposes and disallowed in the tax computation.

Note 5) The bonues paid on 30/10/2023 are within 9 months of the end of the accounting period and are an allowable deduction. The bonus paid on 01/02/2024 are more than 9 months after the year end and are therefore no an allowable dedcution for tax purposes in the year ended 31/03/2023. They will be deducted in the accounting period when they are paid.

Note 6) Expenditure on small plant items will qualify for capital allowancs. These should be added back and dealt with in the capital allowance computation. It is a short life asset was teh life is less that 8 years. It might be benefical to make this claim. However, given that FYA 130% is avaialble, this would likely be used to make the most beneficail claim.

Note 7) Legal fees incurred on the renewal of a short lease, being less than 50 years, is an allowable legal fee for tax purposes.

Note 8) The discounts given to the employees needs to be added back in the tax cmoputation.

Note 9) The ammortisation on the registered designs acquired in may 2019 from an unrelated 3rd party will be allowable. The good will purhcased will need to be considered more closely.

AS the good will was purchased after the 01/04/2019, the ammortisation on the goodwill will only be allowble if it was purchased with qualify intellectual property. Registered designs qualifies to this. Noteable, registered tradmarks and computer licenses do not. The amorisation 6.5% but is restricted to 6 X the cost of the qualify IP.

6 X 10,000,000 = £60,000,000.

As this is less that £75,000,000 being the cost of the good will, only 6.5% ammortisation on £600,000 will be allwoable, being £3,900,000.

Therefore, the total ammortisation allowable will be £3,900,000 + 1,000,000 = £4,900,000.

Note 10) The accounting gain on the freehold property is £4,000,000. The net book value was £1,950,000. Therefore, the disposal proceeds are £5,950,000.

Description			
Proceeds		5,950,000	
Cost		(2,500,000)	
Indexation			
RPI @ july 1998 = 163.0			
RPI @ DEcember 2017 = 278.1			
(278.1 - 163.0) / 163.0 = 0.706 (3DP)			
0.706 X 2,500,000		(1,765,000)	
Chargeablke GAin		1,685,000	

Note 11) Brent held more than 10% of the shares in Derry limited for 12 months before the share sale. The company was a trading company. The conditions for SSE apply and the loss on the sale of the shares in not allowable for tax purposes.

Note 12) Sote and warehouse racking and rails qualify for the main pool. It will also qualify for the super dection FYA at 130%

Note 13) The general store lighting is an integral feature and will therefore qualify for the special rate pool. The enhanced

special rate pool first year allowance of 50% is available. AIA is also available.

Note 14) Store tile and counters will qualify as plant and machinery and obtain FYA at 130%.

Note 15) OFfice equipment will qwualify for main pool and FYA 130%

Note 16) Fixed partion walls do not qualify for capital allwoances as they form part of the builing.

Note 17) Redecoration of teh existing stores is revenue expense and should be deduted in the main computation.

Note 18) REvenue expenditure calpitalised in the is not brought into the P&L and ingored.

Note 19) The small plant items will qualify for FYA 130%. SLA separation not beneficial.

Note 19)

Capital Allowance Computations year ended 31/03/2023

Description	SLA	AIA 100%	FYA 130	Main Pool	SR Pool	Total CAs
	£	£	£	£	£	£
TWDV B/F	500,000			5,000,000	2,000,000	
Additions						
RAcking and Rails (12)			700,000			
Small plant			50,000			
Lighting (13)		250,000				
Tills and counters (14)			175,000			
Office equipment (15)			100,000			
Total	500,000	250,000	1,025,000	5,000,000	2,000,000	

WDA @ 6%					(120,000)	120,0 00
WDA @ 18%				(900,000)		900,0 00
AIA @ 100%		(250,0 00)				250,0 00
FYA 130%			(1,025 ,000)			1,332 ,500
Total CAs						2,602 ,500
SLA Balancing charge	(500, 000)					(500, 000)
Net Balancing allwoances						2,102 ,500

Net balacnign allowances, including the balacning charge on the short life assets is £2,102,500.

Note 20)

Year ended 31/03/2023

Desciption		£	£
Loss before Tax			(55,750,000)
Depreciation			1,250,000
Fine			2,500,000
Salaries not paid in 9 months			950,000
CApital items added back			50,000
Discounts			1,750,000
Amortisation			8,500,000
Allowable amortisation (note 9)			(4,900,000)
Gain on sale of freehold			(4,000,000)
Loss on sale of shares			1,500,000
CApital Allowances			(2,102,500)

Total Trade profit			(50,252,500)
Capital GAin on freehold			1,685,000
Total Loss			48,567,500

This loss can be carried back to offset profits in the previous 12 months. AS the loss was made in the accounting period for FY21 (01/04/2021 - 31/03/2022) the loss can be carried back 36 months, to a limit of £2 million.

	31/03/2020	31/03/2021	31/03/2022	31/03/2023
Trade Profit/Loss	20,000,000	17,000,000	10,000,000	(48,567,500)
12 moth carry back			(10,000,000)	
2021 carry back		(2,000,000)		
Total taxable profit	20,000,000	15,000,000	NIL	NIL

The 2021 loss carry back limit of 2 million is totally used up in 31/03/2021 and nothing futher can be carried back.

The remining loss, (48,567,500 - 10,000,000 - 2,000,000) of £36,567,500 can be carried forward and used against future accounting period.

This will generate a tax repayment of £36,567,500 X 19% = £6,947,825. THis is repayment by HMRC to the company.

The claim must be made on the tax return.

There is no tax to pay and the repayment will arrive in the company bank account 6-8 weeks after HMR have proceeds the return.

The return is due to be filed by 31/03/2024 and there will be filing penalties if this deadline is missed.

The return must be filed with the accounts in iXBRL format. THe loss carry back ellection must be stated on the return along with any relevant amount of the loss being carried back.

The carry back relief for 12 months is unrestricted so not caught by the £2Million limit. This relief is available if the FY2021 extended carry back loss rules are not available.

Given it is loss making, Brent could disclaim the capital allowances and roll them into the tax written down value for future accounting period. This would mean that they would lose all the Fist year allowances and AIA (Annual investment allwoances). Therefore, it is better to claim the enhanced decutions and roll forward the losses in this case.

If the company would like to take tax relief for losses at higher rates, which will be the case of it next acocunting period as the main rate of corporation tax went up to 25%, it can chose to carry forward the losses. Given that the extended carry back loss rules for 2020 and 2021 FY will not be avaiable going forward, it seems beneficial to claim the loss now, get the tax repayment and have better cash flow. Seeing as the company is going through some rough times, this seems like the best option.

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

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

Answer-to-Question-_5_

A company is required to appoint a Senior Accounting Officer (SAO) where the group turnover of is in excess of £200 Million or the balance sheet total is over £2 Billion.

The roles of the SAO is to control the tax functions of the group and confirm to HMRc, by way of an annual certificate, that the tax functions are compliant with the tax laws and procudures are in place such that the tax requirements will be met.

This will include the corporation tax return, CT61 returns, VAT, PAYE, and any other relevant tax.

The SAO is also required to let HMRc know if there is any uncertain tax treatments, being treatment in the tax returns that are different to the HMRC guidance and result in a tax difference of over £5 million.

The SAO must notify HMRC of their appointment within 3 months of the acocunting period end.

The annual certificate is due to HMRC within 9 months and 1 day after the end of the accounting period. There are penalties that apply if this is late, beig £300 for the inital late filing and £60 a day afterwards.

Enflied PLC is not included in the group as it is not owned more than 50%.

Athens is included as it is a UK tax redient. PLace of incporpation is not relevant in this case.

Berlin GmBH is not included in the UK group totals as they are not UK tax resident.

Therefore, the turnover total for the relevant group comapnies is 150+60, being £210 Million. Therefore, the turnover is in excess of the £200 Million and the SAO rules apply.

The certificate to HMRC must inlcude a list of all the group companies, taxes it is complying with, period of account

infomration for the group, and any other relevant information.

The SAO is normally the financial director or CFO of the company or group, as they are likely to have a good oversight of the finance operations of the company. However, this is not a required. It should be someone in the correct position will right expereince and qualifications to be able to judge the tax procudres correctly.

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

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

Answer-to-Question-_6_

Transfer pricing rules are required to be implemented when there are transactions between connected companies. As they are connected, there is the possiblity that the price for the transaction will not be conducted at arms length. This can cause issues when there are transaction overseas as there could be a UK tax advantage for altering the price for a transaction to secure a greater expenses or lower profit and shelter the profits in a lower tax country.

Where a company provided head office functions, like accouting, legal, HR, etc, the intercompany price paid for these services need to be calcuated at arms length. THis will be the price a company would pay a 3rd party to perform these functions.

Management expenses for the overall stewardship will also need to be considered. Higher than arms length transactions will need to be adjusted in the tax return.

Transfer pricing documentation must be kept for the group to show the transaction that have happened between connect companies, the transfer pricing methodology for calcuating the arms length provisions and any other relevant infomration pertaining to the groups arms length pricing.

Where a company would like certainty with the transfering methods and arms length pricing, it can enter into a Advance Pricing Agreement (APA) with HMRC. THese typically last 3-5 years. HMRc can impose a fine of £10,000 for false infomraiton provided in a APA.

There are 3 methods that are provided in the OECD guideline for transfer pricing.
Conparable Uncontrolled Price method (CUP)
Retail Price Method (RPM)
Cost Plus (C+)

Comparable uncontrolled price method works by comparing the intercompany pricing to that a 3rd party would pay in a similar transaction. This is HMR prefered and favourite transfer pricing method.

Retail Price MEthod works buy taking the UK selling price and deducting cost such as transport, marketing, etc, and arriving at a arms length price. This method is sometimes very useful in Marketing and Distribution transactions.

Cost plus opperates by taking the cost of an service/asset and applying a industry standard mark-up. THis is sometimes a very useful method for manufactuing products.

It has been stated by HMR that although it may prefer CUP method, this is not alway the best method to use and as such each transaction should be considered on a case-by-case basis. HMRC has been known reject the CUP method where other methods are deemed to produce a more acceptable arms length price.

Transfer pricing also extends to interest payments, where excessive interest is to be adjusted for arms legnth. In these situations, the amount of the loan and the interest rate of the loan and benchmarked against similar companies to ask whether such a loan would have ever been provided, the amount of the loan is more than a 3rd party would provide and whether the interst rate is at arms length for the industry and company size. Functional analysis is required.

Bexley will be require to send HMRc a country-by-country report of it transfer pricing documents. FAilure to keep documents can result in penalties. £3,000 for not recording documents.

Jinx

Jinx manufacture shoes only for Bexley. This means that Jinx will recieve payment from Bexley in return for manufacturing the shoes. The price paid by Bexley cannot be directly compared to other clients which it manufactures shoes for. It could find similar companies in China and investigate the price they charge for manufacturing shoes. However this might be hard to figure out. Therefore, the CUP method might be to difficult to calcuate. The Cost Plus method is generally consider when thinking of manufacturing. This could be used by considering the mark up that an arms length manufactuing service would make on this transaction and apply this to the manufacturing cost.

The access to the relevant shoe technology is used in the manufacturing process. This is then used in producing the shoes, which it then sells in China. THe royalty payments will need to be at arms legnth.

The raw material supplied by Bexley might be best served by applying the Retail price method. THis would take the UK selling price and deduct the trasnport and other relevant costs. The transoprt cost will likely be known to Bexley as they provide the transport from Jinx's production facility.

Harma

The royaly payments will need to be calcauted at arms legnth.

IT makes orders based on it sales estimates and are places just 30 days ahead of the expected sales.
It sells shoes wholesale to unrelated thrid parties. THis means it will have comparable price for transfer pricing purposes.
IT also is aware of transport costs as it delivers shoes to customers wherever they are located.

Novena

Bexley is entering into a externally provided R&D funciton in Signapore. This is between the connect companies. Bexley can claim R&D on the cost of utilisng this company.

Connected company R&D means that the company can claim 100% of the costs incurred on the R&D.

RDEC relief is available on qualifying expenditure. THis results in profits increasing by 13% of research and development qualifying expenditure, and also recieves a tax creit against corporation tax liability of 13% of RDQE. Where the company is in a loss, this can create a tax repayment, subject to certain relstrictions, such as PAYE and NIC of employees of R&D, tax outstanding, etc.