The Chartered Institute of Taxation

Advanced Technical

Taxation of Major Corporates

November 2022

Suggested solutions

Answer to Question 1

1)

Ambrose Inc and Wild West Inc are non-resident companies that receive payments in respect of the enjoyment or exercise of intangible property (IP) rights (the recipes and trademarks) that enable, facilitate or promote UK sales. Those UK sales exceed a group-wide de minimis of £10 million per annum. The companies are therefore potentially in scope of the charge on Offshore Receipts in respect of IP (ORIP). ORIP is an income tax charge of 20% of the gross amounts paid or payable in the tax year. Any expenses incurred by the recipient are not considered.

Ambrose Inc

Ambrose Inc is resident in a country that does not have a double tax agreement (DTA) with the UK, therefore it is chargeable to ORIP, subject to statutory exemptions. The rum royalties should be exempt because the intangible property in question is and always has been developed and managed in Atlantis. This exemption will not apply to the tequila royalties because the relevant IP was originally developed and managed in Mexico, and was previously owned by a related party of Ambrose Inc resident in a country other than Atlantis.

The tequila royalties are paid by a UK-resident company and relate to product manufactured in and sold from the UK. The entire payment is therefore in scope of ORIP. The fact that 60% of the tequila produced is ultimately sold to consumers outside the UK is not relevant.

The gross amount payable for and paid in the 2021/22 tax year that relates to Gold Agave tequila was £25m, so Ambrose Inc is liable to a £5m ORIP charge. Ambrose Ltd is also jointly and severally liable.

A further exemption applies if the tax paid in the recipient's country of residence is at least half of the tax that would be charged under ORIP. The Atlantan tax is estimated to be:

	£m
Royalty received	25
Less: expenses	(3)
Net income	**22**
Atlantan tax at 7.5%	**1.65**

This is less than half of the £5m UK tax that is due under ORIP, so the foreign tax exemption would not apply.

Both royalties have a UK source, and are paid to a person whose abode is outside the UK. In principle, Ambrose Ltd is required to deduct 20% UK tax at source from the royalty payments. However, payers are not required to deduct tax at source from payments charged to ORIP. Ambrose Ltd therefore only needs to consider deducting tax from the rum royalties.

Wild West Inc

Wild West Inc is not liable to tax under ORIP because it is resident in the US, which has a tax treaty with the UK which includes a non-discrimination clause. The local IP exemption may also apply.

Again, Ambrose Ltd may be required to deduct UK tax at source from the royalties paid to Wild West Inc. However, relief may be available under the UK-US DTA.

2)

Ambrose Inc is subject to the Income Tax Self-Assessment process for non-resident companies in relation to its ORIP liability. For the tax year ended 5 April 2022 that means it:

- should have notified HMRC of its chargeability by 5 October 2022 if it has not received a notice to file, and
- must file a return on form SA700 by 31 January 2023.

Ambrose Inc's £5m ORIP liability is due by 31 January 2023. If it paid ORIP in respect of the tax year ended 5 April 2022, it should have made payments on account (POAs) equal to 50% of that year's liability on 31 January and 31 July 2022 and need only pay the balance.

Ambrose Inc must then make similar POAs of £2.5m each in respect of the tax year ended 5 April 2023.

3)

Under the proposed loan, Ambrose Ltd would make payments of yearly interest to Ambrose Inc, a company whose place of abode is outside the UK. Ambrose Ltd would potentially therefore be required to deduct 20% income tax at source from the interest payments, i.e. £200,000 per annum.

Ambrose Ltd would be required to report its interest payments to HMRC quarterly, using form CT61. For interest payments on 31 December, both the form and payment of tax are due 14 days after the quarter end, i.e. 14 January.

Certain kinds of debt are excepted from the deduction at source requirement. That includes Quoted Eurobonds, i.e. loans in the form of securities issued by companies that are traded on a recognised stock exchange. The group could mitigate its UK tax exposure by structuring the loan as a Quoted Eurobond.

MARKING GUIDE

TOPIC	**MARKS**	**SUB-TOTAL**
ORIP charge		
- Payments for enjoyment/exercise of IP rights re UK sales in scope of ORIP charge	1	
- £10m group-wide sales de minimis does not apply	1	
Ambrose Inc		
- Relevance of full DTA	1	
- Ambrose Rum covered by local IP exemption and Gold Agave not; with explanation	1.5	
- All of Gold Agave royalty payment in scope	1	
- Gross receipts basis	0.5	
- Calculation of ORIP liability	0.5	
- Appropriate discussion of foreign tax exemption	1	
- Requirement to deduct tax at source from royalties	1	
- Royalties charged to ORIP excepted from deduction at source	0.5	
Wild West Inc		
- Out of scope because of DTA and/or local IP exemption	0.5	
- Deduction at source required, or may be exempt because relief available under UK-US DTA	0.5	10
Administration		
- Notification obligation and date	0.5	
- Filing obligation and date	0.5	
- Payment obligation and date	0.5	
- Payments on account obligation and dates	0.5	2
Interest WHT		
- Obligation to deduct tax at source	1	
- CT61 filing and payment obligation	1	
- Mitigation – Quoted Eurobond exemption	1	3
TOTAL		**15**

Answer to Question 2

1)

Bentham Ltd	**£'000**	**Sub-total £'000**	**Notes**
Profit before tax		223,000	
Add:			
Depreciation	200,000		1
Legal fees	500		2
Fine	1,000		3
Corporation Tax late payment interest	200		4
Pension provision	4,000		5
CEO bonus	400		6
		206,100	
Deduct:			
Pension cash payment	(2,500)		5
Dividend received	(10,000)		7
Loan release	(300,000)		8
Capital allowances	(2,600)		9
Capital portion of lease	(900)		10
		(316,000)	
Taxable trading profit		113,100	
Less: in-year NTLR deficit		(200)	
Total taxable profit		112,900	
Corporation Tax liability @ 19%		21,451	
Less: double tax relief credit		(3,500)	12
Corporation Tax liability		**17,951**	

Notes

1. Depreciation is a capital cost so disallowed.

2. The legal fees of £500,000 relate to a share issue so are capital and should be disallowed.

3. The £1m fine was imposed on Bentham Ltd for breaking the law. Case law has held that, even where the illegality relates to a business's trading activities, such fines have an intrinsic non-trade purpose. The fine should therefore be disallowed.

4. Interest payable to HMRC in respect of late payment of Corporation Tax (CT) is a non-trading loan relationship debit.

5. Employer contributions to a registered pension scheme are allowed for the accounting period in which they are paid in cash, and not when they are recognised in the company's accounts.

Bentham Ltd should therefore disallow the £4m accounting debit relating to pension contributions and deduct the £2.5m cash contribution.

6. The CEO bonus will be paid more than 9 months after the period end so disallowed.

7. The dividend received is a distribution from another company and exempt from CT because it relates to a portfolio holding (less than 10% of the total issued shares of the payer).

8. The £300m loan release credit represents a profit arising to Bentham Ltd in respect of its loan relationship with Archbold Bank plc. Ordinarily it would be taxable. However, loan release credits may be disregarded if:
   - the loan was released by the creditor in consideration for ordinary shares in the debtor company; and
   - the debtor applied amortised cost accounting to the loan.

   Archbold Bank plc released the loan in exchange for ordinary shares in Bentham Ltd in an arm's length debt-for-equity swap transaction. The nominal value of the shares is not relevant. Both conditions are therefore met and Bentham Ltd may disregard the credit.

9.

	£'000	Main pool £'000	Capital allowances £'000
TWDV b/f		10,000	
New equipment	800		
Annual investment allowance	(800)		800
WDA @ 18%		(1,800)	1,800
TWDV c/f		8,200	
Total			**2,600**

10. The lease premium is a capital receipt. However, because the lease is for less than 50 years a proportion is taxed as income. That proportion is (50 – Y)/50, where Y is the lease duration in years excluding the first year. Here the proportion is 82%, i.e. £4.1m. The remaining £0.9m is capital and will be fully offset with brought forward capital losses.

11. The £10m insurance receipt compensates Bentham Ltd for additional operating costs, which are deductible as revenue expenditure. Under general principles the tax treatment of a compensation receipt should mirror that of the related expense. No adjustment is required.

12. Bentham Ltd is entitled to a credit against its UK CT liability for Dutch tax charged in respect of its PE profits. Credit is only given for the minimum Dutch tax that Bentham Ltd was required to pay. The £4m paid must therefore be reduced by the £500,000 relief available.

    The credit is the lower of:
    - the creditable Dutch tax of £3.5m; and
    - the UK CT due in respect of the PE's profits, which is £4.75m (see below).

    Bentham Ltd is therefore entitled to a credit of £3.5m.

For the future, Bentham Ltd could elect to exempt its foreign PEs from UK CT, reducing its UK CT liability. The election must be made within one year of the end of Bentham Ltd's accounting period, is irrevocable and would apply to all of the company's foreign PEs now and in the future. It would therefore prevent Bentham Ltd from relieving future foreign PE losses against UK profits and losing entitlement to any relief obtained in the UK for Dutch PE losses in the last 6 years.

Credit limitation:

	£'000
PE profit before tax	5,000
Add: PE depreciation	20,000
PE taxable profit	**25,000**
UK CT @ 19%	**4,750**

2)

Bentham Ltd must make a Company Tax return within 12 months from the end of its accounting period, i.e. 31 December 2022. The return must be filed electronically and comprise accounts and a tax computation in iXBRL format and a form CT600.

If Bentham Ltd files its return late it will be liable to penalties of:
- £100, or £200 if it is over 3 months late, plus
- 10% of any tax unpaid 6 months after the deadline if it is over 6 months late, doubled if it is over 12 months late.

Bentham Ltd's CT due date is 9 months 1 day after the end of the AP, i.e. 1 October 2022. However, because Bentham Ltd's total taxable profits exceed £20m it is considered a Very Large Company and must make four Quarterly Instalment Payments (QIPs).

The payments are due 2 months 13 days after the first day of the AP, and at three-month intervals thereafter, i.e. on 14 March, 14 June, 14 September and 14 December 2021. The first three instalments should equal the lower of:

- quarter of Bentham Ltd's estimated CT liability and
- Bentham Ltd's estimated CT liability less any previous instalment payments.

The final instalment should equal Bentham Ltd's estimated CT liability less any previous instalment payments.

There are no penalties for late payment of CT beyond the normal due date. Late payment interest currently accrues at 4.75% from the normal due date, and at 3.25% prior to that date for QIPs payers.

MARKING GUIDE

TOPIC	**MARKS**	**SUB-TOTAL**
Computation		
- Disallow depreciation as capital	0.5	
- Disallow legal fees as capital	0.5	
- Disallow fine as not wholly and exclusively for trade	0.5	
- Allow CT late payment interest as NTLR debit	1	
- Disallow pension accounting provision and allow cash payment	1	
- Disallow CEO bonus	0.5	
- Exempt dividend received	1	
- Conditions for debt-for-equity swap disregard to apply	1	
- Loan release credit disregarded	1	
- Insurance receipt is taxable income	1	
- Correct treatment of short lease	1.5	
- Capital allowances	1	
- DTR credit available in relation to Dutch tax paid	0.5	
- Bentham must minimise Dutch tax	0.5	
- Credit limited to UK tax on Dutch PE profits	0.5	
- Calculation of limitation on credit	0.5	
- Implications of foreign PE exemption	1.5	14
Administration		
- CT return contents	0.5	
- CT return filing date	0.5	
- CT return electronic submission and iXBRL format	0.5	
- Summary of late filing penalties	1	
- CT due date	0.5	
- Company within Very Large QIPs regime	0.5	
- QIPs due dates	1	
- QIPs amounts	1	
- Late payment interest	0.5	6
TOTAL		**20**

Answer to Question 3

1)

APE 30/09/2021

		Main pool £	SR pool £	Allowances £	Notes
TWDV b/f		1,200,000	400,000		
SD expenditure					
Precision equipment	5,000,000				1
Software	500,000				2
Subtotal	5,500,000				
30% uplift	1,650,000				
Super-deduction	**(7,150,000)**			7,150,000	
FYA expenditure					
Electric lorry	100,000				3
100% FYA	**(100,000)**			100,000	
Main pool expenditure					
Moving/packing equipment	1,000,000				4
Storage cabinet	800,000				5
Subtotal	1,800,000				
AIA	**(1,000,000)**			1,000,000	6
Balance	800,000				
Cars	200,000				7
Pooled	(1,000,000)	1,000,000			
Subtotal		2,200,000			
18% WDA		**(396,000)**		396,000	
6% WDA			**(24,000)**	24,000	
SR expenditure					
Integral features	1,500,000				8
50% FYA	**(750,000)**			750,000	
Pooled	(750,000)		750,000		
TWDV c/f		1,804,000	1,126,000		
Total allowances				**9,420,000**	

Notes

1. The engineering equipment bought on 14 May 2021 qualifies for the 130% super-deduction which is available for expenditure on new plant and machinery (P&M) incurred between 1 April 2021 and 31 March 2023.

2. The software is an intangible fixed asset (IFA) and eligible for IFA relief. However, Whittle Ltd may elect to treat it as P&M, in which case it will qualify for the super-deduction. This is more generous than IFA relief so Whittle Ltd should make the election.

3. The electric lorry was purchased before 1 April 2021 and doesn't qualify for the super-deduction. However, as a zero-emission goods vehicle it qualifies for a 100% FYA.

4. The moving and packing equipment was purchased under a contract agreed before 1 April 2021 but which only became unconditional on 30 April 2021 when Whittle Ltd received regulatory approval. For super-deduction purposes, the timing of expenditure is determined by contract date, even where the contract is conditional. The expenditure is therefore allocated to the main pool.

5. The storage cabinet doesn't qualify for the super-deduction because it is second-hand. The expenditure is allocated to the main pool.

6. Main pool expenditure attracts an 18% WDA, which is the lowest rate for all of Whittle Ltd's expenditure during APE 30/09/2021. To maximise its allowances Whittle Ltd should therefore allocate its entire £1m Annual Investment Allowance (AIA) to main pool expenditure.

7. Cars don't qualify for the super-deduction or AIA. The cars emit less than 50 g/km so must be allocated to the main pool.

8. The factory heating and air purification systems are integral features. The £1.5m cost is therefore special rate expenditure, which between 1 April 2021 and 31 March 2023 qualifies for a 50% FYA. The balance after the FYA may be pooled and attract WDAs in later periods.

<u>APE 30/09/2022</u>

		Main pool £	**SR pool** £	**Allowances** £	**Notes**
TWDV b/f		1,804,000	1,126,000		
SD disposals					
Precision equipment (Note 9)	(200,000)				9
30% uplift	(60,000)				
Balancing charge	**260,000**			(260,000)	
Main pool disposals					
Testing machinery (Note 10)	(300,000)				10
Deducted	300,000	(300,000)			
Subtotals		1,504,000	1,126,000		
18% WDA		**(270,720)**		270,720	
6% WDA			**(67,560)**	67,560	
TWDV c/f		1,233,280	1,058,440		
Total allowances				**78,280**	

Notes

9. The precision engineering equipment originally qualified for a super-deduction. Whittle Ltd must therefore recognise a balancing charge equal to the disposal proceeds. Because the disposal occurred prior to 1 April 2023 the charge must be increased by a factor of 1.3.

10. The testing machinery proceeds relate to historic main pool expenditure and should be deducted from the main pool. However, the amount deducted is capped at the original qualifying expenditure, i.e. £300,000.

2)

Whilst Whittle Ltd could disclaim some of the available allowances and claim in them later periods, claims in later periods won't benefit from FYAs, so this wouldn't be beneficial.

Claiming maximum allowances, Whittle Ltd made a loss of £8,420,000 for APE 30/09/2021 and a profit of £921,720 for APE 30/09/2022.

Whittle Ltd may relieve the loss against the profits of later periods. Because those profits aren't expected to exceed £5m per period, Whittle Ltd shouldn't be affected by the 50% corporate loss relief restriction. From 1 April 2023 the CT rate will increase from 19% to 25% so a significant proportion of any carried-forward losses will be relievable against profits taxable at 25%, maximising the tax saved.

Whittle Ltd may also relieve the loss against previous accounting periods' profits. It may carry back unlimited losses to APE 30/09/2020. Because the loss-making period ends between 1 April 2020 and 31 March 2022 it may also carry back up to £2m of any remaining losses to APEs 30/09/2019 and 30/09/2018, relieving against the profits of later periods first. Any remaining losses may then be carried forward. Any losses carried back will be relieved against profits taxable at 19%, which will save less tax than carrying the losses forward. However, carrying back will generate immediate tax repayments, providing a cash flow advantage.

MARKING GUIDE

TOPIC	MARKS	SUB-TOTAL
APE 30/09/2021 capital allowances computation		
- Super-deduction conditions and rate	1	
- Engineering equipment qualifies for SD	0.5	
- Second-hand P&M excluded from SD	0.5	
- P&M purchased under conditional contract pre-1 April 2021 excluded from SD	1	
- Treatment of software and interaction with IFA regime	1	
- Identify SR expenditure on integral features and apply 50% FYA	1	
- Identify zero emissions lorry and apply 100% FYA	0.5	
- Cars – excluded from SD and AIA	0.5	
- Cars – main pool because emissions < 50g/km	0.5	
- AIA – amount and optimal allocation	1	
- Main pool and SR pool WDA rates	0.5	
- Correct computation of overall allowance	0.5	
APE 30/09/2022 capital allowances computation		
- Balancing charge on SD disposal	0.5	
- 1.3x uplift of SD balancing charge	0.5	
- Deduction of testing machinery proceeds from main pool	0.5	
- Testing machinery proceeds capped at original expenditure	0.5	
- Correct computation of overall allowance/charge	0.5	11
Maximising tax benefit		
- Comment on ability to disclaim CAs	0.5	
- Ability to c/f losses to later periods	0.5	
- 50% corporate loss restriction won’t apply	0.5	
- Normal unlimited c/back to prior period	0.5	
- Extended 3-year carry back with £2m cap, later periods first	1	
- Comment on trade-off between rate of relief and cash flow	1	4
TOTAL		**15**

Answer to Question 4

Johnjane Ltd

Accounting period	Taxable profits £million
1 July 2019 to 30 June 2020	50
1 July 2020 to 30 June 2021	50
1 July 2021 to 30 June 2022	70
1 July 2022 to 30 September 2022	(Note 1) 10

Note 1: Gain £15 million less trading loss £5 million

Explanations:

- An accounting period ends 12 months from the end of previous one, or at an accounting date if earlier.

- Substantial Shareholding Exemption (SSE) is not available on the disposal of shares in JJ Property Ltd as the trading condition is not satisfied, and was not satisfied in the two-year period prior to the disposal.

- SSE is available (under para 3 Schedule 7AC TCGA 1992) for the gain arising on the disposal of the shares in Trade2 Ltd in the final accounting period because although Trade2 Ltd is not trading immediately after the disposal, the second subsidiary exemption applies as it would have qualified at a point in the two-year period prior to the disposal.

- Trade losses are relievable against chargeable gains.

JJ Property Ltd

Accounting period	Taxable profits £million
1 July 2019 to 30 June 2020	nil
1 July 2020 to 31 January 2021	nil
1 February 2021 to 31 March 2021	(Note 2) 15
1 April 2021 to 31 March 2022	(Note 3) 10
1 April 2022 to 30 September 2022	nil

Note 2: Chargeable gain

Note 3: The bad debt recovery of £10 million is taxable. It is a taxable credit on a non-lending relationship (CTA 2009 s 479(2)

Explanations:

- The appointment of an administrator on 1 February 2021 results in the end of an accounting period on the previous day.

- The appointment of a liquidator on 1 April 2021 results in the end of an accounting period immediately beforehand.

- Accounting periods run for 12 months thereafter until the conclusion of liquidation as the accounting period end rule is dis-applied for companies being wound up.

Trade1 Ltd

Accounting period	Taxable profits/(losses) £million
1 July 2019 to 30 June 2020	(20)
1 July 2020 to 30 June 2021	(200)
1 July 2021 to 30 June 2022	nil
1 July 2022 to 30 September 2022	100

Explanations:

- An accounting period is treated as ending immediately before the commencement of liquidation.

- The £100 million receipt in the last accounting period is a taxable post-cessation receipt.

Trade2 Ltd

Accounting period	Taxable profits/(losses) £million
1 July 2019 to 30 June 2020	135
1 July 2020 to 30 June 2021	50
1 July 2021 to 31 March 2022	(150)
1 April 2022 to 30 September 2022	nil

Explanations:

- An accounting period is treated as ending immediately before the commencement of liquidation.

- The post-cessation loss arising on 30 June 2022, in the accounting period to 30 September 2002, can only be relieved against post-cessation receipts of the same company. In the absence of any such receipts, no relief available.

Part 2: Loss utilisation

Accounting period	Johnjane Ltd £million	JJ Property Ltd £million	Trade1 Ltd £million	Trade2 Ltd £million
y/e 30 Jun 2020:				
Entity result	50	nil	(20)	135
Group relief	(20)		20	
Terminal loss relief				(135)
Taxable result	30	nil	nil	nil
1 Jul 2020 to 31 Jan 2021:				
Entity result		nil		
1 Feb to 30 Mar 2021:				
Entity result		15		
Group relief from Trade1 Ltd		(15)		
Taxable result		nil		
y/e 30 Jun 2021:				

Entity result Post cessation receipt carry back Group relief Terminal loss relief Taxable result	50 (50) nil		(200) 100 100 nil	50 (35) (15) nil
y/e 31 Mar 2022: Entity result Terminal loss relief Taxable result		 10 10		 (150) 150 nil
y/e 30 Jun 2022: Entity result Taxable result	 70 70		 nil nil	
1 Apr 2022 to 30 Sep 2022 Entity result Taxable result		 nil nil		 (50) (Note 4) nil
1 Jul 2022 to 30 Sep 2022: Entity result Post cessation receipt carry back Taxable result	 10 10		 100 (100) nil	

Note 4: Post cessation loss carried forward

Explanations:

- The £20 million loss of Trade1 Ltd for the accounting period ended 30 June 2020 can be group relieved against profits of Johnjane Ltd of that accounting period.

- The £200 million loss of Trade1 Ltd for the accounting period ended 30 June 2021 can be relived as follows:
  a) by electing to carry back the £100 million post-cessation receipt from the accounting period ended 30 September 2022, to be taxed as a receipt of the final period of trade on 30 June 2021, allowing £100 million of the loss to be offset against this; and
  b) the balance of the loss (£100 million) can be group relieved against profits of Johnjane Ltd (£50 million in the year ended 30 June 2021) and JJ Property Ltd (£15 million) in the accounting period ended 31 March 2021 and the balance of £35 million against the profits of Trade2 Ltd (£50 million in the year ended 30 June 2021) leaving £15 million chargeable to tax in Trade 2 Ltd.

- The £150 million trading loss of Trade2 Ltd for the accounting period ended 31 March 2022 is a terminal loss and can be carried back to be relieved first against the balance of trading profits of the 2021 accounting period after group relief claimed (see above) (£15 million) and then those of the 2020 accounting period (£135 million), thus fully utilising the terminal loss.

MARKING GUIDE

TOPIC	MARKS	SUB-TOTAL
Johnjane Ltd		
No SSE on JJ Propertry Ltd shares disposal	0.5	
Availability of SSE on Trade2 Ltd shares disposal	0.5	
Current year trade losses relievable against gains	0.5	
Four accounting periods and profits/losses	2	
Accounting period explanations	1	4.5
JJ Property Ltd		
Bad debt recovery taxable	1	
Five accounting periods and profits/losses	2.5	
Accounting period explanations	1	4.5
Trade1 Ltd		
£100 million receipt is a taxable post-cessation receipt	1	
Four accounting periods and profits/losses	2	
		3
Trade2 Ltd		
No relief for post-cessation loss	1	
Four accounting periods and profits/losses	2	3
Loss utilisation		
Trade1 Ltd loss 2020 by group relief (same APs)	1	
Trade1 Ltd loss 2021 by post cessation receipt carry back and group relief for and corresponding APs	2	
Trade2 Ltd loss 2022 terminal loss carry back	1	
Summary table	1	5
Total		**20**

Answer to Question 5

1. Loan stock is a loan relationship and will therefore be a qualifying corporate bond (QCB). It is therefore outside the scope of chargeable gains.

2. Loan stock is a loan relationship, whether designated in sterling or another currency, and will therefore be a qualifying corporate bond (QCB). It is therefore outside the scope of chargeable gains.

3. All acquisitions of shares of the same class go into a share pool, other than acquisitions identified with disposals as referred to in a) and b) below.

Disposals are identified with acquired shares as follows:

a) Shares sold are first identified within any acquired on the same day, then
b) With shares acquired within the preceding 10 days, then
c) With shares in the share pool.

There are therefore two separate pools for the A and B shares, as follows:

		B Shares	
Date		Number	Pool Price £
01/09/2014	Bought	50,000	75,000
01/02/2018	Bought	150,000	300,000
	Pool	**200,000**	**375,000**

		A Shares	
Date		Number	Pool Price £
01/03/2012	Bought	100,000	300,000
01/06/2014	Bought	200,000	900,000
	Pool	**300,000**	**1,200,000**
01/10/2017	Sold (Note 1)	(100,000)	(400,000)
	Pool	**200,000**	**800,000**
01/12/2017	Bought	200,000	1,200,000
	Pool	**400,000**	**2,000,000**
01/04/2021	Bought	200,000	
06/04/2021	Bought	100,000	
06/04/2021	Sold (Note 2)	400,000	
	Pool	**300,000**	**1,500,000**

Note 1:

- Part disposal of pool
- Cost 100,000/300,000 x £1,200,000 = £400,000 to be deducted from pool

Note 2:

- Identify 100,000 shares with 100,000 bought on same day:
    - Gain 100,000 x (£8 less £7.50) = £50,000
- Identify 200,000 shares with 200,000 bought in last 10 days:
    - Gain 200,000 x (£8 less £5.50) = £500,000
- Identify 100,000 share as pool part disposal
    - Sale proceeds 100,000 x £8 = £800,000
    - Cost £2,000,000 x 100,000/400,000 = £500,000
    - Gain £800,000 less £500,000 = £300,000

Total gain in y/e 31 December 2021 is £850,000

4. As Bigco plc acquired all of the shares of Listed plc and the consideration given consisted of ordinary shares plus cash, the disposal of shares in Listed plc by Boodnes plc on 1 March 2021 is recognised for chargeable gains purposes only to the extent of the cash consideration.
The cost of the part disposed of is calculated by reference to the market value of the Bigco plc shares plus the cash consideration at the date of the transaction. So total consideration received is 300,000 shares/5 x (£12+£3) = £900,000, of which the cash element is 300,000/5 x £3 = £180,000

Therefore, the chargeable gain at 1 March 2021 is calculated as follows:

Proceeds	300,000/5 x £3	£180,000
Cost	300,000 x £2 x £180,000/£900,0000	(£120,000)
Chargeable gain		£60,000

The shares acquired in Bigco plc are deemed to be acquired at the same price as the remaining part of the cost of shares in Listed plc i.e., £600,000 - £120,000 = £480,000.

Therefore, Boodnes plc is deemed to have acquired 60,000 (1 for every 5 Listed plc shares) shares in Bigco plc for £480,000.

The Bigco Inc shares comprise a separate share pool of 60,000 shares costing £480,000.

The disposal of all the Bigco Inc shares on 1 October 2021 gives rise to a chargeable gain as follows:

Proceeds	60,000 at £14	£840,000
Cost	As explained above	(£480,000)
Chargeable gain		£360,000

The total chargeable gain in y/e 31 December 2021 is £60,000 + £360,000 = £420,000.

5. Exchange gains and losses arising on currency are taxed under the loan relationship rules, and are therefore outside the scope of chargeable gains.

6. UK Treasury Stock is a loan relationship and is outside the scope of chargeable gains.

7. Quoted options are excluded from being derivative contracts and so are not dealt with under the derivative contacts legislation.

The price paid for a quoted option is added to the price of the underlying asset i.e. the Newco plc shares when the option is exercised, to arrive at the chargeable gains base cost. The abandonment of a quoted option represents a disposal of the asset (the option) for chargeable gains purposes.

Therefore, the exercise of the option on 1 February 2021 to buy 400,00 shares at £2 per share means that the acquisition price is enhanced by the 50p per share option price. 400,000 shares therefore have a base cost of £1 million (400,000 x £2.50).

The abandonment of the option over the remaining options gives rise to a capital loss in the year ended 31 December 2021 of 400,000 x 50p i.e. a capital loss of £200,000.

The sale of 400,000 shares on 1 July 2021 gives rise to a chargeable gain:

Sale proceeds	400,000 x £3.50	£1,400,000
Cost	As explained above	(£1,000,000)
Chargeable gain		£400,000

MARKING GUIDE

TOPIC	MARKS	SUB-TOTAL
Transaction 1		
QCB outside scope	1	
		1
Transaction 2		
Non-sterling loan stock is a QCB so outside scope	1	
		1
Transaction 3		
Shares of same class into a pool	1	
Calculation of two separate share pools/exclusion of B shares from pool calculation	2	
First disposal, share pool reduction	1	
Second disposal, same day and within 10 days, balance from pool, calculation	4	
		8
Transaction 4		
Share-for-share transaction is a chargeable event only to extent of cash	1	
Calculation of first gain	1	
Creation of Bigco plc share pool and calculation of remainder of cost of original shares	2	
Calculation of gain on disposal	1	
		5
Transaction 5		
Foreign currency outside scope	1	
		1
Transaction 6		
UK Treasury Stock outside scope	1	
		1
Transaction 7		
Price paid for a quoted exercised option added to price of asset	1	
Abandonment of quoted option is a chargeable disposal	1	
Calculation of gain and loss	1	
		3
TOTAL		**20**

Answer to Question 6

Profits liable to UK Corporation Tax

Accounting period Year end 31 December	HoldCo plc £million	UKSub1 Ltd £million	UKSub2 Ltd £million	FSub Inc £million	**Group total** £million	UK CT at 25% £million	Less double tax relief (DTR) £million	Net UK CT liability £million
2023	0	20	(5)	0	**15**	3.75	(0.5)	3.25
2024	0	20	5	0	**25**	6.25	(0.75)	5.5
2025	0	20	0	(5)	**15**	3.75	0	3.75

2023

An election can be made to exclude all permanent establishment (PE) profits/losses from UK Corporation Tax. However, without such an election, profits/losses of UKSub2 Ltd are taxable/relievable in the UK. The losses from the trade in in Astoria can thus be surrendered as group relief to UKSub1 Ltd.

The profits in Buranda have suffered 10% tax. That tax can be relieved as double tax relief (DTR) against the UK Corporation Tax on those profits.

2024

Without a PE election, £60 million of profits of UKSub2 Ltd would be taxable in the UK at 25%, and then subject to DTR at 15% in Astoria (£1.5 million) and at 10% in Buranda (£5 million) i.e. tax of £15 million less DTR £6.5 million resulting in net £8.5 million.

With a PE election, all profits of UK Sub2 Ltd are excluded, but profits are brought back into charge to the extent that losses of the now excluded PEs have been relieved in the UK (i.e. £5 million in 2023). These profits can be specified to be Astoria profits which have suffered the 15% Astoria tax rate, which is relievable in the UK as DTR.

The PE election should therefore be made by UK Sub2 Ltd.

2025

The PE election made by UKSub2 Ltd in respect of 2024 is irrevocable, so the losses of £6 million in Buranda are excluded from UK Corporation Tax.

As a non-UK-resident company, FSub Inc is not liable to UK Corporation Tax, subject to exceptions. One such exception is where company is are carrying on a trade in the UK through a PE. Therefore, the UK PE losses are within the scope of UK Corporation Tax and can therefore be group relieved against the profits of UKSub1 Ltd.

MARKING GUIDE

TOPIC	MARKS	SUB-TOTAL
2023 accounting period		
Profits of all UK resident subs are liable to UK tax in absence of election	1	
Tax suffered in Buranda relieved against UK tax (DTR)	1	
		2
2024 accounting period		
Calculate UK CT without election	1	
Calculate UK CT with election (1mark), including bringing profits into charge for losses previously relieved (1 mark)	2	
UKSub2 Ltd should make election to exclude overseas branch profits/losses from UK tax	1	
		4
2025 accounting period		
UKSub2 Ltd election is irrevocable so £10 million losses in Buranda are excluded from UK tax	1	
FSub Inc is within scope of UK CT in respect of UK trading branch, so losses are group relievable	1	
		2
Calculations per table	2	
		2
TOTAL		**10**