

# **The Chartered Institute of Taxation**

**Awareness**

**Module C: Corporation Tax**

**May 2024**

**Suggested answers**

Answer 25

	Year ended 31/12/23	6 month period to 30/06/24	
	£	£	
Adjusted trading profits before capital allowances (12:6)	300,000	150,000	1
Less: capital allowances: £150,000 x 107.5%	(161,250)	-	1
Trading profit	138,750	150,000	
Property income: £24,000 x 6/12	-	12,000	1
	138,750	162,000	
Capital gains: £(21,000 – 3,000)	-	18,000	1
Total profits	138,750	180,000	
Qualifying charitable donation	(2,000)	-	1
TTP	£136,750	£180,000	

Answer 26

1)	Period ended 30/06/24	
	£	
Corporation tax TTP of £40,000 at 25%	10,000	1
Less marginal relief (3/200) x (£62,500 - £40,000)	(338)	1
Corporation Tax payable	<u>£9,662</u>	
Working: time apportion limit for 3 months		1
Lower limit: £50,000 x 3/12	£12,500	
Upper limit: £250,000 x 3/12	£62,500	
2) Filing date	30 June 2025	1
Due date for payment	1 April 2025	1

Answer 27

	Main pool	Special rate pool	CAs	
	£	£	£	
TWDV b fwd	210,000	80,000		
Disposals:				
Solar panels: 50% x £12,000	-	(6,000)		1
	210,000	74,000		
WDA at 18%/6%	(37,800)	(4,440)	£42,240	1
Balance c fwd	172,200	69,560		
			£	
Tax adjusted trading profits before capital allowances			730,000	
Balancing charge on machinery 100% x £70,000			70,000	1+1*
Balancing charge on solar panels 50% x £12,000			6,000	1
Less: capital allowances			(42,240)	
Tax adjusted trading profits after capital allowances			<u>£763,760</u>	

**\*1 mark for correct balancing charge, 1 mark for not including proceeds in pool**

### Answer 28

- The stamp duty land tax will be added to the purchase cost of the warehouse, increasing allowable costs, and so will reduce\* the chargeable gain. **1**
- The cost of the extension will be an allowable cost, and so will reduce\* the chargeable gain **1**
- The structures and buildings allowance claimed of £3,150 will be added to the sales proceeds, and so will increase\* the chargeable gain. **1**
- The legal fees of £3,000 will be deducted from the sale proceeds, and so will reduce\* the chargeable gain. **1+1\***

### Answer 29

- £30,000 of the proceeds from the sale of the building have not been reinvested in qualifying replacement assets and will therefore be chargeable in the accounting period of disposal. **1**
- As the fixed plant and machinery are depreciating assets, the deferred gain is not rolled over into the base cost of the fixed plant and machinery. Instead, the deferred gain is frozen. **1**
- The frozen gain will become chargeable on the earliest of three events:
1. The fixed plant and machinery is sold by Pakak Ltd. **1**
  2. Pakak Ltd stops using the fixed plant and machinery in the business. **1**
  3. Ten years after the acquisition of the fixed plant and machinery; i.e. January 2034. **1**

### Answer 30

1)

	Year ended 30/06/20	Year ended 30/06/21	Year ended 30/06/22	Year ended 30/06/23	
	£	£	£	£	
Trading profit	40,000	25,000	22,000	15,000	
Chargeable gain		3,000	-	-	<b>1</b>
Total profits	40,000	28,000	22,000	15,000	
Terminal loss relief y/e 30/06/2023 (LIFO basis)	-	-	-	(15,000)	<b>1</b>
Terminal loss relief y/e 30/06/2022	-	-	(22,000)	-	<b>1</b>
Terminal loss relief y/e 30/06/2021	-	(28,000)	-	-	<b>1</b>
	<u>£40,000</u>	<u>£Nil</u>	<u>£Nil</u>	<u>£Nil</u>	

2)

Terminal loss relief in final nine-month period to 31 March 2024	£ 68,000	
Terminal loss relief in penultimate period (3/12 x £15,000)	3,750	
Total terminal loss relief available	<u>£71,750</u>	<b>1</b>

Answer 31

- 1) Bapple Ltd could surrender its trading loss to Amplar Ltd to offset against its taxable total profits of 31 March 2024. 1
- Bapple Ltd could make a current year claim to offset its trading loss against its total profits and could then claim to carry the remaining loss back to the year ended 31 March 2023. 1
- Bapple Ltd could carry the loss forward to the year ended 31 March 2025. 1
- 2) As the group companies are associated companies, the corporation tax rate limits are divided by two to give £125,000 and £25,000. Since Amplar Ltd has taxable total profits of £64,000 in the year ended 31 March 2024, the loss can be group relieved to Amplar Ltd, saving tax at a marginal rate rate.of 26.5%. 1+1

Answer 32

- 1) For SSE to apply to the disposal of the shares in Acaraa Ltd, the following conditions must be satisfied:
- The investing company (Gymnaa Ltd) must hold at least 10% of the shares, 1
  - Throughout a 12-month period beginning not more than 6 years before the sale takes place. 1
  - The shares must be in a qualifying trading company for the period starting with the beginning of the latest 12-month period in which the substantial shareholding requirement was met and ending with the date of disposal. 1
- 2) Although Acaraa Ltd is a trading company throughout the required period, and Gymnaa Ltd held shares for over three years, it only held a substantial shareholding (12%) for 10 months in the 6 years before the sale. 1
- Therefore, the substantial shareholdings exemption does not apply. 1

Answer 33

1)		
Trading loss	£	
	(750,000)	
RDEC (£2,000,000 x 20%)	400,000	1
Tax adjusted trading loss	<u>£(350,000)</u>	1
2)		
The cash repayment is the lower of:		
- RDEC of £400,000		1
- Net value of RDEC (£400,000 x ((100-25%)) = £300,000		1
- PAYE and Class 1 NIC on R&D staff of £275,000	<u>£275,000</u>	1

Answer 34

	£	
Rental income ((£1,500 x 7) + (£2,000 x 3))	16,500	1
Expenses:		
Cleaning and redecorating	(2,500)	1
Conversion of a cupboard into a bathroom (capital)	-	1
New furniture	-	1
Advertising the property for rent	(1,500)	1
Property business income	<u>£12,500</u>	

Answer 35

	Total £	UK Source £	Foreign source £	
Taxable total profits	<u>520,000</u>	<u>475,000</u>	<u>45,000</u>	
Corporation tax at 25%	130,000	118,750	11,250	1
Less DTR				
(lower of foreign tax of £14,400 and UK tax of £11,250)	(11,250)	-	(11,250)	1+1*
	<u>118,750</u>	<u>118,750</u>	Nil	
Plus CFC charge (£225,000 x 90% x 25%)	50,625			1+1**
	<u>£169,375</u>			

\*1 for 'lower of' plus 1 for the correct amount  
\*\*1 for adding in CFC charge plus 1 for the correct amount

Answer 36

	£	
1) Return due 31 March 2023.		1
Payment due 1 January 2023.		1
2) Late filing penalty up to 3 months late (third consecutive occasion)	500	1
Second late filing penalty over 3 months late	500	1
Tax geared penalty (not paid within 18 months of accounting period)		
£11,000 x 10%	<u>1,100</u>	1
	<u>£2,100</u>	