THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Larger Companies and Groups

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Durbad plc is the parent company of a UK group with a 31 March year-end. It has two wholly owned subsidiaries, Capey Ltd and Porty Ltd, who operate restaurants and pubs, respectively.

Durbad plc also owns 50% of the ordinary share capital of East Ltd, a company that operates a chain of coffee shops.

The property related transactions undertaken or planned to be undertaken by each company are set out below.

Durbad plc

Durbad plc leases properties to group companies and third parties.

On 1 April 2023, Durbad plc did not have brought forward capital losses. However, it had a £900,000 gain held-over against expenditure it incurred on a 20-year lease on 31 January 2014. That lease had been used continuously in the group's trades.

Durbad plc made two disposals to third parties. It disposed of a restaurant (Restaurant A) that was leased to Capey Ltd, and a coffee shop (Coffee Shop A) that was leased to East Ltd.

	Restaurant A	Coffee Shop A
	£	£
Proceeds	2,550,000	2,000,000
Professional fees on disposal	100,000	50,000
Indexed base cost	1,000,000	750,000
Disposal date	30 June 2023	30 September 2023

On 31 July 2022, Durbad plc acquired a freehold building from a third party for £900,000. It has leased it since then at market value rent to Capey Ltd for use as a restaurant (Restaurant B).

On 30 March 2024, Durbad plc acquired a freehold building from a third party for £500,000, which it then leased at market value rent to East Ltd for use as a coffee shop (Coffee Shop B).

Capey Ltd

On 1 April 2023, Capey Ltd paid a premium to a third party of £550,000 for the assignment to it of a seven-year lease for premises that it uses as a restaurant (Restaurant C).

Capey Ltd intends to acquire a freehold building for £700,000 on 1 November 2026 that it will use as another restaurant (Restaurant D).

Porty Ltd

On 1 August 2023, Porty Ltd acquired beer pumping equipment with an expected life of 20 years for £250,000. This equipment is used in its pubs.

Porty Ltd intends to pay a premium to a third party of £300,000 on 1 October 2025 for the assignment to it of a 15-year lease for premises it will use as a pub.

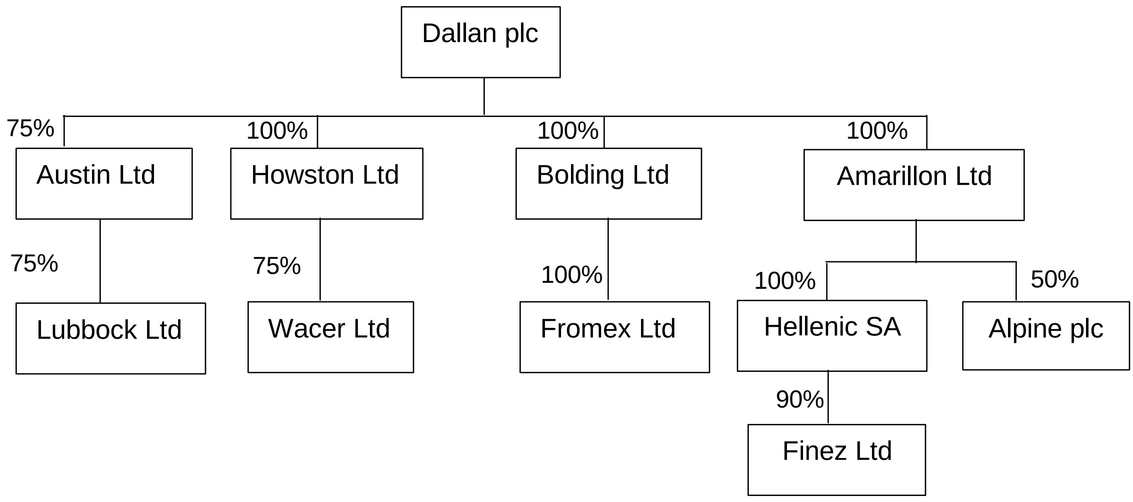
East Ltd

On 30 November 2022, East Ltd acquired a freehold building from a third party for £500,000 that it uses as a coffee shop (Coffee Shop C).

Requirement:

Explain Durbad plc's chargeable gains position for the year ended 31 March 2024 in respect of the above transactions on the basis that any immediate tax charge is minimised. (15)

2. The Dallan group is a professional services group with both profitable and loss-making companies. The group structure at 31 December 2023 is shown below.



Unless stated otherwise below, the companies have 31 December year-ends and are UK resident.

Dallan plc acquired 75% of the ordinary share capital of Austin Ltd (which at the time owned 75% of Lubbock Ltd) under a conditional contract signed on 28 February 2023, which completed on 31 March 2023. Both Austin Ltd and Lubbock Ltd have 30 June year-ends.

Dallan plc entered into a conditional contract on 31 August 2023 to sell Howston Ltd and its subsidiary, Wacer Ltd, to a third party. The sale completed on 31 December 2023. Wacer Ltd has a 31 March year-end and for the year ended 31 March 2024, its losses of £200,000 were in respect of a non-trading loan relationship deficit.

Bolding Ltd is the holding company for Fromex Ltd, a trading company. Bolding Ltd has no income or expenses and was put into liquidation on 30 June 2022.

Amarillon Ltd wholly owns Hellenic SA, a company incorporated in Greece, and tax resident in both Greece and the UK. Hellenic SA's losses arise in relation to its property investment activities in Greece.

Finez Ltd's issued share capital comprises (i) 900,000 £1 preference shares which entitle the holder, Hellenic SA, to only an annual dividend of 10% of the nominal value of the preference capital and (ii) 100,000 £1 ordinary shares held by a third-party investor.

Amarillon Ltd also holds 50% of the ordinary share capital of Alpine plc, a trading company. An unrelated US tax resident company that is not within the charge to UK tax holds 30% and the remaining 20% of ordinary share capital is held by an individual shareholder.

The profits, and losses available for group or consortium relief are set out below:

	Year ended 31 December 2022	Year ended 31 December 2023	Year ended 30 June 2023	Year ended 30 June 2024	Year ended 31 March 2022	Year ended 31 March 2023	Year ended 31 March 2024
	£	£	£	£	£	£	£
Dallan plc	2,000,000	2,500,000	-	-	-	-	-
Austin Ltd	-	-	(300,000)	(600,000)	-	-	-
Lubbock Ltd	-	-	(1,000,000)	(500,000)	-	-	-
Howston Ltd	500,000	(700,000)	-	-	-	-	-
Wacer Ltd	-	-	-	-	200,000	300,000	(200,000)
Bolding Ltd	-	-	-	-	-	-	-
Fromex Ltd	600,000	(700,000)	-	-	-	-	-
Amarillon Ltd	(5,000,000)	(500,000)	-	-	-	-	-
Hellenic SA	(400,000)	(500,000)	-	-	-	-	-
Finez Ltd	750,000	950,000	-	-	-	-	-
Alpine plc	1,000,000	1,500,000	-	-	-	-	-

There is no capacity to carry back losses in any group company.

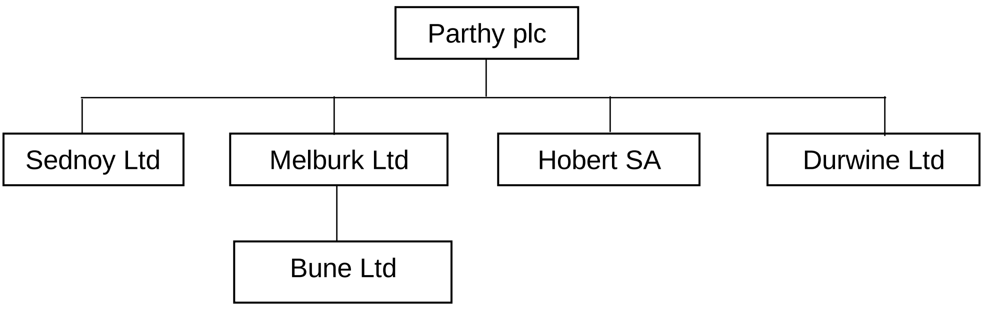
The Dallan group's policy is for any consortium relief loss surrenders to be made between the consortium member and the consortium company in priority to any other group relief claims. Furthermore, current year group relief claims are made in priority to any other group relief claims.

Requirement:

Calculate, with explanations, the group relief allocations for the two years ended 31 December 2022 and 2023. (20)

3. Parthy plc is the parent company of a conglomerate with a 30 June year-end. It has been rationalising operations, which involved disposing of certain entities after carrying out a series of intra-group transactions. An abridged group structure before the rationalisation is shown below.

All the subsidiaries were wholly owned UK resident companies apart from Hobert SA.



<u>Sednoy Ltd</u>

Sednoy Ltd was an investment company that was acquired by Parthy plc for £70 million in June 1990 when it had distributable reserves of £50 million. For the year ended 30 June 2023, Sednoy Ltd had surrendered group relief to Parthy plc with a tax value of £5 million for no payment.

On 29 June 2024, Sednoy Ltd transferred some listed shares it held to Parthy plc at their base cost of £10 million when their market value was £30 million. The group wished to retain these listed shares for commercial purposes. Immediately before transferring these listed shares, Sednoy Ltd's market value was £80 million. Immediately following the transfer of these listed shares, Sednoy Ltd paid a dividend of £40 million when it had distributable reserves of £55 million.

On 30 June 2024, Parthy plc sold Sednoy Ltd to a third party for its market value of £20 million.

<u>Melburk Ltd</u>

Pathy plc acquired Melburk Ltd for £30 million in April 2015. Melburk Ltd's activity was renting out commercial properties. In May 2024, when Parthy plc sold its shares in Melburk Ltd to a third party, the market value of Melburk Ltd's properties was £120 million and their book value was £75 million.

In order to reduce Pathy plc's chargeable gain on its disposal of Melburk Ltd, the following transactions were carried out immediately prior to the disposal:

1) Melburk Ltd sold its properties to its previously dormant subsidiary, Bune Ltd, for £120 million.

2) Bune Ltd borrowed £120 million from Parthy plc to fund the acquisition of the properties.

3) Melburk Ltd paid a dividend of £45 million to Parthy plc.

4) Parthy plc disposed of Melburk Ltd (with its subsidiary Bune Ltd) for £75 million.

<u>Hobert SA</u>

Hobert SA was an overseas property investment company that was acquired for £10 million as part of a larger acquisition by Parthy plc in July 2020 but it was surplus to requirements. On 30 January 2024, Hobart SA paid a £5 million dividend to Parthy plc. Immediately before this, Hobart SA had a market value of £20 million and distributable reserves of £5 million. On 31 January 2024, Pathy plc disposed of Hobert SA to a third party for £15 million.

<u>Durwine Ltd</u>

Durwine Ltd has been a trading company since it was incorporated by Parthy plc in April 2018 with a share capital of £1 million. In December 2023, Parthy plc disposed of Durwine Ltd for £12 million to a third party. Immediately prior to its disposal, Durwine Ltd paid out a £1 million dividend to Parthy plc, which represented cash that was in excess of its trading requirements.

Requirement:

Explain the chargeable gains position for Parthy plc for the year ended 30 June 2024 in respect of the above transactions. (15)

4. The Danchar group's business is in the heating and plumbing sector. The main trading company is Danchar Ltd, which is incorporated and tax resident in the UK. In the year ended 30 June 2024, the company made significant investments in new equipment. This expenditure was funded by an increase in loans from its bank.

Extract from the Income Statement of Danchar Ltd for the year ended 30 June 2024

	Notes	£'000
Turnover		126,752
Cost of sales		(93,000)
Gross profit		33,752
Administration expenses	1)	(12,000)
Net profit		21,752
Interest payable	2)	(3,000)
Other income	3)	1,000
Profit before tax		19,752

Notes

1) Administration expenses include:

	Further notes	£'000
Depreciation	a)	4,000
Loss on disposal of plant	b)	1,000
Directors' bonuses	c)	1,500
Entertainment and gifts:		
Staff entertainment		100
Gifts to customers	d)	50
Donation to the UK charity MIND		50
Impairments	e)	3,000

Further notes

a) Danchar Ltd has a policy of taking a full year's depreciation in the year of acquisition and no depreciation in the year of disposal.

b) There was a disposal of plant during the accounting period. It had been acquired on 1 September 2021 for £2 million and its net book value at the date of sale was £1.5 million.

c) The directors' bonuses relate to the performance of Danchar Ltd during the 12 months to 30 June 2024 and are payable in three equal instalments – on 1 November 2024, 1 February 2025 and 1 May 2025. The bonuses for the 12 months to 30 June 2023 were paid in one amount on 1 November 2023.

d) The gifts to customers were bottles of whisky which were labelled Danchar's Finest Whisky and which cost Danchar Ltd £30 each.

e) The impairment costs are in respect of the following:

(i) One customer owing £1 million for goods has filed for bankruptcy and Danchar Ltd is unlikely to receive payment.

(ii) £2 million was lent to a fellow subsidiary company, and the directors' of Danchar Ltd have concluded that this is highly unlikely to be repaid.

2) Half of the interest payable relates to an investment that Danchar Ltd made several years ago in Taycroft Ltd. The other half relates to loans taken out to fund the purchase of new equipment in the accounting period.

3) The other income relates to dividends received from Taycroft Ltd. Danchar Ltd holds 8% of Taycroft Ltd.

4) Notes in respect of capital allowances:

a) On 1 July 2023, the tax written down value of the general pool was £2 million, and the special rate pool was £1.5 million.

b) On 1 January 2024, Danchar Ltd purchased machinery at a cost of £5 million. Alterations to a building, which took place in January and February 2024 at a cost of £1 million, were required to install this machinery.

c) In the accounting period, Danchar Ltd spent £3 million on the modernisation of the integral features of its workshop. Depreciation was charged at the rate of 10%. However, after the year-end, they were found to be substandard and the integral features were removed, and a new contract was agreed for work to be carried out in January 2025. The contract for the substandard work was the subject of a dispute, but the contractor finally repurchased them for £1.8 million on 1 October 2024.

d) Danchar Ltd acquired a fleet of vans for £1.25 million from a competitor company that had ceased to trade.

e) Danchar Ltd also purchased new cars with carbon dioxide emissions of 0g/km costing £500,000 in total. Depreciation was charged at the rate of 20%. On 1 September 2024, Danchar Ltd sold some of these cars for £150,000 because they were surplus to requirements. These cars had originally cost £250,000 in total.

f) On 1 November 2023, Danchar Ltd purchased a new car for £75,000 with carbon dioxide emissions of 160g/km. This car is used by the managing director, with business use being 20% and private use 80%.

g) No other company in the Danchar group claims capital allowances.

Continued

Requirement:

1) **Calculate, with explanations, the Corporation Tax payable by Danchar Ltd for the year ended 30 June 2024, assuming the most beneficial claims and elections are made.** (15)

2) **Explain how the disposal of the integral features and cars will be dealt with in the income statement, the tax computation and the capital allowance calculations for the year ended 30 June 2025. You are NOT required to consider deferred tax.** (5)

Total (20)

5. Curtis Inc is a US tax resident parent company of a diverse multi-national group.

The consolidated financial statements of Curtis Inc for the year ended 31 December 2023 disclose the following:

Employees	2,035
Turnover	€900 million
Net Assets	€350 million

On 1 July 2024, Curtis Inc purchased all the shares of Jabert Ltd for £50 million from its UK resident shareholders, all of whom were individuals. The Curtis group does not hold shares in any other UK tax resident company.

Jabert Ltd is a UK tax resident company which specialises in the transport, security, and storage of low bulk items with a high value.

The financial statements of Jabert Ltd for the year ended 31 December 2023 disclosed the following:

Employees	85
Turnover	€60 million
Net Assets	€40 million

Jabert Ltd has £50,000 of financing costs per annum, which are for bank charges and fees.

It currently has projected pre-tax profits of £3 million per annum but this is expected to rise significantly as the benefits of integration into the Curtis group materialise.

The management operations will continue as before the acquisition, however, Jabert Ltd is expected to align its administrative and personnel procedures with the rest of the Curtis group. This will include the provision of management services from Curtis Inc to Jabert Ltd.

Curtis Inc has developed a sophisticated information and tracking system which Jabert Ltd will utilise, and a license agreement will be put in place.

The Curtis group has a group transfer pricing policy, but this does not currently include Jabert Ltd.

Curtis Inc completes its required transfer pricing documentation, including country-by-country reporting, in the US. There are no hallmarks of potential diversion of profits by the Curtis group.

Requirement:

Explain the UK tax compliance obligations following the acquisition of Jabert Ltd by Curtis Inc, and any additional UK tax charges which arise, for the Curtis group. (20)

6. The SylMarc group provides specialist software services to businesses in the fitness and leisure sector. The main trading company, SylMarc SA, is incorporated and tax resident in Gardania. Currently, all staff are based in Gardania and all functions are carried out from there.

Gardania is a country located outside the EU. The tax treaty between the UK and Gardania is the same as the OECD model treaty. Gardania applies the same residence tests for companies as the UK.

The group has recently taken on three new major UK based customers and is considering establishing a presence in the UK by transferring staff from Gardania and/or recruiting UK personnel. At least initially, there is no intention for any senior management staff or functions to be located in the UK.

The staff will be operating from serviced office accommodation and will be expected to provide a wide range of services to the new customers including renewal of contracts.

The group is considering whether to set up a local company or operate a branch in the UK.

Requirement:

Explain whether SylMarc SA could have a liability to UK Corporation Tax if it establishes a presence in the UK. (10)