The Chartered Institute of Taxation

Advanced Technical

Taxation of Larger Companies and Groups

May 2023

Suggested solutions

ANSWER 1

McRaney Ltd: Corporation Tax computation for the year ended 31 December 2022

	Notes	**£**	**£**
Profit per accounts			5,091,000
Less:			
General bad debts	1		(3,000,000)
Add:			
Depreciation	2	4,000,000	
Loan interest	3	0	
Loss on disposal	4	250,000	
Legal fees – acquisition	5	250,000	
Legal fees – loan	6	0	
Pension	W1	2,100,000	
Qualifying charitable donation	7	100,000	
			6,700,000
Adjusted profit before capital allowances			8,791,000
Balancing charge	W2 (e)		260,000
Capital allowances	W2		(5,942,860)
Structural Buildings Allowance	W3		(36,500)
Trading profits			3,071,640
Qualifying charitable donation	7		(100,000)
Taxable profits			2,971,640
@ 19%			
Corporation Tax payable			**£564,612**

Notes

1) The general bad debt charges would have been disallowed in previous years. There has been a reversal this year, which therefore should not be taxed, and so the credit is removed from the tax computations.

2) Depreciation is capital in nature and is not deductible for tax purposes.

3) The loan is a trading loan relationship therefore the interest is deductible.

4) Loss on disposal is a capital item and is not deductible.

5) Legal fees in connection with the purchase of the factory are not deductible as a trading expense.

6) As the loan is for trading purposes, the legal fees are allowable.

7) Qualifying charitable deductions are not allowed as a trading expense but are allowed as a deduction against total profits.

Working 1 - Pension spreading

	£'000
Year ended 31 December 2021	2,000
Year ended 31 December 2022 (£2,000,000 plus £3,000,000)	5,000
210% of contribution in year ended 31 December 2021 The December 2022 contribution exceeds this so spreading must be considered.	4,200
110% of contribution in year ended 31 December 2021	2,200
Relevant excess contribution £5,000,000 less £2,200,000	2,800
Greater than £2,000,000 therefore spread over four years £2,800,000 / 4	700
Allowable in year ended 31 December 2022:	2,200
Spread amount	700
	2,900
Disallowance in year ended 31 December 2022:	5,000
	(2,900)
	2,100

Working 2 - Capital allowances

	Note	Main Pool	FYAs	Special Rate Pool	Allowances claimed
		£	£	£	£
Tax written down value at 1 January 2022		7,243,000	-	652,000	-
New plant and machinery		2,000,000	2,000,000	-	-
FYA 130%	a)	(2,000000)		-	2,600,000
Integral features	b)		1,000,000		
AIA	c)		(1,000,000)	-	1,000,000
FYA 50%	d)	-	(1,000,000)	-	1,000,000
Writing down allowance (18% and 6%)		(1,303,740)	-	(39,120)	1,342,860
Transfer to special rate pool		-	(1,000,000)	1,000,000	-
Tax written down value at 31 December 202		5,939,260	-	1,612,880	-
Allowances claimed		-	-	-	**5,942,860**

Notes:

a) The £2 million which qualifies for the general pool is eligible for a 130% first year allowance.

b) The integral features in the new factory are additions to the special rate pool.

c) Annual investment allowance is used against the special rate expenditure.

d) A first-year allowance of 50% is deducted from the remaining £2 million of the expenditure which qualifies for the special rate pool.

e) Proceeds for disposal of plant:

	£'000
Net book value	450
Loss on disposal	(250)
Proceeds	£200

The plant attracts a super deduction of 130% as it was acquired on 1 June 2021. On disposal of such an asset, a balancing charge arises of 130% of the proceeds being £260,000 (£200,000 x 130/100).

f) Although the payment on 15 January 2023 is in a later accounting period, it is within four months of the date the obligation to pay became unconditional, and therefore, it is treated as incurred in the year ended 31 December 2022.

Workings 3 – Structures and Buildings Allowance

The eligible cost is the cost of the building including site clearance but excluding land, planning permission and costs eligible for other capital allowances.

The annual rate is 3% which is prorated during the accounting period for the period in use.

	£
Total cost	11,000,000
Land	(2,500,000)
Integral features	(1,000,000)
Planning permission	(200,000)
	7,300,000
Annual amount £7.3m @ 3%	219,000
Period 1 Nov to 31 Dec	
219,000 x 2 / 12	36,500

MARKING GUIDE

TOPIC	MARKS	TOTAL
Adjustments to profit		
Bad debts	1.0	
Depreciation	0.5	
Loan relationship debit	0.5	
Loss on disposal	0.5	
Legal fees – acquisition	0.5	
Legal fees – costs of loan	0.5	
Qualifying charitable donation	0.5	
		4.0
Pension		
Relevant excess contribution	1.0	
Spreading amount	1.0	
Disallowance	1.0	
		3.0
Capital allowances		
P&M correct amount added to each pool (January 2023 payment included)	1.0	
P&M general pool FYA super deduction	1.0	
AIA correct amount deducted from special rate pool	1.0	
P&M special rate FYA 50%	1.0	
Integral features	0.5	
Calculation of disposal proceeds	1.0	
As super deduction BC	0.5	
As super deduction of 130% of proceeds arises	1.0	
Calculation of WDA each pool	1.0	
Calculation of total allowances	0.5	
		8.5
SBA Qualifying expenditure exclude land	0.5	
SBA Qualifying expenditure exclude integral feature	0.5	
SBA Qualifying expenditure allow site clearance	0.5	
SBA Qualifying expenditure planning permission	0.5	
SBA Annual amount and rate	1.0	
Pro rata calculation	0.5	
		3.5
Calculation of total taxable profits	0.5	
Calculation of liability	0.5	
		1.0
TOTAL		20.0

ANSWER 2

Option 1: Continuing to operate the profitable Utopian business through a non-exempt permanent establishment

UK tax resident companies are subject to UK Corporation Tax on their worldwide income. A profitable permanent establishment (PE) of a UK company will therefore be subject to UK tax and may also be subject to tax in the country it operates in. However, double tax relief may be available in the form for a double tax credit, which will be limited to the lower of (1) the Utopian tax suffered or (2) the equivalent UK tax. The higher tax rate in Utopia means that any credit would normally be sufficient to fully offset the UK tax.

As the Utopian PE has historically made losses, Bonnerton Ltd would have been able to use those losses. Transitional rules apply to defer the exemption until those historical losses have been offset by subsequent profits.

Option 2: Making a PE exemption election

An election can be made to exempt the PE profits from UK Corporation Tax. The election should specify the accounting periods to which it will apply. It must be made prior to the commencement of that period so it will take effect from the start of 2024.

The election is irrevocable and applies to all of the company's PEs. If the Ruritanian PE is expected to continue to be loss-making, then those losses will not be able to be set against the profits of Bonnerton Ltd.

Transitional rules will apply to defer the exemption until any losses, made within the last six years, have been offset by subsequent profits.

The election is most attractive where the PE jurisdiction has a lower corporate tax rate than that of the UK. This is because the double tax credit will usually not be sufficient to fully offset the UK tax on those same PE profits, so it may be beneficial depending on the amount of previous losses used to exempt those profits from the scope of UK tax entirely. This benefit would not apply in this situation given the current tax rates.

Option 3: Incorporating the Utopian PE into a Utopian subsidiary

Incorporating the PE into a Utopian subsidiary means any profits will be outside the scope of UK Corporation Tax. The historical losses generated by the Utopian PE will be carried forward in the company, notwithstanding the earlier use of these losses in the UK.

Profits can be returned to the UK through dividends, which will be exempt on receipt. However, it would not be possible for the Utopian subsidiary to surrender any losses to its UK parent.

Incorporation of the PE involves transferring the trade and assets to a Utopian company owned by a UK company. This transfer would give rise to a cessation of trade with a market value disposal of the plant and machinery used in the PE together with its stock.

Capital, intangible fixed assets, loans and derivatives would be treated as disposed of and reacquired at market value. Subject to certain conditions, a claim can be made to postpone the chargeable gains. Similar provisions apply to postpone a gain on intangibles.

Postponement conditions:

1) UK resident company carrying on a trade outside the UK;
2) Trade and assets used in that trade are transferred to a non-UK resident company;
3) Transfer is wholly or partly in exchange for securities issued by the transferor;
4) Following the issue of shares, the transferor holds at least 25% of the ordinary share capital of the transferee; and

5) There is a net chargeable gain arising on the assets transferred.

Provided these conditions are met, Bonnerton Ltd can claim for the gains to be postponed.

Where part of the consideration for the transfer is shares, that proportion of the gain is postponed. The postponed gain can be chargeable to UK Corporation Tax if there is a disposal of shares or assets

Recommendation

Incorporating the business may be an effective option but may lead to unused losses if the company does not maintain its profitability. The PE exemption election and the application of the transitional rules may not justify risking the loss of the PE's losses.

A PE structure provides the key benefit of allowing the PE losses to be used by in the UK. Also, it provides flexibility, as either of the above options can be entered into in the future.

Depending on the amount of losses utilised previously by Bonnerton Ltd and the predicted profits, either keeping the current structure or incorporating the business is recommended.

MARKING GUIDE

TOPIC	MARKS
UK companies subject to tax on worldwide income	0.5
PE also subject to source tax therefore potential double tax	0.5
Credit system means double tax relief s.18 TIOPA 2010	0.5
Lower of UK or foreign tax	0.5
As rates higher, no CT liability	0.5
Except loss situation	1.0
An election can be made to exempt the PE	1.0
The election must be made before the start of the accounting period	0.5
Irrevocable and applies to all PEs	1.0
Can't use Ruritanian losses	0.5
Transitional rules	1.0
Losses within six years	0.5
Beneficial if CT rate lower than in UK	0.5
Incorporated subsidiary outside scope of UK tax	0.5
Can utilise losses b/f despite already relieved in UK	1.0
Repatriate profits through non-taxable dividends	0.5
Restrictions of loss use	0.5
Exit charges (different types of assets)	1.0
Conditions for postponement s140 TCGA92	1.0
Part postponement	1.0
Conclusion and recommendation	1.0
TOTAL	**15.0**

ANSWER 3

Loan relationships rules

The loan relationship rules generally allow a deduction for interest and other financing costs in accordance with the accounting treatment. However, there are a number of tax rules designed to counter potential tax avoidance where there is a loan relationship between connected parties. If Wolffe Inc acquires a significant shareholding in Huxsmith Ltd, some of these rules need to be considered.

These rules, set out below, do not include any motive or purpose tests so arrangements can be caught even where there is no intention to avoid tax.

Transfer Pricing

The transfer pricing rules apply to UK companies when there is a transaction or arrangement between connected persons and the actual provision between the two parties differs from the arm's length provision; and the company is not exempt from the legislation.

Wolff Inc and Huxsmith Ltd could become connected if some or all of the share sales takes place. Persons are connected where, amongst other criteria, one of the persons is participating in the management, control or capital of the other. The combined turnover means that no exemptions would apply.

A transfer pricing adjustment will only be required where there would be a UK tax advantage conferred as a result of a non-arm's length provision. The terms of the loan agreement should be reviewed to ensure that the interest rate is equivalent to an arms-length rate, and that a third-party lender would have made such a loan. If this is not the case, a transfer pricing adjustment in the UK Corporation Tax computations will need to be made.

There is a requirement to keep appropriate records to establish that the interest is at arm’s length. The fact that when the loan was first made, the parties were unconnected should make the arm’s length position fairly straightforward to justify.

Hybrid mismatch rules

The hybrid mismatch rules are designed to prevent multinational enterprises from creating tax benefits by taking advantage of mismatches in the tax treatment of different entities or arrangements.

The rules apply where the parties to an arrangement are in the same control group. This generally applies where there is a requirement to produce consolidated accounts; where one party has at least a 50% investment in the other, or a third person has a 50% investment in each of the parties; or where there is common participation, directly or indirectly, in the management, control or capital of the parties within a six-month period. These rules could therefore apply depending on Wolff Inc’s interest in Huxsmith Ltd, given that Wolff Inc’s subsidiary has provided a loan to Huxsmith Ltd.

The provisions detail numerous types of hybrid mismatches and the conditions to trigger a counteraction differ for each type. Broadly the rules seek to counter the situation where there is a double deduction for interest, or an interest deduction is allowed in one jurisdiction, but the receipt is not taxed in another jurisdiction. Therefore, whether or not the interest receivable by the Bermudian company, Eflow Ltd, is taxable should be checked.

Corporate Interest Restriction (CIR)

Interest deductions can be disallowed by the CIR rules, which apply after the transfer pricing and hybrid mismatch rules.

The rules apply to a worldwide group which contains UK relevant companies. The worldwide group is based on International Financial Reporting Standards (IFRS) consolidated accounts. If Huxsmith Ltd shares are purchased by Wolff Inc, a new group could be created. Huxsmith Ltd has no subsidiaries and Wolfe Inc has no other UK interests, therefore Huxsmith Ltd will be the only UK company in the group for CIR purposes.

The CIR calculations take into account the following:

1) The fixed ratio rule, whereby interest and other financing costs (tax-interest) are restricted to 30% of tax earnings before tax, interest, depreciation and amortisation (tax-EBITDA).

2) The group ratio rule that considers the ratio of group interest to group-EBITDA.

3) The debt caps of the net group interest.

Overall, if the tax figures are similar to the accounting figures, under the fixed ratio rule, the tax-EBITDA would be £15 million, and tax-interest would be £6 million. However, 30% x £15 million is £4.5 million so a disallowance of £1.5 million (being £6 million less £4.5 million) could apply.

Under the group ratio rule, as a singleton UK company, Huxsmith Ltd would be able to claim the group ratio and no debt cap would apply. But if Huxsmith Ltd joins the Wolff Inc group, the group ratio and debt cap would be based on the new worldwide group.

MARKING GUIDE

TOPIC	MARKS	TOTAL
Loan relationships rules	1.0	
Connected parties	1.0	
Connected party LR rules	1.0	
Withholding tax	1.0	
		4.0
Transfer pricing:		
Application	0.5	
Meaning of connected	1.0	
UK tax advantage	0.5	
Possible adjustments	0.5	
Need to keep records	0.5	
		3.0
Hybrids and UP		
Purpose of hybrid rules	1.0	
Group for hybrid purpose	0.5	
Double deduction/Deduction not income	0.5	
Bermuda may be an issue	0.5	
Unallowable Purpose	0.5	
Need to verify hybrid/UP	1.0	
		4.0
Corporate interest restriction:		
Transfer pricing/hybrid rules priority	0.5	
Group for CIR purposes	1.0	
Huxsmith only UK entity	0.5	
Fixed ratio	0.5	
Possible group ratio	0.5	
Possible debt cap	0.5	
Pre-acquisition position	0.5	
Likely to be CIR disallowance	0.5	
Subject to new group position	0.5	5.0
TOTAL		**15.0**

ANSWER 4

Chargeable gains

Grant of lease

A 40-year lease is a grant of a short lease. Part of the premium is taxable as property income and part is treated as capital.

The capital element is 2% x (N-1) x P

where P is the premium received and N is the number of years of the lease.

The capital element is therefore 2% x (40-1) x £500,000 = £390,000

£110,000 of the premium is chargeable to Corporation Tax as property income in the year ended 31 December 2022.

The grant of a short lease out of a freehold is treated as a part disposal, with the deductible cost calculated as:

a/(A+B) where a is the capital element of the premium, A is the gross premium and B is the capital value of the reversion.

		£
Capital element of premium		390,000
Less legal fees		(2,000)
		388,000
Less cost	3,000,000*(390,000/[500,000+3,500,000])	(292,500)
Chargeable gain		95,500

No indexation arises after 31 December 2017.

Disposal of properties

Chargeable gains arise on the disposal of the properties. The accounting profit is excluded from the taxable result.

The calculations are as follows:

Northumberland Factory		£
Proceeds - 2022		7,500,000
Acquisition cost – Jan 2000		(3,500,000)
Enhancement expenditure		(350,000)
Unindexed gain		3,650,000
Indexation on cost (RPI Dec 2017-RPI acq)/RPI acq	Jan 2000 to Dec 2017 166.6 - 278.1, 0.669	(2,341,500)
Indexation on enhancement	Jan 2007 to Dec 2017 201.6 - 278.1, 0.379	(132,650)
Chargeable Gain before reliefs		1,175,850

Peterborough Office building		£
Proceeds - 2022		7,000,000
Deemed acquisition cost – December 2002		(4,000,000)
Unindexed gain		3,000,000
Indexation on deemed cost	Dec 2002 to Dec 2017 178.5 - 278.1, 0.558	(2,232,000)
Chargeable gain		768,000

The office building would have been deemed to be appropriated from trading stock at market value in Blundell Developments Ltd immediately before being transferred to Blundell plc. Regardless of the accounting value of the transfer, the base cost will therefore be the market value at the time of the 2002 transfer.

<u>Opportunities to mitigate the tax arising</u>

Two new properties were acquired in 2022. Rollover relief is available in connection with a gain on the disposal of a property held for trading purposes (including the trade of a group company). The gain can be rolled over to the extent that the proceeds are reinvested in a qualifying asset within a period 12 months before the disposal to 36 months after the disposal.

The gain on the disposal of the factory used in the group's trade is therefore eligible for rollover relief but the gain on the sale of the office building is not, as this was not an asset held for trading purposes.

The investment in the new factory is for the purposes of the trade of a group company and is therefore a qualifying asset, but the office property is not. As a result, only £6.5 million of the proceeds of £7.5 million were reinvested (although further expenditure may allow a further claim to be submitted) restricting the rollover relief currently available.

The amount of the proceeds retained (£1 million) is immediately chargeable to Corporation Tax with the balance of the gain (£175,850) being the rollover relief that can be claimed. As a result of the claim, the base cost of the new factory property will be reduced from £6.5 million to £6,324,150.

It may be possible to reduce the tax payable if losses are available in either Blundell plc or other group companies. An election can be made for a gain arising in one company to be transferred to another group company. As a result, it will be possible to offset brought forward capital losses elsewhere in the group against the gain, as well as current period trading losses and brought forward trading losses arising after 1 April 2017.

<u>Capital allowances</u>

Capital allowances are available as follows:

	Main pool £'000	Special rate pool £'000	Allowances £'000
Balance brought forward	900	2,500	-
Additions in year (150,000+200,000)	-	350	-
Agreed disposal value (250,000+300,000)	-	(550)	-
Subtotal	900	2,300	-
Allowances (18%/6%)	(162)	(138)	300
Balance carried forward	738	2,162	-

No structures and buildings allowances are available due to the age of the buildings. No first-year allowances will be available as the assets are second-hand assets.

MARKING GUIDE

TOPIC	MARKS
Short lease:	
40 years so short lease	0.5
Split capital/property income and formula	1.0
Calculation	1.0
CGT calc – part disposal formula, and application	2.0
CGT calc – legal fees and no IA	1.0
Properties:	
Accounting profit on disposal non taxable	0.5
Include chargeable gains instead	0.5
Calculate factory gain, cost, enhancement, IA	1.5
Calculate office gain, would have been stock in dev co, so MV	1.0
Calc with IA	1.0
Discuss rollover relief possibility and requirements– trading asset sold, group use counts	1.5
Only to extent proceeds reinvested in timescale in trading properties	1.0
Further relief may be available in the future	0.5
Available for factory sale against new factory	1.0
Gain left in charge	1.0
Revised base cost	0.5
No rollover for office building	0.5
Total gains	0.5
Possible offset of losses – capital or trading, s171A transfer in group	1.5
Capital allowances – additions, disposal values, calcs	1.5
No SBAs/FYAs due to age of building	0.5
TOTAL	**20.0**

ANSWER 5

Option 1

Donner plc, Dancer Ltd and Vixen Ltd will form a tax group for both group relief of losses and chargeable gains as Donner plc owns 75% or more of the share capital of each company provided that all rights are directly attributable to shareholdings and there are no veto rights.

The transfer of the warehouse is deemed for tax purposes to be made at a value such that neither a gain nor a loss arises.

Losses can be transferred between group companies due to the relationship that exists. So all of the Vixen loss can be transferred to either Donner plc or Dancer Ltd.

Brought forward trading losses can be offset against future trading profits and following such a claim, any brought forward loss not used can be surrendered as group relief as the losses arose in the years ended 30 June 2021 and 2022. Hence the brought forward loss in Donner plc will first be set against its profits and the surplus surrendered to Dancer Ltd.

No restriction arises as the total brought forward losses being offset across the group do not exceed £5million, but a deductions allowance nomination must be completed to support the claims.

	Donner plc	Dancer Ltd	Vixen Ltd
	£'000	£'000	£'000
Trading result	1,000	3,000	(1,500)
Brought forward loss	(1,000)	-	-
Group relief – brought forward loss	-	(500)	-
Group relief – current period loss	-	(1,500)	1,500
Total	£nil	£1,000	£nil

Option 2

The share capital of Vixen Ltd will be owned by two UK companies who each own at least 5% of the share capital and in total hold more than 75%. Vixen Ltd is therefore a consortium company and Donner plc and DP Ltd are the consortium members.

Vixen Ltd is not a member of a chargeable gains group with Donner plc and Dancer Ltd as the shareholding is 65%, below the 75% required. A chargeable gain will therefore arise on the transfer of the warehouse. At the time of the original transfer, this would have been deemed to take place at such a value so no gain or loss accrued – i.e., the original cost-plus indexation to the date of transfer.

	£'000	£'000
Deemed proceeds (market value)		7,500
Cost (original cost when acquired by Dancer Ltd)	5,000	
Less rolled over gain	(250)	
	4,750	
Indexation to date of intra group transfer (Jan 2005 to March 2009) (188.9-211.3) (0.119)	565	
		(5,315)
		2,185
Less indexation (March 2009 to December 2017) (211.3 – 278.1) (0.316)		(1,680)
Chargeable gain		£505

Losses can be surrendered, in either direction, between a consortium member and the consortium company. Donner plc is a link company as it is a member of a consortium and a member of a group, meaning that Dancer Ltd can also claim consortium relief.

The maximum loss that can be claimed by Doner plc (or Dancer Ltd) is the lower of:

- Available profits
- Members % holding x consortium company loss

As a result, only 65% of the loss is available to the Donner group (£975,000)

	Donner plc	Dancer Ltd	Vixen Ltd
	£'000	£'000	£'000
Trading result	1,000	3,000	(1,500)
Brought forward loss	(1,000)		
Chargeable gain	505		
Brought forward capital loss	(100)		
Group relief – brought forward loss		(500)	
Consortium relief – current period loss		(975)	975
Carried forward/claimed by DP Ltd			525
Total taxable profits	£405	£1,525	£nil

Conclusion

From a direct tax perspective, more tax will be payable within the Donner plc group under Option 2. This is because the gain is taxable on the transfer of the warehouse – but a higher base cost will therefore be available on a subsequent sale – and not all the trading losses can be utilised. However, these losses will either be utilised when Vixen Ltd is profitable or utilised by the joint venture partner, so ultimately full relief will be available.

MARKING GUIDE

TOPIC	MARKS
Option 1	
Identify group structure	1.0
Warehouse transfer NGNL	1.0
Group relief available for all losses	1.0
First offset of brought forward trading losses	1.0
Claim to surrender brought forward trading losses	1.0
Below £5million so no restriction	1.0
Deductions allowance nomination statement required	0.5
Tabulate position - £1m taxable	1.0
Option 2	
Recognise consortium structure	1.0
Explain members	1.0
No CGT group so gain arises	1.0
Explain original transfer NGNL	1.0
Identify deemed cost	1.0
Correct indexation and final gain	1.0
Consortium loss surrender	1.0
Link companies	1.0
Explain restriction	1.0
£975k can be surrendered	1.0
Donner plc results	0.5
Dancer results	0.5
Vixen use of losses	0.5
Comparison including acknowledgement of impact on base cost	1.0
TOTAL	**20.0**

ANSWER 6

Stevenson Investments plc is a company with investment business. Management expenses are therefore deductible when calculating the taxable profits of the company.

Costs must be incurred in respect of the company's investment business. Tax relief will be available as a management expense for the initial due diligence costs. In accordance with the ruling in *Camas v Atkinson* such activities form part of the process of managerial decision making.

Once the decision has been made as to which company is to be purchased, the costs incurred will be capital costs, associated with the acquisition rather than the decision-making process. Hence no tax relief will be available at the time of the acquisition for the solicitors' costs.

Similarly, expenditure incurred after the purchase cannot be an expense of management but is an integral part of the price (*Capital and National Trust Ltd v Golder*). Hence no immediate tax relief will be available for the consideration for the shares or the associated Stamp Duty of £100,000 (0.5% of the purchase price of £20 million).

To the extent that a chargeable gain or loss arises and is not exempted through the Substantial Shareholdings Exemption, tax relief will be available for these capital costs when the shareholding is sold.

The loan arrangement fee of £100,000 represents a cost of raising loan finance and is not therefore a management expense. This will be deductible as a non-trading loan relationship expense, deductible as it is charged in the company's accounts provided that the accounts are prepared in accordance with the appropriate accounting standards. If it is capitalised and amortised over the life of the loan, the amortisation expense of £20,000 per annum will be deductible each year.

The annual interest charge on the loan (£500,000) will also be deductible as a non-trading loan relationship debit as it is expensed in the accounts.

The compensation for loss of office paid to the former directors may not be eligible for tax relief due to potential duality of purpose. *James Snook and Co v Blasdale* concluded that the resignation of the directors occurring at the same time as a share sale placed the onus on the company to prove that one was unconnected with the other. The reason for the resignation and the degree of connection with the share transaction would therefore need to be considered carefully.

The retention bonuses will be deductible for tax purposes in the company making the payment (Target Ltd), but only when they are paid as staff costs are not eligible for tax relief when accrued if they are not paid within nine months of the end of the accounting period. Hence relief will be available for the initial payment of £100,000 in the period of acquisition, but the balance will not be deductible until it is paid.

MARKING GUIDE

TOPIC	MARKS
Company with investment business – relief for management expenses	1.0
Due diligence deductible, ref Camas, decision making	1.5
Solicitors' costs capital, acquisition not change	1.0
Stamp duty of 0.5%, £100,000 not deductible, Capital and National Trust v Golder	1.5
Capital costs deductible in CGT on disposal	0.5
Loan arrangement fee of £100,000, NTLRD, deductible as charged in accounts, annual amortisation	1.5
Interest £500,000 NTLRD, deductible as charged in accounts	1.0
Compensation for loss of office linked so potentially non-deductible, James Snook	1.0
Retention bonuses deductible as paid, not as accrued	1.0
TOTAL	**10.0**