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

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Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**572**	**2671**	**3207**
Section 2	**772**	**3525**	**4226**
Section 3	**682**	**3188**	**3848**
Section 4	**909**	**4445**	**5224**
Section 5	**1042**	**4995**	**6029**
Section 6	**535**	**2357**	**2886**
Total	**4512**	**21181**	**25420**

Answer-to-Question-_1_

For UK corporation tax (CT) purposes, Durbad plc, Capey Ltd and Porty Ltd will from a capital gains (CG) group. As these are wholly owned subsidiaries, they exceed the threshold which requires the parent company to directly own at least 75% of the ordinary share capital. As Durbad plc only owns 50% of the ordinary share capital of East Ltd, it will not be part of the CG group described above.

Durbad: The gain of £900,000 was eligible for holdover relief as it was against expenditure of a depreciating asset, the 20 year lease since this has an expected life of under 60 years. This means the heldover will crystallise on earlier of the following events:

- If the lease is disposed of/sold
- If the lease is ceases to be used in the group's trade
- 10 years following the acquisition of the depreciating asset (31 January 2024)

Given the lease is stated to be used in the group's trade and there is no planned disposal, the heldover gain must be set off against the cost of a depreciating asset purchased within the CG group before 31 January 2024. The heldover gain can be offset against the freehold building purchased by Durbad plc on 31 July 2022 meaning the base cost will be reduced to: 900,000 - 900,000 = Nil

There will be chargeable gains arising on the disposals of Restaurant A and Coffee Shop A:

	Notes	Working		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)	
Gain				1,450,000	1,200,000	

For a group rollover claim to take place, the assets sold and acquired must be used for trade purposes and the acquisition of the new assets must take place within the time period of 12 months before or within 36 month after the date of disposal. Therefore the acquisition of the freehold building on 30 March 2024 falls into the time period. The rollover relief/provisional claim would need to be submitted by 31 March 2028. The total proceeds from the two disposals would be: 2,550,000
+ 2,000,000 = £4,550,000

The chargeable amount will be the proceeds not reinvested in the acquisition of the freehold purchased by Durbad , 7 year lease purchased by Capey Ltd and equipment purchased by Porty Ltd.

4,550,000 - 500,000 - 550,000 - 250,000 = £3,250,000

This would be the total amount chargeable to UK CT for the year ended 2024.

The gain available to be offset would therefore be:

Base cost of 30 March 24 building

Capey Ltd: The acquisition of the 7 year lease is a depreciating asset as it has a useful life under 60 years. Given Capey Ltd intends to buy a non-depreciating asset on 1 Novembet 2026, the gain on the acquisition of the lease can be held over and offset against the freehold purchased on 1 November 2026.

Holdover gain

Porty Ltd: Both the beer pumping equipment and the 15 year lease are depreciating assets with useful lives under 60 years, therefore there can be no holdover relief but only rollover relief against the beer pumping equipment.

Beer pumping equipment

East Ltd: Although East Ltd has acquired a non-depreciating asset, the freehold building from a third party to be used in its trade, it will not be eligible for a group rollover relief claim as it is not part of a CG group with the other companies above.

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

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

Answer-to-Question-_2_

For UK corporation tax (CT) purposes, a group relief (GR) group can be formed if Dallan plc owns at least 75% of the ordinary share capital of its subsidiaries either directly or indirectly. Therefore, the companies forming a GR group would be Dallan plc, Austin Ltd, Howston Ltd, Bolding Ltd, Amarillon Ltd, Fromex Ltd. Dallan plc should be entitled to:

- At least 75% of the distributable profits available to equity holders
- At least 75% of the assets available to equity holders on a winding up basis

An equity holder are those who own ordinary shares or those who are creditors of uncommercial loans.

A consortium company (CC) is where at least 75% of the ordinary share capital is held by companies known as consortium members (CM). Each CM should own at least 5% of the ordinary share capital but not own more than 75%. With this in mind, Lubbock Ltd is a CC with Austin Ltd being a CM, Wacer Ltd is a CC with Howston Ltd being a CM.

Austin Ltd will only be able to obtain consortium relief from Lubbock Ltd from 31 March 2023 onwards, when the acquisition was completed.

Howston Ltd will fall out of the GR group after 31 August 2023 as arrangements were in place for the sale of the company, being the conditional contract.

Bolding Ltd will fall out of the GR group from 30 June 2022, as it was put into liquidation, however it would still be part of the capital gains group.

Hellenic SA will not form part of the GR group as although it is a dual resident company, its losses arise due to activities which take place outside of the UK, being property investment activities in Greece.

Finez Ltd is not part of the GR group as it is held through the Greece tax resident entity. In addition, the third-party investor is an equity holder due to owning ordinary shares and preference shares with fixed dividends are issued tro Hellenic SA meaning the indirect shareholding Dallan plc has could be diluted.

Alpine plc is not a CC as although Amarillon Ltd owns 50% of the ordinary shares, the remaining 50% is by an individual shareholder (not company) and a US company which is not within the scope of UK CT.

y/e 31 Dec 22	Dallan plc	Austin Ltd	Howston Ltd	Amarillon Ltd	Fromex Ltd	
	£	£	£	£	£	
Total profits / (loss)	2,000,000	(300,000)	500,000	(5,000,000)	600,000	
Consortium relief to Wacer Ltd via Howston Ltd				37,500		
CY group reliefrom Austin Ltd		150,000	(150,000)			
CY group relief from Amarillon Ltd	(2,000,000)		(350,000)	(2,950,000)	(600,000)	
Total Profits / (loss)	Nil	(150,000)	Nil	(2,012,500)	Nil	

Given Austin Ltd, has a different year end date of 30 June, the group relief must be apportioned for the overlapping time period being 1 July 2022 - 31 December 2022, time period being 6 months.

However, it is stated the priority must be given to consortium relief. Therefore we must consider losses between Howston Ltd and Wacer Ltd.
Wacer Ltd has a year end of 31 March 2022, meaning it has a 3 month overlap with Howston Ltd. Both companies had a profit but Howston Ltd is a link company since it is a CM and is part of a GR group. Therefore it could obtain group relief of: 75% * 200,000 * 3/12 = £37,500 from Amarillon Ltd.

Current year group relief should now be sought with there being no restrictions, apart from needing to time apportion with Austin Ltd for 6 month. The loss available to group relief would be: 300,000 * 6/12 = £150,000.

y/e 31 Dec 23	Dallan plc	Austin Ltd	Howston Ltd	Amarillon Ltd	Fromex Ltd	
Total profits / (loss)	2,500,000	(600,000)	(700,000)	(500,000)	(700,000)	
Consortium relief		(125,000)				

from Lubbock Ltd						

Once again consortium relief would take priority and we must first consider Austin Ltd and Lubbock Ltd. They are both lossing making so Lubbock Ltd can transfer 3 months of losses (from 1 April 2023 - 30 June 2023) for Austin Ltd to use in its group: 500,000 * 3/12 = £125,000

The consortium relief between Howson Ltd and Wacer Ltd is available for the overlapping 3 months. This will be the lower of:

Howston Ltd losses: 700,000 * 3/12 = £175,000

Wacer CM profits: 300,000 * 75% * 3/12 = £56,250

Howston can only group relief 8 months of its losses before it falls out the GR group due to arrangements of sale: 700,000 * 8/12 = £466,667

CY group relief is available from Amarillon Ltd, and 6 months of Austin Ltd losses: £300,000.

Brought forwards

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

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

Answer-to-Question-_3_

For UK corporation tax (CT) purposes all the companies form a capital gains (CG) group aside from Hobert SA as it is not within the scope of UK CT being tax resident overseas. The remaining UK companies meet the threshold required to form a CG group as Parthy plc must directly own at least 75% of the ordinary share capital or indirectly own at least 51% of the ordinary share capital, thresholds met as all UK companies are wholly owned subsidiaries.

Sednoy Ltd is an investment company and therefore the SSE rules will no apply (as detailed below in Durwine Ltd section). The listed shares would have transferred tax-neutrally at no gain no loss (NGNL) since both Sednoy Ltd and Parthy plc are within the scope of UK CT and in the same CG group. The shares would have transferred at the base cost of £10 million and the market value (MV) of £30 million can be ignored. The chargeable gain on the disposal of Sednoy Ltd shares can be calculated as follows:

Gain on sale of Sednoy Ltd	Notes	Working		£		
Proceeds				20,000,000		
Cost				(70,000,000)		
Indexation	Indexation cannot increase a loss					
Gain				(50,000,000)		

Given a capital loss arose on the sale of the shares and the SSE does not apply, we must consider if the depreciatory transaction (DT) or value shifting (VS) rules apply. Given there are multiple arrangements to try and reduce the chargeable gain on the share disposal and avoid/seek to reduce UK CT, the VS rules will apply. The dividend from pre-acqusition reserves and the difference between the base cost and MV of the listed shares will be used to reduce the capital loss: -50,000,000 + 40,000,000 + (30,000,000 - 10,000,000) = **£10 million chargeable gain**.

Melburk Ltd is an investment company and therefore the SSE would not apply. The properties would have transferred at the base cost at NGNL given Melburk Ltd and Bune Ltd are in the same CG group (MV can be gnored). No degrouping charge on Parthy plc as although the shares of Bune Ltd are being disposed of within 6 years of the NGNL transfer, both the transferor and the transferee are leaving the CG group at the same time. However, the stamp duty land tax will still be due on the market value of the property on the date of transfer.

A chargeable gain arise of: 75,000,000 - 30,000,000 = £45 milllion. However, this will be increased by the dividend paid up to Parthy plc as the VS rules apply meaning the chargeable gain is now £90 million. The interest payable on the loan for Bune Ltd could be disallowed under the unallowable purpose rules as it would be classed as a circular transaction with no commercial justification and a motive to avoid/reduce UK tax charges.

Hobert SA is an investment company and as a result the SSE does not apply on the disposal of its shares by Parthy plc (as detailed below in Durwine Ltd section). The chargeable gain on disposal of its shares would be: 15,000,000 - 10,000,000 = £5 million. However, given dividends were paid out from pre-acquisition reserves, this would mean VS rules would be in place as Parthy plc had tax avoidance as one of its main purposes. Therefore the **chargeable gain** would be increase to: 5,000,000 + 5,000,000 = **£10 million**

Durwine Ltd: On the disposal of Durwine Ltd to a third party, the substantial shareholding exemption (SSE) must be considered on disposal. The conditions that are required include:

- Parthy plc must have held at least 10% of the ordinary share capital for a continuous 12 month period within the last 6 years

- Durwin Ltd must have been a trading company or holding company of a trading subgroup

Both these conditions have been met as Parthy plc has wholly owned Durwin Ltd since April 2018 and Durwine Ltd has been a trading company since it was incorporate. Therefore the chargeable gain arising on disposal will be exempt from UK CT. DT and VS rules are not applicable in transactions where the SSE applies.

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

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

Answer-to-Question-_4_

The accounting period (AP) for Danchar Ltd runs from 1 July 2023 - 30 June 2024.

y/e 20 June 2024	Notes	Working		£	£	
Profit before tax					19,752,000	
Add back:						
Depreciation	1				4,000,000	
Loss on disposal of plant	1				1,000,000	
Director bonuses	1				500,000	
Gifts to customers	1				50,000	
Donation to UK charity	1				50,000	
Impairments	1				2,000,000	
Interest payable	2				1,500,000	
Deduct:						

Other income	3				(1,000,000)	
NTLR debits	2				(1,500,000)	
Capital allownaces	4				(10,154,500)	
Total profits					16,497,500	
QCD	1				(50,000)	
Total taxable profits					16,447,500	
CT @ 25%					**4,111,875**	

Note 1: The depreciation is added back as it is a disallowable capital expense.

The accounting loss on the plant will be added back and the sales proceeds will be deducted in the capital allowances (CA) computation. The sales proceeds can be calculated as:

Sales Proceeds = Loss on disposal + Net book value

-1,000,000 + 1,500,000 = £500,000

Corporation tax (CT) relief is available for accrued bonuses if they are paid within 9 months of the end of the AP, in this case 31 March 2025. Therefore, the bonuses payable on 1 May 2025 of £500,000 (1,500,000/3) would be disallowed and added back. The bonuses relating to the prior AP would have been deductible in the CT computation of the prior AP.

Staff entertainment is allowable CT expenditure.

As the gifts were food or drink, in this case whisky, the expenditure is added back as it is disallowable.

The donation to a UK charity is added back and then deducted after total profits as a qualifying charitable donation (QCD) as a separate line item.

The impairment regarding the customer is allowed as a CT deduction as it is an unconnected party of Danchar Ltd.

The impairment of £2 million is disallowed and added back as impairments on loans between connected parties means there is no CT deduction and corresponding taxable income allowed. These two companies are connected parties as they are fellow subsidiary compnies.

Note 2: Given half the interest payable relates to funding the purchasing of new equipment, this will be an allowable CT deduction as it is incurred wholly and exclusively for the purposes of the trade. However, the interest payable on the investment is disallowed and added back as it is capital expenditure. It will be deducted as a non-trading loan relationship (NTLR) debit and these will be pooled together with the NTLR credits.

Note 3: The dividends received from Taycroft Ltd will be exempt from UK CT (deducted in CT computation) as it will fall under the portfolio holdings exemption as Danchar Ltd holds less than 10% of the ordinary share capital.

Note 4: Given no other company in the Danchar group claims CAs, this will mean the full annual investment allowance (AIA) of £1 million is available for use. The first year allowances (FYA) rates for this AP will be 100% for general pool assets and 50% for special rate pool assets.

The £5 million expenditure machinery woud qualify for the 100% FYA as it is assumed it was purhcased new. In addition, the £1 million incidental expenditure which was required to install the machinery is also eligible for the 100% FYA.

The £3 million spent on integral features would be special rate pool items, which should be prioritised to claim the AIA before the FYA of 50% as there will be no balancing charge on disposal.

The £1.25 million spent on the fleet of vans would be eligible for the 100% FYA.

The £500,000 spent on the zero emission new cars would also be eligible for the 100%

FYA. This is in addition to the balancing charge on disposal of the plant as this was purchased in September 2021 and assumption is the super deduction of 130% would have been claimed.

The new car with CO2 emissions of 160g/km would fall into the special rate pool (SRP) and claim writing down allowances (WDA) of 6%.

	AIA 100%	FYA 100%	FYA 50%	General Pool	Special rate pool	Total CAs claimed
	£	£	£	£	£	£
TWDV b/f				2,000,000	1,500,000	
Additions:						
Machinery		5,000,000				
Aleterations		1,000,000				
Integral features	1,000,000		2,000,000			
Vans		1,250,000				
Zero emission cars		500,000				
High emission car					75,000	
Disposals:						
Plant						500,000 * 100% = **(500,000)**
Total	1,000,000	7,750,000	2,000,000	2,000,000	1,575,000	

AIA @ 100%	(1,000,000)					1,000,000
FYA @ 100%		(7,750,000)				7,750,000
FYA @ 50%			(1,000,000)			1,000,000
WDA @ 18%				(360,000)		360,000
WDA @ 6%					(94,500)	94,500
Transfer to SRP					1,000,000	
TWDV c/f				1,640,000	2,480,500	
Total						**10,154,500**
						Includes deduction of balancing charges

<u>Requirement 2:</u>

There would be a balancing charge of 100% on the disposal of some of these cars at the lower of sales proceeds or original cost, in this case sales proceeds of £150,000. This means the balancing charge would equal 150,000 * 100% = £150,000 and this would be added to the CT computation as taxable income to increase the total taxable profits. The integral features disposal is also going to create a balancing charge which would be calculated as 50% * 3,000,000 = £1.5 million. This £1.5 million would be added to the CT computation as taxable income to increase total taxable profits. The remaining £1.5 million would be deducted from the special rate pool in the CA computation before the WDA of 6% can be claimed. Within the income statement, the disposals proceeds and depreciation would be deducted. The depreciation would be calculated as:

Cars = 250,000 * 20% = £50,000

Integral features = 3,000,000 * 10% = £300,000

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

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

Answer-to-Question-_5_

Given Jabert Ltd is being acquired by an overseas parent company it is prudent to note that any dividends paid up will have no withholding tax (WHT) applied and it can be paid gross.

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Given Jabert Ltd had no related 51% associated companies pre acqusition, it must now be considered whether it will be required to pay its corporation tax (CT) via quarterly instalment payments (QIPs). Jabert Ltd is likely to be very large for the QIPS regime as Curtis Inc is a diverse multi-national group with many subsidiaries. Therefore, Jabert Ltd would likely pay QIPS (CT in four equal instalments) under the very large regime as the £20 million threshold for being deemed very large would be divided by the number of related 51% associated companies and this would include overseas associated companies. However, this would only be applicable from the accounting period (AP) ending 31 December 2025 onwards. This is because as it was acquired on 1 July 2024, we must look back to the end of the previous AP to see how many associated companies Jabert Ltd had which was none. Therefore for FY24 it may need to pay QIPs under the large regime but an exemption will apply if FY24 if the first time Jabert Ltd is large and its augemented profits are under £10 million. However, from the AP ending 31 December 2025 onwards, it will be considered very large for UK CT payments and the QIPs dates will be as follows:

- 14 March 2025
- 14 June 2025
- 14 September 2025
- 14 December 2025

Given the acquisition is by an overseas parent company, transfer pricing (TP) will need to be heavily considered especially since Jabert Ltd is not currently inclduded in the Curtis group TP policy. TP is important as Curtis Inc and Jabert Ltd are connected parties as one is the wholly owned subsidiary of the other and Curtis Inc will be participating in the management and control of Jabert Ltd. Any products or services provided as an intercompany transaction will need to be at an arm's length rate, that being the rate that would have been provided by an external third party. If an arm's length rate is not used, HMRC can make an adjustment to the CT computation (no accounting statements) which can either increase taxable income or disallow a CT deduction. Therefore, robust documentation must be in place which means including Jabert Ltd in the master file and having a local file for the UK. The master fike includes the group strucutre and global TP policy whereas the local file will contain the TP policy for the UK and intercompany transactions which the UK entities take part in. This also includes Country by Country reporting for the UK as the global turnover is exceeding the threshold of €750 milllion.

Focusing more on the provision of management servicess from Curtis Inc to Jabert Ltd a TP methodology must be used to determine the appropraite arm's length price. The UK legislation states to use the OECD TP methods with the transaction methods more favourable as they involve an arm's legnth rate. A comparability/functional analysis must be undertaken to determine the best method. Usually the comparable uncontrolled pricing (CUP) method is the most objective method determined by the OECD as it involves pricing an intercompany transaction at the price between a similar transaction taking place between two unconnected parties. However, in this case the CUP would not be advisable given there is no comparable transaction to the unique management services Curtis Inc are going to provide and therefore the cost plus method must be considered. The cost plus method involves adding a mark up to the cost in order to account for the functions performed, assets used and risks in place. A benchmarking study is undertaken to determine an applicable mark up. The cost plus method is the most applicable as there is minimal risk in Jabert Ltd with all the risks sitting in Curtis Inc. An example of using the cost plus method would be to get the total cost of the management services provided by Curtis Inc worldwide and apportion them to each subsidiary based on either revenue or employee headcount.

In addition, Jabert Ltd should seek to put in place a bilateral Advanced Pricing Agreement with HMRC which would mean clearance is sought in advance for TP methodologies to be applied to complex transactions. They will typically last for around 3-5 years and will decrease the likelihood of HMRC making a TP adjustment in the CT computation. If there is a DTT between the UK and the US then the bilateral APA should also include a mutual agreement procedure (MAP).

The licensing system which will be put in place bewteen Curtis Inc and Jabert Ltd means the Jabert Ltd will be paying royalties to Curtis Inc for the use of the license. UK legislation states that 20% WHT must be applied on the payments of these royalties. The royalties if incurred wholly and exclusively for trade will be accrued in the accounting period (AP) and allowable as a corporation tax (CT) deduction. Since there will be a WHT obligation, Jabert Ltd will need to file he CT61 quarterly throughout the AP to HMRC stating the amount of WHT applied. If there is a double tax treaty (DTT) in place between the US and the UK then the WHT obligations on the payment of the royalties will be reduced to 0% and Jabert Ltd will be able to pay the royalties gross.

If any loans are provided to Jabert Ltd from Curtis Inc WHT of 20% would need to be applied, and the WHT can be reduced to 10% if there is a DTT in place. The CT61 compliance requirements are the same as detailed above in the royalties section. As financing costs are currently £50,000 there will be no restriction of interest deductions under the corporate interest restriction (CIR) regime however, potential restrictions on interest deductibility will apply if interest payable exceeds the £2 million de minimis threshold.

The senior accounting officer regime and publication of tax strategy are not applicable as the UK does not have revenues of over £200 million or net assets above £2 billion.

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

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

Answer-to-Question-_6_

Currently SylMarc SA is tax resident in Gardania and is looking to expand its operations to the UK. A UK tax resident company it taxable on its worldwide income and gains and a non-resident UK company is taxable if it operates through a UK permanent establishment (PE). A UK PE could be established if either of the two following conditions are met:

- Fixed place of business in the UK with rights over the fixed place of business (not owned by a third party) and with a degree of permanace (more than 6 months)
- Dependant agents habitually conclude contracts on behalf of SylMarc SA in the UK

Based on the two conditions above, there is unlikely to be a UK PE arising as a result of a fixed place of business as SylMarc SA will have no rights of access over the serviced office accomodation if it is rented or leased from a third party. There is however, a potential risk of a UK PE arising if staff from Gardania habitually have the power to conclude the renewal of contracts. This will mean SylMarc SA is liable to UK corporation tax (CT) and will need to notify HMRC within the first 3 months of it being chargeable to UK CT or within 12 months of the end of its first accounting period (AP). If the serviced accomodation and renewal of contracts takes place in Gardania, then no UK PE will arise.

If a company was established, the UK legislation states that it will be UK tax resident if it is incorporated in the UK or it is centrally managed and controlled in the UK. Given there is a double tax treaty, in the event the company is considered dual resident (which could be the case as both jurisdictions will believe the company is controlled and managed in their own jurisdiction), the tie-breaker clause must be considered. This states the two competent authorities must come to a mutual agreement as to where the place of effective management (POEM) of the new company lies. The POEM is concluded using many factors such as the head office location, where key day to day decision are made and where the directors/senior managment is located. The POEM is likely to be in the UK if local UK personnel is recruited and key decision making takes place in the UK. Again if this is the case, it will need to notify HMRC within the first 3 months of it being chargeable to UK CT or within 12 months of the end of its first accounting period (AP). If the POEM is considered to be in Gardania then the company will not be liable to UK CT.

The penalty for failure to notify HMRC of chargeability to UK CT can range from 0% to 100% of the unpaid tax after 12 months from the end of the accounting period. This will be increased by 10% if it relates to offshore matters and can be reduced if there is a reasonable excuse. The penalty can also be reduced if an unprompted disclosure is made the quality of the disclosure is high such as providing HMRC with full access to the company accounts.