The Chartered Institute of Taxation

Awareness

Module C Corporation Tax

November 2021

Suggested solutions

25)

	Main	Special rate	Allowances	
	£	£	£	
Tax written down value brought forward	121,800	88,450		
Heating and air conditioning system		12,800		1 + 1*
Office furniture and equipment	15,020			1
	136,820	101,250		
Writing down allowance				
18%	(24,628)		24,628	1
6%		(6,075)	6,075	1
Tax written down value carried forward	112,192	95,175		
Maximum capital allowances			£30,703	

**For not including the roof repairs*

26)

1 – For a group relief group to exist, there must be a minimum 75% relationship directly and indirectly between the companies. The following groups exist:

AB Ltd, ARG Ltd, GEM Ltd and Sat Ltd	1
- LUC Ltd is owned <75% and Try Ltd is only indirectly owned 64%	
GEM Ltd and Try Ltd	1
LUC Ltd and Out Ltd	1

2- The maximum group relief must be calculated from 1 October 2020 only

Maximum surrender	6/12 x £300,000	£150,000	1
Maximum claim	6/12 x £250,000	£125,000	
Maximum group relief		£125,000	1

27)

		£	
Profit per the accounts		145,210	
Employer pension contributions	*Only deductible on paid basis*	9,000	1
Professional fees for lease	*Renewal so allowable*	-	1
Petty thefts by employee	*Employee so allowable*	-	1
Lease costs	*High CO_2 so 15% addback*	900	1
	No private use adjustment		1
		£155,110	

28)

1) The shares are not a qualifying asset for rollover relief as they do not fall within any of the classes of asset set out in the legislation but the 35-year lease is a qualifying asset. 1

For full deferral of the £245,000 gain to be possible, all of the £500,000 proceeds would need to be reinvested. Blaur plc has only invested £320,000 in a qualifying replacement which means some of the original gain will remain chargeable in February 2019. 1

The amount chargeable will be £180,000 (£500,000 – £320,000) which means only £65,000 of the gain can be deferred. 1

The newly constructed warehouse will not be a qualifying asset because it will be bought outside of the specified period (being 1 year before and 3 years after the date that the factory was sold) 1

2) As the replacement asset is a depreciating asset (life less than 60 years) holdover relief is being claimed which <u>does not affect the base cost</u> of the replacement asset (i.e. this remains £320,000). 1

29)

			£	
Property income	Accrued amount for year	£750 x 12	9,000	1
	Roof repair		(880)	1
	Insurance expense	6/12 x £480 + 6/12 x £390	(435)	1
	Taxable income		£7,685	
NTLR	Credit: Interest receivable	£4,120 – £920 + £1,050	4,250	1
	Debit: Mortgage interest paid		(2,850)	1
	NTLR credit		£1,400	

30)

		£	
Proceeds		420,000	
Original cost	£35,000 + £2,100 incidental costs	(37,100)	1
Extension		(52,000)	
Structural repairs		(12,000)	
Unindexed gain		318,900	1
Indexation allowances			
Original cost	278.1 – 128.1 / 128.1 = 1.171 x £37,100	(43,444)	2*
Extension	278.1 – 225.3 / 225.3 = 0.234 x £52,000	(12,168)	1
Structural repairs	N/A as paid after December 2017	-	
Chargeable gain		£263,288	

**1 mark for indexing correctly based on a factor (rounded to 3dp) x cost, 1 mark for indexing to December 2017 only*

31)

Capital losses can only be set off <u>against capital gains</u>, either of the same accounting period or carried forward and offset against future gains as they arise. 1

Redgoe Ltd and Purplepie Ltd are in a <u>capital gains group</u> (as there is more than a 75% direct relationship between them), which allows for other ways of making use of the capital losses. 1

The current year capital <u>loss in Purplepie Ltd</u> of £30,000 could be transferred to Redgoe Ltd and offset against the £530,000 capital gain. 1

Alternatively, Redgoe Ltd <u>could transfer part of the £530,000 gain to Purplepie Ltd</u> (after <u>leaving enough to make use of its' own brought forward capital loss</u>). 2*

The effect is that the net gain after deducting both the brought forward loss in Redgoe Ltd and the current year loss in Purplepie Ltd can be chargeable as <u>part of the Taxable Total Profits of either company</u>. They will both pay tax at the same rate, but as only Redgoe Ltd is a large company for the purposes of paying their Corporation Tax, it may be advantageous to transfer the net gain to Purplepie Ltd, which will still pay tax nine months and one day after the accounting period rather than by instalments. 1

Max 5

**1 mark for recognising option to transfer gain (all/part), 1 mark for having to set off own b/f loss first*

32)

The 16 month period would be split into two accounting periods, the first covering the 12 months to 30 April 2021 and the second the other four months to 31 August 2021, but the Company Tax returns for both will be due for filing by 31 August 2022. 1 mark

As the company was large in the previous year and will be large for both of these periods, the Corporation Tax will need to be paid by quarterly instalments.

For the 12-month accounting period to 30 April 2021, the instalments will be payable in four equal instalments on: 2 marks *

- 14 November 2020
- 14 February 2021
- 14 May 2021
- 14 August 2021

For the 4-month accounting period to 31 August 2021, the instalments will be payable on:

- 14 November 2021 1 mark
- 14 December 2021 1 mark

**These will be split as 1 mark for using 14th for each instalment, the other for the correct quarterly dates*

33)

		UK trade	PE 1	PE 2	
		£	£	£	
Profits		630,000	155,000	195,000	
QCD paid		(5,000)			1
TTP		625,000	155,000	195,000	
UK CT @ 19%		118,750	29,450	37,050	1
DTR: Lower of:					1*
UK				(37,050)	1*
Overseas			(15,500)		1*
CT payable	£132,700	118,750	13,950	nil	

** If not entirely correct marks to be awarded: 1 mark for "lower of", 1 mark for deducting from CT liability and 1 mark for calculating for each overseas branch independently*

34)

The loan is outstanding in full at 31 December 2020 and exceeds £15,000 so falls within the scope of s455. However, the first repayment made by Alexander on 1 September 2021 is within nine months and 1 day of the year-end and can therefore be taken into account in calculating the tax. 1

The amount payable is £22,750 (£70,000 x 32.5%) and is due along with the company's usual 1
Corporation Tax payment on 1 October 2021. 1

The intended repayment in December 2021 will not affect the amount payable on 1 October 2021 but once repaid, Snowly Ltd can claim some of the tax back. This will be for the £20,000 repaid only at the same 32.5% rate resulting in a repayment due to the company of £6,500. 1

However, this is not due to be repaid to the company until the normal Corporation Tax due date for the accounting period in which the repayment of the loan is made (year ended 31 December 2021) so is not due back to the company until 1 October 2022. 1

35)

		£	
Year ended 31 July 2020	Trade loss	192,000	
Current year claim	Set against total profits including gains before QCD	(16,500)	1 + 1
Carry back claim	AFTER current year, offset total profits	(88,000)	1
		87,500	
Carried forward	Year ended 31 July 2021		
	Set against total profits (losses post 1/4/17)		1
	But partial claim allowed so restricted to:	(30,300)	1
Unrelieved loss c/fwd		£57,200	

36)

Only corporate shareholders are subject to any CFC charge so the share of profits attributable to Mr and Mrs Smart will not be subject to tax. 1

Only corporate shareholders with a holding of at least 25% suffer the charge so K Ltd will not have any CFC charge. 1

For R Ltd, its share of profits will be subject to tax at the usual 19% rate less any creditable tax.

The charge will be:

£88,000 x 45% x 19%	7,524	1
Creditable tax £14,000 x 45%	(6,300)	1
Payable	£1,224	

The CFC charge will be added to the normal Corporation Tax payable on the company's other taxable profits.

1