

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Larger Companies and Groups

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax adviser at Tax Partners LLP, with long-standing clients, the Bersea group.

Your tax partner, Allen Linford, recently attended a meeting with Janice Lock, the Bersea group’s Head of Tax (**EXHIBIT A**). Janice explained that the Bersea group intends to expand into a new market that has been identified as profitable and set out some background to the proposed new venture. She has asked your firm for tax advice on the proposals.

Bersea Ltd’s finance team have provided your firm with further information relating to the new venture (**EXHIBIT B**).

The following exhibits are provided to assist you:

EXHIBIT A: Notes of meeting between Janice Lock and Allen Linford

EXHIBIT B: Further information relating to the proposed new venture

EXHIBIT C: Pre-seen information

Requirement:

Write a report to the Board of Bersea Ltd explaining the tax issues arising from the proposed new venture and advising on how best to deal with these.

Continued

EXHIBIT A

Notes of meeting between Janice Lock and Allen Linford

Date: 23 October 2025

Present: Janice Lock (Head of Tax, Bersea group)
Allen Linford (Tax Partner, Tax Partners LLP)

Reason for meeting

Janice explained that Bersea Ltd’s management team have decided the group should enter the profitable market for branded premium cosmetics.

They propose to launch a range of premium skincare products that will be sold under Bersea’s brand name. As part of the product development, Bersea Ltd’s management team believe they will be able to develop a new anti-aging ingredient that will be more effective than any existing skincare compound. They expect that the ingredient will be patentable.

Bersea Ltd’s management team are considering how to implement the new venture.

1) Product development

The new skincare compound and premium product could be developed either by Bersea UK Ltd in the UK or by BZ Inc in Zevmark.

Development will involve laboratory work to make the active ingredient and design a skincare compound that includes the ingredient, with marketing and branding work to develop that compound into a saleable product. It is intended that all of this development work will be done by a single company.

2) Business model

The Bersea group could follow a licensing model under which it uses third parties based in the UK with which it already has a relationship to manufacture and distribute the new products, but under the brand name “Bersea”.

However, there could be advantages in an integrated model whereby the new skincare products are manufactured in-house, which would enable the group to earn greater profits and have greater control over quality.

If an integrated model is pursued, Bersea Ltd would purchase 100% of the shares in Estcon BV for £100 million in December 2025. Estcon BV is an independent manufacturing company based in a foreign country, Estmark. Estcon BV currently manufactures cosmetic products solely for third parties, with annual revenues of £500 million and operating profits of £25 million. The board has held preliminary discussions about acquiring it because of its spare capacity to manufacture additional products. Bersea’s management have determined that the cost of purchasing Estcon BV, including the costs of servicing that investment, could be recovered in approximately five years from the Estcon BV’s profits after tax from its existing activities, so that over a five-year period there is no net cost to the group.

If Estcon BV is purchased, the Bersea company carrying out the development work (either Bersea UK Ltd or BZ Inc) would make the skincare compound and product development know-how available to Estcon BV, which would manufacture the skincare products in addition to its existing activities. Estcon BV would be responsible for sourcing raw materials, managing stock and selling to third party distributors (as it does currently).

Continued

Existing Bersea group activities

Bersea Ltd’s management team expect Bersea UK Ltd and BZ Inc’s existing operations to generate the financial results set out below for the year ended 31 December 2025 and in future years.

	<u>Bersea UK Ltd</u>	<u>BZ Inc</u>
	£ million	£ million
Revenue	300	50
Service fee to BZ Inc	(50)	-
Operating costs	(70)	(10)
Development costs	(100)	(20)
Profit before tax	<u>80</u>	<u>20</u>
Tax	(20)	-
Net profit	<u>60</u>	<u>20</u>

Janice explained that Bersea Ltd’s management team would like to understand:

- 1) the tax implications of each of the two possible business models for implementing the new venture (including the tax incentives and reliefs that might be available, and compliance burdens);
- 2) whether those implications differ according to where the product is developed; and
- 3) the likelihood of the new arrangements being challenged by tax authorities, and how that might be reduced.

Janice said that we do not need to advise on the implications of how the new venture might be funded.

EXHIBIT B

Further information relating to the proposed new venture

Set-up costs

The total expected costs to establish the proposed new venture are as follows:

	<u>£ million</u>
<u>Product development</u>	
Staff costs	80
Consumable materials	20
<u>Marketing and brand development</u>	
Staff costs	25
Branding consultants	15
External market research	10
Total	<u>150</u>

These costs would be incurred during the years ended 31 December 2026 and 2027. They would be accounted for as a capitalised intangible fixed asset, and then amortised on a straight-line basis over five years.

Sales and profitability forecasts

The new products would be launched in January 2028 and sold in each of the five years ended 31 December 2028 to 31 December 2032.

- 1) Under the licensing business model, the Bersea group is forecast to record annual profits from the new products as follows:

	<u>Annual</u> £ million
Licence fee revenue	100
Operating costs	(30)
Amortisation of set-up costs	<u>(30)</u>
Operating profit	<u>40</u>

- 2) Under the integrated model, Estcon BV's annual revenues received from and costs payable to third parties relating to the new products are forecast to be as follows:

	<u>Annual</u> £ million
Product sales	600
Costs	<u>(480)</u>
Operating profit	<u>120</u>

These revenues and costs will be in addition to those from Estcon BV's existing activities.

The company that carries out the development work (either Bersea UK Ltd or BZ Inc) would incur costs of £60 million per annum under this model (the same as if it was a licensor under the licensing business model).

Continued

Tax information

Zevmark

If product development is undertaken in Zevmark, it will benefit from the corporate income tax exemption that applies to the economic free zone.

The government of Zevmark has stated it intends to maintain that exemption in the future and will not introduce any new top-up taxes.

Zevmark does not provide any other tax credits or reliefs.

Zevmark does not charge a withholding tax on dividends or royalties.

Estmark

The rate of corporate income tax in Estmark is 15%.

Estmark's corporate income tax rules apply the arm's length principle when pricing intra-group transactions.

Estmark does not charge a withholding tax on dividends but does charge a withholding tax of 10% on the gross amount of royalties paid by Estmark-resident companies.

Estmark has double taxation treaties with the UK and Zevmark, both of which follow the OECD Model Treaty.

Estcon BV is registered for VAT in Estmark. Estmark's VAT rules are the same as those in the UK.

Foreign Exchange

The GBP:EUR exchange rate is £1:€1.20

EXHIBIT C

Pre-seen information

Client name: The Bersea group

Parent company: Bersea Ltd

Year of incorporation: 1986

Country of incorporation and tax residence: UK

Ownership: Bersea Ltd has always been wholly owned by its founder, Elizabeth Bersea.

Board members: Elizabeth Bersea, Claire Carpenter, Andy Davids, Nigel Green

Total number of worldwide employees across the Bersea group: 1,800

Background and history

Bersea Ltd has been the parent company of the Bersea Group since it was incorporated in 1986. It is a holding company and does not conduct any trading activities. Its directors are responsible for the group's top-level management, including setting overall strategy. They are supported by a small head-office team that are employed by Bersea UK Ltd.

Bersea Ltd wholly owns two subsidiary companies: Bersea UK Ltd and BZ Inc.

Bersea UK Ltd

Tax residency: UK

Percentage of the group's global employee headcount: 85%

Activities

Since incorporation in 1986, it has operated in the beauty and personal care sector. It currently develops mid-market cosmetic products, which it licences to third parties based in the UK. The third parties are responsible for manufacturing the products using their own supply chains, and for marketing and distributing the products under their own brand names.

BZ Inc

Tax residency: Zevmark (Note)

Percentage of the group's global employee headcount: 15%

Activities

BZ Inc was incorporated in 2019 to establish a new product development centre. All the significant people functions relating to BZ Inc's activities are undertaken in Zevmark. Its only source of income is a service fee that it charges Bersea UK Ltd.

Note

Zevmark is a foreign country which has a double taxation treaty with the UK which follows the OECD Model Treaty. Zevmark's main rate of corporate income tax is 20%. However, all of BZ Inc's operations are located in a special economic free zone, which means that BZ Inc is wholly exempt from Zevmark corporate income tax.

Bersea Ltd and Bersea UK Ltd are registered as a VAT group in the UK, with Bersea UK Ltd as the representative member. BZ Inc is registered for VAT in Zevmark, which has VAT rules that are the same as those in the UK.

All companies prepare accounts under IFRS to 31 December each year. Bersea Ltd prepares consolidated accounts under IFRS.

Recent developments

Bersea Ltd’s board have recently been involved in preliminary discussions about purchasing an overseas company. If the purchase proceeds, the group’s combined revenues would exceed €750 million.

Financial information for the Bersea group

Consolidated income statement of Bersea Ltd.

	<u>Year ended</u> <u>31.12.2024</u> £ million	<u>Year ended</u> <u>31.12.2023</u> £ million
Revenue	300	280
Operating costs	(80)	(70)
Development costs	(120)	(80)
Profit before tax	<u>100</u>	<u>130</u>
Tax	(20)	(25)
Net profit	<u>80</u>	<u>105</u>

Consolidated balance sheet of Bersea Ltd.

	<u>As at</u> <u>31.12.2023</u> £ million	<u>As at</u> <u>31.12.2024</u> £ million
Tangible fixed assets	170	180
Intangible fixed assets	260	240
Cash at bank and debtors	50	60
(Liabilities)	(40)	(60)
Net assets	<u>440</u>	<u>420</u>
Equity:		
Share capital	100	100
Retained earnings	340	320
Total equity	<u>440</u>	<u>420</u>

None of the companies in the Bersea group has any unutilised tax losses.