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

Event **NA**

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Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**879**	**4393**	**5226**
Section 2	**655**	**3032**	**3534**
Section 3	**510**	**2400**	**2854**
Section 4	**643**	**3141**	**3694**
Section 5	**767**	**3708**	**4350**
Section 6	**527**	**2320**	**2807**
Total	**3981**	**18994**	**22465**

Answer-to-Question-_1_

CFC status

The CFC legislation applies to prevent profit shifting to overseas low tax territories and are anti-avoidance in their nature. They apply to companies which are non-UK resident and controlled by UK persons.

If the rules apply, they serve to apportion any chargeable profits to UK companies which hold at least a 25% shareholding in the CFC. The relevant tax liability is added to the CT liability of the UK resident companies (Allroy Ltd) and is always chargeable at the main rate of corporation tax i.e. 25% (see below calculation for this group).

DTR may be creditable against any UK tax suffered, with the amount available being overseas tax paid.

Brands BV

The CFC rules apply to Brands BV as although only a 50% shareholding is held and therefore Allroy does not hold a controlling holding, a specific rule applies whereby although Allroy holds less than a controlling holding, a non-UK resident individual holds between a 40-55% shareholidng.

As the royalty income of Brands BV is wholly in relation to royalties which originate from a UK source and was part of an arrangement to reduce the UK effective tax rate, assuming no exemptions apply the full profits will be subject to UK tax under the 'profits attributable to UK activites gateway'.

The capital gain on disposal of investments will be exempted from UK tax as this will not pass through the gateway.

Amount apportioned to UK tax: £12,000,000

<u>Lender SARL</u>

The CFC rules apply to Lender SARL which is a non-UK resident company that is 100% controlled from the UK.

Various CFC exemptions may apply to exempt CFC profits from being chargeable to UK tax. These include:

- Exempt period exemption - exempts profits of newly acquired companies form apportionment for a 12 months period. Not applicable to Lender SARL as an existing sub.
- Excluded territories - None of the subsidiaries are on the excluded terrritories list and this therefore does not apply
- Low profits exemption - applies where taxable or accounting profits do not exceed £50,000 or do not exceed £500,000 where non-trade profits don't exceed £50,000.
- Low profit margin exemption - Applies where accounting profits do not exceed 10% of operating expenditure
- Tax exemption - applies where the overseas tax payable is at least 75% of the UK tax liability on the same profits.

For Lender SARL, it appears that none of the exemptions apply as it paid no overseas tax and generated significant profits with low operating expenditure.

Where no exemptions apply, the CFC gateways must be considered. For non-trade

finance profits, the gateway means that profits pass through and are subject to UK in the folliwng circumstances:
- Profits attributable to UK activities
- Profits arising from capital investment from the UK

It appears that both of these conditions apply. However, as £750,000 arose from loans to other CFCs also controlled by Allroy, they are classified as qualifying loan relationships. Therefore, 75% of the profits from these activities is exempt and only 25% remains chargeable to UK tax. 25% x £750,000 = £187,500 apportioned to Allroy.

In respect of the amounts arising from UK corporate bonds, these do not appear to be for a trade purpose and are attributable to UK activities. These will therefore be charged to UK tax in full.

Total apportionment: £187,500+£2,250,000 = £2,437,500

<u>Paints SA</u>

Paints SA is a CFc as it is a wholly owned foreign company controlled from the UK. As it was acquired in the year, the exempt period exemption applies whereby the group has a 12 month period to reorganise it affairs.

The reognisation should ensure that Paints SA remains a CFC in the following period but that no CFC charge arises. In the current period there is therefore no apportionment to UK tax.

<u>Markets AS</u>

As Markets SA carries out activities from its own territory of residence and own staff and premises, none of it's profits should be apporitonable. This is because even if non of the exemptions applied, the 'profts attributable to UK activities' gateway would exempt the profits by virtue of the subsidiary being commercially effective without UK involvement.

Thereofre no apportionment to UK tax is necessary.

Warranties AB

Warranties AB is a CFC as all of it's share capital is controlled from the UK by UK residents.

The tax exemption does not apply as the overseas tax paid is at a tax rate of 11.1%. The low profits and low profit margin exemptions do not apply as these are above the relevant thresholds.

As an insurance company, the applicable gateway applies to make chargeable to UK tax those profits attrvitale to UK contracts.

60% x £4,750,000 = £2,850,000

Other not applicable gateways - solo consolidation gateway (banking subs), trade finance profits (not applicable).

Total apportionemnt to Allroy: £12,000,000+£2,437,500+£2,850,000 = £17,287,500.

			£
Apportioned amount			17,287,500

UK tax	25%		4,321,875
Less: creditable overseas tax			(2,000,000)
UK CT payable in respect of CFCs			2,321,875

The apportionment to Allroy can be offset by any overseas taxes payable on the portion of the profits which are attrivbutable to the UK as shown above. Teh overseas tax suffered is £2m/£18m = 11.1%. This is lower than the UK tax of 25% and therefore the o/s tax paid is the credit against the UK laibility.

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

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

Answer-to-Question-_2_

CT Comp - y/e 31 Dec 24	Note		£
PBT			36,375
Impairment of Land	1		10,000
Bonuses	2		5,000
Depreciation	6		2,750
Loss on disposal	7		500
Employer pension contributions	3		1,000
R&D expenditure	4		1,320
Less: CAs	5		(3,043)
Tax adjusted trading profits			53,902
CT liability @ 25%			13,476
RDEC credit	4		(1,320)
CT payable			12,156

	Payments made	Payments due (CT payable/4)	Under/over payment
55,000 x 25% /4	3,438	3,039	399
55,000 x 25% /4	3,438	3,039	399
56,000 x 25% /4	3,500	3,039	461
53,000 x 25% /4	3,313	3,039	274
Total underpayment			1,533

Due dates for payments: Veharia is a very large company as augmented profits are over £20m so QIPs are required on 14 March 2024, 14 Jun 24, 14 Sep 24 and 14 Dec 24 for y/e 31 Dec 24.

1 - Impairment of land is capital in nature and therefore disallowed

2 - Bonuses are allowable to the extent they are paid within 9 months of the period end, therefore disallowed

3 - Employer pension contributions are deductible on a paid basis, therefore disallowed

4 - Vahria is a large company and can claim an RDEC credit for its qualifying expenditure under the all company regime.
Staff costs of UK employees - allowable
Unconnected EPWs - 65% allowable = £650,000
Subcontracted to unconnected UK company's- 65% allowable = £1,300,000
Subcontracted to non-qualifying bodies overseas - disallowed as not chargeable to UK tax
Contribution to UK university - allowable as non-taxable entity
Software license fees - allowable
Cloud computing costs - allowable

Amount eligible for RDEC credit = £10,000-£2,350-£350-£700 = £6,600
£6,600 x 20% = £1,320

(All expenditure is eligible for a standard trading deduction)

5 - Capital allowances

	Main pool	SRP	FYA 100%		Allowances
TWDV b/f	10,000	1,500			
Factory equipment (HP)- 1					
General Lighting		400			
Office furniture	250				
Hire pruchase	350		50		
New car		50			
New trucks			100		
Less: AIA	(600)	(400)			1,000
Less: FYA			(150)		150
WDA @ 18%/6%	(1,800)	(93)			1,893
Total					3,043
TWDV c/f					9,607

1 - Hire purchase agreement expenditure is treated as fully incurred when brought into use. This amount is eligible for the AIA or a 100% FYA as it is new. No finance charges so no disallowance.

2 - General lighting qualifies as an integral feature and therefore enters the special rate pool. The AIA is prioritised for this as allowances are less generous for SRP expenditure.

3 - Secondhand furniture is qualifying main pool expenditure, however as it is not new it does not qualify for the FYA. Therefore the AIA should be prioritised

4 - Motor vehicles - new car enters the special rate pool as emissions are over 50g/km and the trucks are qualifying main pool expendutre for which the FYA at 100% is available.

6 - Depreciation is capital in nature and therefore disallowed. CAs as above are claimed instead

7 - Loss on disposal of fixed assets is an accounting entry and capital in nature and therefore disallowed. Treated through CAs pool.

Deferred tax

DT Arises on temporary timing differences where the tax treatment differs from the accounting treatment. It is measured to account for tax relief which is taken at a different time to what is shown in the accounts, at the expected rate of unwind being 25%.

	Fixed assets	Pensions	Bonusees
NBV @ 1 Jan 24 (qualifying only)	26,000	0	0
TWDV @ 1 Jan 24	11,500	0	0
NBV @ 31 Dec 24 (qualifying only)	24,600	0	0
TWDV @ 31 Dec 24	9,607	1,000	5,000
Difference @ 1 Jan 24	14,500	0	0
DTL @ 25%	3,625	0	0

Difference at 31 Dec 24	14,993	1,000	5,000
DTL/(DTA) @ 25%	3,748	250	1,250
Movement in DT provision	(123)	250	1,250

Double entries:

Dr DTA 1,127
Cr P&L (tax charge) 1,127

DTAs may be recognised as sufficient future forecast taxable profits and DTLs are available for offset even if this were not the case.

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

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

Answer-to-Question-_3_

Publication of tax strategy

The requirement to publish a tax strategy applies to groups of companies including companies which are incorporated in the UK, where a turnover and balance sheet threhsold are met.

The relevant turnover threshold is £200m and the relevant balance sheet threshold is £2bn, and is measured based on the period immediately preceeding the current year.

For the Ryonsdown group, although the members do not have consistent year ends, the test is applied based on the members positions at the end of the previous financial year. As both subs were acquired in September 23, they were both a part of the group as at the 31 Dec 23 accounting period end.

In addition, the results of Mowberry will be excluded from considerations as only a 50% holding has been acquired. Ther term 'group' refers to companies where a 51% control relationship exists.

Considerations are made based on the year end of the parent company i.e. Ryonsdown Ltd as follows.

Ye 31 Dec 23

Turnover

			£
Ryonsdown			125
Stringmore			80
Turnover			205

Test met - duty to publish startegy for y/e 31 Dec 2024

Balance sheet

			£
Ryonsdown			1,400
Stringmore			500
			1,900

Test not met

However, as the turonover test is met, a tax strategy must be published in the year ended 31 Dec 24 in respect of the prior year results

<u>Ye 31 Dec 24</u>

			£
Ryonsdown			130
Stringmore	60 x 3/12		60
			190

Test not met

Balance sheet

			£
Ryonsdown			1,450
Stringmore			575
			2,025

Balance sheet test met.

Therefore, a tax strategy must be published for y/e 31 Dec 2025 in respect of y/e 31 Dec 24.

<u>Publishing requirements</u>

As y/e 31 Dec 24 is the first period in which the tax strategy must be published, it must be published online for public viewing, and free of charge.

The publishing deadline is before the end of the accounting period ended 31 Dec 2024. Subsequent startegies must be published within 15 months.

The tax stretagy must contain the following information:

- The approach of group risk management and governance arrangements in relation to UK taxation
- The attitude of the group towards tax planning
- The level of risk in relation to UK taxation that the group is willing to accept
- The approach of the group towards it's dealings with HMRC

The strategy may also include other information relating to taxation.

<u>Penalties</u>

For failing to comply with the publishing rules and contents rules of the strategy, a penalty of £7,500 is payable by the head of the group i.e. Ryonsdown Ltd.

If no strategy is published within 6 months of the end of the accounting period i.e. by 30 Jun 2025, a further £7,500 penalty arises.

From this point, each month that the group fails to publish the strtategy attracts a penalty of £7,500.

An assessment may not be made by HMRC more than 6 months after the failure to publish.

Penalties are payable within 30 days and can be appealed. Where there is sa reasonable excuse for not publishing the strategy, penalties may be removed.

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

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

Answer-to-Question-_4_

CT comp - y/e 31 Dec 24	Note		£
PBT			7,200
Royalties	1		0
Depreciation	2		1,000
Bank loan interest	3		400
TP adjustment - management services	4		700
Less: capital allowances	5/6	1,204 + 230	(1,230)
Tax adjusted trading profits			8,070
Non-trade loan relationships	3/4	1,250 - 400	850
TTP			8,920
CT liability	25% (large company)		2,230
Less: double tax relief			(1,000)
CT liability after DTR			1,230

1 - Assuming the turonver includes the gross royalties received, double tax relief is avalable for the WHT suffered overseas on the lower of the UK tax and the overseas tax charged on the royalties. DTR should only be claimed against amounts where UK tax is charged on the same source of income, as this flows through to profits DTR is available via credit relief. No adjustment needed in comp.

DTR is calculated individually for each territory on a source by source basis.

	Canico	Amerada	Mexica	Total DTR
O/S tax	300	700	200	
UK tax @ 25%	750	500	500	
DTR (Lower)	300	500	200	1,000

2 - Depreciation is capital in nature and therefore disallowed.

3 - £400k of the interest payable (pro-rata) relates to an acquisition of shares which is capital in nature. This amount is therefore disallowed in the computation of trading profits and is an allowable deduction as a non-trade loan relationship debit.

£200k relates to the acquisition of two buildings. As the buildings were used in the trade of Lidstone Ltd, the interest is allowable as a trading expense even though they are of a capital nature

Interest payable for working capital requirements (£200k) is wholly and exclusively for trade purposes therefore allowable as a trading expense.

Add back total: £400k

<u>4 - Stonelid</u>

As the group is large for TP purposes (1200 employees and £350m turnover), transfer pricing legislation applies where a UK tax advantage is obtained as a result of intra-group transactions not being on an 'arms length' basis i.e. not what a third party would have lended.

A TP adjustment of the amount of the advantage i.e. the reduced NTLR credit is therefore required in the computation: 6% x £25m x 10/12 = £1,250,000

The same treatment applies to the management services supplied to Stonelid by Lidstone. Only £500k was charged in respect of the services when a third party would charge £1m x 120% = £1.2m. As this is included within turnover, a £700k adjustment is required to increase turnover by the UK tax advantage otherwise obtained.

5 - SBAs

SBAs are available in respect of the buildings as they were both constructed after 29 October 2018. The amounts that may be claimed are a 3% writing down allowance from when they are first brought into use, and this is based on the original cost to the developers. Amounts actually paid are irrelevant.

The land acquired in respect of the buildings is not qualifying expenditure for SBA purposes.

An SBA statement should be provided by Deycard to Lidstone to enable SBAs to be claimed.

SBAs are additionally only available to the extent that the first use of a building is not residential, therefore SBAs on the accommodation are denied.

The expenditure to convert the buildings into offices will not be allowable in regards to SBAs, however plant and machinery allowances may be claimed in respect of the integral features.

SBAs: 7/12 x 3% x £1.5m = £26,250

6 - Plant & Machinery allowances (No AIA available)

	Main pool	SRP	FYA	Allowances
TWDV b/f	6,000,000	400,000		
Integral features expenditure			100,000	
Less: FYA			(100,000)	100,000
WDA @ 18%/6%	(1,080,000)	(24,000)		1,104,000
Total allowances				1,204,000
SRP expenditure (following period)		100,000		

The expnditure on integral features is eligible for a 50% first year allowance in the absence of the AIA. The remaining 50% enters the SRP in the following period where WDAs can be claimed (after current year WDAs claimed.)

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

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

Answer-to-Question-_5_

Alcryan Ltd

The disposal of the shares in Alcryan is a chrgeable disposal for corporation tax purposes in the year ended 31 December 2024, assessable on Chatland Investments Ltd.

The substantial shareholding exemption (SSE) should be taken into consideration where there is a disposal of shares. The SS£ applies broadly where the following three conditions are met:

- The investee is a trading company and has been so for the 12 month period leading up to the disposal
- The investor has held at least a 10% shareholding in the investee. Holdings of other goup companies are aggregated for this purpose.
- The ownership period is a continuous 12 month period in the six years leadig up to the share disposal.

The SSE has the effect of exempting any chargeable gains on the sale of shares, and similarly disallowing any losses.

In relation to Alcryan, a 12% shareholding was held in the six years leading up to the disposal between 30 Sep 18 - 31 Mar 20 by group companies. Therefore, the SSE will apply as this represents more than a 12 month period and Alcryan is a trading company.

Battria Ltd

A 15% shareholding in Battria was held in the six years leading up to the disposal between 31 Jul 18 - 30 Jun 19. As this represents only an 11 month period, the SSE will not apply to the disposal and it is therefore chargeable, regardless of Battria being a trading company.

Only a 7.5% holding was maintained for the rest of the six year period which is not a substantial shareholding.

Chargeable gain:

			£

Proceeds			375,000
Less: cost			(1,500,000)
Less: IA			0
Allowable loss			(1,125,000)

Note: indexation allowance cannot create or increase a loss.

Canassa Ltd

The SSE will not apply to the disposal of shares in Canassa Ltd as at no point a substantial shareholding of at least 10% of the shares was held.

The share pooling rules will apply to the disposal of the shares as multiple transactions have taken place at different times. The rules operate by first treating any disposals as being attributable to shares purchased on the day of the disposal, followed by the previous 9 days, followed by the s104 share pool.

The share pool is as follows:

		No	Cost per share	Indexed cost
1 Feb 18		160,000	50	8,000,000
24 Jun 22		100,000	70	7,000,000
6 Jan 24		100,000	75	7,500,000
22 Apr	Disposal from pool	(120,000)	(65)	(7,800,000)
Balance		240,000	61.25	14,700,000

Note: indexation allowance does not apply as this was frozen in December 2017.

Disposal on 22 Apr:

			£
Proceeds	120,000 x 85		10,200,000
Less: cost	As above		(7,800,000)
Chargeable gain			2,400,000

Disposal on 14 Aug 24:

			£
Proceeds	120,000 x 105		12,600,000
Less: cost	60,000 x 95	Prev 9 days	(5,700,000)
	14,700,000/4	Pool	(3,675,000)
Gain			3,225,000

Antonov

The takeover of Dencomb by Antonov gives rise to a share for share exchange for Chatland to the extent that shares are received in consideration i.e. the whole amount.

The rules apply as the shareholding is less than 5% so the tax avoidance rule is not applicable as Chatland has no control over the affairs.

In addition, more than a 25% shareholding was acquired by Antonov.

The effect of the share for share rules is that the new shares in Antonov 'stand in the shoes' of the Dencomb shares. This means that the original cost and acquisition date still applies to a disposal even though it is in respect of different shares.

The SSE does not apply to the disposal as the shareholding is not substantial i.e. less than 10%.

The chargeable gain therefore realised is:

			£
Proceeds	90,000 x 100		9,000,000
Less: cost	90,000/100,000 x £7.5m	Part disposal - 100k shares acquired as part of S4S	(6,750,000)
Gain			2,250,000

Total chargeable gains - netted off before applying relief for b/f losses

			£
Alcryan	SSE		0
Battria	As above	Loss	(1,125,000)
Canassa	As above	Gain	5,625,000
Antonov	As above	Gain	2,250,000
Total net chargeable gains			6,750,000

Losses b/f

The losses b/f are subject to the corporate capital loss restriction, whereby they may only be offset against chargeable gains in future periods up to a maximum of £5m (as per tyhe dedcutions allowance) plus 50% of any remaining profits.

A deductions allowance statement should be filed with HMRC to allocate the DA to Chatland investments as this is a group allowance.

			£
Total net gains	As above		6,750,000
Less: DA			(5,000,000)
Gains after DA			1,750,000
Less: 50% remaining profits			(875,000)
Remaining gains			875,000

Remaining chargeable gains subject to corporation tax are therefore £875,000, CT payable will be £218,750.

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

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

Answer-to-Question-_6_

Enquiry notices

As accounts have been prepared for a 15 month period i.e. 30 Jun 2022 - 30 Sep 2023, this means there are two accounting periods for tax purposes as accounting periods cannot exceed a 12 month period.

The two accounting periods are therefore:

12m/e 30 Jun 2023
3m/e 30 Sep 2023

As the group is not a small group, enquiry notices may be issued by HMRC within a 12 month period of the due date of the corporation tax return (where returns are submitted on time).

For late returns, HMRC have until the end of the next quarter date (31 Jan/Apr/Jul/Oct) to make the enquiry.

The CT returns are due 12 months after the accounting period end. For long periods of account made up of two accounting periods, both of the CT returns are due within a 12 month period of the second return i.e. by 30 Sep 2024.

The due dates of the CT return for each given period and therefore the enquiry deadlines for HMRC are therefore as follows:

AP	In time?	Due date of CT return	Due date for enquiry
30 Sep 23	Yes - not late	30 Sep 24	30 Sep 25
30 Jun 23	Yes - not late	30 Sep 24	30 Sep 25
30 Jun 22	Yes - extended deadline	30 Jun 23 - submitted late	30 Apr 25
30 Jun 2021	No - extended deadline but not in time	30 Jun 22 - submitted late	31 Jan 25

Therefore, only the enquiry notice in respect of 30 Jun 2021 was not issued in time.

<u>HMRC assessments for earlier years</u>

Discovery assessments may be issued by HMRC where a number of conditions are met, including the following:

- An amount which ought to have been assessed has not been assessed
- An assessment to tax is or has become insufficient
- Relief has been given which is or has become excessive

Furthermore, HMRC may only issue discovery assesssments where an HMRC officer could not reasonably have been expected to have been aware of the circumstances giving rise to an error in a return, and may only do so where the treatment made in the original return was not in line with prevailing practice at the time.

The loss of tax must also have been borught about carelessly or deliberately, as is the case here.

Assuming the incorrect returns are due to carelessness and the above conditions are satisfied, the maximum timeframe an assessment can look back for is 6 years after the end of the accounting period to which the assessment relates.

Therefore, any discovery assessment for the earlier years i.e. APs ended 30 Jun 19/30 Jun 20/30 Jun 21 (those periods not covered by enquiry) must be made by 30 June 2025 for it to be valid.

The company has a right of appeal against any issued discovery assessments, and this must be done so within 30 days of the notice being received. The same applies to the enquiries. Points of contention may be resolved via a first tier tribunal.

Closure notices should be issued by HMRC where the enquiries or discovery assessments are concluded with no findings.