THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Larger Companies and Groups

May 2025

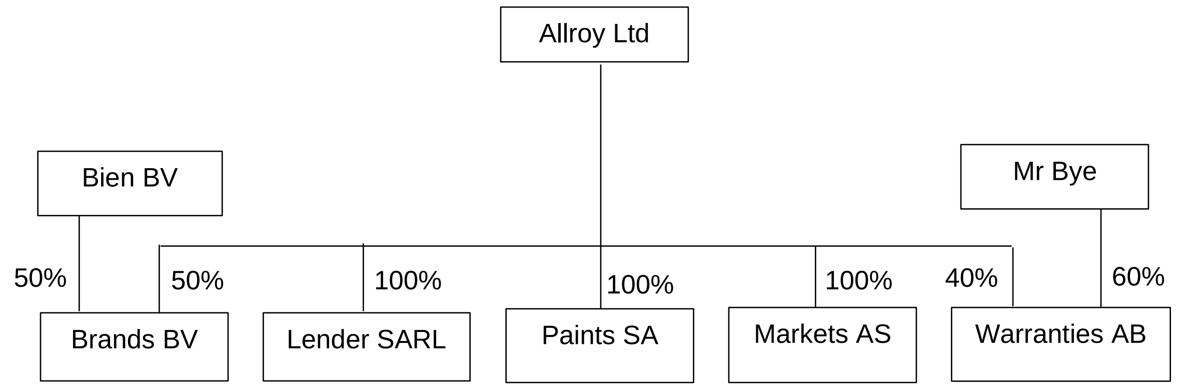
TIME ALLOWED

3 HOURS 30 MINUTES

- 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.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Allroy Ltd is the UK incorporated and resident parent company of an international paint distribution group.

The group structure at 31 March 2025 is shown below.



All the shareholdings represent percentage holdings of the ordinary share capital with equivalent rights to voting, profits and assets on a winding up.

1) Mr Bye is a UK resident individual.

2) Apart from Allroy Ltd, all of the companies are resident outside the UK. Only Warranties AB is resident outside of the European Economic Area.

3) None of the non-UK companies operate in territories on the excluded countries list.

4) The aggregate net tax-interest expense (ANTIE) of the group (as determined under the corporate interest restriction) is £nil for the year ended 31 March 2025.

Allroy Ltd

Allroy Ltd made a trading loss of £4 million in the year ended 31 March 2025.

Lender SARL

Lender SARL was incorporated in May 2023 and Allroy Ltd subscribed £60 million for ordinary shares. Lender Sarl used these funds to make intragroup loans and investments.

In the year ended 31 March 2025, Lender SARL had operating expenses of £50,000 and received interest income of £3 million. £500,000 of this interest income arose from loans to Paints SA and £250,000 arose from loans to Markets AS. The remaining £2,250,000 of interest income arose on unlisted UK corporate bonds where no treaty relief is available and from which £450,000 of UK Income Tax was deducted at source. It paid no overseas tax.

Lender SARL has one employee who works from a rented office in its territory of residence.

Summarised Income Statements of Other Group Companies

	Brands BV	Paints SA	Markets AS	Warranties AB
Year end	31 July 2024	28 February 2025	31 March 2025	31 March 2025
	£'000	£'000	£'000	£'000
Turnover	20,000	25,000	10,800	-
Cost of sales	-	(15,000)	-	-
Operating expenses	(5,000)	(5,000)	(9,900)	(500)
Underwriting profits	-	-	-	4,500
Interest income	-	1,000	-	500
UK dividend income	-	-	-	250
Interest expense	-	(500)	(250)	-
Capital gain on disposal of investments	3,000	-	-	-
Profit before tax	18,000	5,500	650	4,750
Local taxes payable	(2,000)	-	(45)	-
UK Income Tax deducted at source	-	-	-	-
Profit after tax	£16,000	£5,500	£605	£4,750

Brands BV

All of Brands BV's income represents royalty income received from Allroy Ltd in relation to trademarks transferred to it by Allroy Ltd several years ago. The transfer was carried out as part of an arrangement to reduce the group's effective tax rate. Management of the trademarks is undertaken by Allroy Ltd employees from the UK, as Brands BV has no local business premises or employees, with appropriate costs recharged from Allroy Ltd to Brands BV. None of Brands BV's local taxes relate to the capital gain.

Paints SA

Paints SA is a long-established regional paint distributor that was acquired on 1 April 2024, having been previously owned by an overseas resident individual.

Markets AS

Markets AS carries out marketing and distribution services, using its own staff and premises, from its territory of residence.

Continued

Warranties AB

Warranties AB insures risks of the Allroy group of companies. 60% of its underwriting profits and investment income is attributable to UK contracts for insurance with Allroy Ltd with the rest attributable to contracts for insurance with non-UK resident group companies. The company employs its own specialist insurance and treasury staff that operate from business premises it owns in its territory of residence. Warranties AB is not over capitalised nor has excess free assets.

Requirement:

Explain the UK controlled foreign companies status of each company and prepare calculations, with explanations, of any profits that may be apportioned to the shareholders for the year ended 31 March 2025. (20)

2. Veharia plc is a standalone company that manufactures electric shower pumps and is preparing its accounts for the year ended 31 December 2024. Its summary income statement is shown below.

	Note	£'000
Turnover		200,375
Cost of sales		(100,750)
Operating expenses	1	(50,000)
Research and development costs	2	(10,000)
Depreciation	3	(2,750)
Loss on disposal of fixed assets	3	(500)
Profit before tax		£36,375

1) Operating expenses include an impairment of land of £10 million, a £5 million charge for employee bonuses payable 1 December 2025, and a £1 million accrual for employer pension contributions payable 1 July 2025.

2) Veharia plc has developed a revolutionary energy saving electric pump that regulates water pressure using artificial intelligence. No such pump technology is available elsewhere and the company has managed to overcome technical uncertainty on application of the theoretical concepts to develop its own prototype pumps. Expenditure incurred on the project is summarised below.

	£'000
Staff costs of UK employees	3,000
Qualifying unconnected externally provided workers	1,000
Subcontracted to unconnected UK company (Note 1)	2,000
Subcontracted to unconnected overseas company (Note 1)	2,350
Contribution to UK university	500
Software license fees	650
Cloud computing costs	500
Total	£10,000

Note 1: Subcontracted work is not to qualifying bodies.

3) Fixed asset movements were as follows:

	Land	Plant and machinery	Motor Vehicles	Total
	£'000	£'000	£'000	£'000
Net book value at 1 January 2024	15,000	25,000	1,000	41,000
Additions		1,650	200	1,850
Impairment	(10,000)			(10,000)
Depreciation	-	(2,500)	(250)	(2,750)
Disposals at net book value		(500)		(500)
Net book value at 31 December 2024	£5,000	£23,650	£950	£29,600

a) Plant and machinery additions were:

(i) New factory equipment acquired under a hire purchase agreement (£400,000 paid during the year with the balance of £600,000 payable in equal instalments over the next three years; these amounts being exclusive of finance charges).

(ii) New general lighting installed in the factory (£400,000).

(iii) Secondhand office furniture (£250,000).

b) Motor vehicles additions of £150,000 represented three new trucks with CO_2 emissions of 100g/km and one new executive motor car costing £50,000 with CO_2 emissions of 55g/km.

c) All historic expenditure on plant and machinery and motor cars has qualified for capital allowances.

4) Tax written down values on 1 January 2024 were £10 million for the main plant and machinery pool and £1.5 million for the special rate pool.

5) Veharia plc prepares quarterly forecasts of its taxable profits and uses these to make its Corporation Tax payments. It prepared the following forecasts for the year ended 31 December 2024:

Date of Forecast	Forecast taxable profits
	£'000
March 2024	55,000
June 2024	55,000
September 2024	56,000
December 2024	53,000

Requirement:

1) Calculate, with explanations, the Corporation Tax liability for the year ended 31 December 2024 and state the amounts and due dates of any payments/repayments in respect of the year ended 31 December 2024. (10)

2) Calculate the deferred tax account for the year ended 31 December 2024 showing movements in the year and the composition of the closing balance. (5)

Total (15)

3. Ryonsdown Ltd is a UK incorporated and resident mobile phone manufacturer with a 31 December year end.

On 30 September 2023 it acquired 100% of the issued ordinary share capital of Stringmore Ltd, a UK incorporated and resident mobile phone distributor, and 50% of the ordinary share capital of Mowberry Ltd, a UK incorporated resident SIM card manufacturer, both with 31 March year ends.

Turnover and balance sheet totals for the three companies are as follows.

	Financial Year End	Ryonsdown Ltd £ million	Stringmore Ltd £ million	Mowberry Ltd £ million
Turnover	31 December 2023	125		
	31 December 2024	130		
	31 March 2023		80	10
	31 March 2024		60	5
Balance Sheet total	31 December 2023	1,400		
	31 December 2024	1,450		
	31 March 2023		500	15
	31 March 2024		575	10

Requirement:

For the financial year ended 31 December 2024, explain if the Ryonsdown group of companies needs to publicise its tax strategy and, if it does, the publishing requirements and any consequences of failing to comply. (15)

4. The Lidstone group is a publisher and tuition provider on a broad range of educational subjects, with a 31 December year-end. The group has 1,200 employees. Lidstone Ltd is the main UK trading company.

Extract from the Income Statement of Lidstone Ltd for the year ended 31 December 2024

	Notes	£'000	£'000
Turnover	1)	350,000	
Cost of sales		(334,000)	
Gross profit			16,000
Administration expenses	2)		(8,000)
Interest payable	3)		(800)
Profit before tax			£7,200

Notes

1) Turnover includes royalties received from third parties situated in non-UK territories. The royalties have been subject to withholding tax. The territories, amounts of royalty, and rates of withholding tax are:

Territory	Gross royalty £'000	Withholding tax rate
Canico	3,000	10%
Amerada	2,000	35%
Mexica	2,000	10%

2) Administration expenses include depreciation of £1,000,000.

3) On 1 March 2024 Lidstone took out a bank loan for £24 million. The funds were used as follows:

Purpose of loan:	£'000
Acquisition of the entire share capital of Ringrose Ltd on 1 April 2024	12,000
Acquisition of two buildings from Deycard Ltd, an unrelated company	6,000
Working capital	6,000
Total	£24,000

Stonelid SA

Lidstone Ltd has a wholly owned subsidiary, Stonelid SA, which was incorporated and is tax resident in an overseas territory.

Stonelid SA is a trading company and has been loss making for the past three years.

Lidstone Ltd undertook the following transactions with Stonelid SA during the year to 31 December 2024:

1) Lidstone Ltd made an interest-free loan to Stonelid SA of £25 million on 1 March 2024. An arm's length interest rate would have been 6%.

2) Lidstone Ltd provided Stonelid SA with management services. If Lidstone Ltd had not provided these services, Stonelid SA would have engaged a third-party to undertake the work. The third party would have charged Stonelid SA at cost plus 20%. Lidstone Ltd typically charges Stonelid SA at cost, and the costs incurred during the period were £1 million. However, in view of the losses made by Stonelid SA, Lidstone Ltd only charged half of the amount of costs. The management charge is included in the turnover figure within Lidstone Ltd's accounts.

Acquisition of buildings

Lidstone Ltd acquired two buildings (Building 1 and Building 2) from Deycard Ltd on 1 June 2024 for £3 million each.

Buildings 1 and 2 were constructed in 2019 by developers. The developers' costs were £1.5 million for each building. Deycard Ltd purchased the two buildings, unused, from the developer for £2 million each. Deycard Ltd also purchased the land in respect of the two buildings, which cost a total of £1 million. Deycard Ltd has claimed structures and building allowance.

Deycard Ltd had used Building 1 as offices and Building 2 as student accommodation. Lidstone Ltd incurred £800,000 of expenditure (including £200,000 of qualifying expenditure on integral features) to convert Building 2 into offices. Lidstone Ltd began to use Building 2 as offices on 1 August 2024.

Both buildings were used by Lidstone Ltd for the purpose of its trade.

Capital allowances.

On 1 January 2024, for Lidstone Ltd, the tax written down value of the general pool was £6,000,000 and the special rate pool was £400,000.

In the year ended 31 December 2024, the group's annual investment allowance was fully used by other group companies.

Requirement:

Calculate, with explanations, Lidstone Ltd's UK Corporation Tax liability for the accounting period ended 31 December 2024. (20)

5. Chatland plc is the parent company of a UK group with diverse interests. All companies within the group are wholly owned direct or indirect subsidiaries of Chatland plc, and all have a 31 December accounting date.

One of Chatland plc's direct subsidiaries is Chatland Investments Ltd, which acts as a holding company for the UK trading group, which includes Chatland Trading Ltd. Chatland Investments Ltd also invests surplus funds for the group.

During the year ended 31 December 2024, Chatland Investments Ltd carried out a number of transactions, detailed below. Unless identified as part of the Chatland group, each company mentioned below is not related to any company within the Chatland group and has been a trading company for many years. In each case, the shares carry an entitlement to distributions and assets in a winding up in the same proportion as the percentages of the shares as stated.

1) Alcryan Ltd

On 30 September 2024, Chatland Investments Ltd disposed of its entire shareholding in Alcryan Ltd for £16 million. These shares represented 8% of the issued share capital of Alcryan Ltd and had been purchased on 1 October 2015 for £9.6 million.

Chatland Trading Ltd also held shares in Alcryan Ltd. It had acquired these shares on 1 October 2014 and sold them on 31 March 2020. These shares represented 4% of the issued share capital of Alcryan Ltd.

2) Battria Ltd

On 31 July 2024, Chatland Investments Ltd disposed of 7,500 shares in Battria Ltd for £375,000.

It had purchased 15,000 shares in Battria Ltd in June 2015 for £3 million. These shares represented 15% of the issued share capital of Battria Ltd. On 30 June 2019, it had sold 7,500 shares in Battria Ltd for £750,000.

3) Canassa Ltd

Chatland Investments Ltd acquired and disposed of shares in Canassa Ltd as set out below. At no time did Chatland Investments Ltd hold more than 5% of the share capital in Canassa Ltd.

Date	Number of shares acquired	Number of shares disposed	Price per share
			£
1 February 2018	160,000	-	50
24 June 2022	100,000	-	70
6 January 2024	100,000	-	75
22 April 2024	-	120,000	85
8 August 2024	60,000	-	95
14 August 2024	-	120,000	105

4) Dencomb plc and Antonov plc

On 1 October 2024, Chatland Investments Ltd disposed of 90,000 shares in Antonov plc for £100 per share.

On 24 June 2021, Chatland Investments Ltd had purchased 50,000 shares in Dencomb plc for £7.5 million. This represented less than 5% of the share capital of Dencomb plc.

On 1 May 2023, Dencomb plc was taken over by another quoted company, Antonov plc. As consideration, Chatland Investments Ltd received two shares in Antonov plc for every share held in Dencomb plc. Each share in Antonov plc was worth £90 at the time of the takeover by Antonov plc. Chatland Investments Ltd's new holding in Antonov plc represented less than 5% of the share capital in Antonov plc.

Losses

On 1 January 2024, Chatland Investments Ltd had capital losses brought forward of £9 million.

No other group company made any chargeable gains or losses in the year to 31 December 2024 nor had losses of any type brought forward on 1 January 2024.

Requirement:

Calculate the chargeable gains or losses arising to Chatland Investments Ltd in the accounting period ending 31 December 2024, and the total gains which are subject to Corporation Tax after losses brought forward have been utilised. (20)

6. Dunbavin Ltd is a UK incorporated and resident company engaged in the construction industry and has been trading for many years. It is part of group that is not a small group. In 2023, it changed its accounting date from 30 June to 30 September and prepared accounts for the 15 months to 30 September 2023.

It submitted its company tax returns for the last five periods on the following dates:

Accounting period ending	Submission date
30 September 2023	28 July 2024
30 June 2023	28 July 2024
30 June 2022	12 February 2024
30 June 2021	21 January 2024
30 June 2020	28 June 2021
30 June 2019	25 June 2020

On 6 April 2025, HMRC issued enquiry notices into the company tax returns for the accounting periods ending 30 September 2023, 30 June 2023, 30 June 2022, and 30 June 2021.

Requirement:

1) Explain whether the enquiry notices issued by HMRC are issued in time. (5)

2) Explain the circumstances in which HMRC could issue assessments to Dunbavin Ltd for earlier years. Assume any incorrect returns are due to carelessness behaviour. (5)

Total (10)