

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Larger Companies & Groups

May 2023

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 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 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 Alex Jones, the head of the in-house tax department of Sparkby plc, a large UK tax resident company listed on the London Stock Exchange. The Sparkby plc group's trade is the manufacture and sale of components for the automotive industry, and the provision of professional advice in relation to that industry.

The Board of Sparkby plc has recently considered the possible impact on the group's corporate income tax rate of the Organisation of Economic Cooperation and Development (OECD) proposal that there should be a minimum corporate income tax of 15% payable in each territory in which a group operates.

The Board has asked you (**EXHIBIT A**) to advise on the actions that could be taken to minimise the group's overall corporate tax liability. It is assumed that:

- 1) without any actions being taken, corporate income tax of 15% will be suffered on the accounting profits of all overseas trades; and
- 2) the rate of UK Corporation Tax will be 25% for all periods from 1 April 2023.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Group Finance Director

EXHIBIT B: Notes on the tax and grants rules of each overseas territory in which the group operates

EXHIBIT C: Forecast profits/(losses) of each group company

EXHIBIT D: Pre-seen information

Requirement:

Write a report to the Board recommending what actions should be taken to move the tax residences of subsidiary companies and/or to move physical locations of trades to keep the overall group corporate tax liability to a minimum over the next four years, taking account of the grant position in Benignland.

EXHIBIT A

Email from Group Finance Director

From: jaysmith@sparkby.co.uk
To: alexjones@sparkby.co.uk
Date: 28 April 2023
Subject: Corporate taxes on global profits

Alex

At the board meeting earlier this week, we decided to consider the impact on our group tax liabilities of the proposed minimum 15% corporate income tax. We understand that this will be imposed in respect of each territory in which we operate where the corporate income tax rate is less than 15%. We want to consider whether we should move the corporate residence of subsidiaries and/or the actual physical location of manufacturing operations to the UK to minimise the group's overall corporate tax liability.

Factors to be considered are as follows:

- 1) The trades in Arcadia and Benignland will require significant capital investment in new plant and machinery in the next few years. Our external capital allowances consultants have calculated that this expenditure would qualify for capital allowances of £50 million in each of Anwood Ltd and Broadton Ltd for each of the next four years if the trades were within the charge to UK Corporation Tax.
- 2) The trade in Benignland was originally set up to supply parts to Benign Autos Inc, a state-owned vehicle manufacturing business in Benignland. Benign Autos Inc remains committed to sourcing supplies from local enterprises wherever commercially viable. Although the trade of Broadton Ltd has since expanded to service other non-Benignland located customers, the business with Benign Autos Inc still represents a large part of Broadton Ltd's profits.
- 3) Tax-free grant aid of £8 million for each of the next four years (£32 million in total) would be available in Benignland if capital expenditure was made in respect of a trade located in that country. We would have to commit to the Benignland government to keep the trade located there for at least 10 years to receive the grants. They would be repayable in full, along with interest at 10% per annum if the trade ceased in Benignland within those 10 years. Grant aid is not available in the UK nor in Arcadia.
- 4) Relocation costs of any overseas trades are not material.
- 5) As the group debt is secured over all group assets it is not possible to move the debt to subsidiary companies.

Please provide a written report for the Board with your recommended course of action. You do not need to consider the impact of deferred tax or of VAT. At this stage, we do not need details of the financial transactions to be undertaken to achieve your recommendations.

Regards

Jay

EXHIBIT B

Notes on the tax and grants rules of each overseas territory in which the group operates

<u>Country</u>	<u>Basis of taxation and corporate tax rate</u>	<u>Availability of capital allowances</u>	<u>Tax treaty with UK</u>	<u>Grant aid</u>
Arcadia	On trades located in Arcadia, at 10%	Corporate income tax is charged on accounting profits with <u>no</u> deductions for capital allowances.	Yes – standard OECD	No
Benignland	On all trades, wherever located, of Benignland tax-resident companies, at 5%	Corporate income tax is charged on accounting profits with <u>no</u> deductions for capital allowances.	No	Yes
Candyland	On trades located in Candyland, at 10%	Corporate income tax is charged on accounting profits less deductions for capital allowances on qualifying expenditure.	Yes – standard OECD	No

There are no exit charges on assets leaving any of the three countries.

There are no withholding taxes on dividends paid from any of the three countries.

EXHIBIT C

Forecast profits/(losses) of each group company

Year ended 31 March	<u>2024</u> £ million	<u>2025</u> £ million	<u>2026</u> £ million	<u>2027</u> £ million
Sparkby plc (Note 1)	(90)	(90)	(90)	(90)
Anwood Ltd (Note 2,3)	100	100	100	100
Broadton Ltd (Note 2)	100	100	100	100
Croxhume Ltd (Note 2)	100	100	100	100

Note 1

The losses are non-trade debits, being interest on external loans. There is no other external debt in the group.

Note 2

The accounting profits of the subsidiary companies are stated before interest, tax, depreciation, and amortisation (EBITDA) and approximate to taxable profit before capital allowances computed under UK tax rules.

Note 3

An election has been made for Anwood Ltd's permanent establishment's activities not to be subject to Corporation Tax in the UK.

EXHIBIT D

Pre-seen information

Company Name: Sparkby plc

Date of incorporation: 1 April 1970

Country of incorporation: UK

Ownership: Listed on London Stock Exchange. No shareholder holds more than 5% of the shares.

Board members:

John Hunter – Chief Executive Officer

Jay Smith – Chief Financial Officer

Clare Cousins – HR Director

Jane Henderson – Operations Director

Sir William Teller – Non-executive Chairman

Lynne Longfellow – Non-executive Director

Marlon Barrowfield – Non-executive Director

Number of group employees: 20,000

Background

Sparkby plc was admitted to the London Stock Exchange in 1985. It was previously a successful, family-owned manufacturer of components for the automotive industry, based in Birmingham, England. The group then expanded in the UK and overseas, setting up or buying automotive component manufacturing operations and consultancies in several overseas territories.

Sparkby plc is the parent company of the group. Its activities comprise:

- 1) Provision of management services to subsidiary companies. It charges arms-length fees for those services making a small, and thus immaterial, profit.
- 2) Holding and servicing the group's external debt, which has been taken on to finance its investments in subsidiary companies. Dividends are received from subsidiary companies to enable interest costs to be paid.
- 3) Owning all the shares of the following subsidiary companies:

<u>Name</u>	<u>Residence</u>	<u>Activity</u>
Anwood Ltd	Incorporated and tax resident in UK	Manufacturing trade through a permanent establishment in Arcadia
Broadton Ltd	Tax resident in Benignland by reason of being incorporated there	Manufacturing trade in Benignland
Croxhume Ltd	Tax resident in Candyland by reason of being incorporated there	Consultancy business in Candyland

None of the profits earned overseas are subject to UK Controlled Foreign Company charges.

On 1 April 2022, Sparkby plc sold a UK wholly owned subsidiary company. The sale proceeds were used to reduce group debt and to pay a special dividend to shareholders.

Financial information for Sparkby plc group

Income statement for the year ended 31 March

	<u>2023</u>	<u>2022</u>
	£million	£million
Revenue	3,230	5,230
Cost of sales	<u>(2,400)</u>	<u>(3,850)</u>
Gross profit/(loss)	830	1,380
Profit on sale of subsidiary	2,000	
Administrative expenses	<u>(620)</u>	<u>(780)</u>
Profit before tax	2,210	600
Tax	<u>(200)</u>	<u>(55)</u>
Profit after tax	<u>2,010</u>	<u>545</u>

Balance Sheet as at 31 March

	<u>2023</u>	<u>2022</u>
	£million	£million
Fixed assets	5,800	6,700
Cash at bank and debtors	750	800
(Liabilities)	<u>(5,300)</u>	<u>(6,800)</u>
Net assets	<u>1,250</u>	<u>700</u>
<u>Equity</u>		
Share capital	200	200
Reserves	<u>1,050</u>	<u>500</u>
Total equity	<u>1,250</u>	<u>700</u>

Corporate Tax

Company tax returns for all territories have been submitted on time and there are no open enquiries.

There are no unutilised tax losses in the group.

VAT

Sparkby plc is the representative member of a group VAT registration in the UK. No options to tax have been made on any properties.