Chartered Institute of Taxation
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The Chartered Tax Adviser Examination

May 2018

Application and Interaction Question 2
Taxation of larger companies and groups

Suggested solution

Memo to Tax Partner

From: Pat Brown
To: Johnny Rate
Date: 4 May 2018
Re: Acforth Industries Inc

I enclose for your review a draft report on the tax issues on which Acforth Industries Inc has requested advice in their letter of 24 April 2018. Please let me have your comments.

A number of additional issues have come to my attention as follows:

Client acceptance and anti-money-laundering

Although Acforth Industries Inc is a client of the Square & Circle International LLP member firm, it is not a client of Square & Circle LLP in the UK. We therefore need to undertake the usual client acceptance and anti-money-laundering procedures before accepting the appointment to act. Until a separate entity is created, our client will be Acforth Industries Inc and we should therefore obtain evidence from Mulronia's stock exchange/regulators' website that the company is listed, and of any regulatory or disciplinary issues. If such checks have already been undertaken by the Square & Circle International LLP member firm in Mulronia, we can rely on their work so long as they consent to this.

An engagement letter should be issued to Acforth Industries Inc to cover our tax advisory work and the fees we are charging. This should be signed and returned before our report is issued. Given that our advice might cover existing and new subsidiary companies, the engagement should cover tax work for all wholly owned subsidiaries as well.

Referral to Capex Claims Ltd

You might be aware that I previously worked for Capex Claims Ltd, who provide tax advice to clients undertaking large infrastructure projects, on maximising tax reliefs in such areas as capital allowances and R&D claims. After leaving them, but before joining Square & Circle LLP, I referred a client to them for which I was paid commission.

You will see from the draft report that I recommend that Acforth Industries Inc should consider specialist advice to formulate their capital allowances and R&D tax credit claims. I recommend an introduction to Capex Claims Ltd for this purpose, given that Square & Circle LLP does not offer this specialist service.

I recognise that any commission that I might receive from Capex Claims Ltd would need to be disclosed to Acforth Industries Inc.

As Capex Claims Ltd are not competing with Square & Circle LLP in the provision of these services, I believe that I would not be precluded under the terms of my current employment contract from making such a referral, or from receiving commission. I will confirm this with our HR department but would invite your agreement.

Fiancé shareholding

My fiancé, Steve, has recently acquired shares in Acforth Industries Inc, on the Mulronia stock exchange. Steve works for a firm of solicitors, Round & Round LLP, and has been advising the company on UK employment law matters. The share purchase was made before the approach by Acforth Industries Inc to Square & Circle LLP in the UK, and I was not previously aware that Acforth Industries Inc was an audit client of the Square & Circle International LLP member firm in Mulronia.

For my part as a tax adviser, the holding of shares by someone who is personally closely connected with me could be seen to impair my ability to act objectively in advising Acforth Industries Inc. As such, I believe that I will need to ask my fiancé, Steve, to dispose of the shareholding if I am to continue to act on this engagement. We should also advise the client of the present situation and the steps proposed to regularise it.

Can you please confirm and agree my proposed course of action?

Regards
Pat

Draft report on the tax consequences of the proposed UK business venture of Acforth Industries Inc as set out in the letter of 24 April 2018

<u>Contents</u>

<u>Introduction</u>

This report is based on the information contained in the Chief Executive's letter of 28 April to Square & Circle LLP and addresses UK tax matters. Advice should be taken from our Mulronia office in respect of Mulronia taxes.

It is addressed to Acforth Industries Inc and the advice within the report is for the use of Acforth Industries Inc and its wholly owned subsidiaries. It should not be relied on by any third parties.

<u>Executive Summary</u>

Corporation Tax Matters

1. We recommend that a new company (Newco) be formed to carry on the proposed UK trade. Initial investment therein should be by way of equity, subsequently by debt.

2. Annual rent at £600,000 rather than an upfront premium optimises Corporation Tax relief and results in a smaller SDLT liability. The inducement payment of £2 million is not immediately relievable however.

3. Demolition costs are only tax deductible on the future disposal of the property. Factory construction costs are similarly generally not tax deductible until the disposal although qualifying elements will attract capital allowances.

4. Newco should register for VAT as an intending trader to maximise recovery of input tax.

5. Corporation Tax relief is available for the cost of patents as it is expensed in the accounts.

6. Based on projections, no Corporation Tax is payable until at least the year ended 31 December 2023 accounting period.

7. Corporation Tax can potentially be further reduced by various planning opportunities to do with:
    a) Research & Development
    b) Patent Box
    c) Share acquisition relief

Employee Tax Matters

8. Mulronia nationals coming to UK will be UK resident from date of arrival and so liable to UK Income Tax and Capital Gains Tax on their worldwide income and gains subject to relief for income/gains not remitted to UK.

9. Acquisition of share options are not taxable, although on the subsequent exercise, an acquisition of shares will be liable to UK Income Tax, and NIC.

10. Provision of accommodation gives rise to UK Income Tax and employer NIC. Up to £8,000 of qualifying relocation packages is exempt from tax.

11. All employee tax and NIC charges are collected and paid over to HM Revenue & Customs through a Pay as You Earn (PAYE) scheme operated by the employing company.

Corporation Tax Matters

Entity to be used in UK

UK Corporation Tax is levied on the profits of UK resident companies. A company is UK resident either by reason of its being incorporated in the UK, or its central management and control being in the UK. If a company is resident both in the UK and in another State under that other State's domestic laws, most Double Tax Agreements (DTAs) provide that the company will be treated as resident where its effective place of management is situated. Article 4 of the UK:Mulronia DTA contains such a provision. Alternatively, if a company is not resident in the UK but carries on a trade through a permanent establishment in the UK, the profits of that trade are liable to UK Corporation Tax. A permanent establishment includes a factory, being a fixed place of business.

Accordingly, if the UK trade were to be carried on by a Mulronia tax resident company, and if its central management and control were exercised in the UK and its place of effective management were there, that company would be deemed to resident in the UK under the UK:Mulronia DTA, putting it in the same position as a UK resident.

If it were not UK resident, it would be carrying on a trade through a permanent establishment, and therefore would be liable to Corporation Tax on the profits of the trade. Those profits would be measured in the same way for Corporation Tax purposes as they would for a separate and independent entity carrying on that trade. No deductions would be available for notional interest costs. Therefore, if Acforth Industries Inc carried on the UK trade, financing it out of existing cash resources, no interest deductions would be available, while a separate non-UK resident subsidiary company of Acforth Industries Inc could claim interest deductions in respect of borrowings to finance the trade.

Accordingly, there would be no difference in the UK Corporation Tax liability in respect of UK trade profits of either a UK resident company or a non-resident subsidiary company of Acforth Industries Inc, whereas if the trade were carried on by a permanent establishment of Acforth Industries Inc itself, no interest deductions would be available.

Whether a UK or non-UK resident company carries on the trade for CT purposes makes no difference to the taxation of payroll and benefit costs, or to the liability to register for Value Added Tax (VAT).

Therefore, from a UK tax perspective and based on the ability to get relief for financing costs, we recommend that a new subsidiary company of Acforth Industries Inc, is set up, either UK or non-UK tax resident to operate the proposed trade.

Financing of the UK business

The UK business requires up to £90 million of investment in total, with an initial investment of up to £41 million to fund its programme to buy or lease land, to construct a factory and to buy the suite of patents. This money can be invested into the new company, Newco, by either by way of share capital subscription (equity) or as a loan.

Equity investment does not result in any immediate return as dividends need not be paid, nor indeed can they be paid in the absence of distributable profits in the early years of trading. In contrast, any debt investment normally requires interest to be payable. Even if the loan is interest-free, for tax purposes, interest might be deemed to be charged on an arm's length rate, if there are transfer-pricing rules in Mulronia. Subject to the rules referred to below, interest is deductible in computing UK taxable profits whereas dividend payments are not.

Article 9 (Associated Enterprises) of the UK:Mulronia DTA requires that transactions between associated enterprises be priced on an arm's length basis. Any such interest, or deemed interest, will be liable to tax in Mulronia and (subject to anti-avoidance rules – see below) deductible in the UK.

Under Article 11 the UK:Mulronia DTA, 10% withholding tax will be deducted in the UK. Insofar as Mulronia gives double tax relief on such withholding tax, no overall additional tax cost arises as the rate of withholding is below the rate chargeable in Mulronia and should therefore be fully set off against Mulronia tax on interest receipts.

The UK anti-avoidance rules in respect of deductibility of interest referred to above are:

a) UK transfer pricing rules restrict the amount of deductible interest where a company is deemed to be thinly capitalised i.e. its debt: equity ratio is higher than it would have been if the lender had been acting at arm's length.

b) Worldwide debt cap rules disallow interest deductions in the UK on net debt of UK companies, if the debt exceeds 75% of global gross debt, where net interest costs of UK companies exceeds global gross interest costs. This is subject to a de minimis whereby no disallowance is made where net interest costs of a company are less than £500,000.

c) Interest on a debt taken out for an unallowable purpose is not deductible. Such purposes are those that do not generate a potential profit within the charge to Corporation Tax. As any loans would be to fund the taxable trading operation the UK, these rules would not apply.

In the early years when the UK operations will be trading at a loss, interest will not attract immediate UK tax relief, but will be added to and so increase UK Corporation Tax trading losses available for carry forward, subject to disallowance under the anti-avoidance rules referred to above. The interest will however be taxable in Mulronia.

In contrast, equity investment will not generate any taxable income in Mulronia in the early years when dividends are not being paid. It is therefore recommended that, although recommending that the proposed trade be conducted through a corporate entity because interest costs are deductible, nevertheless the initial £40 million of investment is made by way of a subscription for shares.

Subsequently, consideration should be given to debt investment as a tax efficient means of repatriating profits to Mulronia. Interest deductions will be available in the UK at the UK Corporation Tax rate of 19% and taxed in Mulronia at 15%.

Management charges, which would be deductible in the UK and probably taxable in Mulronia, could also be considered.

Care will need to be taken to ensure that the thin capitalisation rules and worldwide debt rules are not breached, which would lead to an absolute disallowance of interest costs in the UK (although it might be possible to have a compensating adjustment in the foreign company if there is a mutual agreement clause in the DTA that allows this), and that any management charges are within transfer-pricing arms' length rules. While relative tax rates remain unaltered, there is a 4% tax advantage in interest being deducted against taxable profits in the UK and taxed in Mulronia.

In conclusion, it is recommended that the initial requirement for cash to meet the approximate £40 million of capital expenditure plus the early years' trading losses should be contributed as equity. As the UK operation moves towards profitability, funding the losses of say the third and fourth years with loans should be considered, subject to account being taken of transfer pricing rules, including thin capitalisation and other restrictions on interest deductions in the UK as referred to above.

Lease premium or annual rent

The amount of the premium and the net present value of the rents over a 99-year term are the same at £12 million and so from an economic perspective the outlay is the same. However, if the interest in the land was bought and subsequently sold, that would return of some or all of the capital investment of a lease premium. A future sale at a gain would also trigger a gain chargeable to Corporation Tax however. A sale at a loss would realise a capital loss, which, under current law, would only be relievable against any other capital gains. We have assumed that this is a long-term investment and that a future sale is not a material consideration at the present time.

No tax relief is available in the UK against trading profits for a premium for a 99-year lease nor for any subsequent depreciation. Relief can be obtained for the initial expenditure in computing a capital gain or loss on the subsequent disposal of the interest in the land. In contrast, a full deduction is available for rent paid for the occupation of land used in a trade.

The payment of a premium of £12 million for a 99-year lease would attract Stamp Duty Land Tax (SDLT) as follows:

First £150,000	Zero	Nil
£150,001 to £250,000	2%	£2,000
£250,001 to £12,000,000	5%	£587,500
Total		£589,500

In contrast, SDLT on the net present value of rent under a lease is calculated as follows:

First £150,000	zero	Nil
£150,001 to £5,000,000	1%	£48,500
£5,000,001 to £12,000,000	2%	£140,000
Total		£188,500

The SDLT is regarded as a capital payment thus not deductible for Corporation Tax purposes although deductible in computing any gain or loss arsing on a subsequent disposal of the land

Insofar as Newco is required to register for VAT, and the supply of pharmaceutical products is a standard rated supply liable to VAT at 20%, it will be able to set input tax, i.e. VAT charged on goods and services supplied to it, against output tax that it charges on its sales of products, and thus recover the input VAT, subject to any disallowance (see below). Although no sales are anticipated until the fourth year of operations, Newco will be able to register for VAT during 2018 as an intending trader and then recover immediately any input VAT on the property purchase, or rental payments.

Whether VAT would be chargeable on the premium for a lease over the land or on the rental payments will depend on whether the current owner has "opted to tax" i.e. whether that owner has voluntarily elected to charge VAT on outputs arising from the land. If so, VAT at 20% would be added to either the premium, i.e. £2.4 million, or £120,000 per annum to the rental payments.

If Newco were to have any exempt outputs, for example, the provision of medical treatment or healthcare during drug trialling, recovery of input tax attributed to the exempt outputs would not be allowed. Furthermore, input tax on the land (if purchased) and the construction costs of the factory would need to be recalculated and adjusted each year for ten years by reference to the use of the land in the trade.

From a Corporation Tax point of view, the payments of rent will enable tax relief to be obtained for those payments and to that extent, renting is recommended. It also entails a smaller amount of SDLT being due.

The inducement payment to the farmer, as described, will be regarded as a capital sum paid for the purposes of bringing into existence an asset or advantage (namely the opportunity to acquire an interest in the land).,Tax relief will be only be available as a deduction in computing a future disposal of the interest in land, as enhancement expenditure.

Demolition Costs

These costs will enhance the value of the land and as such will be regarded as capital expenditure. There is no specific relief available for such costs and they will be added to the cost of the land to be relieved only on a future sale of the land (see below).

Construction of the factory

Tax relief is not immediately available in computing Corporation Tax profits for the cost of construction of any building. Relief is given when the interest in the land on which the building stands is disposed of, when a capital gain is computed and the costs of construction, including fixed plant in the building, are deducted in computing the gain. Any capital loss arising is restricted to the extent of expenditure on which capital allowances (see below) have been or could have been claimed on the plant.

Tax relief by way of capital allowances is available for expenditure on:

a) Integral features such as electricity and water systems at 8% writing down allowance (WDA) per annum on a reducing balance basis;
b) Plant & machinery (P&M) generally - 18% WDA per annum on a reducing balance basis;
c) Clean rooms - insofar as these are the setting within the trade is carried on they will not qualify as plant, whereas if they perform a function in the trade they will qualify and attract capital allowances;
d) Capital expenditure (excluding any on the land itself) used for research & development - 100% allowance in year expenditure incurred. This would include clean rooms and other buildings used for research & development;
e) Certain energy-efficient assets also qualify for 100% first year allowances.

Classifying the expenditure on the factory into these different categories to optimise your capital allowances claim requires specialist advice. We can introduce a consultancy who specialise in this work.

The first £200,000 per annum of expenditure on P&M qualifies for 100% annual investment allowance (AIA). Although claims to capital allowances can be deferred to future years, there seems no advantage to Newco in doing so. Entitlement to 100% R&D allowances and AIA cannot be deferred, so if not claimed they are lost and WDAs only are available on items are plant or machinery.

Patents

Expenditure on patents falls within the intangible fixed assets regime whereby expenditure on, inter-alia, intellectual property such as patents qualifies for tax relief either at the rate the expenditure is depreciated in the accounts in accordance with generally acceptable accounting policies (GAAP) or, by election, at 4% per annum.. On the basis of your projections, the accounting depreciation method will give relief more quickly.

<u>Other tax planning opportunities</u>

Research & Development (R&D)

Newco will be able to claim relief on any qualifying expenditure incurred on qualifying R&D activities. As part of a large group, it can claim relief under the large company scheme (groups with turnover in excess of €100 million), known as the Research and Development Expenditure Credit (RDEC) scheme. This gives a tax credit of 11% of qualifying expenditure, which can be set off against Corporation Tax liabilities or, subject to certain limits, reclaimed as cash.

Qualifying R&D expenditure must fall into defined categories and be of a revenue nature and the activity must lead to the furtherance of human knowledge.

Specialist advice optimising the claim should be obtained to ensure that all qualifying expenditure is identified and claimed. We can again introduce a consultancy who specialise in this work.

Patent Box

In addition to the relief described above for acquired patents, if qualifying R&D as described above leads to the creation of new patents, relief under the patent box regime is available.

This allows profits from the exploitation of patents registered in the UK or in most current EU/EEA counties to be taxed at 10%. The regime covers profits from patent royalties, sales of patents and sales of patented goods.

Patent box relief is only available insofar as R&D activity that has led to the development of the patents has been undertaken by the claimant company (or group). The rules to quantify the relief are complex. As taxable profits are not expected for at least five years, and the legislation might change by the time Newco is in a position to claim the relief, this is something to be considered in future.

Losses

Trading losses incurred in a year can either be relieved against other taxable profits of the year or carried forward and set off against future profits of the same trade.

As you do not anticipate any non-trading income in any year, apart from possibly a small amount of bank interest earned on any cash deposits awaiting commitment of expenditure, we recommend that you claim maximum trading losses each year under current legislation, which can then be set off against any bank interest with the balances carried forward to be relieved against profits in 2022 and future years.

You can maximise your tax losses each year by:

a) Claiming capital allowances in full on qualifying expenditure on P&M within the building and R&D items; and
b) Claiming tax relief on an accounts basis for the write-down of intangible fixed assets (patents) in accordance with GAAP.

Relief for share acquisitions

Where an employer awards shares to employees, a Corporation Tax deduction is available equal to the market value of the shares under option at the date of exercise less the exercise price, after adding back any accounting expense, where qualifying conditions are satisfied. Among these conditions are that the shares must be fully paid-up ordinary shares, in the employing company or the parent thereof which itself is listed on a recognised stock exchange. Insofar as the Mulronia stock exchange is on the HM Revenue & Customs (HMRC) list of recognised stock exchanges, the acquisition of shares in Acforth Industries Inc would appear to satisfy these conditions and accordingly relief should be available for the subsidiary company in which the employees work.

Accordingly, when the Mulronia nationals exercise the proposed share options over Acforth Industries Inc shares, a deduction will be available. By way of illustration and assuming nothing were paid for the shares, if options were exercised today, at current market value of the shares, the deduction would be £5 million.

Corporation Tax projections

Year/period ended	31 December 2018 £'000	31 December 2019 £'000	31 December 2020 £'000	31 December 2021 £'000	31 December 2022 £'000
Accounting profit/(loss) per projections provided	(8,150)	(12,400)	(13,300)	(18,300)	47,700
Add back cost of property acquisition (say)	5,000				
Add back building depreciation		1,000	1,000	1,000	1,000
Deduct rent	(200) (part year)	(600)	(600)	(600)	(600)
Deduct capital allowances (CAs)	Maximum available in building	Maximum available in building	Maximum available in building	Maximum available in building	Maximum available in building
Taxable profit/(loss)	(3,350) plus CAs.	(12,000) plus CAs	(12,900) plus CAs	(17,900) plus CAs	48,100 less CAs
Relief for losses brought forward					(46,150) plus CAs
Taxable profits	0	0	0	0	nil
Corporation Tax payable	0	0	0	0	0
Cumulative losses carried forward	(3,350) plus CAs	(15,350) plus CAs	(28,250) plus CAs	(46,150) plus CAs	Subject to CAs

Notes

1. The availability of capital allowances in years up to and including 2022 will almost certainly mean that after-loss taxable profits in 2022 will be nil.

2. Surplus losses, after set-off in 2022, will be carried forward into subsequent years. Those losses can be enhanced by utilising the other reliefs referred to above.

3. Those would include the following:
   a) Interest deductions to reduce taxable profits;
   b) R&D reliefs to create tax credits against Corporation Tax payable
   c) Patent box relief to generate profits subject to tax at the reduced 10% rate;
   d) Deduction for share acquisitions by employees in the year share options are exercised.

Employee Tax Matters

As a general rule, UK tax residents are liable to UK tax on worldwide income. Whether tax resident or not, individuals are liable to UK Income Tax on income from UK employment. If any income is liable to tax in Mulronia it is likely that they will be able to claim double tax relief whereby the UK tax is relievable against Mulronia tax or vice versa. Separate advice on the Mulronia tax position should be taken.

Firstly, the UK tax residence status of individuals who come to live and work in the UK in any tax year (6 April to following 5 April) is determined by whether they spend 183 days or more in UK in the tax year. As the Mulronia nationals are starting their duties in the UK on 1 August, it is likely that they will spend over 183 days in the UK in 2018/19 and hence be regarded as UK resident. If they have significant holiday time abroad, it is possible that they will not meet the 183 day test in that year, in which case determination of their residence will be more complicated and we would need to consider them on a case-by-case basis.

Residence is generally determined on a tax year basis. However, when arriving in the UK to take up full-time employment for more than a year, "split year" treatment can be claimed whereby the individual is deemed to be UK tax resident only from the date of beginning work in the UK, so that non-UK income and gains accruing before that date will not be liable to UK tax.

Secondly, an individual's "domicile", is determined by reference to his/her father or mother. As Mulronia citizens without prior ties to the UK, the individuals coming to the UK are unlikely to be UK domiciled and will therefore be able to claim the remittance basis, under which they will not be liable to UK tax on any non-UK source income or gains which are not remitted to the UK.

Income Tax and National Insurance contributions (NIC) (social security contributions) should be deducted from salaries by the employer, who should register for and operate a Pay as You Earn (PAYE) scheme, and pay the amounts deducted to HMRC. Taxation of benefits–in-kind (see below) is generally also undertaken through the PAYE system.

Share Option Scheme

Under UK tax law, the granting of an option over shares does not give rise to any Income Tax liability.

When the option is exercised, and if the exercise price is below the market value at that time of the shares subject to the option, the individual is liable to Income Tax/NIC on the difference between that market value and anything paid for the shares and the option. Where the employee is non-UK resident when the option is exercised, that difference is time-apportioned between the UK-resident and non-UK resident periods, and only the part attributed to the UK-resident period is liable to UK Income Tax.

There are a number of HMRC approved, tax-favoured share schemes whereby no Income Tax/NIC liability arises on the exercise of an option provided that the exercise price is at least equal to the market value of the shares at the time the option is granted. The advantage of this is that the market value will hopefully be far lower at the time of grant than at the time of exercise meaning that the difference between the market value on grant and market value on exercise is not subject to income tax (although it would be subject to Capital Gains Tax on a sale of the shares). The existing Mulronia share scheme would not comply with the rules for a tax-favoured scheme in the UK, which do not allow the grant of substantial options to a small number of employees and so a new scheme would be required which is specifically designed to meet the rules of the approved UK schemes and submitted to HMRC for approval.

Other benefits-in-kind

Generally, the costs of providing benefits-in–kind to employees are treated as liable to Income Tax on the individual recipient to the extent of the cost to the employer of providing the benefit, less any contribution made by the employee. In addition, employer NIC is due on the cost of the benefit. However, in some instances, there are specific over-riding rules as to how the value of the benefit is calculated.

Provision of family homes for the executives and their families, rent-free

The provision of the accommodation itself is measured as:

a) The annual value of the property (based on rating values determined by the local authorities) plus
b) For properties costing over £75,000, the annual official rate of interest (currently 2.5%) is applied to the excess of the cost over £75,000. On a £1 million house, the additional assessable income per annum would be £23,125 (£1 million less £75,000 at 2.5%).

The costs of any household bills (e.g. council tax, utilities etc.) that are met by the employer are separately chargeable to Income Tax and NIC.

Stamp Duty Land Tax (SDLT) will be payable by the company on the purchase of these properties. The rates of SDLT are

- 3% of consideration up to £125,000 of
- 5% on the next £125,000 and
- 8% thereafter up to £925,000,

Because the properties are being provided for employees who are likely each to have less than 10% interest in Acforth Industries Inc, there is no liability to the Annual Tax on Enveloped Dwellings.

Relocation packages

Costs incurred on behalf of the employee (or reimbursed to them) on removal benefits in connection with a change in the employee's residence resulting from a change in place of employment, are exempt from Income Tax and NIC up to £8,000 per employee. In the case of an employee moving to property owned by the employer, these costs would include:

a) moving costs;
b) travel and subsistence for the employee and his/her family; and
c) transporting belongings.

The £8,000 limit is not an automatic entitlement, so only actual costs incurred up to £8,000 will be exempt. Any costs incurred in excess of £8,000 will be subject to Income Tax and employer's National Insurance although the employer could gross up and pay the resulting tax on behalf of the employee.

MARKING GUIDE

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Debt or equity	1.0
Tax treatment dividends and interest	1.0
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b) Enhancement-future CG deduction (CG15200)	1.0
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CG treatment including CAs	1.0
Capital allowances (0.5 each) a) Integral features b) Plant & machinery c) Clean rooms d) R&D e) Energy –efficient f) AIA	3.0
Capital allowances claims deferral	1.0

Patents	
Qualifying patents	1.0
4% per annum or GAAP accounting (0.5 each)	1.0
Planning Opportunities	
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Losses and Interest - Carry forward, accumulate, use against future trading profits (0.5 each)	1.5
Relief for share acquisitions a) Deduction for MV less contributions made b) Add back accounting deduction/ CT deduction c) Conditions satisfied –recognised stock exchange, parent of employing company	 1.0 1.0 1.0
CT Computation	
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Set off losses in 2022	1.0
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Sub-total	**53**
Requirement 1 - Personal tax	
General rules - UK resident taxable on worldwide, tax on UK employment, DTR Mulronia (0.5 each)	1.5
183 days residence test and holidays	1.0
Split-year	1.0
Domicile and remittance basis	1.0
PAYE scheme and operation including NIC	1.0
Taxation of benefits-in-kind	1.0
Share options	
No tax on option/tax on exercise of option	1.0
Time- apportion charge if NR	1.0
Existing scheme not satisfying approved share schemes rules.	0.5
Approved share schemes	1.0
Other benefits–in-kind	
Houses	2.0
SDLT on houses	1.0
No ATED	1.0
Relocation package a) £8k exemption b) Qualifying expenses c) Gross-up?	 1.0 2.0 1.0
Sub-total	**18**

Requirement 2 - Memo to partner	
Client acceptance	1.0
Separate client before/after Newco	1.0
Rely on T&B LLP client acceptance?	1.0
Engagement letter	1.0
Refer client to Tax Claims Ltd - reason	1.0
Declare commission to client	1.0
Fiancé share - connected? Need to dispose of shares?	1.0
Sub-total	**7**
Grand Total	**78**

Note:

The model answer does not take account of the trading loss relief or corporate interest restriction provisions in Finance (No 2) Act 2017, which are not examinable. Credit will however be given if a candidate answers the question by reference to those provisions.