The Chartered Tax Adviser Examination

November 2019

Suggested solutions

Module C Corporation Tax

1)

		Main pool £	Special rate pool £	Allowances £	
Tax written down value b/fwd		42,400	33,800		
AIA addition	170,000				
Maximum AIA					
£200,000 x 9/12	(150,000)			150,000	1
		20,000			1
Non AIA addition – CO_2 >110g/km			21,500		1
		62,400	55,300		
WDA – 18%/8% x 9/12		(8,424)	(3,318)	11,742	2*
Tax written down value c/fwd		53,976	51,982		
Total allowances				£161,742	

** 1 for using 18/8% correctly and the other for pro-rating*

2)

Instalment one is due 6m+14 days from start of CAP 14 July 2019 1
Amount due is calculated as 3/8 x £285,000 = £106,875 1

Instalment two is due 9m+14 days from start of CAP/3months after the first i.e. 14 October 2019 and will be for the same amount as instalment one (£106,875) 1

The third, and final instalment is due no later than 3m+14 days from end of CAP ie 14 December 2019 rather than the normal quarter date of 14 January 2019 1

The amount payable will be the remainder of the liability (£285,000 – (£106,875 x 2)) = £71,250 1

Note there was no need to consider very large company rules as the accounting period began before 1 April 2019.

3)

The bonus will not need to be adjusted as it was paid within 9 months of the year-end. 1

The gifts to customers are all below the £50 limit and bear the company logo, but any gift of food, alcohol or tobacco is disallowed so the total cost of the gifts of boxes of chocolates must be added back to trading profits. 2

The lease premium payment cannot be deducted in full so should be added back to trading profits, and replaced with the relevant allowable deduction.
The payment must be split between capital and revenue elements as only the revenue element can be set against trading profits. The revenue element is £32,800 (£40,000 x [(50-9)/50)] 1

This is then spread over the 10-year life of the lease to give an annual deduction of £3,280 1

4)

Year ended 31 March 2017. The allowable deduction is restricted to the amount of contributions actually paid not accrued. The accrual of £50,000 would need to be added back to trading profit and would instead be an allowable deduction in the year ended 31 March 2018 when the contribution is paid. 1

Year ended 31 March 2018. The contributions actually paid (rather than accrued) during the year are £690,000. 1

The increase in contributions is less than 110% of the previous year's contributions (£330,000 x 210% = £693,000), so the full contributions can be relieved against the profits for the year ended 31 March 2018. 1

Year ended 31 March 2019 The increase in contributions is more than 110% of the previous year's contributions (£690,000 x 210% = £1,449,000), so the excess contributions need to be calculated.

Excess contributions = £1,580,000 – (£690,000 x 110%) = £821,000 1

The allowable deduction for the year is therefore:

110% x £690,000	759,000	
Excess spread over 2 years	410,500	1
Total deduction	£1,169,500	

5)

	12m CAP to 31 December 2018	**6m CAP to 30 June 2019**	
	£	£	
Trading profits before CA 12/18 : 6/18	256,800	128,400	1*
Capital allowances	(210,800)	(4,428)	
Trade profit	46,000	123,972	
Capital gain	44,000	-	1
Total profits	90,000	123,972	
QCD	(5,000)	-	1
TTP	£85,000	£123,972	

Working

Machinery purchased	260,000		
AIA – maximum	(200,000)		
	60,000		1
WDA 18%	(10,800)		
C/Fwd	49,200		
B/Fwd		49,200	
WDA 18% x 6/12		(4,428)	1*
C/Fwd		44,772	

**First mark only given if correctly allocated across CAPs as 12:6 months but 2nd mark awarded based on own split of period*

6)

		£	
Turnover	From relevant engagements only	118,000	1
Deductions	5% Statutory deduction (5% x £118,000)	(5,900)	1
	Salary paid to Arthur	(18,000)	
	Employer's National Insurance	(1,322)	1
	Mileage paid to Arthur to reimburse travel to client premises	(880)	
	Accountancy and legal fees	-	1
Deemed salary including employers NIC		91,898	
Employers NIC £91,898 x 13.8 / 113.8		(11,144)	1
Deemed salary		£80,754	

7)

	£	£	
Proceeds		816,640	
Indexed cost		(105,000)	
Chargeable gain		£711,640	1
Working			
Proceeds for shares		680,000	
Degrouping charge			1
MV of property May 2015	240,000		1
Original cost	(80,000)		
Indexation Sep 2006 – May 2015			
258.5-200.1 / 200.1 = 0.292 x £80,000	(23,360)		1
		136,640	
		£816,640	1

8)

The machinery and equipment is capital expenditure and will qualify for a 100% first year allowance under the capital allowance provisions. 1

The remaining costs all qualify as revenue expenditure and so will be dealt with under the RDEC system of giving relief to large companies. 1

For large companies, the RDEC system allows the company to take a normal deduction from profits for the revenue expenditure incurred. 1

In addition, a tax credit is calculated at 12% of the expenditure that is then:

Added to taxable trading profits, initially increasing the tax charge arising 1

Deducted from the tax liability to reduce the tax payable. 1

9)

	UK income	**Overseas income**	
	£	**£**	
Trade income	200,000		
Overseas income (48,000 + 4,000)		52,000	1
QCD	(2,000)	-	1
TTP	198,000	52,000	
Corporation tax @ 19%	37,620	9,880	1
Less double tax relief: Lower of:			1
(i) UK tax £9,880			
(ii) Overseas tax £4,000	-	(4,000)	1
Corporation tax payable	37,620	5,880	
	£43,500		

10)

£70,000 of the proceeds from the first sale have not been reinvested in qualifying replacement assets and so will be chargeable in the year of disposal. 1

The remaining gain of £330,000 will be deferred until the earlier of: 1*

The date the leasehold property ceases to be used in a trade 1
The date the leasehold property is sold 1
The 10 year anniversary of the purchase of the leasehold property 1

If candidate fails to realise this is not normal rollover relief, they would still gain 1 mark for saying the deferred gain becomes chargeable when replacement property sold.

**Awarded only if answer makes it clear the deferred gain is not set against the base cost of the replacement property.*

11)

Broadzy Ltd is a close company as it is controlled by 5 or fewer participators, or any number of shareholding directors. 1

As a close company, Broadzy Ltd is potentially liable to pay a s455 tax charge on loans to participators outstanding at the year end. 1

As at 30 June 2017, there is a loan to Peter of £100,000 which is not repaid (in full or part) within 9 months of the year-end. The charge would be 32.5% of the loan and payable along with the company's normal Corporation Tax. 1

As at 30 June 2018, the loan has been reduced by the £10,000 repaid in May 2018. This means that Broadzy Ltd can reclaim tax on the part of the loan repaid, with the repayment being due on the normal corporation tax due date for the year ended 30 June 2018. 1

As at 30 June 2019, the loan balance has increased again (by £40,000) so a further s455 charge at 32.5% will be due, again on the normal Corporation Tax due date for this year. 1

12)

Telno plc current year capital loss £20,000
As the companies are in a capital gains group, this loss can be set against the capital gains arising in the same year in Ultrone Ltd or Wixile Ltd, either by way of transferring the loss from Telno plc to Ultrone Ltd/Wixile Ltd or transferring some or all of the gain of Ultrone Ltd/Wixile Ltd to Telno plc. 1

Wixile Ltd capital losses brought forward £20,000
This loss is a pre-entry capital loss since it arose before Wixile Ltd became part of the group. 1

This loss cannot be used within the group so it is not possible to transfer gains from other group members to Wixile Ltd to make use of this loss. 1

However, Wixile Ltd can use the loss to match up with its own gains so provided the £10,000 current year gain relates to a pre-entry asset or an asset acquired from outside of the group since joining, the brought forward loss can be set against this gain. 1

Otherwise the loss will be carried forward to set against future capital gains arising in Wixile Ltd (again on assets already owned when the company joined the group or purchased from outside the group since joining in normal commercial transactions). 1