Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

6 November 2019

AWARENESS

Module C – Corporation Tax

1. During the nine-month accounting period ended 31 March 2019, Prinky Ltd purchased new machinery at a cost of £170,000 and a car (with CO_2 emissions of 115g/km) at a cost of £21,500.

   The tax written down values brought forward on 1 July 2018 were £42,400 on the main pool and £33,800 on the special rate pool.

   Calculate the maximum capital allowances available for the nine-month accounting period ended 31 March 2019.

	main pool	SR pool.	AIA.
WDV.	42,400	33,800.	
machinery	20,000		150,000
car		21,500	
total	62,400	55300	150,000

CAs.

main pool @ 18% x9/12	8424
SR Pool @ 8% x9/12	3318
AIA @ 100%	150,000
claim	161,742

AIA max claim

£200,000 × 9/12 = 150,000.

2. Osta plc's Corporation Tax liability for the eight-month accounting period ended 31 August 2019 was £285,000.

Osta plc has always been a large company for Corporation Tax purposes.

Briefly explain the amount(s) and due date(s) for payment of the Corporation Tax liability for the accounting period ended 31 August 2019.

As a large company payments due quarterly.

liability £285,000 x 1/4

due ~~14~~ ~~April~~ Jul ~~19~~

~~14~~ 14 July 19 ~~285,000~~ 71,250

14 October 19 ~~285,000~~ 71,250

14 ~~Nov~~ Dec 19 142,500.

31 1998 /3175

reg3.

3. For the year ended 31 December 2018, Kerb plc deducted the following items in calculating the trading profit:

1) An accrued bonus payable to the Managing Director; the bonus was paid in August 2019.

2) Gifts bearing the company logo to customers of diaries (costing £5 each) and boxes of chocolates (costing £12 each).

3) A lease premium paid of £40,000 for a 10-year lease starting on 1 January 2018.

Briefly explain, with supporting calculations, whether any adjustment to trading profit is necessary for Corporation Tax purposes, for each of the items.

1. no adjustment to the profits as ~~no~~ payment made within 9 months.

2. ~~diaries~~ Gifts bearing the logo are allowable only if they aren't food or drink
add back chocolates £12 each
Gifts < £25

3. premium can be spur over period of lease.
£40,000 × 1/10-1 = 4,444 allowable
Add back £35,556.

4. Fold plc's pension expense in its recent financial statements was as follows:

	y/e 31 March 2019	y/e 31 March 2018	y/e 31 March 2017
	£	£	£
Pension expense	1,580,000	640,000	380,000

The financial statements for the year to 31 March 2017 included an accrual of £50,000 that was paid in April 2017.

Briefly explain, with supporting calculations, the allowable tax deduction from profits for each of the three years ending 31 March 2019 in relation to these pension contributions.

march 17; only allowed paid pensions as a deduction
ie £380,000 - 50,000 = £330,000
allowable deduction.

march 18
include amount paid from march 17
£640,000 + 50,000 = £690,000.

increase in pension < 110% from previous year (£693,000 limit)
therefore all allowable.

march 19.
Increase ~~100~~ 110% = 1,344,000.
excess = £1580 - 1344,000
= 236,000.

excess will not be allowable ~~that~~ the allowable pension
= £1,344,000

as excess is < £500,000 this would need to be spread in future year can just be c/f.

5. Plenko Ltd started trading on 1 January 2018 and prepared its first accounts for the 18-month period of account ended 30 June 2019. Figures for the 18-month period include:

	£
Trading profits before the deduction of capital allowances	385,200
Capital gain on a disposal made on 1 August 2018	44,000
Qualifying charitable donation paid on 12 December 2018	(5,000)

The only relevant item for capital allowances purposes is a machine purchased on 10 May 2018 for £260,000.

Calculate the taxable total profits for the 18-month period of account ended 30 June 2019.

12 months 31 Dec 18.

profits x 12/18 =	256,800.
gain	44,000
charitable donation	(5,000)
	295,800.
less CAs	(210,800)
	85,000.

30.06.19.

profit x 6/18	128,400.
CAs	(4,428)
	123,972.

CAS.

31.12.18.	AIA	MRP.
machine	200,000	60,000
@18%.		= (10,800) CA + AIA.
c/f		49,200.
30.06.19.		
@18% x 6/12 =		4,428. CA.

6. Arthur owns all the shares in Arthur Art Ltd and is the sole employee. Arthur has provided the following information for the year ended 5 April 2019:

		£
Turnover	From relevant engagements	118,000
	From other engagements	12,000
		130,000
Expenses	Salary paid to Arthur	(18,000)
	Employer's National Insurance	(1,322)
	Mileage paid to Arthur to reimburse travel to client premises, using HMRC authorised rates	(880)
	Accountancy and legal fees	(2,400)

Calculate the deemed salary for Arthur for the year to 5 April 2019.

relevant engagement	£118,000
less	
Salary	(18,000)
ER NI	(1,322)
mileage	(880) Allowable
Accountacy -	not -
Gross deemed salary	97,798
NI @ 13.8/113.8	(11,860)
net deemed salary	85,938.

7. Applea Ltd, a manufacturing company, is the parent company of Bean Ltd, an investment company.

Applea Ltd transferred a commercial property (originally purchased for £80,000 in September 2006) to Bean Ltd on 1 May 2015 when the market value of the commercial property was £240,000.

On 1 September 2019 Applea Ltd sold its 100% shareholding in Bean Ltd for £680,000. The shares had an indexed cost at that date of £105,000. The market value of the commercial property at this date had increased to £320,000.

Calculate the chargeable gain arising as a result of the sale of shares of Bean Ltd.

As Applea Ltd + Bean Ltd are in a group
initial transfer in May 15 would
be at no gain, no loss.
As Applea Ltd removes itself from
the group within 6 years of the
transfer there will be a de-grouping
charge.
The gain on the property will be
added to the ~~&~~ gain ~~of~~ on sale of
the shares.

May 15.

240,000	MV
(80,000)	cost
160,000	gain

sale of Shares.

proceeds	£680,000.
cost	(105,000)
	575,000
De group charge	160,000
gain	735,000.

8. During the year ended 31 October 2019, Traeze Ltd, a large company, spent the following amounts on research and development:

	£
Machinery and equipment	100,000
Staff exclusively employed for the project	40,000
Consumables used within the project	22,500
Software exclusively used within the project	8,200

Briefly explain the Corporation Tax relief available for the research and development expenditure.

credit is not allowable on capital items for R+DEC.

relief will be available @12%. of the allowable expenditure.

allowable on staffing costs, consumables + software.

£40,000
+ £22,500
£ 8,200
70,700

@12%.

→

£8,484 Tax credit available

GA 2009 1076-1079

FA 1998 Sch 18.

9. Bilip Ltd had UK trading profits of £200,000 for the year ended 30 September 2019. In addition, it had overseas income of £48,000, net of overseas tax of £4,000. There is no double tax agreement between the UK and the country in which the overseas income was earned.

During the same year, the company paid a qualifying charitable donation of £2,000.

Calculate the Corporation Tax liability for Bilip Ltd for the year ended 30 September 2019.

UK profits.	200,000
oversea income (48000 + 4,000)	52,000
	252,000.
Donations	(2,000)
	250,000.
CT @19% =	47500.
DTR =	(4,000)
~~tc~~ liability	43,500.

DTR
lower
~~higher~~ of
foreign tax £4,000
UK tax 52,000 @19% = 9880

10. On 1 April 2018, Serine Ltd sold a freehold commercial property that had been used in its trade for £680,000. The indexed gain arising was £400,000.

On 1 October 2019, Serine Ltd purchased a 40-year lease on a commercial property to be used in its trade for £610,000.

Briefly explain the implications of a claim for business asset rollover relief.

Able to claim rollover relief is ~~proceed~~ additional business assets are purchased: 12 months before sale + up to 3 years after sale.

purchase of the lease falls within these dates

As only part of the ~~gain~~ proceeds ~~was~~ were ~~re~~ reinvested the gain is restricted for rollover relief.

proceeds	£680,000
purchase	£610,000
	70,000 gain immediate chargeable on April 18 transfer.

Rollover relief available

£400,000 - 70,000

= £330,000

This would reduce the base cost of the new asset

ie £610,000 - 330,000
=£280,000

So on sale of the new asset gain will be increased due to a lower base cost.

delays the CGT untill resale

11. Broadzy Ltd is owned and controlled by Peter and his sister Jane. Accounts are prepared to 30 June each year and the company does not pay Corporation Tax in instalments.

On 1 June 2017, Broadzy Ltd made a loan of £100,000 at a commercial rate to Peter.

Peter repaid £10,000 of this loan in May 2018, but then borrowed a further £40,000 from Broadzy Ltd in February 2019.

Peter is expected to repay all the outstanding amounts in January 2021.

Briefly explain the Corporation Tax implications of the loan made by Broadzy Ltd. You are NOT required to consider National Insurance.

loan made would ~~to~~ create a S.455
charge on higher of
amount outstanding at y/e
outstanding at due date

30 June 17 loan £100,000
due 1.may 18. £90,000.
charge @ 25% on £90,000 = 22,500

The new loan in feb is treated
saparately as not taken out within
30 days of repaying the 1st loan. 1
And 1st repayment wasn't made
knowing a new loan would be
issued,

y/e 30 June 18. loan £130,000.
due date £130,000
charge 25% on £130,000. = 32500.

when the loan is repaid company will also recieve repayment of S.455 charge.
ie an £40,000

They will see the repayment in the June 20 accounts.

12. Telno plc and its' three wholly owned subsidiaries had the following results for the year ended 30 June 2019:

	Telno plc	Ultrone Ltd	Vilone Ltd	Wixile Ltd
	£	£	£	£
Trading profit	200,000	400,000	50,000	20,000
Capital gains/(losses)	(20,000)	60,000	–	10,000

Wixile Ltd had capital losses brought forward at 1 July 2018 of £20,000 resulting from a disposal made in December 2012.

The shares in Ultrone Ltd and Vilone Ltd have been owned for many years, but the shares in Wixile Ltd were purchased in September 2017.

Briefly explain how the capital losses of Telno plc and Wixile Ltd can be used.

wixile ltd can use capital loss b/f
against ~~tax~~. capital gains only
ie £10,000 in June 19
addition losses of £10,000 ~~can~~ must
then be carried forward ~~also~~

Telno can transfer the losses to
Ultrone ltd or c/f against future
losses.
It can also offset against c/y
trade profits.

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