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☐ Tick box if you have answered in accordance with Scots Law

☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advanced Technical Paper you have attempted (if not already ticked below)

☐ Taxation of Owner-Managed Businesses	☐ Taxation of Individuals
☐ Domestic Indirect Taxation	☐ Cross-Border Indirect Taxation
☐ Inheritance Tax, Trusts & Estates	✓ Taxation of Major Corporates
☐ Human Capital Taxes	

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

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QUESTION NUMBER 1

Tax Solutions LLP
London

Mr MacIntyre
Challenger Plc
London

May 2019

Dear Mr MacIntyre

Re: Group Restructuring

Reliefs are available on the disposal of shareholdings, in the case of certain conditions being met. I have outlined these below.

Endeavour Ltd

There will be a chargeable gain on disposal of the shares, equal to proceeds less indexed cost.

Proceeds (estimated)		60m
Cost		(20m)
Indexation	$\frac{278.1 - 166.6}{166.6}$	(13.385m)
Estimated gain		26.615m

Please note indexation is only available up to

QUESTION NUMBER | 1

31st December 2017, after which time it has been frozen.

However, the substantial shareholding requirement will exempt the gain when:
- the shares have been held throughout a 12 month period in the 6 years prior to disposal
- the company owns not less than 10% of the company's ordinary share capital
- the company being disposed of is a qualifying company in the 12m before being sold.

~~Endea~~ Endeavour Ltd has been owned by Voyager Ltd for ~~the~~ the previous 12 months, it is a wholly owned subsidiary, and it is a trading company.
Therefore the disposal will qualify for SSE meaning the chargeable gain will be exempt.
(Please not that if for any reason, there was actually a loss realised on disposal, SSE would also disallow the capital loss.)

QUESTION NUMBER 1

~~There will be no degrouping charge arising due to Endeavour leaving the group. Although the trade and assets were transferred to Endeavour less than 6 years ago on 31 st December 2013,~~

Endeavour Ltd Degrouping Charge

The transfer of trade and assets from Atlantis & Discovery Ltd would have been tax neutral as ~~they are~~ it is a succession between members of a 75% group.

However, Endeavour Ltd is leaving the group within 6 years of the transfer from Discovery Ltd (which occurred on 31 Dec 2013).

Therefore a degrouping charge may arise on assets such as loan relationships and IFA's.

Prop Co. Ltd

The original property transfers would have been done at cost plus indexation.

The subsequent disposal of Prop Co Ltd will not qualify for SSE, because although more than 10% of the shares are held for a period of more than 12 months, the company

is not a trading company or the holding company of a trading group.
Therefore there will be a chargeable gain equal to proceeds, less indexed cost of original acquisition.
~~There will~~

PropCo Ltd Degrouping Charge
The property transferred from Discovery Ltd on 31.12.13, ~~will [illegible]~~ at NGNL, is now leaving the 75% gains group, within 6 years.
If the sale does not go through before 31.12.19 there will be no degrouping charge.
The degrouping charge will be based on the market value of the property at the date of original transfer.
The DC will be added to the consideration recieved by the vendor company, i.e Challenger plc, thus increasing the chargeable gain.

Further notes
SSE will be denied when ~~[illegible]~~ overall trading activity of the group is less than 80%.
In other words 20% or more of turnover, asset base, management time and expenses is attributable.

to non-trading activities.
Chargeable gains are payable at a rate of 19% corporation tax.

2) Manchester Property
The lease is a long lease.
Sub lease will be a part disposal

QUESTION NUMBER 1

York Property

This is an Assignment of a short lease.

Gain calculated as:

$$\frac{\% \text{ at start} - \% \text{ when assigned}}{\% \text{ at start}}$$

$$\frac{64.116 - (w_1)\,48.645}{64.116} \times \text{cost } (500,000)$$

$= £120,\cancel{026}\,649$

(w1) At assignment there is 10 years and 7 months left on the lease

10 yrs = 46.695   11 yrs = 50.038

10 yrs & 7 months = 46.695 + 1.95

= 48.645

Gain on assignment =	Proceeds	500,000
	Cost	120,649
		£379,351

QUESTION NUMBER | 1

If you have any questions please let me know.

Kind regards

Jason Jones

QUESTION NUMBER 2

Year ended 31/3/18:

	Alpha	Beta	Gamma	Delta
TTP	7.2m	–	0.3m	0.6m
Group relief				
(a) from Beta	(7.2)m		(0.3m)	(0.6m)
TTP	0		0	0

Beta Loss Memorandum 31/3/18

Trading loss	(21.~~2~~)
~~Less~~ Group relief:	
Alpha	7.2
Gamma	0.3
Delta	0.6
Loss c/fwd	(13.1)

Notes for y/e 31/3/18:

(1) Assume each company utilises their current losses themselves rather than relieving round the group - Gamma Ltd NTLR deficit offset against current year trading profit.

(2) Assume Gamma Ltd has ~~[illegible]~~ no NTLR credit in previous year to which the

QUESTION NUMBER 2

current year loss could have been carried back and utilised against.

31 March 2019:

	Alpha	Beta	Gamma	Delta
TTP	8m	1.5m	1.2m	0.5m
Loss b/fwd	(6.5m)	(0.75m)	(0.6m)	(0.25m)
TTP	1.5m	0.75m	0.6m	0.25m

Notes for y/e 31/3/19

The brought forward losses in Gamma Ltd are subject to restrictions. The company's are all in a group and therefore for b/fwd losses post Apr 17, there is a deductions allowance to be shared between them of £5m.

~~Any losses b/fwd~~

The maximum amount of loss that can be utilised by any company is their total profits (after current year claims) less the deduction allowance, x 50%.

QUESTION NUMBER 2

Assuming the full allowance is allocated to Alpha.

Total loss relief restricted to:

(8m - 5m) x 50% = 1.5m ~~plus~~

plus allowance 5m = 6.5m

Beta Ltd loss restriction:

1.5 x 50% = 0.75m

~~Beta~~ Gamma Ltd: 1.2 x 50% = 0.6m

Delta Ltd: 0.5 x 50% = 0.25m

GAMMA

Loss memorandum 31/3/19

b/fwd 1.4.18	(13.1)
Group relieved.	
Alpha	6.5
Beta ~~Gamma~~	0.75
Delta	0.25
Used in Gamma	0.6
c/fwd	(-5.0)

The group must submit a group allocation statement to HMRC before the first anniversary of the filing date for the tax return period which lists the group companies and states the amount of deduction allowance allocated to each company for the specified accounting period

The group must nominate one of the group companys who will be responsible for the statement and submission.

Each company will also have to state on their tax return the amount of relief they are claiming including, the utilisation of brought forward losses after the deductions allowance.

QUESTION NUMBER 3

Subject:

Peter Systems Ltd: Guidance regarding administration

~~By Sarah Morgan~~

Date: May 2019

Company level Admin

Each company will be required to file a CT 600 tax return annually, which will be due by 28 February each year, which is within 12 months of the end of the accounting period.

The corporation tax will be payable within 9 months and 1 day of the accounting period (ie 1st December), unless they are required to pay in instalments (see later on).

The CT600 must be filed along with an iXBRL version of the company's full accounts for the period. Submission can be done online.

The tax return will include a capital allowances computation.

The AIA of £200,000 must be shared between all >51% UK subsidiaries/companies

however you wish.
If the group of company's is deemed large for tax purposes, they will have to pay their tax in quarterly instalments.

~~The due dates will be~~

The first instalment will be due 6m 13 days from start of the accounting period and then every 3 months on the 14th day after.
The amount payable in each equal quarterly instalment ~~as~~ will be a quarter of the estimated liability, with any balance payable with the last instalment due.
In the case of the UK companies with 28th Feb 2019 year end, the instalments will be due

14th September 2018
14th December 2018
14th March 2019
14th June 2019.

A company is large for this purpose if augmented profits exceed £1.5m. However this threshold is reduced for all companies part of a 51% group, not dormant in the year.
In the case of Peter Systems Ltd, this appears

to be 20 companies, and therefore any company whose augmented profits exceed £75,000 will be required to pay their corporation tax in instalments

You will also need to include on each company's tax return the amount of brought forward loss (if any) that they may be utilising in the current year, as this is no longer automatic and must be claimed ~~apr~~ as of 1st April 2017.

Any reliefs claimed such as patent box, r&d or group relief will also need to be included in the CT600.

~~~~

Group Level administration

Payments ~~in state~~ on account:

The companies are required to nominate one group company who will ~~be~~ be responsible for collecting all the payments. This must be notified to HMRC one month before the 1st instalment is due.
~~~~

QUESTION NUMBER 3.

The nominated company will need to allocate the payments due between the companies, and prompt them when to pay, as HMRC will not send out individual reminders. Each company will be liable for any CT due after the due date.

The nominated company must inform HMRC when new members join or members leave the 'group'.

The idea of having the nominated company is to save on admin and time for each company by having one central point of amalgamation of amounts owed.

The first statement / notification to HMRC must specify the period it relates to, and then after that it will be automatic.

HMRC can remove groups or the nominated company if they are not doing their responsibilities correctly.

There are also administration requirements if the companies enter into simplified arrangements for group relief - assuming they have losses to

QUESTION NUMBER 3

group relieve.

Again this involves an application ~~from~~ an authorised company.

UK Subgroup Results.

I notice that the net interest expense of the UK companies is 4 million.

From 1st April 2017, new corporate interest restrictions apply to restrict tax relief for UK interest expenses over a £2 million de minimus. These rules surpass the worldwide debt cap.

The UK companies may be caught be these rules as the interest expense is above the ~~di~~ di minimus amount.

Further information ~~for~~ from the group & companies will be required to establish whether the ~~base interest allowance~~ interest capacity exceeds the basic interest allowance, and whether a restriction on relief is required. The reporting company must submit a corporate interest restriction return, (nominated by the group), showing the interest workings, interest retrictions if relevant, by 12m after the end of the accounting period.

Sarah Morgan

~~Interest payable by UK companies~~

~~A loan relationship is where a company~~

To: Natasha Turner

Subject: Symmel Plc Tax Implications

From: Alex Smith

Hi Natasha

Firstly, regarding your queies regarding the interest payments and reciepts, please see below.

A ~~ena~~ loan relationship is where a company stands in the position of a creditor or debtor ~~as~~ respects any money debt, and the debt arises from the transaction of lending money.

Unless the money is used to fund trading operations, the interest payments and reciepts will be taxed in the UK as non-trading loan relationship ~~ofa~~ debits and credits, subject to UK CT at 19%.

There will be a charge to tax where any controlled foreign companies profits fall within the non-trading finance profits gateway.

QUESTION NUMBER 4

The purpose is to tax funds that originate in the UK.

Because Symmel plc is a UK company which owns 100% of Symmel US which is a US company, then this will be a controlled foreign company as it is an overseas subsidiary.

Where there is interest from ~~interest~~ money ~~is~~ lent/borrowed to a UK company (connected or unconnected), money on deposit account or an unconnected overseas subsidiary, then it will be 100% taxable in the UK.

There is a 75% exemption where the interest ~~is~~/ relationship is between connected overseas companies and there is a qualifying loan relationship, and they are situated in business premises overseas with a degree of permanence (more than 6 months).

There is 100% exemption from tax if there is a qualifying loan relationship funded by qualifying resources such as out of reserves.

QUESTION NUMBER 4

As the original loan relationship originated in the Uk, interest payable/recievable will be taxable (1)

Interest paid from a Uk company to an overseas company is required to have witholding tax of 20% applied.
The tax must be paid to HMRC on a quarterly CT 61 by the 14th day in the month following the end of the quarter.

The CFC exemptions are as follows:
The Exempt Period Exemption, if this is the first period (12 months) that the foreign company has ~~4~~ come into the Uk tax system.

The excluded territories exemption applies if the CFC is resident in an excluded territory and does not have 'bad income' of more than £50,000 or 10% of its accounting profits.

QUESTION NUMBER 4

Low profits exemption is where accounting profits are no more than £500,000 and the amount representing non-trading income is no more than £50,000. This does not apply if there is a tax avoidance arrangement.
The low profit margin exemption is where the accounting profits for the period are no more than 10% of the CFC's relevant operating expenditure

Finally the tax exemption applies if the local tax amount is at least 75% of the corresponding UK tax (ie 14.25%)

1

The interest expense / recievable will be £2,000,000.
There is a tax mismatch because the interest recieved is not taxed in the US, but is potentially being expensed when paid out

Symmol not likely to be exempt from CFC, as although it is in a qualifying territory, it has bad income over the threshold (had the interest been taxed correctly).

QUESTION NUMBER 4

Although this is the first year owned by Doncon, it is not the first year of being a CFC.

Any more questions, please let me know.

Kind regards,

Alex

QUESTION NUMBER	5

To: Directors of Ryfe
Re: Migration and options for Ryfe Ltd

The migration of Stejar Ltd from the UK to South Africa, would be a migration of a 75% subsidiary.
The accounting period would come to an end as no longer within the charge to UK corporation tax.
Any losses can no longer be relieved to the UK group.

Factory
The asset is not situated in the UK or used for UK trade. Therefore there will be a deemed chargeable disposal at MV less cost + indexation:

MV	13,000,000
Cost	(5,000,000)
Indexation $\frac{278.1-209.8}{209.8} \times 5m$	(1,627,741)
Workshop	(500,000)
Indexation $\frac{278.1-248.7}{248.7}$	(59,107)
Gain	£5,813,152

@ 19% = ~~£110~~ £1,104,499

Plant & Machinery

There will be a deemed disposal at MV which will create a balancing charge in the capital allowances pool, of the difference between the TWDV less the disposal proceeds = £100,000.

No capital allowances can be claimed ~~that the company~~ in the final period of account in the UK.

Office Block

Although this is situated in the UK, it is not part of the trade so there will be a deemed disposal at MV.

MV		3,000,000
Cost		(2,000,000)
Indexation	$\frac{278.1-242.4}{242.4}$	(294,554)
		705,446

@ 19% UK CT = £134,035

Any disposal of the investment property in the future will be outside the scope of UK CT.

QUESTION NUMBER 5

Patent

Patent acquired in 2010, which is post Apr 2002 so it is an intangible fixed asset. Deemed disposal at MV, so ~~chargeable~~ the excess is a trade profit = £3,500,000
CT @ 19% = £665,000.

However, can elect within 2 years of the end of the last accounting period (ie, date of migration) to postpone the chargeable gain accruing on foreign assets used for the purpose of the trade, which will be the factory and the patent.
Instead the postponed gain will become chargeable at a time when the company ceases to be a 75% subsidiary of ~~Ry~~ Ryfe Ltd, ~~Ryfe~~ or Ryfe Ltd ceases to be UK resident.
It will also become chargeable, if at any time within 6 years the company disposes of that chargeable asset.

There is no exit tax plan as migrating to a company outside the EEA.

QUESTION NUMBER 5.

If Mr Jary repurchase the company, then the postponed capital gains/profits will become chargeable.

If the factory is sold to a third party in Apr 2020, this will be within 6 years so the postponed gain would become chargeable. However, any gain arising on the time after the asset left the UK tax system will not be chargeable to UK tax.

Please let me know if you have any further questions.

QUESTION NUMBER | 6

Trade Profit

Profit /(Loss) before tax	(5,163,000)
~~Add~~ Less dividends	(31,000)
Add legal expenses	50,000
Add customer entertaining	12,545
Add bonus	400,000
Add pension spread (w1)	1,186,000
Add interest payable	596,000
Less cap allow (w2)	~~(2,609,733)~~
	(2,609,733)
Add depn	4,054,000
Interest recievable	(272,000)
	~~(2,281,288)~~
	(2,056,188)

Part of group for 6 months

1 July 2018 – 31 st Dec

So can offset loss ~~4/9 of~~ lower of:

~~profit~~ loss x 6/9 = 137,0792

or

Griffin profit 8,350,524 x 6/12 = 4,175,262

so loss of 1,370,792.

Must apportion loss for period both in group!

QUESTION NUMBER 6

Pension: (W1)

Normally for a 9month period = 12,00,000

This year = 3,100,000

210% x 1.2m = 2.52 m

~~3.1~~ 3.1m > 2.52m, therefore spreading required

Allowed = 1.2 x 110% = 1.32 m

Excess of 1.78 m needs to be spread over 3 periods.

Therefore disallow 2/3 = 1.186m

Capital Allowances (W2)

	GP	SP	CA
b/fwd 1.4.18	11,247,326	248,562	
Machine	6,400,000		
AIA (9/12) x200,000	~~(150,000)~~	(150,000)	150,000
Cars	48,000		
R&D equip	75,000		
FYA	(75,000)		75,000
Air con	(150,000)		
Disposal		(70,000)	
	17,545,326	268562	2384733 ~~224983~~
WDA @ 18% / 8% x 9/12	(2,388869)	(16,114)	~~15,118~~

QUESTION NUMBER	6

Total CA = 150,000 AIA + 75,000 FYA
+ 2,384,983 WDA = ~~2,4__,983~~
2,609,733 ~~2,6__,983~~

Note ① Machinery disposed of at cost = NBV - loss
so 250,000 + 100,000 = 350,000
② No cap allow on obligation to pay > 4 months after delivery
③ 70 g/km = general pool
④ AIA limit for 9/12 months
⑤ WDA for 9/12 months
⑥ Air con = special rate, integral feature
⑦ Allocate AIA to SR expenditure first
⑧ Bonus paid > 9m after year end not allowable
⑨ Loan to buy shareholding is not a trade expense, loan to buy factory is.
⑩ Dividend exempt as ~~____~~ small portfolio holding.

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