Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

May 2019

Taxation of Major Corporates

Advanced Technical Paper

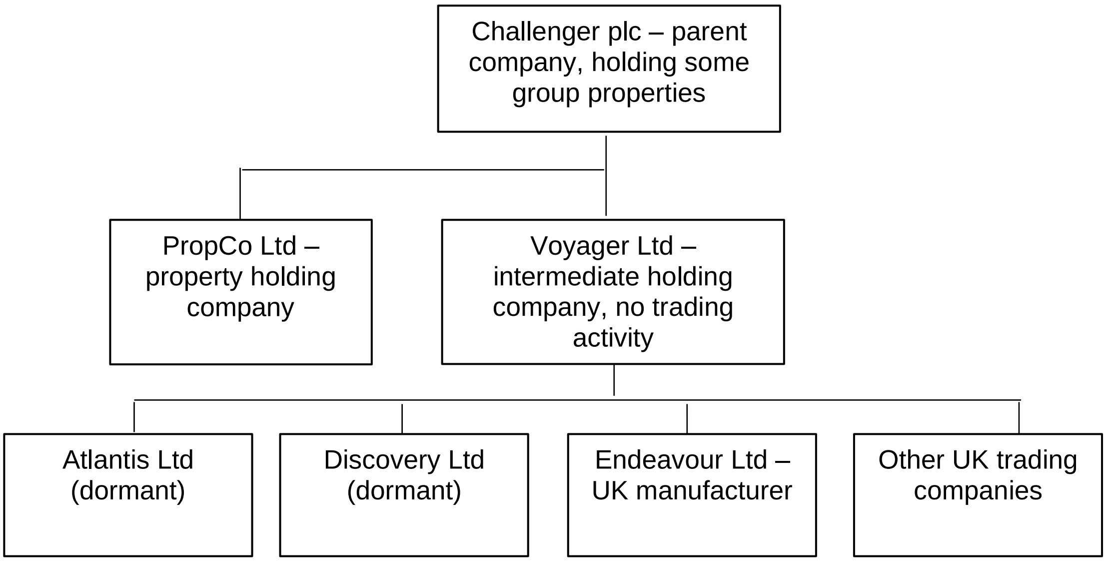
TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to write in the answer booklet. The Presiding Officer will inform you when you can start writing.
- You should answer all **SIX** questions.
- Start each answer on a fresh page and do not write in the margins.
- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Marks are specifically allocated for presentation.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should tick the appropriate box on the front of each answer booklet.
- 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 table information, you may assume that 2018/19 rates and allowances continue to apply for 2019/20 and future years. Candidates referring to actual or pending rates and allowances for 2019/20 and future years will not be penalised.

1. You are Jason Jones, a tax manager at Tax Solutions LLP. You have been contacted by Colin MacIntyre, Finance Director of Challenger plc, a long-standing client of the firm, for advice in connection with a proposed group restructuring.

The Challenger group operates solely in the UK and is primarily a manufacturing group, which has grown significantly over the last 10 years, mainly as a result of corporate acquisitions. However, the group has now decided to focus on certain core activities and a programme of divestment is planned to occur during the year. The first proposed divestment is of the trading activities carried on by Endeavour Ltd.

The group structure is set out below, including the activities of each subsidiary. All subsidiaries are wholly owned.



Atlantis Ltd was acquired in 2010 and Discovery Ltd was acquired in 2013. Each company continued to trade until the 31 December following acquisition. The property of each company used for trade purposes was then transferred at net book value to PropCo Ltd, while the trade and remaining assets were transferred to Endeavour Ltd, again at net book value.

Since any purchaser of Endeavour Ltd would want to acquire the properties with the trades, it is proposed that the shares of PropCo Ltd, as well as the shares of Endeavour Ltd, will be sold. Details of the original acquisitions of these companies and the anticipated sale proceeds are set out below.

	Acquisition date	Note	Acquisition cost £million	Anticipated sale proceeds £million
Endeavour Ltd	1 January 2000	Acquired from a third party	20	60
PropCo Ltd	1 January 2009	Acquired from a third party. Propco Ltd's only asset at that time was a property the group wished to purchase.	15	30

Continued

1. Continuation

As well as operating in the three premises held by PropCo Ltd (the one held on acquisition plus the two transferred by Atlantis Ltd and Discovery Ltd), Endeavour Ltd also operates from properties in Manchester and York. Challenger plc holds leases on these properties, which will be made available by Challenger plc to a new purchaser to enable the business to continue in its current form in the immediate future. Details of these properties are set out below.

	Interest held by Challenger plc	Lease period if applicable	Lease premium paid by Challenger plc	Proposal
Manchester property	Leasehold	70 years from 1 March 2010	£1 million	10 year sub-lease to be granted by Challenger plc for £250,000
York property	Leasehold	15 years from 1 January 2015	£500,000	To be assigned by Challenger plc for £300,000

Colin has asked you to explain the tax implications of the proposed disposals of the shares of Endeavour Ltd and PropCo Ltd, and to provide calculations relating to the tax treatment of the Manchester and York property transactions, assuming that all transactions will occur on 1 June 2019.

Requirement:

Draft a letter to Colin MacIntyre which advises on:

1) **The proposed disposals of the shares in Endeavour Ltd and PropCo Ltd.** (14)

2) **The tax treatment of the Manchester and York property transactions to be carried out by Challenger plc.** (6)

Total (20)

2. Alpha Ltd has three wholly owned subsidiaries: Beta Ltd; Gamma Ltd; and Delta Ltd. The taxable results for the years ended 31 March 2018 and 31 March 2019 are shown below.

	Alpha Ltd	Beta Ltd	Gamma Ltd	Delta Ltd
Year ended 31 March 2018	£million	£million	£million	£million
Trading result	5.5	(21.5)	1.2	0.5
UK property business income	0.5	0	0	0
Non trading loan relationship credit/(debit)	1.2	0.3	(0.9)	0.1
Year ended 31 March 2019				
Trading result	6.7	1.2	1.3	0.4
UK property business income	0.5	0	0	0
Non trading loan relationship credit/(debit)	0.8	0.3	(0.1)	0.1

Requirement:

Show how the group should use the losses for the years ending 31 March 2018 and 31 March 2019, including a loss memorandum and providing any necessary explanations, assuming all appropriate claims and elections are made. (10)

3. You are Sarah Morgan, a tax senior at Jones Roberts LLP, a firm of Chartered Accountants. The tax partner, Jacob Keane, has received the email below from Larry Stevenson, the new Finance Director at Peter's Systems Ltd. Peter's Systems Ltd has been a client of your firm for several years.

To: Jacob Keane, Jones Roberts LLP
From: Larry.Stevenson@peterssystems.mail.co.uk
Date: 8 May 2019
Subject: Administration responsibilities

Jacob

As you are aware, I have recently transferred from the US Head Office to take over as the UK Finance Director. Although I will, of course, be taking advice on specifics such as the calculation of the group's UK tax liabilities at the relevant time, I am keen to understand how the administration of the tax system operates in the UK and specifically what must be filed, and when. Whilst I am getting advice from the in-house tax team on employee taxes and VAT, I would like you to prepare a note for me explaining the other administrative requirements of the UK tax authorities at both company and group level. I do not require details on penalties as I intend to ensure that we comply in full with all legislation and obligations.

Thank you for your assistance and I look forward to hearing from you.

Regards

Larry

Your files show that the global group is headquartered in the US and consists of more than 500 companies. The group is structured such that each jurisdiction is contained within a distinct subgroup. The UK subgroup consists of 20 active trading companies and four intermediate holding companies with only minimal activity.

You have also located the draft consolidated UK accounts for the year ended 28 February 2019 and the results for the UK subgroup include:

	£million
Turnover	230
Cost of sales	(75)
Gross profit	155
Operating costs	(140)
Interest payable	(6)
Interest receivable	2
Profit before tax	11
Tax charge	(4)
Profit after tax	7

Requirement:

Draft a note, for review by Jacob, explaining the administrative matters relating to the UK tax system as requested by Larry Stevenson. (20)

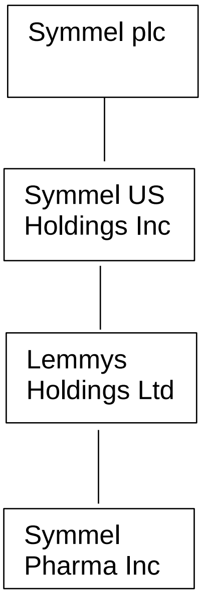
4. You are Alex Smith, a tax manager in Steele and Palmer LLP, a firm of Chartered Accountants.

On 1 January 2019, one of your major corporate clients, Dancon Group plc, acquired all the share capital in Symmel plc, a UK incorporated and tax resident holding company of a pharmaceutical group. Symmel plc has trading subsidiaries in a number of tax jurisdictions including the US.

The US operations of Symmel plc commenced on 1 April 2014 when three new companies were incorporated:

Company	Tax residency
Symmel US Holdings Inc	US
Lemmys Holdings Ltd	UK company but treated as a branch of Symmel US Holdings Ltd for US tax purposes because of a US "check the box" election
Symmel Pharma Inc	US

The structure of the US operations is as follows:



Symmel plc lent \$500 million (available from its retained profits) to Symmel US Holdings Inc, which then on-lent all those funds to Lemmys Holdings Ltd. The interest rate on both loans was 4%, which is an arm's length rate.

However, since the group has elected to "check the box" in the US in respect of Lemmys Holdings Ltd, Symmel US Holdings Inc and Lemmys Holdings Ltd are treated as one company for US tax purposes. As a result, any interest receivable by Symmel US Holdings Inc from Lemmys Holdings Ltd is not taxed in the US.

Lemmys Holdings Ltd used the \$500 million to make an equity investment in Symmel Pharma Inc, which then spent the \$500 million to acquire a number of US trading subsidiaries.

Continued

4. Continuation

Natasha Turner, the Finance Director of Dancon Group plc, has asked for advice about how the structuring of the US operations of the Symmel plc group affects the UK tax treatment of interest payments and receipts. She believes that since there are corresponding credits and debits in the UK, there should be no UK Corporation Tax implications but she would like you to confirm this.

Also, Natasha has been told that Symmel Pharma Inc is a “controlled foreign company” of Symmel plc but an exemption is available. She is not sure what this means.

Requirement:

Draft an email to Natasha Turner:

1) **Advising on the UK Corporation Tax implications of the arrangements in respect of the interest payments and receipts since 1 January 2017.** (10)

2) **Explaining the Controlled Foreign Company exemptions including whether Symmel Pharma Inc is likely to be exempt.** (5)

Total (15)

5. You are a tax manager in a firm of Chartered Accountants, Potter and Walker LLP, that advises Ryfe Ltd, a UK incorporated and tax resident company. Ryfe Ltd has a number of wholly owned subsidiaries involved in the motor industry. The group has an accounting date of 30 June.

One of Ryfe Ltd's subsidiaries is Stejar Ltd, a company that was incorporated in South Africa by Steve Jary, an engineer. Mr Jary sold Stejar Ltd to Ryfe Ltd in 2004 but continued as the Managing Director of Stejar Ltd, moving from South Africa to London at the time of sale. After the sale, a head office team located in the UK managed Stejar Ltd but the company did not trade in the UK; it only traded through branches located outside the UK.

On 31 January 2019, the head office team, including Mr Jary, moved from the UK back to South Africa. The company complied with the necessary administrative procedures prior to migration from the UK to South Africa.

The assets held by Stejar Ltd at the time of the migration were as follows:

1) A factory located in Spain, which was acquired in January 2008 for £5 million. A new workshop was added to the factory at a cost of £500,000 in March 2013. The market value of the factory was £13 million on 31 January 2019.

2) Plant and machinery located in the Spanish factory; the original cost was £2 million. On 31 January 2019, the tax written down value was £400,000 and the market value was £500,000. This plant and machinery was not part of the building and therefore not treated as fixtures.

3) An office block in the UK held for investment purposes, which was acquired in May 2012 for £2 million. On 31 January 2019, the market value was £3 million.

4) A patent for an industrial process used by the company in the production of goods for sale. The original cost was £4 million when the patent was acquired from a third party in 2010. On 31 January 2019, the tax written down value was £1,750,000 and the market value was £5,250,000.

The directors of Ryfe Ltd are now considering two options that have been put to them:

1) Mr Jary is keen to repurchase Stejar Ltd because he believes the company could be more profitable outside of the group as it would not have to bear its share of group costs. If the sale goes ahead, the date of the transaction will be 1 January 2022 to allow Mr Jary time to raise the necessary finance.

2) A third party has expressed an interest in purchasing the Spanish factory for £15 million in April 2020.

Requirement:

Prepare a briefing note for the directors of Ryfe Ltd explaining the tax consequences of the migration and the impact of the two options being considered. (15)

6. You work for Holt LLP, a firm of Chartered Tax Advisers, and your client is Griffin Ltd, a UK resident trading company.

On 1 July 2018, Griffin Ltd acquired the entire issued share capital of Harvey Ltd, also a UK resident trading company. Except for the shares in Harvey Ltd, Griffin Ltd has no subsidiaries or associated companies.

Following acquisition, Harvey Ltd changed its accounting date from 31 March to 31 December in order to align with the accounting date of Griffin Ltd and accordingly will prepare accounts for the nine months to 31 December 2018. You have reviewed the draft accounts and obtained the following information.

Draft income statement

	Notes	£'000
Turnover		172,410
Other income	1)	422
Cost of sales		(144,124)
Gross profit		28,708
Administration expenses	2)	(33,251)
Bank interest receivable (gross)		272
Interest payable	3)	(892)
Net loss		(5,163)

Notes

1) Other income consists of dividends received of £310,000 and an estimated R&D expenditure credit of £112,000.

2) Administrative expenses include:

	Notes	£
Legal expenses	(a)	50,000
Entertaining:		
Customers		12,545
Staff		3,300
Directors' bonuses	(b)	1,200,000
Pension contributions	(c)	3,100,000
Depreciation		4,054,000
Loss on disposal of plant		100,000

Notes

(a) The legal expenses were for legal advice provided to the shareholder directors on the sale of their shares to Griffin Ltd.

(b) The directors' bonuses relate to the performance of the company during the nine months to 31 December 2018 and were paid/payable in three instalments on 1 May 2019, 1 September 2019 and 1 February 2020.

(c) The company makes quarterly payments of £400,000 to a defined contribution pension scheme. The due dates for payment are 25 March, 24 June, 29 September and 25 December. In the year to 31 March 2018, all payments were made on the due date as were the payments in June and September 2018. However due to an administrative error, the December 2018 instalment was only paid on 9 January 2019. In addition, a one-off contribution of £1,900,000 was paid into the scheme on 14 July 2018.

Continued

6. Continuation

3) The interest payable is in respect of two bank loans. One loan was taken out to purchase the company's factory five years ago on which interest of £296,000 was paid. The other loan was taken out to purchase a minority shareholding (4%) in an unrelated UK company. The interest payable on this second loan was £596,000 and dividends were received (see Note 1) in respect of this investment.

4) On 1 April 2018, the tax written down values of the general pool and special rate pool were £11,247,326 and £248,562, respectively.

Harvey Ltd disposed of machinery, the costs of which were added to the main pool when it was acquired. The net book value of the machinery at the date of disposal was £250,000.

The company purchased the following fixed assets during the period:

	Note	£
New machinery	(a)	9,600,000
Three new cars with CO_2 emissions of less than 70g/km		48,000
Research & Development equipment		75,000
New air conditioning system		170,000

Note

(a) Harvey Ltd took delivery of the new machinery on 1 October 2018. Under the purchase contract, Harvey Ltd paid one-third on delivery, one-third three months after delivery and one-third six months after delivery.

5) The company incurred the following costs in connection with its qualifying Research & Development (R&D) activities:

	Notes	£
Personnel costs	(a)	1,033,000
Consumables		212,000
Overheads		445,000
Subcontractor costs	(b)	510,000
		2,200,000

Harvey Ltd has no unpaid liabilities in respect of PAYE, VAT or Corporation Tax.

Notes

(a) The PAYE/NIC liability in respect of the staff costs above was £245,221.

(b) The subcontractor costs were paid to a company classified as "small or medium" for R&D purposes.

Continued

6. Continuation

6) The loss position of Harvey Ltd is:

	£
Trading losses brought forward at 1 April 2017	12,325,246
Trading loss for the period ended 31 March 2018	4,583,936
Trading losses carried forward at 31 March 2018	16,909,182
Non-trade loan relationship deficit brought forward at 1 April 2017	1,494,128
Non-trade loan relationship deficit for the period ended 31 March 2018	345,286
Non-trade loan relationship deficit carried forward at 31 March 2018	1,839,414
Research & Development Expenditure Credit brought forward at 1 April 2017	80,935
Research & Development Expenditure Credit for the period ended 31 March 2018	29,524
Research & Development Expenditure Credit carried forward at 31 March 2018	110,459

7) Griffin Ltd made no purchases of plant, machinery and equipment during the year to 31 December 2018.

8) Griffin Ltd made a trading profit of £8,350,524 in the year to 31 December 2018 on which the Corporation Tax liability is £1,586,600. The two companies have agreed that Harvey Ltd will surrender the maximum amounts to Griffin Ltd.

9) There is no corporate interest restriction applicable to this period.

Requirement:

Calculate the Corporation Tax liability for Harvey Ltd for the nine months to 31 December 2018 and identify the maximum amounts that can be surrendered to Griffin Ltd. Provide supporting explanations where appropriate.

(20)