

# **The Chartered Institute of Taxation**

**Awareness**

**Module C: Corporation Tax**

**May 2023**

**Suggested solutions**

Answer 25

	12m ended 31/12/22 £	3m ended 31/03/23 £	
Tax adjusted trading profits before CAs (£1.5m 12:3)	1,200,000	300,000	1
Less CAs (working)	(18,000)	(3,690)	1
Trading profits	1,182,000	296,310	
Property business income (£36,000 9:3)	27,000	9,000	1
Chargeable gain		20,000	1
Taxable total profits	<u>£1,209,000</u>	<u>£325,310</u>	
CT at 19%	<u>£229,710</u>	<u>£61,809</u>	1

Total £291,519

Working – Capital Allowances (CAs)

	£
TWDV at 01/01/22	100,000
WDA for 12m to 31/12/22 (18%)	<u>(18,000)</u>
TWDV at 01/01/23	82,000
WDA for 3m to 31/03/23 (18% x 3/12)	<u>(3,690)</u>
TWDV at 31/03/23	<u>78,310</u>

Answer 26

The amount is deductible as the following tests are met:

1. the provision is made in accordance with GAAP – Yes, see below
2. the expenditure is **not capital in nature** – Yes, as it **relates to the replacement of part of an asset** (the building), and not to the replacement of the entirety of the asset. 1+1

The provision is made in accordance with GAAP as:

1. the company has an obligation to make the payment at the year-end as a result of a past event, and 1
2. it is probable that there will be a transfer of economic benefits to settle the obligation, and 1
3. a reliable estimate can be made of the amount of the obligation. 1

Answer 27

	£	
Taxable trading profits before capital allowances	240,000	
Less capital allowances (working)	(106,120)	
Balancing charge (£12,000 x 130%)	<u>15,600</u>	1
Taxable trading profits after capital allowances	<u>£149,480</u>	

Working

	Special rate additions £	Special rate pool £	CAs £	
WDV b/wd		102,000		
Additions:				
Special rate pool	82,000			
AIA	<u>(40,000)</u>		40,000	1
	42,000			
SR allowance (50%)	<u>(21,000)</u>		21,000	1
		102,000		
WDA (6%)		(6,120)	6,120	1
Balance to SR pool	<u>(21,000)</u>	21,000		
WDV c/wd		<u>£116,880</u>		
Super-deduction for main pool items (£30,000 x 130%)			<u>39,000</u>	1
			<u>£106,120</u>	

Answer 28

Rent – brought into account on an <b>accruals basis</b> (6 x £2,000)	£ 12,000	1
Premium – as a <b>short lease</b> , the income element is brought into account [£30,000 x (50 – ((40-1)/50))]	6,600	1
Interest – not deductible in calculating property income as <b>falls under the loan relationships rules</b>	-	1
Legal fees – not deductible in calculating property income as <b>capital in nature</b> (incurred on disposal of capital asset)	-	1
Property business income	<u>£18,600</u>	

Answer 29

Accounting profit	£ 1,880,000	
Patent 1:		
- Deduct accounting profit on disposal	(520,000)	1*
- Add taxable profit (Working 1)	<u>390,000</u>	
	(130,000)	
Patent 2:		
- Add amortisation	60,000	1*
- Deduct tax relief (Working 2)	<u>(40,000)</u>	
	20,000	
Taxable trading profits	<u>£1,770,000</u>	

Working 1

Proceeds	£ 800,000	
Less TWDV	<u>(210,000)</u>	1
	590,000	
Less amount rolled-over (£600,000 - £400,000)	<u>(200,000)</u>	1
Taxable profit	<u>£390,000</u>	

### Working 2

Cost	£ 600,000	
Less amount rolled over (above)	<u>(200,000)</u>	1
	<u>£400,000</u>	
Tax relief £400,000 / 10	£40,000	1

**\*1 mark awarded for both deducting accounting profit and adding back amortisation per the accounts (or correct net adjustments).**

### Answer 30

The s.455 tax liability is equal to 33.75% of the amount of the loan made during the year ended 31 July 2022 which is outstanding at the due date of 1 May 2023.

However, **no relief** is given in arriving at this figure for the repayment made on 10 April 2023, because: 1

- a new loan was made **within 30 days** of the repayment in a subsequent accounting period, and 1
- both the amount of the repayment and the amount of the new loan are **£5,000 or more**. 1

The repayment made on 10 April 2023 is matched with the new loan made on 2 May 2023.

Therefore, the s.455 tax liability for the year ended 31 July 2022 is:  
**33.75% x (£100,000 - £60,000) = £13,500** 1+1

### Answer 31

Tax adjusted trading profits before RDEC	£ 420,000	
Add RDEC: 13% x £116,000 (working)	<u>15,080</u>	1
Taxable total profits	<u>£435,080</u>	
CT @ 19%	82,665	1
Less RDEC	<u>(15,080)</u>	1
CT payable	<u>£67,585</u>	

Working: RDEC qualifying costs	£	£	
Ms Kiwi: 100% x £82,000	82,000		
Ms Kabosu: 30% x £100,000	<u>30,000</u>		
Salary costs		112,000	1
Rent (not qualifying)	-		
Water and electricity	<u>4,000</u>		
Premises costs		<u>4,000</u>	1
Qualifying costs		<u>£116,000</u>	

Answer 32

	YE 31/12/21 £	PE 31/03/22 £	YE 31/03/23 £	
Trading profit	30,000	8,500	-	
UK property business profit	12,000	3,000	-	
Chargeable gain (£10,000 - £2,000)	-	-	8,000	1
Total profits	42,000	11,500	8,000	
Offset trading loss against current year:	-	-	(8,000)	1
Offset trading loss against previous 3-month period:	-	(11,500)	-	1
Offset trading loss against previous 9 months:	-	-	-	
Lower of remaining loss and available profits: £46,500 or £42,000 x 9/12 = £31,500	(31,500)	-	-	1
Taxable total profits	£10,500	£Nil	£Nil	1*

**\*For no relief given for donation**

Loss memos (provided for clarity only)

	Capital loss £	Trading loss £	Donation £
Arising in PE 31/03/22	2,000	-	-
Used in PE 31/03/22	(2,000)	-	-
Arising in YE 31/03/23	-	66,000	1,500
Used in current year	-	(8,000)	-
No relief as no CY profits for offset	-	-	(1,500)
Remaining	-	58,000	-
Used in PE 31/03/22	-	(11,500)	-
Remaining	-	46,500	-
Used in YE 31/12/21	-	(31,500)	-
Cfwd at 31/03/23	-	£15,000	-

Answer 33

	£	£	
Trading profit		45,000	
Chargeable gain	8,000		
Less loss reallocated by Lemum Ltd	(8,000)		1
Chargeable gain after reallocation		Nil	
Qualifying charitable donations made		(2,000)	
Total profits		43,000	
Group relief (working)		(32,250)	
Taxable total profits		£10,750	

Working

Group relief from Lemum Ltd is not possible as overseas property losses are not eligible for group relief			1
		£	
Group relief from Nectereen Ltd is lower of:			1
Available loss: £60,000 x 9/12		45,000	
Available profit: £43,000 (above) x 9/12		32,250	1+1
Therefore, £32,250			

### Answer 34

	£	£	
Proceeds	500,000		
Add SBAs	1,500		1
Less legal fees	<u>(1,800)</u>		1
		499,700	
Purchase cost	162,000		
Add SDLT	<u>1,620</u>		
Cost		(163,620)	1
Extension (enhancement expenditure)		<u>(20,000)</u>	1
Unindexed gain		316,080	
Less IA on cost $(278.1-258.5)/258.5 = 0.076 \times$ £163,620		(12,435)	1
Chargeable gain		<u>£303,645</u>	

### Answer 35

The company is a non-UK resident company because it is neither incorporated in nor centrally managed and controlled from the UK. 1

Its UK activities amount to a fixed place of business in the UK and so the company has a UK permanent establishment (PE). 1

It is liable to UK Corporation Tax on the trading profits of the UK PE. 1

For the purposes of attributing profits to the UK PE, a deduction is allowed for a management charge calculated on arm's length terms. 1

However, no deduction is allowed for royalties paid by the UK PE to another part of the company. 1

### Answer 36

To determine whether the company is large for the period and so required to pay its Corporation Tax in instalments, we must compare its augmented profits with the large company limit.

Augmented profits are taxable total profits (£2,000,000) plus dividends received from companies that are not 51% subsidiaries (£50,000). Therefore, £2,050,000. 1

The limit is £750,000, being £1.5m divided by the number of 51% subsidiaries (2: Razbry Ltd and Strwbury Ltd) 1

Therefore, Razbry Ltd is large for the year ended 31 March 2023.

However, the company is removed from the requirement to make instalments where:  
- It was not large for the previous year – Yes (£300,000 is less than £750,000), and 1  
- Its augmented profits for the previous year are less than £10m divided by the number of 51% subsidiaries – Yes (£300,000 is less than £5m (£10m / 2). 1+1

Therefore, instalments are not required for the year ended 31 March 2023.