The Chartered Institute of Taxation

Awareness

Module C: Corporation Tax

November 2022

Suggested solutions

Answer 25

1) 31 December 2021. 1

2) Minimum penalty (unprompted disclosure) = 20% x PLR of £175,750 = £35,150. 1
Maximum penalty = 70% x PLR of £175,750 = £123,025. 1

3) Late filing penalty (more than 3 months late) = £200. 1
There is no penalty for late payment of Corporation Tax. 1

Answer26

	y/e 30/9/21	6m p/e 31/3/2022	1
Tax adjusted trading profit before capital allowances:			
£540,000 12:6	360,000	180,000	
Less capital allowances:			
£85,000 x 18%	(15,300)		1
£(85,000 – 15,300) x 18% x 6/12		(6,273)	1
	344,700	173,727	
Property income (from 1 April 2021): £36,000 x 6/12	18,000	18,000	1
	362,700	191,727	
QCDs (paid 1 June 2021)	(10,000)	-	1
TTP	£352,700	£191,727	

Answer 27

1) The £5,000 interest payable and the £25,000 early redemption penalty on the loan stock must be added back in calculating the taxable trading profits of Crowder Ltd. 1
Instead, they will be allowable deductions against non-trading loan relationship credits. 1

2) The restrictive covenant is an allowable trading expense and therefore no adjustment to trading profit is required. 1

3) The dividend of £12,000 is deducted from the trading profit and will instead be included in Crowder Ltd's augmented profits in order to determine whether the company must pay its Corporation Tax in instalments. 1 1

Answer 28

	y/e 30/11/19	10 month p/e 30/9/20	y/e 30/9/21	y/e 30/9/22	
	£	£	£	£	
Trading profit	350,000	295,000	Nil	120,000	
Property income	Nil	18,750	25,000	25,000	
Capital gains	Nil	Nil	Nil	3,000	1
Total profits	350,000	313,750	25,000	148,000	
Property loss	(15,000)				1
s.37(3)(a) CTA 2010			(25,000)		1
s.37(3)(b) CTA 2010		(313,750)			1
s.37(3)(b) CTA 2010	(101,250)				1
TTP	£233,750	£Nil	£Nil	£148,000	

Loss Memos

	£
Capital loss y/e 30/11/19	89,000
Gains y/e 30/9/22	(89,000)
	£Nil

Trading loss y/e 30/9/21	440,000
s.37(3)(a) CTA 2010 (current year claim)	(25,000)
s.37(3)(b) CTA 2010 (carry back claim)	(313,750)
	101,250
s.37(3)(b) CTA 2010 (carry back claim)*	(101,250)
	£Nil

**Temporary extension to the loss carry back rules for trading losses incurred in accounting periods ending between 1 April 2020 and 31 March 2022.*

Answer 29

1)		£	
y/e 31 March 2020:	£(750,000 – 250,000) = <u>£500,000</u> x <u>3%</u> x <u>3/12</u>	3,750	1+1+1
y/e 31 March 2021:	£500,000 x 3%	15,000	
y/e 31 March 2022:	£500,000 x 3%	15,000	

		£	
2)	Proceeds	900,000	
	Plus SBAs claimed £(3,750 + (2 x £15,000))	33,750	1
		933,750	
	Less cost	(750,000)	
	Gain	£183,750	1

Answer 30

1)	Sale of copyright:	£	
	Proceeds	200,000	
	Less TWDV £(180,000 – 38,400 (*working*))	(141,600)	
	Income gain	58,400	1
	Less rollover relief (£195,000 – 180,000)	(15,000)	1
	Taxable income gain	£43,400	

Working

From 1 November 2016 – 28 February 2022 = 5 years and 4 months

Amortisation at £180,000 x 4% per annum straight line for 64 months = £38,400 1+1

2) The cost of tax purposes of the patent: £(195,000 – 15,000) £180,000 1

Answer 31

New main pool capital expenditure incurred between 1 April 2021 and 31 March 2023, such as computer hardware, is entitled to a 'super-deduction' of £130% = 130% x £500,000 = £650,000. 1

Revenue expenditure, £(2,348,000 – 500,000) = £1,848,000 is a deductible expense against trading profits. 1

Qualifying revenue expenditure is entitled to the RDEC. This excludes rent, so £(1,848,000 – 48,000) = £1.8 million. 1

The RDEC is 13% of qualifying revenue expenditure, so 13% x £1.8 million = £234,000. This is treated both as taxable trading income and deducted from the company's Corporation Tax liability. 1 1+1

Max 5 marks

Answer 32

	UK trade	*Overseas interest*	*Overseas property*	*Total*	
	£	£	£	£	
Trading profit	55,000			55,000	
Overseas interest income					
£43,000 x 100/86		50,000		50,000	
Overseas property business income					
£87,600 x 100/73			120,000	120,000	
Total profits	55,000	50,000	120,000	225,000	1
UK property business loss	(55,000)	(5,000)		(60,000)	1
TTP	Nil	45,000	120,000	165,000	
CT @ 19%		8,550	22,800	31,350	1
Less DTR (*working*)		(7,000)	(22,800)	(29,800)	1
CT payable	£Nil	£1,550	£Nil	£1,550	

Working

	£	£	
Lower of:			1
- UK tax	8,550	22,800	
- Overseas tax			
£50,000 x 14%	7,000		
£120,000 x 27%		32,400	

Answer 33

	Hatte Ltd	Bootte Ltd	Beltte Ltd	
	£	£	£	
Trading profit	528,000	7,000	Nil	
Chargeable gains		Nil	62,000	
£(122,000 – 94,000)	28,000			1
Total profits	556,000	7,000	62,000	
s.37(3)(a) CTA 2010			(62,000)	1
	556,000	7,000	Nil	
QCDs	(8,000)	(7,000)	-	1
TTP	548,000	Nil	Nil	
Group relief (*working*)	(50,000)			1
TTP	£498,000	£Nil	£Nil	

Working

Maximum group relief from Beltte Ltd to Hatte Ltd =
1 April 2021 – 31 August 2021 = 5/12 x £120,000 = £50,000. 1

Answer 34

As the companies are in a gains group, the transfer of the building from Hawwkins Ltd to Raiyland Ltd takes place at nil gain nil loss. Raiyland Ltd takes over the building at indexed cost at the date of transfer. 1

	£	
Cost to Hawwkins Ltd in August 2009	675,000	
Plus indexation from August 2009 to December 2017		
(278.1 – 214.4)/214.4 = 0.297 x £675,000	200,475	
Indexed cost	£875,475	1

Raiyland Ltd takes the building into stock at market value, therefore a gain arises in Raiyland Ltd as follows: 1

	£	
Market value	995,000	
Less indexed cost	(875,475)	
Gain	£119,525	1

Raiyland Ltd can make an election under s.161 TCGA 1992 to take the building into stock at indexed cost of £875,475 to avoid the gain, but the trading profit on the eventual sale of the building will be higher. 1

Answer 35

1)

	Total	2/3	1/3	
	£	£	£	
Proceeds	900,000	600,000	300,000	
Less cost	(765,000)	(510,000)	(255,000)	
Gain	135,000	90,000	45,000	
Less rollover relief	(90,000)	(90,000)	-	1
Chargeable gain	£45,000	£Nil	£45,000	1

2) 400,000/600,000 x £90,000 = £60,000 of the deferred gain is deducted against the cost of the factory, giving a base cost of £(400,000 – 60,000) = £340,000. 1

200,000/600,000 x £90,000 = £30,000 of the deferred gain is not deducted against the cost of the fixed plant and machinery as it is a depreciating asset. 1

Instead it is deferred and will become chargeable on the disposal of the fixed plant and machinery in eight years' time 1

Answer 36

Instalments = 3/8 x £2,850,000 = £1,068,750 1

Due dates:	£	
14 October 2021	1,068,750	1
14 January 2022	1,068,750	1
14 March 2022 (balance)	712,500	1+1