The Chartered Tax Adviser Examination

May 2018

Module C Corporation Tax

Suggested solutions

Answer 1

1	15 September 2016 to 31 October 2016	1
	The chargeable accounting period starts when the company acquires a source of	1
	taxable income and ends when the company starts to trade.	1
2	1 November 2016 to 31 October 2017	1
	The chargeable accounting period starts the day after the previous one ends, and	1
	ends twelve months from the start.	1

Max 5 marks

Answer 2

	Main pool	*Allowances*	
12 month period ended 31 December 2017			1*
TWDV brought forward	182,000		
Additions that qualify for AIA			
Office equipment	225,000		
AIA (Max £200,000)	(200,000)	200,000	1
	207,000		
WDA 18%	(37,260)	37,260	1
	169,740	237,260	
3 month period ended 31 March 2018			
Additions that qualify for FYA			
New low emission car	18,000		
FYA 100%	(18,000)	18,000	1
	169,740		
WDA 18% x 3/12	(7,638)	7,638	1
	162,102	25,638	

** For doing two capital allowance calculations based on a correct 12/3 month split*

Answer 3

Drailly Ltd's instalments are due as follows:	£	
14 September 2017: 3/10 x £850,000	255,000	1+1
14 December 2017:	255,000	1
14 March 2018:	255,000	
14 April 2018 (balancing figure)	85,000	1 + 1
	850,000	

Answer 4

Billoo Ltd
Year ended 31 March 2018
Property income assessment

Rents receivable:		
1 September 2017 – 31 March 2018 = 7/12 x £24,000	14,000	
Premium received:		
£60,000 x (50 – 9)/50	49,200	1
Interest payable		
Not an allowable deduction against property income	-	1
	63,200	

Toolilly Ltd
Year ended 31 March 2018
Allowable trading deduction

Rents payable	14,000	1*
Premium payable:		
£49,200/10 = £4,920 per annum		1
1 September 2017 – 31 March 2018 = 7/12 x £4,920	2,870	1
	16,870	

* Mark given for £14,000 appearing in both calculations.

Answer 5

The £250,000 expenditure on 'repairs' to the second-hand asset must be added back in calculating the taxable trading profits of Zullax Ltd as they are capital in nature as the asset was unusable before the expenditure was incurred. 1 1

The pension contribution of £1.8 million for the year ended 31 December 2017 is 'unusually large' (it is more than 210% of the previous year's contribution of £800,000 (£800,000 x 210% = £1,680,000)).

The amount allowed in the year ended 31 December 2017 is calculated as follows:

	£	
110% x £800,000	880,000	1

The excess of £920,000 (£1,800,000 - £880,000) is subject to spreading. 1

As the excess is between £500,000 and £999,999, ½ is allowable in the year ended 31 December 2017, therefore ½ x £920,000	460,000	1
Total allowable amount	1,340,000	

Therefore, £460,000 (£1,800,000 – £1,340,000) must be added back in calculating the taxable trading profits of Zullax Ltd for the year ended 31 December 2017. (It will be an allowable deduction in the year ended 31 December 2018). 1

Max 5 marks

Answer 6

	Year ended 31 December 2014 £	Year ended 31 December 2015 £	Year ended 31 December 2016 £	Period ended 31 October 2017 £	
Trading profit	25,000	4,000	Nil	Nil	
Property income	10,000	9,000	8,000	7,000	
Total profits	35,000	13,000	8,000	7,000	
s.37(3)(a) CTA 2010			(8,000)	(7,000)	1+1
s.37(3)(b) CTA 2010		(12,000)	-		1
s.39 CTA 2010	(3,000)	(1,000)			1+1
s.39 CTA 2010	(23,000)				1
TTP	9,000	Nil	Nil	Nil	

Max 5 marks

Loss memoranda (for explanation purposes only)

	Year ended 31 December 2016		*Period ended 31 October 2017*
Terminal loss	*£*	*£*	*£*
10 month period ended 31 October 2017			*30,000*
2/12 x £24,000		*4,000*	
Normal loss (not falling into the last 12 months of trade):			
10/12 x £24,000	*20,000*		
CTA 2010, s.37(3)(a) in year ended 31/12/16	*(8,000)*		
CTA 2010, s.37(3)(b) in year ended 31/12/15	*(12,000)*		
Unrelieved	*Nil*		
CTA 2010, s.37(3)(a) in year ended 31/12/16		*-*	
CTA 2010, s.37(3)(b) in year ended 31/12/15		*(1,000)*	
CTA 2010 s.39 in year ended 31/12/14		*(3,000)*	
Unrelieved		*Nil*	
CTA 2010, s.37(3)(a) in period ended 31/10/17			*(7,000)*
CTA 2010, s.37(3)(b) in year ended 31/12/16			*-*
CTA 2010 s.39 in year ended 31/12/15			*-*
CTA 2010 s.39 in year ended 31/12/14			*(23,000)*
Unrelieved			*Nil*

Answer 7

	£	*Cash £*	
October 2017 – sale outside group			
Proceeds	380,000		
Less costs of sale	(5,000)		1
Net sale proceeds/net cash	375,000	375,000	
Less indexed cost (March 2017)	(349,650)		1
	25,350		
Less indexation			
(273 – 269.3)/269.3 = 0.014 x £349,650	(4,895)		1
Indexed/chargeable gain	20,455		
Corporation Tax at 19% x £20,455		(3,886)	1
After-tax proceeds		371,114	1

Answer 8

On the sale of the shareholding in Gollix Ltd, a capital loss of £15,000 will arise (£165,000 – £180,000), but the Substantial Shareholding exemption (SSE) may apply. 1 1

SSE automatically applies to a disposal of shares if the shareholding is at least 10%, held for at least 12 months out of the 24 months prior to disposal, and both companies are trading companies. 1 1+1

It would therefore be advantageous to bring the sale forward to 27 October 2017, as the 12 out of 24 months condition would not be satisfied, and the loss would be allowable. 1

Max 5 marks

Answer 9

	Zallz Ltd Year ended 31 December 2017	
	£	
Trading profit	300,000	
Property income	20,000	
Capital gain ((£40,000 - £25,000) Note)	15,000	1
TTP	335,000	
Less group relief (W)	(195,000)	1
	140,000	
Corporation tax at 19.25% (FY16: 20% x 3/12 + FY17 19% x 9/12)	26,950	1

(W) Group relief

Corresponding accounting period is 1 April 2017 to 31 December 2017 = 9 months
Max group relief is therefore the lower of:
9/12 x Walloo Ltd's trading loss of £260,000 = £195,000 1
9/12 x Zallz Ltd's TTP of £335,000 = £251,250 1

Note: an election should be made to match Walloo Ltd's capital loss against Zallz Ltd's capital gain.

Answer 10

1) As Poilly Ltd has 450 employees, it is a large company for transfer pricing purposes. 1

Soillux Inc is under the control of Poilly Ltd, therefore they are connected companies. 1

Poilly Ltd is 'tax advantaged' as it is charging a lower price on sales to Soillux Inc, thereby decreasing its UK profits. 1

An adjustment must be made by Poilly Ltd to increase its trading profits to reflect 'arm's length price'; i.e. 10,000 x £(15 – 8) = £70,000 1

2) Poilly Ltd's Corporation Tax liability for the year ended 31 March 2018 is therefore 19% x £(930,000 + 70,000) = £190,000. 1

Answer 11

1)	£	
Income from relevant engagements	95,000	
Less 5% deduction	(4,750)	
	90,250	1
Less salary paid to Lisa	(25,000)	
Less employer's NIC	(2,323)	
Gross deemed payment	62,927	1
Less employer's NIC on deemed payment £62,927 x 13.8/113.8	(7,631)	1
Deemed employment payment to Lisa	55,296	

2) Income	100,000	1
Less expenses		
Actual salary and related NIC (£25,000 + £2,323)	(27,323)	
Gross deemed payment	(62,927)	
Taxable Total Profits	9,750	1

Answer 12

Return due 31 March 2017, submitted 4 September 2017, therefore, 5 months late. 1

Penalties for late submission of return	£	
Immediate late filing penalty	100	1
More than 3 months late, therefore £10 per day for max 90 days	max 900	1
Penalties for late payment of tax		
Payment due 1 January 2017, therefore 8 months late		
5% of tax outstanding on filing date of 31 March 2017 (5% x £200,000)	10,000	1
Further 5% of tax outstanding three months after filing date	10,000	1