THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Larger Companies and Groups

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- 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 information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Argon plc is the parent company of a commodities trading group. It is the only UK-resident company in the Argon group.

Argon plc prepares its accounts for the year to 31 March. On 1 April 2023, it had several wholly owned foreign-resident subsidiaries including:

1) Neon BV (resident in the Netherlands);

2) Argon Pte Ltd (resident in Singapore), to which it made an interest-free loan of £400 million on 1 April 2023; and

3) Argon SA (resident in Ruritania), to which it made a loan of £200 million on 1 April 2023, which bears interest at 7.5% per annum, payable on 31 March in arrears.

In February 2023 Argon plc decided in principle to sell Neon BV if a suitable purchaser could be found. Neon BV was sold to a third party on 19 April 2024.

Ruritania charges a 10% withholding tax on interest payments made by Ruritania residents to overseas residents. Ruritania does not have a double tax agreement with the UK.

All of the Argon group's third-party loans are made to Argon plc at an interest rate of 7.5%. Argon plc then makes loans to other group companies. If the lenders made loans directly to other Argon group companies, they would also do so at an interest rate of 7.5% per annum.

For periods before 1 April 2023, Argon plc's cumulative interest disallowance under the UK corporate interest restriction was £45 million.

Argon plc's income statement for the year to 31 March 2024 was as follows:

	Company	Consolidated Group
	£ million	£ million
Operating profit	1,200	2,200
Administrative expenses	(600)	(1,000)
Depreciation	(100)	(200)
Interest receivable from group companies	15	-
Interest payable to third parties	(200)	(200)
Dividends from wholly owned subsidiaries	350	-
Profit before tax	665	800

The UK administrative expenses stated above include the following amounts:

Expense	£ million
Internal costs relating to monitoring Argon plc's foreign subsidiaries, including appraising requests by the subsidiaries for further equity funding and making recommendations to Argon plc's board.	2
Fees paid to an investment bank for finding a purchaser for Neon BV and agreeing the sale price and terms.	12
Legal fees relating to the execution of the sale of Neon BV.	3
Expenses incurred by Argon plc's Human Resources team in defending a wrongful dismissal claim against Argon SA by one of its former employees.	1

Argon plc did not receive any payments from its subsidiaries other than those described above.

Argon plc is not chargeable to tax on any of its subsidiaries' profits under the Controlled Foreign Companies legislation.

Requirement:

1) Explain the extent to which Argon plc may obtain Corporation Tax deductions for its administrative expenses. (5)

2) Calculate, with explanations, the amount of interest expense that Argon plc is entitled to deduct for Corporation Tax purposes for the period ended 31 March 2024. (11)

3) Explain the administrative requirements that Argon plc must comply with if it wishes to maximise its interest deductions for the period. (4)

Total (20)

2. Monck Ltd is a UK-resident company that operates luxury hotels. It prepares its accounts for the year to 31 December, applying UK GAAP (FRS 102).

During 2023, Monck Ltd undertook a project to upgrade its flagship hotel in central London. It incurred the following expenditure:

Date	Item	Amount £'000
10 February 2023	New kitchen equipment	1,150
10 February 2023	Fees for transporting the kitchen equipment and installing it in the hotel	20
10 February 2023	Strengthening the kitchen floor to allow new kitchen equipment to be safely installed	30
9 May 2023	Restoring dilapidated furniture in guest rooms	600
12 May 2023	Smart TVs for guest rooms	700
14 May 2023	Wall insulation for guest rooms	300
25 May 2023	Paintings to decorate the lobby and guest rooms	800
Total		3,600

On 30 June 2023, Monck Ltd entered into a contract with a car dealership to purchase five luxury saloon cars for guest use, each of which has CO_2 emissions of 200g/km. Under the contract Monck Ltd was required to pay an upfront deposit of £150,000, together with instalment payments of £10,000 per month for the next 40 months. The car dealership retained legal ownership of the cars until Monck Ltd's final instalment payment was made. In its accounts Monck Ltd treated the contract as a finance lease. The cars were capitalised at their fair value of £500,000; the remaining expenditure under the contract was accounted for as a finance cost.

The notes to Monck Ltd's accounts for the period to 31 December 2023 include the following in respect of fixed assets:

	Fixtures, fittings, and equipment £'000	Vehicles £'000	Total £'000
Cost			
At 1 January 2023	40,000	-	40,000
Additions	3,600	500	4,100
At 31 December 2023	43,600	500	44,100
Accumulated depreciation			
At 1 January 2023	(32,000)	-	(32,000)
Charge for year	(3,000)	(200)	(3,200)
At 31 December 2023	(35,000)	(200)	(35,200)
Net book value			
At 1 January 2023	8,000	-	8,000
At 31 December 2023	8,600	300	8,900

All of the fixed assets brought forward at 1 January 2023 historically qualified for capital allowances as plant and machinery. The additions of £4.1 million comprise all of the expenditure described above, including £500,000 in respect of the cars.

As at 1 January 2023, Monck Ltd's only capital allowances pool brought forward was its main pool, which had a tax written-down value of £4 million (relating to historic expenditure on fixtures, fittings, and equipment).

Requirement:

Calculate with explanations:

1) The maximum capital allowances that Monck Ltd may claim for the accounting period ended 31 December 2023. (11)

2) The deferred tax entries relating to vehicles that will appear in Monck Ltd's accounts for the period ended 31 December 2023. (4)

Total (15)

3. Zutroy plc is the UK-resident parent company of the Zutroy group, a financial services business. The group is large, and prepares its accounts to 30 September.

On 1 October 2023, Zutroy plc owned:

1) 100% of Rukim Ltd's ordinary shares which it subscribed for on 15 March 1986 for £2 million.

2) 5% of Rukim Ltd's preference shares which it subscribed for on 15 March 1986 for £1 million.

Rukim Ltd, a UK-resident company, has a business of providing wealth management services to individuals. The preference shares in Rukim Ltd owned by Zutroy plc pay a fixed dividend of 7.5% per annum.

On 1 October 2023, Zutroy plc sold an office building to Rukim Ltd for its book value of £500,000. The building's market value was £5 million throughout 2023. The building was originally acquired by Zutroy plc on 1 September 1993 for £200,000, and has been used as an office by Rukim Ltd's management continuously since then.

On 17 November 2023, Zutroy plc sold all of its shares in Rukim Ltd to Pinchon plc, a multinational investment manager, for £100 million.

During the accounting period to 30 September 2023, Rukim Ltd incurred a large expense relating to a legal claim made by a client, and the company therefore realised a taxable trading loss of £10 million. The loss was not relieved prior to the company being sold to Pinchon plc. Rukim Ltd filed its company tax return for that period on 20 April 2024.

Following its purchase of Rukim Ltd, Pinchon plc sought to integrate Rukim Ltd into its wider business operations. Historically, Rukim Ltd had focussed on building face-to-face client relationships with ultra-high net worth individuals who required bespoke investment advice. While this is continuing under Pinchon plc's ownership, Rukim Ltd's strategy has broadened to include:

1) Providing more generic investment advice to a wider range of affluent customers (for example, successful professionals).

2) Obtaining client referrals through Pinchon plc's other businesses, including its online platform.

3) Putting the prestigious Rukim brand name on a range of retail investment funds managed by Pinchon plc.

Requirement:

1) Explain the chargeable gains consequences of Zutroy plc's sale of Rukim Ltd. (7)

2) Explain the extent to which Rukim Ltd's losses may be relieved after it is sold to Pinchon plc. (5)

3) Explain HMRC's powers to challenge the loss that Rukim Ltd reported in its company tax return for the period ended 30 September 2023. (3)

Total (15)

4. The Hazdan group specialises in developing and manufacturing personal protective equipment and clothing. There are two companies in the group, Hazdan UK Ltd and its 100% subsidiary, Hazdan Innovations Ltd. Both companies are UK-resident.

Hazdan Innovations Ltd was set up several years ago to carry out most of the research and development (R&D) undertaken by the group although Hazdan UK Ltd still retains its own small R&D capability. The Hazdan group claims the maximum R&D tax relief to which it is entitled.

The following information is taken from the draft financial statements for the year ended 31 March 2024.

	Hazdan UK Ltd	Hazdan Innovations Ltd
	£	£
Turnover	150,000,000	10,000,000
Qualifying R&D expenditure	1,000,000	9,000,000
PAYE/NIC included in the qualifying R&D expenditure	150,000	1,500,000
Other expenditure	147,000,000	3,000,000
Balance sheet total	100,000,000	5,000,000
Number of employees	600	50

Neither company has any outstanding Corporation Tax liabilities for any other period nor does either company have any other liabilities due to HMRC.

Requirement:

Calculate, with explanations, the Corporation Tax payable or tax credit repayable for each company for the year ended 31 March 2024. (10)

5. The Tripletree group is a multi-national enterprise headed by Tripletree plc which is resident in the UK. The group operates in the telecommunications industry with Tripletree plc's wholly owned UK resident subsidiary, Tripletree (UK) Ltd, as the main trading company.

Tripletree (UK) Ltd has four wholly owned overseas subsidiaries. In addition, it has a 25% shareholding in Tripletree (Deo) Ltd, with the other shares held by individuals, none of whom are resident in the UK. All companies have been operating or trading for at least five years.

Company	Resident jurisdiction and local corporate tax rate	Activity	Additional information (Where profit amounts are stated, they refer to the year ended 31 December 2023.)
Tripletree (Ena) Ltd	Enamark, 12%	Distributor to third parties.	Trading profits of £80,000 and interest income of £10,000.
Tripletree (Deo) Ltd	Deoland, 10%	Distributor to third parties.	Trading profits of £100,000.
Tripletree (Tria) Ltd	Trialand, 22%	Distributor to third parties.	Trading profits of £600,000.
Tripletree (Tesera) Ltd	Teseraland, 20%	Provides routine support services to other group companies.	The company charges cost plus a mark-up of 7% for its routine support services.
Tripletree (Pende) Ltd	Pendeland The normal corporate tax rate is 15% but Tripletree (Pende) Ltd was established five years ago and under an 'incentive to invest' scheme, the company is exempt from the corporate tax for the first 10 years.	Provides management and high value technology services to other group companies. All staff and management are resident in Pendeland and there are only occasional visits from senior UK management to the company's offices.	Trading profits are £2 million (and this is the only source of profit). The company charges cost plus a mark-up of between 12% and 20% (which is an arm's length rate) for its services.

None of the jurisdictions mentioned in the table above are on the list of excluded territories for Controlled Foreign Companies purposes.

Requirement:

Explain how the UK's Controlled Foreign Companies legislation applies to the Tripletree group. (20)

6. The Stepclive group specialises in printers and office equipment. It consists of two companies, both incorporated and resident in the UK.

Company name	Activities
Stepclive Trading Ltd	Wholly trading.
Stepclive Finance Ltd	Holds all the shares in Stepclive Trading Ltd and undertakes a small amount of trading activity but mainly undertakes administrative functions including arranging finance and maintaining the group pension scheme.

Extracts from the Income Statements of Stepclive Trading Ltd and Stepclive Finance Ltd for the year ended 31 December 2023

	Notes	Stepclive Trading Ltd £'000	Stepclive Finance Ltd £'000
Turnover	1	108,037	10,000
Cost of sales	1	(91,700)	(2,500)
Gross profit		16,337	7,500
Administration expenses	2	(7,000)	(1,000)
Net profit		9,337	6,500
Interest payable	3	0	(4,000)
Profit before tax		9,337	2,500

Note 1

The turnover and cost of sales of Stepclive Finance Ltd include £800,000 of rental income and £100,000 of expenses relating to that income respectively.

Note 2

Administration expenses include:

	Further notes	Stepclive Trading Ltd £'000	Stepclive Finance Ltd £'000
Depreciation		2,000	0
Bad debt provision	(a)	3,000	(3,000)
Pension contribution	(b)	0	2,000

Further notes

(a) At 1 January 2021, Stepclive Trading Ltd owed Stepclive Finance Ltd £3 million. Due to the then weak trading position of Stepclive Trading Ltd, this debt was written off and included as a receipt in the accounts of Stepclive Trading Ltd, and an expense in the accounts of Stepclive Finance Ltd for the year ended 31 December 2021. Following the revival of Stepclive Trading Ltd, the debt write off was reversed in the accounts to 31 December 2023.

(b) Stepclive Finance Ltd makes a regular annual £2 million contribution to the group's registered employee pension scheme. In the year ended 31 December 2021, the company made a one-off additional payment, which resulted in an excess contribution of £3 million.

Note 3

The loan interest is payable on borrowings which were used to provide an equity contribution to Stepclive Trading Ltd.

For Corporate Interest Restriction purposes, the group has interest allowances brought forward in excess of £4 million.

Capital allowances and expenditure

On 1 January 2023, the tax written down value of the general pool was £10,000,000 and the special rate pool was £500,000 for Stepclive Trading Ltd. Stepclive Finance Ltd does not hold any qualifying assets and therefore does not claim capital allowances.

During the year ended 31 December 2023, Stepclive Trading Ltd signed a contract for an item of plant, which was to be constructed over a period of time. The total cost was £4.5 million, and the work was completed and certified by an architect on the following dates, at which point the obligation to pay became unconditional:

Date work completed	Date work certified	Value of work £'000	Date payment due
5 November 2023	20 November 2023	2,500	19 December 2023
3 December 2023	5 January 2024	1,600	17 January 2024
22 December 2023	5 February 2024	400	16 February 2024

In September and October 2023, Stepclive Trading Ltd made extensive alterations to its factory premises incurring costs of £3 million on integral features. During the accounting period it also incurred £1,075,000 of expenditure on the purchase of new vans.

Trading losses

Stepclive Trading Ltd had post 1 April 2017 trading losses brought forward on 1 January 2023 of £4 million. Stepclive Finance Ltd has no brought forward losses.

Requirement:

Calculate, with explanations, the Corporation Tax payable by Stepclive Trading Ltd and Stepclive Finance Ltd, for the year ended 31 December 2023, assuming the most beneficial claims and elections are made. (20)