

The Chartered Tax Adviser Examination

May 2022

Application and Professional Skills

Taxation of Larger Companies and Groups

Pre-seen information

You may print this copy of the pre-seen information for your exam, however it will be contained in the final Exhibit in each question.

Pre-seen information

Company name

Novic Ltd

Date of incorporation

2 January 2018

Country of incorporation

UK

Ownership

Novic Ltd is owned one third each by Alpha plc, Beta plc and Gamma Ltd.

Alpha plc and Beta plc are both UK incorporated and UK tax resident companies whose shares are listed on the London Stock Exchange.

Gamma Ltd is a UK incorporated and UK tax resident private company.

Chief Financial Officer

Bill Jones

Number of employees

200

Background

Alpha plc incorporated Novic Ltd in January 2018 and subscribed £20 million for all of its share capital. The original business plan of Novic Ltd was that it would undertake research into the creation of new anti-inflammatory drugs and commercially exploit the results of that research, either by licensing, or manufacture and sale of those drugs.

Novic Ltd has patented one new drug (Drug A) which has been authorised by UK regulators. Since 1 October 2021, Novic Ltd has been generating sales of Drug A of around £100,000 per month, all in the UK.

Further funds were required to continue and accelerate research into a second drug (Drug B) of potentially much wider application. External sources of investment were sought and as a result, Beta plc and Gamma Ltd each subscribed £35 million in January 2022 for one-third of the share capital of Novic Ltd.

None of Alpha plc, Beta plc and Gamma Ltd have any subsidiary companies.

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Continuation

Financial information for Novic Ltd

Income statement for the year ended 31 December

	<u>2021</u>	<u>2020</u>
	£million	£million
Revenue	0.3	nil
Cost of sales	<u>(9.8)</u>	<u>(2.3)</u>
Gross profit/(loss)	(9.5)	(2.3)
Administrative expenses	<u>(2.0)</u>	<u>(1.0)</u>
Profit before tax	(11.5)	(3.3)
Tax	nil	nil
Profit after tax	<u>(11.5)</u>	<u>(3.3)</u>

Balance Sheet as at 31 December

	<u>2021</u>	<u>2020</u>
	£million	£million
Fixed assets	1.0	1.2
Cash at bank and debtors	<u>3.0</u>	<u>14.3</u>
Net assets	<u>4.0</u>	<u>15.5</u>
Equity:		
Share capital	20.0	20.0
Reserves	<u>(16.0)</u>	<u>(4.5)</u>
Total equity	<u>4.0</u>	<u>15.5</u>

Corporation Tax

All company tax returns have been submitted on time and there are no open enquiries.

<u>Year end 31 December</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
	£'000	£'000	£'000	£'000
Loss per accounts	(500)	(700)	(3,300)	(11,500)
Add back depreciation	500	400	300	200
Deduct capital allowances	(400)	(300)	(200)	(150)
Corporation Tax loss	(400)	(600)	(3,200)	(11,450)

All losses up to 31 December 2021 have been surrendered as group relief to Alpha plc.

HMRC have not yet accepted that any Research & Development reliefs are available.

VAT

Novic Ltd is registered for VAT in the UK.