The Chartered Institute of Taxation

Awareness

Module C: Corporation Tax

May 2022

Suggested solutions

25)

The company's first accounting period started on the date that trade began, so 1 February 2021.	**1**
It ended 12 months later on 31 January 2022.	**1**
The company's second accounting period started on 1 February 2022, immediately after the end of the first accounting period, and ended on the company's accounting date of 30 April 2022.	**1**
Corporation Tax is payable 9 months and 1 day after the end of the accounting period, so: 1 November 2022 for the first accounting period, and 1 February 2023 for the second accounting period.	**1**
The deadline for submitting the Company Tax returns is 12 months after the end of the relevant period of account. Therefore, the returns for both periods must be submitted by 30 April 2023.	**1**

26)

	£	
Accounting profit	480,000	
Add:		
Finance lease interest and depreciation	-	**1+1**
Operating lease rental (Working)	414	
Pension accrual	1,400	**1**
Tax adjusted trading profit	£481,814	

Working

Relevant costs (£3,000 - £240)	£2,760	**1***
15% disallowance as CO_2 emissions exceed 50g/km	£414	**1***

***Lose one of these marks for private use adjustment**

27)

	Main pool	Special rate pool	Claim	
	£	£	£	
Balance brought forward	145,000	50,000		
Additions:				
Car (zero emissions)	18,000			
100% FYA	(18,000)		18,000	**1**
Car (CO_2 of 60g/km)		32,000		**1**
Van (CO_2 of 20g/km)	13,000			
AIA	(13,000)		13,000	**1**
Disposal proceeds	(4,000)			**1***
	141,000	82,000		
WDA (18%/6%)	(25,380)	(4,920)	30,300	**1**
Capital allowances			£61,300	
Carried forward	£115,620	£77,080		

***This mark for deducting the proceeds from either pool**

28)

Qualifying expenditure (building only)	£600,000	**1**
Allowance for y/e 31 March 2021 (**(6/12)** x (£600,000 x **3%**)	£9,000	**2*+1**
Allowance for y/e 31 March 2022 (£600,000 x 3%)	£18,000	**1****

***One mark for pro rata plus one for from October 2020 (not August 2020)**

****This mark for not giving the allowance on a reducing balance basis**

29)

	£	
Draft trading profit	200,000	
Add back loan write-off	24,000	**1**
Taxable total profits	£224,000	

	£	
Corporation Tax on £224,000 at 19%	42,560	**1**
Less s.455 CTA 2010 tax repayment on loan written off	(7,800)	**1**
Add s.455 CTA 2010 tax payable on loan to Mr Way:		
((£50,000 **- £10,000**) x **32.5%**)	13,000	**1+1**
Corporation Tax and s.455 tax payable	£47,760	

30)

	£	
RDEC: Qualifying expenditure (Note) £680,000 x **13%**	88,400	**1**
Less Corporation Tax on RDEC (£88,400 x 19%)	(16,796)	**1**
Reduction in Corporation Tax	£71,604	

Note: calculation of qualifying expenditure

	£	
Salary (including employer's Class 1 NICs)	560,000	**1**
Pension contributions	120,000	**1**
Private medical insurance	Nil	**1**
Qualifying expenditure	£680,000	

31)

	Year ended 30/09/18	Year ended 30/09/19	Year ended 30/09/20	Year ended 30/09/21	
	£	£	£	£	
Trading profit	16,000	22,000	12,000	6,000	
Property income			3,600		
Chargeable gain			8,000		
Total profits	16,000	22,000	23,600	6,000	
Terminal loss y/e 30/09/21 (LIFO basis)				(6,000)	**1**
Terminal loss y/e 30/09/20 (offset against total profits)			(23,600)		**1**
Terminal loss y/e 30/09/19 (ignore donation)		(22,000)			**1**
Terminal loss y/e 30/09/18 (see Note)	(Nil)				**1**
	£16,000	£Nil	£Nil	£Nil	

No relief given for capital loss as restricted to current year gains and gains in future periods **1**

Notes provided for tutorial purposes only:

The terminal loss may be carried back three years from the start of the loss-making period (1 October 2021); ie against profits from 1 October 2018 to 30 September 2021.

Loss memo:	£
Trading loss of final period ended 31 March 2022	53,000
Offset y/e 30/09/21	(6,000)
Offset y/e 30/09/20	(23,600)
Offset y/e 30/09/19	(22,000)
Loss not utilised	£1,400

32)

	£	
Proceeds net of sale costs (£325,000 - £10,000)	315,000	**1**
Less base cost: cost reduced by rollover claim (£300,000 - £45,000)	(255,000)	**1**
Less enhancement expenditure	(40,000)	**1**
Gain before indexation	20,000	
Less indexation allowance		
(278.1 – 201.6) / 201.6 = 0.379		**1**
0.379 x £255,000 = £96,645		
Restrict to gain before indexation	(20,000)	**1**
Gain	£nil	

Note: there would be no indexation allowance in respect of the enhancement expenditure as it was incurred after 31 December 2017.

33)

Gateshead Ltd may surrender the following as group relief:

	£	
- Trading loss	20,000	
- Qualifying charitable donation	4,000	
	£24,000	**1**

It is unable to surrender its overseas property business loss as group relief. **1**

The maximum amount that it may surrender is the **lower of** Gateshead Ltd's available amount (£24,000) and Fawdon Ltd's available TTP (£30,000) for the **common period**. **1** **1**

The common period began on 1 May 2021 and ended on **30 November 2021,** therefore the maximum amount that may be surrendered is 7/12 x £24,000 = £14,000. **1**

34)

A degrouping charge arises as Hadrian Ltd left Fellgate Ltd's gains group within 6 years of a no-gain-no-loss transfer. **1**

The charge is calculated as if the asset has been sold at its open market value at the time of the transfer (£250,000 - £150,000 = £100,000). **1**

As Hadrian Ltd left the group as a consequence of a sale of shares, the charge is taxable on Faillgate Ltd, the company selling the shares. **1**

The gain is added to the proceeds received by Faillgate Ltd on the sale of the shares in Hadrian Ltd. **1**

This gives rise to a gain on the shares of £2,000,000 + £100,000 - £400,000 = £1,700,000.

The substantial shareholding exemption does not apply as Hadrian Ltd is not a trading company. **1**

35)

The exempt period exemption does not apply as it only applied to the first 12 months after the company became under the control of Heymarkt Ltd (ie 12 months ended 31 March 2020). **1**

The low profit margin exemption does not apply as the profit margin (20%) is greater than 10%. **1**

The low profits exemption does apply as:

- taxable total profits (£335,000) do not exceed £375,000 ((9//12 x £500,000), and **1+1**
- non-trading income (£35,000) does not exceed £37,500 ((9/12) x £50,000). **1**

36)

Heworth Ltd is required to deduct Income Tax from the interest payable to Mr Ilford but not from the interest payable to Roade Ltd. **1**

The tax to be deducted is £1,000 (£5,000 at **20%**). **1**

The tax is accounted for the return period using form CT61. **1**

The interest will be paid during the quarter ending on 30 June 2022. **1**

The CT61 must be submitted and the tax paid to HMRC within 14 days of the end of the quarter; ie by 14 July 2022. **1**