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☐ Tick box if you have answered in accordance with Scots Law

☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advisory Paper you have attempted (if not already ticked below)

☐	Taxation of Owner-Managed Businesses	☐	Taxation of Individuals
☐	VAT on UK Domestic Transactions, IPT & SDLT	☐	VAT on Cross-Border Transactions & Customs Duties
☐	Inheritance Tax, Trusts & Estates	✓	Advanced Corporation Tax
☐	Human Capital Taxes		

✓ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

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QUESTION NUMBER 5

10 Bedwin Street
Southampton
SO18 9PY.

Dear Joanna,

Whilst I have not specifically researched the recent Cadbury Schwepps decision in deatail, I can assure you that CFC legislation will need to be considered.

Background

CFC (controlled foreign company) legislation applies where an overseas company is controlled by UK resident persons.

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QUESTION NUMBER 5

ie more than 50% of the voting rights or other method of control is in the UK.

If a UK company holds >25% of the shares in such a company the CFC legislation must be considered.

There are some exemptions from the CFC legislation namely;

low profits exemption
- where the company has < £50k in profits or less than £500k of which < £50k is investment income

Excluded territory exemption
- Generally this applies to CFCs ~~for~~ in a country where tax practices are not harmful

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QUESTION NUMBER	5

low profit margin exemption
where gross accounting profits are <10%
operating profits

Exempt period exemption
- where 12 month period
has not passed since a
company came under the
CFC legislation

Tax exemption
- where the local tax rate is
>75% of the UK tax rate
when the CFC profits are
computed under UK law

Does the CFC legislation apply?

WT Holdings has held the
overseas companies for some time,
as such I would have

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QUESTION NUMBER 5

expected the positions for WT Insurance and WT Sweden to already have been considered.

White Trucks may benefit from the exempt period exemption as it appears that it is not currently controlled by UK residents.

Subsidiaries

WT Holdings and WT trading are UK companies and so the CFC legislation will not apply.

WT Insurance

It is not clear whether one of the above named exemptions will apply and further information is required.

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QUESTION NUMBER 5

If no exemption the profits of the CFC may pass through the captive insurance gateway.

This would apply to captive insurance contracts taken out for UK companies or companies with a UK PE.

It will only apply to EEA countries, however, if there is no significant non-tax reason for entering into the captive insurance contract.

More information is required to determine the level of profits attributable to the UK. Malta is in the EU and so we need to determine ~~At high level~~ if there is a commercial purpose for the captive insurance contracts.

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QUESTION NUMBER 5

WT Sweden AB

Profits may pass through the gateway

~~- profits attributable to the activities~~

If

- The CFC reduces UK tax that would otherwise be chaged in the UK
- Tax is reduced or eliminated ~~because of the CFC~~

unless the following conditions are met:

A - The CFC does not hold assets or bear risks for the purpose of reducing UK tax

B - The CFC does not have any UK assets or risks

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QUESTION NUMBER | 8

C - The CFC would be commercially effective without UK input

D - The total profits are only non-trade profits or property business profits.

More information is required to determine whether WT Sweden would be capable of operating independently.

~~On the bas~~ There are however a number of safe harbours that could also reduce any CFC charge, namely
- business premises condition

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QUESTION NUMBER | 5

This would likely apply as WT Sweden is a manufacturing entity and presumably has a factory.

In addition, the Swedish company suffers tax at 22% which is above the UK rate. The exemption re tax rate will therefore apply.

White Trucks

Utopia is a low tax jurisdiction however the exempt period exemption will apply.

This would give ~~Fast~~ Fast Cars 12 months to restructure the group to eliminate White Trucks.

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QUESTION NUMBER 5

White trucks would likely be ~~Ase~~ ~~le~~ a non-trading finance company as it has significant non-trading income.

No election can be made for trading finance profits gateway as it is acting as a group treasury company.

Other points

The base cost of white trucks will be the cost of the old White trucks Holdings assuming the share for share exchange provisions applied.

Depending on the tax in ~~Estate~~ Trade Utopia, ~~Fr~~ White Trucks may be able to distribute

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QUESTION NUMBER 5

its shares in White Holdings and subsequently be liquidated.

WHT

The interest payable to Utopia from the UK wholly suffers WHT at 20% which must be reported quarterly on the payor company's CT61s.

Dividends are payable free of WHT to overseas corporates.

Transfer pricing

I have not commented as you not all transactions are at arms length.

You should note however

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QUESTION NUMBER 5

that country by country reporting is required for multinational groups with effect from 1 Jan 16 where global turnover exceeds €750m.

This requires disclosure of activities on a global basis.

I trust this is of assistance but let me know if you have queries.

Kind regards

AN. Manager,

PS. There will be significant changes to AIA, £1.5m profit limits for deciding whether the companies are in QIPs.

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QUESTION NUMBER	~~E~~2

2. ~~Div~~

NOTES - DIVERTED PROFITS

Diverted profits tax

This is a stand alone tax intended to catch profits that have been artificially diverted from the UK

It applies to companies that are large for UK transfer pricing

It applies ~~not~~ to UK companies or non-UK companies with a permanent establishment.

It also applies to companies with no UK permanent establishment who have UK activities.

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QUESTION NUMBER 2

The stand alone tax charge is :
25% on artificially diverted profits.

Double tax relief (or a tax credit) is available on profits that fall within the standard UK tax net.

Avoidance of a UK presence

Where it is reasonable to assume that activities of an avoided PE or a foreign company are designed to ~~avoid~~ ensure no trade is carried on in the UK a diverted profits tax may arise.

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QUESTION NUMBER 2

Lacking economic substance

Where a company is non-UK resident but where its overseas activities lack economic substance a diverted profits tax may arise.

Effective tax mismatch

Similar to the OECD hybrid mismatch arrangements, a diverted profits tax may arise where there is a tax mismatch. (ie a deduction in the UK but no taxable profits overseas.

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QUESTION NUMBER 2

Tax is calculated as if the activities attributable to the UK were ~~as if~~ those of a distinct and separate entity, operating at arms length.

Duty to notify

A notification must be made in writing within 3 months of the end of the accounting period to which the company believes a diverted profits tax may apply.

Payment

Diverted profits tax charged by a notice must be paid within 30 days after the day the notice is issued.

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QUESTION NUMBER 2

Please note that if there is suthcient economic substance overseas the DPT charge may be mitigated.

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QUESTION NUMBER | 1

BREIFING NOTE

TO: Partner Johns, Peters LLP
From: AN. Manager, Peters LLP

Loss relief and other tax matters.

There are various tax considerations required, please note below.

Cessation of trade
On cessation of trade an accounting period will end.

Terminal loss relief may be available on trade losses arising within the final ~~36 months~~ 12 months of trade - carried These can be carried back for 36 months.

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QUESTION NUMBER 1

Liquidation

We need to therefore work out the trade loss (if any) for the final 6 months.

Assignment of lease

~~As the~~ The assignment of the lease is a disposal for gains purposes.

As the cost is pre 1982 the two disposal calculations using the 1982 MV and actual cost must be compared.

	1982	actual
Consideration	2,000,000	2,000,000
Cost	(2,500,000)	(2,000,000)
	(500,000)	0

No indexation

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QUESTION NUMBER | 1

	1982	Actual
Consideration	2,000,000	2000,000
Cost	(2,500,000)	(2000,000)
	(500000)	0

No indexation available as this cannot increase the loss.

The lowest loss is used, therefore no gain arises.

<u>loss relief</u>

~~The loss arising in the 6 months ending 31 May 17 is ~~post~~ cessation and so cannot be relieved against prior period profits.~~

~~It can only be~~

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QUESTION NUMBER | 1

~~In the final 12 months of trading the company made a ~~loss~~ trade loss of £8,500k~~

~~This can be set against total~~

Terminal loss relief

Any loss made in the trade arising in an accounting period that began in the final 12 months of trading can be taken back against the previous 36 months.

The profits on assignment of the lease are capital in nature and non taxable.

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QUESTION NUMBER

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Current year claims must first take place ; and carry back claims against trade profits.

Rental income and ~~[illegible]~~ non-trade finance income can be offset with trade losses.

loss available to cb

	30 Nov 16	31 May 17
	1,500	7,000
CY claim	(750)	(750)
Cy claim	(100)	
Cb claim	(50)	
	600	6,250

Total 6,850

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QUESTION NUMBER	1

losses can be carried back in full to May 2013 on a last in first out basis.

Terminal loss	6850
YE Nov 15	(2,500)
YE Nov 14	(4,100)
YE 30Nov13	(250)

Please note the profits in YE 30Nov 13 must be pro-rated as no profits prior to May 13 can be relieved - These are sufficiently high not to cause a restriction.

loss relief must be claimed via the CT600 within 2 years of the end of the accounting period.

The tax returns for

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QUESTION NUMBER 1

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Disposal of property

If the property is disposed of in the final period of trading, prior to cessation of the trade, the trade losses arising can offset the gain.

If this takes place post cessation of trade the gain can only be offset against non-trade post cessation expenses.

The property could be transferred at no-gain no loss prior to liquidation however value shifting provisions may apply.

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QUESTION NUMBER | 1

Please note that a disposal in excess of £750k may result in Stevens books being within the ~~QIPS regime~~ quarterly instalment regime if it is not already.

Any disposals of profits made post liquidation will be capital rather than income.

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QUESTION NUMBER 6

YE 31 Dec 16

	Bidco 1Jan16 - 31Dec16	Robin 1Apr16 - 31Dec16	RGUK 1Apr16 - 31Dec16
PBT	~~(7,200,000)~~ (7756990)	(906,000)	4,361,000
Add			
dep^n (1)			3,900,000
donations (2)		10,000	
dad (3)	~~450000~~		
Adjustment for DD (3)	348250		
lease depc (4)			1,500,000
Amortsation (8)			—
finance (9)			—
~~lease~~ lease payments			assume not in P&L
Capital allowance			(3748 275)
AIA			(150,000)
FYA			(75,000)
			5,787,725

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QUESTION NUMBER	6

	Bidco	Robin Gyms
Other income		60,000
Management expenses		
Staff	(100000)	(770000)
Deal	(108,750)	
business		(187000)
	(208,750)	(957000)
excess management expenses		896,000
Non trade		
Bank	(6000000)	(~~800000~~)
Arrgnt	(1200000)	
debt finance	(326,250)	
Bank int	10	1000
	(7526240)	1000
Charitable		(19000)

NB - Both companies are Investment companies.

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QUESTION NUMBER 6

1) Depreciation is capital in nature and not deductible for tax.

2) Charitable donations are deductible against total profits if made to UK or EEA charities and paid in the year.

3) Deal costs

Due diligence is disallowable if decision to purchase has been made. Although due diligence was part of decision process as only one company identified it would be difficult to argue that not part of the decision to buy. disallowed for prudence. Actually no - as decision to buy not made. Have not disallowed.

Non trade loan relationship costs include the costs of raising loan finance & I have therefore treated as a non-trade loan relationship.

Subject to challange by HMRC.

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QUESTION NUMBER 6

legal fees are capital in nature as relate to acquisition of company

Bidco Interest

There is a notification to the a tax return within 3 months of receiving income.

Bidco Investment company

Bidco appears to be an investment company. I have therefore included the tax workings for this company as an appendix.

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QUESTION NUMBER	6

<u>Robin Gyms</u>

Royalties are trade related i.e. the patent to intellectual property to which they relate are trade. No adjustment required.

<u>Charitable donation</u>

as noted above this can be set against total profits.

<u>RGUK</u>

Capital allowance working (PTO)

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QUESTION NUMBER 6

RGUK Capital allowances

	Main pool	SRP	FYA
TWDV b/fwd	27,200,000		
Air Con			75000
Pool	300,000		
heating	50,000		
Finance asset (5)	365000		
AIA (6)	(150,000)		
FYA			(75000)
(7)	27,765,000		
Building $18\% \times 9/12$	(3,748,275)		

Building
Ineligible so no allowance available

Air Con
Although typically an integral feature can benefit from 100% first year allowance as meets relevant criteria.

NB - FYAs can be surrendered for a 19% tax credit if lower than £250k and PAYE + NIC costs.

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QUESTION NUMBER 6

Pool

Appears to be used in trade and part of the function rather than the setting so have treated as a main pool asset.

Heating for pool

As directly linked to the pool have treated as part of that asset rather than as an integral feature and part of the building as a whole.

Fitness eq^n NB - as final payment was within 4 months of year end the full amount can be included.

Fitness equipment

long funding finance leases are treated as if the assets had been purchased.

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QUESTION NUMBER 6

Finance lease adjustments?
Assuming finance lease payments do not go through the P&L no adjustment is required.

Finance costs of £350k are allowed as a trade deduction as they relate to trade assets.

4) Depreciation is disallowable as capital allowances are instead allowable.

(5) The present value of minimum lease payments should be capitalised.

6) AIA is £200k from 1 Jan 16, however this must be pro-rated for short accounting periods
= 200k × 9/12 = £150k

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QUESTION NUMBER 6

7) Writing down allowances must be pro-rated for the 9 month period.

8) Amortisation on intangibles can be deducted against profits of the trade as charged to the profit and loss.

It is arguable that the website could qualify for AIA, however presumably this is comprised of staff costs and other intangible costs.

9) I assume that the interest on bank loans and interest on overdraft are for trade purposes and have not adjusted for in RGUK Ltd.

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QUESTION NUMBER | 6

- Excess management expenses (ie costs after ~~current year group relief)~~ ~~ca~~ current year profits have been offset) can be group relieved.

- As Robin Gyms and RGUK only share ~~6~~ months overlap with Bidco the losses in Bidco can only be offset against the profits arising in those ~~6~~ months (from 1 July 16)

- Robin Gyms can relieve 3 months of losses against the corresponding 3 months of profit in RGUK, prior to acquisition.

- If the group wants to minimise cash outflow consideration will be required as to whether Robin UK can be excluded from quarterly instalments.

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QUESTION NUMBER 6

group loss relief must be claimed via the CT600C within 2 years following the end of the accounting period.

Robin Gyms and RGUK can resubmit their tax returns within 12 months of the filing deadline if a more tax efficient group relief mechanism is available.

- Bidco will be in a capital gains group with the others from 1 Jan 16
- Taxable AIA will need to be shared
- If profits exceed £500k the companies will need to pay tax in quarterly instalments. (Subject to a £10m threshold /3 (so £3.3m) for the first year it breaches the threshold.

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QUESTION NUMBER 4

Dear Arun,

Many thanks for your email.

Please find my considerations below.

Loan

A loan relationship arises where a company stands in the position of creditor or debtor as respects a money debt (ie one that arises from the borrowing or lending of money).

Interest arising from non-trade loan relationships (such as the £50m loan with bank) will be taxed as non-trade loan relationships as charged to the profit or loss.

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QUESTION NUMBER | 4

If interest rates were to rise it is likely that the non trade loan deductions will increase.

The loan relationship provisions apply in priority to the derivative rules, therefore the derivative fair value movements will also be taxed as non-trade loan relationships.

The contract is a contract for differences.

If accounts are prepared in accordance with generally accepted accounting policies the FV movements are recognised for tax purposes as follows.

Generally the tax treatment follows the accounting treatment and any fair value movements will be taxed as they are charged to the profit or loss.

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QUESTION NUMBER	4

For tax purposes the contract is a hedging contract, as such no disregard election is required as no fair value movements are charged to the P&L.

Please note a company may fall within the SAO regime if its ~~profits~~ turnover exceeds £200m.

<u>Disregard election</u>

Where derivatives are hedged against ~~inter~~ an underlying subject matter it is possible to apply to disregard the fair value movements on that derivative that would otherwise fall to be taxable.

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QUESTION NUMBER 4

If ~~this~~ the amounts recognised in other comprehensive income will not be transferred to the profit and loss (ie on close out of the hedge) then the amounts will be brought into the charge to tax.

kind regards,
~~[illegible]~~
Sam Cooper

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QUESTION NUMBER 3

Tax issues

Disposal of freehold

Consideration 25 Feb 16	2500000
Cost (note1) (NGNL)	(1,100,000)
Indexation June 12	(82,500)
$0.075 \frac{260 - 241.8}{241.8}$	
	1,317,500

note1

David would have transferred stock to fixed assets prior to a no gain no loss transfer

MV	1,100,000
Construction	(1,000,000)
	100,000

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QUESTION NUMBER 3

£100,000 would therefore be trade profit in David Ltd.

The ~~ra~~ asset would transfer for deemed proceeds of £1.1m (no indexation as not held as an asset for a significant period)

Indexation will run from the date of transfer being the date the asset was appropriated from stock.

The gain will be added to total taxable profits of Shiat PLC and charged in the year of disposal unless rollover relief applies

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☐ Taxation of Individuals

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☑ Advanced Corporation Tax

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QUESTION NUMBER	3

Gain 1,317,506

Plant and machinery

No disposals were received on scrap of the plant and machinery. as such I assume no profits arose.

No losses are available on disposal on the assumption that capital allowances have previously been claimed.

Acquisition of Pub

As the pub is likely to be used in the trade Rollover relief is likely to apply

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QUESTION NUMBER | 3

As proceeds arising from the sale of the previous pub have been reinvested within 12 months prior and 36 months post the transaction rollover relief applies. (and both assets have been used in the trade)

Proceeds not reinvested are £2.5m − £2.3m = £200k.

This amount of the gain is charged now.

The balance of the gain being £1,117.5k is reduced from the base cost of the new asset.

The new base cost will be

2,300,000
(1,117,500)
1,182,500

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QUESTION NUMBER 3

A claim must be made within 4 years of the accounting period of the disposal.

The gain rolled over will increase the gain on disposal of the second pub.

Grant of a lease

A grant of a short lease is treated as a part disposal of that asset.

~~Thus is a~~ A short lease is one that runs for a period less than 50 years.

QUESTION NUMBER 3

Part of the lease premium will be treated as income:

$\frac{50 - 19}{50} \times £25k = £15,500$

This will be taxed as property income in Stuart PLC in the period of disposal.

The capital part £9,500 will be proceeds for the disposal calculation.

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QUESTION NUMBER 3

Proceeds	9,500
Cost	
$300k \times \frac{9500}{25000 + x}$	(x)
indexation	(x)
gain	x

Please note that we require the value of the reversionary interest in the property to calculate the gain (x).

Indexation allowance may also be available on cost, however I require the date of the property purchase.

Indexation will not increase a loss.

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QUESTION NUMBER | 3

60 year lease

The grant of a long lease (< 50yrs) is treated as a disposal.

Consideration	150,000
Present value of lease payments	x
Cost	(1,200,000)
(IA)	(x)

Please note further information is required to determine the value of lease payments which should be brought into the disposal calculation.

Indexation will be available from disposal date to purchase date, however I require date of disposal to calculate this.

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