Institution **CIOT - CTA**
Course **Adv Tech Tax of Larger Companies**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

| Count(s) | Word(s) | Char(s) | Char(s) (WS) |
|---|---|---|---|
| Section 1 | **918** | **4070** | **4980** |
| Section 2 | **666** | **3190** | **3904** |
| Section 3 | **962** | **4519** | **5625** |
| Section 4 | **1089** | **5153** | **6109** |
| Section 5 | **1048** | **4866** | **5869** |
| Section 6 | **784** | **3595** | **4344** |
| Total | **5467** | **25393** | **30831** |

Answer-to-Question-_1_

**Chargeable gain position for YE 31 March 2024 to minimise tax charge**

Durbad Plc

**Gain hold over on lease - £900,000**

This gain would have qualified for holdover relief and would have been deferred until the earliest of 3 events, one of these being 10 years from date the asset acquired.

Therefore the gain of £900k has crystalised and will be subject to UK CT.

**Disposal of Restaurant A**

The disposal of the restaurant will give rise to a chargeable gain of £1,450,000 subject to UK CT at 25%.

| | |
|---|---|
| Sale proceeds | 2,550,000 |
| Less: Fees on disposal | (100,000) |
| Less: Indexed base cost | (1,000,000) |
| Gain | 1,450,000 |

**Disposal of Coffee Shop A**

The disposal of Coffee Shop A will give rise to a chargeable disposal and a gain of £1,200,000 which will be subject to UK CT at 25%.

| Sale proceeds | 2,000,000 | | |
|---|---|---|---|
| Less: Fees on disposal | (50,000) | | |
| Less: Indexed based cost | (750,000) | | |
| Gain | 1,200,000 | | |
| | | | |

**Rollover Relief (ROR)**
Durbad will be eligible for rollover relief for a sale of these two properties as they were used for trade purposes.

ROR is allowed when a qualifying asset is disposed of and a new qualifying asset is acquired within 12 months before the disposal and 36 months after the disposal.

The claim for ROR needs to be made within 4 years of the accounting period end i.e 31 March 2028 and needs to be a joint election.

31 July 22 Acquisition
The acquisition of the freehold for £900k in 31 March 2022 is a qualifying asset as it will be used by Capey Ltd for trade purposes. As Durbad owns more than 75% of the shares in Capey Ltd they will form a gains group and therefore the asset can be rolled over under group ROR.

ROR works by deferring the gain against the base cost of the new asset.

Therefore £900k has been reinvested into qualifying asset.

30 March 2024 acquisition
The acquisition of the freehold for £500k will be eligible for ROR as although it is leased out which is not trade purpose, East Ltd will be using it for trade purpose.

East Let is not in a gains group with Durbad as there is not a common 75% ownership.

Qualifying reinvestment for ROR
31 July 2022 900,000
30 March 24 500,000

**Capey Ltd**

*Assignment of lease*

The assignment of the lease for 7 years is a short lease as this is less than 50 years.

Capey Ltd will be allowed a deduction from its trade profits for the property element of the premium paid which will £484,000 / 7 years of the lease which gives an allowable deduction of £69,143 per annum.

Capital element: 2% x 550,000 x (7-1) = £66,000
Property element: £550,000 - £66,000 = £484,000 / 7 years = 69,143

The landlord will have a capital gain based upon the capital element being the sale proceeds less cost x a / A + B

Capey Ltd will be allowed to deduct the capital element of £66k in the YE 31 March 2024.

Sale proceeds 66,000
Cost x a / A + B a = capital element A = Premium B = Reversionary interest
Gain

Holdover relief (HOR)
The assignment of the lease is a qualifying asset for HOR.

Can make a group HOR claim within 4 years of Accounting period end ie 31 March 2024.

The gain is deferred and crystalises on earliest of:

1. 10 years from acquisition
2. Cease to be used in Porty trade
3. Sale of equipment

*Acquisition of freehold*

The acquisition of freehold for £700k on 1 Novemeber 2026 will not be a qualifying asset for rollover relief for Durbad Plc as this is not within the 3 year time limit on the disposal.

If the freehold building is acquired before 30 September 2023, then this will be a qualifying asset for rollover relief as the restaurant will be used in Capey Ltd trade and group rollover relief can be obtained.

A provisional rollover relief claim can be made if Capey Ltd believes it will reinvest into this building before 30 Sep 2025.

Capey Ltd should make a s198 election with the purchaser so they can claim capital allowances on any fixtures within this building.

**Porty Ltd**

Acquisition of pumping equipment
This is a qualifying asset for HOR, therefore part of the gain in Durbad Plc can be deferred against the qualifying investment in plant and machinery as Porty Ltd and Durbad are in a gains group.

Can make a group HOR claim within 4 years of Accounting period end ie 31 March 2024.

The gain is deferred and crystalises on earliest of:

1. 10 years from acquisition
2. Cease to be used in Porty trade
3. Sale of equipment

Assignment of lease of 15 years

This is another reinvestment qualifying for HOR as it is a short lease of 15 years which is less than 60 years.

Capital element: 2% x 300,000 x (15-1) = £84k
Property element: £300k - £84k = £216k / 15 years = £14,400 deduction

**East Ltd**

The acquisition of a freehold building for £500k, will mean that East Ltd will have a base cost of £500k for future disposal.

No group rollover relief can be obtained by Durbad as there is not a 75% direct ownership of East Ltd shares and therefore Durbad and East Ltd are not in a gains group.

East Ltd should make a s198 election with the purchaser to allocated fixed values to any fixtures within the building so can claim capital allowances.

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--------------ANSWER-1-ABOVE---------------

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--------------ANSWER-2-BELOW--------------
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Answer-to-Question-_2_

**Group relief allocations for 2 years ended 31 Dec 22 and 23**

**Group Relief**
Dallan Plc will be in a group relief with its group members if it is has direct and indirect 75% shareholding of the subsidiaries ordinary share capital, assets available for distribution on winding up and profits available for distrubtion.

Alpine Plc is not included within the group relief group as there is less than 75% direct ownership.

In a group relief group, losses can be claimed and surrendered between the group and a claim needs to be made within 2 years of accounting period end.

**Alpine Ltd**
Although it doesnt qualify for group relief as there is not a direct 75% shareholding, it will be treated as a consortium company. This is because 80% of its shares are held by companies which owns at least 5% each, as this is more than 75%, this will be a consotrium company.

Amarillon is entitled to 50% consotrium relief in Alpine Plc.

Consortium relief is not allowed for companies not within charge to UK CT.

Finez Ltd is not pass of group relief group as 75% definition is not met.

31 December 2022

| | Trading profit | Group Relief | |
|---|---|---|---|
| Dallan Plc | 2,000,000 | (2,000,000) | |
| | | | |
| Howston | 500,000 | (500,000) | |
| Wacer Ltd | | | |
| Bolding Ltd | | | |

| | | | |
|---|---|---|---|
| Fromex Ltd | 600,000 | (600,000) | |
| Amarillion Ltd | 0 | Trading loss £5m - CY | |
| Total | 3,100,000 | | |

**Notes**

In the year, the following companies will be in a group relief group:
Dallan Plc, Howston, Wacer Ltd, Bolding Ltd, Fromex, Amarillion as there is at least a 75% direct and indirect shareholding.

Bolding Ltd goes into liquidation on 30 June 2022, so will cease to be part of the group relief group as at this date. Eligible for group relief for 6 months of the year.

Lubbock Ltd will not be in Dallan group relief group as there is not a indirect 75% shareholding. Instead Austin and Lubbock Ltd will form another group relief group.

Consortium relief
In the current year, within the group relief group, there is £3.1m of total profits generated. Amarillion made a loss of £5m which can be surrender via the group relief group.

As the group policy is to surrender consortium relief first, Amarillion can surrender the lower of:
1. 50% of £5m its loss £2.5m
2. Alpine available profit £1m

Therefore Amarillion will surrender £1m of its loss to Alpine, which leaves it with a remaining £4m of loss to surrender.

Amarillion will surrender the following:
CY loss £4m (after surrender to consortium)
Surrender to Dallan (£2m)
Surrender to Howston (500k)
Surrender to Fromex (600k)
Loss remaining to C/F 900K

In the year

Hellensic SA is tax resident in UK and Greece, as its losses arise in respect of its Greece activities, these can not be surrendered via UK group relief.

31 December 2023

| Trading profit | Group Relief | | |
|---|---|---|---|
| Dallan Plc | 2,500,000 | (2,500,000) | |
| Austin | | | |
| Howston_ | | | |
| Wacer | | | |
| Fromex | | | |
| Amarilion | | | |
| | | | |

**Notes**

**Austin Ltd**
Austin Ltd, joins the group relief group on the date of completion which will be 31 March 2023. Any group relief needs to be apportioned for non-contemious year ends, it will be eligible for 9 months worth of group relief.

2023: 3/12 x (300,000) = (75,000)
2024: 6/12 x (600,000) = (300,000)
(375,000)

Howston Ltd and Wacer
Howston and Wacer Ltd will leave the group relief group at the date arrangements came into place to sell the shares, this will be 31 August 2023 as the conditional contract was signed. Thererfore it is eligible for 8 months worth of group relief in the year.

Howston: (700,000) x 8/12 = (466,667)
Wacer:
2023: 3/12 x 300,000 = 75,000
2024: 5/12 x (200,000) = (83,333)
Trading loss (8,333)

Fromex:
Loss available for group relief is £700k

Amarillion: Has loss available of £500k.
As the group policy is to surrender consortium relief first, Amarillion can surrender the lower of:

1. 50% of £500K its loss £250K
2. Alpine available profit £1.5M

Will surrender £250k via consortium relief to Alpine, then remaining £250k is available for group relief.

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--------------ANSWER-2-ABOVE---------------
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--------------ANSWER-3-BELOW---------------
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Answer-to-Question-_3_

**Gain position for Parthy Plc for Ye 30 June 2024**

Sednoy Ltd
The disposal of shares by Party Plc in Sednoy will give rise to a chargeable event and a loss of £50m arises based on the sale proceeds less the cost of the shares. No IA is allowed as IA can't increase a loss.

| | |
|---|---|
| Sale proceeds | 20,000,000 |
| Less: Cost | (70,000,000) |
| Less: IA | |
| Loss | (50,000,000) |

*Indexation allowance (IA): Dec 2017 (278.1) - June 1990 (126.7)/ 126.7 = 1.195
IA stopped in December 2017
No IA allowed as it can't icnrease a loss

SSE
The substantial shareholding exemption if applies means that any chargeable gain is exempt from UK CT and any capital loss is not allowable.

Party Plc meets the substantial shareholding requirement as holds more than 10% of Sednoy Ltd shares for at least 12 months. However Sednoy Ltd doesn't meet the trading condition as it is an investment company, therefore SSE doesn't apply

Depreciatory transactions
Under the depreciatory transaction rules, the capital loss on the share sale will not be allowable or will be reduced where a transfer intra-group takes place take neutrally and a dividend is paid which materially reduces the value of the shares before a share sale with no commercial basis.

June 2024 transfer
The transfer of shares from Sednoy Ltd to Party Plc would have taken place under the mandatory nil gain nil loss transfer rules as Party owns more than 75% of the shares in Sednoy and therefore they are in a gains group. The shares would have been transferred at the base cost of £10m and the market value of £30m would have been ignored.

No degrouping charge will arise when Sednoy Ltd shares are sold as it is Party Plc who received the nil gain nill loss transfer.

Dividend
The dividend paid from Sednoy Ltd to Parthy Plc would been exempt from Party Plc under the controlled company exemption as Parthy owns more than 50% of the ordinary share capital of Sednoy Ltd.

As Sednoy Ltd shares have been materially reduced before the share disposal by transferring shares at £10m when the market value was £30m and paying a dividend of £40m, the capital loss of £50m will be reduced to nil and is not allowable.

This is because the shares of Sednoy were materially reduced by the NGNL transfer and dividend payment, therefore the capital loss is disallowed.

Sednoy Ltd will leave the chargeable gains group and group relief group.

<u>Melburk Ltd</u>

The disposal of the shares in Melburk Ltd will be a chargeable disposal for UK CT purposes, a gain of £42,662,791 will arise for Pathy Plc.

Just and reasonable adjustment 45,000,000
Sale proceeds 75,000,000
Less: Cost (30,000,000)
Less: IA (2,337,209)
Gain 87,662,791

IA 278.1 - 258 / 258 = 0.078

Sale of properties
The sale of the properties to a subsidiary for £120m is the market value of the properties. As Melburk and its subsidiary was in a gains group as there is more than 75% direct ownership of the shares, the building would have been transferred under the mandatory nil gain, nil loss rules at cost + indexation allowance and the market value would be ignored.

Borrwed £120m to fund property
The borrowing of the funds to finance acquisition of the properties and then sale of

properties to subsidiary will come under the value shifting considerations.

Value shifting
As Melburk Ltd engaged in a nil gain nil loss transfer of the properties to a subsidairy this would have taken place at cost + IA, this would have reduced the value of Melburk Ltd shares by £120m.

Paid a dividend
The payment of the dividend from Melburk Ltd to Parthly Plc will be exempt under the controlled company exemption as Parthy Ltd owns more than 50% of the share capital of Melburk.

This would have reduced value of Melburk shares by £45m

Under the value shifting rules as there is no commercial basis for the transfer of the property and payment of dividend, a just and reasonable adjustment needs to be made to increase the gain by £45m dividend paid.

As the sale of the properties were sold at market value of £120m, no adjustment is needed for this.

The £45m is added to the sale proceeds and increases the gain.

<u>Shobert SA</u>

The disposal of Shobert SA shares will give rise to a gain of £5m. No IA is allowed as shares acquired after December 2017.

| | |
|---|---|
| Sale proceeds | 15,000,000 |
| Less: Cost | (10,000,000) |
| Loss | 5,000,000 |

The substantial shareholding exemption will not be met as Hobert SA is an investment company and therefore doesn't meet the trading condition, therefore the gain will not be exempt even though the substantial shareholding requirement of at least 10% of the shares is met.

The value shifting rules will not apply in respect of the £5m dividend paid as even though it reduced the value of the shares, it was paid out of distributable reserves and therefore there is commercial basis for this payment.

Durwine Ltd

The disposal of Durwine Ltd by Parthy Plc will give rise to a gain of £11m subject to UK CT at 25%.

The payment of £1m dividends will not be caught by the value shifting rules as it was surplus cash in excess of trading requirements and paid out of distributable reserves.

| | |
|---|---|
| Sale proceeds | 12,000,000 |
| Less: Cost | (1,000,000) |
| Gain | 11,000,000 |

SSE
The gain will be exempt for Parthy Plc as the following SSE conditions are met.
Parthly plc has held at least 10% of the shares in Durwine Ltd for 12 months in the last 6 years. It meets this requirement as owns 100% of the shares.

Durwine Ltd meets the trading requirement for at least 12 months. This requirement has been met.

Therefore the £11m gain is exempt.

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--------------ANSWER-3-ABOVE---------------
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--------------ANSWER-4-BELOW---------------
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Answer-to-Question-_4_

PART 1 - CT payable by Danchar for YE 30 June 24

| | Notes | £ | |
|---|---|---|---|
| Profit before tax | | 19,752,000 | |
| Depreciation | 1 | 4,000,000 | |
| Loss on disposal of plant | 1 | 1,000,000 | |
| Bonus > 9 months | 1 | 500,000 | |
| Gifts | 1 | 50,000 | |
| Donation | 1 | 50,000 | |
| Impairment | 1 | 2,000,000 | |
| NTLR debit | 2 | 1,500,000 | |
| Dividends | 3 | (1,000,000) | |
| Less: Capital allowances | 4 | (8,599,500) | |
| Balancing charge on disposal of plant | 4 | 500,000 | |
| Depreciation on car | 4 | 1,000,000 | |
| Total Profit | | 20,302,500 | |
| Less: NTLR debit | | (1,500,000) | |
| Less: QCD | | (50,000) | |
| TTP | | 18,752,500 | |
| CT@25% | | £4,688,125 | |

Deduct QCD 50k
NTLR debit 1,500,000

**Notes**
(1) Admin expenses
- Depreciation is an accounting expense, it is disallowed for tax and instead capital allowances is taken.

-Loss on disposal of plant: this accounting loss is added back and instead proceeds are

deducted from the capital allowances computation

- Director bonuses are allowed if paid within 9 months of YE i.e by 31 March 2025. The payment made on 1 May 2025 is therefore disallowed and relief is given in year it is paid, disallow £500k

- Gifts to customers: Gifts are only allowable if cost less than £50 per person, contains client logo and are not drink or food. Even though the gift cost £30 it is not allowable as it is a drink and therefore disallow in full

- Staff entertaining is allowable and therefore no adjustment needed. Only client entertaining is disallowed.

-Donation: The donation to charity is added back as it is not a trading expense, instead it is deducted from total profits.

- Impairments are allowable provided they are in accordance with accounting standards and can be reliabled estimated.
  The £1m of goods owed by customer is allowable as they have filed for bankruptcy and therefore it is unlikely they will be paid. The impairment can be reliably estimated and is allowed.

The £2m lent to a subsdiary is not allowable as there is no tax relief for impairments made between loans to connected companies and therefore impairment of £2m is disallowed.

(2) Interest
- £1.5m of the interest relating to investment in Taycroft shares is added back as it relates to non-trading investment and therefore treated as a NTLR debit which will be netted off against any NTLR income in the year.
-£1.5m loan interest spent on purchase of equipment is treated as a trading expense as the equipment will be used for trade, no adjustment needed.

(3) Dividends
The dividend received from Taycroft Ltd will be exempt under the portfolio holding exemption as Danchar Ltd is large and holds less than 10% of the shares in Taycroft Ltd of 8%.

The dividends received will be exempt and needs to be deducted provided the anti-avoidance conditions are met and Taycroft Ltd doesn't receive a tax deduction for the dividend paid.

(4) Capital allowances
- Deduct proceeds on plant

| | AIA | FYA | GP | SRP | |
|---|---|---|---|---|---|
| Twdv b/f | | | 2,000,000 | 1,500,000 | |
| Machinery (b) | | 6,000,000 | | | |
| Car 160g/km(f) | | | | 75,000 | |
| Car 0g/km (e) | | 500,000 | | | |
| Vans (d) | 1,000,000 | | 250,000 | | |
| Integral features (c) | | 600,000 | | | |
| | 1,000,000 | 7,100,000 | 2,250,000 | 1,575,000 | |
| AIA / FYA @ 100% | (1,000,000) | (7,100,000 ) | | | |
| MP@18% | | | (405,000) | | |
| SRP@6% | | | | (94,500) | |
| Total CA CLAIMED | | | | | 8,599,500 |
| Twdv c/f | | | 1,845,000 | Add 600k | |
| | | | | | |

- Remaining £600k integral features transferred to SRP after WDA calculated

**Notes for capital allowances:**
b) Purchase machinery: The machinery of £5m will qualify for main pool capital allowances at 18%, AIA of £1m at 100% or full expensing of 100% as new equipment and purchased after 1 April 2023.

As the alterations took place to the building which was required to instal the machinery, the £1m costs of alterations also qualify for capital allowances in the main pool.

It is more beneficial to allocate AIA to second hand assets or special rate pool assets, therefore the total £6m cost is beneficial to claim 100% full expensing.

c)integral features
-The £3m integral features qualify for SRP at 6% / AIA @ 100% of 50% full expensing and remainder to SRP
-Depreciation of £3m @ 10% = £300k needs to be added back
-Sale of integral features of £1.8m
- The net of the amount spent and amount sold for of £1.2m qualifies for 50% FYA and

50% in SRP

d) Vans
- The vans qualify for main pool capital allowances at 18%. They do not qualify for full expensing as they are second hand.
It is beneficial to allocate AIA £1m and the remaining £250k goes to the main pool.

e)Cars
- The cars with 0g/km are low emission cars and qualify for FYA @ 100%
-Depreciation of 20% being £500k @ 20% = £100k needs to be disallowed
- The sale of cars for £150k does not need to be deducted from the capital allowance pool as the company got first year allowance on these cars.
-Normally the lower of cost and proceeds are deducted from the CA pool

f)Car
- As the car has co2 emissions above 50g/km, being 160g/km it will be eligible for SRP at 6%.
No AIA of full expensing is available for cars. There is no private use adjustment in respect of the director private use, instead he has a taxable benefit

Disposal of plant:
- The proceeds on the disposal of plant of £500k needs to be added as a balancing charge to the tax computation.
As asset was acquired within period 1 Apri 21 - 31 March 23, superduction would have been claimed on this asset.
The balancing charge of 100% of £500k is added as a balancing charge.

- Sale proceeds £500k - NBV (£1.5m) = Loss of £1m

The full AIA of £1m is available as no other group company claims capital allowances.

PART 2 - Disposal of integral features and cars

IT / Tax computation / CA

<u>Integral features</u>
In the income statement, the disposal of integral features will give rise to an accounting loss or gain calculated by the proceeds less the net book value of the integral feature.

In the tax computation the accounting loss or gain is added back or deducted

In the capital allowances computation the proceeds on the integral features is deducted from the relevant pool

Cars

In the income statement there will be an accounting loss or gain on the disposal of the cars.

In the CT computation the accounting loss or gain is disallowed.

In the capital allowance computation, the disposal of the cars proceeds are normally deducted from the relevant pool. As the disposal on the cars were on 0g/km there is no balancing adjustment upon sale.

Normally the proceeds are deducted from the main pool if CO2 emissions are less than 50 g/km

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--------------ANSWER-4-ABOVE---------------
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--------------ANSWER-5-BELOW---------------
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Answer-to-Question-_5_

UK Tax compliance obligations

The purchase of the shares of Jabert Ltd for £50m will be the base cost of the shares for future disposal purposes.

Jabert Ltd will become a wholly owned subsidairy of Curtis Inc and any future dividend paid to Curtis Inc, Jabert will not be required to withhold tax on dividend payments.

Providing Jabert Ltd remains centrally managed and controlled in the UK, it will remain as UK tax resident. It will be required to notify HMRC within 3 months of its chargeability to UK CT i.e by 1 October 2024.
As Jabert Ltd is UK tax resident, it will pay UK CT at 25% on its worldwide income and gains.

Corporation tax returns need to be filed annually within 12 months of the accounting period end. Upon the share purchase this will not be the start of the accounting period, instead the accounting period of Jabert continues.

It will also be required to submit financial statements within 9 months of the YE date and iXBRL tagged accounts to HMRC within 12 months of the accounting period end.

CIR
The CIR rules deny interest expense in the UK where net interest expense exceeds a certain threshold.

As Jabert is the only UK company, it will be the only entity in the CIR group. Although the CIR group is based upon the consolidated accounts of the ultimate parent being Curtis Inc, only the CIR disallowance can be allocated to UK companies.

Where net interest expense is less than £2m there is no interest restriction. As the financing costs are £50k, there will be no interest restriction.

WHT
Any future loans provided from Curtis to Jabert will require Jabert to pay interest on the

loans. Interest will be required to be WHT at 20% and quarterly CT61 returns will be due within 14 days of the quarter end.

SAO
The SAO rules will not apply as consolidated UK turnover does not exceed £200m, although this may be one to consider in the future as the group expands.

Transfer Pricing
The transfer pricing rules apply to connected companies (>50%) where transactions between connected companies are required to take place at an arms length if the companies meet the definition of a "large" group.

As Jabert currently has 85 employees, as this is below 250 employees it is not itself considered a large company and therefore would not be caught by the transfer pricing rules as an exemption exists for small and medium sized enterprises.

Although looking at the group as a whole, 85 and 2,035 employees means the group has over 250 employees and therefore the transfer pricing rules will apply.
The group also has turnover exceeding 50m and balance sheet assets exceeding 43m, only one of these thresholds need to be exceeded along with the employee threshold for transfer pricing to apply.

The provision of management services from Curtis Inc to Jabert Ltd will fall within the transfer pricing rules as the companies are connected. Any royalty payments for the licensing also needs to be at an arms length

TP Methods
The OECD permits the use of 5 TP methods, these being:

1. Controllable uncontrolled price - Third party price which would be charged
2. Cost plus - Cost plus an appropriate mark up for service
3. Resale price- Selling price less costs and overseas profit
4. Profit Split - Split profit based on various enterprises involved
5. Net margin - This is profit based on a percentage of inputs such as capital employed

Curtis Inc needs to undertake benchmarking to ensure that any royalty payments or management services taking place between the companies are at arms length.

TP adjustments will be required in Jabert Ltd CT return if an unfair UK tax advantage is obtained. The adjustments will not affect the fianncial accounts.

The OECD prefer the CUP method as this considers a third party price. Supporting documentation is needed to support the price used.

An APA can be entered into with HMRC to reduce the TP risk and fix a price for 3-5 years. Jabert Ltd will be required to have supporting local file and master file TP documentation.

No UK CbCr requirements are required, as it is a US headed group.

Offshore Intellectual Property Receipts (ORIP)
As Curtis has developed a tracking system which will be given to Jabert Ltd to utilise and will involve a license agreement of intellectual property, the ORIP rules will apply as it will promote UK sales by a non-UK tax resident company.

As Curtis Inc is not UK tax resident and the lincense agreements of IP will lead to UK sales, Curtis Inc will be requried to pay UK income tax at 20% on the UK attributable sales unless an exemption applies.

If the UK-US DTT contains a non-discrimination clause, this will exempt Curtis Inc from having to apply the ORIP rules.

There will be an exemption if UK sales do not exceed £10m.

If no exemptions apply, Curtis Inc will need to register for UK income tax self assessment by 6 October 2024 within 6 months of the 2024 accounting period.

It will be required to file UK income tax returns and pay UK IT at 20% on the attributable UK sales.

Tracking system / Royaty payments
Upon the lincense agreement between Jabert Ltd and Curtis Inc, Jabert Ltd will be required to pay royalty payments to Curtis Inc for use of the license.

As the payment is to a non-Uk company, Jabert Ltd will be required to WHT at 20% on the gross royalty payment made.

Jabert Ltd will also be required to submit quartlerly CT61 returns and pay the WHT to HMRC within 14 days of the quarter end.

Jabert Ltd and Curtis Inc should check if they can apply the UK-US Double Tax treay

and whether it follows the Model Convertion, if so a reduced WHT of 0% can be applied on the roaylty payments.

Additional UK tax charges which arise for Curtis Group

If no exemptions are met, Curtis Group will be required to pay UK income tax at 20% on attributable sales of the licensing agreement.

Cusrtis Inc will not pay any other UK CT unless it has a UK permamenet establishment in the UK or deals or develops UK land.

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--------------ANSWER-5-ABOVE---------------
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--------------ANSWER-6-BELOW---------------
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Answer-to-Question-_6_

<u>Explain whether SylMarc SA could have liability to UK CT if it establishes presence in the UK</u>

A company is subject to UK CT at 25% provided it is incorporated in the UK or centrally managed and controlled in the UK.

<u>SylMarc Group - Tax resdience</u>

Based on SylMarc SA current position, it is incorproated in gardania and managed from Gardania as all staff and functions carried out there. Therefore the company will be non-UK tax resident and there should currently be no UK CT liability.

After the change of taking on 3 UK customers and establishing a presence in the UK by transferring staff from Gardania or recruiting UK people. The tax residence of SylMarc SA could change.

It would seem as though the tax residence of Gardania will remain in Gardania if it is centrally managed and controlled overseas. In the UK central management and control is the highest form of control and it looks at where board meetings take place. As there is no intention for senior management or stff functions to be located in the UK, it is unlikely to become UK tax resident.

If the tax residence is found to be in the UK, as there is a DTT between UK-Gardenia then the competent authroities will decide the tax residence based on a number of factors including where incorporation takes place and the place of effective management (POEM).
POEM factors include:
- Where HQ located
- Where operational decisions taken place
- Where accounting records kept
- Where board meetings take place

It is likely the competent authroities will conclud Gardania take resident.

UK Tax residence
Although SylMarc SA is unlikely to be UK tax resident, it will still be liable to UK CT if it operates in the UK through a UK permanent establishment

UK permanent establishment
A UK permanent establishment is where either the fixed place of business in the UK is met or SylMarc SA has a dependent agent in the UK operating on behalf of the company.

As the staff will be operating from services office accomodation, as this meets the definition of permanent workplace this will be classed as a fixed permanent establishment.

In addition, if the staff will be operating in the UK on behalf of SylMarc SA and making key decisions or concluding contracts, this will mean they will also meet the dependent agent PE definition. Any preparatory or auxiliary activities will not constitute a PE, although this doesn't seem to be the case here and therefore a PE will exist.

Only one of the dependent agent of fixed place of business conditions need to be met for a UK PE to exist.

*PE implications*
Providing SylMarc SA operates in the UK through a UK PE it will pay UK CT at 25% on its profits attributable to the UK activities. It will be required to submit UK CT returns within 12 months of the Accounting period end and notify HMRC within 3 months of its chargeability.

Its likely its profits will also suffer tax overseas in SylMarc and therefore double tax relief in the UK will be available for lower of UK tax and overseas tax suffered.

The PE can claim capital allowances in the UK.

Upon any future disposal of the UK PE, UK CT will arise based upon a market value disposal of the PE assets.

UK Subsidiary
SylMarc SA can choose to operate in the UK through a UK subsidairy. Any dividends paid to SylMarc SA will not be eligible for a CT deduction and there will be no WHT required to be withheld on dividends paid.

Providing the central management and control of the subsidiary remains in the UK, it will pay UK CT on worldwide income and gains at 25% as it will be UK tax resident.

It will be elgible for capital allowances in the UK for any plant and machinery used in its trade.

Upon any future disposal of the UK subsidiary, there will be no UK CT liabilities arising as this will arise instead for the Gardania parent company.

Transfer Pricing
For both the UK PE and UK subsidairy any transactions between the UK PE/Subsidiary and SylMarc SA needs to take place at arms length otherwise TP adjustments will be required in the UK CT return providng the group is large for TP purposes.

Operating in the UK, not through a PE
SylMarc SA will not have a UK CT liability if it operates advertising activities in the UK or activities which are auxiliary or preparatory of nature as this will not create a UK PE.

Based on SylMarc activities of software services, this option seems not to be apporpriate for the gorup.