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Answer-to-Question- _1_

Report to the Board of Corline plc explaining the direct tax issues arising from the matters referred to in the Board minutes and recommedning the best course of action

To: Board of Corline plc

From: Garland & Moore LLP

Date: 8 May 2025

Subject: The tax implications of the potential acquisition of Batteries Nord SRL and the available funding alternatives identified

Introduction

This report begins by setting out the various advanatges and disadvantages of the proposed acquisition of Batteries Nord SRL by both an acquisition of the shares of the company, versus an acquisition of the trade and assets of the buisness from a tax perspective.

The report will recommend the most appropriate method of acquisition based on the information provided.

The report will subequently address the tax implications of the two proposed alternatives to fund the UK and French factory conversions, the acquisition of Nord Batteries SRL and the various penalties incurred in Sealand.

As requested, the report will not suggest relocation of tax residence, operating a business as a branch or agency of a company located in a country other than where the business is located or entering into any tax avoidance schemes.

Disclaimer

This report is intended for the sole use of the Board of Corline plc. No responsibility will be accepted where any reliance is placed on this report by third parties.

Tax rates and applicable law are correct at the time of writing (8 May 2025).

Executive Summary

We recommend that the proposed acquisition of the business of Batteries Nord SRL in Belgium take place by way of a purchase of the trade and assets of the business rather than the shares. A trade and assets purchase gives greater flexibility to the group in light of the changing business environment and critically provides options for relief of losses in Corline Cars 2 Ltd (CC2) to be relieved against the profits of the business as it will be deemed to operate as a 'permanent establishment' of the group.

The transfer pricing legislation in the UK should be considered in light of the Belgian manufacturing plant supplying the UK, as any UK tax advantage obtained in light of this could be challenged by HMRC.

The ability to relieve losses accelerates relief and provides a tax saving of £12.5m (Appendix 1) per annum. It is important that such losses can be relieved as this mitigates the position we recommend in relation to the two alternative funding options presented

which could mean a lower level of losses are relievabale in the UK (due to lower taxable profits).

Regardless of whether a share or trade and assets purchase is pursued, there should be no liability to SDLT or SD given the purchase is of a foreign business.

We recommend that of the two funding alternatives presented, the option which best suits the circumstances of the group from a tax perspective is that of obtaining a bank loan of £1,800m and obtaining funding from the Hunter family of £1,200m. This should be more commercially viable given the potential concerns which may arise among other shareholders otherwise, and provides a lower after tax cost to the group of £7.5m (appendix 3).

As part of this recommendation, the funding from the Hunter family should be provided to Corline plc such that relief can be obtained for the interest costs.

We further recommedn that a number of other possible issues which we have identified be monitored by the group, and advice be sought if necessary. This includes the multinational top-up tax position in Sealand as a result of the penalties incurred which may bring the effective tax rate below 15%. Tax advice in Sealand may need to be sought in this regard, in relation to the deductibility of the tax penalties, although this analysis considers the lack of interest deductibility throughout.

In addition, we recommend that CC2 makes a claim for structures and buildings allowance (SBAs) in relation to the conversion costs of the factory. This would provide a deduction of £12m and therefore a tax saving of £3m.

Section A: The acquisition of Nord Batteries SRL by way of a share purchase

By acquiring the shares of Nord Batteries SRL (NB), the group will acquire the 'history' of the company. This may be of a commercial benefit to the company given the business appears to be profit-making on a consistent basis, thereby extending its presence in overseas territories which aligns with its overall strategy of growth by acquisitions.

In addition, a purchase of the shares is likely to be administratively more simple than that of a trade and assets purchase as it does not involve a series of individual transactions which could have tax consequences both in Belgium and in the UK (although further information would be required as to a breakdown of the Belgian assets to confirm this point)

Given it is located overseas, the purchase of the shares of NB will not give rise to a Stamp Duty liability in the UK (nor a VAT liability for which a share purchase is outside the scope).

Consideration of the Belgian shareholder position should be given, as although they have proposed that they are willing to sell either the shares or the trade and assets, the tax implications of each are likely to be different and therefore could affect the purchase price.

A purchase of the shares of NB would mean that the due diligence exercise would be important, given the history of the company would be acquired as mentioned above. We would therefore recommend that should this option be pursued, the group should seek appropriate warranties and indemnities where possible regarding the possibility of any potential future unexpected tax liabilities which may arise.

UK tax exposure

As a result of a share purchase, there are a number of instances to be aware of which could mean that NB is subject to a UK tax liability on its realised profits.

The first is a possible exposure under Controlled Foreign Companies (CFC) legislation. This applies to foreign companies which are controlled from the UK. However, given the Belgian tax rate is the same as that of the UK, the legislation should not have an impact provided relevant profit adjustments in Belgium are not significantly different to that of the UK (as per what is known as the 'tax exemption', where the overseas tax paid is at least 75% of the UK tax paid).

It is worth noting that no relief is given for losses where a liability under CFC legislation arises.

Another consideration is that of the residency position of the company. Should the company be considered to be 'centrally managed and controlled' from the UK then HMRC may consider the company to be UK resident. It appears that this is both unlikely (given the already commercial viability of the business in Belgium without UK influence), and even if this was to apply then a UK-Belgium double tax treaty may have a tie-breaker clause which effects the residency as only being in one of the two territories.

If the company is deemed UK resident, its UK tax base would be broad in that it would be taxed on its worldwide income and gains. This highlights the importance to consider the impact that any future UK involvement may have in the Belgian business.

Transfer pricing

As the Belgian business would be controlled from the UK and is providing batteries intra-group including to the UK, UK transfer pricing legislation applies to any transactions

made between companies in the territories given the group is 'large' for these purposes.

In addition to the need to price transactions appropriately for tax purposes (ideally by reference to the price that a third party would supply batteries to the UK at), it is important that the group maintains appropriate transfer pricing documentation to support 'arms length' assertions, demonstrating that a tax advantage is not being obtained in the UK, for example where the batteries are provided at a tax rate that is more than arms length.

Given that the group is a large multinational group (i.e. operating in multiple territories), the documentation that should be maintained in relation to this includes both a master and local file in the UK, as well as a requirement for country-by-country reporting to take place (which may be in another jurisdiction).

Loss relief position

Importantly, should NB be acquired by way of shares and assuming its profits remain taxable only in Belgium (subject to residency considerations above where losses could be relieved), there would no option to obtain relief for the brought forward losses realised by CC2 Ltd which are now relievable in the UK, having been unlocked following the five year period post acquisition in December 2019 (i.e. relievable from 1 January 2025).

The inability to relieve the large amount of losses results in a tax cost of £12.5m pa (assuming consistent taxable profits of £100m in NB in the coming years).

Foreign exchange

As the purchase of the shares of NB is to take place in Euros as opposed to GBP, the

company may wish to consider hedging the risk which may arise as a result of currency fluctuations between the point the acquisition decision is made and the actual point of purchase, should a share acquisition be made.

If a hedge is made against the purchase of shares, any volatility in the value of the hedging instrument may be disregarded under the UK 'disregard regulations' for tax purposes. We can provide further information on this should this be considered.

Summary

Although an acquisition of NB means that there is no liability to UK tax, this represents no tax saving given the tax rate of the two territories is the same. The most important consideration therefore in relation to the tax position is the inability to shelter the Belgian profits with the brought forward CC2 losses.

On this basis, in addition to the possible commercial and other risks identified with a share purchase, that we do not recommend this course of action.

Section B: The acquisition of Nord Batteries SRL by way of a trade and assets purchase

By acquiring the trade and assets of NB as opposed to the shares, the UK company which acquires such assets will be deemed to be operating a 'permanent establishment' (PE) overseas.

This is by virtue of the fact that the UK will have a 'fixed place of business' in Belgium, being the battery manufacturing plant'. This effectively means that profits and losses are taxable and allowable within the UK as the plant is essentially considered to be an

extension of the UK business.

Similarly to a share purchase, no non-corporate tax liabilities will arise from a trade and assets purchase e.g. SDLT or VAT given the purchases are of foreign assets.

Although the profits of the Belgian PE would be taxable in the UK and in Belgium, the availability of double tax relief would serve to eliminate any UK tax liability given the consistent tax rates of 25% across both territories. Given the presence in Belgium is likely to be on a long-term basis, any changes to tax rates in future may impact this.

Loss relief

While there therefore should be no tax cost of the profits being taxable in both the UK and Belgium, a significant saving of £12.5m per annum will arise given the fact that a foreign PE's profits may be sheltered by UK losses. The £12.5m saving arises as under UK legislation, only 50% of UK taxable profits may be relieved by brought forward losses.

The relief for losses is however caveated by the small possibility that HMRC challenge whether a 'major change in the nature or conduct of the trade' occurred in CC2 at any point in the last five years. Whilst this appears not to be the case given that CC2 has relieved losses against its own taxable profits, the group should confirm this point before making a decision on a potential acquisition of trade and assets which is somewhat dependant on this point.

PE flexibility

The operation of a permanent establishment in Belgium is more flexible than the structure

of a company in that a future election could be made to exempt the profits from UK tax, or it could be incorporated in future.

These considerations may be beneficial in certain instances, such as if the UK tax liability exceeds that of Belgium in future.

Transfer pricing

The same transfer pricing considerations as made for share purchase are also relevant for the operation of a PE.

Foreign exchange

Similar foreign exchange considerations should be made with a purchase of the trade and assets whereby different foreign exchange rates may apply should individual transactions be effected at different dates.

Summary

Overall, given the opportunity to relieve brought forward losses in CC2 at an accelerated rate, given the liabilities of the group and its changing environment (and hence the importance of tax savings), the tax saving of £12.5m per annum which would be realised as well as the flexibility benefits and reduced need for due diligence and associated costs means that we recommend a purchase of the trade and assets of the business.

Section C: Funding option 1 (Hunter family)

Considerations surrounding funding of the groups imminent significant expenditure is

important and the tax implications of each of the options presented varies.

Should the funding be obtained by the Hunter family by way of a subscription to preference shares with payment of fixed dividends, several considerations should be made.

Firstly, the cost to Corline plc of the annual dividend payments after tax, although at a lower interest rate versus borrowings under option 2 (section D), does actually result in a greater after tax cost of £7.5m pa purely as a result of the fact that dividends paid to the Hunter family would not be deductible in the UK (appendix 3). Under this option, the cost of the borrowings at 5.5% interest per annum is £165m, which means a lower cash flow impact up front but a greater cost when factoring in tax relief.

The lack of deductibility of the dividend payments under this option does improve the ability to offset the losses in CC2 at a faster rate than would otherwise be possible as taxable profits are higher, but the rate at which losses may be relieved given the recommended acquisition of the trade and assets of the Belgian business is significantly improved therefore making it less of an important consideration in this case.

Position of shareholders

Under option 1, the structure of a subscription of preference shares requires a dividend to be paid every year, but importantly requires this before any other dividends are paid to ordinary shareholders.

This may therefore result in some objection to the proposal by other shareholders from a commercial perspective.

Furthermore, this method of funding would mean that the Hunter family obtains control of the affairs of the group given it would hold more than 50% of the voting rights.

Should this option be pursued, it would therefore potentially entail significant compliance costs of changing the share structure, but may also not be an agreeable proposal in the eyes of the other group shareholders.

The Hunter family themselves should be aware of the income tax consequences of the dividend income they would receive as a result of the arrangement. The majority of this income would be taxable at a rate of 39.35% given the size of the subscription.

Although the family are resident in Sealand, no withholding tax would need to be applied to the dividend payments made by the UK group.

Transfer pricing

Given the control that the Hunter family would have over the affairs of the group under option 1 and similarly controls a number of Sealand resident companies who provide parts to Corline Sealand Ltd, the transfer pricing position of the supply of such parts should be considered such that a UK tax advantage is not obtained (further detail explained above).

Summary

The subscription of preference shares by the Hunter family is likely to have practical challenges in relation to the shareholding structure and gives rise to a greater tax cost of £7.5m as dividends will not be deductible for tax purposes.

Section D: Funding option 2 (Combination)

By instead obtaining loan financing from both the Hunter family and the UK banks, this would result in a higher immediate cost of £210m per annum, however when the tax saving which will later be realised is taken into account, the after-tax cost of this option is £157.5m, therefore representing a tax saving of £7.5m versus option 1.

This is because the associated interest on the borrowings is deductible (provided the amount is loaned to the UK). The interest payable on the loans will be brought into account in the corporation tax computation as a non-trade loan relationship (NTRLR), which may be deducted from total taxable profits arising in any UK group companies on an accruals basis (including the Belgian PE recommended).

CIR

As the group would be undertaking significant borrowings under option 2 of £210m per annum, legislation in the UK known as the 'Corporate Interest Restriction' rules may come into effect to restrict the interest deductibility of the interest paid as the expense is over £2m.

This advice therefore assumes that no restrictions apply under these rules, however detailed calculations would need to be performed to determine if such a disallowance would arise. We can perform this analysis should you need this clarifying.

It appears that based on the information provided, HMRC should not be able to challenge the deductibility of interest in any other capacity, as the loans are for a commercial purpose. Similarly, as the interests on both loans is at an arms length rate of 7%, no TP challenges should arise.

Lender position

One potential disadvantage of undertaking this funding method is that the banks are likely to be less flexible in relation to the repayment of the funds borrowed in 10 years time versus the Hunter family.

The certainty of the ability to repay should therefore be ensured before undertaking option 2.

However, option 2 is likely to be more agreeable to the other shareholders of the group who's shareholding will not be diluted by the proposals under this arrangement.

Summary

Although caveated by the need to consider the impact of the CIR rules in further detail, we recommend that option 2 be undertaken with regards to the funding alternatives available to the group, provided that there is confidence in the ability to repay the capital in 10 years time.

From a tax perspective, the £7.5m tax saving makes this option significantly more attractive than option 1, and practically should be more simply to administer given that there would be no need to reorganise the shareholding position of the group and not giving rise to the associated risk of this option not being agreeable to existing other shareholders.

This recommendation is also contingent on the funding be provided to Corline plc rather than Corline Sealand Ltd as the interest costs are only deductible in the UK.

The reduced taxable profits which arise as a result of the interest deductibility to restrict the ability to accelerate relief for some of the losses in CC2, however the taxable profits position of CC (appendix 4), combined with the enhanced relief by a trade and assets purchase as recommended above does mitigate this.

Section E: The position of Sealand Ltd in relation to the fines incurred

The deductibility of the expenses incurred in Corline Sealand Ltd in relation to the additional tax liabilities, penalties and interest cost to the company will have specific associated tax consequences based on tax law in Sealand, and separate advice would be required with regards to this matter.

However, we can assert that the interest costs of £200m on late paid tax will not be deductible for tax purposes.

Multinational top up tax

From a UK tax perspective, the multinational top up tax legislation applies to the group potentially from 1 January 2024 (dependent on results for 2022), but certainly from 1 January 2025 irrespective.

This is because the group is a qualifying multinational group (as explained for TP purposes) and has consolidated revenues for at least two of the last four years of over 750m EUR.

The legislation has an impact for UK tax purposes where the effective tax rate of overseas jurisdictions falls below 15%, calculated by reference to 'covered taxes' i.e. taxes on

profits and withholding taxes, divided by the adjusted net aggregate profits in Sealand.

With a tax rate of 15%, the effective tax rate (ETR) in the territory could be reduced below 15% where tax relief might be obtained for certain expenses such as those incurred in a different period to when the accounting deduction is realised.

Should the ETR indeed fall below 15%, a multinational top-up tax will be levied on Corline plc as the ultimate parent entity of the group. The tax payable would be the difference between the effective tax rate and 15%, multiplied by the relevant profits.

Given the risk of MTUT applying to the group, the group must ensure that it is registered with HMRC as a qualifying MNG by 30 June 2025. It must then also ensure that a number of other compliance obligations are observed, such as submission of an information return, a self-assessment return, and payment of the top-up tax itself which are due at a later date i.e. in 2026.

Should any of these obligations not be met, penalties will be levied on the group, including the potential for tax geared penalties which may be highly significant given the extent of operations in Sealand.

We do however note that the lack of interest deductibility does increase the ETR, but the position of the other expenses must be confirmed given their size.

If Sealand has enacted a 'domestic top up tax', this amount may be credited against any tax payable in the UK under the MTUT rules.

CFC implications

There is potentially a greater risk of CFC exposure giving rise to a UK tax liability in respect of Sealand, given that the exemptions from the legislation are unlikely to apply unlike with Belgium.

The profits realised in Sealand may give rise to a UK tax liability should the profits be considered to pass through a 'gateway'.

One such 'gateway' which may apply in Sealand is that of the 'profits attributable to UK activities' given its nature as a trading operation.

It may be the case that the operations in Sealand appear to be commercially effective without UK involvement (given that parts are supplied by other Sealand companies) and the profits arise from a genuine trade. Should this be the case, it is more likely than not that no CFC charge would arise given the anti-avoidance nature of the rules.

More information surrounding the nature of the Sealand operations, as well as details of any non-trade income would be required to conclude on the possibility of a CFC charge.

Should a CFC charge arise, the amounts which 'pass through the gateway' would be subject to UK tax at the higher rate of 25%, and therefore would be a tax cost to the group.

Summary

Given both the MTUT and CFC risks highlighted, we recommend that the group seeks local tax advice (which can be provided by our Sealand office) in relation to the deductibility of the significant fines incurred as this may give rise to a charge to MTUT in the UK.

Furthermore, an in depth CFC analysis should be carried out to determine if there is any risk of UK tax arising on Sealand profits in this regard. Similarly, we can provide advice on this with further information.

The position in relation to these areas should be closely monitored, as a UK tax liability would erode the tax saving otherwise realised as a result of the lower corporate tax rate in Sealand.

Section F: Other tax considerations (relief for UK capital expenditure on factory conversion)

Given the proposed expenditure on the conversion of the UK factory owned by CC" at a cost of £400m, we recommend that the group claims Structures and Buildings Allowances (SBAs) in relation to this expenditure to obtain tax relief for the cost of the conversion.

As the conversion costs relate to new costs incurred on a non-residential building, SBAs may be claimed as an alternative to plant and machinery allowances.

Relief for the costs of conversion may be obtained at 3% per annum, therefore resulting in a reduction to trading profits of £12m pa, giving a resulting tax saving of £3m per annum. These should be claimed within the corporation tax return of CC2 Ltd.

Local tax advice in France would need to be sought in relation to any relief for the expenditure on the French factory.

Appendices

Appendix 1 - Acquisition of trade and assets of Batteries Nord SRL (loss relief position)

			£m
Pre-tax profits			100
Loss relief	50% profits (assuming DA used)		(50)
Taxable profits			50
Tax	25%		12.5

Appendix 2 - Funding option 1 (£3bn in preference shares)

			£m
Dividend payable	£3,000m x 5.5%		165

Not deductible

Appendix 3 - Funding option 2 (Borrowing £3bn)

			£m
Interest payable	Banks	£1,800m x 7%	126
	Hunter family	£1,200m x 7%	84
Total			210
Tax saving	25%		(52.5)
After tax cost			157.5

Deductible

**Appendix 4 - Tax position of Corline Cars UK Ltd (if position continued in future)
(assuming DA allocated to Corline Cars 2 Ltd)**

			£m
Taxable profits			290
Losses relievable			(145)
Taxable profits after loss relief			145
Tax	25%		36.25

Appendix 5 - SBAs available on construction costs in UK

			£m
Costs			400
SBAs	3%		12
Tax saving	25%		3