

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Larger Companies and Groups

May 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a senior tax manager at Browne & Greene LLP, a firm of Chartered Accountants. The firm's non-audit clients include the Abertol group.

One of the assurance partners, Jacob Stanhope, recently attended a meeting with Jack Hensforth, the Chief Financial Officer at Abertol plc. They discussed Project Rhine, which is a proposed acquisition by Abertol plc of the business of e-Boxes Ltd, an independent privately-owned company.

Jack Hensforth has now written (**EXHIBIT A**) to the tax partner, Janet Needler, asking for tax advice on the proposed acquisition.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Jack Hensforth to Janet Needler

EXHIBIT B: Notes of meeting between Jack Hensforth and Jacob Stanhope

EXHIBIT C: Pre-seen information

Requirement:

Write a report to the Board of Abertol plc explaining the tax issues arising from Project Rhine and advising on how best to deal with these.

Continued

EXHIBIT A

Letter from Jack Hensforth to Janet Needler

Ms J Needler
Browne & Greene LLP
100 High Street
Anytown
AN9 9ZZ

Abertol plc
Electra Business Park
Newtown
NO1 1AA

30 April 2024

Dear Janet

Project Rhine

You will be aware that we have appointed your firm to undertake financial due diligence on a potential acquisition target, e-Boxes Ltd.

Subject to the outcome of the due diligence exercise, it is our intention to buy either all the shares of e-Boxes Ltd, or the assets from e-Boxes Ltd. The shareholders of e-Boxes Ltd have told us that either is acceptable to them. The purchase price under either structure will be £200 million.

On an asset purchase, the £200 million is broken down as follows: £100 million for land and buildings; £75 million for the intellectual property; and £25 million for the other net assets. The tax written down value of other tangible fixed assets will be agreed at the net book value at 31 December 2023.

I have explained to Jacob Stanhope why we want to acquire the business of e-Boxes Ltd and our plans for integrating the business once we have acquired it (**EXHIBIT B**).

One new issue emerged yesterday, being the outcome of a US court case involving Abertol USA Inc. The court has imposed a fine of US \$40 million (£30 million) for the illegal importation to the USA of electronic components that are banned under USA trade sanctions. The cost of the fine, together with legal costs of US \$20 million (£15 million) and anticipated additional product remediation and recall costs of US \$20 million (£15 million) will be charged to Abertol Manufacturing Ltd. In consequence, Abertol Manufacturing Ltd is expected to incur a pre-tax accounting loss of £55 million in the year ended 31 December 2024. Corporation Tax profits for Abertol Manufacturing Ltd for the year ended 31 December 2023 were £10 million.

Please prepare a report for our Board, identifying the UK tax issues that will arise in respect of the proposed acquisition and structuring, and advising how we should deal with those issues.

At this stage, we do not require your advice regarding the financing of the proposed acquisition.

Yours sincerely

Jack Hensforth
Chief Financial Officer

Continued

EXHIBIT B

Notes of meeting between Jack Hensforth and Jacob Stanhope

Date: 23 April 2024

Present:

Jack Hensforth, Abertol plc
Jacob Stanhope, Browne & Greene LLP

Re: Proposed acquisition of e-Boxes Ltd

The following information was provided by Jack Hensforth.

Background to the proposed acquisition

The Abertol group has recently experienced a reduction in sales of its products across the various geographic markets in which it operates. This is due to a failure to innovate sufficiently to bring new products to market, whereas competitors have taken market share through utilising new technology to create enhanced products.

e-Boxes Ltd is an independent, privately-owned company and a competitor of the Abertol group. It owns registered patents in respect of industrial know-how that it uses in the manufacture of its products, which are sold to large, independent retail chains in the UK.

An acquisition of the e-Boxes Ltd business would enable the Abertol group to:

- 1) access e-Boxes Ltd's intellectual property, including industrial know-how, which could be used to refresh the Abertol group's product range.
- 2) increase the Abertol group's manufacturing capacity.
- 3) sell the Abertol group's products to UK retail chains, a market previously denied to it by exclusivity agreements between e-Boxes Ltd and the retailers.
- 4) sell e-Boxes Ltd's products to the Abertol group's existing global retail network, a route to markets previously denied to e-Boxes Ltd by the Abertol group.

Proposed acquisition structure and post-acquisition integration

The Abertol group intends that either:

- 1) Abertol plc will buy the shares of e-Boxes Ltd and then e-Boxes Ltd will transfer its intellectual property to Abertol Farland Ltd and its other net assets to Abertol Manufacturing Ltd; or
- 2) Abertol Manufacturing Ltd will buy the net assets directly from e-Boxes Ltd, apart from the intellectual property which will be bought directly by Abertol Farland Ltd from e-Boxes Ltd.

The Board of Abertol plc has proposed that the intellectual property of e-Boxes Ltd should be held by Abertol Farland Ltd because that will allow the group to benefit from the lower tax rate in Farland and maintain all intellectual property in one group company.

The UK Board has also proposed that the intellectual property acquisition by Abertol Farland Ltd should be funded by a subscription by Abertol plc for new share capital in Abertol Farland Ltd. Abertol Manufacturing Ltd will then enter into an agreement with Abertol Farland Ltd to pay royalties for the use of the intellectual property. A market rate will be paid at 15% per annum of the capital value of the intellectual property.

Continued

Information about e-Boxes Ltd

e-Boxes Ltd, a UK tax resident company, was founded on 1 January 2019. It was funded by a £60 million share subscription by its shareholders.

In the year ended 31 December 2019, the company spent £30 million developing manufacturing processes and know-how. This intellectual property has been protected by patents. The company also acquired land for £5 million and built a factory on the land at a cost of £25 million.

From 1 January 2020, e-Boxes Ltd began to manufacture products for the UK electronic domestic goods market, using its intellectual property. Sales were, and continue to be, made to large independent retail chains in the UK.

Trading was profitable at first but since 2022, trading losses have been incurred because of two factors. First, additional expenditure has been incurred on enhancing the intellectual property, with further patents registered, and that additional expenditure has been written off in the income statement. Secondly, competitors have gained market share.

At 31 December 2023, e-Boxes Ltd's trading tax losses carried forward were £85 million. Further trading losses of £10 million are estimated in the six months to 30 June 2024.

Financial information for e-Boxes Ltd

Balance Sheet as at 31 December:

	<u>2023</u>	<u>2022</u>
	£ million	£ million
Land and buildings	27	28
Other tangible fixed assets	3	5
Intangible fixed assets	15	18
Cash at bank	10	85
Debtors	20	35
(Liabilities)	<u>(8)</u>	<u>(3)</u>
Net assets	<u>67</u>	<u>168</u>
Equity:		
Share capital	60	60
Reserves	<u>7</u>	<u>108</u>
Total equity	<u>67</u>	<u>168</u>

Note

The value of intangible fixed assets is the written down value of the original intellectual property developed in 2019. All subsequent development expenditure has been written off to the income statement in the period it was incurred. Tax relief on all intangible asset expenditure, including all available Research & Development credits, has been claimed.

Continued

EXHIBIT CPre-seen information

Client name: The Abertol group

Parent company: Abertol plc

Date of incorporation: 1 March 2015

Country of incorporation and tax residence: UK

Ownership: Listed on London Stock Exchange. No shareholder holds more than 5% of the shares.

Board members:

Jane Abertol	Chief Executive Officer
Jack Hensforth	Chief Financial Officer
Jessie Brother	HR Director
Gordon Stephenson	Operations Director
Lord Greenacres	Non-executive Chairman
Leonard Brownfield	Non-executive Director
Mia Bowling	Non-executive Director

Total number of worldwide employees across the Abertol group: 15,000.

Background and history

The group's business of manufacturing and selling domestic electrical appliances was founded by John and Jane Abertol in 2002. It now manufactures digital home entertainment equipment (televisions, radios and audio) in the UK and sells the equipment both in the UK and overseas.

In 2015, Abertol plc was formed as the group holding company in order to raise capital through the listing of the company on the London Stock Exchange, which also happened in 2015.

The capital raised provided funding for a major expansion of activities. This included the acquisition of a competitor company (now called Abertol Farland Ltd) that owned some unique and valuable intellectual property. In addition, Abertol plc created several overseas retail sales operations to access overseas markets.

Abertol plc's activities comprise:

- 1) Owning shares of group subsidiary companies.
- 2) Providing management services to other group companies.
- 3) Receiving dividends from subsidiary companies and paying dividends to shareholders.

Abertol plc wholly owns three subsidiary companies: Abertol Manufacturing Ltd, Abertol Holdings Ltd, and Abertol Farland Ltd.

<u>Company name</u>	<u>Tax residency</u>	<u>Activities</u>
Abertol Manufacturing Ltd	UK	Manufactures all the group's products and sells these to the group's retail companies.
Abertol Holdings Ltd	UK	Wholly owns four retail companies that are tax resident and physically present in the UK, USA, Germany and Hong Kong, respectively: <ul style="list-style-type: none"> • Abertol UK Ltd • Abertol USA Inc • Abertol Germany GmbH • Abertol Hong Kong Ltd
Abertol Farland Ltd	Farland (see Note)	This company no longer undertakes any manufacturing. Its only activity is to hold the registered patents of the intellectual property it originally created and to receive royalties for the use thereof from Abertol Manufacturing Ltd.

Continuation

Note

Farland is an independent country. Farland corporate law requires adherence to International Accounting Standards. Under its tax regime, corporate income tax is paid at 5% on taxable profits. No tax relief is given for expenditure on intangible fixed assets. There is a Double Taxation Treaty between Farland and the UK that follows the OECD Model Convention.

Financial information for Abertol plc group

Income statement for the year ended 31 December.

	<u>2023</u>	<u>2022</u>
	£ million	£ million
Revenue	4,840	5,020
Cost of sales	<u>(1,810)</u>	<u>(1,860)</u>
Gross profit/(loss)	3,030	3,160
Administrative expenses	<u>(2,270)</u>	<u>(2,330)</u>
Profit before tax	760	830
Tax	<u>(150)</u>	<u>(170)</u>
Profit after tax	<u>610</u>	<u>660</u>

Balance Sheet as at 31 December

	<u>2023</u>	<u>2022</u>
	£ million	£ million
Fixed assets	4,160	4,370
Cash at bank and debtors	820	550
(Liabilities)	<u>(660)</u>	<u>(800)</u>
Net assets	<u>4,320</u>	<u>4,120</u>
Equity:		
Share capital	1,000	1,000
Reserves	<u>3,320</u>	<u>3,120</u>
Total equity	<u>4,320</u>	<u>4,120</u>

Corporate Tax

Company tax returns for all territories have been submitted on time and there are no open enquiries by any tax authorities.

There are no unutilised tax losses in the group as at 31 December 2023.

VAT

Abertol plc is the representative member of a group VAT registration in the UK, consisting of all UK-tax resident companies. The group is wholly taxable.