The Chartered Institute of Taxation

Advanced Technical

Taxation of Larger Companies and Groups

May 2025

Suggested answers

Answer 1

A controlled foreign company (CFC) is a non-UK resident company that is controlled by one or more UK residents. A UK resident company having an interest of at least 25% in a CFC can be subject to a UK tax charge based on the CFC's profits.

Lender SARL, Paints SA, and Markets AS are CFCs because of Allroy Ltd's 100% shareholding meaning that their affairs are conducted in accordance with Allroy Ltd's wishes and are therefore under its control.

Brands BV is a CFC because:

(a) Allroy Ltd has more than 40% legal ownership;
(b) Allroy Ltd and Bien BV together have legal control; and
(c) Bien BV has legal ownership between 40% and 55%.

Warranties AB is a CFC because Allroy Ltd and Mr Bye are UK residents who together have legal control of the company.

There are entity level exemptions from a CFC apportionment.

An exemption applies to accounting periods ending within 12 months of a CFC's acquisition. This applies to Paints SA's accounting period ending 28 February 2025 because it was acquired on 1 April 2024 and was not previously a CFC (having been owned by a non-UK resident individual), provided:

(i) it continues to be a CFC for at least one accounting period after 31 March 2025 and no CFC charge arises for that accounting period; and
(ii) throughout the 12-month exempt period and the following accounting period, Allroy Ltd or a connected company remains as the chargeable company.

Markets AS satisfies the low profit margin exemption because its profit before tax (excluding interest payable) is less than 10% of its relevant operating expenditure (£650,000 + £250,000 / 9,900,000 = 9.1%).

The excluded territories, low profits, and corresponding 75% UK tax exemptions are not applicable.

For the remaining companies, a CFC charge only arises if their profits pass through the gateways (under various chapters within the CFC legislation in Part 9A of TIOPA 2010).

Profits attributable to UK activities (chapter 4 gateway) is relevant for Brands BV. None of the safe harbour exclusions in chapter 3 apply to it because:

(a) the structure was set up for tax purposes therefore failing the motive test;
(b) the trademarks are managed by Allroy Ltd's employees from the UK;
(c) it lacks the capability to manage the trademarks given the absence of employees and business premises; and
(d) it has no non-trading finance or property profits.

The chapter 4 gateway exclusions do not apply either as:

(i) significant people functions are in the UK;
(ii) the only economic value Brands BV adds is a reduction of tax;
(iii) it is unlikely similar arrangements would be set up by an independent party; and
(iv) Brands BV has no physical presence in its territory of residence and all its income comes from the UK.

It is therefore reasonable to conclude that Brands BV's profits (excluding chargeable gains) fall through the chapter 4 gateway. The other gateways do not apply.

Lender SARL has non-trading finance profits, which derive from a share subscription in May 2023. The chapter 3 safe harbour exclusions do not apply because the interest income is not incidental to an exempt activity and the 5% de minimis rule does not apply. The profits therefore pass through the chapter 5 gateway. Allroy Ltd may claim, under chapter 9, exemption for 75% of the interest received from Paints SA and Markets AS because it arises from qualifying loan relationships (that is, loans to non-UK group companies and Lender SARL satisfying the business premises condition). The remaining 25% of interest on these loans will be exempt under the matched interest rule because the group has a £nil aggregate net tax-interest expense (ANTIE). This leaves UK bond interest of £2,250,000 subject to apportionment under the chapter 5 gateway. The proportion of operating expenses relating to the exempt interest will not be deductible in the apportionment calculation.

A proportion of Warranties AB's underwriting profits and investment income pass through the chapter 7 captive insurance gateway because 60% of its business is attributable to UK contracts for insurance with Allroy Ltd. Therefore 60% of its underwriting profits pass through that gateway along with 60% of the investment income, although all the UK dividend income is excluded.

The substance of the operations in the local territory prevents the 40% non-UK insurance profits from passing through the chapter 4 gateway.

The relevant chargeable profits calculations are:

	Brands BV	**Lender SARL**	**Warranties AB**
	£	**£**	**£**
Profit before tax	18,000,000	2,950,000	4,750,000
Capital gain on investments excluded	(3,000,000)	-	-
Chapter 9 exempt profits	-	(750,000)	-
Chapter 9 operating expenses (750/3,000 x £50,000 restriction)	-	12,500	-
Non UK underwriting profits (4,500 x 40%)	-	-	(1,800,000)
Non UK interest income (500 x 40%)	-	-	(200,000)
Non UK operating expenses restriction (500 x 40%)			200,000
UK dividend income excluded	-	-	(250,000)
Gateway profits	15,000,000	2,212,500	2,700,000
CFC Charge at 25%	3,750,000	553,125	675,000
Creditable tax	(2,000,000)	(450,000)	-
Apportionable Amount	£1,750,000	£103,125	£675,000

Brands BV has a 31 July 2024 accounting period, but this period is used for the apportionment calculations as it ends in the year ended 31 March 2025.

The above amounts are apportioned as follows:

Allroy Ltd

	£
50% of Brands BV apportionable amount	875,000
100% of Lender SARL apportionable amount	103,125
40% of Warranties AB apportionable amount	270,000
Total	£1,248,125

Allroy Ltd is unable to set its taxable loss of £4 million against the apportioned amounts.

Although Mr Bye is a UK resident shareholder, CFC apportionments are not made to individuals.

Bien BV, being a non UK resident shareholder, is not subject to apportionment.

MARKING GUIDE

TOPIC	MARKS	TOTAL
Control		
Control by virtue of 100% ordinary shareholdings in Lender SARL, Paints SA, and Markets AS	1.0	
Analysis of Brands BV control criteria	1.0	
Analysis of Warranties AB control due to UK residents ownership	1.0	
		3.0
Exemptions		
Paints SA exempt period exemption	1.0	
Subsequent period conditions to be satisfied by Paints SA	0.5	
Low profit margin exemption requirements for Markets AS	1.0	
Correct margin calculation for Markets AS	0.5	
Excluded countries, low profits and corresponding 75% UK tax exemptions do not apply to any companies	1.0	
		4.0
Gateways		
Brands BV Chapter 3 safe harbour exclusions not applicable	1.0	
Brands BV Chapter 4 exclusions not applicable	1.0	
Other Chapters not applicable to Brands BV	0.5	
Lender SARL Chapter 3 incidental activities safe harbour exclusions do not apply	0.5	
Chapter 5 gateway applicable to Lender SARL	0.5	
Chapter 9 75% qualifying loan relationship exclusion applicable to Lender SARL	0.5	
Chapter 9 matched interest exemption to leftover Chapter 9 profits for Lender SARL	0.5	
Operating expenses restriction for Lender SARL	0.5	
Other Chapters not applicable to Lender SARL	0.5	
Warranties AB falls within Chapter 7 as it is a captive insurance company	1.0	
Profits from non UK contracts of insurance not included in Chapter 7 gateway	0.5	
Operating expenses restriction for Warranties AB's non UK contracts	0.5	
Consideration of other Chapters, especially Chapter 4 applying in relation to Non UK insurance	0.5	
		8.0
Apportionment calculations		
Exclusion of Brands BV's chargeable gains	0.5	
Exclusion of Warranties AB's UK dividends	0.5	
Creditable overseas and UK tax	1.0	
Allroy Ltd losses not available for set off against chargeable profits	0.5	
Apportioned amounts on Allroy Ltd from Brands BV, Lender SARL and Warranties AB	1.5	
Nothing to be apportioned to Bien BV and Mr. Bye	1.0	
		5.0
TOTAL		**20.0**

Answer 2

Part 1

Corporation Tax computation

	Notes	£'000	£'000
Profit before tax			36,375
Permanent differences			
Land impairment	1)	10,000	
Research & development credit	2)	1,130	
			11,130
Timing differences			
Depreciation	3)	2,750	
Loss on disposal of fixed assets	4)	500	
Capital allowances	5)	(3,693)	
Employee bonuses	6)	5,000	
Employer pension contributions	7)	1,000	
			5,557
Taxable profits			53,062
Tax payable at 25%			13,266
Research & development credit			(1,130)
Tax payable			£12,136

Notes

1) The impairment of land is disallowable.

2) Out of the £10 million research and development expenditure the following are not allowable:
   (a) 35% of externally provided UK workers, however a joint election can be made with the external workers provider which will avoid the disallowance.
   (b) Payments to UK and overseas subcontractors of £4,350,000 are only allowed if made to a qualifying body, individual, or partnership comprising of individuals.

   Allowable costs are therefore £5,650,000 (£10,000,000 less £4,350,000) with a tax credit at 20% of £1,130,000.

3) Depreciation is disallowable.

4) The loss on disposal of fixed assets is disallowed and as this equals the disposal net book value it can be deduced that there were no disposal proceeds.

5) Capital allowances:

	Notes	Main Pool £'000	Special Rate Pool £'000	Allowances £'000
At 1 January 2024		10,000	1,500	
Additions				
Plant and machinery	(a)	1,000		
Trucks	(b)	150		
Lighting	(c)		400	
Motor cars	(d)		50	
Used furniture	(e)	250		
Annual investment allowance	(c)	(600)	(400)	1,000
First year allowances	(a)/(b)	(800)		800
		10,000	1,550	
Writing down allowances at 18%		(1,800)		1,800
Writing down allowances at 6%			(93)	93
At 31 December 2024		£8,200	£1,457	
Allowances				£3,693

(a) Full cost of plant and machinery acquired on hire purchase qualifies for first year allowance. Outstanding instalments are irrelevant.

(b) Trucks are plant and machinery eligible for first year allowance. CO_2 emissions are irrelevant.

(c) Warehouse lighting falls within the special rate regime. It is, however, more beneficial to claim the annual investment allowance against this rather than the 50% first year allowance. Also annual investment allowance used before 100% FYA as more beneficial on future disposal.

(d) Motor cars with CO_2 exceeding 50g/km fall into the special rate pool and are not entitled to the annual investment allowance or first year allowances.

(e) Used furniture is not eligible for first year allowances but the annual investment allowance can be claimed.

6) As employee bonuses are payable more than nine months after the year end, they are disallowed but will be deductible in the following year.

7) Deductions for employer pension contributions are allowed when paid. They are therefore disallowed but will be deductible in the following year.

As Veharia plc is a very large company the due dates and tax payable are:

	Due £'000	Paid £'000	Balance £'000
14 March 2024	3,316	3,438	(122)
14 June 2024	3,316	3,437	(121)
14 September 2024	3,316	3,625	(309)
14 December 2024	3,318	2,750	568
	£13,266	£13,250	16
Research & development credit			(1,130)
Tax repayment due			(1,114)

The research & development credit cannot be considered when making instalment payments.

Actual payments were based on forecast taxable profits

	Taxable profits forecast £'000	Tax payable at 25% £'000	Cumulative Instalments due £'000	Instalments paid £'000
March 2024	55,000	13,750	3,438	3,438
June 2024	55,000	13,750	6,875	3,437
September 2024	56,000	14,000	10,500	3,625
December 2024	53,000	13,250	13,250	2,750

Part 2

Deferred tax account

	Plant & Machinery	Employee Bonuses	Pension Contributions	Total	
	Gross timing differences				Tax at 25%
	£'000	£'000	£'000	£'000	£'000
Opening book value	26,000	-	-	26,000	
Opening tax value	(11,500)	-	-	(11,500)	
Net amount 1.1.24	14,500	-	-	14,500	3,625
Movement in year	443	(5,000)	(1,000)	(5,557)	(1,389)
Closing book value	24,600	-	-	24,600	
Closing tax value	(9,657)	(5,000)	(1,000)	(15,657)	
Net amount 31.12.24	14,943	(5,000)	(1,000)	8,943	2,236

Plant and machinery include motor vehicles.

MARKING GUIDE

TOPIC	**MARKS**	**TOTAL**
Corporation Tax Calculation		
Depreciation disallowance	0.5	
Land impairment disallowance	0.5	
Loss on disposal of assets disallowance	0.5	
Employee bonus disallowance	0.5	
Pension contribution disallowance	0.5	
Allowable research and development (R&D) expenditure calculation	0.5	
R&D credit (RDEC) calculation	0.5	
Motor car capital allowances	1.0	
First year allowances eligibility	0.5	
Annual investment allowance used in preference to special rate (SR) first year allowances (FYA) and 100% FYA	1.0	
Writing down allowances calculation	1.0	
		7.0
Tax payments and tax outstanding		
Instalment payment due dates	0.5	
Instalment payment amounts paid based on forecasts	0.5	
RDEC not to be considered in calculating instalments	0.5	
		1.5
Underpayment on instalments	1.0	
RDEC tax credit	0.5	
		1.5
Deferred Tax		
Opening deferred tax balance	1.0	
Movement in the year	1.0	
Closing plant and machinery balance	1.0	
Closing employee bonus balance	1.0	
Closing pension balance	1.0	
		5.0
TOTAL		**15.0**

Answer 3

A UK group must publish its tax strategy if its turnover exceeds £200 million or its balance sheet exceeds £2 billion in the previous financial year (31 December 2023 here).

Mowberry Ltd is not part of the group for these purposes as it is not a 51% subsidiary of Ryonsdown Ltd. The other two entities constitute a UK group as Ryonsdown Ltd owns more than 51% of the ordinary share capital of Stringmore Ltd. Ryonsdown Ltd is the head of the group.

Where companies in a group have differing year ends, the figures that are aggregated are those for the financial years ending in the financial year of the head of the group.

Therefore, the figures for the 31 December 2023 financial year end of Ryonsdown Ltd must be aggregated with the figures for Stringmore Ltd's year ended 31 March 2023.

	Financial Year End	**Ryonsdown Ltd**	**Stringmore Ltd**	**Total**
		£m	**£m**	**£m**
Turnover	31 December 2023	125	-	125
	31 March 2023	-	80	80
Combined Total				205
Balance Sheet total	31 December 2023	1,400	-	1,400
	31 March 2023	-	500	500
Combined Total				1,900

Although the balance sheet limit is not exceeded in the year ended 31 December 2023, the turnover limit is, and Ryonsdown Ltd, being the head of the UK tax group, should have ensured that the group published its tax strategy for the financial year ended 31 December 2024.

The strategy had to be published before 31 December 2024 on the internet by one of the two companies and should have been accessible to the public free of charge. It could have been a standalone document or a self-contained part of a wider document. It should however have been clear that the strategy was regarded as complying with the legislative duty to publish.

The strategy must subsequently be published every year that the qualifying conditions are met on the earlier of the end of the financial year or fifteen months after publication of the last strategy.

The strategy document covers all UK taxes that the group is responsible for paying or collecting. It must set out:

1) The approach of the group to risk management and governance arrangements in relation to UK taxation.

   This should include:

   (a) how the group identifies and reduces inherent tax risk based on its size, complexity, and extent of changes in the business;

   (b) the governance framework used to manage risk (for example, internal responsibilities and approval processes);

   (c) the level of oversight and involvement of the Board of Directors; and

   (d) a high-level description of key roles, responsibilities, systems, and controls in place to manage tax risk.

2) The attitude of the group towards tax planning as it affects UK taxation.

   This should include:

   (a) details of any code of conduct in place relating to management of tax planning;

   (b) influences on tax planning and how this affects tax strategy. For example, is planning only undertaken in relation to commercial transactions;

(c) approach to structuring tax planning including attitude to use of contrived arrangements not required for commercial purposes; and

(d) an explanation of why external tax planning advice might be sought from tax professionals (for example, where there is genuine tax uncertainty around commercial transactions or in relation to non commercial arrangements).

3) The level of risk in relation to UK taxation that the group is prepared to accept.

This should include an explanation of:

(a) the level of risk the business is prepared to accept and details of internal governance processes for measuring this; and

(b) the influence relevant stakeholders have (examples being, the Board, Finance Director, Head of Tax).

4) The approach of the group towards dealings with HMRC.

This should cover:

(a) how the business works with HMRC to meet statutory and legislative requirements; and

(b) how the business works to be transparent with HMRC on current, future, and past tax risks.

If Ryonsdown Ltd did not publish a strategy, published a strategy which did not include all relevant information, or the strategy did not remain freely available to the public, a penalty could be charged on Ryonsdown Ltd. This amounts to £7,500 with a further £7,500 payable if the failure continues for a further six months and then £7,500 for each month thereafter that the failure is not rectified.

Penalties will not arise where an officer of HMRC allows for an extension to comply with the breach of a time limit or HMRC are satisfied there was a reasonable excuse for the failure.

MARKING GUIDE

TOPIC	**MARKS**	**TOTAL**
Requirements		
Turnover and Balance Sheet limits per legislation	1.0	
Mowberry Ltd not a 51% subsidiary	0.5	
UK group comprises Ryonsdown Ltd and Stringmore Ltd	0.5	
Totals for the group (including dealing with different year ends)	1.0	
Responsibility of head of UK group to publish	1.0	
Publication date time limit	1.0	
Freely accessible on internet	0.5	
Must say document complies with legislative requirement	0.5	
Subsequent year's publishing time limit	1.0	
		7.0
Content of strategy		
How business manages risk	1.0	
Examples of items to include	0.5	
Attitude to planning	1.0	
Examples of items to include	0.5	
Level of risk	1.0	
Examples of items to include	0.5	
Working with HMRC	1.0	
Examples of items to include	0.5	
		6.0
Penalties		
Failures triggering penalties	0.5	
Amount of penalties	0.5	
HMRC extension	0.5	
Reasonable excuse	0.5	
		2.0
TOTAL		**15.0**

Answer 4

Lidstone Ltd: Corporation Tax computation for the year ended 31 December 2024

	Notes and Workings	£	£
Profit per accounts			7,200,000
Add:			
Depreciation	N1	1,000,000	
Loan interest	N2	400,000	
Management charge adjustment	N3	700,000	
			2,100,000
Adjusted profit			9,300,000
Capital allowances	W1		(1,204,000)
Structural buildings allowance (SBA)	W2		(33,750)
Trading profits			8,062,250
Non-trading loan relationships (NTLR)	N4		
Credits		1,250,000	
Debits		(400,000)	
NTLR credits		850,000	
			850.000
Taxable profits			8,912,250
@ 25%			2,228,063
Double taxation relief (DTR)	W3		(1,000,000)
Corporation Tax liability			£1,228,063

Notes

N1) Depreciation is capital in nature and is not deductible for trading profit purposes.

N2) The bank interest payable on the proportion of the loan used to purchase the shares in Ringrose Ltd is not for trading purposes and therefore should be disallowed in the calculation of trading profits.

The balance is used for trading purposes and is allowable as a trading deduction. The amount to be added back is:

$$£800,000 \times \frac{£12 \text{ million}}{£24 \text{ million}} = £400,000$$

N3) As Lidstone Ltd wholly owns Stonelid SA, the two companies are connected for the purposes of the UK transfer pricing legislation. The actual provisions differ from the arm's length provisions and there is a UK tax advantage, therefore transfer pricing adjustments are required in respect of the management charge.

Arm's length cost would be £1 million plus 20% = £1,200,000

Actual provision half of £1 million = £500,000

Adjustment required: £1,200,000 less £500,000 = £700,000

The adjustment is an addition to trading profits.

N4) NTLR and transfer pricing:

As Lidstone Ltd wholly owns Stonelid SA, the two companies are connected for the purposes of the UK transfer pricing legislation. Where the actual provisions differ from the arm's length provisions, and there is a UK tax advantage, transfer pricing adjustments are required. The legislation applies to the interest-free loan.

A third-party lender would charge 6% interest on the loan. Therefore, the adjustment for the period 1 March 2024 to 31 December 2024 (10 months) is:

£25,000,000 @ 6% = £1,500,000

£1,500,000 @ 10/12 = £1,250,000

The adjustment is a NTLR credit.

The £400,000 interest disallowed in the trading computation is a non-trading loan relationships debit. Therefore, the NTLR net credit is:

£1,250,000 less £400,000 = £850,000

Workings

W1 –Capital allowances

	Notes	Main Pool	Special Rate Pool	Allowances claimed
		£'000	£'000	£'000
Tax written down value (TWDV) at 1 January 2024		6,000	400	-
Additions:				
Integral features	a)	-	200	-
First year allowance (FYA)	b)	-	(100)	100
		6,000	500	-
Writing down allowance (18% and 6%)		(1,080)	(24)	1,104
TWDV at 31 December 2024		4,920	476	-
Allowances claimed		-	-	1,204

Notes

a) Qualifying expenditure on integral features is added to the special rate pool.

b) A first-year allowance of 50% can be deducted from the £200,000 expenditure which qualifies for the special rate pool.

W2 – New buildings

The amount of SBA that Lidstone Ltd can claim is:

	Notes	£
Used by Deycard Ltd as offices:		
Purchase cost less land	a)	1,500,000
Annual amount	b)	45,000
Pro rata	c)	26,250
Used by Deycard Ltd as student accommodation:		
Qualifying expenditure	d)	600,000
Annual rate	b)	18,000
Pro rata	e)	7,500
Total SBA for year		33,750

Notes

a) Lidstone Ltd can claim SBA on the purchase price paid by Deycard Ltd less the cost of land rather than the amount it paid for the building or the developer's constriction costs.

b) The rate of SBA for the period is 3%.

c) Lidstone Ltd can only claim for the part of the year that it owned the building,1 June 2024 to 31 December 2024, which is 7/12 of £45,000.

d) No claim can be made for the building used by Deycard Ltd as student accommodation as the first use of the building was residential. Lidstone Ltd can claim SBA on the capital cost of converting the building into offices less any expenditure on which capital allowances are claimed.

e) The claim can be made from the date the building is used as offices being 1 August 2024 (that is, 5/12 of £18,000).

W3 - Double taxation relief

When a person suffers both non-UK and UK tax on the same income, they can claim DTR.

Territory	Amount	Rate	Withholding Tax	UK tax on income	DTR
	£'000		£'000	£'000	£'000
				Note a)	Note b)
Canico	3,000	10%	300	750	300
Amerada	2,000	35%	700	500	500
Mexica	2,000	10%	200	500	200
Total					£1,000

Notes

a) UK tax on the royalty income at 25%

b) DTR is the lower of the UK tax payable or the non-UK tax paid.

The total amount of DTR is set against the total Corporation Tax payable by the company.

MARKING GUIDE

TOPIC	**MARKS**	**TOTAL**
Adjustments to profit		
Depreciation	0.5	
Loan interest	1.0	
Transfer pricing – management charge	1.0	
		2.5
Transfer pricing - conditions	2.0	
		2.0
Capital allowances		
Integral features are an addition to the special rate pool	0.5	
Qualifies for a 50% FYA	1.0	
SBA QE based on Deycard Ltd's purchase price less land	1.0	
SBA not available on building with first use as residential	1.0	
SBA available on conversion costs less integral features	1.0	
SBA annual amount and rate	1.0	
Pro rata calculations	1.0	
Calculation of allowances	0.5	
		7.0
NTLR		
Loan interest is NTLR debit	0.5	
Transfer pricing adjustment NTLR credit	2.0	
		2.5
Liability		
Total taxable profits	0.5	
Amount and rate	0.5	
		1.0
Double Taxation relief		
Can claim relief	2.0	
Calculation Canico and Mexica	1.0	
Calculation Amerada	1.0	
Set against Liability	1.0	
		5.0
TOTAL		**20.0**

Answer 5

The chargeable gains/loss position of Chatland Investments Ltd for the year ended 31 December 2024 is as follows:

Disposals	Note	£	£
Alcryan Ltd (30 September 2024)	1)	nil	
Battria Ltd (31 July 2024)	2)	(1,125,000)	
Canassa Ltd (22 April 2024)	3)	2,700,000	
Canassa Ltd (14 August 2024)	3)	2,550,000	
Canassa Ltd (14 August 2024)	3)	600,000	
Dencomb plc (1 October 2024)	4)	2,250,000	
Net position for 2024			6,975,000
Losses brought forward		9,000,000	
Annual deduction allowance		(5,000,000)	(5,000,000)
Further 50%	5)	(987,500)	(987,500)
Chargeable gains subject to Corporation Tax			£987,500
Unrelieved capital losses carry forward		£3,012,500	

Notes

1) Alcryan Ltd

Chatland Investments Ltd is an investing company for the purposes of the substantial shareholdings exemption (SSE). Therefore any gains arising from its disposal of shares in companies in which it (either alone or with other group companies) has a substantial shareholding (that is, at least 10% of its ordinary share capital) are potentially exempt.

The shareholdings of Chatland Investments Ltd and Chatland Trading Ltd are aggregated, for the 10% test because they are group companies:

a) a group comprises a principal company and its 51% subsidiaries;
b) Chatland plc is a principal company and Chatland Investments Ltd and Chatland Trading Ltd are its 100% subsidiaries, either directly or indirectly.

Between 1 April 2019 and 31 March 2020, Chatland Investments Ltd held 8%, and Chatland Trading Ltd held 4% of the share capital of Alcryan Ltd. The aggregate holding is 12%.

As that twelve-month period (ending 31 March 2020) is within six years of 30 September 2024 (when Chatland Investments Ltd disposed of its shares) that disposal is subject to the SSE and any gain or loss is not taxed or allowed.

2) Battria Ltd

The SSE applies to disallow capital losses as well as to exempt capital gains.

Although Chatland Investments Ltd held at least 10% of the shares in Battria Ltd after the first acquisition in 2015, its shareholding reduced to 7.5% following the disposal on 30 June 2019. Therefore, it has not held 10% for the requisite twelve-month period in the six years before the disposal on 31 July 2024. Accordingly, any gain is taxable and any loss allowable

Disposal 31 July 2024	Note	£
Proceeds (£50 x 7,500)		375,000
Cost (£200 x 7,500)		(1,500,000)
Unindexed loss		(1,125,000)
Indexation allowance	(a)	0
Allowable capital loss		(1,125,000)

Note (a) Indexation allowance cannot increase a loss.

3) Canassa Ltd

The shares disposed of are matched with the acquisitions as follows.

Disposal 22 April 2024: The previous acquisitions are "pooled" and the average cost of the same number of shares is treated as the cost of disposal.

Disposal 14 August 2024: The company acquired 60,00 shares within the nine days prior to the 14 August disposal, therefore the cost of these shares is matched against the proceeds from an equivalent number of shares.

A further cost of the average of 60,000 shares is taken from the pool and matched to the remaining 60,000 shares disposed of on 14 August 2024.

Share pool:

Date	Acquisition /Disposal	Notes	Number of shares	Cost £
1 February 2018	Acquisition		160,000	8,000,000
24 June 2022	Acquisition		100,000	7,000,000
			260,000	15,000,000
6 January 2024	Acquisition		100,000	7,500,000
			360,000	22,500,000
22 April 2024	Disposal	(a)	(120,000)	(7,500,000)
			240,000	15,000,000
15 August 2024	Disposal	(b)	(60,000)	(3,750,000)
			180,000	11,250,000

Notes:

(a) $\frac{120,000}{360,000}$ x £22,500,000 = £7,500,000

(b) $\frac{60,000}{240,000}$ x £15,000,000 = £3,7500,000

Disposal 22 April 2024	£
Proceeds (£85 x 120,000)	10,200,000
Cost (see pool calculation)	(7,500,000)
Chargeable gain	£2,700,000

Disposal 14 August 2024 (Matched to pool)	£
Proceeds (£105 x 60,000)	6,300,000
Cost (see pool calculation)	(3,750,000)
Chargeable gain	£2,550,000

Disposal 14 August 2024 (Matched to 8 August 2024)	£
Proceeds (£105 x 60,000)	6,300,000
Cost (60,000 x £95)	(5,700,000)
Chargeable gain	£600,000

4) Dencomb plc / Antonov plc

When a company receives shares in exchange for shares there is no immediate chargeable gain. However, the base cost of the new shares is the actual cost of the old shares. Therefore Chatland Investments Ltd holds 100,000 shares in Antonov plc for which it paid £7.5 million that is £75 per share.

Disposal on 1 October 2024:

	£
Proceeds (90,000 shares at £100)	9,000,000
Base cost (90,000 at £75)	(6,750,000)
Chargeable gain	2,250,000

Loss position

The corporate loss restriction rules apply to the Chatland plc group.

As Chatland Investments Ltd is the only company to have transactions involving capital losses or gains, the full amount of the annual deduction allowance of £5 million can be set against the net capital gains position of that company.

Additionally, Chatland Investments Ltd will be able to utilise losses to the extent of 50% of any net gains above the annual deductions allowance.

Amount above the allowance £6,975,000 less £5,000,000 is £1,975,000.

50% of $1,975,000 is £987,500.

MARKING GUIDE

TOPIC	**MARKS**	**TOTAL**
Alcryan Ltd		
Chatland Investments Ltd is an investing company for SSE purposes.	1.0	
Alcryan Ltd is a trading company	0.5	
Meaning of group for test	0.5	
Need to aggregate group holdings therefore exempt	1.0	
Test is 12 months within 6 years of disposal	1.0	
		4.0
Battria Ltd		
SSE applies to losses as well as gains	1.0	
Period not within time period	1.5	
Calculation of loss (including no indexation allowance)	1.5	
		4.0
Canassa Ltd		
Shares of the same class are pooled	1.0	
Matching rules as applied to Canassa Ltd	1.0	
First disposal calculation	1.0	
Second disposal	1.0	
Third disposal	1.0	
Balance of pool	1.0	
		6.0
Dencomb plc		
Share for share rules	1.0	
Calculation of base cost of shares	1.0	
Calculation of gain	1.0	
		3.0
Losses		
Corporate capital loss restriction applies	1.0	
Full amount of annual deduction allowance to Chatland Investments Ltd	0.5	
50% of gains above deduction allowance	1.0	
Calculation of loss position	0.5	
		3.0
TOTAL		**20.0**

Answer 6

Enquiry time limits

Dunbavin Ltd filing date for its company tax return is 12 months from the end of its accounting period. Two returns are required for the 15-month period to 30 September 2023, one for the 12 months to 30 June 2023 and one for the three months to 30 September 2023). The filing date for both is 12 months from the end of the period of account.
HMRC has 12 months from a return's due filing date to open an enquiry into a company which is part of a large group. That time limit is extended (to the quarter day following the anniversary of the actual filing date) for an enquiry into returns filed later than the due date.

Quarter days are 31 January, 30 April, 31 July, and 31 October.

Dunbavin Ltd

Accounting period ended	Notes	Time limit for enquiry
30 September 2023	1)	30 September 2025
30 June 2023	2)	30 September 2025
30 June 2022	3)	30 April 2025
30 June 2021	4)	31 January 2025

Notes

1) Return is filed before the due filing date. HMRC's time limit for opening an enquiry is 30 September 2025.

2) The change of accounting date extended the filing date to 30 September 2024. HMRC's deadline for opening an enquiry is 30 September 2025.

3) Return is filed late, giving HMRC an enquiry deadline of 30 April 2025 (quarter day following the anniversary of the actual filing).

4) Enquiry deadline for this late filed return is 31 January 2025 (quarter day following the anniversary of the actual filing).

Accordingly, the notices are in-time for the accounting periods ended 30 September 2023, 30 June 2023, and 30 June 2022 but out of time for the accounting period ended 30 June 2021.

Discovery assessments

HMRC can make an assessment on Dunbavin Ltd to make good a loss of tax if they discover that:

- an assessment based on the return is insufficient;
- an amount that ought to have been assessed has not been; or
- an excessive relief has been given.

Such an assessment cannot be made unless:

1) The loss was bought about carelessly or deliberately by or on behalf of the company; or

2) Based on available information in, or with, the return for the period (or the previous two periods), or provided during an enquiry, an officer of HMRC could not, at the material time, have been reasonably expected to be aware of the facts which gave rise to the loss.

The material time is either the latest date by which HMRC could issue enquiry notices or, if a notice has been issued, the date on which the company was informed that the enquiry was complete.

Information is available if provided by the company or an agent. Information provided with returns of other group companies' returns is not available.

Where the loss is due to carelessness, discovery assessments can be made up to six years from the end of the accounting period to which the loss relates.

MARKING GUIDE

TOPIC	MARKS	TOTAL
Time limits for raising enquiries		
Filing date for companies	0.5	
Long periods of account and returns	0.5	
Filing dates for long periods of account	0.5	
Normal time limit for large companies	0.5	
Time limit when returns are filed late	0.5	
Quarter days	0.5	
Apply legislation to 30 September 2023, 30 June 2023 and 30 June 2022	1.0	
Apply to 30 June 2021 and identify that no enquiry can opened	1.0	
		5.0
Discovery assessments		
Circumstances an assessment can be made	1.0	
Amount equal to loss of tax	0.5	
Carelessness	0.5	
Available information	0.5	
Material time	0.5	
With return or previous two	0.5	
During enquiry	0.5	
Only from company	0.5	
Time limits	0.5	
		5.0
TOTAL		**10.0**