MODULE C

(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

2 May 2018

AWARENESS

Module C – Corporation Tax

1. Hoally Ltd was incorporated on 28 August 2016. On 15 September 2016 an interest-bearing bank account was opened with a deposit of £10,000. The company began trading on 1 November 2016 and prepared its first accounts to 31 December 2017.

State, with reasons, the start and end dates of Hoally Ltd's first two accounting periods.

1st AP: 15 September 2016 to 1 November 2016
An accounting period begins when the company comes within charge to corporation tax, i.e. opens an interest-bearing bank account and it ends when the company starts to trade.
2nd AP: 1 November 2016 to 31 October 2017
An accounting period begins immediately after the end of the previous AP and it ends 12 months from the beginning of the accounting period. An AP cannot be an longer than 12 months.

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2. At 1 January 2017, Prooly Ltd had a tax written down value for capital allowances purposes on its main pool of £182,000.

The company incurred the following capital expenditure in its 15-month period of account ended 31 March 2018:

		£
1 February 2017	New office equipment	225,000
1 March 2018	New car with CO_2 emissions of 62g/km	18,000

Calculate the maximum capital allowances that Prooly Ltd can claim for the period ended 31 March 2018.

y/e 31-Dec-17

	AIA @100%	General Pool	CAs Claim
	£	£	£
Tax WDV b/fwd		182,000	
Additions:			
Office equip	200,000	25,000	
	200,000	207,000	
AIA @ 100%	(200,000)		200,000
WDA @ 18%		(37,260)	37,260
Tax WDV c/f	nil	169,740	
CA claim for y/e 31.12.17			237,260

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3m/e 31-Mar-18

	FYA @100% £	General Pool £	CA Claim £
Tax WDV b/f		169,740	
Additions:			
Car (CO_2 < 75g/km)	18,000		
	18,000	169,740	
FYA @100%	(18,000)		18,000
WDA @18% x 3/12		(7,638)	7,638
Tax WDV c/f	nil	162,102	
CA claim for p/e 31.3.18			25,638

Total CA claim: £262,898

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3. Drailly Ltd is required to pay Corporation Tax by instalments. For the 10-month accounting period ended 31 December 2017, the Corporation Tax liability was £850,000.

State the amounts and due dates for payment of the Corporation Tax for the accounting period ended 31 December 2017.

1.3.17

1st instalment:

£850,000 x 3/10 = £255,000 due on 14th Sept 2017

2nd instalment:

£850,000 x 3/10 = £255,000 due on 14th Dec 2017

3rd instalment:

£850,000 x 3/10 = £255,000 due on 14th March 2017

Final instalment:

Balance - £850k - (255k x 3) = £85,000 due on 14th March 2017

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4. On 1 August 2017, Billoo Ltd purchased an investment property for £850,000, financed in part by a bank loan of £500,000 on which interest is payable at 4% per annum.

On 1 September 2017, Billoo Ltd granted a 10-year lease on the property to Toolilly Ltd, charging a premium of £60,000 and annual rent of £24,000, payable quarterly in advance. Toolilly Ltd will use the property for trading purposes.

Both companies prepare accounts to 31 March each year.

You are required to calculate for the year ended 31 March 2018:

1) The property income assessment for Billoo Ltd.

2) The trading income deduction for Toolilly Ltd.

1) Property income	£	£	
Rent receivable:			
£24,000 x 7/12		14,000	
Add:			
Premium	60,000		
Less: 2% x (P x n-1)			
2% x (60k x 9)	(10,800)		
		49,200	
Property income assessable		63,200	
2) Property income assessable on landlord / length of lease			
£49,200/10 = £4,920 deduction for Toolilly			

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5. Zullax Ltd had a trading profit for the year ended 31 December 2017 of £8 million after deducting the following expenditure:

   1) £250,000 on repairs to a second-hand asset purchased on 17 October 2017. The asset could not be used until these repairs were carried out, and the purchase price was reduced accordingly.

   2) Pension contributions of £1.8 million. Contributions of £800,000 were paid in the year ended 31 December 2016.

Briefly explain, with calculations where necessary, how the two items of expenditure will be treated in calculating the taxable trading profit of Zullax Ltd for the year ended 31 December 2017.

1) Cost of repairs was a capital expense as these repairs were required to be carried out before the asset could be used. The £250,000 of repair cost will be added to the base cost of the asset and will reduce an profit /increase loss on any future sale of the asset. The £250k will therefore be added back when calculating the adjusted profits for y/e 31.12.17

2) Pension contributions are an allowable deduction for the calculation of trade profits. However, as only £1million of contributions were paid in the year, the allowable deduction will be restricted to the amount paid during the accounting period. The remaining £800,000 will be added back when calculating the adjusted profits for the y/e 31.12.17

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6. Joolully Ltd ceased trading on 31 October 2017. The company's recent results were as follows:

	Year ended 31 December 2014	Year ended 31 December 2015	Year ended 31 December 2016	10 month period ended 31 October 2017
	£	£	£	£
Trading profit/loss	25,000	4,000	(24,000)	(30,000)
Property income	10,000	9,000	8,000	7,000

Calculate the taxable total profits for each accounting period, assuming the company claims loss relief as early as possible. Your answer should clearly show your treatment of each of the trading losses.

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7. Unero Ltd has owned 100% of Segundo Ltd for many years. Both companies prepare accounts to 31 March each year.

On 15 July 2001, Unero Ltd purchased an investment property for £225,000.

On 30 March 2017, Unero Ltd transferred the property to Segundo Ltd when the market value was £360,000 and the indexed cost was £349,650.

On 1 October 2017, Segundo Ltd sold the property for £380,000, incurring legal and professional fees of £5,000.

Calculate the after-tax proceeds on the disposal of the property on 1 October 2017.

Capital gains grap ∴ transfer of property on 30 March 2017 at nogain/no loss. Base cost for Segundo Ltd is £225,000 (original cost for Unero Ltd)

	£	£
Disposal proceeds	380,000	
Less: legal & prof fees	(5,000)	
		375,000
Less: base cost		(225,000)
Less: indexation		
$£225^k \times \frac{273.0-173.3}{173.3}$		(129,375)
Taxable gain		20,625
CT @ 19%		£3,918
Net proceeds		375,000
Less: CT payable		3,918
After-tax proceeds		371,082

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8. On 1 November 2016 Fillux plc, a trading company which prepares accounts to 31 December, purchased an 18% holding in Gollix Ltd, which is also a trading company, at a cost of £180,000.

In October 2017, Fillux plc accepted an offer from Hulloy Ltd (an unconnected company) to buy the entire 18% shareholding in Gollix Ltd for the current market value of £165,000.

The sale is likely to complete on 3 November 2017, but the solicitors have suggested they could bring the sale forward to 27 October 2017. The market value of Gollix Ltd is not expected to change in the near future.

Fillux plc has substantial capital gains in the year ending 31 December 2017.

Briefly explain why it may be advantageous to Fillux plc to bring the sale forward to 27 October 2017.

UK resident
Where a company sells shares in another UK resident company there may be the possibility of the disposal qualifying for the substantial shareholding exemption.

Where SSE applies the gain on the sale of the shares is exempt and any losses arising are not allowable losses.

For SSE to apply, the vendor company must have held ~~[illegible]~~ at least 10% of the company's OSC for at least a period of 12 months in the 2 year period prior to the sale.

If the sale is brought forward to 27 October 2017, Fillux plc will not meet the conditions

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for SSE, i.e. will not have held the shares
in Gollix Ltd for 12 months and so the
loss arising on the sale will be an allowable
loss and can be offset against any
capital gains arising in the year.

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9. Walloo Ltd has owned 100% of Zallz Ltd for many years. Walloo Ltd prepares accounts to 31 March and Zallz Ltd prepares accounts to 31 December each year.

The companies had the following recent results:

	Walloo Ltd Year ended 31 March 2018 £	Zallz Ltd Year ended 31 December 2017 £
Trading profit/(loss)	(260,000)	300,000
Property income	-	20,000
Capital gain/(loss)	(25,000)	40,000

Walloo Ltd did not have any profits in the previous year ended 31 March 2017 against which the trading loss could be set.

Calculate the Corporation Tax liability of Zallz Ltd on the assumption that all beneficial claims are made.

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10. Poilly Ltd has owned 100% of Soillux Inc (a company resident overseas) for many years. The rate of overseas Corporation Tax paid by Soillux Inc is 18%.

Poilly Ltd has 450 employees. The company manufactures and sells widgets to a wide range of customers for £15 per widget. However, during the year ended 31 March 2018, Poilly Ltd sold 10,000 widgets to Soillux Inc for £8 per widget.

Poilly Ltd's draft tax adjusted trading profit for the year ended 31 March 2018 is £930,000.

You are required to:

1) **Briefly explain any necessary Corporation Tax adjustments in relation to the sale of widgets by Poilly Ltd to Soillux Inc.**

2) **Calculate Poilly Ltd's Corporation Tax liability for the year ended 31 March 2018 based on the information above.**

1) Poilly Ltd has obtained a tax advantage on the sale of the widgets ~~are~~ at less than MV to Soillux Ltd.
An adjustment will need to be made to the trade profits of Poilly Ltd for the actual value of the widgets.

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11. Lisa worked for Puriety plc until February 2017 when she resigned and set up Petally Ltd, a personal service company, of which she is the sole shareholder and employee.

In the year ended 5 April 2018, Petally Ltd received the following income:

	£
From Puriety plc	95,000
From several other clients	5,000
	100,000

During 2017/18, Lisa was paid a salary of £25,000 from Petally Ltd on which employer's National Insurance Contributions of £2,323 were paid.

You are required to:

1) Calculate the deemed employment payment taxable on Lisa for 2017/18.

2) Calculate Petally Ltd's taxable total profits for the year ended 5 April 2018.

1)	£
Deemed payment	95,000
Less: 5% deduction	(4,750)
	90,250
Less: Salary	(25,000)
E'ers NIC	(2,323)
	62,927
Less: E'ers NIC ($x \times 13.8/113.8$)	(7,631)
Deemed employment income	55,296

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12. Xlotti Ltd prepares accounts to 31 March each year and is not required to pay Corporation Tax by instalments.

The Company Tax Return for the year ended 31 March 2016 was submitted on 4 September 2017 and the tax liability of £200,000 was paid on the same day.

Briefly explain, with supporting calculations, the maximum penalties due in respect of the year ended 31 March 2016.

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