



The Chartered Tax Adviser Examination

Sample Paper

Application and Professional Skills

Taxation of Larger Companies and Groups

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.
- In order to secure a pass in this paper, 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.

- Write on one side of the paper only. Do not write in the margins.
- 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 tick the appropriate box on the cover sheet.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

You are John Jones, a tax senior at Tax Advisory Services Ltd and your clients are Diversified plc and its subsidiaries, which are recent new clients of your firm for which 'take on' procedures have been completed.

Your tax partner, Ian Richards, has recently attended a meeting (**EXHIBIT A**) with Michael Fort, who is the Group Finance Director of Diversified plc.

Michael explained two proposals for the Diversified plc group together with the background to them and asked your firm to prepare a report to be presented to the Board which will detail the tax and any other implications of those proposals.

The previous accountants have provided your firm with some financial and tax information (**EXHIBIT B**).

The following exhibits are provided to assist you:

EXHIBIT A: Notes of a meeting between Michael Fort and Ian Richards

EXHIBIT B: Financial and other information

EXHIBIT C: Pre-seen information

Requirement:

Prepare a draft report, for review by Ian to the Board of Diversified plc advising on the disposal of Ares Ltd and the restructuring of Bishop Ltd and Cable Ltd.

Costs relating to the disposals can be ignored as they will not differ substantially between the two options.

Continued

EXHIBIT A

Notes of a meeting between Michael Fort and Ian Richards

Present: Michael Fort (Finance Director of Diversified plc)
Ian Richards (Tax Partner)

Date: 1 November 2018

Reason for meeting

Michael explained that recent borrowing has increased the group's exposure to risk and that he is concerned that the current interest cost will hamper the group's ability to service its debt.

Following careful analysis, it has been decided that the group needs to realise funds of £6.7 million to reduce its loans and two main areas of the business have been identified that could be used to source these funds:

1) Sale of Ares Ltd

A third party approached Diversified plc with an unsolicited offer to buy the shares in Ares Ltd for £6 million. The Board has considered the offer and given the decision to reduce borrowings, it has decided to market Ares Ltd for sale. As a result another company has expressed an interest. However, they would like to buy the trade and assets of Ares Ltd rather than the shares. They have also suggested a price of £6 million.

2) Merger of Bishop Ltd and Cable Ltd

Michael explained that when Bishop Ltd was acquired, it was recognised by the Board that its activities were similar to Cable Ltd and that merging Bishop Ltd into Cable Ltd might allow some economies of scale to be made and would also remove the risks of any historic pre-acquisition liabilities in Bishop Ltd. The Board now wishes to proceed with this merger.

As a part of the merger process and in order to raise further funds, the Board would like to sell Bishop Ltd's investment property (River House), together with one of its two trading premises (Millwheel House), which will no longer be required for the merged business. It is anticipated that River House and Millwheel House will be sold for their current market value. Bishop Ltd will then be liquidated.

The trade and assets to be transferred are: Mountain View; the secured debt; the plant and machinery; and stock.

Michael Fort has approached the various creditors who are prepared to allow the liabilities to be transferred if a merger takes place.

Continued

EXHIBIT B

Financial and other Information

Balance sheets of Ares Ltd, Bishop Ltd and Cable Ltd at 31 March 2018.

	<u>Ares Ltd</u> £'000	<u>Bishop Ltd</u> £'000	<u>Cable Ltd</u> £'000
<u>Tangible assets</u>			
Land and buildings (Note 1)	1,810	1,530	740
Plant and machinery	480	180	182
	2,290	1,710	922
<u>Current assets</u>			
Stock	160	98	130
Debtors	150	75	96
	<u>2,600</u>	<u>1,883</u>	<u>1,148</u>
Creditors: amounts falling due within one year	90	178	136
Total assets less current liabilities	2,510	1,705	1,012
Creditors: amounts falling after more than one year			
Loan secured against Mountain View		(640)	
Net assets	<u>2,510</u>	<u>1,065</u>	<u>1,012</u>
<u>Capital and reserves</u>			
Called up share capital	500	500	100
Profit and loss account	2,010	565	912
	<u>2,510</u>	<u>1,065</u>	<u>1,012</u>

All assets are shown at cost.

Notes

1) Details of properties owned by Bishop Ltd

<u>Properties</u>	<u>Acquisition date</u>	<u>Cost</u> £'000	<u>Current Value</u> £'000	<u>Current use of property</u>
Mountain View	March 2000	700	960	Head office of Bishop Ltd
River House	February 2005	450	850	Let to third parties
Millwheel House	March 2000	380	450	Base for manufacturing, sales and distribution function
Per Balance Sheet		<u>£1,530</u>		

It is not anticipated that there will be any material change in value of the properties between the balance sheet date and the sale of the properties.

2) Tax information

All returns have been submitted and all payments due have been made. There are currently no returns under enquiry.

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The files show the following for Bishop Ltd:

	£
Trading losses brought forward at 1 April 2017	300,000
Budgeted trade losses for quarter ended 30 June 2018	150,000
Capital losses brought forward at 1 April 2017	50,000

The capital losses arose from the disposal of a property by Bishop Ltd in January 2010.

Ares Ltd has trading losses of £480,000 brought forward from earlier periods.

- 3) Director's estimate of the current market value of assets of Ares Ltd.

	<u>Current market value</u>
	£'000
Freehold property	5,200
Plant and machinery	360
Stock	170
Debtors	150
Net current liabilities	(90)
Total	<u><u>£5,790</u></u>

Continued

EXHIBIT C

Pre-Seen Information

Client

- Your clients are Diversified plc, a quoted holding company, and its subsidiaries.
- Diversified plc was incorporated in 1995.
- No shareholder owns more than 5% of the shares.

Subsidiaries

- All subsidiaries are 100% owned and are UK resident.
- Subsidiaries include Ares Ltd, Bishop Ltd and Cable Ltd.

Ares Ltd

- Ares Ltd operates a DIY wholesale business supplying goods throughout the UK from its warehouse in Huddersfield.
- Diversified plc acquired its entire share capital from a third party in March 2011 for £2.4 million.
- An increase of competitors in the DIY wholesale business has led to a recent decline in profits and as a result Ares Ltd has been renting out one third of its warehouse space since January 2016.

Bishop Ltd

- Bishop Ltd manufactures furniture, which is then sold to third party UK retailers.
- Diversified plc borrowed funds to acquire the entire share capital from a third party on 17 December 2017 for £2 million.
- Bishop Ltd owns three properties, one of which (River House) is let to third parties.
- The rental income received on the investment property equates to approximately 10% of Bishop Ltd's annual income.
- The other two properties are used as the head office (Mountain View) and as base for the sales and distribution (Millwheel House).

Cable Ltd

- Cable Ltd manufactures beds and sofas, which are sold to third party UK retailers.
- Diversified plc acquired the entire share capital from a third party in January 2010 for £1.5 million.

Accounts

- All companies in the group make up their accounts under FRS102 to 31 March annually.
- The consolidated accounts are prepared under IFRS.

VAT

- There is a VAT group registration in place for all companies within the group and no option to tax as been made in respect of any of the properties owned within the group.