THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Major Corporates

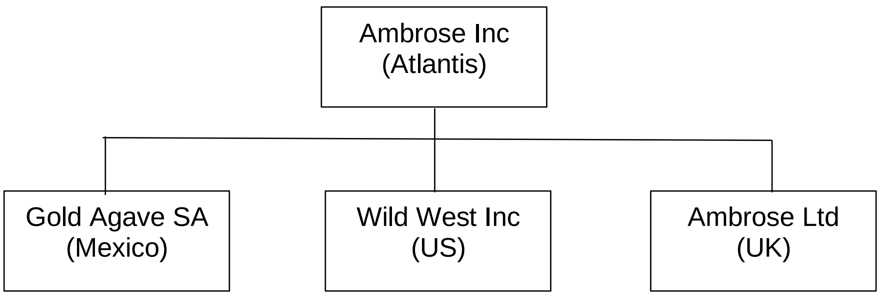
November 2022

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 2021/22 legislation (including rates and allowances) continues to apply for 2022/23 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. The Ambrose group is a multinational group that manufactures and sells alcoholic drinks. Its group structure is as follows:



The companies in the Ambrose group are tax resident in the countries stated in the group structure diagram and all subsidiaries are 100% owned.

Country	Double Tax Agreement (DTA) with UK	Non-discrimination article in DTA	Corporate income tax rate
Atlantis	No	n/a	7.5%
Mexico	Yes	Yes	30%
US	Yes	Yes	21%

Ambrose Inc was founded in 1955. Since then, it has produced Ambrose Rum, a unique Atlantan spiced rum. Ambrose Inc owns the recipe and all worldwide trademarks for Ambrose Rum. It employs staff in Atlantis who are responsible for developing, enhancing, managing and protecting the Ambrose rum recipes and trademarks.

In 2003, Ambrose Inc purchased Gold Agave SA, a maker of tequila under the Gold Agave brand and immediately purchased the recipe and all worldwide trademarks for Gold Agave tequila from Gold Agave SA.

In 2017, Ambrose Inc purchased Wild West Inc, a maker of whiskey under the Wild West brand. Wild West Inc still owns the recipe and all worldwide trademarks for Wild West whiskey.

Ambrose Ltd (incorporated by Ambrose Inc in 1995) manufactures spirits in the UK for sale to third party customers in the UK and Europe. It pays Ambrose Inc and Wild West Inc royalties for licenses to use the recipes and trademarks mentioned above. The royalties are paid annually on 5 April, for the year to 5 April.

During the year ended 5 April 2022 Ambrose Ltd made the following sales and royalty payments resulting in the net income for the licensor as shown:

	Ambrose rum	Gold Agave tequila	Wild West whiskey	Total
	£ million	£ million	£ million	£ million
UK sales	100	100	10	210
EU sales	100	150	0	250
Total sales by Ambrose Ltd	200	250	10	460
Royalty paid by Ambrose Ltd	20	25	3	48
Expenses incurred by licensor	(2)	(3)	(2)	(7)
Net income of licensor (Ambrose Inc/Wild West Inc)	18	22	1	41

Ambrose Ltd intends to build new manufacturing facilities. It is considering partly financing the construction costs by borrowing £20 million from Ambrose Inc on 1 January 2023. The proposed loan would be subject to interest at a rate of 5% per annum, payable on 31 December in arrears.

Requirement:

1) **Calculate, with explanations, the UK tax suffered by Ambrose Inc and Wild West Inc for the year ended 5 April 2022.** (10)

2) **Explain the UK tax administration and payment requirements that Ambrose Inc must comply with for the year ended 5 April 2022.** (2)

3) **Explain the potential UK withholding tax implications of the proposed £20 million loan, including administration requirements, and how they could be mitigated.** (3)

Total (15)

2. Bentham Ltd is a UK resident company. It runs a retail business that sells groceries, home products and clothes to consumers through a chain of superstores.

Bentham Ltd is managed and primarily operates in the UK, but also has several stores in the Netherlands, which constitute a permanent establishment and their profits are subject to tax in the Netherlands.

Bentham Ltd's income statement for the year ended 31 December 2021 was as follows:

	UK operations	Netherands PE	Total	Notes
	£million	£million	£million	
Sales	4,500	500	5,000	
Cost of sales	(4,275)	(475)	(4,750)	
Gross profit	225	25	250	
Other operating income	15	-	15	1
Other operating expenses	(150)	-	(150)	2
Depreciation	(180)	(20)	(200)	
Operating profit/(loss)	(90)	5	(85)	
Investment income	10	-	10	3
Loan released	300	-	300	4
Interest payable	(2)	-	(2)	
Profit before tax	218	5	223	

Notes

1) Other operating income comprises:

(a) £10 million received by Bentham Ltd under a business disruption insurance policy, compensating it for the cost of providing personal protective equipment and Covid tests to employees.

(b) £5 million received by Bentham Ltd in consideration for granting a 10-year lease over the south wing of its head office building to a third party. Bentham Ltd owns the building.

2) Other operating expenses includes:

(a) Legal fees of £500,000 relating to an issue of new shares by Bentham Ltd to its existing investors.

(b) Criminal fine of £1 million imposed on Bentham Ltd by a UK court on 14 March 2021 for illegally dumping waste in breach of environmental regulations.

(c) Accounting expense of £4 million relating to Bentham Ltd's registered employee pension scheme. Bentham Ltd paid cash contributions of £2.5 million to the scheme during the year ended 31 December 2021, in line with the level of contributions in previous years.

(d) Bonus of £400,000 awarded to Bentham Ltd's Managing Director which will be paid in cash on 31 December 2022.

3) Investment income is a dividend received on 1 April 2021 from West DIY Ltd, a company in which Bentham Ltd has an 8% shareholding.

4) Bentham Ltd's main creditor is Archbold Bank plc, an independent third party. On 1 January 2021 Archbold Bank plc entered into an agreement with Bentham Ltd. Under that agreement Archbold Bank plc released a £300 million loan owed to it by Bentham Ltd in exchange for newly issued ordinary shares in Bentham Ltd with a nominal value of £100 million. Bentham Ltd applies an amortised cost method of accounting to all of its loan relationships. Bentham Ltd's income statement includes a £300 million credit in respect of the loan release.

5) Bentham Ltd had a main capital allowances pool with tax written down value brought forward of £10 million as at 1 January 2021, all of which related to UK operations. On 31 January 2021, it spent £800,000 on new cleaning equipment and mobile hand sanitiser dispensers for the UK stores.

6) Interest payable included £200,000 of late payment interest due to HMRC in respect of Bentham Ltd's Corporation Tax liabilities for prior years.

7) Bentham Ltd paid Corporate Tax of £4 million in the Netherlands in respect of the profits of its permanent establishment for the year ended 31 December 2021. It is entitled to relief in the Netherlands for historic losses that would reduce its Netherlands tax liability by £500,000, but has not yet made the relevant claim.

Bentham Ltd has brought forward capital losses of £6 million. It has not previously made a foreign permanent establishment exemption election.

Requirement:

1) Calculate, with explanations, Bentham Ltd's UK Corporation Tax liability for the accounting period ended 31 December 2021. (14)

2) Explain the UK Corporation Tax administration and payment requirements that Bentham Ltd must comply with in respect of the accounting period ended 31 December 2021, including the consequences of non-compliance. (6)

Total (20)

3. Whittle Ltd is a UK tax resident manufacturer of medical X-ray scanners. It prepares its accounts for the year to 30 September.

For the accounting periods ended 30 September 2018, 30 September 2019 and 30 September 2020 Whittle Ltd's taxable profits were £3 million per annum.

For the accounting periods ended 30 September 2021 and 30 September 2022, Whittle Ltd's provisional taxable profits, before capital allowances were deducted, were £1 million per annum.

Whittle Ltd expects to make taxable profits of £5 million in each accounting period thereafter.

During 2020, Whittle Ltd finalised the development of its latest product, the A500 scanner.

At 1 October 2020, the tax written down values brought forward of Whittle Ltd's capital allowances pools were as follows:

Plant and machinery pools	TWDV b/f
	£
Main	1,200,000
Special rate	400,000

On 20 January 2021, Whittle Ltd purchased a wholly electric lorry for £100,000 to transport the A500 scanners to customers.

On 1 March 2021, Whittle Ltd entered into a contract with a third party to purchase assorted equipment suitable for moving and packing the A500 scanners during the production process for £1 million. The contract was conditional upon Whittle Ltd receiving regulatory approval for the A500 scanners, which was received on 30 April 2021.

Over a three-month period beginning on 1 May 2021, Whittle Ltd carried out a refit of its main factory so that it would be suitable for producing the A500 scanners. This included replacing the factory's entire heating system and the installation of a ventilation system that cleans the factory air to avoid the manufacturing process being contaminated with dust particles; installing these new features cost £1.5 million.

On 14 May 2021, Whittle Ltd purchased the following items:

1) Precision engineering equipment used to manufacture scanners for £5 million.
2) A specialised storage cabinet required to safely store certain components of the A500 scanner. The storage cabinet was purchased for £800,000 from a used equipment dealer.
3) Computer software used in the calibration and testing of the A500 scanner for £500,000.
4) Four cars costing £50,000 each, for use by the company's four executive directors. The cars' CO_2 emissions rating is 42 g/km.

All of the items have an expected useful life of less than 20 years. Except where stated they were purchased new.

On 12 November 2021, Whittle Ltd sold some testing machinery to a third party for £350,000. It was originally purchased in 2017 for £300,000.

On 19 July 2022, Whittle Ltd sold a piece of the precision engineering equipment for £200,000. It was originally purchased on 14 May 2021 for £225,000.

Requirement:

1) Calculate, with explanations, the maximum capital allowances that Whittle Ltd could claim for the accounting periods ended 30 September 2021 and 30 September 2022. (11)

2) Explain how Whittle Ltd could maximise the tax benefit of its allowances, including by claiming loss relief. (4)

Total (15)

4. The Johnjane group is a large, privately-owned trading and property investment group. It comprises a holding company, Johnjane Ltd, and three wholly-owned subsidiary companies, JJ Property Ltd, Trade1 Ltd and Trade2 Ltd.

All companies are UK tax resident and prepare accounts to 30 June each year.

Johnjane Ltd owns investment property and carries on a trade of providing management services to its subsidiary companies.

JJ Property Ltd is an investment company holding a large tenanted office block.

Trade1 Ltd and Trade2 Ltd are trading companies.

After a long and profitable history, the group began to experience difficulties in the year ended 30 June 2021. The following events took place:

1) JJ Property Ltd's rental income fell below the interest payments on its debt in the course of the year. It went into administration on 1 February 2021. The administrator sold the office block and paid off the company's debt in full. On 1 April 2021 the company was put into liquidation. On 31 January 2022 the liquidator recovered a bad debt of £10 million that was previously written off in the company's accounts.

2) Trade1 Ltd, which had begun trading in 2019 but never made a profit, ceased trading and went into liquidation on 1 July 2021. On 31 August 2022 it was awarded £100 million (net of costs) in settlement of a long-running trade dispute.

3) Trade2 Ltd suffered a large trade loss. It was put into liquidation on 1 April 2022. On 30 June 2022 a judgement of £50 million was made against the company under a trade dispute.

4) Johnjane Ltd continued to trade until 30 September 2022 (including the provision of services to the liquidators of the subsidiary companies) and it was put into liquidation the following day. Prior to the cessation of trade, it received the following surplus reserves from its subsidiaries as distributions in the course of winding-up of those companies:

Company	Amount	Date received
JJ Property Ltd	£20 million	31 August 2022
Trade1 Ltd	£nil	n/a
Trade 2 Ltd	£11 million	31 August 2022

5) The liquidation of all the subsidiary companies was concluded on 30 September 2022.

Company accounts show the following pre-tax results:

Accounts for period ended profits/(losses)	30 June 2020	30 June 2021	30 June 2022	30 Sept 2022
	£ million	£ million	£ million	£ million
Johnjane Ltd	50	50	(Note 1) 70	(Note 2) 20
JJ Property Ltd	nil	(Note 3) 15	(Note 4) 10	nil
Trade1 Ltd	(20)	(200)	0	(Note 5) 100
Trade2 Ltd	135	50	(Note 6) (200)	nil

Notes

1) Comprises trading profit of £20 million and gain on sale of investment property £50 million.

2) Comprises trading loss of £5 million, £15 million gain on JJ Property Ltd shares and £10 million gain on Trade2 Ltd shares.

3) Gain on sale of property £15 million. Net rents equal outgoings.

4) Bad debt recovery.

5) Settlement of trade dispute.

6) Trading loss to cessation of trade £150 million plus settlement of trade dispute £50 million.

No adjustments to accounts profits/losses are required for depreciation and capital allowances.

Requirement:

Set out with explanations:

1) The tax accounting periods for each company in the Johnjane group covering the period from 1 July 2019 to 30 September 2022, and the taxable profits/(losses) for each company for each accounting period. (15)

2) How available losses can be used in the most advantageous manner. (5)

Total (20)

5. Boodnes plc is a UK tax resident company with a 31 December year-end. It has undertaken the following transactions, all with unconnected entities acting at arm's length. None of these were trading transactions.

1) On 1 March 2010 Boodnes plc bought £5 million of zero-coupon loan stock of a listed company, redeemable at £10 million in 2025. On 30 June 2021 it sold the loan stock for £8 million.

2) On 1 June 2015 Boodnes plc bought US$ 18.2 million 3% loan stock for £14 million. The loan was repaid at par on 1 March 2021 when £1 was worth US$ 1.40.

3) Boodnes plc bought and sold shares in a Quoted plc (a UK listed company) as follows:

Date	Bought	Sold	Price per share
1 March 2012	100,000 A shares	-	£3.00
1 June 2014	200,000 A shares	-	£4.50
1 September 2014	50,000 B non-voting shares		£1.50
1 October 2017	-	100,000 A shares	£5.00
1 December 2017	200,000 A shares	-	£6.00
1 February 2018	150,000 B non-voting shares	-	£2.00
1 April 2021	200,000 A shares	-	£5.50
6 April 2021	100,000 A shares	-	£7.50
6 April 2021	-	400,000 A shares	£8.00

4) Boodnes plc dealt with shares in Listed plc (a UK listed company) and Bigco plc (another UK listed company) as follows:

(a) On 1 November 2015, Boodnes plc bought 300,000 ordinary shares in Listed plc for £2 per share.

(b) On 1 March 2021, Listed plc was acquired by Bigco plc. Boodnes plc received 1 ordinary share in Bigco plc plus £3 in cash for every five shares it held in Listed plc, and on that day, the Bigco plc shares were quoted on the London Stock Exchange at £12 per share.

(c) On 1 October 2021, Boodnes plc sold its entire holding in Bigco plc for £14 per share.

5) On 1 March 2019, Boodnes plc bought 21 million US dollars (in cash), when £1 was worth US$ 1.4, and converted half of the dollar holding to £sterling on 1 August 2021, when £1 was worth US$ 1.5.

6) On 1 October 2018, Boodnes plc subscribed £10 million for 2% UK Treasury Stock, redeemable in 2028. On 1 March 2021 it sold the UK Treasury Stock for £11 million.

7) Boodnes plc transacted in options and shares of Newco plc as follows:

(a) On 1 August 2020, Boodnes plc bought options, listed on The London Stock Exchange, to acquire 800,000 shares in Newco plc for £2 per share on 1 February 2021. The option cost 50p per share.

(b) On 1 February 2021, Boodnes plc exercised its option over 400,000 shares and abandoned its option over the other 400,000 shares.

(c) On 1 July 2021, Boodnes plc sold its entire holding in Newco plc at £3.50 per share.

Requirement:

Calculate, with explanations, the chargeable gains/loss arising to Boodnes plc on each of the above transactions for the year ended 31 December 2021. Ignore indexation allowances.

(20)

6. A UK resident holding company, HoldCo plc, and its subsidiaries all have 31 December year-ends.

Currently, HoldCo plc's only subsidiaries are UKSub1 Ltd and UKSub2 Ltd, both UK tax resident and wholly owned by HoldCo plc.

UKSub1 Ltd's only activity is to carry on a trade wholly within the UK.

UKSub2 Ltd's activities consist of carrying on two separate trades: one through a permanent establishment in Astoria, an overseas jurisdiction; and the other though a permanent establishment in Buranda, another overseas jurisdiction.

At the beginning of 2025, HoldCo plc will incorporate a third wholly owned subsidiary, FSub Inc, tax resident overseas in Carbombya. FSub Inc's only activity will be to carry on a trade in the UK through a permanent establishment.

The forecast UK tax-adjusted profits and (losses) of each company are as shown in the table below:

Accounting period Year end 31 December	HoldCo plc	UKSub1 Ltd UK trade	UKSub2 Ltd Astoria trade	 Buranda trade	FSub Inc UK PE trade
	£ million	£ million	£ million	£ million	£ million
2023	0	20	(10)	5	0
2024	0	20	10	50	0
2025	0	20	0	(6)	(5)

The rate of Corporate Tax on profits in each jurisdiction is as follows:

Jurisdiction	Corporate Tax rate
Astoria	15%
Buranda	10%
Carbombya	25%
UK	25%

Requirement:

Calculate, with explanations, the group's forecast liability to UK Corporation Tax for the accounting periods ended 31 December 2023, 2024 and 2025. (10)