

# THE CHARTERED INSTITUTE OF TAXATION

## ADVANCED TECHNICAL

### Taxation of Major Corporates

**May 2022**

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TIME ALLOWED  
3 HOURS 30 MINUTES

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- 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.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Robalex Ltd is the parent of a UK group engaged in property development and investment, regularly buying and selling new properties.

The Board has reviewed the portfolio and wishes to market properties that do not fit within current objectives. They want to sell the properties held by Jessamyn Ltd, a wholly owned subsidiary of Robalex Ltd.

Robalex Ltd acquired the 750,000 £1 ordinary shares in Jessamyn Ltd in May 2015 from a third party for £1 million. It invested further equity of £1.25 million in Jessamyn Ltd in April 2018 to finance the acquisition of Wye View Office and Beachside Café.

The funds raised from the disposals will be loaned to Newline Ltd, a fellow subsidiary, to enable that company to acquire further properties.

Jessamyn Ltd currently holds three properties, as follows:

	<u>Date of acquisition</u>	<u>Cost</u>	<u>Further details</u>	<u>Estimated value at 30 April 2022</u>
River View House	January 2010 – owned by Jessamyn Ltd at time of acquisition by Robalex Ltd.	£750,000	Tenanted office building	£1.5million
Wye View Office	Acquired from Newline Ltd, in April 2018.  Newline Ltd had acquired the property from a third party in June 2012 for £525,000.	£750,000 when its market value was £800,000	Tenanted office building	£850,000
Beachside Café	Acquired from a fellow subsidiary, Metcalf Developments Ltd, in April 2018.  Metcalf Developments Ltd had acquired the land for £350,000 in January 2017 and developed the site at a cost of £120,000.	£500,000 when its market value was £550,000	Seafront cafe with significant land, offering investment potential.  Currently on short-term lease to tenant.	£650,000

There are no other significant assets or liabilities in Jessamyn Ltd. The summary balance sheet at 30 April 2022 is:

	£
Properties at valuation	<u>3,000,000</u>
Share capital	2,000,000
Revaluation reserve	<u>1,000,000</u>
Total	<u>3,000,000</u>

**Requirement:**

**Explain the different options for the property disposals and the associated Corporation Tax consequences.** (20)

2. The Fairchester group comprises 10 companies, all of which are UK resident, and has 600 employees in total. The group specialises in cyber security. It has achieved steady organic growth in the UK since it was established and is now considering expansion into Europe.

The Board have identified an opportunity to acquire the share capital of MBH SA, a Spanish headquartered sub-group.

MBH SA is wholly owned by AB SA and has three wholly owned subsidiaries, MBH Bulgaria Ltd (incorporated and resident in Bulgaria), MBH Retailing Ltd (incorporated and resident in the UK) and MBH Developer (UK) Ltd (incorporated and resident in the UK) as well as permanent establishments in France and Portugal.

All intellectual property and patents associated with the products are held by MBH Bulgaria Ltd. Product development is undertaken by MBH Developer (UK) Ltd and recharged to MBH Bulgaria Ltd, where it has been capitalised as an intangible asset.

In addition to the Spanish trading operations, the MBH SA group has developed a sales network in the UK through MBH Retailing Ltd and in Portugal and France through permanent establishments. Tax returns for these operations have been filed with the relevant tax authorities. Several one-off issues, primarily related to specific customer relationships, have adversely affected the French results in recent years but there is no longer any trade with these customers and it is hoped that the results will improve in the future.

The historical results are summarised below:

Historical profit/(loss) before tax

<u>Year ended</u> <u>31 December</u>	<u>MBH SA</u>	<u>French</u> <u>Permanent</u> <u>Establishment</u>	<u>Portuguese</u> <u>Permanent</u> <u>Establishment</u>	<u>MBH</u> <u>Retailing</u> <u>Ltd</u>	<u>MBH</u> <u>Developer</u> <u>(UK) Ltd</u>	<u>MBH</u> <u>Bulgaria</u> <u>Ltd</u>
	£'000	£'000	£'000	£'000	£'000	£'000
2017	500	(30)	(150)	750	250	350
2018	750	(250)	(50)	550	310	245
2019	800	(300)	100	600	400	305
2020	750	(250)	150	800	450	350
2021	550	(450)	300	950	500	400
Local tax rate	25%	30%	21%	17%	17%	10%

The above results for MBH SA include the figures for the permanent establishment operations that are also shown separately. The permanent establishments each employ 30 staff and MBH SA has a further 75 employees.

The Board want to understand the key issues associated with expanding overseas and in particular whether they would need to reorganise the MBH SA group following its acquisition. They want advice on the UK Corporation Tax aspects of this and any opportunities to reduce effective rates of tax.

**Requirement:**

**Explain the UK Corporation Tax issues associated with the proposed overseas expansion and advise on any opportunities to minimise the effective rate of tax.** (20)

3. CircleChester plc is the parent company of a large multinational group. On 1 July 2021, CircleChester plc incorporated a new UK-resident subsidiary, Girmels Ltd. Girmels Ltd started trading immediately after incorporation.

Extract from Income Statement of Girmels Ltd

Period ended 31 March 2022:

	£'000
Turnover	5,321
Cost of sales	<u>(4,925)</u>
Gross profit	396
Administration expenses	(450)
Depreciation	<u>(215)</u>
Loss before tax	<u>(269)</u>

Note: there are no Corporation Tax disallowable items within cost of sales or administration costs.

Fixed asset note

<u>Cost</u>	<u>Freehold land and buildings</u>	<u>Plant and office equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	<u>Note 1</u> £'000	<u>Note 2</u> £'000	<u>Note 3</u> £'000	£'000
Additions in period	<u>4,335</u>	<u>960</u>	<u>155</u>	<u>5,450</u>
Carried forward	<u>4,335</u>	<u>960</u>	<u>155</u>	<u>5,450</u>
<u>Depreciation</u>				
Charge in period	<u>50</u>	<u>140</u>	<u>25</u>	<u>215</u>
Carried forward	<u>50</u>	<u>140</u>	<u>25</u>	<u>215</u>
<u>Net Book Value</u>				
31 March 2022	<u>4,285</u>	<u>820</u>	<u>130</u>	<u>5,235</u>

The following details are provided in connection with the additions.

Note 1

Freehold land and buildings represents the newly constructed warehouse used by the company. The surveyors have provided an analysis of the spend as follows:

	£'000
Land	1,000
Building structure	2,500
Fixed mezzanine floor for offices	160
Electrical and water supplies	330
Air conditioning	150
Reinforcement of floor prior to installation of equipment	120
Solar panels	<u>75</u>
	<u>4,335</u>

Note 2

All plant and equipment is directly used in trading activities.

Note 3

Motor vehicles

	<u>Cost</u> £'000	<u>Emissions</u>
Three delivery vans	120	140g/km
Director's company car	<u>35</u>	100g/km
	<u>155</u>	

The group has a policy that no payment is made for losses surrendered as group relief.

The Annual Investment Allowance has been used in full by other group companies.

**Requirement:**

**Calculate, with explanations, the tax charge and any deferred tax provision, for the statutory accounts for the period ended 31 March 2022.**

(10)

4. Cirrus Ltd is the parent company of the Cirrus group. It has two wholly owned trading subsidiaries, Cumulus Ltd and Stratus Ltd. All three companies are UK incorporated and tax resident. Cirrus Ltd also has three overseas wholly owned subsidiaries.

The UK companies' accounting results for the year ended 31 December 2021 were as follows:

	<u>Cirrus Ltd</u>	<u>Cumulus Ltd</u>	<u>Stratus Ltd</u>
	£'000	£'000	£'000
Sales	0	10,000	10,000
Cost of sales	0	(9,000)	(5,000)
Administration costs	(750)	(1,250)	(1,500)
Interest receivable	0	100	0
Other income	<u>5,000</u>	<u>0</u>	<u>0</u>
Profit/(loss) before tax	<u>4,250</u>	<u>(150)</u>	<u>3,500</u>

Cirrus Ltd

- 1) Administration costs wholly relate to a specific provision against a debt due from a German subsidiary.
- 2) Other income represents dividends received from a Spanish subsidiary.

Cumulus Ltd

- 1) Included within cost of sales is £2 million relating to a bonus provision. Movements on the bonus provision were as follows:

	<u>£ million</u>	
Balance b/f at 1 January 2021	2	
Balance paid in the year	(1.5)	This was paid by 30 September 2021
Arising in the year	<u>2</u>	
Balance c/f at 31 December 2021	<u>2.5</u>	This will be paid by 30 September 2022

- 2) At the year-end, £100,000 (2020: £50,000) of employer's contributions relating to the defined contribution pension scheme is included within creditors.
- 3) Withholding tax of £9,500 was suffered in the year on the interest received from a third party of £100,000, in accordance with the relevant double taxation agreement. The gross income is included within the income statement.

Stratus Ltd

- 1) Included within administration costs are:
  - (a) Gifts to clients of which £100,000 relate to alcohol, costing less than £25 each with the company's logo, and £150,000 relate to stationery, each item costing £75, also with the company's logo;
  - (b) Legal fees of £20,000 relating to a new lease;
  - (c) Costs of £10,000 for the annual Christmas party for the 50 members of staff;
  - (d) Repairs and maintenance costs, incurred during May 2021:

	£
Annual security maintenance	100,000
Low value office furniture, less than £500 per item	50,000
Window cleaning	10,000
Re-decorating	300,000

- (e) Depreciation of £500,000, which is calculated on a straight-line basis at 20%.
- 2) During April 2021, Stratus Ltd spent the following on tangible fixed assets:

	£
Replacement windows	100,000
Erecting fencing	50,000
Computer hardware	200,000

- 3) The written down value of the capital allowances pool brought forward was £2.5 million (neither Cirrus Ltd nor Cumulus Ltd has any capital allowances pools).
- 4) Withholding tax of £100,000 was suffered in the year on trading income of £1 million, paid in accordance with the relevant double taxation agreement. The withholding tax is included within the tax line of the income statement.
- 5) The company had an overseas permanent establishment throughout the year. It has not elected to exempt the profits of overseas permanent establishments from tax. Taxable profits of the permanent establishment calculated under UK tax law were £300,000. Overseas tax of £60,000 was paid in respect of its profits. In addition, the company has received a refund of £10,000 relating to the permanent establishment's profits for the year ended 31 December 2020 following adjustments made on finalisation of the overseas tax return.
- 6) The company has paid Corporation Tax on account of £650,000 in respect of the year ended 31 December 2021 and has made no payments on account in respect of the year ended 31 December 2022.
- 7) The 2022 taxable profits of Stratus Ltd are budgeted to be £4 million and those of Cirrus Ltd and Cumulus Ltd are budgeted to be nil.

**Requirement:**

- 1) **Draft the Corporation Tax computations for the three UK companies for the year ended 31 December 2021, including explanations where appropriate. You should assume all beneficial claims and elections are made.** (17)
- 2) **Explain the Corporation Tax payments/repayments in respect of the years ended 31 December 2021 and 31 December 2022.** (3)

Total (20)

5. Flowers Ltd is a stand-alone UK tax resident company. It carries on a trade of operating garden nurseries and selling flowers and plants that it has grown from seed to garden centres. The company has grown by acquiring the trade and assets of various businesses.

Flowers Ltd held the following intangible fixed assets at 31 December 2021:

<u>Acquisition date</u>	<u>Intangible</u>	<u>Business</u>
1 January 2000	Goodwill	Azalea
30 June 2015	Goodwill	Begonia
31 July 2015	Goodwill	Crocus
31 July 2015	Registered trademarks	Crocus

No elections have been made in connection with intangible assets up to 31 December 2021.

Flowers Ltd expects to enter into the following transactions during 2022:

- 1) The acquisition of a software intangible costing £500,000;
- 2) Expenditure of £1 million on a software development intangible (developed by the company), which will qualify wholly for Research and Development Expenditure Credit; and
- 3) The disposal of the goodwill of the Azalea and Begonia businesses.

**Requirement:**

**Explain:**

- 1) **The tax treatment of the amortisation of the intangible assets held at 31 December 2021.** (3)
- 2) **The new rules for the tax treatment of intangibles which were introduced in 2019.** (2)
- 3) **The tax consequences of the transactions which may take place in the year ended 31 December 2022.** (10)

Total (15)

6. Hilari Ltd is a UK tax resident company that is part of a multinational group.

Felix Inc is another member of the group. It is incorporated and tax resident in Ruritania, located outside the European Union. The OECD model treaty applies between the UK and Ruritania.

There are four directors on the board of Felix Inc. Two of the directors are UK tax resident. They are employed by Hilari Ltd, but each spends 10% of their time carrying out board duties related to Felix Inc. The other two directors are resident in Ruritania.

Felix Inc's trade is that of management consultancy.

Felix Inc has been carrying out the following activities in the UK over the last year to 31 March 2022:

- 1) Three members of staff each started a two-year secondment to Hilari Ltd for whom they have been working on a large project in the UK. Their salaries are recharged from Felix Inc to Hilari Ltd.
- 2) Some of Felix Inc's suppliers of marketing and advertising services are based in the UK. Felix Inc's procurement team therefore often visit the UK to maintain relationships and negotiate and conclude contracts. Felix Inc rents a small office in a building owned by Hilari Ltd from which the procurement staff can work when they are in the UK. Felix Inc pays a market rate rent for the office.
- 3) Felix Inc won a contract to provide management consultancy to a third party customer located in the UK. Felix Inc sent staff from Ruritania to the UK to undertake the work required and rented an office from a third party for the three months the contract lasted.

**Requirement:**

**Explain whether Felix Inc could have a liability to UK Corporation Tax and the administrative requirements that would apply if Felix Inc had a UK tax liability.** (15)