Institution **CIOT - ATT-CTA**
Course **CTA Adv Tech Taxation Major Corps**

Answer-to-Question-_1_

Ambrose Group

1) UK Tax calculations

	Ambrose Inc	**Wild West Inc**	**Note**
UK income	200,000,000	10,000,000	1
Royalty income (gross)	45,000,000	3,000,000	2
Expenses	(5,000,000)	(2,000,000)	
Total Income	240,000,000	11,000,000	
UK Corporation tax liability 19%	45,600,000	Nil	3
Withholding tax relief	(9,000,000)		4
UK corporation tax payable	**36,600,000**	**Nil**	

Notes:
1) Mexico is an exempt territory under controlled foreign company rules so UK income attributable to it is ignored for UK corporation tax purposes. However, it appears that as Ambrose purchased the recipe and trademarks from Gold Agave that income attributable from the Gold Agave drinks is under Ambrose Inc instead. Income for Ambrose Inc from UK thus £100m+£100m = £200m
2) Royalty income must be paid over net of 20% withholding tax, however relief will be given for this from the CT liability.
3) USA is also an excluded territory under SI2012/3024 and thus no UK corporation tax will be due on its UK profits.
4) Withholding tax paid on Ambrose royalty: 20% x 45m = £9,000,000

2) Tax Administration

Notify chargeability: Ambrose Inc must notify HMRC that it is within chargeability for UK corporation tax (if it has not already done so). This should be done within 3 months of the start of its first accounting period. HMRC sends out form CT603 (usually prior to the end of the accounting period), requiring Ambrose to submit a corporation tax return. The corporation tax return (CT600) must be filed within 12 months of the end of its accounting period, i.e. 5 April 2023, or 3 months after receipt of the CT603, if later.

Payments by instalment: Payments for large and very large companies must be made quarterly by instalment. Large companies are those with profits in excess of £1.5m, divided by the number of companies within the group, and very large are those with profits in excess of £20m, also spread by the number of companies within the group. Ambrose Inc will qualify as a very large company. As such it is required to make payments on account by the 14th June 2021, 14th September 2021, 14th December 2021 and 14th March 2022.

<u>3) Withholding tax implications</u>

Yearly interest must be paid net of 20% withholding tax in the UK, so Ambrose Ltd will be required to withhold £4m on this loan and pay this over to HMRC in form CT61. Form CT61 must be filed quarterly, with payment of the WHT paid over by the 14th of the month after the quarter end.

The WHT could potentially be mitigated if the funding was given instead by way of equity, removing the administrative requirement altogether.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW--------------

Answer-to-Question-_2_

Bentham Ltd

1) UK Corporation tax computation

	UK	Netherlands	Notes
Profit before tax	218,000,000	5,000,000	
Lease premium capital	(900,000)		2
Legal fees	1,900,000		3
Depreciation	180,000,000	20,000,000	4
Dividend	(10,000,000)		5
Interest payable	2,000,000		7
Capital allowances	(2,600,000)		8
Trading profits	388,400,000	25,000,000	
NTLR	(2,000,000)		7
TTP	386,400,000	25,000,000	
UK CT 19%	**73,416,000**	**4,750,000**	
Total	78,166,000		
DTR	(4,000,000)		9
Total UK CT liability	**74,166,000**		

Notes:

1) Compensation is taxable income

2) £5m premium taxed partially as income and partially as capital. Add back £900,000 per workings below:

	£	Working	
Premium	5,000,000		
Capital element	(900,000)	2% x (10-1 years) x £5m	
Income element (taxable income)	4,100,000		

3) Legal fees:

a) £500k relates to capital expense, disallow.

b) Infractions of law cannot give relief, disallow £1m fine.

c) Pension: contributions not in excess of prior years, no spreading required. £4m expense appears to be running costs rather than setup costs and thus allowable.

d) Bonus is to be paid more than 9 months after year end, disallow for YE 31 December 2021 and deduct in period paid.

Total add back: 500k+1m+400k = £1,900,000
4) Depreciation disallowed
5) Dividend exempt under portfolio exemption as less than 10% holding (CTA 2009 s.931G)
6) Loan release is from party who is unconnected. It is not stated what holding of Bentham Archbold bank now holds but presume less than 51% company and as such the release is a taxable income. No adjustment required.
7) Late payment interest is deductible as a non-trading loan deficit. Whole amount added back to trading profits and deducted under NTLR.
8) Capital allowances

	AIA/FYA	Main Pool	Capital Allowances
TWDV b/f		10,000,000	
Additions: Cleaning equipment & sanitisers	800,000		
AIA	(800,000)		800,000
WDA 18%		(1,800,000)	1,800,000
TWDV c/f		8,200,000	
Total CAs			2,600,000

Additions are prior to 1 April 2021 and so no first year allowance superdeduction of 130% available. AIA available of £1m instead.
9) Tax suffered in Netherlands = £4 million. UK CT liability £4,750,000 so full £4m double tax credit relief can be claimed. No s. 18 CTA 2009 election made so the Netherlands profits are taxable in the UK.
10) Capital losses can only be offset against capital gains. No loss relief available in the current year as no chargeable gains made.

2) Administration & Payment requirements

Administration: The company must file its corporation tax return within 12 months - 31 December 2022. There is a penalty of £100 when the return is late, doubling to £200 if more than 3 months late (31 March 2023). This increases further to 10% of the tax unpaid if the return is still not filed within 18 months of the end of the accounting period (for Bentham 30 June 2023) and this will double to 20% of the unpaid tax if the return is still outstanding within 24 months of the end of the accounting period.

Payment by instalments: The company is a very large company for payment by instalment requirements as it has profits in excess of £20m. Therefore it is required to pay by the 14th of months 3,6,9 and 12 of its accounting period - that is March, June, September and December 2021 for the year ended 31 December 2021.

There are no penalties for companies required to pay by instalments but interest is charged from the day of each instalment for each late payment.

Senior accounting officer & tax strategy : The company has turnover in excess of £200m and so will be subject to the senior accounting officer and tax strategy requirements. The SAO regime requires for a director with overall responsibility for the company;s financial accounting to certify all accounting systems in operation are adequate for the purposes of adequate tax reporting, and covers all tax, corporation tax, PAYE, VAT, Customs & excise duties, stamp duty and stamp duty land tax and insurance premium tax. The deadline to certify is mirrored to the date the accounts of the company are required to be filed withi COmpanies House - 9 months for small to medium enterprises and 6 months for large companies - in Bentham's case it will be the 6 month deadline so this should be filed with HMRC by 30 June 2022.

The tax strategy document covers UK companies, UK permanent establishments and UK groups or subgroups. The document must be filed before the end of the accounting period, 31 December 2021 for Bentham and must be published online in such a way as to be available to the public free of charge. It must include the group/company's approach to risk management & governance in relation to UK taxation, attitude towards tax planning, the level of risk the UK tax group is prepared to accept, and its approach towards dealings with HMRC.
Failure to publish will result in a penalty of £7,500, if more tha 6 months late a further £7,500 will be charged, with a further £7,500 being charged at the end of each subsequent month the document is late until published.

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

Whittle Ltd

1) Capital Allowances (CAs)

30 September 2021: Total capital allowances claimed £9,338,000
30 Septemver 2022: Total capital allowances claimed £308,040

	N	AIA/FYA	General	Special	CAs
TWDV b/f 1/10/20			1,200,000	400,000	
Lorry	1	100,000			
Equipment	2	1,000,000			
AIA		(1,000,000)			1,000,000
			100,000		
Refit FYA 50%	3	1,500,000 (750,000)		750,000	750,000
PEQ FYA 130%	4	5,000,000 (6,500,000)			6,500,000
Cabinet	5		800,000		
Software FYA 130%	6	500,000 (650,000)			650,000
Cars	7		200,000		
			2,300,000	1,150,000	
WDA 18%			(414,000)		414,000
WDA 6%				(24,000)	24,000
TWDV c/f 30/9/21			**1,886,000**	**1,126,000**	**9,338,000**
Disposal	8		(350,000)		
Disposal	9		(200,000)		
			1,336,000	1,126,000	
WDA 18%			(240,480)		240,480
WDA 6%				(67,560)	67,560
TWDV c/f 30/9/22			**1,095,520**	**1,058,440**	308,040

Notes:

30 September 2021:
Allocate AIA of £1m to assets purchased prior to 1 April 2021.

1) Lorry purchased prior to 1 April 2021, no enhanced first year allowances (FYAs) available. £100,000 to add to Main pool.
2) Contract was entered into prior to 8 March 2021 which precludes it from being able to claim FYAs, despite the contract being subject to a condition met after this date. £1,000,000 to add to main pool.
3) Refit includes heating system & ventilation systems - both integral features and thus add to special rate pool. £1,500,000. 50% FYA available. Does not take advantage of WDAs for 2021 in light of FYA received.
4) Precision engingeering equipment: general pool, 130% FYA available
5) Storage cabinet: 2nd hand, no FYAs available
6) Computer software: 130% FYA available
7) Cars all below 50g/km so allocated to general pool £200,000. No allowances available except annual writing down allowance.

30 September 2022:
8) Disposal proceeds of testing machinery deducted from general pool.
9) Disposal proceeds of precision equipment also dedcted from general pool as company is not ceasing trade and disposal does not bring balance of pool to nil.

<u>2) Maximisation of allowances</u>
At present the taxable profits of 2021 and 2022 are anticipated to only be £1m per year. For 2021 this full amount will be offset and there will be a carry forward of £8,338,000 into 2022.
For 2022 the current year capital allowance of £308,040 will be offset, and a portion of the carried forward balance from 2021 may be offset to reduce Whittle's laibility to nil for 2022 also.

It is generally more efficient to carry back where possible which will be possible with the 2021 capital allowances, so it may be preferable to the company to relief the 2020, 2019 and some of the 2018 losses instead to reclaim corporation tax.

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Johnjane Group

1) Accounting periods & taxable profits/losses

The triggers for cessation of a period and the start of a new one are broadly cessation of trade, entering administration and going into liquidation. Receipts and payments there on are then taxable as post cessation receipts and payments accordingly.

Johnjane Ltd: The company traded as normal until put into liquidation, at which point a period ended and a new one began.
Year ended 30 June 2020 - profit £50,000,000
Year ended 30 June 2021 - profit £50,000,000
Year ended 30 June 2022 - profit 70,000,000
Period ended 30 September 2022 - profit £30,000,000
The gain on Trade2 shares will likely qualify for substantial shareholding exemption as it was a trading company, owned more than 12 months and Johnjane owned more than 10% of the interest in the company. Therefore the gain is ignored for tax purposes. The gain on JJ property however will not be exempt as the company was not trading, so we must deduct the £10m gain from Trade 2 and add £20m capital receipt from JJ Property. Thus (20m-10m+20m)

JJ Property Ltd: The administration caused an accounting period (AP) to end and a new one to begin. Then liquidation caused a further new period to begin. As liquidation went on for longer than 12 months there would have been a year ended 31 March 2022 and then a final period to liquidation.
Year ended 30 June 2020 - profit Nil
Period ended 31 January 2021 - profit £15,000,000 - property was sold between 1 February and 1 April 2021.
Period ended 31 March 2021 - Profit Nil
Year ended 31 March 2022 - Profit £10,000,000 - post cessation receipt of £10m is taxable.
Period ended 30 September 2022 - profit Nil

Trade1 Ltd; Cessation of trade would have caused an AP to end and a new one to begin, however liquidation happened simultaneously.
Year ended 30 June 2020 - Loss £20,000,000

Year ended 30 June 2021 - Loss £200,000,000
Year ended 30 June 2022 - profit Nil
Period ended 30 September 2022 - profit £100,000,000 - post cessation receipt of trade dispute

Trade2 Ltd:
Year ended 30 June 2020 - Profit £135,000,000
Year ended 30 June 2021 - Profit £50,000,000
Period ended 31 March 2022 - Loss £150,000,000 to cessation of trade
Period ended 30 September 2022 - Loss £50,000,000 (trade dispute 30 June 2022 post cessation)

2) Offset of available losses
The losses incurred by each company must be matched up against the period incurred, i.e. a gain in JJ Property would have to be coterminous to a loss incurred by Trade1.

UK property business losses cannot be carried back, however this is not a concern for the group.

The losses within the group are all trade losses, having been incurred by Trade1 and Trade2.
Trade1's losses are carried forward to the period in which trade ceases and so the total profits may be carried back against profits of the 36 months ending with the terminal period, i.e. 30 September 2019. However Trade1 has no profits available to offset so group relief would be the most efficient used of its losses.

The Trade2 loss in PE 31 March 2022 is restricted and as such cannot be carried back to prior periods on account of the terminal loss relief rules. As such its losses also should be group relieved as far as possible.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW--------------

Answer-to-Question-_5_

Boodnes PLC

1) £5m loan stock
Loan stock is not a chargeable asset for corporation tax purposes. Instead it is treated through the loan relationship rules, and the profit of £3m is therefore dealt with via loan relationship rules. Therefore the chargeable gain on this transaction is £nil.

2) US$18.2m loan stock
As per the £5m loan stock, the gains/losses, including its foreign exchange gains and losses, will be taxed under the loan relationship rules and so the chargeable gain is nil. 3)

3) Quoted plc

Share pooling (section 104) requires matching to prevent advantage being taken of acquiring and disposing of shares quickly and manipulating the share pool values. The matching rules are as follows:
1) Shares acquired on the same day
2) Shares acquired in the previous 9 days
3) Shares acquired 1 April 1982 to 9 days prior

Sale 1 of A shares is therefore matched to the s.104 pool as the sale is more than 9 days after the purchase.

S. 104 pool at 1/10/17:

	Shares	£	s.104
1/3/12	100,000	300,000	300,000
1/6/14	200,000	900,000	900,000
Total	300,000		1,200,000
Sale 1/10/17 (1/3x1.2m)	(100,000)		(400,000)
Total 1/10/17	200,000		800,000

Continuing this on to 2021:

	Shares	Cost	s.104
B/f	200,000		800,000
1/12/17	200,000	1,200,000	1,200,000
1/4/21	200,000	1,100,000	
6/4/21	100,000	750,000	
Sale (matched)	(300,000)	(1,850,000)	
Sale (s.104)(100,000/400,000 x £2m)	(100,000)		(500,000)

Gain 6/4/21:

		Shares	£
Proceeds	400,000x£8	400,000	3,200,000
6/4/21 acq		(100,000)	(750,000)
1/4/21 acq		(200,000)	(1,100,000)
s.104		(100,000)	(500,000)
Gain			**850,000**

4) Listed plc

The acquisition of Listed by Bigco gives rise to a partial disposal. Consideration given is as follows:

300,000 shares in Bigco (value/share= £12) = £3,600,000
£3 for every 5 shares = 300,000/5 x £3 = £180,000

We then use the formula A/(A+B) x acquisition cost to derive the allowable cost for the gain. A is the cash, B is the value of the bigco shares.

The remainder will form the base cost of the Bigco shares.

Original cost: 300,000 x £2 = £600,000

Gain on Listed PLC takeover:

			£
Proceeds			180,000
Cost	180,000/(180,000+3,600,000) x 600,000		(28,571)
Gain			**151,429**

Cost retained: 600,000-28,571 = £571,429

Gain on Bigco share sales:

			£
Proceeds	£14 x 300,000		4,200,000
Cost			(571,429)
Gain			**3,628,571**

5) US$ purchase
The gains or losses on foreign exchange do not represent capital gains or losses and are dealt with under loan relationships rules. No chargeable gain or loss.

6) UK Gilts
Gilts as for qualifying corporate bonds as discussed in 1 and 2 above are exempt assets. No chargeable gains or losses on sale.

7) Options

The base cost of the options exercised: £2 x 400,000. The purchase price of the option is a separate item and thus not included in the shares' base cost.

Therefore the gain on sale of the options:

			£
Proceeds	£3.50 x 400,000		1,400,000
Cost	£2 x 400,000		(800,000)
Gain			**600,000**

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

Holdco PLC

UK companies are taxed on worldwide profits. As such the profits and losses of all permanent establishments (PEs) will be taxable unless a CTA 2009 s. 18 election is made to exempt the profits of the PEs. This is currently advantageous to the group as the oversaes PEs are largely loss making and so can relieve UK profits.

The FSub's income and lsoses will also be subject to UK corporation tax as they are carrying on trade by way of a PE within the UK. This cannot therefore be exempted via the above election.

2023	UK Sub1	UK SUb2	FSub Inc	Total
Profits	20,000,000	5,000,000		
UK Corporation Tax 25%	5,000,000	1,250,000	N/A	
DTR (N1)		(500,000)		
Total CT 2023	**5,000,000**	**750,000**		**5,750,000**

Notes

1) Buranda: tax rate 10% - assuming credit relief given. Tax suffered: 10% x £5m - £500,000. UK tax rate higher so full £500,000 may be relieved.

2024	UK Sub1	UKSub2	Total
Profits	20,000,000	60,000,000	
UK Corporation tax	5,000,000	15,000,000	
DTR (N2)		(6,500,000)	
Total CT 2024	**5,000,000**	**8,500,000**	**13,500,000**

DTR:
Astoria: £10m x 15% = £1.5m
Buranda: £50m x 10% = £5m

2025	UK SUB1	UKSub2	FSub	Total
Profits (N3)	20,000,000	(6,000,000)	(5,000,000)	9,000,000
UK CT				2,250,000
DTR (N4)				Nil
Total CT 2025				**3,500,000**

3) Losses of UK permanent establishments may relieve UK company profits as though they were UK resident.
4) Losses made in all PEs, no CT presumed to be suffered in the overseas jurisdictions.