

Institution **CIOT - CTA**
Course **Adv Tech Tax of Larger Companies**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	416	1956	2341
Section 2	318	1547	1840
Section 3	351	1749	2090
Section 4	773	3750	4400
Section 5	773	3646	4401
Section 6	412	1850	2262
Total	3043	14498	17334

Answer-to-Question-_1_

For the purposes of capital gains, Durbad plc, Capey Ltd and Porty Ltd form a gains group as they are 75% subsidiaries. East Ltds is not a part of the gains group as Durbad owns less 75% shareholding.

Held over gain is applicable to depreciating assets which has UEL of less than 60 years.

This is frozen and crystallises on the earlier:

- Disposal of the asset
- date assets ceases to be used for trade
- 10 years

Durbad

The disposals are of non- depreciating assets.

Disposal of restaurant

		£		
Proceeds		2,550,000		
Professional fees		-100,000		
Cost		-1,000,000		
Gain				

The acquisition of restuarant is 31 July 2022 would qualify for rollover relief as it was purchased within 12 months prior to disposal dat (30 June 2023).

We need to check if the proceeds from the disposal has been fully reinvested.

The proceeds are £2,550,000 and we have only reinvested £900,000. Partial claim can be made.

Amount not reinvested is chargeable to CT = £2.55m - £900k = £1,650,000
Rollover relief = balance of gain

Disposal of coffee shop

	£		
Proceeds	2,000,000		
Professional fees	-50,000		
Cost	-750,000		
Gain	£1,200,000		

The acquisition of the freehold building leased to East in 30 March 2024 would qualify for ROR.

Amount not reinvested is : £2m- £500k = £1.5m

Capey

Assining a short lease

Thi is a short lease as UEL is less than 50 years.

Granting a short lease:

We have the premium £300k but we need information of reversioanry interest amounts.

Porty Ltd

Acquisition of the beer pumping equipment is a depreciating asset. Capital allowance can be claimed for this asset as it used in qualifying trade of business.

Assigning a short lease

Thi is a short lease as UEL is less than 50 years.

Granting a short lease:

We have the premium £300k but we need information of reversionary interest amounts.

East LTD

As it is not part of the group, this company cannot participate in rollover and holdover relief.

When the asset is sold in the future, it could potentially benefit from rollover relief benefit on the basis another qualifying asset is purchased 12 months before the disposal and 36 months after the disposal. Freehold building in a non-depreciating asset as it has UEL of more than 6 years.

Acquisition of a non residential property will be subject to a stamp duty land tax based on cost:

Cost: £500,000

£150k *0% = 0

£100,000*2%= 2,000

£250k *5%= £12,500

SDTL = £2k + £12.5k = £14,500

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

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

Answer-to-Question- 2

A loss group exists where there is a direct 75% subsidiary and an indirect 75% subsidiary.

You can be in more than one loss group.

The loss group are as follows:

Group 1 - Dallas, Austin, Howston, Wacer, Bolding, Fromex, Amarillion, Hellenic SA, Finez

Group 2- Austin and Lubbock

Austin only joined group from 1 March 2023 so group relief is restricted to 10/12 months.

Howston left the group on 31 August 2023. So group relive is restricted to 8/12 months.

Wazer has a different accounting period so we need to apportion the accounting period.

Amarillion in a consortium member as it owne min 5% in Alpine but with the other shareholder, there is total 75% shareholding.

Amarillion is also a link company as it is a consortium member and also part of loss group.

year ended 31 December 2022

Trading profits:

D : £2m

Howston:£500k

Fromex: £600k

Finez: £750k

Alpine: £1m

Losses:

Amarillion:£5m

H: £400k

We can utilise the losses in Amarillion and Hellenic to offset the profit in Alpine through consortium relief.

100% of the Hellenic's losses can be used:£400k

100% of Amarillion can be used but is restricted to the lower of available profits in Alpine.

Alpine

	£		
Profit	1m		
less:			
Consortium relief from H	-400K		
Consortium relief from A	<u>-600k</u>		
	nil		

Remaining losses in Amarillion can be utilised as follows:

Offset against Dallas: £2m

Howston: £500k

Fromex: $3/12 * 600k = 300k$

Finnez: -750k

$= 4.4m - 2m - 500k - 300k - 750k = 850k$ losses available to be carried forward in Amarillion

year ended 31 December 2023

As the losses brought forward is less than £5m, there is no restriction for utilising brought forward group relief.

Profits:

D: £2.5m
Finez: £950k
Alpine £1.5m

Losses:
Howston: £700k
Fromlex: 700k
Amarilion: £500k
Hellenic: £500k

Alpine
We can utilise the b/f losses from Ammarilion of £850k and 100% of Hellenic losses
£500k

$$1.5m - 850k - 500k = 150k$$

We can then use

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

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

Answer-to-Question- 3

Capital gain group arises where there is 75% direct shareholding and 51% ineffective interest.

Melburk

SSE (substantial shareholding exemption) will not apply to Melburk as although Parthy owned minimum of 10% shares in Melburk for continuous 12 months within 6 years prior to disposal, Melburk is an investment company.

Sale of properties to Bune (assuming wholly owned subsidiary) would be intra group transfer as both companies are part of the same capital gains group.

Therefore the transfer would be at Nil gain nil loss and the value is the cost £120m + any indexation.

Both Melburk and Bune are leaving the group at the same time so there is not asset degrouping charge which arises when Bune leaves group within 6 years of a NGNL transfer.

Proceeds £75,000,000
cost (£30,000,000)
Indexation allowance
W1) $30m * 0.078 = (2,340,000)$

Gain = £42,660,000

Dividends paid prior to disposal is a value shifting transaction. Proceeds can be adjusted to add £45m.

W1)
IA from April 2015 to Dec 2017
 $(278.1 - 258) / 258 = 0.078$

Hobert SA

The chargeable disposal of Hobert SA would not qualify for the substantial shareholding exemption as it was not a trading company.

Proceeds: £15m
less Cost: £10m
Gain subject to corporation tax= £5m

This is a value shifting as the market value of the company reduced prior to disposal as a result of a dividend payment made prior to disposal.

Proceeds must be recalculated to add back £5m.

Durwine

Proceeds: £12m
Less cost: £1m
Gain: £11m

No indexation allowance as it was incorporated after December 2017.

The gain will be exempt if the substantial shareholding exemption applies.

Parthy Plc owned minimum of 10% share capital of Durwine for continuous 12 months with 6 years prior to disposal.

Durwine Ltd has been a trading company for at least 12 months prior to disposal.

Therefore, SSE applies and the gain is exempt.

However, something to note is that this could be a value shifting arrangement as prior to disposal, there a dividend paid to Parthy .

We can recalculate the gain by adding the dividends to proceeds.

Revised proceeds: £13m
less costs £1m
Gain = £12m

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

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

Answer-to-Question- _4_

Corportation tax computation for Danchar Ltd for the year ending 30 June 2024.

	Notes	£	£	£	£
Profit before tax			19,752,000		
Depreciation	N1	4,000,000			
Loss on disposal	n2	1,000,000			
Bonuses	n3	500,000			
client entertaining	n4	50,000			
Charity donations	n5	50,000			
Impairment	n6	3,000,000			
Non trade loan relationship debit	n7	1,500,000			
Dividend income	n8	-1,000,000			
total adjustments			<u>9,100,000</u>		
tax adjusted profits			28,852,000		

NTLR deficit	n7		-1,500,000			
Donations	n5		-50,000			
Capital allowance	n9		-7,999,500			
bAL CHARGE	n10		650,000			
tAXABLE PROFIT			19,952,500			
ct LIABILITY @25%			4,988,125			

Therefore the tax liability is x. The return is due to be filed by 30 June 2025 and any capital allowance elctions are due 2 years (30 June 2025).
 The liability is due 1 April 2025 (9 months and 1 Day after the accounting period end#).

The company appears to be large so will be required to pay quarterly instalment payements.

It may be the case that exceeds the very large threshold if we divided £20m divided by number of compnaies in the group.

Payment details for large company
 - 14 Jan 2024, 14 April 2024, 14 July 2024, 14 October 2024.

Payment details for very large company
 14 Septmeber 2023, 14 December 2023, 14 March 2024, 14 June 2024.

Notes

N1) Depreciation is disallowed as it is capital .

N2) loss on disposal is not tax deductible as it is capital in nature.

Disposal proceeds working is:

		£		
Proceeds		X		
- NBV		-1.5m		
Loss on disposal		-1m		

Therefore proceeds are £500,000.

N3)

Bonuses must be paid within 9 months of the end of the accounting period (March 2025) in order to get a deduction in the period.

Therefore the amount paid in May 2025 is not deductible
 $£1.5m/3 = £500,000$

No adjustment required for prior year bonus as it was all paid within 9 months of the year end (March 2024).

N4

Client entertaining in the form of alcohol is not tax deductible as not classed as wholly and exclusively for purposes of trade.

Staff entertaining is allowable as trade related and so no adjustment required.

N5)

Donations to a national charity is treated non trade related and instead qualifying charitable donations. Relief is given on taxable profits.

N6)

Impairment of goods for an unconnected party

This is an non relevant loan relationship.

As it is unconnected party, there is a taxable credit in the customer and a taxable deduction for Danchar.

Therefore we need to add back £1m

Impairment - fellow sub

This is a loan relationship as it is money debti arising from the lending of money.

As there is more than 51% control, Danchar and its subsidiary are connected. Therefore the loan waiver will have the following effect:

- No taxable credit in sub
- no taxable deduction in Danchar

Therefore we need to add back £2m

n7)

Interest payable relating to investment in Taycroft is not trade related and therefore treated under loan relationship rule as non trade loan relationship debit.

Interest payable relating to purchase of equipment is trade related so is allowable.

N8)

Dividend income is exempt under portfolio exemption rule (holding <10% share holding).

n9)

Capital allowance for Danchar Ltd for the y/e 30 June 2024

	£	£	£	£	
			MP	SRP	<u>Allowance</u>
twdv b/f			2,000,000	1,500,000	
Additions					
pLANT AND		6,000,000			

machinery					
0 Emission cars		500,000			
FYA 100%		-6,500,000			6,500,000
Vans		1,250,000			
AIA		-1,000,000			1,000,000
remaining transferred to MP			250,000		
High emission car				75,000	
			2,250,000	1,575,000	
WDA @18%					
WDA @6%			-405,000	-94,500	499,500
TWDV c/f			1,845,000	1,480,500	

Notes

Alterations to a building required to install the new machinery will be treated as qualifying for plant and machinery allowance. This qualifies for FYA 100% and AIA.

Van are general main pool items as they are second hand, it is not eligible for FYA expensing 100%.

Full AIA of £1m is available to the company

0 emission cars qualify for FYA.

No leased car disallowance required for low emission cars.

High emission car >50g/km is not eligible for FYA or AIA so will go to SRP. No adjustment required for private use.

We will prioritise AIA for the second hadn vans.

N10)

Disposal of plant:

$$500k * 130/100 = 650,000$$

Part 2)

Income statement

Proceeds are £150k

$$\begin{aligned} \text{NBV} &= \text{Cost} - \text{depreciation} \\ &= 250k - 50k = 200k \end{aligned}$$

There will be a loss on disposal of £50k within the income statement

Tax computation

Loss on disposal of £50k will need to be added back in the tax computations.

There will be a balancing charge for the disposal.

Capital allowance for year ending 30 June 2025

		£	£	
<u>TWDV b/f</u>		1,845,000	1,480,500	
Car disposal				

The cars are low emission cars so would have had FYA 100%.

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

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

Answer-to-Question- _5_

Connected party

When Curtis Inc acquires Jabert Ltd, they will become connected parties as Curtis owns >51% share capital in Jabert and has control.

Control for tax purposes means the power of a person to secure that the affairs of the company are conducted in accordance with the person wishes by:

- means of holding shares or the possession of voting power
- as a result of any powers conferred by the articles of association.

Subsequent sale of the company will have no UK tax implications and Curtis Inc is not chargeable to UK corporation tax.

Groups

For Jabert Ltd, there will be an additional company in the group. Therefore when calculating thresholds for quarterly instalment payment, we will need to divide the thresholds of £1.5m and £20m by the number of associated companies. We are told that Curtis Inc has is part of multi national group.

Jabert has pre- tax profits of £3m. On the basis that augmented profits are previously below £1.5m threshold, it would only be liable to pay its CT liability 9 months and 1 day after the end of accounting period. If the augmented profits are between the £1.5m and £20m threshold (with number of associated companies taken into account), then the company will be deemed as large for quarterly instalment payments. There is a grace period for becoming large for QIPS in first period but none for ver large (threshold exceeds £20m/ numner of associated companies.

The payment dates for 31 December 2024 would be as follows:

Large

- 14 July 2024, 14 October 2024, 14 January 2025, 14 April 2025.

V large

- 14 March 2024, 14 June 2024, 14 September 2024, 14 December 2024.

CIR

For CIR purposes, Curtis would be excluded as it not a qualifying UK company.

TP

For transfer pricing, Curtis and Jabert are connected as there is more than 51% control.

We need to make sure that any inter group transactions are at arm's length basis.

Transfer policy is relevant where there is a transaction and the actual provision is not at arm's length, resulting in a UK CT tax advantage.

Where there is a UK CT tax advantage, we will need to compute the transfer pricing adjustment and include in UK CT return. To avoid mismatch of TP adjustment, we can enter into bilateral agreement with US authorities to make sure adjustment treatments match.

Transfer pricing is only applicable to large companies and not for SME.

Therefore, employees must be >250 and either one of the following must be met:

- Turnover > 50m euros
- balance sheets assets > 43m euros

Jabert previously before being acquired by Curtis was not a large company as it had less than 250 employees but the turnover threshold.

Post acquisition, the number of employees, turnover and assets balance sheets is aggregated and therefore the Jabert is now applicable to TP policies.

We are told that there will be a provision of management services from Curtis to Jabert.

Robust documentation is required to determine whether the intercompany charges are at arm's length. There must be a master file and a local file in the UK.

OECD model outlines different TP methodologies.

Transactions methods include:

- Controllable unconnected price (CUP)
- Cost plus method
- resale price method

Transactional profit method includes:

- Transactions net profit margin method

OECD prefer CUP method as it is more objective.

It is likely that Curtis Inc provides management services to other sub (although none in UK), so we could check how much is charged but there is an argument whether this is reliable and UK and overseas conditions differ.

Royalties

Curtis Inc has an IP which Jabert will utilise and therefore there will be royalty payments to Curtis.

Royalty payments made by a UK company is subject to WHT (withholding tax) of 20%. This can be reduced to 0% if there is Double treaty with US.

It could be the case the Jabert may be liable to an ORIP charge of 20%.

This where a UK resident company pays an overseas company royalty payment for enjoyment of IP resulting in UK sales exceeds £10m.

We do not have enough information of this. But if there is a DTT present in US then there is not ORIP charge,

If there is no DTT with US, then ORIP is relevant. However there are some exemptions:

- Low tax jurisdiction
- economic substance - has the IP be created in US (this is yes).
- Foreign exemption - is the foreign tax paid at least 50% of ORIP charge.

Dividends

Any dividends paid by a UK company is exempt and there is not WHT.

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

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

Answer-to-Question- _6_

A company is UK resident for tax purposes if it is incorporated in the UK or if central control and managements is deemed to be in UK.

If the company sets up a local company in the UK then if it is incorporated in the UK then by virtue, it will be a UK tax resident company and liable to corporation tax on its worldwide income and gains.

SylMarc SA is a overseas tax resident company that has a Double tax treaty with the UK. Therefore under OECD rules, the company will be liable to UK corporation tax if it is deemed that POEM (place of effective management) is in the UK.

Competent authorities will look at multiple factors such as where is head office based, where is operational decision made to come to an agreement of where the company is resident.

The company will be deemed dual resident is deemed to be resident in UK as well as Gardania.

Based on the information provided, all staff as based in Gardania and all functions/ decision making is made there so it is unlikely that POEM is in UK. Although the staff may be tranferred, there is no intention for senior management to be located to UK, this included Directors etc who make key operational decisions.

The other way, Syl Marc SA could have liability to UK tax is if there is deemed to be permanent establishment in the UK (Branch).

Permanent Establishment (PE) is where there is fixed place of business and there are dependent agents who conclude contracts on behalf of the company.

In order for there to be a PE, there must be a degree of permanence (more than 6 months). There is no information in the scenario to suggest the timing so on the basis that it is long term. We can conclude that this criteria has been met.

In terms of a fixed place of business, we need to check if teh services office accomodation is at the diposal of the company. If yes, then it can be deemed as a fixed

place of business.

Auxiliary and preparatory activities will not be deemed as activity substantial for a PE.

We need to check whether there are any dependent agents. The staff may potentially be classified as dependent agents on the basis that they are solely working for SylMarc SA. The contracts need to be reviewed and we need to confirm whether renewal of contracts constitutes concluding contracts.