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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**253**	**1166**	**1410**
Section 2	**712**	**5715**	**7232**
Section 3	**536**	**3067**	**3693**
Section 4	**614**	**3297**	**4020**
Section 5	**713**	**3331**	**4003**
Section 6	**319**	**2034**	**2518**
Total	**3147**	**18610**	**22876**

Answer-to-Question-_1_

A company is tax resident in the UK if it is either incorporated in the UK or its central management and control is in the UK.

As Camlann UK Ltd is incorporated in the UK, it will be tax resident in the UK.

Camlann UK Ltd will also be tax resident in Badon as its place of effective management is there since all strategic decisions, senior management, board members and board meetings are all located/take place in Badon.

Camlann UK Ltd will by way of UK and Badon domestic legilation be resident in both territories.

As the OECD model convention applies between the UK and Badon a tie breaker clause will be included to determine the residence of Camlann UK Ltd in this situation.

The tie breaker considered where effective management is carried on, the place of incorporation, day to day management and central management and control in determining which territory the company is based in.

Based on the facts of Camlann UK Ltd it is likely that the tie breaker will determine Camlann UK Ltd to be tax resident in Badon.

If the company is resident outside of the UK, then it will not be subject to UK CT for the year ended 31 Deceber 2021.

This is unlikely to change if the director is appointed in

the UK as they will be making strategic decisios not concluding contracts, they will simply be performing a marketing and entertaining role which will not locate the company’s central management and control to the UK.

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--------------ANSWER-1-ABOVE---------------
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---------DO-NOT-EDIT-THIS-DIVIDER----------
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--------------ANSWER-2-BELOW---------------
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Answer-to-Question-_2_

CAs	AIA/FYA	MP	SRP
TWDV b/f		1,070,000	
Additions:			
- electrical system	250,000		
- air con	100,000		
- lift	50,000		
- comp equipment	500,000		

- fire alarm	20,000			
- fire door	10,000			
- portable air con	10,000			
- hire purchase		1,000,000		
- cars			100,000	
- equip	40,000	4,960,000		
- plant from Francis		1,365,000		
- R&D exp	250,000			
	1,250,000	7,315,000	100,000	
Disposal - machinery		(250,000)		
AIA @ 100%	(1,000,000)			1,000,000

FYA @ 100%	(250,000)		250,000
WDA @ 18% (5.7m)		(1,026,000)	1,026,000
WDA @ 18% x 6/12 (1.365m)		(122,850)	122,850
WDA @ 6%			(6,000) 6,000
			2,404,850
SBA			
- warehouse (1,333,333 3% x 9/12)			30,000
- office walls (60k x 3%)			1,800
Total allowances			2,436,650

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- Typically the depreciation charge is added back when arriving at the taxable profits for CT. However, this varies when leases are involved. The deductibility/non-deductibility is discussed further below.

- the cost of the building qualifies for structures and building alloance at 3% p.a. from when the building was brought into use on 1 April 2020. The cost of the land does not qualify.

- Electrical and water systems, air conditioning systems and lifts are intregal features and qualify for capital allowances in the special rate pool @ 6% p.a..

- Charlese plc is entitled to a annual investment allowance of £1m p.a. which should be prioritised to SRP additions as they have a lower writing down allowance of 6% compared to 18% in the main pool.

- The computer equipment is an item of plant and machinery and therefore qualifies for capital allowances in the main pool at 18% p.a..

- Land remediation expenditure will qualify for land remediation relief at 150%. £75k can therefore be deducted from the profits when calculating taxable profits.

- Decorating offices will class as revenue expenditure and will be deductible when calculating taxable profits.

- The moveable partition walls will not qualify for capital allowances as item 13 List C of CAA 2001 states the partition wall must be intented to be moved in the course of the qualifying activity in order to qualify as plant for capital allowances.

- The new office walls will not qualify for capital allowances but they will qualify for SBA @ 3% p.a., the painting of the new wall will also be considered capital and part of the capital cost of the wall and also qualify for SBA. Assuming the office is an existing building the SBA will not be prorated.

- The fire alarm system qualifies for capital allowances as an intregal feature as it is fixture and fitting in the SRP.

- If the fire door has been installed as it is required by law this will qualify for main pool capital allowances. It has been assumed this is the case.

- Portable air con units qualify for capital allowances in the main pool as they are not an intregal feature / fixture or fitting.

- the commercial hire purchase vehciles will qualify for capital allowances in the main pool. Depreciation is not allowed.

- Assuming the finance lease of the vehicles is a for 7yrs or less, the vehicles will not qualify for capital allowances adnd

instead the depreciation in relation to the vehicles will be deductible i.e. £400k(2m x 20%).

- Cars with CO_2 emissions >110g/km qualify for capital allowances in the SRP. Cars do not qualify for AIA. Assuming the cars were bought outright and not on a hire purchae, no lease adjustment is required in the taxable profits.

- Manufacturing equipment qualifies as a main pool addition at 18% WDA.

- plant acquired from Francis Ltd would have transferred at twdv of £1,365,000 (£1.5m - (£1.5m x 18% x 6/12)) at 1 July 2020. The plant does not qualify for AIA.

- qualifying R&D expenditure gets 100% first year allowances.

- the machinery disposal is capped at cost of £250k. A chargeable gain of £25k arises on the disposal

Taxable profits adjustments

Capital allowances	(2,436,650)
Land remediation	(75,000)
Decorating	(100,000)
Depn (4m - 400k)	3,600,000
Chargeable gain	25,000
	1,013,350

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--------------ANSWER-2-ABOVE---------------
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---------DO-NOT-EDIT-THIS-DIVIDER----------
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--------------ANSWER-3-BELOW---------------
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Answer-to-Question-_3_

	Alder	Aspen	Juniper	Rowan	Whitebeam
Trading profit	-	5,000,000		1,000,000	
Net NTLR				3,000,000	
NTLR credit		2,000,000			
NTLR debits		(2,000,000			
Total profits		5,000,000	-	4,000,000	

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<u>Alder Ltd</u>

The internal staff costs of £8.5m qualifies for R&D relief.

The £10m external workers costs qualifies for R&D relief at 65% as no connected party treatment election has been made i.e. £6.5m qualifies for R&D.

Assuming the group is large. The R&D relief is given as a R&D expenditure credit of 13% i.e £1.95m ((£8.5m + £6.5m) x 13%).

The credit is added to the trading profits when calculating taxable profits and is given as a credit against the company's

tax liability.

This amount is added back to the trading loss of Alder Ltd to give a net loss of £162,500.

As Alder Ltd does not have a tax liability in the year, it cannot offset the R&D credit.

Aspen Ltd

Aspen Ltd can claim double tax relief credit on the WHT suffered capped at the UK tax suffered on the income.

NTLR credit

The WHT suffered appears to have been calculated incorrectly. The treaty rate and domestic rates are both 10%, therefore withholding tax of £200k should have been incurred overseas. Aspen Ltd should be able to recover the excess £100k incurred from the overseas tax authorities.

The DTR is calculated in regard to the WHT that should have been withheld:

- overseas tax = 2m x 10% = 200k
- UK tax = 2m x 19% = 380k

Therefore withholding tax capped at 200k.

The tax NTLR debits and credits Aspen should be shown seperately so the foreign tax suffered can be offset against the UK tax on the interest income.

The £2m of NTLR debits can then be offset againsts Aspen's

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trading profit.

Royalties

The treaty rate will overide the domestic tax rate so the royalties should have been subject to tax at 5% not 10%. Aspen can therefore recover £50k from the local tax authorities.

DTR capped at lower of:

- overseas tax = £50k
- UK tax = 1m x 19% = 190k

DTR is therefore £50k

Overseas sales

DTR is given on the net profit as all expenses must be taken into account.

DTR lower of:

- overseas tax = 600k
- UK tax = 6m x 30% x 19% = 342k

Therefore DTR given for £342k.

Aspen has total DTR in the year of £592k (342k + 50k + 200k).

Aspen should claim up to £3,115,789 of group relief to ensure it can offset its full DTR of £592k against its tax liability.

Juniper

Juniper should include its gross NTLR credits of £5m.

DTR of £500k is then available to it.

As with Aspen its NTLR credits and debits should be shown seperately. To allow for the DTR. Although Aspen has no other profits to offset the debits against so it losses the DTR and had £500k NTLR deficit available for group relief.

Rowan

Rowan can get DTR for the lower of:

- overseas tax = 200k
- uk tax = 4m x 19% = 760k

Therefore 200k

Claim group relief up to 1,052,632.

Losses

Utilise b/f trade losses first then

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

---------DO-NOT-EDIT-THIS-DIVIDER----------

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

Answer-to-Question-_4_

The incorporation of Antelope Ltd would not have any CT implications.

Companies are in a capital gains group if they are owned 75% directly or more than 50% indirectly by the same company.

Zebra plc, Antelope, Impala and Propco 1 were in a capital gains group as at as Zebra plc owned at least 75% of the share capital in the companies.

Propco 2 is not in the capital gains group as Zebra only owns 45% of it indirectly. Allenby plc is also not in the capital gains group as only 5% is held indirectly by Zebra.

Therefore the capital assets being the office buildings, shares in Allenby plc and pre-2002 intangible fixed assets (treated as capital as pre-2002 assets) would have transferred to Antelope at no gain, no loss and Antelope would have inherited Impala's indexed base cost in the assets i.e. original cost and acquisition date. No capital gains would hav arisen on the transfers at 1 February 2021.

The other assets being stock, cash and trade creditors are not capital assets.

As Propco 2 and Antelope are not in a capital gains group, the purchase of the Swindon factory will give rise to a chargeable gain.

Propco 2 and Antelope are not connected companies, there is less than 51% common control between the companiues, therefore the actual proceeds are used instead of the market value proceeds.

A chargeable gain of £1,311,000 will arise on the sale of the Swindon factory in Propco 2 Ltd.

Proceeds				2,800,000		
Cost				(1,000,000)		
Unindexed cost				1,800,000		
Indexation (1m x 0.489)				(489,000)		
Chargeable gain				1,311,000		

Indexation factor = (278.1 - 186.8) / 186.8 = 0.489 (to 3dp)

The sale of the shares in Antelope on 31 March 2021 will give rise to a chargeable gain on disposal in Impala Ltd. A chargeable gain of £65m (£120m - £55m) would arise. Indexation is not available to reduce this gain as the company was set up post Dec 2017.

The substantial shareholding exemption applies where a shareholding of at least 10% that has been held for at least 12 months in the last 6yrs in a trading company is being disposed of.

The substantial shareholding exemption will not apply to exempt any gain arising as Impala as Impala has not held the shares in Antelope for at least 12 months.

A degrouping charge arises where assets have been transferred at no gain, no loss to a company and the company leaves the group with the assets transferred to it within 6yrs of the transfer.

Where a degrouping charge arises it is assessed in the vendor as part of the share proceeds sale.

Therefore a degrouping charge would be expected to arise in this case as Antelope is leaving with the office building, shares and IFAs transferred to it at no gain, no loss within the last 6yrs.

However, a degrouping charge can be reduced where the assets were transferred at an undervalue which is the case here as the assets were transferred at a total value of £27m (15m + 10m + 2m) when their market value was £95m (35m + 50m + 10m).

Any degrouping charge that arises should therefore be able to be reduced to nil as it is reasonable to assume that the uplift in value, being the market value of the assets, is reflected in the share value since the shares are being sold for £120m when they were worth £55m on incorporation. Including a degrouping charge would therefore result in double taxation.

The reduction in the degrouping charge will need to be claimed within 2 years of the accounting period end i.e. by 31 March 2021.

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

---------DO-NOT-EDIT-THIS-DIVIDER----------

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

Answer-to-Question-_5_

1)

The corporate interest restriction (CIR) rules must be considered by the Nile group.

The worldwide group for CIR purposes is made up of the ultimate parent company and its consolidated subsidiaries. Therefore Nile Ltd (Nile), Nile Retail Ltd (NRL) and Nile Fashion Ltd (NFL) are a worldwide group for CIR purposes as Nile is the ultimate parent and NRL and NFL are its consolidated subsidiaries.

The CIR rules can restrict a group's deductions for interest expense in excess of £2m.

The amount of interest that is disallowed is the excess of a group's aggregate net interest expense (ANTIE) over its interest capacity.

The group's ANTIE is £36m.

There are two ways to calculate the interest allowance of a group:
- the fixed ratio method (this is the default method); and
- the group ration method (an election must be made to use this).

Fixed ratio method

The fixed ratio method calculates the interest allowance as the lower of:

- a fixed percentage, 30%, of the worldwide group's aggregate tax-EBITDA; and
- the fixed ratio debt cap.

The fixed ratio debt cap is equal to the adjusted net group interest expense (ANGIE) plus any excess debt cap for the previous period.

As this is only a UK group and there are no excess amounts carried forward, the ANGIE is equal to the ANTIE of £36m.

Therefore for the Nile group, the interest allowance is the lower of:

- 30% x £90m = £27m; and
- £36m.

The fixed ratio debt cap method gives an interest allowance of £27m.

Group ratio method

The group ratio method calculates the interest allowance as the lower of:

- the group ratio percentage of the aggregate tax-EBITDA; and
- the group ratio debt cap.

The group ratio percentage is calculated as the qualifying net group interest expense divided by the group EBITDA.

The qualifying net group interest expense is equal to ANGIE,

which in the case of the Nile group is equal to the ANTIE, less any amounts relating to transactions with related parties, results-dependent securities or equity notes.

As Mrs Alpha and Beta Ltd are related parties the interest on the loans from them is deducted when calculating QNGIE to get a QNGIE of £20m(£36m - £16m).

The group ratio debt cap is equal to QNGIE plus any excess debt cap brought forward (assumed to be nil).

Therefore under the group ratio method the Nile group has an interest allowance of the lower of:

- £20m/£90m x £90 = £20m; and
- £20m.

The group ratio method gives an interest allowance of £20m.

Since the group ratio method gives an allowance less than the fixed ratio method it would not be beneficial for the Nile group to elect into using the group ratio method.

The group's interest capacity would therefore be £27m under fixed ratio method giving rise to a disallowance of £9m (£36m - £27m).

The excess debt cap under the fixed ratio method of £9m can be carried forward year on year until it is used.

The interest disallowance of £9m is carried forward indefinetely.

2)

Appointment of a reporting company

If the Nile group decides to submit a full Interest Restriction Return (IRR), it will need to appoint a reporting company.

The reporting company must be subject to UK CT for at least part of the period and not be dormant.

The appointment is automatically rolled forward unless revoked.

A notice must be given to HMRC within 12 months of the end of the period of account i.e. by 31 March 2022 and must specify the first period it relates to i.e. the year ended 31 March 2021.

The notice should contain a list of consenting companies and a statement that those companies make up at least 50% of the UK taxable companies in the group.

Submission of IRR

If a reporting company is appointed then an IRR must be submitted.

The filign deadline is 12 months from the end of the period of account of the worldwide group i.e. by 31 March 2022 (or 3 months from the date of appointment if HMRC appoints the reporting company).

An IRR must contain details of the ultimate parent, the UK companies, a statement of calculations, how any restrictoon is

allocated, any elections and a declaration.

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

---------DO-NOT-EDIT-THIS-DIVIDER----------

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

Answer-to-Question-_6_

1)

The patents and trademarks were capital assets in Archer IP Ltd as they were created pre 1 April 2002.

As the trademarks were acquired by Archer UK Ltd from a related person (but not a member of the same group as Archer IP Ltd is Bermudian tax resident) the assets will be treated as intangible fixed assets (IFA).

The assets are non-relevant IFAs and amortisation is allowed in line with the accounts or an election can be made to amortise on a 4% straight line basis.

<u>Patents</u>

The patents are amortised on a straight line 10 yr basis, therefore in the year ended 31 December 2020 it there will be amortisation of £5m (£100m/10 x 6/12).

The straight line election would create a deduction of £2m (£100m x 4% x 6/12).

It would not be beneficial to elect for the 4% straight line treatment for the patents.

Trademarks

The trademarks are not amortised, therefore electing for the straight line treatment in the year ended 31 Dec 2020 would have been beneficial as a deduction of £1m (£50m x 4% x 6/12) would be available.

Goodwill

Goodwill of £1,000m arise on the purchase of the trade and assets.

As the goodwill arises as part of a business acquisition from a related party which includes qualifying intellectual property (IP), the trademarks and patents, a writing down allowance of 6.5% can be claimed on the cost of the goodwill.

The cost of the goodwill is capped at 6 times the qualifying IP.

Therefore the cost of goodwill qualifying for the writing down allowance is £900m (£6 x (£100m + £50m)).

A tax deduction of £29.25m (£900m x 6.5% x 6/12) is available in the year ended 31 Dec 2020.

2)

	YE 2020	Movement	YE 2021
NBV	50,000,000	(50,000,000)	-
TWDV	49,000,000	(1,000,000)	48,000,000
Gross DTA/(DTL)	(1,000,000)		48,000,000
Tax effected	(190,000)		9,120,000