(Ensure this number matches your candidate number on your desk label and on your candidate attendance form)

Chartered Institute of Taxation
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☐ Tick box if you have answered in accordance with Scots Law
☐ Tick box if you have answered in accordance with Northern Ireland Law

Please tick which Advanced Technical Paper you have attempted (if not already ticked below)

☐	Taxation of Owner-Managed Businesses	☐	Taxation of Individuals
☐	Domestic Indirect Taxation	☐	Cross-Border Indirect Taxation
☐	Inheritance Tax, Trusts & Estates	✓	Taxation of Major Corporates
☐	Human Capital Taxes		

☐ Please tick here if you have used an extra answer booklet (ensure you attach your second answer booklet to the first using a treasury tag which will be provided).

Advanced Technical

You must ensure that the Advanced Technical Papers chosen are not the same as the corresponding Awareness Modules you have sat or will be sitting.

Instructions

Your script will be scanned electronically. Failure to comply with these instructions may lead to your script not being marked. You must:

(a) Complete the details on this page and in the booklet using BLACK or BLUE ballpoint pen only.
(b) Write on both sides of the page.
(c) Not write in the margin areas indicated.
(d) Start a new page for each question you answer and indicate the question number in the box provided at the top of each page.
(e) Not remove any pages from this answer booklet or damage it in any way.

Please do all of the above before the end of the examination.

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QUESTION NUMBER 3

WTC Med Ltd

PBT	8,945,000
Add:	
Depreciation (W1)	450,000
Amortisation (W2)	150,000
Register patents (W4)	-
Less: RDEC (W2)	(1,045,000)
R&D FYA (W3)	(3,000,000)
Turnover (W5)	(20,000,000)
TTP	(14,500,000)
RDEC (W2) [Losses]	9,500,000
TTL	(5,000,000)
Patent income tax	9,473,684
~~TTP~~	~~4,473,684~~

~~Corporation tax~~

Therefore the loss can be offset against the patent income and the rest is due to be paid under QIPs on 14th January 2019, 14th April 2019, 14th July 2019 and 14th October 2019

QUESTION NUMBER 3

(W1) Depreciation is specifically disallowable for corporation tax purposes as capital allowances are claimed

Amortisation of intangible fixed assets are disallowed as it is a post 1 April 2002 asset.

(W2) RDEC is not included in profit before tax as it is a type of tax.

It is used when calculating the companies taxable profit.

There are 7 steps for RDEC and one of them is offsetting against corporation tax gains.

Therefore, if WTC Med Ltd is profit making, its profit will be offset against the RDEC.

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QUESTION NUMBER 3

(W3) The money spent on acquiring specialised machienery can be seen to be part of the R&D and therefore R&D first year credit is available.

Therefore, a deduction of 100% is allowable

(W4) Registering patents is an allowable cost as it is wholly and exclusively trade related.

(W5) PAYE and class 1 NIC is allowable on the assumption that it is paid within 9 months of the year end

(W5) The company has made an election for patent profits to be taxed at 10% as part of the patent box scheme.

QUESTION NUMBER 3

The formula is RP x (MR - IPR)/MR

20,000,000 x (19% - 10%)/19%
= 9,473,684

This is added to the taxable profits.

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QUESTION NUMBER 3

Ms Pharma Plc

Dividend income (W1)	17,300,000
Admin expenses (W2)	(560,000)
Impairment of loan (W3)	–
Property lease	
Premium	~~(900,000)~~
Adjustment for income	(582,900)
	16,157,100

Corp tax at 19%	3,069,849

Payable in four instalments of 767,462 on 14th January 2019, 14th April 2019, 14th July 2019 and 14th October 2019.

Both tax returns must be submitted electronically to HMRC by 30 June 2020.

QUESTION NUMBER 3

(W1) Dividend income is not from a connected company as only 25% ordinary share capital held therefore, no exemption applies and it is taxable.

(W2) Legal fees in relation to rights issue and aborted acquisition due diligence fees are capital in nature and therefore disallowed for corporation tax purposes.

(W3) The impairment is from a connected company loan and therefore no deduction is available under loan relationship rules.

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QUESTION NUMBER | 3

(W4) Premium

5,000,000 x (10-1) x 2% = 900,000

less: cost [35m x 900k / (5m + 25m + 15m)] (700,000)

less: IA (700k x $\frac{278.1 - 265.5}{265.5}$) (32,900)

167,100

750,000 - 167,100 = 582,900

Premium is not included in income and therefore no adjustment required for capital element

Adjustment for rent received in the year in line with lease adjustment

QUESTION NUMBER

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QUESTION NUMBER 5

BRIEFING NOTE

To: corporate Finance partner
From: Tax Manager
Date: xx/xx/xx
Subject: Tax due dilligence for Board of olympian plc

Delta shopping centre

The acquisition of the shopping centre and issue of share capital have no corporation tax issues.

The transfer of Delta shopping centre to Titan Delta 2 Limited is on a no gain no loss basis S.171A TCGA 1992 as both companies are in a capital gains group by virtue of being wholly owned subsidiaries of Titan plc

The property is transferred at base cost of £100 million.

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QUESTION NUMBER 5

Value shifting and depreciatory transactions may need to be considered in further detail.

The transfer has no stamp duty implications as it is exempt due to the intra-group transfer.

However, if the property leaves the group within 3 years of the transfer, stamp duty will be due.

0 - 150,000	0%	0
150,001 - 250,000	2%	2,000
250,001+	5%	1,2487,500
		12,489,500

This will be payable within 30 days of the transfer.

The funds borrowed by Titan Delta 2 Limited constitute a loan relationship as it is a money debt arising from the lending of

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QUESTION NUMBER 5

money. Interest will be allowable under loan relationship rules.

The dividend from Titan Delta Ltd to Titan plc is exempt as it is a dividend to a controlled company (more than 50% ownership).

The sale of Titan Delta Limited will give rise to a chargeable gain of £100million.

The company will not qualify for substantial shareholding exemption ("SSE") as of the three conditions:

(1) Atleast 10% ordinary share capital
(2) Owned for 12 months in a 6 year period
(3) A trading company or a holding company of a trading company

The trading condition is not met.

QUESTION NUMBER 5

The gain will be chargeable in the company's next tax return.

Chi shopping centre

The development of the shopping centre can be used as the base cost when the shopping centre is sold.

There is a chargeable gain on the sale of the shopping centre.

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QUESTION NUMBER 5

Proceeds	45,000,000
less: cost	(10,000,000)
chargeable gain	35,000,000

£35million less indexation allowance will be payable.

Titan plc can roll this gain into any company in the worldwide gain group who has a capital loss.

Alternatively, the gain can be rolled over against the base cost of any qualifying asset within a four year period, one year before disposal and two years after. The company has four years to make this election.

The distribution of £35million will be treated as a dividend and exempt from UK corporation tax as it is to a controlled

QUESTION NUMBER 5

company.

The £10 million distribution is when the company is in liquidation and treated as a capital distribution rather than income.

SSE is not available as it is not a trading company and therefore the gain is taxable.

Stamp duty arises on the acquisition of Titan Chi at 0.5%.

40,000,000 x 0.5% = 200,000 payable 30 days after the transaction.

It is advised to obtain HMRC transactions in securities clearance for some of the transactions listed above.

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QUESTION NUMBER 6

FILE NOTE

A lease can fall into the criteria of a long funding lease if it is over 5 years.

Finance leases must be over 7 years and operating leases over 5 years. In this case, this criteria is met.

Now, we must look at the long funding lease criteria:
(1) It is a finance leave
(2) Do the present value of minimum lease payments equal to 80% of the fair value of the plant and machinery
(3) Lease term is more than 65% of the remaining useful economic life

This test is not met as ~~it is a~~ the present value of payments is 37.5

QUESTION NUMBER 6

million which is 80% of 30 million. ~~and it is a finance lease~~

Therefore capital allowances are ~~not~~ available for this lease.

The lease would be treated as a long life asset ~~and det~~ in the special rate pool written down at 8%.

TWDV 1.1.19	SRP
Addition	30,000,000
WDA@8% x 6/12	(1,200,000)
TWDV 30.06.19	28,800,000

Net book value (NBV) is 29,400,000

TWDV is less than NBV and therefore there is a deferred tax asset of 600,000

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QUESTION NUMBER | 6

Deferred tax is ~~the~~ a timing different on the assets.

In order to recognise a deferred tax asset, the adjustment and tax refund must be reliastic.

The company should be a going concern.

Deferred tax asset arises when the TWDV is greate than the net book value.

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QUESTION NUMBER | 1

To: Mary Falcone
From: Hiro Stein
Date: X November 2019
Subject: RE group financing

Dear Mary

I outline the UK tax implications of the financing proposals below

<u>Loan to Kestrel US Inc</u>

The loan to Kestrel US Inc will be treated as a loan relationship as it is a money debt derived from the lending of money

The interest on the loan will be taxed as a non-trade loan relationship credit, as it is interest income

As the loan is in a foreign currency, it will give rise to

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QUESTION NUMBER | 1

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foreign exchange differences. Those will also be treated as non-trade loan relationship debits.

~~under disregard re~~

The ~~loan~~ fx volatility will be the same whether in the holding or dormant company. However, the results of the holding company may be negatively impacted from a management perspective.

If the money is lent to the dormant company, it will be liable to prepare and submit corporation tax returns which may increase administrative costs.

The loan may also be deemed to be for unallowable purpose as it may not be deemed to be for bona fide commercial reasons and may be seen to

QUESTION NUMBER | 1

to be obtaining a tax advantage.

Dix-Huit SA

The demoninated loan is seen to be a derivative contract if it is a relevant contract, meets accounting conditions and is not an excluded contract.

The FX and interest will be treated as non-trade loan relationships in the same manner as for Kestrel.

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QUESTION NUMBER | 1

The tax treatment for derivatives usually follows the accounts. Therefore, the fx will be taxable.

However, disregard regulations ignore the FX on derivative contracts for tax returns and therefore the FX will have no impact on the tax payable.

There may be withholding tax on both loans but as both companies have double tax treaties with the UK, the tax could be reduced to nil under the OECD model if there is a MAP.

France is part of the EU so there will be no interest under EU interest and royalties derivative.

QUESTION NUMBER | 1

The group may need to consider whether there are any transfer pricing issues if the loans are not at arms length.

CIR may also be applicable due to high interest on the loans.

Please let me know if you have any queries regarding the above.

Kind regards,
Hiro Stein

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QUESTION NUMBER 4

1) ~~???~~ REPORT FOR TIM FOX

CIR We follow the 6 steps to see if there is a disallowance.

step 1: Worldwide group

Expert Sales plc is the ultimate parent of the worldwide group.

Step 2: Calculate ANTIE

ANTIE = ANTIE - ANTII

=

- Interest on loans in the group are not included as they net off
- Foreign exchange is not included.

45,000 - 8,000 - 5,700 = 31,300

ANTIE = 31,300,000

step 3: tax EBITDA

36,000 + 4,500 - 3,000 = 37,500

Tax EBITDA = 37,500,000

QUESTION NUMBER | 84

Step 4: Interest allowance

Fixed ratio method:
Lower of 30% tax EBITDA and
ANGIE + EDC PP
11,250,000 ; 50,000,000

Fixed ratio method = 11,250,000

Group ratio method

Lower of V% tax EBITDA and
QNGIE + EDC PP

$V\% = \frac{QNGIE}{Group\ EBITDA} = \frac{50,000,000}{160,000,000}$

11,718,750 ; 50,000,000

Group ratio method = 11,718,750

Lower of both methods : 11,250,000

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QUESTION NUMBER | S 4

Interest allowance = 11,250,000

Step 5: Interest capacity

Higher of 2,000,000 and interest allowance

Interest capacity = 11,250,000

Step 6: Disallowance = ANTIE - IC

31,300,000 - 11,250,000
= 20,050,000 disallowance in the year.

This will be carried forward and potentially offset against future ~~interest for~~ reactivations.

The disallowance will need to be in the nominated company's tax return whereas the IRR return must be filed by the reporting company.

QUESTION NUMBER 4

2) UK tax losses can be offset against

1. current year profits
2. carried back 12 months
3. carried forward
4. group relieved

The losses are split between pre 1 April 17 and post April 17. Post 1 April 2017 losses are more flexible and can be offset against a wide range of profits.

It is beneficial to use pre 1 April 17 losses first as they are more restrictive.

By virtue of being wholly owned subsidiaries, all companies are in a loss group (>75% ordinary share capital). Losses can only be surrendered to UK tax resident companies.

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QUESTION NUMBER 4

	£'000 ESP Retail	£'000 ES online
PBT	50,000	2,000
Pre 1 April trading losses	(11,000)	
	39,000	2,000
CY surrender from Expert sales		(2,000)
NTLR deficit	(3,000)	
Trading losses	(4,500)	
~~CY surrender~~ STET	(22,500) CY surrender from expert sales	
~~from expert sales~~	~~(9,000)~~	
Capital losses	(9,000)	
	Nil	Nil

Deductions allowance is allocated to ESP Retail.

5 million + 1/2 (50 million − 5 million)
= 27,500,000

Deductions allowance is only for brought forward losses (pre and post 1 April 2017).

QUESTION NUMBER | 4

It is more beneficial to offset non-trade loan deficits before trading losses.

Current year group relief has no restriction

Post 1 April 17 capital losses can be offset against total income.

LOSS SCHEDULE

Losses c/fwd	Post April 17
Capital losses	5,000,000
Expert Sales plc	(37,000,000)
surrended to ES	2,000,000
" to ESP retail	22,500,000
c/fwd losses	
post April 17	12,500,000

QUESTION NUMBER 4

3) Transfer pricing regulation assess whether a transaction is at arm's length.

We need to look at the thin capitalisation in order to determine whether there is excess debt over equity in the group.

If so, the group can put a ATCA in place with HMRC in order to ~~deter~~ agree an arms length rate.

As both other jurisdictions follow the OECD model, a bilateral APA can be agreed in accordance with MAP and therefore both jurisdictions can agree the arms length rate.

If there is no double tax treaty with MAP, an ~~ta~~

QUESTION NUMBER 4

unilateral agreement can be put in place but this only ties the UK to HMRC, not the other jurisdictions.

Under the OECD model, Germany can claim for any transfer pricing adjustments to be mirrored as it is a member of the EU

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QUESTION NUMBER 2

Statve LLP
Address

Erica Johnson
Address

Date

Subject: Transfer pricing legislation impact on proposed restructuring.

Dear Erica

I am writing to outline the transfer pricing impact on the proposed restructuring.

Transfer pricing

Transfer pricing applies to large companies. The legislation ensures that transactions are at an arms length rate and one of the main purposes is not the avoidance of tax.

QUESTION NUMBER 2

Based on the OECD model, there are five different methods which can be used to determine an arms length price.

They ~~att~~ use the benchmarking method to ensure they are comparable.

~~Statute LLP~~ Pop plc

~~Statute LLP~~ Pop plc is a large company based on it's annual turnover of £300 million and 5,000 employees.

Therefore, any transfer pricing adjustments would need to be reflected in it's corporation tax return.

Indian company

The indian company would not be a CFC for tax purposes

QUESTION NUMBER 2

as it is not controlled by UK persons.

The purchase of the concentrate of the drinks from the UK would be subject to transfer pricing.

In order to ensure that the payment is at arms length, it could use controlled unit price method in order to compare what it would charge a third party consumer.

However, they may not ~~have~~ sell the product to a third party consumer. Therefore cost plus may work better.

The company will look at the cost and add an appropriate margin. Benchmarking will need to be carried out to ensure the

QUESTION NUMBER 2

mark up is accurate and this will need to be documented.

There is a penalty of up to £3,000 if the ~~correct~~ documentation is not held for 6 years.

Dutch company

The dutch company will transport drinks worldwide. It must be important to ensure that this does not create an overseas PE in any territories.

An overseas PE will be created if there is a fixed place of business in any overseas territory wholly or partly carried on.
In addition, no agent should be able to conclude contracts in that territory.

QUESTION NUMBER 2

Pop UK Ltd must compare the amount paid to current distributors and ensure that payment to the Dutch company is on an arms length basis.

Resale rights is a good model to use from the legislation as it takes overseas costs into account.

UK company

The UK incorporated company may use controlled unit price (CUP) or cost plus as a method. It can compare what it pays to third party producers.

The UK company may also use the intellectual property in order to construct the facility

QUESTION NUMBER 2

The leasing of this would be a royalty payment as the intectual property is an intangible fixed asset.

~~There is no WHT on royalties on payments to UK companies.~~

Payments to UK companies, from UK companies, of royalties do not incur withholding tax.

Any payments by India are likely to be 20% of withholding tax.

However, if they have a double tax treaty with the UK which follows the OECD model and contains MAP, no WHT is due as the treaty states it is nil.

QUESTION NUMBER 2

The group would need to ensure that transfer pricing documentation is in place.

This must be kept for 6 years in order to ~~avoidance~~ not incur any penalties.

The group can agree the arms length prices with HMRC through a bilateral APA. This must be agreed with HMRC before any rates are charged.

As it is a large company, company by company reporting and SAO reporting requirements also apply. Both of these thresholds are met.

The company may need to publish a tax strategy, which is available on the internet to the public, and this should

QUESTION NUMBER 2

contain the transfer pricing information for the group.

I hope the information has been useful but please contact me for further information.

Yours sincerely
Tax Manager.

QUESTION NUMBER

QUESTION NUMBER

QUESTION NUMBER

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