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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 | **381** | **2074** | **3267** |
| Section 2 | **762** | **3699** | **4459** |
| Section 3 | **530** | **2606** | **3266** |
| Section 4 | **573** | **2929** | **3863** |
| Section 5 | **520** | **2548** | **3067** |
| Section 6 | **809** | **3780** | **4579** |
| Total | **3575** | **17636** | **22501** |

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Answer-to-Question-_1_

Adjustments to profits for the year ended 31 December 2020

| | £ | £ |
|---|---|---|
| Profit before tax | | 8,864,000 |
| Add back | | |
| - Interest Payable (NTLR) | 750,000 | |
| - Depreciation (Capital) | 5,000,000 | |
| - Accounting loss on disposal (Note 1) | 75,000 | |
| - Legal Fees (Acquisition - Capital) | 80,000 | |
| Less Estimated RDEC (Note 2) | (100,000) | |
| Add RDEC (Recalculated) (Note 2) | 142,350 | |
| Less Hire Purchase (Note 3) | - | |
| Total adjustments | | 5,947,350 |
| Trading Profits (Pre CAs) | | 14,811,350 |

Adjustments to profits for the year ended 31 December 2020

| | £ | £ |
|---|---|---|
| Trading Profits | | 14,811,350 |
| Less Capital Allowances (Note 4) | | (5,132,806) |
| NTLR Deficit | | (750,000) |
| Chargeable Gains | | - |
| Total Profits | | 8,928,544 |
| Less Group Relief Claim from Nimment(CY Losses) | | (1,500,000) |
| Total Taxable PRofit | | 7,428,544 |
| Corporation Tax Liability @ 19% | | 1,411,423 |

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| Less RDEC | (142,350) |
| --- | --- |
| CT Payable | 1,269,073 |

Only amounts which were generated after acqusiistion of Nimment can be group relieved

Note 1 - Chargeable Gains
Loss on Disposal = £75,000
NBV = £175,000
Therefore PRoceeds = £100,000

Chargeable Gains Calc

| Proceeds | £100,000 |
| --- | --- |
| Less Cost | (£225,000) |
| Loss on Disposal | £(125,000) |

Capital Loss carried forward to next period

Incidental Costs of raising loan finance are trade related and therefore allowable/deductible for tax purposes.

Interest expense to fund working capital and to acquire plant are trade related, therefore no adjustment required.

Group Relief as above

Note 2 - RDEC
In house qualifying expenditure is an allowable expenditure of £300,000. However, in relation to externally provided workers, the amount is 65% of the amount from 1 Jan 2020 to 31 MArch 2020, i.e. 3 months = 3/12 * 1,200k *65% = £300k * 65% = 195k
.For the rest of the year, the amount of RDQE is the lower of the

payment and the cost to the provider - which are assumed to be the same, therefore £900k.

We will disallow the amount of credit already included of "100k and instead include 13% of (195k+900k) = 142,350

Note 3 - Capital element of hire purchase is added back while interest element is allowed.

Note 4 - capital allowances

| | FYA | AIA | MAin | SRP |
|---|---|---|---|---|
| TWDV b/f | | | 14,537,692 | 850,361 |
| Additions | | | | |
| Plant 1 (RDA) | 1,000,000 | 1,000,000 | 1,000,000 | |
| Plant 2 | | | 1,500,000 | |
| Cars | | | | 250,000 |
| Total | 1,000,000 | 1,000,000 | 17,037,692 | 1,100,361 |
| FYA | (1,000,000) | | | |
| AIA | | (1,000,000) | | |
| WDA@18% | | | (3,066,785) | |
| WDA@6% | | | | (66,022) |

Total Capital Allowances = £5,132,806

In relation to hire purchase, since 150k is wholly interest element, it is allowable.

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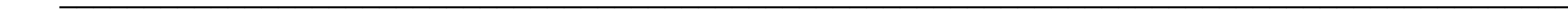
--------------ANSWER-1-ABOVE---------------



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--------------ANSWER-2-BELOW---------------
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Answer-to-Question-_2_

The UK Transfer PRicing (TP) LEgislation under Part 4 of TIOPA 2010 requires the UK tax rules to be applied on the basis of the arm's length provision whenever the UK exchequer could otherwise be disadvantaged, and therefore seeks to stop companies gaining a UK advantage by entering into transactions with connected parties using non-arm's length prices.

It is also to be noted that the rules only automatically apply to large companies. Large companies are defined as those with a turnover exceeding Euros 50million and which has more than 250 employees. As such, in the case of Denaustin :td, it would not be caught by the TP rules prior to 1 January 2021 on the basis that it need not cross these thrsholds.

However, since it is expected that by the end of 2021 that these thresholds would be caught, that Denaustin Ltd would be caught by the TP legislation and would therefore have to make sure that transactions with connected parties (UK and foreign) are made at an arm's length.

JHSE SL would appear to be a connected party for the purposes of the TP rules in this particular case. The UK TP rules only apply to transactions between parties under common control. The definition of control is the power to secure the affairs of the company, by means of shareholding, voting power or other powers conferred by relevant documents (resolutions etc). Therefore the rules apply where one company controls another, or both companies are controlled by the same person.

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On the basis that in this particular case, 60% of the shares of JHSE SL are owned by Denaustin Ltd and that since Juan Herrera owns 40% of the shares in Denaustin Ltd as well as the remaining 40% shares in JHSE SL, transactions between JHSE SL and Denaustin Ltd would be captured by the TP rules.

It is to be noted that Denaustin Ltd provides JHSE SL with a 10% discount on the prices charged to the other retailers. This is most likely not a transaction on an arm's length basis and therefore a TP adjustment will need to be put through in the tax computations of Denaustin Ltd (and potentially a balancing payment from JHSE SL as well). On the basis that this sale to JHSE SL at a lower price implies less turnover, therefore less profit in the books of Denaustin Ltd, it creates a UK tax advantage from this transaction. Any TP adjustment made to make the transaction an arm's lenghth one would be purely for tax purposes and would not impact the accounts or the actual price paid.

Denaustin LTd would have to decide the TP adjustment by looking through the number of TP methodologies available, grouped as transaction methods or transactional profit split. Generally, HMRC prefer the transaction methods as they are based on an arm's length transaction. Similarly the OECD TP Guidelines set out a number of eays to determine the arm's length price, and typically a funtional analysis is appropriate to determine the best method.

In this particular scenario, if we assume that Denaustin LTd also sells to other retailers in  Beavol, there would be a comparable uncontrolled price that Denaustin LTd could use to compare against the price it charges to JHSE SL. In this particular scenario, it is referenced that Denaustin LTd charges a 10% discount on prices to other retailers, and assuming these retailers are also based in BEavol, the correct CUP would be that amount charged to retailers.

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Other methods include the resale price method whereby the actual retail price of the fitness equipments would be used then would be adjusted to compensate JHSE Ltd for the costs incurred and a return for the functions undertaken. If the other retailers referred to in the question are not based in Beavol, this method might be the best one to provide a better estimate as to what the arm''s length price is. Finally the cost-plus method could also be used to determine a markup on the costs incurred by Denaustin Ltd.

Other points to note in this case are that Denaustin Ltd could enter into a bilateral advance pricing agreement over the potential TP adjustments, with the two competent authorities of England (HMRC) and Beavol (which is a qualifying territory) to use the Mutual Agreement PRocess to gain certainty over the pricing of the transaction and avoid the risk of double taxation.

Denaustin LTd would also have to keep records justifying the pricing methodology, including calculation fo the prices, analysis of comparable transactions and the like or otherwise risk bearing penalties.

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--------------ANSWER-2-ABOVE----------------
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--------------ANSWER-3-BELOW---------------

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Answer-to-Question-_3_

Requirement 1

A company is UK tax resident by virtue of being incrporated in the UK (s14 of CTA 2009) or if its central management and control are located in the UK. Subsequently, UK-resident companies are taxed on their worlwide income.

In relation to non-UK resident companies however, they ca also chargeable to UK corporation tax where they carry on a trade of dealing in or developing UK land with a view of disposing of it. But otherwise non-UK resident companies are subject to UK corporation tax to the extent that their profits arise from a UK property business or in respect of a UK permanent establishment that carries on a trade in the UK.

While previously for non-uk resident companies dealing in UK property business had to tax their profits under the income tax regime, from 6 April 2020, the profits of a UK property business are charged to corporation tax rather than income tax. As such, it is no longer necessary to apportion income and expenses when calculating income subject to tax for a particular year.

A non-UK resident company that carries on UK property business is chargeable to ct on all its profits from the business and any profits arising from loan relationships or derivative contracts for the purposes of the business.

It is to be noted that while Kukua Homes SA is a non-UK resident, is has a substantial portfolio of property, all located in the

UK.

Kukua Homes SA's first corporation tax accounting period will commence on 6 April 2020 but will not be required to give notice of chargeability. Moving from income tax to corporation tax is not treated as a disposal event for the purposes of capital allowances and no balancing adjustment should arise in Kukua Homes SA. The TWDV on the pools as at 5 April 2020 will simply carry over to the first corporation tax accounting period begining 6 April 2020.

In relation to the previous property losses, these may be carried forward into the coropration tax regime and offset against the UK property business profits so long as the copany continues to carry on the property business. These loss offset are automativ, may not be disclaimed or group relieved either.

Once the bsuiness ceases, the unrelieved income tax losses lapse and will no longer be available.

Finally in relation to the goodwill, it will become an IFA on 6 April 2020 since the company is now within corporation tax regime and is deemed to be acquired by Kukua Homes SA for its accounting value at that date.

Requirement 2

In relation to the disposal of the blocks of flats, the gains arising on those would be chargeable gains and would be calculated as follows;

Default basis of calculation

| | |
|---|---|
| Proceeds | £45,000,000 |
| Less MV at 5 April 15 | (£35,000,000) |
| Less Indexation Allowance | |

Apr 15 - Dec 17)
0.078x35,000,000 (£2,730,000)
Chargeable Gain 7,270,000

Retrospective Basis of Calculation
Proceeds £45,000,000
Less Cost in April 12 (£30,000,000)
Less Indexation Allowance
(April 12 - Dec 17)
0.155x30,000,000 (£4,650,000)
Chargeable Gain 10,350,000

The gain arising under the retrospective basis may be further time apportioned to the period after 5 April 2015. On that basis, it will bei

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--------------ANSWER-3-ABOVE---------------
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--------------ANSWER-4-BELOW---------------
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Answer-to-Question-_4_

Requirement 1

Rummy Ltd would be potentially generating a chargeable gain on the disposal of the Sheffield factory which would be chargeable to UK corporation tax in the year ended 31 October 2021.

The chargeable gains would be initially calculated as follows;

| | |
|---|---|
| Proceeds | £5,000,000 |
| Option | £500,000 |
| | |
| Less Costs | |
| Initial Purchase Cost | £(400,000) |
| Incidental costs of acquisition | |
| Legal Fees incurred | £(7000) |
| Stamp Duty | £(4000) |
| Enhancement Expenditure | £(25,000) |
| | |
| Unindexed Gain | £5,064,000 |
| | |
| Indexation Allowance (1) | |
| (278.1-120.2)/120.2 | £(540,054) |
| | |
| Indexation Allowance (2) | |
| (278.1-126.8)/126.8 | £(29,825) |
| | |
| Indexed Gain | £4,494,121 |

The Chargeable Gains of £4,494,121 are subject to corporation tax

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however, it is to be noted that Rummy Ltd also bought a large builing for $3m.

Ther eis the possibility that rollover releif might be available in this particular scenario. If some conditions are met including that Rummy LTd used the factory to carry on trade, which can be assumed is correct, and that the factory had been used for the purposes of trade throughout the period, which can be assumed to be satisfied too, and that the proceeds of £5m are used to acquire another qualifying asset (within 1 year prior to disposal or 3 years later) to be immediately used in the trade.

While the purchase of the building falls within the applicable window mentioned above within the conditions, there are some further points to be noted. On the basis that the disposal was on 31 October 2021 and that the new machinery was fully operational from that date, all the conditions appear to be met.

The amount of the chargeable gains that can be rolled over however would not be the full amount as the proceeds recieved of £5m exceed the cost of the new asset invested into.

Rollover relief would only be available for the full amount of £3m. The difference between this amount and the chargeable gains of £4,494,121 is ££1,494,121 which should be immediately chargeable to corporation tax at 19%. However, since Fixed Plant and MAchinery were also purchased in January 2021, which are a depreciatory asset which are also eleigble for rollover relief, the difference could also be rolled over into that purchase, thereby decreasing the gain further to £1,1494,121-£1,050,000 = £444,121 which should be immediately chargeable to CT instead.

However within 4 years of the year in which the gain arises, a provisional claim for rollover relief on the remianing amount can be made, assuming that Rummy Ltd is intending to purchase more qualifying assets.

Requirement 2

In relation to the capital allowances, while no deduction is available (usually) for depreciation of capital assets, tax rules allow instead for a measure of relief under capital allowances.

The capital allowances computation would be as follows;

| | | AIA | MAin | SRP |
|---|---|---|---|---|
| TWDV b/f | | | 58,000 | |
| Additions | | | | |
| - Office Furniture | | 158,000 | | |
| - Lorries | | 150,000 | | |
| Disposal | | | (100,000) | |
| Total | | 308,000 | (42,000 | - |
| AIA | | (308,000) | | |
| Balancing Charge | | | 42,000 | |
| TWDV c/f | | - | - | |

Total capital allowances claimed here are £266,000. In addition, capital allowances can b claimed on structures and building s at a rate of 3% from 6 April 2020 when they are brought into use.

During the year, SBAs would be available on the the factory throughout the year at 3% of £400k = £12,000. Additionally since the Doncaster building was brought into use too, there will be

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SBAs on this building too for part of the year from 1 Sept to 31 October of £3m * 2/12 * 3% = £15,000.

As such the total capital allowances would be £293,000.

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--------------ANSWER-4-ABOVE---------------
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--------------ANSWER-5-BELOW---------------
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Answer-to-Question-_5_

Under the International Movement of Capital (IMOC) regulations, the UK parent of an international group has to report certain transactions to HMRC within 6 months of them taking place. The transactions are reportable if the transaction value exceeds £100m. These transactions will be aggregated if they form part of a series. Examples of such transactions include issue of shares/debenture by a foreign subsidary or the transfer of shares/debentures  from the reporting body to the foreign subsidiary.

In this particular scenario, while the purchase of shares from a third party for £250m will not fall within the net of the IMOC rules since it is a transaction with an unconnected third party, the subsequent transfer of those shares from Crecie plc, the reporting body for the purposes of the IMOC rules, to Preston Australia Pty Ltd would be caught by these rules. A ssuch within 6 months of 30 September 2021, the transaction has to be reported to HMRC under the IMOC rules.

The report should include full descriptions including the name of the subsidaries (Preston Australia Pty Ltd and Creci Australia Pty Ltd), the date on which the transaction took place (30 September 2021), the reason for this transfer and an estimate of the impact of this transaction on the liability to tax in the UK and any other details of the relevant transaction and explain the UK tax consequences. A failure to report a transaction will give rise to a penalty of up to £300 plus £60 per day of default. An IMOC report should be submitted to HMRC to mitigate any potential penalties.

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In relation to the Senior Accounting Officer (SAO) rules, an SAO needs to be appointed and be repsonsible for ensuring the company has adequate tax accounting arrangements if the company is qualifying for the SAO rules purposes.

A company is qualifying if it is UK incorporated in the preceding financial year alone and (together with other UK companies in the same group) has turnover of more than £200m or balance sheet total (gross assets) of more than £2billion. As in this scenario, annual UK revenues are more than £200m, Crecie plc would be caught by the SAO rules.

The main dutty of Peter Denny as the SAO would be to take reasonable steps to ensure that the company establishes and maintains appropriate tax accounting arrangements. He would have to monitor the arrangements and identify the areas requiring improvement in the tax accounting.

The company must notify HMRC of the identity of the new SAO for the Crecie plc group by nine months after the year end. Failure to notify the name of the SAO will result in penalty of $5000 for the company, per group but the penalty will not be carged where there is a reasonabl e excuse for failure to comply.

The SAO is required to certify the accounting system in operation are adequate and specify the nature of any inadequacies to companies house by nine months after year end. He must take all reasonable steps to ensure each qualifying company establishes and maintains accounting system adequately for relevant taxes (CT, VAT, customs...).

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

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--------------ANSWER-6-BELOW---------------
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Answer-to-Question-_6_

Should Moy Ltd purchase Kuch GmbH group, there are various considerations that it would have to make in relation to its company tax return, including in relation to CFCs.

The aim of the CFC rules are anti-avoidance and is to prevent UK resident companies  diverting and keeping profits outside the UK tax net through subsidiaries. A CFC is a company which is not a resident in the UK, which would include all 3 companies of the Kuch group except Kuch Ltd, and is controlled by a UK resident person - once Moy LTd acquires all the shares of Kuch GmbH, it would effectively control all 4 companies in the group.

As such for each company, consideration will need to be given to the rules.

In relation to Kuch GmbH based in Germany, we first establish that it is a CFC since it is more than 50% owned by My Ltd once acquired. We would then have to consider the exemptions potentially applicable to the profits generated by Kuch GmbH. Firstly it could potentially fall within the Exlcuded Territories Exemption as it is in fact within the simplified scope for ETE list. Furthermore, on the basis that the tax rate in Germany is much higher than the uk (30% vs 19%), the tax exemption would potentially apply too in the future. The low profit margin will not apply as the German subsidiary has a margin of 45% but the exemption applies when the profit margin does not exceed 10%.

Specifcally in relation to the dividend, consideration will need to be given as there might be WHT imposed locally in Germany

though the OECD MOdel treaty if applicable would limit it to 5% since Moy LTd would have a 100% holding. Dividend would also fall within one of the exemptions and not be subject to UK corporation tax.

In relation to Kuch Ltd, the CFC rules are not applicable as it is a UK company. However, consideration would need to be fiven to the pre-entry losses rules. While Kuch Ltd has brought forward losses, firstly any pre-1 April 2017 losses would be restrictive andbe automatically releived against future profits (group relief would not be available to begin with). In relation to post 1 April 2017 losses, those generated prior to the acquisition by Moy Ltd cannot be group relieved as they are pre-entry losses. They can only be utilised against the future profits of Kuch Ltd only. They should however be available for group relief to other member do the Kuch group relief group prior to the acquisition. There will be further restrictions on the b/f losses up to the deductions allowance allocted to the company (max £5m) and 50% of amounts over and above.

In relation to Kuch Zrt, the CFC rules would be applicable again. Considering the available exemptions, Hungary does not fall within the Exempt Territories list therefore that exemption would not be applicable. The tax rate in Hungary being 9%, CT liability would be £337,500 compared to £712,500 in the UK. Since that amount is only 47% of the CT payable in the UK, the tax exemption would also not be applicable (not 75%). The profit margin of the Hungary subsidiary would be 15% which is above the 10% to be eligible for the low profit margin exemption and since the profits exceed £500k, the low profits exemption would not apply either. The exempt period exemption might apply on the basis that Kuch Zrt might have come under the CFC rules for the first time - as such for the first 12 months, Kuch Zrt might be exempt from CFC charge but it should expect to fall within the charge in the following year.

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In relation to Kuch BV, since the profits are only £30k, it will most likely fall within the low profits exemption and will therefore not be subject to a CFC charge on those profits.

Non-statutory clearance can be obtained HMRC in advance to make sure that the position taken by the company in relation to the CFCs are flagged to HMRC and therefore the risk of incorrect return can be mitigated. It is to be noted that losses of the group cannot be utilised to offset against the CFC charges.

Should the profits of any subsidiaries not eb exempt, they would need to go through a gateway to be subject to CFC charge.
The applicable gateways are the profits attibutable to UK activities, Non-trading profits finance gateway, the solo consolidation, the captive insurance and the finance company gateway,

Operating margin of 45% and pays CT on Germany of 30% (CFCs?)
TP?
Dividend treatment?

Trading losses can be used in that company (pre-entry trading losses) and can be surrendered to other companies in Kuch group. But wait 5 years to surrender to Moy LTd

CFCs? MArgin?

MAnagement services provision - amr's length - TP?