The Chartered Institute of Taxation

Awareness

Module C Corporation Tax

May 2021

Suggested answers

Answer 25

		Main pool	Special rate pool	Allowances	
Tax wdv b/f		126,400	28,750		
AIA qualifying addition	18,100				
AIA claimed	(18,100)	-		18,100	1
FYA addition	21,400				
FYA claimed	(21,400)			21,400	1*
Disposal – proceeds		(88,100)			1
		38,300			
Writing down allowance					
18%		(6,894)		6,894	1
6%			(1,725)	1,725	1
Tax wdv c/f		31,406	27,025		
Total allowances				£48,119	

**Lose if restrict to 60% business use*

Answer 26

Snow 4 Ltd is required to pay its tax liability for the period ended 30 June 2021 in instalments as:

- Its augmented profits of £720,000 (dividend from related 51% group company is ignored) exceed the profit threshold of £562,500 (£1,500,000 divided by 2 (total related 51% group companies) pro-rated for 9 month accounting period);
- It was large the previous year (augmented profits of £900,000 exceed the threshold of £750,000); and
- Its Corporation Tax liability exceeds £10,000.

1 mark for each underlined point

Answer 27

		£		
February 2021: Sale of leasehold	Net proceeds	900,000		
	Original cost (no held over gain deducted)	(695,422)		1
	Leasehold – 40 year reduced to 37 years			
	£710,000 x 93.497/95.457			
			204,578	1*
September 2017: Sale of freehold	Deferred gain held over			1**
	Proceeds	600,000		
	Cost	(240,000)		1
	Indexation allowance			
	(275.1-163.5) / 163.5 = 0.683	(163,920)		1
			196,080	
Total gains			£400,658	

**For no indexation calculation on this disposal (purchased Jan 18)*
***For showing separately as a deferred gain coming back into charge, rather than deducted from base cost of leasehold property*

Answer 28

Borrowing costs on loans taken for a trade purpose are deductible in the calculation of trade profits. 1

Any other borrowing costs are non-trading loan relationship debits (unless they are for an unallowable purpose) and set against non-trading loan relationship credits (the interest income). 1

The borrowings relating to the plant and machinery and working capital are trade in nature. 1

The borrowing to purchase shares in a trading company would be considered non-trade in nature. 1

The part of the loan used to purchase the storage unit would need to be split, to treat half as trade related and the other half non-trade. 1

Answer 29

1) The incorporation of a company does not start a chargeable accounting period (CAP), so the first CAP started on 2 November 2019 when the company bank account was opened, as this created a source of income. 1

This CAP ended on 30 November 2019, as the start of a trade on 1 December 2019 started another CAP. 1

A CAP normally ends when the financial period of account ends but as 18 March 2021 is more than 12 months after the beginning of the CAP on 1 December 2019, this CAP will end on 30 November 2020. 1

The final CAP will cover the remainder of the period to the date of cessation. 1

2) The returns all relate to one period of account and so all three returns will be due to be filed on or before 18 March 2022, being 12 months from the end of the period of account. 1

Answer 30

			£	
Income	1 May 2020 – 30 November 2020			
	7 x £1,200		8,400	1
	1 January 2021 – 30 April 2021			
	4 x (£3,000 / 3) *Accruals basis*		4,000	1
Premium	Total premium	18,000		
	Capital element			
	2% x (5-1) x £18,000	(1,440)		1
			16,560	1
Redecorating and advertising expenditure			(5,000)	1
Property income			£23,960	

Answer 31

	Year ended 31 March 2018	Period ended 31 December 2018	Year ended 31 December 2019	Year ended 31 December 2020	
Trade profit	125,000	98,000	-	62,000	
Property income	12,000	8,000	14,000	15,000	
Capital gains	14,000	-	-	-	1
Total profits	151,000	106,000	14,000	77,000	
Trade loss relief					
Current year[1]			(14,000)		1
Carry back[2]	(37,750)	(106,000)			1+1
Brought forward[3]				(77,000)	1
Qualifying charitable donation paid	(1,000)	-	Wasted	-	
Taxable Total Profit	£112,250	Nil	Nil	Nil	

Loss memo	*Capital*	*Trade*
Period ended 31 December 2018	7,000	
b/f to y/e 31 December 2020	(5,000)	
Carried forward	£2,000	
Year ended 31 December 2019		247,000
Current year relief		(14,000)
Carry back	Pe 31.12.18	(106,000)
	3/12 x y/e 31.3.18	(37,750)
b/f to y/e 31 December 2020		(77,000)
Carried forward		£12,250

Note: Loss memo not required as question asks only for TTP not what losses are carried forward

Answer 32

For a capital gains group to exist, there must be:
- at least a 75% direct relationship between companies; and 1
- a minimum 50% indirect relationship. 1

Overseas companies can form a link to create the group but cannot partake in any forms of relief. 1

The capital gains group here consists of Raink Ltd, Sunshink Ltd and Wellinkton Ltd.

Within the capital gains group it is possible to reallocate capital gains and capital losses to reduce the gains subject to tax. 1

The brought forward capital loss of Sunshink Ltd can be set against the capital gain arising in Raink Ltd, but no relief is available for the capital loss of Tornady Ltd as it is not part of the group and has no capital gains of its own to set the loss against. 1*

**Answer must be clear that Tornady's loss cannot be used as can only be set against capital gains*

Answer 33

Qualifying revenue expenditure attracts an enhanced 230% deduction under the R&D relief scheme for small and medium enterprises. This is the case for the staff costs relating to the direct production staff and the software costs. 1

This does not include any capital expenditure, such as the building and specialist machinery and equipment. 1

There is also no enhanced deduction for general administration staff who merely provide support to the project, although a normal deduction for the costs would be made. 1

However, a 100% first year allowance is available for capital expenditure. 1

This includes not only the machinery and equipment but also the building cost. 1

Answer 34

		£	
Turnover from relevant engagements		148,000	
5% statutory deduction	5% x £148,000	(7,400)	1
		140,600	
Salary		(24,000)	
Employer's NIC	(24,000 – 8,788) x 13.8%	(2,099)	1
Expenses	*Excluding train ticket as this is home to work*	(2,500)	1
Employer's pension		(2,400)	
Gross deemed salary payment		109,601	1*
Employers NIC	£109,601 x 13.8 / 113.8	(13,291)	1
Deemed salary payment		£96,310	

**Deducting salary and pension*

Answer 35

As Kerby plc is a UK resident company, it is liable to UK Corporation Tax on worldwide profits. The overseas property income should be included in the Taxable Total Profit calculation at its' gross amount of £68,000 (£52,000 received plus tax charge of £16,000). 1

In the absence of any double tax agreement, double tax relief is available for the lower of: 1

- Overseas tax suffered on the overseas income;
- UK tax being charged on the overseas income. 1

To increase the amount of relief available with regard to the property income, the company may offset the donation against its UK trade profits. 1

The double tax relief is deducted from the corporation tax liability. 1

Answer 36

Quarter end	**Deducted**	**Suffered**	**Net**	**C/F / (B/F)**	**Payable**	
31 December 2020						
*£10,000 x 20%	2,000					1+1
£24,000 x 20/80		6,000				1
	2,000	6,000	(4,000)	4,000	Nil	1
31 March 2021						
£10,000 x 20%	2,000	-	2,000	(2,000)	Nil	1

**Income Tax withheld only on interest paid to Mike, none withheld on payment to Nox plc*