THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Larger Companies and Groups

November 2021

TIME ALLOWED
3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

  You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

  You will be assessed for competence in a number of broad topics for the following skills:
    - Identification and Application
    - Relevant Advice and Substantiated Conclusions

  For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.

- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.

- Scots law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.

- Except as set out below or indicated by additional information in the question, you may assume that 2020/21 legislation (including rates and allowances) continues to apply for 2021/22 and future years.

  1) You MUST assume that the UK remains within the European Union.

  2) You MUST ignore all temporary Covid related legislation including furlough, grants, loans and the reductions in VAT and SDLT rates.

  Except in relation to points 1) and 2) above, candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.

- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are the Tax Director of the in-house tax department at Dubfast & Glasburgh Group plc, the parent company of a group of wholly owned UK tax resident subsidiaries.

The Board recently commissioned a report from external consultants, Berdad Partners, on how to develop the group's business. Berdad Partners recommended the disposal of the group's property portfolio and moving the business into online retailing.

The Board has accepted the suggestions of Berdad Partners and has identified four ways in which a disposal of the property portfolio might be undertaken:

1) selling the properties directly;

2) selling DG Propco Ltd;

3) transferring the properties to a new subsidiary company, Newco, and then selling Newco; or

4) transferring the properties to a new subsidiary company, Newco, and then inviting a share subscription to Newco from external investors.

The Board has also written an investment plan for the development of an online retail business.

George Remworth, Chief Financial Officer at Dubfast & Glasburgh Group plc, has asked you to write a report to the Board, based on currently available information, recommending which of the four identified disposal methods will maximise the post-tax sale proceeds and will best meet the Board's commercial objectives.

The following exhibits are provided to assist you:

EXHIBIT A: Extracts from the report by Berdad Partners

EXHIBIT B: Information on DG Propco Ltd

EXHIBIT C: Extracts from the investment plan for the proposed online business

EXHIBIT D: Pre-seen information

Requirement:

Write a report to the Board of Dubfast & Glasburgh Group plc recommending the disposal method that will maximise the post-tax sale proceeds and best meet the commercial objectives.

Continued

EXHIBIT A

Extracts from the report by Berdad Partners

Overview

It is anticipated that within a period of 10 years, retailing will evolve so that selling in stores (whether "high street" or on retail parks and similar) will decline substantially and online selling will increase to become the dominant retail method.

In consequence of these changes, we expect that the demand for retail premises will decline and rents will fall. Accordingly, the value of retail properties will also decline over this period.

We believe that the long-term future of successful retail is in online selling. The Group should adopt a strategy of moving from high street/retail park selling to online retailing, over a 10-year timeframe.

Online retail involves holding stock in warehouses and delivering that stock directly to customers from those warehouses.

Recommendations

As the capital value of the retail properties will decline, we recommend that all properties are sold as soon as possible. At the same time, you should enter into short leases (of not more than 10 years duration) with the new owners so that you can continue to trade from the properties for up to 10 years.

You should consider selling the properties as a single portfolio because individual sales would take longer, thus reducing sales proceeds and delaying receipts needed for reinvestment. There is likely to be demand from specialist property companies and external investors.

Proceeds from the sale of retail properties should be reinvested in a network of warehouses, and a bespoke IT system, to move towards full online retailing.

Berdad Partners
15 October 2021

Continued

EXHIBIT B

Information on DG Propco Ltd

Background

DG Propco Ltd was a trading company until 1975, when it was renamed and became a property holding company. All group properties are currently owned by DG Propco Ltd, and all secured borrowings are held by DG Propco Ltd.

The shares of DG Propco Ltd are owned by Dubfast & Glasburgh Group plc. They have a capital gains base cost at 31 March 1982 of £60 million.

DG Propco Ltd's Statement of Financial Position as at 31 December

	2020 £ million	2019 £ million
Fixed assets:		
Land and buildings	1,700	1,900
Long term debt	(600)	(650)
Net assets	1,100	1,250
Equity:		
Share capital	200	200
Revaluation reserve	850	1,050
Reserves	50	0
Total equity	1,100	1,250

Properties

Category	Total cost	Current total market value (Note 3)	Current borrowings secured against properties
	£ million	£ million	£ million
Category A: 23 retail properties acquired before 31 March 1982 (Note 1)	50	750	250
Category B: 37 retail properties acquired between 1 April 1982 and 31 December 2019 (Note 2)	300	980	350

Notes

1) The total market value of Category A properties is estimated to have been £200 million at 31 March 1982.

2) The Category B properties were purchased at regular intervals; approximately one every year.

3) All properties have increased in value by more than the retail price index.

Capital Allowances

No expenditure qualifies for Structures & Buildings Allowance.

DG Propco Ltd's plant & machinery capital allowances pool is all in respect of building fixtures with an original cost of £30 million.

Continued

EXHIBIT C

Extracts from the investment plan for the proposed online business

Year of expenditure	Nature of proposed investment	Estimated cost £ million
2021	Online trade feasibility studies	20
2022	Software development	10
2022	Warehouses (Note)	225
2023	Software development	30
2023	Warehouses (Note)	525
2024	Warehouses (Note)	230
2025	Warehouses (Note)	100
		1,140

Note

It is estimated that of the total expenditure on warehouses 20% will be to buy land on which the warehouses will be built and 25% will qualify for plant & machinery capital allowances.

Continued

EXHIBIT D

Pre-seen information

Group information

Parent company name:	Dubfast & Glasburgh Group plc
Date of incorporation:	1 June 1898
Country of incorporation:	United Kingdom
Ownership:	Quoted company; shares listed on London Stock Exchange; no large or significant minority shareholders.
Chief Financial Officer:	George Remworth
Number of employees in group:	15,000

Nature of business

The business was founded towards the end of the 19th century by Mr Dubfast and Mr Glasburgh and has traded continuously ever since.

Dubfast & Glasburgh Group plc was listed on the London Stock Exchange in 1992, which provided funds to enable the group to purchase properties, open new stores and buy existing businesses. Since then, the group has borrowed large amounts, much of it secured on its property portfolio, to enable further expansion to be undertaken.

The group trades as a retailer of a wide range of goods sold from 60 department stores. Each of the stores is operated by one of three trading subsidiary companies of Dubfast & Glasburgh Group plc.

The group's freehold properties are all owned by another subsidiary company, DG Propco Ltd. This company charges rents to the trading companies.

All group companies are UK tax resident and wholly owned.

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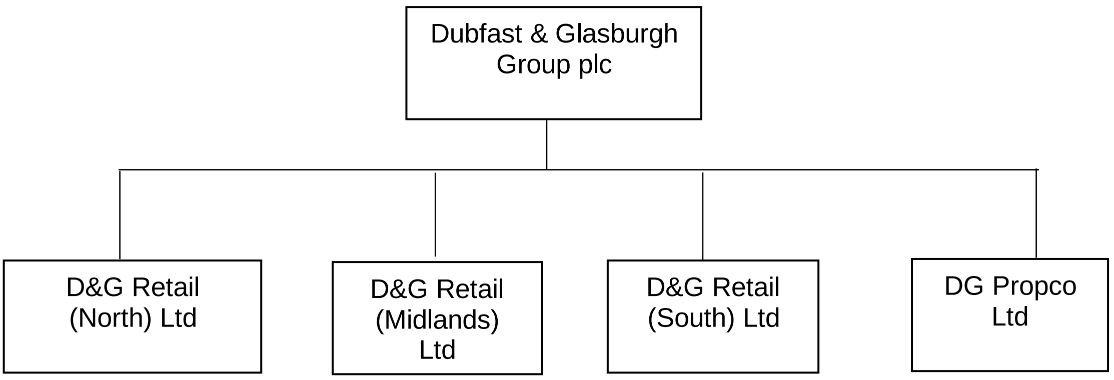
Group structure



Summarised group financial information

Accounts are prepared annually to 31 December for all companies.

Consolidated Income Statement for the year ended 31 December

	2020 £ million	2019 £ million
Revenue	4,844	5,105
Cost of sales	(3,625)	(3,645)
Gross profit	1,219	1,460
Administrative expenses	(1,126)	(1,310)
Operating profit/(loss)	93	150
Finance expense	(43)	(45)
Profit / (loss) before tax	50	105
Tax expense	(10)	(20)
Profit after tax	40	85

Continued

Consolidated Statement of Financial Position as at 31 December

	2020 £ million	2019 £ million
Fixed assets		
Land & buildings	1,700	1,900
Plant & machinery	155	173
Intangibles	700	800
Net current assets	1,250	1,200
Current liabilities	(300)	(200)
Long term creditors	(800)	(850)
Net assets	2,705	3,023
Equity		
Share capital	1,300	1,300
Revaluation reserve	850	1,050
Reserves	555	673
Total equity	2,705	3,023

Corporation Tax

All Company Tax returns for the accounting period ended 31 December 2020 were submitted on 10 October 2021. All previous returns were submitted within the statutory deadlines. There are no open enquiries with HMRC into any of the returns.

Capital allowances brought forward amounts at 1 January 2021

Company	Main Pool Tax Written Down Value (TWDV) b/f £ million
Dubfast & Glasburgh Group plc	5
D&G Retail (North) Ltd	5
D&G Retail (Midlands) Ltd	5
D&G Retail (South) Ltd	5
DG Propco Ltd	10

Losses brought forward at 1 January 2021

Dubfast & Glasburgh Group plc has capital losses brought forward at 1 January 2021 of £400 million, which arose in 2017 after the failure of a USA retail business that had been acquired in 2015.

There are no trading or other unutilised losses in the group at 31 December 2020.

Value Added Tax (VAT)

There is a VAT group registration in place for all companies within the group.

All the group's outputs are taxable, so it recovers all input tax.

No options to tax have been made in respect of any of the properties owned by the group.