

# THE CHARTERED INSTITUTE OF TAXATION

## APPLICATION AND PROFESSIONAL SKILLS

### Taxation of Larger Companies and Groups

**May 2025**

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TIME ALLOWED

3 HOURS 30 MINUTES

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- 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.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. 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 a senior tax manager at Garland & Moore LLP, a firm of Chartered Accountants. The Corline group is a non-audit client of the firm.

The firm's Senior Partner has received a letter from the Chair of Corline plc (**EXHIBIT A**) enclosing minutes of a Board meeting (**EXHIBIT B**). Her letter asks for tax advice to be provided in respect of several related issues referred to in the Board meeting minutes.

The Senior Partner has passed the letter on to your tax partner, Keiran O'Driscoll, by email (**EXHIBIT C**). Keiran has asked you to draft a report on the potential tax issues arising.

You should assume that corporate tax rates in Belgium and France are the same as those in the UK, and that the exchange rate is £1 = €1.15.

The following exhibits are provided to assist you:

**EXHIBIT A:** Letter from Lady Caroline Longly

**EXHIBIT B:** Minutes of Corline plc Board Meeting

**EXHIBIT C:** Email to Keiran O'Driscoll

**EXHIBIT D:** Pre-seen information

**Requirement:**

**Write a report to the Board of Corline plc explaining the direct tax issues arising from the matters referred to in the Board minutes and recommending the best course of action.**

EXHBIT A

Letter from Lady Caroline Longly

Sir Alistair Bentwood  
Senior Partner  
Garland & Moore LLP  
London  
WC5 9ZZ

Corline plc  
Northside Business Estate  
Middleville  
MV99 1AA

1 May 2025

Dear Alistair

As we discussed when we met at dinner the other night, the Board of Corline plc wants to understand the direct tax issues arising from the proposed transactions referred to in the attached Board minutes (**EXHIBIT B**). Please prepare a report for the Board identifying and discussing the relevant issues and recommending which of the acquisition and funding alternatives would be the better routes to pursue.

Please note that, for various operational, reputational and legal reasons we do not wish to consider:

- 1) Moving the tax residence of any companies or their businesses.
- 2) Operating any business as a branch or agency of a company located in a country other than where the business is located.
- 3) Entering into any tax-avoidance schemes.

With best wishes

Caroline

Continued

**EXHIBIT B**

Minutes of Corline plc Board Meeting

Held on 28 April 2025 at Northside Business Estate.

Those present:

- Lady Caroline Longly (Chair)
- Jonathan Price (Chief Executive Officer)
- Helen Andrews (Chief Finance Officer)
- Bill Hungerford (Chief Operating Officer-UK)
- Michael Hunter (Chief Operating Officer-Overseas)
- Mo Colorado (Head of Strategy)
- George King (Head of Human Resources)
- Janice Legrande (Non-executive director)
- Rishabh Singh (Non-executive director)
- Sir Henry Holdwell (Non-executive director)

1) Strategic Developments

Mo Colorado reported that the demand for electric cars in the UK and overseas markets is expected to grow in the next few years. If Corline plc is to take advantage of this, we need to rebalance our manufacturing capabilities by creating electric vehicle manufacturing capacity. After a comprehensive review of all available options, it has been decided that both of the following factories should be converted to enable the production of electric vehicles for the mass market.

- 1) UK – the factory occupied and owned by Corline Cars (No 2) Ltd.
- 2) France – the Toulouse factory occupied and owned by Corline (France) Sarl.

The manufacturing capacity and thus the output of each factory would be the same after the conversions.

Such changes would require us to establish reliable sources of batteries to power the vehicles. Although there are plans for battery manufacturing plants to be built by third parties in the UK, it is doubtful whether any such operation will be capable of large-scale production within our preferred timetable. Furthermore, sourcing batteries from an external provider focused on the wider marketplace might not give us the assurance of a reliable supply chain. We should, therefore, consider the acquisition of an existing manufacturer.

We have identified a profitable target company, Batteries Nord Srl, based in Belgium, that might make an ideal acquisition for this purpose. It would supply half of its production of batteries to the proposed electric car factory in the UK, and half to the proposed factory in France. Its pre-tax profits are about €115 million (£100 million) per annum and are expected to remain at about that level. Preliminary talks have been held with the owners. We have agreed a price of €1,150 million (£1,000 million) to buy either all the net assets of Batteries Nord Srl, or all of its share capital, subject to due diligence. The current owners are willing to sell either net assets or shares.

2) Operational Review

Corline Cars (No 2) Ltd's only factory is currently running at below capacity as demand for luxury cars has once again dipped.

We have commissioned a study into the timetable and cost for conversion of the factory to an electric vehicle producing factory. We believe that we could convert fully over a period of six months while maintaining but running down and then ceasing petrol/diesel car production at that site. The ideal time to undertake the work would be from September 2025 and finishing in early 2026. It is estimated that the total cost of conversion would be £400 million.

In France, we can absorb the work of the Toulouse factory into our other two factories operated by Corline (France) Sarl while conversion work is undertaken from late 2025 to early 2026. Total costs of conversion would be €460 million (£400 million).

3) Finance Report

Current trading performance suggests that the financial outturn in each country for the year ended 31 December 2025 will not be materially different from 2024.

There are currently no group borrowings, either from external sources or between group companies.

We need to fund four projects at a total cost of £3,000 million:

- 1) Conversion of UK factory – £400 million.
- 2) Conversion of French factory – £400 million.
- 3) Acquisition of Batteries Nord Srl or its net assets – £1,000 million.
- 4) Tax/penalties/interest in Sealand – £1,200 million (see below).

We have insufficient cash resources or future expected profits to fund these projects.

We have sought to raise the necessary funds by way of a rights issue, but that has proved unsuccessful, with less than 1% of the required funds being raised. Furthermore, our external advisers have told us that an issue of corporate bonds would not be supported by the markets. We should, therefore, consider either borrowing, or new external direct investment.

We have explored these two options and have identified the following possible alternative sources:

- 1) Michael Hunter and his family, all of whom are resident in Sealand, would be willing to invest £3,000 million into Corline plc for 210 million £1 voting participating preference shares, issued at a premium and redeemable in 2035. The preference shares would carry a fixed annual dividend of 5.5% of the issue price (the issue price being £3,000 million) and a right to additional dividends when group profits exceed £1,000 million. This holding would represent more than 50% of voting rights of the issued share capital of Corline plc after the share issue. The Hunter family would not be willing to invest a smaller amount for a minority interest.
- 2) A consortium of UK banks is willing to lend £1,800 million to Corline plc, secured over all the assets of the group, repayable after 10 years to fund the investments in the UK, France and Belgium, at a fixed interest rate of 7% per annum. In addition, the Hunter family are willing to lend £1,200 million, either to Corline plc or directly to Corline Sealand Ltd at the same rate.

Helen Andrews advised the Board that the direct tax implications of these two alternatives are different, and that the tax cost should be taken into account in considering which to pursue. She suggested, and the Board agreed, that independent tax advice should be obtained.

4) Tax report

If the Belgian acquisition proceeds, Helen Andrews confirmed that there would be no withholding taxes on payments from Belgium to a UK parent company.

Tax returns in UK, USA, and France for all years to 31 December 2023 have been filed and there are no ongoing queries.

In Sealand, the long running tax dispute with the fiscal authorities has now been resolved in line with our expectations. Our thanks to Garland & Moore Sealand office for advising. The overall settlement will cost us £1,200 million, made up of (in round figures) £300 million of corporate income tax, £200 million in payroll taxes, £300 million of sales taxes, £200 million of penalties for previous incorrect returns and £200 million interest on late paid tax. All these amounts have been provided for in earlier years' accounts and therefore there is no impact on current year earnings. They are payable by Corline Sealand Ltd.

For the year ended 31 December 2024, work on corporate tax returns is being undertaken. To date we have completed those for the UK companies, as follows:

- 1) Corline Cars UK Ltd taxable profits of £290 million, after capital allowances of £20 million.
- 2) Corline Cars (No 2) Ltd taxable profits of £30 million less losses brought forward £17.5 million. No capital allowances are claimable.
- 3) The holding companies will have no material taxable profits.

Continued

The rate at which the remaining losses of Corline Cars (No 2) Ltd of £800 million will be used over the following years depends on profit levels and possible additional interest deductions in the UK. Because of this uncertainty, we are estimating that the losses will be utilised over 10 years at about £80 million per annum, by carry forward either against trading profits or as future years' group relief.

**EXHIBIT C**

Email to Keiran O'Driscoll

From: bentwooda@garlandmoore.com  
To: odriscollk@garlandmoore.com  
Date: 2 May 2025  
Subject: Corline plc fund raising

Keiran

I enclose a letter from Lady Caroline Longly at Corline plc and its enclosure (Board minutes), which are self-explanatory.

Can you please prepare a report to the Board of Corline plc identifying the tax issues arising from each of the two possible means of funding set out in the Board minutes, and the two possible means of acquiring the Belgian battery manufacturing business, and make recommendations as to which they should pursue from an after-tax perspective?

Regards  
Alistair

**EXHIBIT D**

Pre-seen information

Client name

Corline group

Parent company

Corline plc

Date of incorporation

1 June 2010

Country of incorporation and tax residence

UK

Ownership

Listed on London Stock Exchange. No shareholder holds more than 5% of the shares.

Board members

- Lady Caroline Longly (Chair)
- Jonathan Price (Chief Executive Officer)
- Helen Andrews (Chief Finance Officer)
- Bill Hungerford (Chief Operating Officer-UK )
- Michael Hunter (Chief Operating Officer-Overseas)
- Mo Colorado (Head of Strategy)
- George King (Head of Human Resources)
- Janice Legrande (Non-executive director)
- Rishabh Singh (Non-executive director)
- Sir Henry Holdwell (Non-executive director)

Total number of worldwide employees across the Corline group: 35,000.

Background and history

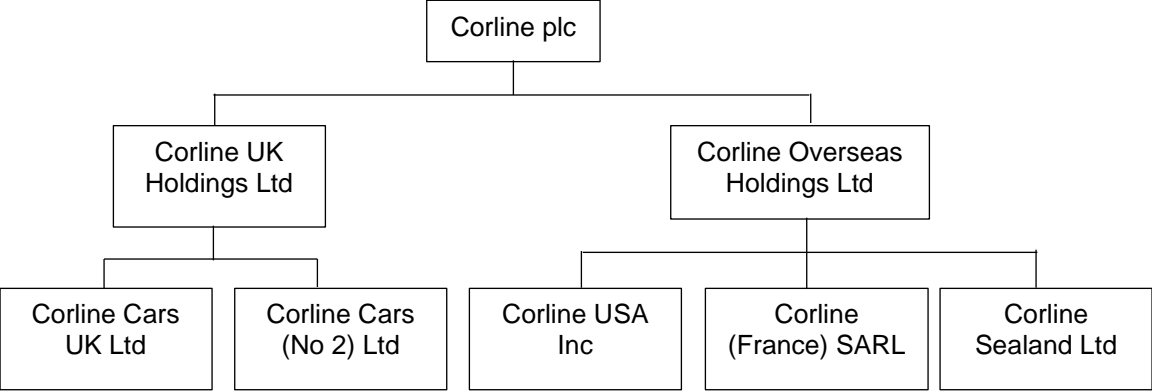
Corline Motors Ltd was founded in 1988 as a private company. It was re-named Corline Cars UK Ltd in 2010 when Corline plc was founded, acquired Corline Cars UK Ltd and floated on the London Stock Exchange. The group has grown steadily over the years, both organically and by way of acquisition, in the UK and in Europe, Asia and North America.

Corline plc acquired Hunter Motors (Sealand) Ltd, (since renamed Corline Sealand Ltd), in 2015. The then majority shareholder of that company, Michael Hunter, joined the Board of Corline plc at that time. He and his family continue to own several manufacturing companies in Sealand that supply parts to Corline Sealand Ltd.

On 31 December 2019, Corline UK Holdings Ltd acquired all the share capital of Plysville Motors Ltd. Plysville Motors Ltd was a UK based and UK tax-resident manufacturer of luxury petrol and diesel motor cars sold mainly in the UK and the US. It had suffered severe adverse business conditions during 2019 and, in consequence, it had incurred taxable trading losses to carry forward of £850 million at 31 December 2019. Plysville Motors Ltd was renamed Corline Cars (No 2) Ltd on acquisition. The trade was continued, and the market for luxury cars improved. The company returned to profitability and has utilised £50 million of brought forward losses in accounting periods up to and including year ended 31 December 2024, by way of carry forward against trading profits.

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Group Structure



Corline plc, Corline UK Holdings Ltd and Corline Overseas Holdings Ltd are holding companies and do not trade. The other companies manufacture and sell motor vehicles. All companies are wholly owned.

All companies are tax resident in the UK apart from Corline USA Inc, Corline (France) Sarl and Corline Sealand Ltd, which are tax resident in USA, France and Sealand respectively.

Sealand is an independent country in Asia.

Financial information for Corline plc group

Income statement for the year ended 31 December

	<u>2024</u>	<u>2023</u>
	£million	£million
Revenue	4,150	3,978
Cost of sales	<u>(2,408)</u>	<u>(2,204)</u>
Gross profit/(loss)	1,742	1,774
Administrative expenses	<u>(1,200)</u>	<u>(1,134)</u>
Profit before tax	542	640
Tax	<u>(130)</u>	<u>(160)</u>
Profit after tax	<u>412</u>	<u>480</u>

Balance Sheet as at 31 December

	<u>2024</u>	<u>2023</u>
	£million	£million
Fixed assets	4,240	4,360
Cash at bank and debtors	1,600	1,050
(Liabilities)	<u>(3,060)</u>	<u>(2,900)</u>
Net assets	<u>2,780</u>	<u>2,510</u>
Equity:		
Share capital (Note)	200	200
Reserves	<u>2,580</u>	<u>2,310</u>
Total equity	<u>2,780</u>	<u>2,510</u>

Note: 200 million £1 ordinary shares.

Corporate Tax

Company tax returns for periods to 31 December 2023 for all territories have been submitted on time.

The corporate income tax rate in Sealand is 15% of taxable profits, which are computed with no deduction for interest expense.

There are no withholding taxes on payments from France, USA or Sealand to UK parent companies.

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VAT

Corline UK Holdings Ltd is the representative member of a group VAT registration in the UK, consisting of all UK resident companies. The group is wholly taxable.