THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Major Corporates

May 2021

TIME ALLOWED

3 HOURS 30 MINUTES

- 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.

1. Camlann Group SA has been a provider of desktop property valuations for insurance companies for many years. The company was incorporated within Badon, a small EU country and is tax resident there.

It was decided to expand operations to the UK and accordingly on 1 January 2021, Camlann UK Ltd, a wholly owned subsidiary, was incorporated in the UK. It commenced trading immediately, providing desktop valuations to UK insurance companies. These valuations are wholly performed by staff that are physically located in Badon. The staff are all employed by Camlann Group SA; a charge is made by Camlann Group SA to Camlann UK Ltd for the use of staff. Camlann UK Ltd uses a third party registered office facility in London and any post is scanned in and emailed to staff that are physically located in Badon.

The two directors of Camlann UK Ltd are tax resident in Badon and perform all their duties from Badon without visiting the UK.

In order to identify new potential customers in the UK, the company is considering appointing a UK resident director. This new director will start on 1 January 2022 and will work from home. Their role will be to discuss the company's offerings with new potential customers and maintain relations with current customers, including entertaining. They will dial into board meetings, which will be held online, by video conferencing. Sales will not be concluded or substantially concluded in the UK and all invoicing will continue to be carried out by the Badon staff on behalf of Camlann UK Ltd.

Camlann UK Ltd has opened one multi-currency bank account in Badon, denominated in both US dollars and Euros.

Under domestic legislation, a company is tax resident in Badon if it is either incorporated there or its place of effective management is there. The OECD model tax convention applies between Badon and the UK.

Requirement:

Explain whether or not Camlann UK Ltd is subject to UK Corporation Tax for the year ended 31 December 2021 and whether this will change if the new director is appointed on 1 January 2022. (10)

2. Charlese plc is a large animal food manufacturer. Its only subsidiary, Francis Ltd, which is wholly owned, transferred its trade and assets to Charlese plc on 1 July 2020. Both companies make up their accounts each year to 31 December.

The following information relates to Charlese plc for the year ended 31 December 2020:

1) At 1 January 2020, the main capital allowances pool tax written down value brought forward was £1,070,000.

2) The depreciation charge for the year was £4 million.

3) The company's depreciation policy is as follows:

Land	No depreciation
Buildings	2% straight line on buildings
All other assets	20% straight line with a full year's charge in the year of acquisition

4) Extract from the tangible fixed assets note from the accounts:

	Land and buildings Note 1	Fixtures, fittings and equipment Note 2	Motor vehicles Note 3	Plant and machinery Note 4	Total
	£	£	£	£	£
Cost – additions	2,233,333	800,000	3,100,000	6,250,000	12,383,333
Cost – disposals	-	-	-	250,000	250,000
Depreciation – disposals	-	-	-	150,000	150,000

Note 1

New warehouse:	£
Building	1,333,333
Land	500,000
Electrical and water system	250,000
Air conditioning system	100,000
Lift	50,000
Total	2,233,333

Charlese plc entered into a contract with a third party to build the new warehouse on 1 January 2020. The payment was made on 25 March 2020 and the building was brought into use on 1 April 2020.

Note 2

	£
Computer equipment	500,000
Qualifying land remediation expenditure	50,000
Decorating offices	100,000
Moveable partition walls in office*	50,000
Erecting new walls in office	50,000
Painting of new walls in office	10,000
Fire alarm system	20,000
Fire doors	10,000
Portable air conditioning units	10,000
Total	800,000

Continued

2. Continuation

*There are no plans to move the partition walls in the foreseeable future.

Note 3

	£
Commercial vehicles under hire purchase agreements	1,000,000
Commercial vehicles under finance leases	2,000,000
Cars with emissions 115g/km	100,000
Total	3,100,000

This is the first year that Charlese plc has acquired assets under finance lease or hire purchase. The company prepares accounts in accordance with FRS 102.

Note 4

	£
Manufacturing equipment	5,000,000
Plant transferred from Francis Ltd	1,000,000
Qualifying research & development expenditure	250,000
Total	6,250,000

The plant transferred from Francis Ltd had a tax written down value of £1.5 million on 1 January 2020.

Proceeds from the disposal of an item of machinery	275,000

Requirement:

Calculate, with explanations, the capital allowances that may be claimed and the adjustments that are required to arrive at taxable profits in the Corporation Tax computation for the year ended 31 December 2020 for Charlese plc. (20)

3. The Paper Group is a multinational group, headquartered overseas, that manufactures paper. It has five wholly owned UK incorporated and resident subsidiaries. All companies make up their accounts to 31 December.

Pending the receipt of further information relating to overseas income and research and development expenditure, draft taxable profits and losses for each UK subsidiary for the year ended 31 December 2020 have been calculated as follows:

	Alder Ltd	Aspen Ltd	Juniper Ltd	Rowan Ltd	Whitebeam Ltd
	£	£	£	£	£
Trading Profit/(Loss)	(2,112,500)	5,000,000	nil	1,000,000	4,000,000
Non Trading Loan Relationship Credits/(Deficits)	nil	nil	(1,000,000)	3,000,000	nil

At 1 January 2020:

1) Rowan Ltd had brought forward non-trading deficits of £4 million, of which £2 million arose pre 1 April 2017.

2) Whitebeam Ltd had brought forward non-trade loan relationship deficits of £1,250,000, of which £750,000 arose pre 1 April 2017.

The remaining information required to complete the Corporation Tax computations is as follows:

Alder Ltd

The income statement includes £8.5 million of wages and salaries and £10 million for unconnected externally provided workers, both of which relate to qualifying research and development. No election has been made to treat the unconnected externally provided workers as connected.

Aspen Ltd

Aspen Ltd suffered the following withholding taxes:

	Gross	Withholding Tax	Treaty rate	Overseas domestic tax rate
	£'000	£'000		
Non-trade loan relationship credits (Note A)	2,000	300	10%	10%
Trading royalties	1,000	100	5%	10%
Overseas sales (Note B)	6,000	600	10%	5%

Note A: The overall £nil non-trading loan relationship credit/deficit includes non-trading loan relationship debits of £2 million in respect of a domestic loan.

Note B: The trading profit of £5 million includes overseas sales of £6 million, which had a gross profit margin of 50% and a net profit margin of 30%.

Continued

3. Continuation

Juniper Ltd

Included in the £1 million of non-trade loan relationship deficits are non-trade loan relationship credits of £4.5 million, net of withholding taxes of £500,000. The domestic and treaty rate of withholding tax was 10%.

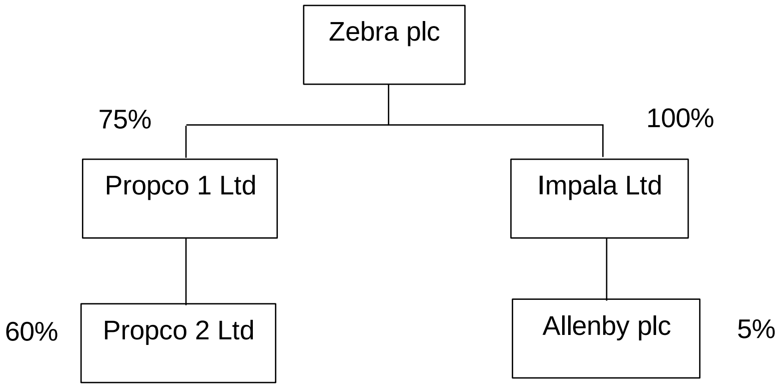
Rowan Ltd

The trading profits represents those of an overseas permanent establishment, on which foreign tax of £200,000 was payable for the year.

Requirement:

Calculate, with explanations, the Corporation Tax payable for each of the five UK subsidiary companies. (20)

4. Zebra Group is a publicly listed group that is wholly resident in the UK and makes up its accounts to 31 March each year. Prior to a restructuring in 2021, the group structure was as follows:



Zebra plc is a non-trading holding company. At 1 April 2020, Zebra plc had capital losses brought forward of £9 million and no other losses. No other group companies had losses of any kind.

Impala Ltd carried on two trades, the first being the development, manufacture and sale of consumer goods, and the second being the development, manufacture and sale of pharmaceuticals. It also had a 5% shareholding in Allenby plc, a publicly listed manufacturer of toothpaste, which it purchased on 1 March 2008 for £2 million.

Propco 1 Ltd owned an investment property at 10 York Street, which was managed by an independent estate agent and rented out to third parties.

Propco 2 Ltd owned properties used by Impala Ltd including a freehold factory in Swindon, which was used to manufacture consumer goods. The factory was purchased on 1 July 2004 for £1 million.

It was decided to divest the consumer goods trade in order to focus the group on its pharmaceuticals trade, which was seen to have more growth potential. Accordingly:

1) On 1 January 2021, Impala Ltd incorporated a new wholly owned subsidiary, Antelope Ltd, subscribing for share capital of £55 million.

2) On 1 February 2021, Antelope Ltd made the following purchases:

    (a) the net assets of Impala Ltd's consumer goods trade, as described in Table A below, for £50 million;

    (b) the 5% shareholding in Allenby plc from Impala Ltd, for £2 million when its market value was £10 million; and

    (c) the Swindon factory from Propco 2 Ltd for £2.8 million when its market value was £3 million.

3) On 31 March 2021, Impala Ltd sold its shares in Antelope Ltd to a third party, Finn plc, for £120 million.

4) On 31 March 2021, Propco 1 Ltd sold 10 York Street to a third party, realising a chargeable gain of £7.5 million.

Continued

4. Continuation

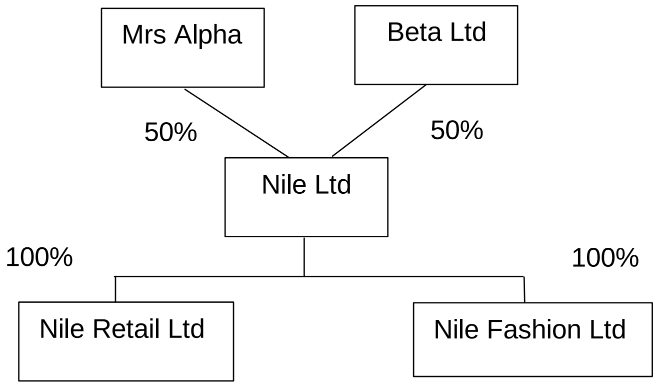
Table A: Impala Ltd's consumer goods trade

Asset/(liability) on 1 February 2021	Market value £ million	Book value £ million
Office buildings	35	15
Pre-2002 intangible fixed assets	50	10
Stock	21	21
Cash	17	17
Trade creditors	(13)	(13)
Total	110	50

Requirement:

Calculate, with explanations, the chargeable gains arising to companies in the Zebra Group during the year ended 31 March 2021. (15)

5. The Nile Group is a UK tax resident group operating in the luxury fashion sector whose structure is as follows:



Mrs Alpha and Beta Ltd are unconnected non-UK tax resident private equity investors.

All companies make up accounts to 31 March each year with Nile Ltd producing consolidated accounts.

On 1 April 2020, Mrs Alpha and Beta Ltd each lent £100 million to Nile Ltd, at an interest rate of 8% per annum.

Nile Fashion Ltd has £400 million of long-term debt borrowed from a third-party bank, at an interest rate of 5% per annum.

Both Nile Ltd and Nile Fashion Ltd make interest payments on their loans on 31 March and 30 September each year, six months in arrears.

The table below contains selected information about Nile Group for the year ended 31 March 2021:

	£ million
Interest expenses:	
Bank loan	20
Investor loan	16
Total	36
Aggregate Tax-EBITDA	90
Group-EBITDA	90

No company in the Nile Group has been appointed as a reporting company nor made an Interest Restriction Return for any period of account prior to 1 April 2020. There is no disallowed interest expense nor unused interest allowance capacity brought forward.

Requirement:

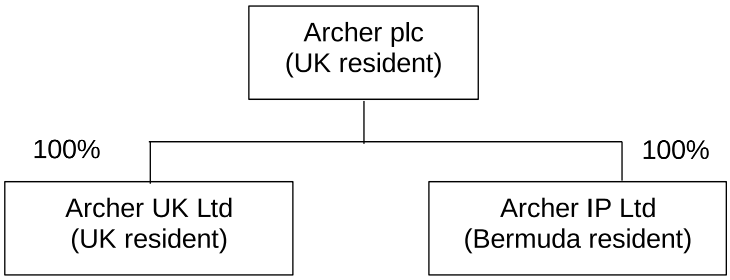
1) **Explain the UK Corporation Tax rules the Nile Group needs to consider when determining the deductibility of its interest expenses for the year ended 31 March 2021.** (15)

2) **Explain the administrative provisions that the Nile Group must comply with if it decides to make a full Interest Restriction Return for the year ended 31 March 2021.** (5)

Total (20)

6. The Archer Group, founded in the 1990s, develops and manufactures high-tech, branded electronic devices, which it sells globally.

The current group structure is as follows:



The Archer Group's devices contain unique technology that is protected by a portfolio of patents. The devices are recognisable by distinctive trademarks, which were registered in 1999.

Until 1 July 2020, Archer IP Ltd owned all the patents and trademarks. It carried on a trade of managing this intellectual property, including licensing it to the other group companies. Archer IP Ltd employed 20 people, who were all based in Bermuda and managed the intellectual property, including managing the intra-group agreements and preventing unauthorised use by third parties.

In order to more closely align the legal ownership of the group's intellectual property with its significant commercial functions, on 1 July 2020 Archer UK Ltd purchased Archer IP Ltd's trade and assets for £1,150 million.

All companies in the group prepare accounts to 31 December each year. Archer UK Ltd prepares its accounts in accordance with International Financial Reporting Standards (IFRS). The group's accountants have advised the following in respect of Archer UK Ltd:

1) The purchase of Archer IP Ltd's trade and assets is accounted for as a business acquisition.

2) The identifiable assets and liabilities acquired from Archer IP Ltd are recognised in its statement of financial position as follows:

Asset/(Liability)	Fair market value at 1 July 2020	Depreciation/Amortisation policy
	£ million	
Patents	100	Straight line basis over 10 years
Trademarks	50	Held at cost and tested for impairment annually
Tangible fixed assets	4	Straight line basis over five years
Trade debtors	14	-
Bank overdraft	(18)	-
Total	150	-

The market value of the entire business acquired on 1 July 2020 was £1,150 million.

Under IFRS, purchased goodwill is not amortised, but rather, it is held at cost and tested for impairment annually.

Continued

6. Continuation

Archer UK Ltd made all possible claims and elections to maximise its tax relief in relation to intangible fixed assets during the year ended 31 December 2020.

During April 2021 Archer UK Ltd's business suffered a severe downturn and the trademarks were impaired in its accounts for the year ended 31 December 2021 to a value of zero.

Requirement:

Calculate with explanations:

1) **The maximum tax relief available to Archer UK Ltd during the year ended 31 December 2020 in relation to intangible fixed assets purchased from Archer IP Ltd.** (9)

2) **The deferred tax entries in Archer UK Ltd's accounts in respect of the trademarks for the years ended 31 December 2020 and 31 December 2021.** (6)

Total (15)