

Module C
Corporation Tax

1. Hoally Ltd was incorporated on 28 August 2016. On 15 September 2016 an interest-bearing bank account was opened with a deposit of £10,000. The company began trading on 1 November 2016 and prepared its first accounts to 31 December 2017.

State, with reasons, the start and end dates of Hoally Ltd's first two accounting periods.

2. At 1 January 2017, Prooly Ltd had a tax written down value for capital allowances purposes on its main pool of £182,000.

The company incurred the following capital expenditure in its 15-month period of account ended 31 March 2018:

1 February 2017	New office equipment	£ 225,000
1 March 2018	New car with CO ₂ emissions of 62g/km	18,000

Calculate the maximum capital allowances that Prooly Ltd can claim for the period ended 31 March 2018.

3. Drailly Ltd is required to pay Corporation Tax by instalments. For the 10-month accounting period ended 31 December 2017, the Corporation Tax liability was £850,000.

State the amounts and due dates for payment of the Corporation Tax for the accounting period ended 31 December 2017.

4. On 1 August 2017, Billoo Ltd purchased an investment property for £850,000, financed in part by a bank loan of £500,000 on which interest is payable at 4% per annum.

On 1 September 2017, Billoo Ltd granted a 10-year lease on the property to Toolilly Ltd, charging a premium of £60,000 and annual rent of £24,000, payable quarterly in advance. Toolilly Ltd will use the property for trading purposes.

Both companies prepare accounts to 31 March each year.

You are required to calculate for the year ended 31 March 2018:

- 1) **The property income assessment for Billoo Ltd.**
- 2) **The trading income deduction for Toolilly Ltd.**

5. Zullax Ltd had a trading profit for the year ended 31 December 2017 of £8 million after deducting the following expenditure:
- 1) £250,000 on repairs to a second-hand asset purchased on 17 October 2017. The asset could not be used until these repairs were carried out, and the purchase price was reduced accordingly.
 - 2) Pension contributions of £1.8 million. Contributions of £800,000 were paid in the year ended 31 December 2016.

Briefly explain, with calculations where necessary, how the two items of expenditure will be treated in calculating the taxable trading profit of Zullax Ltd for the year ended 31 December 2017.

6. Joolully Ltd ceased trading on 31 October 2017. The company's recent results were as follows:

	<u>Year ended</u> <u>31 December</u> <u>2014</u>	<u>Year ended</u> <u>31 December</u> <u>2015</u>	<u>Year ended</u> <u>31 December</u> <u>2016</u>	<u>10 month period</u> <u>ended</u> <u>31 October 2017</u>
	£	£	£	£
Trading profit/loss	25,000	4,000	(24,000)	(30,000)
Property income	10,000	9,000	8,000	7,000

Calculate the taxable total profits for each accounting period, assuming the company claims loss relief as early as possible. Your answer should clearly show your treatment of each of the trading losses.

7. Unero Ltd has owned 100% of Segundo Ltd for many years. Both companies prepare accounts to 31 March each year.

On 15 July 2001, Unero Ltd purchased an investment property for £225,000.

On 30 March 2017, Unero Ltd transferred the property to Segundo Ltd when the market value was £360,000 and the indexed cost was £349,650.

On 1 October 2017, Segundo Ltd sold the property for £380,000, incurring legal and professional fees of £5,000.

Calculate the after-tax proceeds on the disposal of the property on 1 October 2017.

8. On 1 November 2016 Fillux plc, a trading company which prepares accounts to 31 December, purchased an 18% holding in Gollix Ltd, which is also a trading company, at a cost of £180,000.

In October 2017, Fillux plc accepted an offer from Hulloy Ltd (an unconnected company) to buy the entire 18% shareholding in Gollix Ltd for the current market value of £165,000.

The sale is likely to complete on 3 November 2017, but the solicitors have suggested they could bring the sale forward to 27 October 2017. The market value of Gollix Ltd is not expected to change in the near future.

Fillux plc has substantial capital gains in the year ending 31 December 2017.

Briefly explain why it may be advantageous to Fillux plc to bring the sale forward to 27 October 2017.

9. Walloo Ltd has owned 100% of Zallz Ltd for many years. Walloo Ltd prepares accounts to 31 March and Zallz Ltd prepares accounts to 31 December each year.

The companies had the following recent results:

	<u>Walloo Ltd</u> <u>Year ended</u> <u>31 March 2018</u>	<u>Zallz Ltd</u> <u>Year ended</u> <u>31 December 2017</u>
	£	£
Trading profit/(loss)	(260,000)	300,000
Property income	-	20,000
Capital gain/(loss)	(25,000)	40,000

Walloo Ltd did not have any profits in the previous year ended 31 March 2017 against which the trading loss could be set.

Calculate the Corporation Tax liability of Zallz Ltd on the assumption that all beneficial claims are made.

10. Poilly Ltd has owned 100% of Soillux Inc (a company resident overseas) for many years. The rate of overseas Corporation Tax paid by Soillux Inc is 18%.

Poilly Ltd has 450 employees. The company manufactures and sells widgets to a wide range of customers for £15 per widget. However, during the year ended 31 March 2018, Poilly Ltd sold 10,000 widgets to Soillux Inc for £8 per widget.

Poilly Ltd's draft tax adjusted trading profit for the year ended 31 March 2018 is £930,000.

You are required to:

- 1) **Briefly explain any necessary Corporation Tax adjustments in relation to the sale of widgets by Poilly Ltd to Soillux Inc.**
- 2) **Calculate Poilly Ltd's Corporation Tax liability for the year ended 31 March 2018 based on the information above.**

11. Lisa worked for Puriety plc until February 2017 when she resigned and set up Petally Ltd, a personal service company, of which she is the sole shareholder and employee.

In the year ended 5 April 2018, Petally Ltd received the following income:

	£
From Puriety plc	95,000
From several other clients	<u>5,000</u>
	<u>100,000</u>

During 2017/18, Lisa was paid a salary of £25,000 from Petally Ltd on which employer's National Insurance Contributions of £2,323 were paid.

You are required to:

- 1) Calculate the deemed employment payment taxable on Lisa for 2017/18.
 - 2) Calculate Petally Ltd's taxable total profits for the year ended 5 April 2018.
12. Xlotti Ltd prepares accounts to 31 March each year and is not required to pay Corporation Tax by instalments.

The Company Tax Return for the year ended 31 March 2016 was submitted on 4 September 2017 and the tax liability of £200,000 was paid on the same day.

Briefly explain, with supporting calculations, the maximum penalties due in respect of the year ended 31 March 2016.