

Institution **CIOT - CTA**  
Course **Adv Tech Tax of Larger Comps**

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	<b>824</b>	<b>4009</b>	<b>4786</b>
Section 2	<b>372</b>	<b>1952</b>	<b>2296</b>
Section 3	<b>368</b>	<b>1695</b>	<b>2046</b>
Section 4	<b>494</b>	<b>2459</b>	<b>2856</b>
Section 5	<b>580</b>	<b>2849</b>	<b>3379</b>
Section 6	<b>337</b>	<b>1533</b>	<b>1835</b>
Total	<b>2975</b>	<b>14497</b>	<b>17198</b>

### Answer-to-Question- \_1\_

A company is CFC if it is a non resident company and controlled by a UK person or persons.

The purpose of the CFC rules is to prevent artificial diversion of the profits of UK companies to overseas subsidiaries.

The normal definition of control would require holding over 50% of the ordinary share capital according to S371B TIOPA 2010.

This means the Allroy Ltd controls Lender SARL, Paints SA and Markets AS.

However, if two UK persons (including individuals) hold over 50% of the shares then they together control the CFC. This means that Allroy Ltd controls Warranties AB, along with Mr Bye.

Also, if a UK resident controls at least 40% of the holdings, rights and powers related to the company and a non-Uk individual controls between 40 and 55% then they control the company between them.

Therefore Allroy Ltd controls Brands BV as well.

So Allroy Ltd controls all five of the foreign companies.

Any UK company which controls a CFC and has at least 25% ownership will, by default, have the profits of the CFC attributed to them.

However, there are five entity-level exemptions - if one of these is met, no profits will be attributed.

These are:

1) Excluded Territories Exemption. It has been stated that this does not apply

2) Exempt period exemption

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Applies for the period in which the the foreign subsidiary becomes a CFC and only if not profits are attributed in the following AP. There is no indication that this applies her

3) Tax exemption

Tax payable by the CFC for an AP is at least 75% of the UK equivalent tax. Lender SARL, Paints SA and Warranties AB all pay no local tax. Brands BV and Markets AS pay tax at significantly below the UK tax rate of 25%. Therefore this will not apply in any case.

4) Low profit exemption. Profits are less than £50K, or less than £500K with no more than £50K of non-trading income. Does not apply in any case

5) Low profit margin exemption. Accounting or taxable profit is less than 10% of operating expenses. This is the case for Markets AS as profit margin is  $605/9,900 = 6.1\%$ . Therefore no profits from Markets AS will be attributed to Allroy Ltd

For companies that do not meet the entity level exemptions there are four gateways that must be considered.

If any profits pass through any of these gateways, they are attributed to Allroy Ltd.

These are:

- 1) Profits Attributable to UK Activities
- 2) Non-Trading finance profits
- 3) Trading Finance Profits
- 4) Captive Insurance Business
- 5) Solo Consolidation (relates to banking subsidiaries)

The four remaining companies need to be considered individually to see if any profits pass through any of these gateways.

### Paints SA

As this company was only acquired recently and was previously owned by an overseas resident individual there, is no indication of any profits attributable to UK activities.

There are no trading finance profits, as the company is a paint distributor.

There appear to be non-trading finance profits of £1M which could potentially pass through the second gateway.

However if these profits relate to trading and not investment, and no trading profits pass through any of the gateways then no non-trading profits pass through the second gateway listed above.

The fourth and fifth gateways listed above appear not be relevant.

Therefore it appears that none of the profits of Paint SA pass through any of the gateways.

### Markets SA

There is no indication that the first gateway listed above is relevant as the company has its own staff and premises and carries out its trade from its territory of residence.

It has not interest income or investment income so it doesn't appear the second gateway listed above is relevant.

It does not have trading finance profits as its trade is marketing and distribution. The last two gateways are not relevant.

So it appears that none of the profits of Markets SA pass through any of the gateways

### Warranties AB

As this company is an insurance company, the fourth gateway may apply.

There is no indication of any profits attributable to UK activities as the company employs its own specialist insurance and treasury staff that operate from business premises it owns in its territory of residence.

As it is not overcapitalised or have excess free assets, the second gateway (non-trading finance profits) should not be relevant.

There are no trading finance profits.

The captive insurance business gateway appears to be relevant.

Amounts fall into this section if it enters into insurance contracts with persons connected to the CFC.

Since 60% of its underwriting profits is attributable to contracts with Allroy Ltd, these would appear to pas through this gateway.

There is an exemption related to CFC located in EEA countries in Sction 371GA TIOPA 2010 but it does not apply in this case.

Therefore the profits attributed to Allroy Ltd under this gateway are:

$$9,900 \times 60\% = \pounds 5,940,000$$

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----

### Calculation of Trading profits

	£	£	
Profit before tax		36,375,000	
Add Depreciation (1)		2,750,000	
Impairment of Land (1)		10,000,000	
Employee bonuses (2)		5,000,000	
Pension contributions (3)		1,000,000	
Loss on disposal of fixed assets (1)		500,000	
Add income not in accounts			
RDEC (W1)		960,000	
		56,585,000	
Less: Capital allowances (W2)		(3,393,000)	
Trading profit after capital allowances		53,192,000	
CT Payable@25%		13,298,000	
Less: RREC Credit (4)		(960,000)	
CT payable		12,338,000	

### Notes

1) This is a capital cost

- 2) As these are not paid within 9 mnths of end of AP they are not allowable
- 3) Not allowable as not paid during AP
- 4) There is a tax credit equal to the amount of the RDEC income

	£		
March 2024 (.25x55,000/4)			
Jun			

#### W1 RDEC

	£'000		
UK staff costs	3,000		
Unconnected External workers (0.65 x 1,000)	650		
Software licence costs	650		
Cloud computing costs	500		
	4,800		
RDEC@20%	960		

As overcoems technical uncertainty, qualifying expenditure is allowable

Payments not to qualifying bodies not allowable

Contribution to UK university not allowable as does not relate to this project

#### W2 Capital allowances

Y/e 31/12/24	AIA/FYA@10 0% £	F Main pool Y£ A	Special rate pool £	Total CAs
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		@ 5 0 % £		
Tax WDV b/f		10,000,000	1,500,000	
Additions				
New factory equipment (1)	1,000,000			
Lighting (2)	400,000			
Trucks (3)	100,000			
Cars (4)			50,000	
	1,500,000	10,000,000	1,550,000	
AIA@100%	(1,000,000)			1,000,000
FYA@100%	(500,000)			500,000
WDA@18%		(1,800,000)		1,800,000
WDA@6%			(93,000)	93,000
TWDV	0	8,200,000	1,457,000	
Total CAs				3,393,000

#### Notes

1 For assets purchased under hire purchase agreements, the whole expenditure can be claimed when the assets are brought into use.

These qualify for FYAs

2 The AIA is claimed on this otherwise 50% FYAs would have to be claimed.

3 Trucks are not cars and they are new, so qualify for FYAs

4 Car do not qualify for FYAs. As emisissions are more than 50 g/kg it is a special rate asset

#### 2) Deferred Tax

#### Opening balance

	£'000		
TWDV	11,500		



NBV - qualifying assets (41,000 - 15,000)	26,000		
Temporary difference	14,500		
DT Liability@25%	3,625		

Closing balance

	£		
TWDV	9,657		
NBV - qualifying assets (29,600 - 5,000)	24,600		
Temporary difference	14,943		
DT Liability@25%	3,736		

The closing balance is temporary differences on fixed assets

Deferred tax entries for the year

Dr Deferred tax (P & L) £111,000  
 Cr Deferred tax liability (BS) £111,000

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 -----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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A company or a group will be required to publish a tax strategy if the Turnover of the company (or the group) is more than £200 million for the previous financial year and/or the group balance sheet total is more than £2 Billion. A parent and its 51% subsidiaries need to be taken into account.

Therefore Ryonsdown Ltd and Stringmore need to be taken into account. Mowberry does not need to be taken into account as it is only a 50% subsidiary.

Stringmore Ltd was acquired in September 2023, so at the end of the last financial year (Y/e 31 December 2023) it was part of a UK group so was a qualifying company.

Ryonsdown Ltd and Stringmore Ltd have different year ends. So, for Stringmore Ltd, we need to look at the accounting period ending last before the accounting period of Ryonsdown Limited.

So, looking first at turnover we need to add the turnover for Ryonsdown Ltd for y/e 31/12/23 to the turnover for Stringmore for y/e 31/3/23. This is £125M + £80M = £205M. Therefore the group, including Ryonsdown Ltd and Stringmore Ltd will have to publish a tax strategy for y/e 31/3/24.

The tax strategy must be published on Ryonsdown Ltd's (or Stringmore Ltd's) website by 31/3/24 and must be available to the public free of charge.

The strategy should describe:

- The approach of the group to risk management and governance arrangements in relation to UK taxation
- The attitude of the group towards tax planning (so far as affecting UK taxation
- The level of risk in relation to UK taxation that the group is prepared to accept and
- The approach of the group towards its dealings with HMRC

The head of the group is liable to a penalty of £7,500 if:

- The tax strategy is not published with the appropriate content or
- The tax strategy is not published in a way that is accessible to the public (free, on the internet) and in published on time (by the end of the financial year).

In the second case, a further penalty of £7,500 may be due if this is not rectified within six months.

There are also further sanctions for Persistently uncooperative large businesses.

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-----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Lidstone Ltd  
Adjustment of trading profit

	£	£	
Profit before tax		7,200,000	
Add Depreciation (2)		1,000,000	
Add:			
Non-trading interest payable (3)		600,000	
Add: Transfer pricing adjustments			
Loan to Stonelid (4)		1,250,000	
Management Services to Stonelid (5)		700,000	
Trading profit before capital allowances		10,750,000	
Less: Capital allowances (W1)		(1,204,000)	
Less: SBA (W2)		(18,750)	
Trading profit after capital allowances		9,527,250	
Less: NTLR deficit		(600,000)	
TTP		8,927,250	
CT@25%		2,231,813	
DTR (1)			
Canico (10% x 3,000,000)		(300,000)	
Amerada (25% x 2M)		(500,000)	

Mexica (10% x £2M		(200,000)	
CT payable		1,231,813	

#### Notes

1 DTR is lower of overseas tax and tax based on UK rate

2 Depreciation is a capital expense

3 Loan interest relating to loans for purchasing another company and acquisition of a building is not trading so will be included as a non-trading loan relationship.

Only  $6,000/24,000 = 25\%$  of the 800K interest payable is trading so 600K is disallowed from trading expenses.

4 If a provision between connected companies is not at an arm's length and this results in a UK tax advantage the provision will be adjsuted to an arm's length provision.

As Stonelid SA is wholly owned by Lidstone Ltd and the interest income received from Stonelid SA is less than an arm's length amount, an adjustment must be made.

The arm's length provision would be:

$10/12 \times 6\% \times 25 \text{ million} = £1,250,000$ .

The loan was made on 1 March 2024 so only 10 months of interest would have accrued.

5 Similarly to the loan interest, a transfer pricing adjustment must be made in relation to the management services.

The amount that was charged was  $50\% \times 1,000,000 = £500K$

The amount that should have been charged was

$120\% \times £1,000,000 = £1,200,000$ . Therefore an adjustment of £700K needs to be made.

#### W1 Capital allowances

y/e 31 Dec 2024	FYA@50%	General pool £	Special rate pool £	Total CAs
Tax WDV b/f		6,000,000	400,000	
Additions				
Integral Features (1)	200,000			
	200,000	6,000,000	400,000	
FYA@50%	(100,000)			100,000

WDA@18 %		(1,080,000)		1,080,000
WDA@6%			(24,000)	24,000
Transfer to special rate pool	(100,000)		100,000	
CA claim				1,204,000

1 The integral features are special rate expenditure so do not qualify for 100% FYAs  
The AIA is not available.  
However, as they are now they qualify for FYA@50%. The balance of in this pool will be transferred to the special rate pool.

#### W2 Structures and Buildings Allowance

Only building 1 qualifies for SBA as it its first use was non-residential. Buiding 2's first use was residential so it does not qualify for SBA.  
Also building 2 was constructed after October 29, 2018, which is a requirement for SBA.

The SBA claimed by Lidstone would be the same amount claimed by the vendor Deycard.

The qualifying exepnditure would have the developer's costs of £1.5M.  
The land would not have qualified for SBA.  
The claim for y/e 31 December would start from when the building was brought into use on 1 August 2024.

$$\text{SBA} = 3\% \times 5/12 \times 1,500,000 = \text{£}18,750$$

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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2) In this case the Substantial shareholding exemption (SSE) applies.  
This means that any chargeable gain arising on the sale of the shares will be exempt from corporation tax.  
The reason that the SSE applies is:

Battria Ltd had been a trading company for many years.  
In the past six years, Chartland Investments Ltd had owned 10% of the shares for at least a 12 month period.  
This is because from June 2015 to to June 2019 it has owned 15% of the shares. The holding reduce to 7.5% in June 2019, but this is less than six years before the disposal of the shares on 31 July 2024.

The gain on disposal would be:

	£		
Proceeds	750,000		
Less: Base cost (7,500/15,000) x 375,000	(187,500)		
Less: Indexation: June 2015 to Dec 2017 ((278.1-258.9)/258.9) x 187,500	(13,905)		
Chargeable gain	548,595		

There is no rounding on indexation of shares purchahsed after April 1985

4)

When the shares in Antonov were eschanged for the shares in Dencomb Ltd,the shares in Antonov would have 'stood in the shoes' of the shares in Dencomb Ltd. (S127 TCGA 1992).

They would be treated as having been acquired on the same day at the same cost as the shares in Chatland Investments Ltd.

This means they would have been treated as having been acquired on 24 June 21 for £7.5 million.

The substantial shareholding exemption did not apply because Chatland owned less than 10% of the shares in Dencomb. Otherwise this would have taken precedence over S127. On 1 May 2023 Chatland Investments received two shares in Antonov for every share in Dencomb. Therefore Chatland has 100,000 shares in Antonov at a deemed cost of £7.5 Million.

The SSE does not apply to the disposal of Antonov shares on 1 October 2024 because Chatland owns less than 10% of the shares.

Therefore the chargeable gain would be:

	£		
Proceeds (90,000 x 100)	9,000,000		
Less: Cost 90/100 x 7.5M	(6,750,000)		
Chargeable gain			

Indexation does not apply because the original shares in Dencomb (and therefore the deemed acquisition of Antonov shares) occurred in June in 2021, and indexation was frozen from January 2018.

3)

With pooled shares, disposal proceeds need to be matched with

- 1) Shares purchased on the same day
- 2) Shares purchased in the previous nine days
- 3) Shares purchased between 1 April 1982 and nine days before the previous day

S104 pool

Date	Transaction	Shares	Cost	
Feb 2018	Purchase	160,000	8,000,000	
June 2022	Purchase	100,000	7,000,000	
Jan 2024	Purchase	100,000	7,500,000	
		360,000	22,500,000	



April 2022	Disposal (120K/360K)	(120,000)	(7,500,000)	
		240,000	15,000,000	
14 August 2024	Sale (60K/240K)	(60,000)	(3,750,000)	
		180,000	11,250,000	
8 August 2024	Purchase	60,000	5,700,000	
14 August 2024	Sale	(60,000)	(5,700,000)	

Notes:

- 1 No indexation applies as all shares were purchased after December 2017
- 2 For shares sold in April 2024 no shares were sold on the same day or in the previous nine days so all disposal are matched with the S104 pool
- 3 For shares sold in August 2024, 60K of the shares are matched with the shares purchased on 8 August 2024; 60K are matched with S104 pool.

Chargeable gains:

Share sold 22 April 2024

	£		
Proceeds (120,000 x 85)	10,200,000		
Less: Cost	(7,500,000)		
Chargeable gain	2,700,000		

Shares sold 14 August 2024

	£		
Proceeds 120,000 x 105	12,600,000		
Less: Cost: S104 pool	(3,750,000)		

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Less: Cost: prvious 9 days	(5,700,000)		
Chargeable gain	3,150,000		

Losses brought Capital losses of £9M brought forward can be used against all of the above capital gains

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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A/P ending	Due date	Submission date	Closing date for enquiry
30/9/23	30/9/24	28/7/24	30/9/25
30/6/23	30/9/24	28/7/24	30/9/25
30/6/22	30/6/23	12/2/24	12/2/25
30/6/21	30/6/22	21/1/24	21/1/25
30/6/20	30/6/21	28/6/21	30/6/22
30/6/19	30/6/20	25/6/20	30/6/21

1)

Since Dunbavin Ltd is part of a group that is not small, an enquiry can be started up to 12 months from the due date of the return.

For the period of account ended 30 September 2023, there would have been two APs for tax:

y/e 30/6/23

P/e 30/9/23

Both returns would have been due on 30/9/24, which is the due date for the return of the second AP

If a return is submitted late, HMRC have from 12 months from the submission date to raise on enquiry.

Please see above table for summary.

Therefore, based on this information, if enquiries are raised on 6 April 2025, this would have been in time only for the returns for AP ending 30/9/23 and 30/6/23.

2)

IF HMRC are out of time for an enquiry, they can raise a discovery assessment if they believe:

- An amount of tax which ought to have been assessed was not assessed
- An assessment to tax is or have become insufficient ot

- Relief has been given which is are has become excessive

There are two circumstances in whcih they can raise a discovery assessment:

- Information has come to light which was not available to the HMRC officer at the deadline for raising on enquiry
- There are has been careless or deliberate behaviour on the part of the company, a person acting on behalf of the company or a person who was a partner of the company at the relevant time (deadline for enquiries).

The deadline for raising a discover assessment for a loss of tax brought about carelessly is 6 years from the end of the accounting period to which it relates.

Therefore, as at 6 April 2025, HMRC would be in time to raise a discovery assessment for all of the returns in question.