

# **The Chartered Institute of Taxation**

**Awareness**

**Module C: Corporation Tax**

**November 2023**

**Suggested solutions**

Answer 25

	Additions	Main pool	Special rate pool	Claim	
		£	£	£	
TWDV brought forward		150,000	70,000		
Additions:					
Main pool additions	2,000,000				
130% super-deduction	<u>(2,000,000)</u>			2,600,000	1
Transferred to main pool		0			
Special rate pool additions	1,800,000				
AIA (100%)	<u>(1,000,000)</u>			1,000,000	1
FYA (50%)	<u>(400,000)</u>			400,000	1
		<u>150,000</u>	<u>70,000</u>		
WDA (18%/6%)		<u>(27,000)</u>	<u>(4,200)</u>	31,200	1
Transferred to special rate pool	<u>(400,000)</u>		400,000		1
Capital allowances				<u>£4,031,200</u>	
TWDV carried forward		<u>123,000</u>	<u>465,800</u>		

Answer 26

The bonus will need to be added back to trading profits as it was not paid within 9 months of the year-end. 1

The pension contribution will need to be added back to trading profits as relief for pension contributions is given in the accounting period in which they are paid, not when they are accrued. 1

The director's car has high emissions (over 50g/km), therefore 15% of the leasing costs will need to be added back. £900 (£6,000 x 15%) will need to be added back to trading profits. 1

The gifts to customers are all below the £50 limit and bear the company logo, but any gift of food, alcohol or tobacco is disallowed, so the total cost of the gifts of the bottles of wine (£10 x 100 = £1,000) must be added back to trading profits. 1+1

Answer 27

	12 months ended 31/03/2023 £	3 months ended 30/06/2023 £	
Trading profits before capital allowances (12:3)	360,000	90,000	1
Capital allowances (Working)	<u>(12,600)</u>	<u>(2,583)</u>	1
Taxable trading profit	347,400	87,417	
Chargeable gain		200,000	
Capital loss		<u>(10,000)</u>	1
Taxable total profits	<u>347,400</u>	<u>277,417</u>	
Rate to be applied	<u>19%</u>	<u>25%</u>	
£347,400 x 19%	<u>£66,006</u>		1
£277,417 x 25%		<u>£69,354</u>	1
Working: capital allowances	£	£	
TWDV b/fwd	70,000	57,400	
WDA at 18%			
- Full year	(12,600)		
- 3 months (3/12)		<u>(2,583)</u>	
TWDV c/fwd	<u>£57,400</u>	<u>£54,817</u>	

### Answer 28

The due filing date for the company tax return is 12 months from the end of the period of account, which is 31 December 2022. As the return is not filed until 31 July 2023, it is seven months late. **1**

As the corporation tax return is filed more than three months late, Bubbla Ltd is liable to a flat rate late filing penalty of £200. **1**

Bubbla Ltd is also liable to a tax geared penalty of 10%, since the return is not filed within 18 months of the end of the accounting period. The penalty is calculated as 10% of the corporation tax unpaid at the 18-month point. **1+1**

Companies are not generally subject to late payment penalties. However, interest will be charged on the late payment of corporation tax. The due date for payment was 1 October 2022, so the payment is 10 months late. Interest will be charged at 3.5% pro-rated for 10/12 months. **1**

### Answer 29

	£	
Loss before additional deduction	215,000	
Additional deduction: qualifying expenditure (58,000 x 130%)	<u>75,400</u>	<b>1</b>
Trade loss after additional deduction	<u>290,400</u>	
<b>Surrender lower of:</b>		<b>1</b>
Loss: £290,400 and		
<b>230%</b> of qualifying expenditure: £133,400		<b>1</b>
Therefore, £133,400		
R&D tax credit £133,400 x 14.5%	<u>£19,343</u>	<b>1</b>
Trading loss carried forward: £290,400 - £133,400	<u>£157,000</u>	<b>1</b>

### Answer 30

	£	
Trading profit per question	650,000	
Add: loan written off - Gina	<u>25,000</u>	<b>1</b>
Tax adjusted trading profit	<u>675,000</u>	
S.455 tax:		
Brody (75,000 – 40,000 = 35,000 x 33.75%)	11,813	<b>1+1</b>
Geena repayable (25,000 x 32.5%)	<u>(8,125)</u>	<b>1+1</b>
S.455 tax payable on 1 January 2024	<u>£3,688</u>	

### Answer 31

The UK property business loss of £15,000 in the year ended 31 March 2023 must be deducted from total profits of the loss-making period, reducing the total profits to £95,000 (£90,000 + £20,000 – £15,000). This relief is automatic and mandatory, so no claim is required. **1**

The trading loss of £150,000 for the year ended 31 March 2022 must first be offset against total profits of the current year (the UK property business income of £10,000). The remaining £140,000 trading loss can then be carried back to the year ended 31 March 2021 and deducted from total profits. This will fully utilise the trading loss. The claims must be made within two years after the end of the loss-making accounting period, i.e by 31 March 2024. **1**

### Answer 32

- 1) For a group relief group to exist, there must be a minimum 75% relationship directly and indirectly between the companies. The following groups exist:
- Ababad Ltd, Beecele Ltd, Deecle Ltd and Geecle Ltd 1
  - Beecele Ltd and Ceecle Ltd 1
  - Deecle Ltd and Feecele Ltd 1
- Overseas companies can form a link to create the group but cannot partake in any forms of relief. 1
- 2) Deecle Ltd can only surrender brought forward trading losses to the extent that it is not possible to use those losses against its own profits, whether it chooses to make a claim for those losses or not. Deecle Ltd can therefore surrender £110,000 (£450,000 – £300,000 – £40,000) of losses for group relief. 1

### Answer 33

	£	
Proceeds	800,000	
Degrouping gain	<u>156,520</u>	
	956,520	1
Indexed cost	<u>(300,000)</u>	1
Chargeable gain	<u>£656,520</u>	
Working:		
Degrouping charge:		
MV of property December 2019	450,000	1
Original cost	(230,000)	1
Indexation January 2010 – December 2017		
$278.1 - 217.9 / 217.9 = 0.276 \times £230,000$	<u>(63,480)</u>	1
	<u>£156,520</u>	

### Answer 34

		£	
Turnover from relevant engagements		120,000	
5% statutory deduction		<u>(6,000)</u>	1
		114,000	
Salary		(20,000)	
Employer's NIC	(20,000 – 9,100) x 15.05%	(1,640)	1
Employer's pension		(10,000)	
Expenses	Professional subscriptions	<u>(600)</u>	1
Gross deemed salary payment		81,760	1*
Employer's NIC	81,760 x 15.05 / 115.05	<u>(10,695)</u>	1
Deemed salary payment		<u>£71,065</u>	

*\*Deducting salary and pension*

### Answer 35

Disposal of factory	£	
Proceeds	400,000	
Cost (working)	<u>(175,000)</u>	
Chargeable gain	<u>£225,000</u>	1

#### Working:

Disposal of office building		
Proceeds	380,000	
Costs of disposal	<u>(2,000)</u>	1
Net proceeds	<u>(378,000)</u>	
Indexed cost	<u>(175,000)</u>	1
Gain before rollover relief	203,000	
Rollover relief (balancing figure)	<u>(165,000)</u>	
Chargeable gain (£378,000 - £340,000)	<u>38,000</u>	1

Base cost of factory		
Cost	340,000	
Less: Rolled over gain	<u>(165,000)</u>	1
	<u>175,000</u>	

### Answer 36

	Total £	UK £	Overseas £	
UK trading profit	510,000	510,000		
UK property business	25,000	25,000		
Overseas permanent establishment trading profit (60,000 + 20,000)	80,000		80,000	1
Overseas dividend income - exempt	-		-	1
Management expenses	<u>(120,000)</u>	<u>(120,000)</u>		1
	<u>495,000</u>	<u>415,000</u>	<u>80,000</u>	
UK corporation tax (19%)	94,050	78,850	15,200	1
Foreign tax			20,000	
Double tax relief	<u>(15,200)</u>		15,200	1
Corporation Tax liability	<u>£78,850</u>			