THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Larger Companies and Groups

November 2025

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.
- 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.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Jomar Ltd is a UK trading company with successful franchise operations. It has one wholly owned trading subsidiary, Liamie Ltd.

An extract from Jomar Ltd's income statement for the year ended 31 March 2025 is below:

	£'000
Revenue	500,000
Cost of sales	(175,000)
Gross profit	325,000
Other income (Note 1)	160,000
Administrative expenses (Note 2)	(52,000)
Depreciation	(10,000)
Operating profit	423,000
Interest receivable	1,000
Dividends receivable from subsidiary	10,000
Profit on ordinary activities before taxation	434,000

Notes

1) Other income comprises gross royalty income from its franchise operations. Jomar Ltd suffered withholding tax on this income as follows:

	Gross royalty income	Withholding tax rate	Withholding tax suffered
	£'000		£'000
Franchise partner 1	50,000	25%	12,500
Franchise partner 2	75,000	30%	22,500
Franchise partner 3	35,000	15%	5,250
Total	160,000		40,250

All franchise partners are located in overseas jurisdictions with no double tax agreement with the UK. There were no expenses incurred in relation to this income.

2) Administrative expenses comprised:

	£'000
Staff costs (salaries and National Insurance)	25,000
Long-term incentive plan – bonuses (Note 3)	180
Pension contributions (Note 4)	5,000
Gifts and entertainment (Note 5)	5,000
Website running costs	5,000
Donation to national charity	1,000
Regulatory penalties	1,000
Specific customer bad debt write-off	500
Advertising costs for branded boards at a football club	1,000
Research & Development (R&D) costs (Note 6)	2,000
Other expenses	6,320
Total	52,000

3) Long term incentive plan

With respect to the year ended 31 March 2024, at the balance sheet date, there were unpaid bonus amounts accrued for of £100,000, of which £25,000 was paid on 15 April 2024. The remaining balance remains unpaid.

With respect to the year ended 31 March 2025, amounts arising during the year were £180,000, of which £30,000 was paid on 15 April 2025. An amount of £150,000 is expected to be paid on 1 January 2026.

4) Pension contributions

At 31 March 2024 there were unpaid pension contributions of £200,000. All of this was paid on 15 April 2024.

In respect of the year ended 31 March 2025, amounts arising during the year were £5,000,000, of which £4,750,000 was paid during the year ended 31 March 2025.

The pension contributions paid in the year were £400,000 higher than the prior year.

5) Gifts and entertainment comprised:

	£'000
Staff entertainment	1,000
Third party hospitality	500
100,000 branded gifts worth £15 each to each supplier	1,500
100,000 bottles of branded prosecco worth £20 to each supplier	2,000
Total	5,000

6) Jomar Ltd incurred the following costs in connection with its qualifying R&D activities:

	£'000
Personnel costs	1,000
Consumables	500
External equipment repairs	500
Total	2,000

There was no R&D expenditure credit recognised within the income statement.

Continued

7) The tangible fixed asset summary for Jomar Ltd is as follows:

	Land and buildings	Plant and machinery	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost:				
Brought forward	100,000	50,000	10,000	160,000
Additions (Note 8)	Nil	500	750	1,250
Carried forward	100,000	50,500	10,750	161,250
Depreciation:				
Brought forward	5,000	20,000	3,000	28,000
Charge in the year	3,000	6,000	1,000	10,000
Carried forward	8,000	26,000	4,000	38,000
Net book value brought forward	95,000	30,000	7,000	132,000
Net book value carried forward	92,000	24,500	6,750	123,250

Land and buildings did not include any items eligible for capital allowances.

Liamie Ltd has no fixed assets.

8) The fixed asset additions were made up as follows:

	£'000
Plant and machinery:	
Equipment	200
Machinery on long funded lease	50
Air conditioning unit	250
Total plant and machinery	500
Fixtures and fittings:	
A new lift for the office building	750
Total additions	1,250

9) Jomar Ltd had the following tax written down values brought forward figures in its capital allowances pools on 1 April 2024:

	£'000
Main plant and machinery	2,500
Special rate plant and machinery	1,000

10) Corporation Tax of £60 million was paid during the year ended 31 March 2025. Jomar Ltd has no unpaid liabilities in respect of PAYE, or VAT.

11) There were no prior year adjustments required in respect of tax accounting.

12) Dividends of £50,000 were paid during the year.

Requirement:

1) Calculate, with explanations, the Corporation Tax liability for Jomar Ltd for the year ended 31 March 2025, and state any Corporation Tax payments or repayments that may be due. (17)

2) Calculate the total tax charge required for the profit and loss account (current year tax charge and deferred tax charge), and the closing deferred tax balance that will appear in Jomar Ltd's accounts for the year ended 31 March 2025. You are NOT required to calculate the Corporation Tax creditor. (3)

Total (20)

2. The Lucia Engineering group consists of three UK resident companies with a 31 December year-end. The parent company is LEG Ltd which provides design and engineering services. LEG Ltd has two wholly owned subsidiaries, Philo Ltd, which sells and stores equipment and Dugo Ltd, which provides construction services.

In early 2025, the group began exploring business opportunities in Barcello, an overseas jurisdiction, and neighbouring countries, by engaging an independent agent to source engineering contracts over a six-month period.

Having identified several opportunities, the managing director of LEG Ltd rented an office in Barcello for two months, and negotiated and finalised four separate contracts to begin in 2026, as follows:

Contract 1: LEG Ltd will provide design and engineering services in Barcello as part of an initial four-year contract with the Barcello government. LEG Ltd is expected to hire 300 local staff in Barcello to provide the required services. LEG Ltd expects the contract to be loss-making for the first three years before becoming profitable. It also expects to create intellectual property as a result of its design work.

Contract 2: Philo Ltd will be renting a warehouse in Mumbar (a neighbouring country to Barcello) to maintain and store materials and equipment for sale or rental to third parties in Mumbar, pursuant to contracts that are negotiated and concluded in the UK. No employees of Philo Ltd are expected to travel to Mumbar, and no other income streams are expected to be derived.

Contract 3: Philo Ltd will provide equipment in Barcello to a large third-party construction firm. It will send its UK employees to install the equipment which is expected to take four months. This will be loss-making however the managing director believes this will help establish the group within Barcello and lead to further business opportunities.

Contract 4: Dugo Ltd has engaged with the Barcello government to construct a bridge in Barcello. Dugo Ltd will be sending its UK employees for a period of up to 12 months. This contract is expected to be profitable.

Barcello and Mumbar both have similar tax rules to the UK, although the corporate tax rate in both countries is only 15%. Both have a double tax agreement with the UK that follows the OECD Model Tax Treaty.

Requirement:

1) **Discuss whether permanent establishments arise in Barcello and/or Mumbar as a result of the above activities.** (6)

2) **Explain the UK Corporation Tax consequences of an overseas permanent establishment arising and discuss what the group could do to minimise its UK Corporation Tax liability.** (9)

Total (15)

3. Peralta Ltd is a UK-incorporated cybersecurity company that has operated solely in the UK for many years. The UK business activity has been declining and may cease altogether. However, the directors have spotted new business opportunities abroad and are considering expanding operations internationally and potentially migrating the tax residence of Peralta Ltd from the UK to an overseas jurisdiction by 31 March 2026. They have not yet identified a specific location.

Peralta Ltd's balance sheet for the year ended 31 March 2025 includes (but is not limited to) the following assets:

1) Intangible fixed assets being internally generated goodwill.

2) UK land which was purchased in 2020 with the intention of building an office on it. Due to the decline in business activity, the office was never built.

3) Computers.

4) Computer hardware stock for resale.

Peralta Ltd has entered into an interest rate swap, due to a loan being in place to fund the future expansion.

Requirement:

Explain the UK tax consequences of the board's proposal to migrate Peralta Ltd from the UK to an overseas jurisdiction. (15)

4. Moss-side plc is the parent company of an international group with diverse interests. The Board has approved the development and production of a new product. Given the commercial risks associated with this, a new wholly owned UK subsidiary company, Cloverleaf Ltd, was incorporated on 1 October 2025 to undertake the relevant work.

Cloverleaf Ltd was immediately funded by both equity and intra-group debt. It is anticipated that all interest costs (estimated to be £200,000 for the period ended 30 June 2026) will be fully deductible as any disallowances arising under the Corporate Interest Restriction rules will be allocated to other group companies.

Cloverleaf Ltd will have the same financial year end as the other group companies, being 30 June. Interest income is expected to arise on the initial funds deposited until these funds are used to finance the construction of a new production facility.

The new production facility is planned to be completed by 1 June 2026, allowing production to commence on that date and resulting in budgeted sales of £1,000 in June 2026.

The estimated construction costs are as follows:

Item	Cost £'000	Further details
Land	650	-
Building	1,650	This comprises: structure (£1 million); mezzanine flooring for offices (£150,000), lift to offices (£50,000), electrical works (£250,000), thermal insulation (£50,000), hot and cold water supplies (£150,000).
Solar panels on building	75	-
Machinery	150	Payable in three equal instalments due on delivery, three months, and six months after delivery. The anticipated delivery date is 31 May 2026.

The annual investment allowance has been fully utilised elsewhere in the group.

Production together with further development and marketing of the product will commence on completion of the production facility.

Requirement:

1) **Explain the tax administration requirements relating to the incorporation of Cloverleaf Ltd and its period of account ending on 30 June 2026.** (4)

2) **Calculate, with explanations, the tax relief that will be available in respect of the expenditure on the new facility.** (8)

3) **Explain the options available for relieving the losses and deficits arising in Cloverleaf Ltd in the period ended 30 June 2026.** (8)

Total (20)

5. Norwood plc is the UK parent company of a multinational group with a 31 July year-end. The group has recently changed its policy on the ownership of property. It is now the group's policy for Norwood plc to hold all properties occupied by group companies, and for group companies to pay market rate rent to Norwood plc.

Southpool Ltd is a wholly owned, UK resident and incorporated, trading subsidiary of Norwood plc.

The following transactions took place in the UK in the year ended 31 July 2025:

1) On 31 March 2025, Norwood plc sold the lease of its former head office building for £220,000. Norwood plc had originally purchased a 55-year lease on 1 July 2018 for £200,000.

2) On 31 May 2025, Norwood plc granted a 30-year lease on an office property to G&S Ltd, an unrelated company, for £50,000, incurring legal costs of £2,000. Norwood plc had purchased the freehold of the office in May 1995 for £150,000. The freehold reversion was valued at £200,000 at the time that the 30-year lease was granted.

3) In April 2025, Southpool Ltd sold an old factory for £5 million. Southpool Ltd had occupied and traded from that factory for 20 years until it moved into a new factory in December 2024.

The old factory was purchased in January 1995 by Norwood plc for £1 million. Following a group restructure in April 2005, the old factory together with the associated trade was transferred to Southpool Ltd. The property was transferred at its market value of £1.5 million and the associated goodwill was transferred for £0.5 million. The old factory was refurbished by Southpool Ltd in November 2018 at a cost of £1.2 million. Capital allowances were claimed on integral features of £0.6 million within this expenditure.

The new factory, costing £4.5 million, was purchased in July 2024 by Norwood plc.

Southpool Ltd spent £150,000 on fixed plant and machinery for the factory in December 2024.

Requirement:

Explain the UK tax implications for the group of the above transactions arising in the year ended 31 July 2025. (20)

6. EastDene plc is a UK resident and incorporated trading company. Currently it has no overseas activities. It is planning to incorporate an overseas subsidiary (Subco) in Ruritania to expand in that country, where the corporate tax rate is marginally lower than in the UK. It is considering the merits of establishing Subco as a hybrid entity to minimise any tax cost of loan funding of Subco by EastDene plc or third-party lenders.

Requirement:

Explain:

1) **What are hybrid entities and hybrid financial instruments.** (4)

2) **How UK (or comparable overseas) tax legislation may counter EastDene plc's planned use of a hybrid entity.** (4)

3) **The UK tax administrative requirements associated with hybrid mismatches.** (2)

Total (10)