

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Taxation of Larger Companies and Groups

November 2024

TIME ALLOWED

3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- 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 2023/24 legislation (including rates and allowances) continues to apply for 2024/25 and future years. 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.

You are a tax manager at Stephens LLP, a firm of Chartered Tax Advisers. Your client is the UK branch of Norwal Inc, a company owned and headquartered in Ruritania.

One of the tax partners, Peter Jones, has received an email (**EXHIBIT A**) from Joanne Grey, the global tax director of Norwal Inc, about the proposed acquisition of a UK company, Macduff Ltd.

Peter has asked you to prepare a report for Joanne making recommendations for the proposed restructuring of the group given the acquisition of Macduff Ltd.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Joanne Grey to Peter Jones

EXHIBIT B: Summary information on Macduff Ltd

EXHIBIT C: Summary information on existing branches of Norwal Inc

EXHIBIT D: Pre-seen information

Requirement:

Prepare a report to Joanne Grey, for review by Peter Jones, making recommendations concerning the proposed restructuring including consideration of the most appropriate financing options.

Continued

EXHIBIT A

Email from Joanne Grey to Peter Jones

To: peter.jones@stephens.co.uk
From: jgrey@norwal.ra
Date: 1 November 2024
Subject: UK acquisition

Peter

As we discussed, the Board has asked me to contact you. We would like UK tax advice as we look to expand and restructure our global operations, particularly within Europe.

Purchase of Macduff Ltd

The Board has identified an opportunity to purchase all the shares in Macduff Ltd, one of our principal suppliers in the UK. This purchase can be funded from Norwal Inc's cash reserves. I attach the summary information on Macduff Ltd (**EXHIBIT B**) that has been provided to the Board.

Expansion plan

We are also considering expanding further into new territories, in particular, the Czech Republic and Lithuania, where the corporate tax rates are 19% and 15%, respectively. We anticipate that losses would arise in the early years of trading but operations in these two new territories should become profitable within five years.

Restructuring plan

The tax rate in Ruritania is expected to rise from 20% to 35% in two years' time, and we are concerned that this will result in a significant increase in our global tax cost. We are therefore planning to restructure our current trading operations such that they will be held by an entity in a jurisdiction with a tax rate that is lower than 35%. The UK would be an ideal location for such a holding company because of the UK's extensive double tax treaty network.

We previously set up overseas branches of Norwal Inc rather than subsidiary companies because Ruritanian law taxes the profits of overseas subsidiaries in the same way as overseas branches in the absence of a double tax treaty providing otherwise. In the past, Ruritania has had double tax treaties with very few countries, and none in which we operate. Therefore, historically there has been no advantage in setting up overseas subsidiaries rather than branches.

However, under the recently agreed UK-Ruritania double tax treaty, profits of a UK subsidiary are not taxable in Ruritania, although a 5% tax is applied to dividend income received from a UK subsidiary. We are therefore planning to restructure our operations so that all of Norwal Inc's overseas branches are held by a UK company. We consider that Macduff Ltd would be ideal if this purchase takes place. In addition, we would like to consider whether the overseas branches should remain as branches (of Macduff Ltd) or be incorporated into overseas subsidiaries that are wholly owned by a UK company (such as Macduff Ltd).

Request for advice

Please provide advice on the UK tax issues that we need to consider in respect of our expansion and restructuring plans, including whether these plans should be funded by way of debt or equity. The Board has decided that market value should be paid for any transfer of assets between legal entities.

To assist you, I attach summary financial information on each of our existing overseas branches (**EXHIBIT C**).

We are seeking Ruritanian tax advice from our Ruritania advisers, although our understanding is that no exit charges are levied in Ruritania on a change of ownership of an asset unless that asset is physically located in Ruritania.

We look forward to hearing from you.

Regards

Joanne

Continued

EXHIBIT BSummary information on Macduff Ltd

Macduff Ltd was incorporated and is tax resident in the UK. It was founded in 2007 and is currently owned by four, otherwise unrelated, directors.

It manufactures consumer goods, selling to wholesale customers.

Summarised financial information for Macduff LtdIncome Statement

| Year ended 30 June | <u>2024</u> | <u>2023</u> |
|-------------------------|-----------------|-----------------|
| | £ million | £ million |
| Revenue | 175 | 160 |
| Cost of sales | <u>(120)</u> | <u>(110)</u> |
| Gross profit | 55 | 50 |
| Administrative expenses | <u>(49.2)</u> | <u>(45.5)</u> |
| Operating profit | 5.8 | 4.5 |
| Finance expense | <u>(1.8)</u> | <u>(1.5)</u> |
| Profit before tax | 4 | 3 |
| Tax expense | <u>(1)</u> | <u>(1)</u> |
| Profit after tax | <u><u>3</u></u> | <u><u>2</u></u> |

The taxable total profits for the company for the year ended 30 June 2024 are £2.6 million.

Statement of Financial Position

| At 30 June | <u>2024</u> | <u>2023</u> |
|---------------------|---------------------|---------------------|
| | £ million | £ million |
| Fixed assets: | | |
| Land and buildings | 750 | 760 |
| Plant and machinery | 1,210 | 1,105 |
| Intangibles | <u>25</u> | <u>25</u> |
| Net fixed assets | 1,985 | 1,890 |
| Current assets | 51 | 49 |
| Current liabilities | <u>(474)</u> | <u>(380)</u> |
| Long term creditors | <u>(25)</u> | <u>(25)</u> |
| Net assets | <u><u>1,537</u></u> | <u><u>1,534</u></u> |
| Equity: | | |
| Share capital | 1 | 1 |
| Retained earnings | <u>1,536</u> | <u>1,533</u> |
| Total equity | <u><u>1,537</u></u> | <u><u>1,534</u></u> |

Continued

EXHIBIT CSummary information on existing branches of Norwal Inc

The branch profits/(losses) for the year ended 30 June 2024, projected future profits/(losses) and estimated branch values are summarised below:

| | <u>UK branch</u> | <u>Portuguese branch</u> | <u>Polish branch</u> | <u>Spanish branch</u> |
|------------------------------|------------------|--------------------------|----------------------|-----------------------|
| | £ million | £ million | £ million | £ million |
| Revenue | 25 | 16 | 15 | 12 |
| Direct costs | (15) | (10) | (10) | (10) |
| Indirect costs | (8) | (4) | (3) | (4) |
| Profit/(loss) | 2 | 2 | 2 | (2) |
| Projected profit/(loss) 2025 | 2.5 | 2 | 1.5 | (1.5) |
| Projected profit/(loss) 2026 | 3 | 3 | 2 | (0.5) |
| Estimated value | 28 | 5 | 3 | 3 |
| Local tax rate | 25% | 21% | 19% | 25% |

There are no significant adjustments between the accounting profit/(loss) and taxable profit/(loss).

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EXHIBIT DPre-seen informationClient informationNorwal Inc

Norwal Inc was incorporated and is resident in Ruritania. It was founded in 2016 and since then, it has been a retailer, operating principally through online channels, although retail premises have been established in a number of flagship locations worldwide.

Directors

Managing Director – Jeff Spillar
Finance Director – Alex Schmidt

Each of the directors holds 5% of the share capital of the company with the remaining 90% owned by private equity group.

Summarised group structure

In addition to online operations, Norwal Inc trades through overseas branches in the United Kingdom, Portugal, Poland and Spain where its flagship retail premises are located. It does not hold shares in any companies.

Norwal Inc and its branches employs approximately 5,000 staff worldwide.

Norwal Inc and its branches prepare accounts to 30 June.

Ruritanian information

One Ruritanian Yen is worth approximately £2.

Ruritania taxes all profits of overseas branches, with full relief for any overseas tax suffered in the absence of specific double tax treaties providing otherwise.

Financial information for Norwal IncIncome Statement

| Year ended 30 June | <u>2024</u> | <u>2023</u> |
|-------------------------|------------------|------------------|
| | R Yen | R Yen |
| | (million) | (million) |
| Revenue | 2,460 | 2,320 |
| Cost of sales | <u>(1,476)</u> | <u>(1,400)</u> |
| Gross profit | 984 | 920 |
| Administrative expenses | <u>(935)</u> | <u>(897)</u> |
| Profit before tax | 49 | 23 |
| Tax expense | <u>(10)</u> | <u>(7)</u> |
| Profit after tax | <u><u>39</u></u> | <u><u>16</u></u> |

Continued

Statement of Financial Position

| At 30 June | <u>2024</u> R Yen (million) | <u>2023</u> R Yen (million) |
|---------------------|-----------------------------------|-----------------------------------|
| Fixed assets: | | |
| Land and buildings | 740 | 750 |
| Plant and machinery | 460 | 425 |
| Intangibles | <u>50</u> | <u>50</u> |
| | 1,250 | 1,225 |
| Current assets | 2,084 | 2,062 |
| Current liabilities | (140) | (132) |
| Long term creditors | <u>(1)</u> | <u>(1)</u> |
| Net assets | <u>3,193</u> | <u>3,154</u> |
| Equity: | | |
| Share capital | 10 | 10 |
| Retained earnings | <u>3,183</u> | <u>3,144</u> |
| Total equity | <u>3,193</u> | <u>3,154</u> |

Corporation Tax information

The UK company tax return in respect of the UK branch for the year ended 30 June 2023 was filed on 15 April 2024, showing taxable profits of £2.5 million. The 2024 company tax return has not yet been filed.

There are no open enquiries with HMRC nor outstanding returns or tax liabilities.

There are no UK trading or other losses carried forward.

VAT

The UK branch is registered for VAT in the UK. The option to tax has been exercised on the freehold properties held by the UK branch.