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	**953**	**4306**	**5228**
Section 2	**406**	**2082**	**2376**
Section 3	**456**	**2145**	**2566**
Section 4	**591**	**2914**	**3413**
Section 5	**439**	**2064**	**2394**
Section 6	**264**	**1148**	**1405**
Total	**3109**	**14659**	**17382**

Answer-to-Question-_1_

The CFC legilsation aims to avoid the diversion of profits for overseas companies which are controlled from the UK, an analysis of the exemptions and subsequent gateways is applied to get the CFC charge payable.

A CFC charge is attributable to any UK company with a shareholding in a CFC of 25% or more.

Double tax relief can be deducted from a CFC charge.

The CFC Charge follows the parent companies year end.

Market AS is not a CFCbecause it will benefit from the low profit margin exemption as their profit for their margin is under 10% (£650K / £9,900K). It likely would also be caught by the profits attributable to Uk activities gateway due to its ability be autonamous using its own staff and premises.

Paints SA may benefit from the exempt periods exemption, this only being applicable if another exemption is able to be applied in the following 12 month period. Neither the low profit or low margin exemptions apply to Paints SA as their profits for the period are too high.

Both the profits attributable to Uk activities gateway and the finance incoe gateway will be assesed fto see if a CFC charge is applicable.

Condition A The first criteria is whether any UK assets and risks are bourne by the overseas company, no details are provided of any UK assets, it is assumed there are UK risks or assets.

Condition B - it is assumed there are no risks or assets related to the avoidance of tax, this would mean the profits pass through the gateway subject to a CFC charge.

Condition C, if Paints SA could operate autonomously with no assitance from the UK co, then no CFC charge would be levied, as the company is well established it could be assumed that this condition may be met.

Condition D - if the companies profits only consisted of non tradeing profits or property business profits, it would be assessed in another gateway.

Non - Trading income, this could be elected to be treated as trading income allowing more generous conditions to be met in order to avoid a CFC charge, however if the profits were made up of less than 5% of non trading profits these would be treated an incidental and not subject to a CFC charge.

In the unlikely event that a CFC charge arises for Paint SA

Bien BV is not controlled by the UK, and is not a CFC.

Warranties AB

Warranties AB is not a CFCbecause the shareholding of the oversees controller is in excess of 55%, no CFC charge can be levied on a company which is not a cfc, If the company were a CFC The profits attributable to UK activities gateway is not going to prevent a CFC charge in this case as it is over the 50% threshold (60%).

The insurance income will be subject to a charge if it is not caught by the captive insurance gatway, this excludes any transaction entered into for a tax advantage. Assuming that is not the case as 60% of the income is directly related to the UK.

The last test to avoid a CFC cahrge is the significant people function, as there are no significant people with the warranties AB business within the UK and no significant fucntions from the information provided, no CFC charge would be levied.

Brands BV

Brand BV is a CFC As the parent company has atleast 50% of the shareholding, only 50% of the resulting charge will be allocated to Allroy ltd. Because the OS company has over 40% but not more than 55% of the shares this counts Brands BV as a CFC.

No exemptions apply to Brands BV, the gateways for trading profits attributable to the UK can be tested first. All of the trading profit relates to its UK parent comapnies activities.

Because the transaction was part of an arrangement to reduce the groups effective tax rate it is not caught by any gateway.

The trading profits of £15k are attributable to the UK and a CFC charge of 3.75m would be levied if the full accounting period lined up with the parent, double tax relief of 2m would offset this leaving a CFC charge payable of 1.75m multiplied by the 50%

shareholding the Alloroy has, £875k. Because the year end if July 24 instead of March 25, only 4 of the 12 months charge arises in the year (1.75m x (4/12) = £583.3k, Apportioned to the UK company is a CFC charge of £291,667.

The significant people function test is met as it heavily relies on the Uk for all employees, and it could not function as an autonomous entity demonstrated by the lack of a premises in the country inwhich it operates.

Lender SARL

Lender SARL is a CFC as it is fully controlled by the UK parent.

Profits from qualfiying loan reletionships are going to apply to their interest income of £750k from connected parties,75% of this would not be subject to a CFC charge, £187,500 is chargable.

Lender SARL has no trading income and therefore the non trade profits must pass through that gateway. Only the profits attributable to UK activities will be subject to a CFC charge, because Lender only has one employee who works overseas, the loans the Paint SA and other OS companies will be caught by the gateway and therefore not profits subject to a CFC charge.

An amount of expenditure is allowable in proportion to the managing of the UK investments (corporate bonds), the CFC charge may be as follows;

Bond income	2.25m		
Expenditure	0.05m		
Net	2.2m		

CFC	550k		
DTR	(450K)		
TAX	100K		

100% attributable to UK parent in line with shareholding.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

Profit before tax		36,735,000		
Add back				
Depreciation		2,750,000		
Loss on disposal		500,000		
Impairment		10,000,000		
Bonuses		5,000,000		
Pensions		1,000,000		
RDEC		1,220,000		
Deduct				
CA's		(2,367,000)		
Trading profits		54,838,000		
Tax payable		13,709,500		
RDEC		(1,220,000)		
Payable after RDEC		(12,489,500)		

a. Depreciation is a capital item
b.Loss on disposal of a fixed asset is a capital item
c. Impairment of land is a capital item and will be calculated as a capital loss on sale.
d. Bonuses must be paid within 9 months of the year end, the deduction will be obtained in the period of the payment if it is after 9 months.
E. only pension payments made in the year are deductable, assumed £1m is all movement.
F. RDEC is added to taxable income and then deducted from tax payable

Capital allowances

Asset	Main pool	50% FYA	SRP	AIA
	10,000,000		1,500,000	
Addittions	400,000			
Office furniture				250,000

Lighting system		250,000		
Trucks	150,000			
Car			50,000	
Total	10,550,000		1,550,000	
WDA (18/6%)	1,899,000		93,000	
SRP ADJ		(125,000)	125,000	
C/fwd	8,661,000		1,582,000	TWDV
CA's	2,367,000			

No proceeds from the loss on disposal of fixed asset, NBV 500 and loss 500.

No FYA on second hand equipment.
No FYA on second hand cars.
Hire Purchase items - payments within four months of the acquisition are allowable, assumed equal installments are £200k per year not monthly.
Lighting system is an integral feature eligable for 50% FYA, no deduction is allowed in the year for WDA.
Trucks are not subject to CO2 emissions restrictions, only cars, this is main pool expenditure.

RDEC

	100%	65%	RDEC
Staff costs	3,000,000		
EPW's		1,000,000	
Subcontract R&D		2,000,000	
OS R&D		-	
University		-	
Software	650,000		
Cloud Computing	500,000		
Total	4,150,000	1,950,000	
RDEC 20%	830,000	390,000	1,220,000

Software and cloud computing is assumed to be 100% related to the ongoing R&D Activities.
All of the deductions are assumed to be trade related costs which are of an allowable purpose.

Very large company - installment dates March 14th 2024 and every 3 months after this date.
Based on forecast the payments fof £13,250k should have been made on the dates above.

Deferrred Tax

TWDV assets
B/fwd

	NBV	TWDV	DTL	
FA	41,000	11,500	7,375,000	

C/fwd

Assets	NBV	TWDV	Diff	25% DTA/(DTL)
FA	29,600,000	10,243,000	19,357,000	(4,837,250)
Pension	0	1	1,000,000	250,000
Bonus	0	5	5,000,000	1,250,000

Movement for the year
B/Fwd DTL - £7,375,000
C/fwd DTL (NET) - £3,337,250

Timing difference between NBV and TWDV = CLOSING

DR DTA - 1,500,000
Cr DTL - £4,837,250

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

31st December year end 3 months pre acq

	RY	STRING	MOW	
Dec 23 t/o	125m	20m	5m	
Dec 23 BS	1,400m	500m	7.5m	

Turnover has been approtioned evenly throughout the period.

A qualifying company has turnover of more than £200 million or total balance sheet of over £2bn in the previous accounting period.

It must also satisfy the criteria for a UK company, which as they are all UK incorporated and resident is confirmed.

In the period to Dec 23 the turnover of thr group was less than £200m (£150m) and therefore no requirement under this limit occurs for Dec 24.

The balance sheet total for the group at Dec 23 will determine if the requirement exists for FY 2024 for the group.
The balance sheet total as shown above is £1,907.5m taking the subsidiaries balance sheet apportioned by shareholding taking into account the subsidiaries year ends which fall before the parents last financial year end.

The group tax strategy must be published by the parent of the group for the accounting period after they exceed the thresholds. It must be published before the end of the current financial year, and also if the group was a qualify group in the previous year the tax strategy must be published within 15 months of the previous publication.

The strategy must be published on the internet freely available to all, by all companies within thr group. it may be published as a seperate document or part of a larger document.

The date of publication is when it can be viewed on the internet by all.

The group tax strategy must contain the following;

The approach to risk management in relation to UK tax

The attitude towards group tax planning
the level of risk being accepted by the group.
The approach of the group towards deadling with HMRC.
The company must make sure that it is clear by the publiction that it regards the publication as complying with the duty to publish.

Penalty for Non-Compliance

The penalty is £7,500 for a failiure to publish in line with the compliance, this could include publications which do not meet the requirements.

The penalty is payable by the head of the group.

Only one penalty is payable per year if failiure to publish is amended in time.

If no publication is made within six months after the last day of the obligation, a further penatly of £7,500 is payable, and if the failiure continues this penalty recurs every month.

A penalty may not be payable if the person liabile has satisfied HMRC that there was a reasonable excuse for the failure. This does not include the following;

Lack of funds (Inside of control)
Relying on another person (Unless reasonable care to avoid)

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

		Lidestone Ltd			
PBT		7,200,000			
Depreciation	a	1,000,000			
WHT	b				
Interest paid	c	(600,000)			
TP Adjustment	D	1,250,000			
Management fees		(700,000)			
Capital allowances		(1,204,000)			
SBA		(52,500)			
Trading profit		6,893,500			
NTLR Debit	c	600,000			
Management fees		1,200,000			
Total profit		8,693,500			
Tax		2,173,375			

a. Depreciation is a capital item
b.Withholding taxes asumed that the revenue has been recognised Net, WHT's are available for expense relief as they are related to turnover and not profit, no unilaterial relief available.
c. Interest payable will be a deducted depending on a few things, allowable purpose, non trade and trade related. All uses would be deemed to be an allowable purpose, but only one aspect is tarde related beign working capital

Loan		Trade	Non Trade
Acquisition	50%		400
Capital purchase	25%		200
Trading	25%	200	

Stonelid SA

D. Interest free loan - A transfer pricing adjustment will impact the deductability of interest, as the trasaction was not done at arms length an adjustment equal to 10 months of interest at 6% will be taken off the interest deducted in the comp of Lidstone Ltd. (£1.25m) (£25m x 6% x 10/12)

Relief may be available for Stonelid ltd to offset this adjustment but as it is outside of the scope of UK tax that would have to be advice sought by local advisers.

Transfer pricing adjustments are to avoid connected parties gaining a UK tax advantage from transactions which are done not at an arms legth.

E. Management charges which are not subject to arms length pricing
would increase the tax benefit in the UK so a transfer pricing adjustment is neccesary in order to prevent a notice from HMRC.

Included T/O	500,000		
Mark up required	700,000		
Total	1,200,000		

Management fees are non-trade income.

CUP - Is a form of third party pricing, HMRC prefer this method for connected comapnies as it benefits from the available third party transactions which allow the group to replicate the pricing as if the comapnies were not connected.

Acquisitions £000's

	A	B		
Cost	1,500	1,500		
Addns		600		
Total	1,500	2,100		
SBA 3%	26.25	26.25	7/12	5/12
Total	£52.5k			

SBA's have been apportions from the date of purchase at the total cost to develop the buidlings, this does not include the cost of land or the cost

SBA's can be claimed from when the building begins to be used in the trade (1/6/24) the allowance msut be apportioned to reflect that.

The conversion of the residential building (2) to commercial offices for £800k is treated as incurred on the last day in which qualifying expenditure would have been incurred.

Because the purchase is from a developer and the buidling has not been used the expenditure can qualify for SBA's.

integral features can be claim as additions on the main capital allowances comp

The SBA's at 3% per year take into account the original cost of making the structure, with provisions for the developer further improving the property (unused).

Capital Allowances

	Main POOL	SR Pool	50% FYA	FYA
B/fwd	6,000,000	400,000		
Integral feature			200,000	
WDA 18/6%	(1,080,000)	(24,000)		
		100,000	(100,000)	
C/fwd				
Cap allow	1,204,000			

Capital allowances are available at the WDA rates above.
No AIA available so only 50% FYA can be claimed on the Integral features, no WDA claimable in the same period

2 UK companies within thr group, the company would be considered large as its accounting profit is under the £10m limit (£20m / 2 associated co's.

QIP's are payable 14th June 2024 and every 3 months after that day. the total of the four QIPS must equal the tax liability above.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

31st DEC YE

1) Disposal of Shares £000's

Cost	9,600		
Proceeds	16,000		
Gain	6,400	Exempt	

SSE not available due the Chatland Investments Ltd being a company with investment business, if it was not prt of a qualifying group.

Condition of 10% shareholding would have been met becuase in the previous 6 years the goup held 12%, Chatland Trading Ltd would have benefitted from SSE Exempting the gain.

There is no gain for Chatland invesments ltd as it is part of a qualifying group, has owned 12% in the last 6 years for over 12 months.

2)

Chatland investments has not met the timing condition of SSE, the shares have only been held for 11 months out of the last six years at over 10% shareholding, for this reason even though the group is qualifying the disposal is chargable gain/loss.

Six years would have been 31st July 2018 12 months from this time is 31st July 2019.

Cost 50%	1,500		
Proceeds	375		
Capital loss	**(1,125)**		

3)

		Cost	Proceed	Gain
2018	160,000	8,000,000		
2022	100,000	7,000,000		
2024	100,000	7,500,000		
Pool	360,000	22,500,000		
Apr 2024	(120,000)	(7,500,000)	10.2m	2.7m
Pool	240,000	15,000,000		
Aug 24 (1)	60,000	(5,700,000)	6.3m	0.6m
Aug 24 (2)	(60,000)	5,700,000	^^	^^
Aug 24 (3)	(60,000)	(3,750,000)	6.3m	2.55m
C/fwd	180,000	11,250,000		**5.85m**

Aug 24 1&2 - As purchase was in the last 9 days the pool balance is ignored until the gain is calculated on that recent purchase, the other half will then be calculated based on the b/fwd pool cost.

The half set agaisnt the pool - Aug 24 (3), takes 25% of the cost (15m/4)

4) Dencomb Plc

DATE	SHARES	COST	PROCEEDS	Gain
June 21	50,000	7.5m	9m	1.5m
May 23	(50,000)			
May 23	100,000	7.5m		
Oct 24	(90,000)	6.75m	9m	**2.25m**

Proceeds in June 21 are equal to the excess in MV obtained, the 1.5m gain as all consideration is in the form of shares it is deferred until the gain is realised and converted to cahs consideration. The base cost of the previous shares becomes the base cost for the £100k shares in Antonov plc.
90% of the gain is unfrozen (90% of the base cost is £6.75m)

2.25m is a chargable gain.

Capital gains			
Dencomb plc	2,250,000		

Canassa Ltd	5,850,000		
Capital loses			
Battria Ltd	(1,125,000)		
Total	6,975,000		
DA	(5,987,500)		
Taxable	987,500		
Tax payable	246,875		

Assuming the deductions allowance is fully available as there are no other losses brought forward within the group, the capital losses b/fwd can be offset using £5m + 50% of the remining gains

LOSSES B/FWD		9,000,000	
Utilised DA		(5,000,000)	
50% Profits (1975k x 50%)		(987,500)	
C/fwd losses		3,012,500	

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

1.

For returns filed on or before the deadline HMRC have 12 months to submit an enquiry notice,for the return dates 30th September 2023, HMRC only has until 30th September 2024 to raise a notice, this is not issued in time.

For the Return dated June 2023 the filing deadline of 30th June 24 has not been met, this means HMRC have util 31st July 2025 so the enquiry is issued in time.

The same stands for 30th June 2022, the filing deadline of 30th June 2023 has not been met so HMRC have until the end of the quarter (Jan/Apr/Jul/Oct) to issue a notice of enquiry. this was done before 30th April 2025 so is in time.

THe enquiry into 30th June 2021 filed on 24th Jan 2024 gives HMRC until 31st JAN 2025 to raise an enquiry, they are past this time frame on 6th April 2025.

2.

Return enquirys due to careless behaviour can extend to previous returns for up to six years if the case involves a loss of tax.

This applies if it is attributable to the companies failiure to comply.

If the company is involved in a tax avoidance scheme and the regulations of dislosure of reference numbers are not met this allows HMRC to extend their powers to open enquiries into previous periods.

The only way Dunbavin Ltd can challenge the opening of an enquiry is by way of appeal.

A return which has previously had an enquiry notice issued is not able to be enquired upon again unless there has been an adjustment to the return.