THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

VAT and Other Indirect Taxes

May 2025

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 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.

- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are a tax senior at BFR Tax LLP, a firm of Chartered Tax Advisers.

Your tax partner, Sam Ferrers, has received a letter from Manny Singh (**EXHIBIT A**), Chief Financial Officer of Coua Ltd, a long-standing client of the firm. Coua Ltd is the holding company of a UK corporate group comprising two wholly owned subsidiaries, and operates in the high-tech manufacturing sector in the UK. The companies are registered as a VAT group, and the representative member is Coua Ltd.

Coua Ltd is now in the process of selling the shares of one of the group companies, Eggton Ltd, for an agreed price of £35 million. Coua Ltd has two options for reinvesting the proceeds of the sale of Eggton Ltd in the group's activities:

1) Option 1: Coua Ltd will use the funds to finance the construction of a new factory in Windleshire.

2) Option 2: Coua Ltd will use the funds to diversify the group's business, by financing the purchase of shares in a UK-established trading company, Unumiota Ltd, which operates in the clothing sector.

Before deciding on what to do with the funds, the Board wishes to be provided with a report which deals with the key tax and related commercial issues arising. Sam has asked you to prepare a draft report for his review.

You should assume that the main rate of Corporation Tax applies to all profits and that Coua Ltd and the other group companies have sufficient profits to utilise any group-relieved losses.

The following exhibits are provided to assist you:

EXHIBIT A: Letter from Manny Singh, Chief Financial Officer of Coua Ltd

EXHIBIT B: Email from Alex Hancock, Financial Controller of Coua Ltd, providing details relevant to disposal of Eggton Ltd

EXHIBIT C: Schedule of financial information for the two Options

EXHIBIT D: Pre-seen information

Requirement:

Write a draft report for the Board of Coua Ltd providing recommendations on the key tax and commercial issues arising from Manny Singh's letter.

Continued

EXHIBIT A

Letter from Manny Singh, Chief Financial Officer of Coua Ltd

Sam Ferrers
BFR Tax LLP
Mansfield House
17 High Street
Windleham
Windleshire
WI2 6PP

Manny Singh
Coua Ltd
XY Technology Park
Enterprise Avenue
Windleham
Windleshire
WI8 1HS

7 May 2025

Dear Sam

Sale of Eggton Ltd and Reinvestment of Proceeds of Sale

Thank you for your time on the phone yesterday. As we discussed, the Board is seeking advice on certain points, which I outline below.

Disposal of Eggton Ltd

As you know, the share sale of Eggton Ltd is close to completion and we will shortly be in receipt of gross proceeds of £35 million.

We have several bills to pay out of these proceeds. These are detailed in an email from Alex Hancock, our Financial Controller (**EXHIBIT B**), which I enclose with this letter.

We also need to be aware of any Corporation Tax to be paid on the disposal proceeds. The email (**EXHIBIT B**) is likely to be helpful in this respect too.

Once I have an idea of the net proceeds, it will be possible to identify the amount of any additional finance required for the reinvestment proposals facing the Board. As we discussed briefly, there are two Options for this reinvestment. The enclosed schedule (**EXHIBIT C**) includes financial details for these two Options.

Option 1: Norrisco Ltd

Option 1 is an exciting plan. If this Option is chosen, we intend to use Norrisco Ltd, a currently dormant group company, to undertake research and development to create entirely new and unproven technology, and then manufacture the resulting products as a trading company. This technology involves developing AI-driven manufacturing to produce electric vehicle batteries more efficiently and safely. Consequently, the Option is a gamble on the growth of the global electric vehicle market, which has been disappointing in the past 12 months or so. Even so, as internal combustion engines are phased out, electric vehicles should form an ever-bigger share of the global car market.

Under Option 1 Norrisco Ltd would acquire freehold land adjacent to our headquarters site from a third party for £8 million. The vendor has made an option to tax. Norrisco Ltd would build and then operate a new combined factory and R&D lab on this freehold land. The fit-out of the factory requires specialised equipment sourced from Sayonara, a country which does not currently have a free trade agreement with the UK. Construction and fit-out would cost £37 million giving a total cost of £45 million (**EXHIBIT C**). The initial outlays under this Option would appear on Norrisco Ltd's balance sheet.

This option would be mainly funded by the net of costs proceeds from the sale of Eggton Ltd introduced to Norrisco Ltd by way of a loan from Coua Ltd. The balance would be funded by a bond issue by Norrisco Ltd to private equity investors.

The current projections (**EXHIBIT C**) show an expected net cash return on the investment after five years of £15 million.

Option 2: Unumiota Ltd

Option 2 is less adventurous, although it does involve a move into an entirely different business sector, namely wholesale clothing.

Continued

We are in discussions with the owners of Unumiota Ltd, a leading company in the industry. The management team, which would continue after any acquisition, is recognised to be among the most talented in the sector.

The company has recently signed a potentially lucrative long-term contract with a major online retailer, and this is expected to contribute to significant growth in earnings over the next five years. Moreover, it has secured exclusivity for the next five years in several of its key markets.

Accordingly, we expect Option 2 to deliver a net cash return on the investment of £12 million over the five-year horizon (see **EXHIBIT C**).

The shareholders of Unumiota Ltd have said that they will not agree to a sale of the trade and assets of Unumiota Ltd. This means that Option 2 requires a purchase of 100% of the share capital in Unumiota Ltd.

The new contract and talented management team have increased the price demanded by the current owners to £41 million. Note that the balance sheet assets are £33 million.

Our Board have also been discussing financing the balance of the purchase price with a lender which specialises in this sector, namely, Rag Trade Finance plc. However, the lender has said that it will be passing on its own substantial professional costs of £1 million plus VAT to Coua Ltd should the deal proceed.

Our own professional costs are likely to be £750,000 plus VAT.

Note that Unumiota Ltd would not be brought into the Coua VAT group, nor would it receive any management charges post-acquisition. The Board has taken the view that the company should be “siloed” for most purposes, and that returns should be purely by way of dividends and a potential capital gain should Unumiota Ltd ever be sold.

Summary

As you can see, there is a great deal to consider here. I look forward to receiving your recommendations in the form of a report to the Board shortly.

Should you require any additional detail, please do not hesitate to contact me.

Yours sincerely

Manny Singh, FCA
CFO, Coua Ltd

Continued

EXHIBIT B

Email from Alex Hancock, Financial Controller of Coua Ltd, providing details relevant to disposal of Eggton Ltd

To: Manny Singh (manny@coualtd.co.uk)
From: Alex Hancock (alex@coualtd.co.uk)
Date: 6 May 2025
Subject: Disposal of Eggton Ltd: Relevant Financial Details

Hi Manny

Good to chat earlier – please find the details discussed below.

Eggton Ltd: Costs of Disposal

The sale price has been confirmed at £35 million, and we have a good idea of the final costs involved, as follows:

1) Commission of 1.25% (i.e. £350,000) of the total agreed price, net of VAT, for 80% of the shares, to Melanie Honeyford. She is a self-employed agent based in the UK, who has arranged the sale of 80% of the shares to a UK consortium of buyers.

2) Commission of 2.5% (i.e. £175,000) of the total agreed price, net of VAT, for 20% of the shares, to Teddy Wu Associates. This is an intermediary for an overseas investment fund based in Hong Kong, which is buying 20% of the shares.

3) Legal fees of £200,000 net of VAT, payable to Fergal Legal LLP.

4) Accountancy fees of £125,000 net of VAT, for due diligence and tax advice, payable to Lovebirds Accountancy Ltd.

Accordingly, the associated costs come to a total of £850,000, assuming full input VAT recovery.

Eggton Ltd: Base Cost of Shares

We will also need to consider the Corporation Tax position on the gain earned on the sale. Eggton Ltd was incorporated as a wholly-owned subsidiary of Coua Ltd on 1 June 2005 and started trading immediately.

As a result, the base cost appears to be extremely low: just £1,000 being the share capital issued on incorporation.

As I understand it, this means that virtually the entire sale price would be regarded as a gain.

Clearly, we are going to need some advice on the Corporation Tax position before I can assess exactly how much money will be available for the reinvestment project.

One other quick point: obviously Coua Ltd will now lose the £100,000 of management charges it had been earning from Eggton Ltd annually. As I understand it from our call, this is not expected to be a concern.

Hopefully this is what you're looking for.

Many thanks

Alex

Alex Hancock
Financial Controller, Coua Ltd

Continued

EXHIBIT C

Schedule of financial information for the two Options

Option 1: Norrisco Ltd

Schedule of Expected Costs of Construction

Item	£,000
Land	8,000
Construction	23,000
Equipment fit-out	14,000
Ancillary costs	500
Total	£45,500

All costs are shown net of VAT.

Projected Cash Return on Investment

Our projections suggest sales totalling £213 million over five years, with total outlays in cash terms, including the initial investment, coming to £197,525,000.

Note that these outlays include R & D expenditure of £28 million (employee salaries and related National Insurance), as well as costs related to repayment of the proposed bond issue of £10 million.

It should be noted that the projections suggest Option 1 is cash negative for its first three years, but we are confident that other group companies can provide any additional cash required.

The result is a net cash return on investment of £15,475,000. Assuming an initial investment of £45,500,000, this amounts to a return of 34.01% over five years, without allowing for the time value of money.

Option 2: Unumiota Ltd

Schedule of Expected Costs of Acquisition

Item	£,000
Shares	41,000
Professional costs	750
Rag Trade Finance plc's professional costs	1,000
Total	£42,750

All costs are shown net of VAT.

Refinancing Reserve

While Rag Trade Finance plc has offered to finance Option 2, the Board believes it is prudent to build up a reserve of £1 million by the end of the five-year period to facilitate any necessary refinancing at that stage. This amount is included in the projections below.

Projections of Net Cash Return on Investment

Our projections suggest sales totalling £701.2 million over five years, with total outlays in cash terms, including the initial investment and refinancing reserve, coming to £689.15 million.

Every year's results are projected to be cash-positive under Option 2, except for the year of the initial investment.

The result is a net cash return on investment of £12,050,000. Assuming an initial investment of £42,750,000, this amounts to a return of 28.19% over five years, without allowing for the time value of money.

Continued

EXHIBIT D

Pre-seen information

Client Name: Coua Ltd, leading manufacturer in the high-tech sector responsible for numerous advances in precision technology, AI and chip design and manufacture. It was founded by Dr Archie Coua and Manny Singh in 2003. It has been a client of BFR Tax LLP since March 2014. Coua Ltd is the parent company of a UK corporate group, detailed below.

HQ Address (owned by Coua Ltd): XY Technology Park, Enterprise Avenue, Windleham, Windleshire WI8 1HS.

Group Parent Company: Coua Ltd, incorporated 7 October 2003 (carries on high tech trading activity as well as acting as holding company).

Subsidiaries (all owned 100% by Coua Ltd):

1) Eggton Ltd (High-tech manufacturing – incorporated 1 June 2005).
2) Norrisco Ltd (Dormant since incorporation on 11 February 2012).

Accounts Year End: 31 March

Coua Ltd Board Members and Relevant Ordinary Shareholdings:

Name	Role	Date of Birth	Date of Appointment	Shareholding in Coua Ltd
Dr Archie Coua, PhD	CEO and Co-Founder	11 July 1967	7 October 2003	25%
Manny Singh, FCA	CFO and Co-Founder	19 November 1972	7 October 2003	15%
Dr Pamela Whitbread, PhD	CTO	23 February 1978	3 June 2016	10%
Ronald Sayers	COO	5 August 1963	9 September 2019	5%

Tax Information

Corporation Tax UTR: Coua Ltd: 71432 67799; Eggton Ltd: 88141 63211; Norrisco Ltd: 31825 66781.

VAT Registration Number: 776 5438 11 (Fully taxable VAT Group).

All group companies are members of the VAT group.

Continued

Group Accounts for y/e 31 March 2025

Consolidated Profit and Loss Account

	Year ended 31 March 2025 £,000	Year ended 31 March 2024 £,000
Sales	358,647	313,288
Less Cost of Sales	(201,632)	(176,874)
Gross Profit	157,015	136,414
Less Expenses:		
Administrative Expenses, including Wages	(53,411)	(51,222)
Property Expenses	(17,032)	(16,547)
Other Expenses	(9,781)	(8,875)
Net Profit	£76,791	£59,770

Consolidated Balance Sheet

	As at 31 March 2025 £,000	As at 31 March 2024 £,000
Fixed Assets		
Investments	1,000	1,000
Land & Property	20,000	20,000
Plant & Machinery	174,335	163,187
Fixtures & Fittings	3,124	3,483
Total Fixed Assets	198,459	187,670
Current Assets		
Stock	32,165	29,778
Debtors	67,117	64,338
Cash at Bank	103,727	99,447
Total Assets	401,468	381,233
Long-term Liabilities		
5% Loan Notes	5,000	5,000
Total Long-term Liabilities	5,000	5,000
Current Liabilities		
Trade Creditors	344	412
Other Creditors	17	17
Accruals	175	166
Total Liabilities	5,536	5,595
	£395,932	£375,638
Represented By:		
Share Capital	1	1
Retained Profits	395,931	375,637
Total Equity	£395,932	£375,638