THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Taxation of Larger Companies and Groups

November 2023

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 2022/23 legislation (including rates and allowances) continues to apply for 2023/24 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. Dujon plc is a UK incorporated company that is the parent of the Dujon group, an Anglo-Belgian chemicals producer, with a 30 June year end. Dujon plc owns the group's operating subsidiaries, together with trademarks for the group's flagship paint product.

Dujon plc has 12 directors, who meet monthly. They manage the company, including setting strategy, approving projects, and recruiting senior personnel.

Until 30 June 2022, Dujon plc's board comprised nine Belgian residents and three UK residents. Board meetings were held in Brussels, with the UK directors attending in person. The Belgian tax authorities considered Dujon plc Belgian resident because its "seat of management" was in Belgium.

On 1 July 2022, Dujon plc amended its Articles of Association to require two-thirds of its directors to be UK resident. Of the Belgian resident directors:

1) Two resigned and were replaced by UK resident directors.

2) Another three, including the CEO and CFO, relocated to the UK. They spend the working week in the UK but make occasional trips to Belgium, during which they send work-related emails.

3) The other four remained in post, and now travel to London for the monthly board meetings.

Dujon plc has 100 employees that support the directors. Prior to 30 June 2022, all 100 worked in the company's Brussels office. On 1 July 2022, 30 employees were moved to London.

Dujon plc made a loss of £10 million during the accounting period ended 30 June 2022.

One of Dujon plc's subsidiaries is Dujon UK Ltd, which has always been UK resident and is loss-making.

On 1 January 2023, Dujon UK Ltd incorporated Finco Inc, a new wholly owned subsidiary to which it contributed share capital of £1,000 million. Finco Inc is resident in Utopia, which has a corporate tax rate of 1% and is not an Excluded Territory for UK controlled foreign companies' purposes. It is managed by three Utopia-resident directors, who work from a leased office in Utopia City.

Following its incorporation, Finco Inc lent £800 million to Dujon Chile SA, a wholly owned Chilean resident operating subsidiary of Dujon plc, at an interest rate of 7% per annum. It placed its remaining £200 million on deposit with a bank at an interest rate of 3% per annum. All significant people functions relating to Finco Inc's financing activities are undertaken in Utopia.

Finco Inc's profits for the accounting period from 1 January 2023 to 30 June 2023 were as follows:

	£million
Chile loan interest	28.0
Deposit interest	3.0
Administrative expenses	(0.5)
Utopian corporate tax	(0.3)
Net profit	30.2

Finco Inc paid Dujon UK Ltd a dividend of £30 million on 30 June 2023.

Article 4 of the UK-Belgium Double Tax Convention provides:

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation or any other criterion of a similar nature. However, this term does not include any person who is liable to tax in a Contracting State in respect only of income from sources in that State.

3. Where by reason of the provisions of paragraph (1) of this Article a person other than an individual is a resident of both Contracting States, then it shall be deemed to be a resident of the State in which its place of effective management is situated.

Requirement:

1) Explain the extent to which Dujon plc is chargeable to UK Corporation Tax before and after 1 July 2022. (9)

2) Explain any administrative requirements relating to UK Corporation Tax that Dujon plc must comply with. (3)

3) Explain Dujon UK Ltd's UK tax liabilities in relation to Finco Inc for the period ended 30 June 2023. (8)

Total (20)

2. Rutak plc is a financial services business with a 31 December year end.

On 1 January 2021, Rutak plc owned the following shares in other companies:

Company	Shares owned		Purchase date	Purchase price (per share)
RZ Ltd	500,000		17 January 2017	£100
Rutak Estates Ltd	1,000,000		10 February 2017	£20
Wyke plc	2,500,000			
	of which:	1,000,000	1 June 2017	£1
		1,500,000	1 June 2018	£4

All of the above companies are UK incorporated and tax resident.

RZ Ltd was a 50:50 joint venture between Rutak plc and Zeal plc, the parent company of an unrelated information services group. Since formation RZ Ltd has carried on a business of providing financial information to specialist customers in the banking industry. It has never owned any investment assets.

On 15 January 2022, Rutak plc sold its shares in RZ Ltd to Zeal plc for:

1) £75 million payable immediately; and

2) a further payment equal to 1.5 times RZ Ltd's net profit for the year to 31 December 2022, payable on 30 June 2023.

On 15 January 2022, the expected value of the deferred cash payment was £31 million.

RZ Ltd's accounts for the year to 31 December 2022 reported a net profit of £24 million. Accordingly, Zeal plc paid Rutak plc £36 million on 30 June 2023.

Rutak Estates Ltd was a wholly owned subsidiary of Rutak plc. It owns several office buildings in London, all of which it lets to third parties. On 5 July 2023, Rutak plc sold its shares in Rutak Estates Ltd to Wyke plc for 1 million Wyke plc ordinary shares and £3 million cash. Following the purchase, Wyke plc had 100 million ordinary shares in total, which had a market value of £21 per share.

Wyke plc is a financial technology business. It was founded in 2016 and received investment from Rutak plc and a consortium of venture capitalists. After rapid growth, Wyke plc listed its shares on the London Stock Exchange in November 2021. On 10 July 2023, Rutak plc sold 1,500,000 of its Wyke plc shares on the open market, for £20 per share.

Requirement:

1) Calculate the chargeable gains arising to Rutak plc as a result of these transactions and explain how they are treated for Corporation Tax purposes. (12)

2) Explain the Stamp Duty consequences for Zeal plc of its purchase of RZ Ltd, including any administrative requirements it must comply with. (3)

Total (15)

Continued

3. Pulu Ltd is a UK tax resident company that operates an airline. Its accounting year-end is 31 March.

As part of a forecasting exercise at the end of 2021, Pulu Ltd identified that it would need to purchase one million barrels of jet fuel in July 2022 for the summer holiday season.

It decided to fix its fuel costs in order to reduce its exposure to price fluctuations. Accordingly, on 1 January 2022, it entered into a futures contract to acquire one million barrels of fuel on 30 June 2022 at a price of £63 per barrel. There was no immediate cost to Pulu Ltd on entering into the contract.

The spot and futures prices of jet fuel between 1 January and 30 June 2022 were as follows:

	1 January 2022	31 March 2022	30 June 2022
Spot price (£/barrel)	50	134	125
30 June 2022 futures price (£/barrel)	63	142	125

On 30 June 2022, Pulu Ltd sold its futures contract for cash at £125 per barrel.

On 2 July 2022, Pulu Ltd purchased the one million barrels of fuel it needed from a fuel broker at £127 per barrel.

Pulu Ltd treated the futures contract as a derivative in its accounts with fair value movements recognised in its income statement. It did not formally designate the contract as a hedge in documentation, and therefore hedge accounting does not apply.

On 1 October 2022, Pulu Ltd opened a new training facility near Gatwick. It began developing the facility in early 2019 and incurred the following expenditure:

Item	£'000
Land	250
Consultants' fees relating to its planning permission application	30
Levelling the land to allow buildings to be constructed	75
Constructing three buildings (£300,000 each) which were: a training school, a flight simulator and trainee accommodation	900

Construction of the three buildings was completed on 31 May 2022.

On 17 June 2022 Pulu Ltd bought:

	£'000
New computer systems for the simulator facility from a leading IT supplier	100
Used flight simulator unit from another airline that had ceased trading	800

Pulu Ltd's only capital allowance pool brought forward on 1 April 2022 was its main plant and machinery pool, which had a tax written-down value of £4,320,000.

Requirement:

1) Explain the effect of Pulu Ltd's fuel-related transactions on its taxable profits for the accounting periods ended 31 March 2022 and 2023. (7)

2) Calculate, with explanations, the maximum capital allowances that Pulu Ltd is entitled to for the accounting period ended 31 March 2023. (8)

Total (15)

Continued

4. Brent plc is a UK retailer that is not part of a group. Adverse economic conditions have affected its business badly. Its summary results for the year ended 31 March 2023 are as follows:

	£'000	£'000
Gross profit		197,000
Operating expenses (Note 1)	245,500	
Depreciation	1,250	
Amortisation (Note 2)	8,500	
Gain on sale of freehold property (Note 3)	(4,000)	
Loss on sale of shares in Derry Ltd (Note 4)	1,500	
		(252,750)
Loss before tax		(55,750)

Notes

1) Included within operating expenses are the following items:

	£'000
Fine for breaching national minimum wage legislation	2,500
Staff wages and salaries (including bonus payable on 30 October 2023 of £600,000 and 1 February 2024 of £950,000)	81,950
Expenditure on small plant items with three-year useful lives	50
Legal fees on renewal of leases with a term of six years	15
Discounts given to employees on purchase of retail goods	1,750

2) Amortisation comprises a charge of £1 million relating to registered designs acquired in May 2019 for £10 million as part of a business and a £7.5 million charge relating to £75 million goodwill acquired as part of the same transaction. The purchases were from an unrelated third party.

3) A freehold property with a net book value of £1.95 million was sold for £6 million in January 2023, with legal costs on disposal of £50,000. It was acquired in July 1998 for £2.5 million.

4) Brent plc sold shares in a loss-making Irish retail business, Derry Ltd, for £4 million in May 2022. Brent plc had acquired 8% of the ordinary share capital of Derry Ltd in June 2012 for £2.2 million and increased its shareholding to 20% in April 2021 by paying a further £3 million. Derry Ltd had been a trading company throughout Brent plc's ownership. Professional fees incurred on the disposal amounted to £300,000.

5) Brent plc had the following tax written down value brought forward figures on its capital allowances pools on 1 April 2022:

	£'000
Main plant and machinery	5,000
Special rate plant and machinery	2,000
Short life assets	500

During the year Brent plc made the following additions of new assets:

	£'000
Store and warehouse racking and rails	700
General store lighting	250
Store tills and counters	175
Office equipment	100
Fixed immovable partition walls	150
Redecoration of existing stores	750

No disposal proceeds were received in the year and all of the short life assets were scrapped prior to the year end.

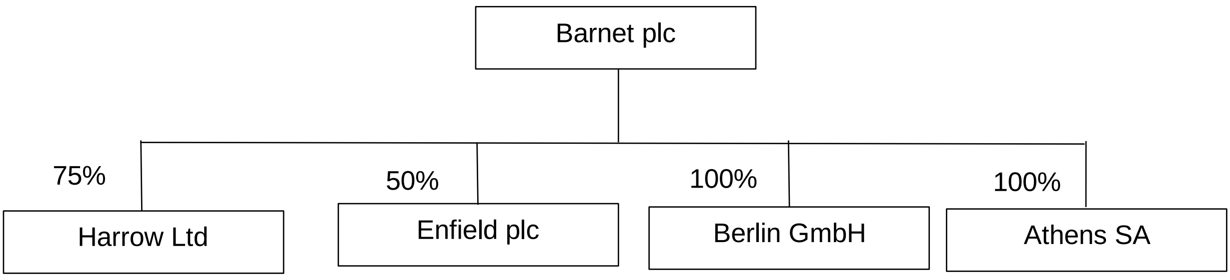
6) The net book value of revenue expenditure capitalised at 1 April 2022 was £950,000. Depreciation on these assets, including additions in the year, was £200,000.

7) Brent plc made taxable profits of £10 million in the year ended 31 March 2022, £17 million in the year ended 31 March 2021 and £20 million in the year ended 31 March 2020.

Requirement:

Calculate, with explanations, Brent plc's Corporation Tax liability for the year ended 31 March 2023, making the most beneficial claims and elections. State any Corporation Tax payments or repayments that may be due. (20)

5. Barnet plc is the publicly listed holding company of a trading group. The group structure and percentage shareholdings are as follows:



The country of incorporation and tax residence for each company is noted below. The UK incorporated companies are incorporated under Companies Act 2016.

	Barnet plc	Harrow Ltd	Enfield plc	Berlin GmbH	Athens SA
Country of incorporation	UK	UK	UK	Germany	Greece
Tax residence	UK	UK	UK	Germany	UK

Financial information for the year ended 31 March 2022 is as follows:

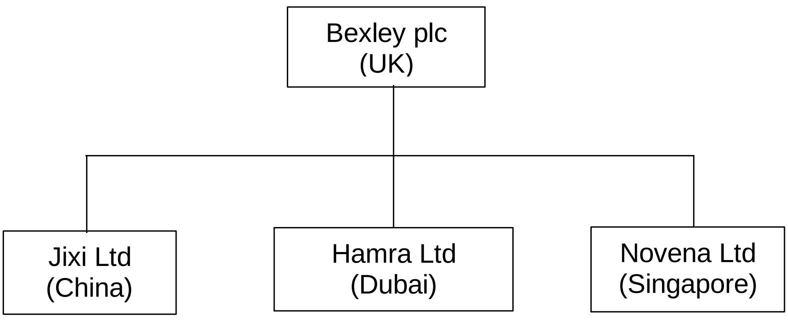
	Barnet plc £million	Harrow Ltd £million	Enfield plc £million	Berlin GmbH £million	Athens SA £million
Turnover	-	150	60	40	60
Balance Sheet					
Investment in subsidiaries	1,000	-	-	-	-
Other assets	1,500	600	200	100	120
Liabilities	(1,000)	(200)	(100)	(50)	(50)

Requirement:

Explain how the senior accounting officer rules apply to the group for the year ended 31 March 2023. (10)

Continued

6. Bexley plc is the UK parent company of a group selling branded shoes. It has three wholly owned overseas subsidiaries which are incorporated and resident as indicated in the group structure below:



The group does not qualify for the small or medium sized company exemption for transfer pricing purposes.

The group is well established and trades under a unique, distinctive, and widely recognised trade name, Bexley Shoes. The rights to the Bexley Shoes brand have been developed in the UK and are owned by Bexley plc.

Bexley plc staff in the UK provide various low value head office support services to Jixi Ltd, Hamra Ltd and Novena Ltd. These include the following: accounting, legal, human resources, and IT. Bexley plc is also responsible for the overall stewardship of the three subsidiaries and incurs various costs in relation to this activity.

<u>Jixi Ltd</u>

Bexley plc contracts with Jixi Ltd to manufacture all of its shoes on the following basis:

1) Jixi Ltd only manufactures shoes for Bexley plc and has no other customers;
2) Jixi Ltd is given access to relevant shoe technology owned by Bexley plc;
3) Jixi Ltd is supplied with raw materials by Bexley plc;
4) Jixi Ltd owns its production facility and employs all its staff directly;
5) Jixi Ltd sells the shoes to Bexley plc in its local Chinese currency; and
6) Bexley plc is responsible for arranging delivery of the shoes from Jixi Ltd's production facility.

The trading agreement between Bexley plc and Jixi Ltd has a 10-year term and provides for compensation to be paid to Jixi Ltd if Bexley plc terminates the contract within that period. This is in line with normal commercial arrangements.

<u>Hamra Ltd</u>

Bexley plc sells shoes on a retail basis in the UK and on a wholesale basis to Hamra Ltd.

Hamra Ltd has been granted exclusive rights to distribute Bexley Shoes outside the UK, including the right to use the Bexley Shoes brand.

Hamra Ltd's purchase orders to Bexley plc are based on its own sales estimates. Manufacturing and delivery lead times are relatively short as the shoes are air freighted and therefore purchase orders are placed just 30 days in advance of expected sales. Hamra Ltd buys the shoes in sterling and Bexley plc delivers the products to the Dubai warehouse.

Hamra Ltd operates as follows:

1) It sells the Bexley Shoes wholesale to unrelated third-party retailers in various countries;
2) It does not sell any other brand of shoes;
3) It rents its own warehouse and offices in Dubai;
4) It employs a sales and marketing team as well as a small administrative team, all in Dubai;
5) The Dubai team is responsible for generating sales in the international territories;
6) Sales are made in the customer's local currency; and
7) It delivers the shoes to the customers wherever they are located.

<u>Novena Ltd</u>

Novena Ltd owns a research centre. It employs a team of specialist technologists on short-term contracts who conduct all of their work from rented laboratories in Singapore.

All research projects are commissioned by Bexley plc. Novena Ltd conducts pure research on matters such as extending shoe longevity, supportive cushioning, sole durability, and use of sustainable plant-based materials. Rights to any intellectual property created vest with Bexley plc.

Requirement:

Discuss the appropriateness of the different transactional methods for the Bexley group in arriving at the correct transfer prices for UK Corporation Tax purposes. You should NOT consider the transactional profit methods. (20)