Module C
Corporation Tax

1. Terne plc had an accounting profit for the year ended 31 March 2017 of £875,000, after deducting the following expenses:

	£
Directors' bonus payments for the year ended 31 March 2017: (Accrued at 31 March 2017 and paid on 15 October 2017)	220,000
Legal and professional fees:	
- In relation to the purchase of a second-hand warehouse on 1 November 2016	10,000
- In relation to the revision of staff contracts	12,000
Repairs to the warehouse purchased on 1 November 2016: (The warehouse was in usable condition when purchased, but on 5 November 2016 it was damaged in a fire and had to be repaired before it could be used. The warehouse had not yet been insured)	25,000
Staff Christmas party (£175 per head):	8,750

Briefly explain the treatment of each item in calculating the tax adjusted trading profit for Terne plc for the year ended 31 March 2017.

2. Dove Ltd was incorporated and started to trade on 1 March 2016 and made up its first accounts to 31 December 2016. During that period, it made the following capital purchases:

		£
5 March 2016	Air conditioning system	75,000
26 March 2016	Machine	130,000
1 April 2016	Delivery van with CO_2 emissions of 165g/km	18,000

Calculate the maximum capital allowances that Dove Ltd can claim for the 10-month period ended 31 December 2016.

3. Swallowit Ltd was incorporated and started to trade on 1 November 2015 and made up its first accounts for the 17 months to 31 March 2017. The company made a profit in this period, but is not required to pay its Corporation Tax by instalments.

State the filing date(s) for the Company Tax return(s) and the payment date(s) for any Corporation Tax due for the 17 month period ended 31 March 2017.

4. Grebe plc is a large company for the purposes of the Research and Development (R&D) legislation. During the year ended 31 March 2017, it had a chargeable gain of £85,000 and a trading loss (after the relevant adjustments for R&D expenditure) but no claim under s.37(3)(a) CTA 2010 is to be made.

   Grebe plc's PAYE and Class 1 NIC liability relating to the staff working on qualifying R&D totalled £26,000 for the year ended 31 March 2017. This has been correctly included in the qualifying R&D revenue expenditure amount which is £420,000.

   Calculate the cash repayment in respect of R&D expenditure that Grebe plc can claim for the year ended 31 March 2017.

5. Heron Ltd is a trading company. During its year ended 31 December 2016, its results were as follows:

	£
Trading profit	750,000
Interest receivable from investments in loan stock	120,000
Property income	350,000

   These amounts are stated before taking account of the following loan costs:

   On 1 July 2016, Heron Ltd took out a 10 year loan of £300,000 on which an arrangement fee of 10% was paid and interest was agreed at 6% per annum, payable annually in arrears. Heron Ltd used £200,000 of the loan to purchase a property, which was let out to tenants, and used the other £100,000 to fund working capital requirements.

   Calculate Heron Ltd's taxable total profits for the year ended 31 December 2016, showing clearly your treatment of the loan costs.

6. On 1 November 2015, Mallard Ltd sold a warehouse that had been used in its trade for £800,000. The indexed gain on the sale was £200,000.

   On 20 February 2017, the company purchased a car park adjacent to its office building for use by its staff for £700,000. On 14 March 2017, it purchased office equipment at a cost of £100,000.

   The company always defers any gains arising whenever possible.

   Briefly explain:

   1) The conditions to be met for a rollover relief claim to be made.

   2) The effect on the base cost of the car park and the office equipment if a claim for maximum rollover relief is made.

7. The recent results of Coot Ltd are as follows:

	Year ended 30 September 2014	Year ended 30 September 2015	Period ended 31 March 2016	Year ended 31 March 2017
	£	£	£	£
Trading profit/(loss)	22,000	(17,000)	(40,000)	65,000
Property income/(loss)	(2,000)	-	1,500	4,000
Capital gain/(loss)	(32,000)	-	47,000	9,000

Calculate the taxable total profits for each period, assuming the company claims loss relief as early as possible. Your answer should clearly show your treatment of the losses.

8. Sparrow Ltd has owned an 80% shareholding in Rook Ltd for many years. Both companies are UK resident trading companies and have a year-end of 31 March.

Rook Ltd has trading losses brought forward at 1 April 2016 of £300,000. For the year ended 31 March 2017 Rook Ltd has a trading loss of £180,000 but Sparrow Ltd has taxable total profits of £540,000.

On 1 November 2016, Sparrow Ltd sold the entire share capital of Rook Ltd to Eagle Ltd, an unconnected company. Eagle Ltd has plans to return Rook Ltd to profitability by making changes to the way in which Rook Ltd conducts its trade.

You are required to:

1) Calculate the maximum amount of loss that Rook Ltd can surrender to Sparrow Ltd in the year ended 31 March 2017.

2) Briefly explain the potential impact of Eagle Ltd's plans with regards to Rook Ltd's trade on the availability of future loss relief for Rook Ltd.

9. In February 2011, Cygnet Ltd purchased 90% of the share capital of Goslinge Ltd. Both companies are investment companies and are resident in the UK.

On 17 December 2011, Cygnet Ltd purchased a building for £420,000. It transferred the building to Goslinge Ltd on 22 September 2014 when the building's market value was £600,000.

On 1 August 2016, Cygnet Ltd sold half of its shareholding in Goslinge Ltd to Duckling Ltd, an unconnected company.

Briefly explain, with supporting calculations, the chargeable gains implications of the disposal of the shares in Goslinge Ltd in August 2016. Ignore indexation.

10. Robin Ltd had the following results in its year ended 31 March 2017:

	Gross	Overseas tax rate
	£	
UK trading profit	50,000	
Overseas property profit	200,000	23%
Overseas interest income	150,000	17%
Qualifying charitable donations	70,000	

There are no double tax treaties in place between the UK and the overseas countries.

Calculate Robin Ltd's UK Corporation Tax liability for the year ended 31 March 2017, clearly showing your treatment of the qualifying charitable donations.

11. Florence owns 100% of Partridge Ltd, a close company, which prepares accounts to 31 March each year.

On 1 April 2015, the company made an interest free loan of £150,000 to Florence. Florence repaid £100,000 of the loan on 1 December 2016. She knew at that time that she would soon have to borrow a further £75,000 from the company in order to pay her outstanding Income Tax due on 31 January 2017.

Partridge Ltd is a small company for the purposes of payment of Corporation Tax.

Briefly explain, with supporting calculations, the effect of the repayment and further loan to Florence on the s.455 CTA 2010 tax payable by Partridge Ltd on 1 January 2017.

12. Wren Ltd, a trading company, prepares accounts to 31 March each year.

On 1 April 2014, Wren Ltd acquired a copyright for use in its trade for £200,000. Wren Ltd elected to write off the copyright at 4% per annum for tax purposes.

On 1 September 2016 Wren Ltd acquired patent rights for use in its trade for £325,000.

On 1 April 2017 the company sold the copyright purchased in 2014 for £350,000.

Wren Ltd claims all beneficial reliefs.

Calculate the taxable profit on the disposal of the copyright and state under which heading this would be included in the Corporation Tax computation.