



Chartered
Institute of
Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

November 2017

Suggested solutions

Module C Corporation Tax

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Answer 1

		£
Draft tax adjusted trading profit for the year ended 31 March 2017	875,000	
The bonuses are deductible as they are paid within nine months of the year ended 31 March 2017.	-	1
Legal and professional fees in relation to the purchase of the second-hand warehouse are not deductible as they are capital in nature.	10,000	1
Legal and professional fees in relation to the revision of staff contracts are deductible.	-	1
Repairs to the warehouse acquired on 1 November 2016 are allowable as the warehouse was usable when purchased and the damage occurred later.	-	1
Cost of staff Christmas party is deductible.	-	1
Tax adjusted trading profit	885,000	

Note: Marks given for correct explanations, not numerical adjustments or totals.

Answer 2

	Main pool £	Special rate pool £	Allowances £	
Additions that qualify for AIA				
Air conditioning system		75,000		1
Machine	130,000			
Delivery van	18,000			1
	148,000			
AIA (max = £200,000 x 10/12 = £166,667)	(91,667)	(75,000)	166,667	1 + 1
	56,333			
WDA 18% x 10/12	(8,450)		8,450	1
			175,117	
Tax written down value carried forward	47,883	Nil		

Answer 3

The long period of account is split into two accounting periods as follows:

	12 months period ended 31 October 2016	5 month period ended 31 March 2017	
Filing date:	31 March 2018	31 March 2018	1 + 1
Payment dates:	1 August 2017	1 January 2018	1 + 1

Answer 4

	£	£	
TTP (= Chargeable gain)		85,000	
Corporation tax at 20%		<u>17,000</u>	
Use of RDEC (11% x £420,000)	46,200		1
Offset against current period corporation tax liability	(17,000)	(17,000)	1
Corporation tax payable		Nil	
Remaining RDEC	<u>29,200</u>		
Repayment is capped at the lower of:			
- Remaining RDEC	29,200		1
- Total credit less tax at 20% (£46,200 x 80%)	36,960		1
- PAYE and NIC of R&D staff	26,000		1

Therefore, £26,000 is repayable to Grebe plc.

Answer 5

	£
Trading profit (W)	746,500
NTLR (W)	113,000
Property income	<u>350,000</u>
Taxable Total Profits	<u>1,209,500</u>

(W)	Trading profit	NTLR	
	£	£	
Draft	750,000	120,000	
Loan arrangement fee			
£300,000 x 10% x 1/10 x 6/12 = £1,500			2
Loan interest			
£300,000 x 6% x 6/12 = £9,000			1
£10,500 in the ratio 1:2	<u>(3,500)</u>	<u>(7,000)</u>	1 + 1
	<u>746,500</u>	<u>113,000</u>	

Answer 6

- 1) The conditions to be met for a rollover relief claim to be made are:
 - The asset being disposed of and the asset being acquired must be qualifying assets used in a trade; 1 + 1
 - The new asset must be purchased within 12 months before to within 36 months after the disposal of the old asset. 1

- 2) The base cost of the car park is reduced by the gain rolled over. 1

- Rollover relief is not available in respect of the office equipment as it is not fixed plant and machinery. 1

Answer 7

	Year ended 30 September 2014 £	Year ended 30 September 2015 £	Period ended 31 March 2016 £	Year ended 31 March 2017 £	
Trading profit S45 (Note 2)	22,000	Nil	Nil	65,000	1
				(23,500)	
				41,500	
Property income	Nil	-	1,500	4,000	
Chargeable gains (Note 1)	Nil	-		9,000	
			15,000		1
	22,000	Nil	16,500	54,500	
Property loss S37 CY	(2,000)				1
S37 CB	(17,000)	Nil	(16,500)		1
Taxable total profits	3,000	Nil	Nil	54,500	1

Note 1: £(47,000 – 32,000 b/f) = £15,000.

Note 2: £(40,000 – 16,500 CY) = £23,500.

Answer 8

- Maximum group relief in the year ended 31 March 2017 is from 1 April 2016 to 1 November 2016, therefore the lower of:
 - $7/12 \times £180,000 = £105,000$ 1+1
 - $7/12 \times £540,000 = £315,000$
- As there is a change in ownership of Rook Ltd on being acquired by Eagle Ltd, use of trading losses will be restricted where this is accompanied by a major change in the nature and the conduct of the trade within 3 years. Trading losses incurred before the change in ownership cannot be carried forward for offset against trading profits made after the change in ownership. 1

Answer 9

- August 2016
- Goslinge Ltd leaves the Cygnet Ltd chargeable gains group, as Cygnet Ltd's shareholding in Goslinge Ltd falls below 75%. 1
- A degrouing gain on the building arises, as Goslinge Ltd leaves the group within 6 years of a nil gain nil loss intragroup transfer, still owning the building. 1 + 1
- The degrouing gain is calculated as follows:
- | | £ | |
|--------------------------------------|-----------|---|
| Deemed proceeds on 22 September 2014 | 600,000 | |
| Less cost | (420,000) | |
| Degrouing gain | 180,000 | 1 |
- The degrouing gain is added to the proceeds of the sale of the shares in Goslinge Ltd (for the purposes of calculating the gain on the sale of the shares). 1

Max 5

Answer 10

	UK income	Overseas property income	Overseas interest	Total	
	£	£	£	£	
UK trading income	50,000			50,000	
Overseas property income		200,000		200,000	
Overseas interest			150,000	150,000	
Qualifying charitable donations	(50,000)		(20,000)	(70,000)	1
TTP	Nil	200,000	130,000	330,000	
Corporation Tax at 20%		40,000	26,000	66,000	1
Less DTR (W)		(40,000)	(25,500)	(65,500)	1
	Nil	Nil	500	500	

(W) DTR

Lower of:

UK tax	40,000	26,000		1
Overseas tax				
£200,000 x 23%	46,000			
£150,000 x 17%		25,500		1

Answer 11

As the amount outstanding on the original loan before the repayment is £15,000 or more and at the time of the repayment there were arrangements to draw an amount of money to replace some or all of the amount repaid and the amount borrowed is £5,000 or more, the repayment on 1 December 2016 is initially treated as a repayment of the new loan of £75,000, leaving the balance of £25,000 to be treated as a repayment of the old loan, therefore the amount outstanding on 1 January 2017 is £(150,000 – 25,000) = £125,000, so the s.455 tax due is 25% x £125,000 = £31,250. 1

Answer 12

Proceeds	£	350,000	
Less tax written down value (W)		(176,000)	1
Profit		174,000	
Less profit rolled over (£325,000 – £200,000)		(125,000)	2
Taxable <u>trading</u> profit		49,000	1

(W)

Cost of the copyright	£	200,000	
Less tax allowable amortisation (£200,000 x 4% = £8,000 per annum)			
Year ended 31 March 2015:		(8,000)	
Year ended 31 March 2016		(8,000)	
Year ended 31 March 2017:		(8,000)	
		176,000	1