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## You must tick the box below if you have answered this Module.

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The Chartered Tax Adviser Examination

May 2009

## AWARENESS

## MODULE C - CORPORATION TAX

- You should only answer this module if you have not/do not intend to sit the Advanced Corporation Tax Advisory paper.
- Each question carries 5 marks.
- You should answer all the questions from the modules you choose.
- You should answer questions in brief bullet points and/or summary computations where appropriate.
- You must answer questions in the spaces provided.
- You may not need all the space provided.
- You should make all calculations to the nearest month and pound unless stated otherwise.

1. On 1 June 2008 Petott Ltd purchased $20 \%$ of the ordinary share capital of Jescan Ltd. Both Petott Ltd and Jescan Ltd are trading companies. Petott Ltd has recently received an offer from an unconnected company to purchase the entire $20 \%$ shareholding in Jescan Ltd. However, due to difficulties in raising the necessary finance, the board have been asked to consider a sale in stages over a number of years.

Outline the chargeable gains position of the proposed sale, indicating any relevant relief available and any effect that the proposed staggered sale may have on such relief. Your answer should clearly state the conditions for the identified relief.
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2. MP plc is a UK resident trading company, preparing accounts to 30 June annually. It has always paid Corporation Tax at the small company rate. The accountant acting for the company died on 31 March 2009, having not yet prepared or filed the company's accounts to 30 June 2008, although all previous returns have been filed on time.

Advise MP plc of the deadlines in relation to payment of the Corporation Tax liability and filing of the Corporation Tax return, stating any implications of being late.
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3. RI Ltd purchased the business of IB Ltd on 1 May 2009 as a going concern. The purchase price of the business included goodwill and a freehold office building used in the trade of IB Ltd. IB Ltd was an unrelated company. RI Ltd have been advised that they may be able to claim some allowances for the cost of purchase against their profits.

Outline the manner in which each element of the purchase price will be treated for Corporation Tax purposes, clearly stating any allowances available.
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4. UK Ltd, a UK resident company, owns 30\% of the ordinary share capital of Overseas GmbH, a company resident in Germany. During the year to 31 December 2008, UK Ltd received a dividend from Overseas GmbH of $£ 27,000$, after deduction of withholding tax at $10 \%$. Overseas GmbH paid tax on the profits out of which the dividend was paid.

Explain the tax treatment of the dividend in UK Ltd. Ignore the effect of any double tax treaty.
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5. Alpha plc owns $80 \%$ of the ordinary share capital of Beta plc and $90 \%$ of the ordinary share capital of Ceta plc. All companies prepare accounts annually to 31 March. None of the companies paid or received any dividends. The results for the year ended 31 March 2009 are as follows:

|  | $\frac{\text { Alpha plc }}{}$ | Beta plc | Ceta plc |
| :--- | :---: | :---: | :---: |
|  | $£$ | $£$ | $£$ |
| UK Trading profit/(loss) | 600,000 | $(100,000)$ | 130,000 |
| Property business profits | 50,000 | 20,000 | - |
| Interest receivable | - | 40,000 | 10,000 |
| Gift aid donations | - | - | $(5,000)$ |

Assuming the group wishes to claim losses in the best manner to minimise the total Corporation Tax liability for the year ended 31 March 2009, calculate profits chargeable to Corporation Tax for each of the companies for the year ended 31 March 2009.
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6. Pumpkin Ltd has brought forward trading losses at 1 January 2009 of £200,000. Ghost Ltd intends to purchase the shares of Pumpkin Ltd within the next couple of months. The accountants for Pumpkin Ltd have included in their valuation of the business the potential Corporation Tax saving available from use of the unrelieved losses. Both Ghost Ltd and Pumpkin Ltd make up their accounts to 31 December each year.

Advise Ghost Ltd as to whether the brought forward trading losses of Pumpkin Ltd may be used against the profits of Pumpkin Ltd or Ghost Ltd for the year to 31 December 2009.
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7. For many years $X$ Ltd has owned $100 \%$ of the ordinary share capital of each of $Y$ Ltd and Z Ltd. On 1 June 2009, X Ltd will sell the shares in Z Ltd to another unconnected company.

Z Ltd owns the following assets, which were previously transferred to it from group members.

A factory transferred from X Ltd on 1 December 2007
Fixed machinery transferred from Y Ltd on 1 June 2002
Outline any capital gains implications arising as a result of $Z$ Ltd leaving the group.
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8. To raise finance on the formation of the company, BB Ltd borrowed $£ 100,000$ from individuals and $£ 50,000$ from another company. Both loans have been used for trading purposes, and are subject to interest at a rate of $7 \%$ per annum

Calculate the sums to be paid to each lender and indicate the extent of any tax relief available to BB Ltd on the borrowings.
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9. Sally was made redundant on 31 March 2008 and formed a company, SAL Ltd, through which she has contracted to provide services to her former employer.

Sally accepts that the contract with her former employer falls within the provisions of the IR35 Personal Service Companies legislation and has provided you with the following information for the year ended 5 April 2009:

|  |  |
| :--- | ---: |
| Total invoiced for services | 155,000 |
| Salary paid in the year (including employers' NIC) | 10,000 |
| Travel expenses (including £2,000 for home to work travel) | 5,000 |
| Employer pension contribution for Sally paid by SAL Ltd | 8,000 |
| Dividends paid (net of tax credit) | 40,000 |

Prepare the deemed employment income calculation for 2008/09.
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10. The premises of Loopy Ltd were refurbished during the company's nine month accounting period to 31 December 2008. The following assets were acquired:

|  |  | $£$ |
| :--- | :--- | :---: |
| 1 May 2008 | Ventilation system for building | 50,000 |
| 1 Sept 2008 | Computer equipment | 30,000 |

The tax written down value of the main pool at 1 April 2008 was $£ 120,000$.
Calculate the maximum capital allowances available to Loopy Ltd for the nine months to 31 December 2008.
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11. Sugar Ltd, a small trading company, and Tea Ltd, a large trading company, incurred research and development costs in the year to 31 March 2009, as follows:

Staff costs

| Sugar Ltd | Tea Ltd |
| :---: | :---: |
| £ | £ |
| 20,000 | 40,000 |
| 40,000 | 20,000 |
| 10,000 | - |
| - | 40,000 |

Apportionment of general overheads Software

Both companies made losses in the year to 31 March 2009 of $£ 200,000$.
Calculate the amount of relief available to each company for the research and development expenditure incurred.
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12. The entire share capital of D Ltd is owned by Mr and Mrs Jenkins, and D Ltd has no associated companies. The income and expenditure of the company for the year to 31 March 2009 was as follows:

|  | $£$ |
| :--- | ---: |
| Dividends received on quoted UK investments (net of tax credit) | 90,000 |
| Bank/building society interest receivable | 55,000 |
| Loan stock interest receivable | 80,000 |
|  |  |
| Management expenses paid | 30,000 |
| Gift aid donations paid | 5,000 |

Calculate the Corporation Tax payable for the year to 31 March 2009.
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