

Chapter 15

Answer to Example 1

The payments on account for 2021/22 will be based on the tax payable by self assessment and the class 4 (NIC) liability in 2020/21

Due dates:

31/1/2022 $13,000 \frac{1}{2}$ = £6,500

31/7/2022 $13,000 \frac{1}{2}$ = £6,500

The Balancing payment for 2021/22 is made up as follows

	£
Total income tax liability	14,000
Less tax deducted at source	<u>(2,000)</u>
Income tax payable by self assessment	12,000
Class 4 NIC liability	2,500
Capital Gains tax	1,700
less Payments on Account	<u>(13,000)</u>
Balancing Payment due 31/1/2023	<u>3,200</u>

The payments on Account for 2022/23 will be based on the income tax payable by self assessment and class 4 NIC liability in 2021/22

31/1/2023 $(12,000 + 2,500)/2$ = 7,250

31/7/2023 = 7,250

Total payment to be made on 31 January 2023 is 10,450 (3,200 + 7,250)

Chapter 16

Answer to Example 1

Corporation tax computation for the accounting period of 12 months ended 31 March 2022

Tax adjusted trading profits	1,456,500
Property income	25,000
Interest receivable	10,000
Chargeable gains	37,500
Less: Capital losses	<u>(2,500)</u>
	<u>1,526,500</u>
Less: Qualifying charitable donations	<u>(10,000)</u>
Taxable Total Profits	<u>1,516,500</u>

Note: Dividends from other companies (UK or overseas) are exempt and therefore are ignored when calculating Taxable Total Profits

Chapter 17

Answer to Example 1

	<i>12 months to 31/3/2022 £</i>	<i>3 months to 30/6/2022 £</i>
Adjusted profit (12 : 3)	3,200,000	800,000
Less: CA (W1)	<u>(68,000)</u>	<u>(540,000)</u>
Tax adjusted trading profit	3,132,000	260,000
Chargeable Gain (6/5/2022)	–	80,000
Qualifying charitable donations (31/7/2021)	<u>(20,000)</u>	<u>–</u>
Taxable Total Profits	<u>3,112,000</u>	<u>340,000</u>
Corporation Tax @ 19%	£591,280	£64,600

Capital Allowance computations

12 months to 31 March 2022	<i>£</i>
AIA 100% x £68,000 (note 1)	<u>68,000</u>

3 months to 30 June 2022

130% FYA (£200,000 @ 130%)	260,000
Special rate pool (AIA max 3/12 x £1m)	
AIA (100% x £250,000)	<u>250,000</u>
FYA (50% x £60,000)	<u>30,000</u>
	540,000

Note 1

The vans purchased were not new and therefore there is no 130% FYA claim available, but a claim for AIA is available.

Chapter 18

Answer to Example 1

Current year relief

	y/e 31/3/22
	£
Trading profit	NIL
Interest receivable	20,000
Chargeable gain	<u>50,000</u>
Total Profits	70,000
Current year relief	<u>(45,000)</u>
	25,000
Qualifying charitable donations	<u>(15,000)</u>
Taxable Total Profits	<u>10,000</u>

Answer to Example 2

	y/e 31/3/20	y/e 31/3/21	y/e 31/3/22
	£	£	£
Trading profit	30,000	60,000	NIL
Interest receivable	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
Total Profits	40,000	70,000	10,000
Current year relief			(10,000) ⁽ⁱ⁾
Carry back relief		<u>(70,000) ⁽ⁱⁱ⁾</u>	
Taxable Total Profits	<u>40,000</u>	<u>–</u>	<u>–</u>

Loss memorandum

Loss arising	
y/e 31/3/2022	90,000
Current year relief	y/e 31/3/2022
Carry back relief	y/e 31/3/2021
Available to carry forward	<u>10,000</u>

Answer to Example 3

	<i>y/e</i> <i>31/3/21</i> £	<i>9m to</i> <i>31/12/2021</i> £	<i>y/e</i> <i>31/12/2022</i> £
Trading profit	25,000	20,000	–
Interest Income	3,000	1,000	1,000
Chargeable Gain	NIL(W1) (W1)	5,000 (W1)	–
Total Profits	<u>28,000</u>	<u>26,000</u>	<u>1,000</u>
Current year relief			(1,000)
Carry back relief (3/12 x 28,000)	<u>(7,000)</u>	<u>(26,000))</u>	<u>–</u>
	21,000	–	–
Less Qualifying charitable donations	<u>(500)</u>	<u>(500) (W2)</u>	<u>(500)(W2)</u>
Taxable Total Profits	<u>20,500</u>	<u>–</u>	<u>–</u>

W1 The capital loss of £1000 is c/f to set off against the £6000 gain of next AP

W2 Qualifying charitable donations are unrelieved

Loss memorandum

Trading loss

y/e 31/12/2022

40,000

Current year 31/12/2022

(1,000)

39,000

Carry back to 9m to 31/12/2021 & 3m of y/e 31/3/2021 (26,000 + 7,000)

(33,000)

Carry forward

6,000

The loss carried forward may be set off against any part of the future total profits of the company.

Answer to Example 4

	<i>y/e</i> <i>30/9/18</i> £	<i>6 months</i> <i>31/3/19</i> £	<i>y/e</i> <i>31/3/20</i> £	<i>y/e</i> <i>31/3/21</i> £	<i>y/e</i> <i>31/3/22</i> £
Trading profit	10,000	16,000	20,000	32,000	–
Interest income	2,000	–	2,000	2,000	2,000
Chargeable Gain	<u>–</u>	<u>–</u>	<u>6,000</u>	<u>–</u>	<u>8,000</u>
	12,000	16,000	28,000	34,000	10,000
Current year relief					(10,000)
Carry back relief	<u>(6,000)</u>	<u>(16,000)</u>	<u>(28,000)</u>	<u>(34,000)</u>	<u>–</u>
Qualifying charitable donations	<u>(500)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Taxable Total Profits	<u>5,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Qualifying charitable donations unrelieved			500	500	–

Loss memorandum

£

Loss arising y/e 31/3/2022

97,000

Current year relief y/e 31/3/2022

(10,000)

Carry back relief y/e 31/3/2021

(34,000)

Carry back relief y/e 31/3/2020

(28,000)

Carry back relief 6m to 31/3/2019

(16,000)

Carry back relief y/e 30/9/2018 £12,000 × ½ = £6,000 maximum set off

(6,000)

Loss unrelieved

3,000

Answer to Example 5

	y/e 31/3/19 £	y/e 31/3/20 £	y/e 31/3/21 £	y/e 31/3/22 £
Trading income	40,000	20,000	–	20,000
Property Income	3,000	3,000	3,000	3,000
Interest receivable	4,000	3,000	5,000	3,000
	<u>47,000</u>	<u>26,000</u>	<u>8,000</u>	<u>26,000</u>
Current period relief			(i) (8,000)	
Carry back relief / carry forward relief		(ii) <u>(26,000)</u>		(iii) <u>(9,000)</u>
	47,000	–	–	17,000
Less Qualifying charitable donations	<u>(1,000)</u>	<u>–</u>	<u>–</u>	<u>(1,000)</u>
Taxable Total Profits	<u>46,000</u>	<u>–</u>	<u>–</u>	<u>16,000</u>
Unrelieved Qualifying charitable donations		1,000	1,000	
Loss memo	£			
Loss arising y/e 31/3/2021	43,000			
Current year relief 31/3/21	(i) <u>(8,000)</u>			
	35,000			
Carry back relief 31/3/20	(ii) <u>(26,000)</u>			
	9,000			
Carry forward y/e 31/3/2022	(iii) <u>(9,000)</u>			
	<u>–</u>			

If the remaining loss carried forward had been £29,000 instead of £9,000 the claim made would have been restricted to £25,000 so as not to waste the qualifying charitable donations of £1,000. Such a partial claim is not available for either the current period or carry back claims.

The company could decide to not make a claim in the current period and then previous period, but to carry forward all of the loss in order to avoid wasting the qualifying charitable donations paid in those periods and then have the benefit of being able to make partial claims against total profits in the future.

The current and carry back claims are of course more beneficial in terms of cash flow

Chapter 19**Answer to Example 1**

	£	£
Sale proceeds	100,000	
Less: Incidental costs of sale	<u>(1,000)</u>	
		99,000
Less: Cost	20,000	
Enhancement expenditure	<u>6,000</u>	
		<u>(26,000)</u>
Unindexed gain		73,000
Less: Indexation allowance on cost 20,000 × 1.706	34,120	
On enhancement 6,000 × 1.067	<u>6,402</u>	
		<u>(40,522)</u>
Chargeable gain		<u>32,478</u>

As the date of disposal is post 31 December 2017, the indexation factors applied are only to December 2017

Answers to examples

Answer to Example 2

- 1) Same day X
 2) Previous 9 days 500 shares

		£
Proceeds	$\frac{500}{3,000} \times 36,000$	6,000
Less cost		(5,000)
Chargeable gain		1,000

- 3) Share pool

		Number £	Cost £	Indexed cost £
Share Pool				
20 August 1989		1,000	5,000	5,000
Index up to November 1996	5,000 x 0.329			1,645
		1,000	5,000	6,645
Addition 16 November 1996		2,000	12,000	12,000
		3,000	17,000	18,645
Index up to December 2017	18,645 x 0.820			15,289
		3,000	17,000	33,934
Disposal 10 December 2022	2500/3000 x 17,000: 2500/3000 x 33,934	(2,500)	(14,167)	(28,278)
		500	2,833	5,656

Calculate the gain on the 2,500 shares

	£
Proceeds	$\frac{2,500}{3,000} \times 36,000$
	30,000
Cost	(14,167)
Unindexed gain	15,833
I.A (28,278 – 14,167)	(14,111)
Chargeable gain	1,722

Total Gains

Previous 9 days	1,000
Pool	1,722
Chargeable Gains to include in the corporation tax computation	2,722

Gains

1,000
1,722
2,722

Answer to Example 3

Matching rules

Same day ×

Previous 9 days ×

Share pool ✓

Share pool

	<i>Number</i> £	<i>Cost</i> £	<i>Indexed cost</i> £
July 1993	3,000	10,000	10,000
February 1995 Bonus 1:3	1,000	–	–
No reindexation of pool (though examiner may still give the indexation factor to that date - ignore!)	4,000	10,000	10,000
Index to December 2017 from July 1993			10,000 × 0.991
	4,000	10,000	9,910
Sale	(2,000)	(5,000)	(9,955)
	2,000	5,000	9,955

Calculate the Gain

	£
Proceeds	12,000
Less Cost	(5,000)
Unindexed Gain	7,000
Less Indexation allowance (9,955 – 5,000)	(4,955)
Chargeable gain	2,045

Answer to Example 4

	<i>Market value</i>	<i>Cost</i>
B plc ordinary shares $10,000 \times 2 \times £1.50$	30,000	7,500
B plc preference shares $10,000 \times 1 \times £1.00$	10,000	2,500
	40,000	10,000

As the terms of the takeover are a share for share transfer no gain will arise at the time of the takeover with the new shares in B plc taking on the same original cost as the old shares in A Ltd. As 2 types of share are issued at takeover we use the market values of those shares as the basis of dividing the A Ltd share cost, hence the ordinary shares take 30/40 and the preference shares take 10/40 of the £10,000 share cost.

In reality the same method of apportioning the indexed cost column for the A Ltd shares would be applied and re-indexation of the indexed cost column would occur at the time of the takeover or to December 2017. Calculate Gain on sale of preference shares in March 2023:

	£
Proceeds	15,000
Cost	(2,500)
Less: indexation allowance $1.357 \times 2,500$	(3,393)
Chargeable gain	9,107

The cost of B plc ordinary shares when they are sold will be £7,500.

Answer to Example 5

As Z Ltd now receives some cash at the time of the takeover an immediate gain will arise thereon as computed below.

Z Ltd receives at takeover:

	<i>Market value</i>	<i>Cost</i>
20,000 B plc ordinary shares	£30,000	£7,500
Cash	£10,000	£2,500
Total	£40,000	£10,000

Chargeable gain in July 2021:

	<i>£</i>
Proceeds	10,000
Less Cost	(2,500)
Indexation allowance ($1.275 \times £2,500$)	(3,187)
Chargeable gain	4,313

Chapter 20**Answer to Example 1**

		<i>£</i>
Proceeds		16,000
Less: Cost	$26,000 \times \frac{16,000}{16,000 + 34,000}$	(8,320)
Unindexed gain		7,680
Less: I.A	$0.269 \times 8,320$	(2,238)
Chargeable gain		5,442

Answer to Example 2

(a) Antique table – this is an exempt asset as cost and proceeds are both $\leq £6,000$ and it is a non wasting chattel.

(b) Painting – non wasting chattel

Normal calculation

		<i>£</i>
Disposal proceeds		10,000
Cost		(2,000)
		8,000
Less: Indexation allowance	$= 0.285 \times 2,000$	(570)
Gain		7,430

Restricted to $\frac{5}{3} [10,000 - 6,000] = \text{£}6,667$

(c) Antique vase – non wasting chattel

	<i>£</i>
Disposal proceeds (deemed)	6,000
Less cost	(8,000)
Capital loss	(2,000)

(d) The vintage car is exempt

	£
Asset (1)	–
Asset (2)	6,667
Asset (3)	(2,000)
Asset (4)	–
Net chargeable Gain	<u>4,667</u>

Answer to Example 3

	£	£
Proceeds		38,000
Less Acquisition cost		
Purchase	25,000	
Less $12/30 \times [25,000 - 1,000]$	(9,600)	
		<u>(15,400)</u>
Unindexed gain		22,600
Less indexation allowance $0.436 \times 15,400$		<u>(6,714)</u>
Chargeable gain		<u>15,886</u>

Answer to Example 4

		£
Proceeds		30,000
Less Acquisition cost	$10,000 \times \frac{30,000}{30,000 + 25,000}$	<u>(5,455)</u>
Unindexed gain		24,545
Less indexation allowance $0.549 \times 5,455$		<u>(2,995)</u>
Chargeable gain		<u>21,550</u>

Answer to Example 5

When the insurance proceeds are received there is no chargeable gain as the company has elected to rollover the proceeds against the cost of the painting.

When the painting is eventually sold its cost will be:

	£
Original cost	10,000
Less insurance proceeds	<u>(8,000)</u>
Base cost of painting	<u>2,000</u>

In addition the restoration costs themselves of £8,000 can be deducted on a future disposal.

Answer to Example 6

	£
Proceeds	34,000
Less cost	<u>(23,000)</u>
Unindexed gain	11,000
Less: I.A	$0.250 \times 23,000$ <u>(5,750)</u>
Chargeable gain	5,250
Less gain rolled over	<u>(1,250)</u>
Revised chargeable gain	<u>4,000</u>

Proceeds have only been partially used to buy a replacement asset, therefore £4,000 (£34,000 – £30,000) of the gain is chargeable immediately and £1,250 (£5,250 – £4,000) can be deferred.

Base cost of the replacement asset

Cost	30,000
Less Gain Deferred	<u>(1,250)</u>
Base cost	28,750

Chapter 21**Answer to Example 1**

	£
Proceeds	400,000
Less Cost	<u>(150,000)</u>
Unindexed Gain	250,000
Less: I.A	$0.929 \times 150,000$ <u>(139,350)</u>
Chargeable gain	110,650

Proceeds are fully reinvested into a qualifying asset within the specified time period (12 months before disposal date), so the entire gain of £110,650 can be deferred until the sale of the land.

Base cost of the land

Cost	500,000
Less Gain deferred	<u>(110,650)</u>
Base cost	389,350

Answer to Example 2

	£
Proceeds	350,000
Cost	<u>(200,000)</u>
	150,000
Less: I.A	$0.543 \times 200,000$ <u>(108,600)</u>
Chargeable gain	<u>41,400</u>

Proceeds not reinvested = 350,000 – 335,000 = £15,000

Therefore £15,000 will be chargeable and the remaining gain of £26,400 (41,400 – 15,000) can be deferred as partial reinvestment has occurred within 3 years of disposal date.

Base cost of new asset:

Cost	335,000
Gain deferred	<u>(26,400)</u>
	<u>308,600</u>

Answer to Example 3

		£
Proceeds		350,000
Cost		<u>(200,000)</u>
		150,000
I.A	0.361 x 200,000	<u>(72,200)</u>
		<u>77,800</u>

The gain is deferred due to the purchase of the fixed plant within 3 years of the disposal date and will be chargeable in year ended 31 March 2022, when the depreciating asset is sold/ceases to be used in the trade (Feb 2022). This is earlier than 10 years from its date of acquisition (March 2026).

Chapter 22

Answer to Example 1

A Ltd has three wholly owned subsidiaries and thus there are four related 51% group companies, meaning that each group member will have a revised profit limit of £375,000 (£1.5M / 4).

A Ltd with a TTP of £400,000 will therefore be a large company and if it was large in the previous AP should have made quarterly instalment payments for this period and will be required to make quarterly instalment payments for the next AP if its estimated profits for that period will exceed £375,000.

If the TTP had been say £350,000 but A Ltd received dividends from non subsidiary companies of £40,000 then its Augmented Profit figure would be £390,000 and again it would be a large company

Answer to Example 2

Group relief

- (1) Z plc will be able to group relieve its trading loss to effective 75% subsidiaries. The shareholding can be held directly or indirectly.
- (2) Z plc will therefore be able to group relieve its trading loss to A Ltd and B Ltd.
- (3) Z plc does not have the required 75% shareholding in C Ltd ($100\% \times 80\% \times 80\% = 64\%$).

C Ltd may however separately group relieve with B Ltd its 80% parent. It is therefore possible that where sub - subsidiaries (indirect subsidiaries) exist there will be more than one group for purposes of group relief.

Answer to Example 3

- (1) Group relief to B Ltd will be restricted to 6/12ths of Z plc's trading loss for the year ended 31 March 2022.
- (2) The set-off will be against B Ltd's Taxable Total Profits for the six-month period to 31 March 2022.

Answer to Example 4

Both Beyonce Ltd and Z Ltd prepare accounts to 31 March but as Z Ltd only commenced trading on 1 January, 2022 only £60,000 ($3/12 \times 240,000$) of Beyonce's loss period corresponds with Z Ltd's profit period. This, however will not be a problem as Z Ltd's profit is only £50,000 and will therefore represent the maximum group relief available.

J Ltd's accounting period is not coterminous and therefore both its profits and Beyonce's loss must be time apportioned between the corresponding periods:

3 months of Beyonce's loss corresponds with 3 months of J's profit for the year ended 30 June 2021, hence maximum group relief in this period is lower of:

$$3/12 \times (240,000) = (60,000)$$

$$3/12 \times 160,000 = 40,000$$

Maximum group relief is therefore £40,000.

9 months of Beyonce's loss corresponds with 9 months of J's profit for the year ended 30 June 2022, hence group relief in this period is restricted to lower of:

$$9/12 \times (240,000) = 180,000$$

$$9/12 \times 280,000 = 210,000$$

Maximum group relief is therefore £180,000

Answer to Example 5

An election may be made, the matching election, to deem any part of a gain or loss made by one gains group member to have been made by any other gains group member. This will allow gains and losses to be set off within the group rather than carrying forward an unused capital loss in one group company while being taxed on a gain in another group company.

Initially therefore it would appear that electing to either deem the loss made by Large Ltd to have been made by Smaller Ltd, or deeming £35,000 of Smaller Ltd's gain to have been made by Large Ltd would have the same effect of matching the gains with the losses and either approach may be proposed, but there is a further issue to be identified that will suggest that it would be preferable to transfer at least £50,000 of the gain from Smaller Ltd to Large Ltd.

Both companies are currently large companies, which notwithstanding their size in the previous accounting period (AP) will mean that they will both be required to make quarterly instalment payments in relation to the next AP if they are both estimating large profits for that period.. This will result in an adverse cash flow position for both group companies. They are large companies as their profits are above the profits threshold of £750,000 (£1.5M divided between two 51% related group companies)

It would be beneficial therefore to transfer at least £50,000 of the gain from Smaller Ltd to Large Ltd which will bring Smaller Ltd's profits down from £800,000 to £750,000 and will therefore remove the requirement for Smaller Ltd to make quarterly instalment payments for the next AP. This result would not be achieved if the loss was transferred to Smaller Ltd as this would still leave Smaller Ltd with profits in excess of £750,000.

Chapter 23

Answer to Example 1

Photo Plc

Corporation tax liability

FY 2021 £2M x 3/12 x 19% =	95,000
FY 2022 £2M x 9/12 x 19%(assumed) =	285,000
	<u>380,000</u>

All payable by instalments

This will be paid as follows:

£95,000	on	14 July 2022
£95,000	on	14 October 2022
£95,00	on	14 January 2023
£95,000	on	14 April 2023

In reality of course as the payments are based on an estimate of the current year's liability and the first payment is made in only the 7th month of the accounting period the amounts paid are likely to change at each payment date as that estimate is updated. Interest will be payable at 2.6% pa on any underpayments and will be receivable by the company at a rate of 0.5% on any overpayments. These amounts would be included within the Interest Income assessment on the Corporation Tax computation.

Chapter 24

Answer to Example 1

Chargeable Transfers

	20/11/15 PET	15/7/16 CLT	8/12/2020 PET
Transfer of value	40,000	405,000	184,000 (W1)
Less: Exemptions			
Marriage	(5,000)		
AE 2015/16	(3,000)		
AE 2014/15	(3,000)		
AE 2016/17		(3,000)	
AE 2020/21			(3,000)
AE 2019/20			(3,000)
	<u>29,000</u>	<u>402,000</u>	<u>178,000</u>

W1 Transfer of value

Before transfer (16,000 @ £25) =	400,000
After transfer (12,000 @ £18) =	(216,000)
	<u>184,000</u>

Lifetime Transfers Chargeable When Made

	£	Gross Transfers	IHT
15/7/2016 CLT	402,000	421,250	19,250
325,000 @ nil = nil			
77,000 @ 25% = 19,250			
<u>402,000</u>			