UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

MSC ACCOUNTANCY & FINANCIAL MANAGEMENT

SEMESTER ONE RESIT EXAMINATION 2022/23

ADVANCED TAXATION RESIT

MODULE NO: ACC7506

Date: Wednesday 11 January 2023 **Time: 1.00 – 4.00**

INSTRUCTIONS TO CANDIDATES:

There are 3 questions on this paper.

Answer all 3 questions

This is a closed book exam.

Tax tables will be provided

University of Bolton
Institute of Management
MSc Accountancy & Financial Management
Semester 1 Resit Examinations 2022-23
ACC7506 Advanced Taxation

Question 1

You are employed in the tax department of Hurst Chartered Accountants. You have been asked to provide advice to two clients in relation to their corporate tax affairs.

The following information relates to parts (a) and (b):

Jaffer Ltd is a UK based company which has taxable profits of £30,000 for the year to 31 March 2022. Jaffer Ltd owns 75% of an overseas subsidiary resident in the country Homeland. The subsidiary falls within the definition of a Controlled Foreign Subsidiary. The overseas subsidiary has £700,000 of profits for the period and 75% of the profits fall under the CFC legislation and stand to be charged. In the country of Homeland, the corporate tax rate is 8%.

A friend of the finance director at Jaffer Ltd has told him that with effective tax planning a company can be exempt from being liable for the CFC charge. The board of directors have specifically requested that your firm advises on this matter.

Required:
(a)
Compute and show the effect of the Controlled Foreign Subsidiary on Jaffer Ltd's corporation tax payable for the year ended 31 March 2022.
(6 marks)
(b)
Critically discuss <u>FOUR</u> exemptions that allows a company to be exempt from the controlled foreign subsidiary charge. You can use examples to illustrate your answer. **(8 marks)**

The following information relates to parts (c) to (e):

Another client of yours is Shell Ltd which is a leading food company in the UK and is now considering acquiring a rival food company Crab Ltd as part of its expansion plans in the UK food industry. After the takeover the group will be known as The Shell Group Ltd. The board of directors intend to acquire 100% of the share capital of Crab Ltd. The board of directors have been made aware of the tax planning opportunities that can arise from capital gains groups for companies.

Additionally the finance department at The Shell Group Ltd is considering registering for group VAT as they know there are certain advantages of adopting this approach. You should assume the takeover will be successfully completed.

Question 1 continues over the page

Question 1 continued

Required:

(c) Critically discuss the implications of a de-grouping charge for Shell Ltd and Crab Ltd **(8 marks)**

(d) Critically evaluate the pre-entry capital loss rules that would restrict The Shell Group Ltd from using pre-entry losses.

(8 marks)

(e) Critically evaluate the benefits and drawback of forming a VAT group and discuss whether The Shell Group Ltd would qualify for registration.

(10 marks)

Total: 40 marks

Question 2

You work for Pine & Co which is based in the UK and has a range of clients including John (an individual). He requires detailed advice in relation to Capital Gains Tax as he has made a number of disposals during the tax year.

John disposed of the following assets during the tax year 2021/22:

- On 7 May 2021 John sold 6,000 £1 ordinary shares in Beach Ltd, an unquoted trading company, for £24,000. He had originally purchased 30,000 shares in the company on 12 May 2018 for £95,500 from a previous shareholder. John's shareholding is equal to 3% of the total share capital.
- On 8 June 2021 John made a gift of his entire shareholding of 10,000 £1 ordinary shares in Connor plc to his daughter. On that date the shares were quoted on the Stock Exchange at £4.10 – £4.50. John's shareholding had been purchased on 13 June 2002 for £12,500. The shareholding is less than 2% of Donnor plc's issued share capital, and John has never been worked for Donnor plc.
- On 18 August 2021 John sold a motor car for £20,000. The motor car had been purchased on 21 February 2015 for £15,000.
- On 3 September 2021 John sold an antique vase for £12,300. The antique vase had been purchased on 19 January 2018 for £7,500.

Question 2 continues over the page

Question 2 continued

- On 31 December 2021 John sold a house for £200,000. The house had been purchased on 31 December 2013 for £115,000. John occupied the house as his main residence from the date of purchase until 31 December 2017. The house was then unoccupied until it was sold on 31 December 2021.
- On 8 February 2022 John sold four hectares of land for £300,000. He had originally purchased five hectares of land on 9 February 2017 for £240,000. The market value of the unsold hectare of land as at 8 February 2021 was £100,000. The land has never been used for business purposes.
- On 7 March 2022 John sold a freehold cottage for £150,000. The cottage had originally been purchased on 07 March 2016 for £99,500 by John's wife. She transferred the cottage to John on 7 March 2019 when it was valued at £125,000.
- John has taxable income for the tax year 2021/22 of £30,000.
- John's friend has told him that he may be able to claim BADR and gift relief, although he is unsure about whether or not this will be possible.

Required:

Compute John's CGT liability for the tax year 2021/22, and advise him by when this should be paid. You should clearly evaluate reasons for treatment of items and explain if any CGT reliefs are available.

In your answer you should clearly evaluate whether or not John will be able to claim BADR and Gift Relief.

Total: 30 marks

Question 3

You are a Senior Tax Manager working for Peter & Co and have been requested to offer inheritance tax advice to one of your existing clients Tom Gore whose father Peter Gore recently passed away. Peter died on 3 April 2022, and his estate comprised of the following:

- Freehold house and land which was valued at £900,000. The property was owned by Peter and his wife as joint tenants. His wife is still alive.

Question 3 continues over the page

Question 3 continued

- Overseas rental property with a sterling equivalent of £25,000, left to his daughter. There were admin costs associated with dealing with the overseas property which amounted to £3,500 and death duties payable overseas amounted to £2,500.
- A property situated in Birmingham valued at £550,000. This property had been Peter's main residence where he lived with his wife.
- Ordinary shares in Adam Ltd, an unquoted trading (UK) company, worth £30,000. The shares have been owned for seven years. 15% of the company's net assets are investments.
- Land worth £180,000 which was agricultural land that Peter has owned for many years since 1990 and was used for farming purposes. The land is likely to remain being used as agricultural farming land in future also.
- UK Bank deposit account £51,000 and UK accrued interest £4,000 (net).
- Personal chattels £30,000 in the UK.
- Death in service £400,000. The death in service policy is expressed to be for the benefit of the spouse. Peter was employed in the UK.
- Debts and funeral expenses amounted to £2,500. The funeral took place in the UK.
- In his will Peter has specifically mentioned that he is leaving his personal chattels to his wife and residue of the estate (excluding the overseas property) to his son Tom.
- Peter had made one lifetime gift of £125,000 cash to his daughter in November 2002.

Required:

(a) Calculate the inheritance tax payable on the estate and discuss who will be subject to the tax liabilities. **(18 marks)**

The following information relates to parts (b) and (c)

Another client of yours is Claire Hone who is an investment banker and is classed as a high net worth individual as she earns a basic salary of £500,000 a year as well as annual bonuses of approximately £200,000 a year. Her main residence is in Central London in Regent Park which has a current valuation of £7.5 million.

Question 3 continues over the page

Question 3 continued

Claire is thinking of leaving most of her estate to her beloved nephew Jake. Claire's friend has told her that she could leave a certain proportion of her estate in her will to an animal charity and this will result in an inheritance tax saving. At the time of her death in the future it is likely she will have significant other assets in her death estate also.

Required:

(b)

Critically advise Claire whether she qualifies for RNRB and advice conditions of the RNRB Relief.

(7 marks)

(c)

Critically discuss the conditions which would need to be satisfied for Claire's death estate to be taxed at a reduced rate of IHT upon her death.

(5 marks)

Total: 30 marks

END OF QUESTIONS