

## Overview

Corporate Taxation provides a fundamental grounding in the structure and principles of UK and international taxation. It provides the framework within which more complex, applied taxation issues are discussed in subsequent papers.

## Chapter 1 – The UK tax system

Chapter one provides an introduction to the structure and administration of the UK taxation system.

## Chapter 2 – Principles of taxation

Chapter two provides a general awareness and understanding of the system of tax, explains the principles of the taxation of trades, and outlines the taxation of employees including the self-assessment provisions for individuals.

## Chapter 3 – Corporate tax

Chapter three provides detailed understanding and awareness of the principles of corporation tax, combined with basic computational ability. Understanding and awareness of the tax reliefs available to a company where a loss is incurred in the business. Awareness and understanding of capital allowances, combined with basic computational ability.

## Chapter 4 – Calculation of chargeable gains

Companies pay corporation tax on their chargeable gains. This chapter identifies chargeable transactions and explains how to calculate a chargeable gain. It will also set out the rules relating to one particular type of asset – shares, and will explain the reliefs and exemptions which are available.

The legislation is found within the Taxation of Chargeable Gains Act 1992 (TCGA 1992). The legislation applies to both companies and individuals. A company making chargeable gains will report them on their annual corporation tax return, as discussed in Chapter 3, whereas individuals will be charged to capital gains tax. These notes will look at the legislation from a company standpoint.

## Chapter 5 – Value Added Tax

After Income Tax, Value Added Tax (VAT) raises more money for the Exchequer than any other tax. The rules of VAT are quite different from those of other taxes. Cases coming before the VAT and Duties Tribunals and the Courts illustrate how many businesses struggle with these rules and differences. A good understanding of the principles of VAT is increasingly important in advising businesses.

## Chapter 6 – Taxation of UK groups

Chapter six will deal with corporation tax issues for groups of companies and those that are associated for various reasons e.g. common ownership. It is important to appreciate that each company within a

group produces its own tax computation and that there is no 'consolidated' tax computation for the group as a whole.

### **Chapter 7 – International tax issues**

Chapter seven provides an introduction to the issues surrounding international taxation.

### **Chapter 8 – Taxation and the treasury function**

Chapter eight provides a detailed understanding and awareness of the taxation treatment of interest, and an introduction to the taxation of financial instruments and foreign exchange gains and losses.

### **Chapter 9 – Transaction taxes**

The final chapter provides a general awareness and understanding of European property taxes, European capital duties and UK stamp duty and stamp duty land tax (SDLT).

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## **Chapter 1 – The UK tax system**

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### **1.1 Overview of the UK tax system**

- General theory of taxation
- Main UK taxes
- Fiscal and financial years
- Parliamentary control of taxation and the Budget

### **1.2 Administration of direct taxation**

- The treasury
- HMRC
- Personnel

### **1.3 Corporation tax self-assessment**

- Corporation tax framework of assessment and appeals
- Assessment procedure
- The enquiry process
- The taxpayers's charter

### **1.4 Electronic filing**

### **1.5 Statute and sources of tax**

- Primary sources: legislation and the case law
- Delegated legislation
- Other sources

### **1.6 Current issues: simplification and avoidance**

- Simplification
- Tax evasion and avoidance
- Disclosure of tax avoidance schemes

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## **Chapter 2 – Principles of taxation**

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### **2.1 Income tax**

The history of income tax in the UK  
The schedular system  
Mutually exclusive rule

## **2.2 Principles of taxing trading income**

What is a trade  
The 'badges of trade'  
Adjusting accounting profit to reach taxable profits  
Adjusting accounting profits – capital or revenue?  
Intangible assets  
The general rule on deductions  
Tax treatment of specific expenses  
Example computation  
Investment companies

## **2.2 Payroll taxes**

Pay as you earn (PAYE)  
National Insurance  
Tax status  
Taxable benefits

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# **Chapter 3 – Corporation tax**

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## **Section 1 - Corporate Tax**

### **3.1 Introduction**

### **3.2 Accounting periods**

### **3.3 The corporation tax computation**

Schedule D Case I  
Income other than Schedule D Case I  
Deductions in CT computation  
Dividends received from other companies resident in the UK  
Sample CT Computation  
Allocating results to CAPs

### **3.4 Loan relationships**

Types of loan  
Treatment of debits and credits

### **3.5 Corporate tax rates**

Short accounting periods and associated companies  
CAP's straddling financial years  
Marginal rate of tax

### **3.6 Advance corporation tax**

### **3.7 Payment of corporation tax**

Instalment payment dates  
Instalment payment amounts

### **3.8 Making corporation tax payments**

### **3.9 Corporation tax self-assessment**

Corporation tax returns – due dates  
Corporation tax returns – penalties  
Amendments, corrections and enquiries

## **Section 2 – Loss relief's**

### **3.10 Introduction**

### **3.11 Calculating a Schedule D Case I loss**

### **3.12 Overview of use of trading loss**

The first rule of loss

### **3.13 Carry forward of a trading loss**

Basic rules of carry forward

Anti-avoidance provisions

Claim to carry forward

### **3.14 Use of loss in current and prior year**

Using a loss in the current year

Charges on income

Using a loss in the prior year

Carry back to short CAP

Claim for current year and prior year relief

Terminal loss relief

### **3.15 Choosing how to use a loss**

Order of set off

### **3.16 Losses other than Schedule D Case I**

Management expenses

Schedule A loss

Schedule D Case IV loss

Capital losses

Loan relationships – non-trade deficits

## **Section 3 – Capital Allowances**

### **3.17 Introduction**

### **3.18 Effect of capital allowances**

### **3.19 Plant and machinery expenditure**

Qualifying expenditure

Plant and machinery – case law

Amount of the expenditure

Effective date that expenditure is incurred

Hire purchase

### **3.20 General system of allowances for plant and machinery**

Terminology and abbreviations

Basic layout

### **3.21 Writing down allowances and first year allowances**

Writing down allowances (WDAs)

First year allowances (FYAs)

Small and medium enterprises

Layout of WDAs and FYAs

- 3.22 Pools of expenditure**
  - The general pool
  - Long life assets
  
- 3.23 Assets which are not pooled**
  - Expensive cars
  - Short life assets
  
- 3.24 Balancing adjustments**
  - Balancing allowances
  - Balancing charges
  - Short life assets
  
- 3.25 Layout for capital allowances**
  
- 3.26 Industrial buildings allowances**
  - Who can claim allowances?
  - Qualifying expenditure
  
- 3.27 Calculating industrial buildings allowance**
  - Writing down allowances on a new building
  - Initial allowance
  - Temporary disuse/non-industrial use
  - Balancing adjustments
  - Sale of building after non-industrial use
  - Residue of qualifying expenditure (RQE)
  - Purchasing a second-hand used building
  - Interaction with plant and machinery allowances
  
- 3.28 Capital allowances and tax planning**
  
- 3.29 Deferred tax**
  - What does 'deferred tax' mean?
  - Calculating deferred tax
  
- 3.30 Corporate restructuring**
  - Methods of acquisition

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## Chapter 4 – Calculation of chargeable gains

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- 4.1 The charge of tax**
  - What triggers a charge to tax?
  - How are chargeable gains calculated?
  - The basic computation
  
- 4.2 Indexed gains – assets acquired after 31 March 1982**
  - Acquisition after 31 March 1982
  - Disposal value and incidental costs
  - The cost of the asset
  - Indexation allowance
  
- 4.3 Indexed gains – assets brought pre-31 March 1982**
  - Pre-1982 acquisitions – no rebasing election
  - Pre – 1982 acquisitions – with rebasing election

#### **4.4 Completing the computation**

#### **4.5 Other issues affecting the basic CGT computation**

- Enhancement expenditure
- Part disposals
- Chattels

#### **4.6 Shares and securities**

- Identification rules
- Same day acquisitions and shares acquired in the previous nine days
- The FA 1985 pool
- The 1982 pool
- Rights issues and bonus issues
- Takeovers
- Sale from a 'substantial shareholding'

#### **4.7 Reliefs for chargeable gains**

- Replacement asset relief
- Conditions for relief
- Partial reinvestment
- Reinvestment in depreciating assets

#### **4.8 Land**

- Small part of disposals and compulsory purchases
- Treatment of leasehold disposals

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## **Chapter 5 – Value Added Tax**

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#### **5.1 The 'value added' principle**

#### **5.2 Charging and reclaiming VAT**

- Charging output VAT
- Paying and reclaiming input VAT

#### **5.3 The VAT system**

- European law
- UK law and European law
- HMRC
- Disputes with HMRC

#### **5.4 Output tax rules**

- Taxable persons
- Taxable transactions
- Measuring the output tax
- Time of supply
- Special circumstances

#### **5.5 Input tax rules**

- Inputs
- Offsetting input tax against output tax
- Problems with deducting input tax

#### **5.6 Registration**

- Taxable persons in the UK and the EU
- Compulsory registration

- Penalties for late registration
- Voluntary registration
- Registrable persons
- International aspects
- Deregistration and cancellation of registration
- Transfer of registration

#### **5.7 VAT returns**

- Return periods
- Procedure for returns
- Tax invoices and other records
- Correcting the VAT account
- Bad debts
- Penalties for late or incorrect returns

#### **5.8 Payments of VAT and interest**

- Payment of VAT
- Interest on overdue VAT
- Repayment claims
- Interest on repayments of VAT
- Repayment supplement

#### **5.9 Enforcement by HMRC**

- Control visits
- Investigations and assessments
- Penalties
- Other powers

#### **5.10 Recovery of input VAT**

- Entitlement to credit
- Reasons for input tax to be blocked
- Cars
- Related expenses

#### **5.11 Partial exemption**

- Introduction
- Direct attribution of input tax
- Apportionment of unattributable input tax
- De minimis exempt tax
- Annual adjustment
- Special methods
- Non-business and blocked input tax

#### **5.12 Capital goods scheme**

- Capital items
- Adjustment for use
- Adjustment on sale

#### **5.13 Group registration**

- Introduction
- Eligibility
- Application procedure
- Advantages and disadvantages
- VAT groups and export companies
- Anti-avoidance provisions

#### **5.14 Transfer of a going concern (TOGC)**

- The basic rules
- Consequences of incorrect treatment
- Transfer of registration number
- TOGC and shares

#### **5.15 Land and buildings**

- The basic rules
- Impact of rules
- Waiving exemption: 'the option to tax'
- Purchases and sales by businesses using buildings

#### **5.16 The single market**

- Introduction
- Acquisitions
- Registration for acquisitions
- Despatches
- Imports and exports

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## **Chapter 6 – Taxation of UK groups**

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### **6.1 Associated companies and group companies**

- Associated companies
- Groups of companies

### **6.2 Groups – areas of privileged tax treatment**

- 51% groups
- 75% groups
- Chargeable gains groups
- VAT groups

### **6.3 Group relief**

- What losses may be surrendered?
- Key principles of group relief
- Relief for or in respect of non-resident companies
- Claiming group relief
- Using group relief effectively

### **6.4 Consortia and consortium relief**

- What is a consortium?
- Using consortium relief
- Groups and consortia

### **6.5 Chargeable gains groups**

- What is a group for chargeable gains?
- Chargeable gains for groups
- Non-resident companies
- 'De-grouping' charge
- Sale from a 'substantial shareholding'
- Anti-avoidance rules

### **6.6 Corporation tax self assessment and groups**

- Claims to group relief
- Group payment arrangement

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## Chapter 7 – International tax issues

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### 7.1 International tax environment

### 7.2 Principles of US taxation

- Sources of federal income tax law
- Overview of the US tax system
- Basic corporate income tax concepts
- Trading in the US through a branch or a subsidiary
- Compliance

### 7.3 Principles of European taxation

- European Commission's company tax strategy

### 7.4 Company residence

### 7.5 Companies and income tax

### 7.6 Double taxation relief

- Permanent establishment

### 7.7 Tax havens

### 7.8 Controlled foreign companies (CFC)

- What is a CFC?
- Control
- Lower level of taxation
- Implications of being a CFC
- Tests of exclusion

### 7.9 Transfer pricing

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## Chapter 8 – Taxation and the treasury function

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### 8.1 Loan relationships

- Background
- What is a loan relationship?
- The corporation tax computation

### 8.2 Accounting for annual interest and income tax

- 'Short' interest and annual interest
- Connected companies and anti-avoidance measures

### 8.3 Financial instruments

- Currency contracts and currency options
- Derivative contracts

### 8.4 Foreign exchange gains and losses

### 8.5 VAT in the treasury environment

- Charging and reclaiming VAT
- Outsourcing services
- Foreign exchange

The impact of VAT on cashflow  
VAT groups  
VAT on the international transfer of goods

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## **Chapter 9 – Transaction taxes**

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### **9.1 European property taxes**

Stamp duty  
Inheritance tax  
Wealth (net worth) tax

### **9.2 European capital duties**

### **9.3 UK stamp duty**

The charge to stamp duty  
Fixed duties  
Payment of stamp duty  
Routine stamping  
Adjudication  
Unstamped documents, penalties and interest  
Transfers between associated companies

### **9.4 Stamp duty land tax (SLDT)**

Chargeable consideration  
Amount of stamp duty land tax  
Leases  
Company transactions  
Payment of stamp duty land tax  
Penalties  
Enquiries  
Determinations, assessments and appeals