

Practice Question: Corporation Tax

Scuba Ltd is a manufacturer of diving equipment. The following information is relevant for the year ended 31 December 2005:

(i) Operating profit

The operating profit is £162,400. The Schedule D case 1 Profit for the tax year is £175,000. The expenses that have been deducted in calculating this figure include the following:

	£
Depreciation and amortisation	45,200
Entertaining – customers	7,410
Entertaining - employees	2,470
Gifts to customers (diaries costing £25 each displaying Scuba Ltd's name)	1,350
Gifts to customers (food hampers costing £80 each)	1,600

The following transactions took place during the year ended 31 December 2005:

	Cost/ (Proceeds) £
▪ 3 January 2004 Purchased machinery	7,300
▪ 10 January 2004 Purchased a computer	1,400
▪ 4 May 2004 Purchased a motor car	10,400
▪ 18 August 2004 - Purchased machinery	14,800
▪ 29 September 2004 Purchased computer software	1,100
▪ 15 November 2004 Sold a lorry	(12,400)

Scuba Ltd is a small company as defined by the Companies Acts.

(ii) Income from property

Scuba Ltd lets a retail shop that is surplus to requirements. The shop was let until 31 December 2004 but was then empty from 1 January 2005 to 30 April 2005. During this period Scuba Ltd spent £6,200 on decorating the shop, and £1,700 on advertising for new tenants. The shop was let from 1 May 2005 to 31 December 2005 at a quarterly rent of £7,200, payable in advance.

(iii) Interest received

Interest of £435 was received from the Inland Revenue on 31 October 2005 in respect of the overpayment of corporation tax for the year ended 31 December 2004.

(iv) Profit on disposal of shares

On 8 November 2005 Scuba Ltd sold 5,000 £1 ordinary shares in Deep Blue Sea Plc. for £42,400. The shareholding had been purchased on 19 March 2002 for £26,900. The retail prices index (RPI) for March 2002 was 174.5 and for November 2005 it was 189.0

Other information

Scuba Ltd has no associated companies, and the company has always had an accounting date of 31 December.

Required:

Calculate Scuba Ltd's corporation tax liability for the year ended 31 December 2005. You should ignore any capital gains implications arising in respect of the disposal of the industrial building on 30 June 2004.

(10 marks)