

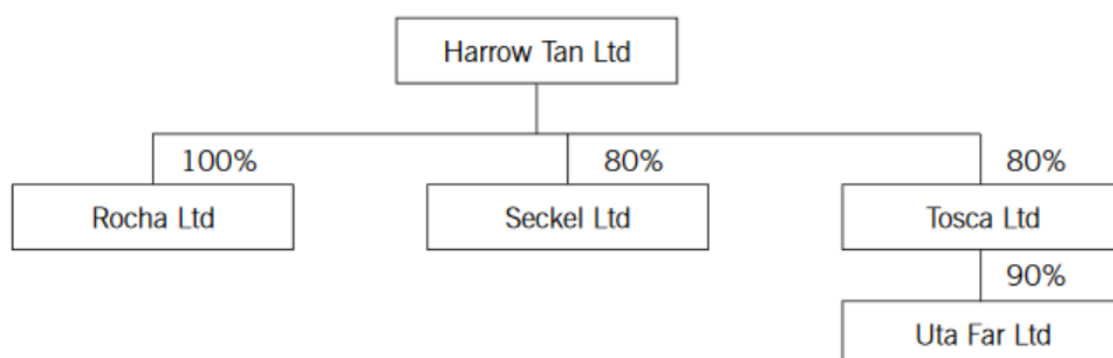
Sale of shares in Rocha Ltd

Harrow Tan Ltd acquired the whole of the ordinary share capital of Rocha Ltd (100,000 shares) on 1 December 2016 for £8,900,000.

On 1 January 2017, Seckel Ltd (owned 80% by Harrow Tan Ltd) sold a commercial building to Rocha Ltd for £800,000, its market value on that date. The group claimed exemption from stamp duty land tax in respect of this transaction. Seckel Ltd had purchased the building on 1 May 1998 at a cost of £330,000.

However, the results of Rocha Ltd for the year ending 31 December 2017 are now expected to be significantly worse than originally budgeted and an agreement was signed on 31 July 2017 for Harrow Tan Ltd to sell 60,000 Rocha Ltd ordinary shares for £10,300,000. It is planned that the sale of these shares will take place on 1 October 2017, although the sale could be delayed by up to three months if necessary.

Schedule of group information — from Corella, the group finance director



A: Taxable gain on the sale of shares in Rocha Ltd

	£
Sale proceeds	10,300,000
Less: Cost (£8,900,000 x 60%)	(5,340,000)
Indexation allowance (£5,340,000 x 0.015)	(80,100)
Chargeable gain	4,879,900
Rollover relief (analysed below)	(1,350,000)
Taxable gain	<u>3,529,900</u>

Please prepare notes for us to use in a meeting with Corella, which **EXPLAIN** the following matters:

(i) Sale of shares in Rocha Ltd

— The error(s) and omission(s) in part A of Corella's schedule together with any tax saving opportunities or other matters, including stamp duty land tax, which are not addressed in part A of her schedule.

Please include a corrected calculation of the taxable gain on the sale on the assumption that it occurs on 1 October 2017.

— Take some time to think about this. From my brief review I think there may be three or four issues which need to be brought to Corella's attention.

Required:

Prepare the meeting notes as requested by your manager. The following marks are available:

(i) Sale of shares in Rocha Ltd.

Note: The following indexation factors should be used where applicable:

December 2016 to month of sale	0.015
May 1998 to January 2017	0.621
May 1998 to October 2017	0.650 (12 marks)