STEWART ACCOUNTING SERVICES
Chartered Accountants

Corporation Tax

Limited companies have their very own tax regime; it's called Corporation Tax (CT). Unlike Income Tax, that has its roots in the long distant past, the tax year that determines the rate of CT starts 1 April each year and ends 31 March. This contrasts with the fiscal year for personal taxes that starts 6 April and ends 5 April.

Companies can choose any accounting period for CT purposes and in most cases the basis period will be for 12 months. In exceptional circumstances the 12-month CT period can be shortened or extended, but these tend to be one-off adjustments that are undertaken for commercial reasons. Newly formed companies or dormant companies, which are restarted, are required to register for CT when they commence trading.

Who pays Corporation Tax?

CT is based on the profits made by limited companies; members' clubs and by trade and housing associations. It is NOT payable by partnerships or LLPs. Instead, partners are subject to Income Tax on their share of the partnership and the LLP profits. CT is payable by UK resident companies and by non-resident companies with a permanent establishment in the UK. CT is normally payable nine months and one day after the end of the accounting period. Large companies may need to pay CT in installments.

Does a company need to file a tax return?

Presently, companies are required to file a CT tax return within 12 months of the end of each accounting year, or three months after receiving a notice to file by HMRC, if this is at a later date. Companies are required to file their returns online. There are only two exceptions from online filing:

- Where the directors and company secretary are all practising members of a religious society or order whose beliefs are incompatible with the use of electronic methods of communication,
- Where a company or organisation is subject to a 'winding-up order'.

A company has a right to amend its return, within 12 months from the statutory filing date. Examples of circumstances when a return may be amended include: claims for group relief or elections changing returns that include capital gains complications.

What to file with the authorities?

As far as CT is concerned, companies must file the following with their tax return each year:

- Accounts that comply with the Companies Acts requirements, or prepared accounts if not subject to the Companies Acts (for example: certain unincorporated members' clubs, trade and housing associations).
- Tax schedules that set out how profits are taxed.
- A number of ancillary reports, such as details of certain loans made by the company to controlling directors and shareholders.

How is your CT bill calculated?

The appropriate CT rate is applied to profits and gains made in the accounting period under review. This includes trading profits adjusted for tax allowable capital expenditure, plus any capital gains (proceeds less indexed costs – indexing of capital acquisitions was frozen at 31 December 2017).

What rates of CT are payable?

There are currently two rates of CT. Taxable profits up £50,000 are taxed at 19% under the Small Business Profits rate. Taxable profits in excess of £250,000 are taxed at the CT main rate of 25%. Profits between £50,000 and £250,000 are subject to marginal tapering relief. The marginal relief fraction is 3/200ths. Where a company has profits between £50,000 and £250,000 the marginal rate of CT bridges the gap between the lower and upper limits. The lower and upper limits are proportionately reduced for short accounting periods of less than 12 months and where there are associated companies.

According to HMRC, what accounting records do companies need to keep?

You must keep accounting records that include details of:

- All money received and spent by the company;
- Any other relevant documents (for example: bank statements and correspondence);
- Details of assets owned by the company;
- Debts the company owes or is owed;
- Stock the company owns at the end of the financial year;
- The stocktaking you used to work out the stock figure;
- All goods bought and sold;
- Who you bought and sold them to and from (unless you run a retail business).

You must also keep any other financial records, information and calculations you need to prepare and file your annual accounts and Company Tax Return. This includes records of:

- all money spent by the company, for example receipts, petty cash books, orders and delivery notes
- all money received by the company, for example invoices, contracts, sales books and till rolls
- any other relevant documents, for example bank statements and correspondence

You can be fined £3,000 by HMRC or disqualified as a company director if you don't keep adequate accounting records. If you can't replace your records after they were lost, stolen or destroyed; you must do your best to recreate them, tell your HMRC office straight away and include this information in your Company Tax Return.

How long are you required to keep your records?

You must keep records for six years from the end of the last company financial year they relate to, or longer if:

- They show a transaction that covers more than one of the company's accounting periods.
- The company has bought something that it expects to last for more than 6 years, such as equipment or machinery.
- You filed your Company Tax Return late.
- HMRC has started a compliance check into your Company Tax Return.

What reliefs can you claim to reduce CT payable?

- All costs expended wholly and exclusively for the purposes of your trade, except for certain disallowable costs such as entertaining.
- Capital allowances based on the cost of qualifying capital additions such as plant, computer equipment and the cost of commercial vehicles.
- Research & Development Relief, subject to qualifying criteria.
- Patent Box Relief if your company makes a profit from patented inventions.
- Reliefs for creative industries.
- Certain terminal, capital and property income losses.
- Other trading losses.

What happens if tax returns or payments are not on time?

If CT returns are required but filed after the required deadline, fixed fines ranging from £100 to £1,000 may be levied, and after 6 months and then again at 12 months HMRC will estimate your liability and charge further penalties based on 10% of any unpaid tax. If CT is paid after the due date interest charges will also be applied.

CT payable on unpaid loans to director/shareholders of smaller companies

Any loans made to a director/shareholder may create an additional CT charge for the company if the loan is still unpaid nine months after the financial year end. The company will need to pay 33.75% of the unpaid loan as an additional CT charge. When the loan is repaid to the company, the company can apply to have the additional CT charge refunded. However, the refund will not be made until nine months after the year end during which the overdrawn loan was repaid. In addition, any director's loan of more than £10,000 at any time in the tax year may create a benefit in kind tax and NIC charge unless the director pays interest to the company on any overdrawn balance. Interest paid must be at or above the Revenue approved rate.

Keeping up with statutory requirements

Running your business as a limited company may make sense if you want to ring-fence your personal assets in the event of a business failure. It may also make sense from a personal tax planning viewpoint. But, the CT filing obligations are complex and need to be carefully considered to stay the right side of regulations.

Summary action list

- Make sure you register for Corporation Tax as soon as you start to trade.
- Take professional advice to ensure you claim for all the reliefs to which your company is entitled.
- Keep to the filing deadlines if you want to avoid fines for late filing.
- Make payments of tax due by the due date to avoid interest charges.

In preparing and maintaining this publication, every effort has been made to ensure the content is up to date and accurate. However, law and regulations change continually and unintentional errors can occur and the information may be neither up to date nor accurate. The editor makes no representation or warranty (including liability towards third parties), express or implied, as to the accuracy, reliability or completeness of the information published in this publication.

Stewart Accounting Services Limited

01259 721 156

mark@stewartaccounting.co.uk

www.stewartaccounting.co.uk

Office 90, Alloa Business Centre, Whins Road
Alloa
Clackmannanshire
FK10 3SA