A GUIDE TO CORPORATION TAX

What is corporation tax?

Every company has to pay corporation tax on its profits. Because corporation tax can be complicated small businesses employ accountants who are qualified to manage the tax planning side of running a successful business.

This guide introduces the topic of corporation tax.

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What is corporation tax?

Introduction

Corporation tax is charged on the taxable profits of registered companies, as well as many clubs, societies, associations and cooperatives. It does not apply to businesses run by sole traders or partnerships.

This factsheet provides an introduction to corporation tax for small private companies. It looks at how it operates and what rates are applicable. It explains who needs to pay the tax and summaries some of the relief and allowances that may apply. It also includes hints and tips and sources of further information.

The rules surrounding corporation tax are complex and you should seek professional advice to ensure that your company meets its obligations and pays the right amount of tax.

Tax law is a complex area and this information is intended only as a starting point to understanding the issues involved. You should always seek professional advice before making any decisions.

What is corporation tax?

Corporation tax operates under a self-assessment approach, known as Corporation Tax Self Assessment (CTSA). This requires companies to work out their own tax liability and to pay their tax without prior assessment by HM Revenue & Customs (HMRC).

Companies are required to:

- Inform HMRC that the company exists by completing form CT41G (go to https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/383833/ct61-notes-2010.pdf.
- Calculate and pay their corporation tax.
- For guidance on forms to file a company tax return form go to https://www.gov.uk/guidance/software-developers-updates-to-the-ct600).
- Keep adequate records of income and expenditure in order to calculate their tax liability accurately.

Companies House provides HMRC with details of newly-formed companies and HMRC writes to these companies informing them of the need to register for corporation tax. If a new company has not yet started trading, it can be registered with HMRC as dormant.

Corporation tax becomes payable on the income and chargeable gains (profits) made during a specific accounting period, which cannot be more than 12 months.

Different types of taxable profits are:

- Trading profits - this refers to income from your company's trading activities, after allowable expenses have been deducted.

- Capital gains - this refers to the profit you make when you sell a company asset such as land or buildings.
- Any other income - for example, money you make from leasing land or buildings or interest on company savings.

It is usual for a company's accountants to act also as the company's agent and liaise with HMRC directly in relation to corporation tax issues. You must provide HMRC with the authority to correspond with your accountant and you can do this by completing the 'Authorising your Agent' form 64-8 goes to

https://www.gov.uk/government/publications/tax-agents-and-advisers-authorising-your-agent-64-8

What are the different rates of corporation tax?

The rate of corporation tax is 20% from 1 April 2015

What relief and allowances apply to corporation tax?

Your company's annual accounts give you the starting point for being able to calculate corporation tax. However, the net profit declared on your company's profit and loss statement is not the same as the chargeable profit that is used to calculate your corporation tax liability. A number of adjustments need to be made to the accounts based on the relief and allowances approved by HMRC.

Relief and allowances must be claimed on the company's tax return and include the following:

- Business expenditure can be offset against chargeable profit when it is incurred wholly and exclusively for the purposes of trade; for example, salaries, power, rent, rates, stationery, telephone, cleaning and advertising expenditure. Business entertainment is not an allowable expense.

- Depreciation is the charge for the write down of tangible assets used in company accounts, but is not an allowable expense for tax. Instead, capital allowances are given for qualifying purchases made by the company for assets such as commercial property, fixtures, plant, office equipment and motor vehicles. These capital allowances are then used to reduce the company's tax liability.

- Relief for trading losses can be set against income or gains from the current or previous accounting period. If the loss is not claimed for some other relief, it will automatically be carried over to be set against future profits from the same trade. If the company ceases to trade, the previous 12 months' losses can be set against trading profits from the previous three years.

- Research and Development (R&D) relief is available to companies who undertake qualifying R&D projects.

Your accountant can prepare a corporation tax computation detailing what accounts, income and expense adjustments have been made in calculating the tax due.

Which records do you need to keep for corporation tax purposes?

You need to record the following information in order to complete your company tax return:

- Information about all expenses and receipts incurred during the course of operating your company.
- Details of all sales and purchases your company has made in the course of trade.
- Any supporting documents.

You must keep your accounting records for six years from the end of an accounting period.

When do you have to pay corporation tax?

Corporation tax must be paid within nine months and one day from the end of the accounting period (typically the company's accounting year-end date).

In a situation where your company underpays corporation tax, you should pay the additional tax as soon as the underpayment is discovered. If you have paid too much, it will not be reimbursed until after your corporation tax return has been filed. Interest (linked to commercial rates) is payable on under/over payments from the due date.

If you have not finalised the figures by the time corporation tax is due and cannot reach an exact calculation you should make an estimate and pay that amount by the due date. If you do not pay, HMRC will demand any outstanding tax (together with any interest that has accrued), once it has received your company's corporation tax return.

When do you file a corporation tax return?

A company's completed corporation tax return is due 12 months from the company's accounting date or three months from HMRC notice, whichever is later. You do this by completing the corporation tax return form CT600 and also providing copies of the company's accounts and tax computation. These returns are now typically made online.

Three months after the end of the accounting period, HMRC will send you (and your agent) a notice to submit a return. If your company is liable for corporation tax but you do not receive this notice, contact HMRC before the due date to avoid penalties.

In practice, it is usual for a company's accountants to prepare the tax return in association with preparing the company's annual accounts. The company's directors are then responsible for signing off the return, but it is usually submitted online by the accountants, before the tax payment is due.

Are there ways to reduce your corporation tax charge?

If your company's taxable profits in a year exceed the small companies' threshold even marginally, the company will be liable to pay a much higher rate of corporation tax on the excess. If you can see that profits are likely to exceed the threshold, it may make sense to bring forward some planned expenditure. This could be achieved by awarding bonuses to directors, although this will increase the company's National Insurance Contributions (NICs). Alternatively you could make additional pension contributions or bring forward the purchase of tax-allowable expenditure items, such as equipment, before the year-end.

Your accountant should be able to give you specific advice on how your company can legally reduce its corporation tax charges through effective business planning.

Enquiries and penalties

HMRC carries out enquiries into tax returns for two main reasons:

- When it requires more information to understand the figures in a return.
- As part of a more random checking process to check the accuracy of returns.

HMRC will write to your company informing you that an enquiry is taking place and what information is required. HMRC has 12 months from when you submit your return in which to start an enquiry. Your accountant will normally liaise with HMRC during an enquiry, but you will usually be liable for additional fees to cover their time involved in doing this. You can take out insurance cover for this, so speak to your accountant to find out what is available.

You are liable to a flat rate penalty if you do not submit your company's corporation tax return on time.

You may face additional tax-related penalties if you complete your corporation tax return incorrectly or file incorrect accounts and supporting information.

The penalties HMRC impose for filing incorrect tax returns are based on the reason for the inaccuracy.

If you can prove that you took 'reasonable care' when compiling your return, you will not incur any penalties. The penalties are calculated based on a percentage of the additional tax that is due and will be charged under the following circumstances:

- Where you failed to take reasonable care and were careless in compiling your return - between 0% and 30% penalty.

Where the inaccuracy was deliberate and you intentionally sent HMRC an incorrect return - between 20% and 70% penalty.

Where the inaccuracy was deliberate and concealed, you intentionally sent HMRC an incorrect return and tried to conceal the inaccuracy - between 30% and 100% penalty.

It is therefore advisable to disclose any inaccuracies in your return to HMRC as soon as you notice them in order to minimise any potential penalty.

For more information on the penalties go to:

https://www.gov.uk/guidance/corporation-tax-penalties

HMRC must give you seven days' notice if it wishes to visit your premises, unless it considers an unannounced visit necessary. This is one of several changes to the way HMRC carries out its compliance checks, which include enquiries, visits and inspections. Go to www.hmrc.gov.uk/about/new-compliance-checks.htm for more information.

Hints and tips:

•	Ensure that you plan the cash flow implications of your tax liability so that you can pay the tax due on time.

•	HMRC has set up local Advice Teams. They provide free advice and information on a one-to-one basis and through workshops. Further information is available on the HMRC website (www.hmrc.gov.uk/bst).

Small Business Resources

Add value to your brand by generating catch business and product names like Amazon, Google, Coca Cola, Yahoo, Blackberry and many more using the same business name generator used by top business and product naming companies: http://www.businessnameidea.com

Generate more leads, cash flow and profits for your business and pay only based on results. This web site connects small businesses with top traffic web sites like Google, Facebook, Youtube to generate constant flow of traffic and leads: http://www.intelwebsolutions.com