ECOVIS® WINGRAVE YEATS
Business Advisors
Chartered Accountants
Data Analysts

Specialist advice.
Strategic thinking.
Lifelong partnerships.

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 profits. CT is payable by UK resident companies and by non-resident companies with a permanent establishment or real estate in the UK.

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 and there are only two exceptions::

- Where the directors and company secretary are all practising members of a religious society or order whose beliefs are incompatible with using 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 do companies have 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 - capital acquisitions indexing frozen 31 Dec 2017).

What rates of CT are payable?

The CT rate is fixed for each tax year starting 1 April. The current CT rate is 19% and will remain at this rate until April 2023. From 1 April 2023, there will be two rates of CT. Taxable profits up £50,000 will continue to be taxed at 19% under the new Small Business Profits Rate. Taxable profits in excess of £250,000 will be taxed at 25%. Profits between £50,000 and £250,000 will be subject to a marginal tapering relief. These thresholds would be reduced for the number of associated companies and for short accounting periods. Group companies should seek advice on how best to relieve any available tax losses. Pre-April 2023, review and planning is recommended for all companies, ideally early in 2022.

What accounting records do companies need to keep?

According to HMRC 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 6 years from the end of the last company FY they relate to, 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.
- 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, including group losses.
- Land remediation relief.

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.

The due date is typically nine months and one day after the end of the 12 month accounting period. Where a company is part of a group of companies, it may have to pay tax by quarterly instalments; bigger groups may have to start paying tax in the third month of the accounting period. To minimize late payment interest charges and manage tax payments, it is important to keep up to date forecasts and management accounts.

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 32.5% 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 HMRC's 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.

Lorenzo Cipollone, Senior Manager

E: lorenzo.cipollone@ecovis.co.uk

T: +44 (0)20 7495 2244

Petros Andrianidis, Assistant Manager

E: petros.andrianidis@ecovis.co.uk

T: +44 (0)20 7495 2244