Corporation Tax Self Assessment

Introduction

Corporation Tax is a tax levied on company profits. The tax was first introduced in 1965 and Corporation Tax Self Assessment (CTSA) was introduced in 1999 following the successful introduction of Income Tax Self Assessment.

CTSA requires companies to work out their own tax bill and account for the self assessed amount of corporate tax.

Who pays Corporation Tax?

Corporation Tax typically applies to profits made by limited companies, members' clubs and to trade and housing associations. It is NOT payable by partnerships or LLPs. Partners are instead subject to Income Tax on their share of partnership and LLP profits.

Corporation Tax is payable by UK resident companies and by non-resident companies with a permanent establishment in the UK.

Chargeable Profits

Corporation Tax is payable on adjusted profits for each accounting period. The adjusted figure is known as 'Profits Chargeable To Corporation Tax' or PCTCT. The calculation of PCTCT includes a significant number of adjustments to the accounting profit.

How is Corporation Tax charged?

Corporation Tax is charged by reference to income or gains arising in an accounting period. An accounting period first begins when a company starts to trade and will end 12 months later or earlier if the company prepares its accounts to an earlier date. Accounting periods cannot exceed 12 months in length and usually mirror the periods for which a company draws up its annual accounts.

How much Corporation Tax is payable?

Corporation Tax is calculated at the rate applicable to a financial year. A 'financial year' starts on 1 April and ends on 31 March. The 2015 financial year commenced on 1 April 2015 and is known as FY 2015. If a company's accounting period does not coincide with the financial year, its profits must be apportioned between the two financial years and, if the tax rates have changed the rates for each financial year will be applied to the respective elements of the PCTCT.

Corporation Tax rates

	FY 2015	FY 2014	
	Rate	Profits band	Rate
Main rate	20%	Over £1.5m	21%
Marginal rate	-	£300,001-£1.5m	21.25%
Small profits rate	-	£0-£300,000	20%

Different rates apply for ring-fenced profits.

The main CT rate dropped to 20% from 1 April 2015. This reduction sees the unification of the main Corporation Tax rate and the small profits rate from April 2015. The introduction of a unified rate will remove the requirement to determine which rate of CT a company should be paying and should make the CT system more straightforward.

Until FY2015, the rates were reduced where there are associated companies i.e. where two or more companies are considered to be under common control. If there are two such companies the rates are halved. This will often mean that more tax is payable than might otherwise have been expected. E.g.: if two companies each have a PCTCT of £200,000 you might expect that they would only pay tax at the small companies' rate. However, if these two companies are associated for tax purposes then some tax will be payable at the marginal rate which will apply to profits over £150,000 (being half the normal limit of £300,000).

Notifying HMRC

A company must notify HMRC if it is liable to pay Corporation Tax. This must be done within 12 months from the end of the relevant accounting period.

Filing a company tax return

HMRC send a notice to file (form CT603) after the end of the company's accounting period. In most cases a company's tax return must be submitted within 12 months from the end of the accounting period.

Online Corporation Tax filing is compulsory for company tax returns.. Company tax returns have to be filed using the iXBRL data standard using either HMRC's own software or third-party commercial software.

There are only two exemptions 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'.

Filing date

The statutory filing date to submit a company tax return is usually the later of:

- 12 months after the end of the accounting period
- 3 months after receiving a notice to deliver from HMRC

What needs to be filed?

A company tax return must be submitted using software approved by HMRC and in the required format. The submission must include the company's Self Assessment return alongside details of any trade and other losses such as capital losses.

The following must also be included in the return:

- Accounts drawn up under UK company law or
- Prepared accounts if not a limited company.
- Computations showing how the figures in the return have been calculated from the figures in the accounts.
- Other documents required under company law such as Directors' and Auditors' reports.
- All required supplementary pages such as for loans to participators in close companies and controlled foreign companies.

Amending a return

A company has a right to amend its return, including the Self Assessment within 12 months from the statutory filing date. Examples of when a return may be amended include claims for group relief and elections rebasing for capital gains.

HMRC have 9 months from the date a return is filed to correct any obvious errors, omissions or errors of principle. Note that the correction of errors does not involve any judgment by HMRC as to the accuracy of the figures in the return. These types of questions are instead dealt with under the enquiry regime (see below).

In situations where a company amends its return, HMRC have a further 9 months to correct any obvious errors, omissions or errors of principle relating to the amendment.

Penalties for late submission

There are penalties for late submission of company tax returns. There is a standard penalty of £100 for a late submission of the return within 3 months of the due date and a £200 penalty if the return is over 3 months late.

Companies that submit late returns for 3 or more accounting periods in a row are subject to penalties of either £500 or £1,000. The first penalty is for submissions up to three months late and the second if the return is more than 3 months late.

There are also tax based penalties for companies that do not file a return within 18 months of the end of the relevant accounting period and which have not paid the tax due. These penalties can be either 10% or 20% of the unpaid tax depending on the lateness of the filing.

HMRC enquiries

HMRC can enquire into a company's tax return to check if the return has been prepared correctly or if further information is required.

The main rules for HMRC enquiries are as follows:

- HMRC normally have a fixed period of 12 months from the date the return is filed in which to commence an enquiry.
- If HMRC does not commence an enquiry within this time limit the return becomes final – subject to the possibility of an HMRC 'discovery' (see below).
- HMRC will send a formal notice in writing when an enquiry commences.
- HMRC will also send a formal notice in writing when an enquiry is completed. If there are adjustments proposed by HMRC this will also be communicated in writing.
- A company has 30 days to appeal HMRC's amendments.
- A company may ask the Commissioners to direct HMRC to close an enquiry if there are no reasonable grounds for it to continue.

Discovery assessments

HMRC have the power to make an assessment, known as a discovery assessment if they become aware of information suggesting that a Self Assessment return was wrong.

If the return was wrong as a result of fraudulent or negligent conduct, HMRC can make a discovery assessment or determination up to 21 years after the end of the relevant accounting period.

For cases not relating to fraudulent or negligent conduct the time limit is 6 years after the end of the relevant accounting period.

Corporation Tax payments

All Corporation Tax and related payments must be made electronically.

There are special rules for companies with taxable profits over £1.5m, which are covered later in this guide. All other companies have a fixed date for the payment of Corporation Tax which is 9 months and 1 day after the end of the relevant accounting period. Note that a company is required to pay the tax due in advance of the filing deadline for a company tax return.

Interest and penalties can be charged by HMRC for payments received after the due date.

Keeping records

All companies and organisations subject to Corporation Tax must keep appropriate business records. The background records that must be kept include but are not limited to the following details of the company's:

- 'capital expenditure' such as the purchase and sale or disposal of company assets, equipment, office furniture and vehicles;
- liabilities (money it is due to pay people and other businesses);
- income and expenditure (e.g.: sales and purchases);
- stock, if any, on hand at the end of each financial year;
- receipts and expenses;
- all relevant supporting documentation.

For tax purposes, the records must be held for at least 6 years from the end of the relevant accounting period. In certain situations such as when a return is submitted late, the records must be held for longer. You don't need to keep the vast majority of your records in their original form. If you prefer, you can keep a copy of most of them in an alternative format, as long as they can be recovered in a readable and uncorrupted format. For example:

- scanned PDF
- files saved on a CD-ROM
- files saved on an optical imaging system

But there are certain records that you must keep in their original form. These include:

- dividend vouchers
- bank interest certificates
- Construction Industry Scheme (CIS) vouchers - (these vouchers were used before the current scheme was introduced in April 2007)

Companies are also required to keep:

- annual accounts, including a profit and loss statement and balance sheet
- bank statements and paying-in slips
- a cash book and any other account books
- purchases and sales books or ledgers
- invoices and any record of daily takings such as till rolls
- order records and delivery notes
- a petty cash book
- other relevant business correspondence

Large Companies

A company is usually defined as 'large' for the purposes of Corporation Tax if it is liable to pay tax at the main rate i.e. for FY2014 the profits chargeable to Corporation Tax are £1.5m or more.

The main exceptions to this rule are as follows:

- Associated companies – The £1.5m limit is divided by the total number of associated companies. For example, if a company has 2 associate companies the limit is divided by 3 and reduced to £500k.
- Where the Corporation Tax liability of any associated company is less than £10,000 the requirement to pay by instalment is removed.
- Accounting periods of less than 12 months – The limit is proportionately reduced for short accounting periods.
- Growing companies – A company is not defined as 'large' if its Corporation Tax profits do not exceed £10m and it was not 'large' in the previous year.

Quarterly instalment payments

A large company with a 12 month accounting period will pay tax in 4 equal instalments. These instalments are in months 7, 10, 13 and 16 following the start of the relevant accounting period. The actual payments are due 6 months and 13 days after the start of the accounting period, then 9 months and 13 days, then 12 months and 13 days and finally 15 months and 9 days after the start of the accounting period.

There are special rules for growing companies and where an accounting period is for less than 12 months.

Calculating quarterly payments

As a number of the payments are due during the accounting period, a company is required to make an estimate of its current year tax liability by the 7th month of the accounting period.

As the estimated tax liability will rarely be the same as the final liability a company can make top-up payments to the instalments to ensure that the payments are adequate.

Interest and penalties

There are different interest rates for the period up to the normal due date for payment (i.e. 9 months and 1 day after the beginning of the accounting period) and afterwards. This is because the earlier payments are based on estimates.

Penalties can be levied if a company is found to have failed to make instalments or to have made instalments which were insufficient.

Groups of companies

There are special arrangements which allow groups of companies to make instalments on a group-wide rather than company by company basis.

How we can help

We would welcome the opportunity to assist you in completing your company's or companies' tax returns or resolving any disagreements you may have with HMRC regarding your company's tax affairs.