

The background features abstract green geometric shapes. On the left, a large, tilted rectangle with a blurred green texture. On the right, a series of overlapping, sharp-edged triangles in various shades of green, creating a dynamic, layered effect.

Taxation BMBM5016

Corporation Tax Part 1

Corporation Tax

- Charged on Company Profits of UK limited companies
- For a PERIOD OF ACCOUNT (usually 12 months)
- CHARGEABLE ACCOUNTING PERIOD
- FINANCIAL YEARS for tax rates - may be split with different tax rates of ACCOUNTING PERIOD is not the same as FINANCIAL YEAR
 - E.g. **FY 2018** is 1.4.18 to 31.3.19 so if the ACCOUNTING PERIOD is the year to 31.12.19, it will cover 2 FYs
 - 1.1.19 to 31.3.19 is in FY19
 - 1.4.19 to 31.12.19 is in FY20

ILLUSTRATION 1

Straddle Ltd has a TTP of £800,000 for its accounting year ended 31 December 2017

As the CAP straddles 31 March 2017, the first 3 months of the CAP falls within FY 2016 and the final 9 months of the CAP falls within FY 2017. Therefore 3/12 of the TTP must be taxed at the FY 2016 rate of 20% and 9/12 of the CAP must be taxed at the FY 2017 tax rate of 19%. The corporation tax liability would therefore be computed as follows:

FY 2016 3/12 x 800,000 = 200,000 x 20% =	40,000
FY 2017 9/12 x 800,000 = 600,000 x 19% =	114,000
CT Liability	154,000

PAYMENT OF TAX is Due 9 months and 1 day after the Chargeable Accounting Period (CAP)
But LARGE companies must pay by Quarterly Installments (profits >£1.5m)

When is a CAP?

1. First one starts as soon as company trading commences
2. Usually finishes 12 months after the start date or at the END of the PERIOD OF ACCOUNT (if different)
3. Next one starts Immediately after the one before finishes
4. CAP will end when a company ceases to trade (may be shorter than 12 months)

What are TAXABLE TOTAL PROFITS (TTP)?

Very similar to the Sole trader and Partnership calculations but with some differences specific to Ltd Companies

Pro forma corporation tax computation

Corporation Tax Computation for the year ended 31 March 2019

Trading income

Adjusted profit

Less: Capital allowances

Tax Adjusted Trading Profit

Other income & gains

Interest receivable

Property Income

Net chargeable gains

Total Profits

Less: Qualifying Charitable Donations

Taxable Total Profits

£	£
X	
<u>(X)</u>	
	X
	X
	X
	<u>X</u>
	X
	<u>(X)</u>
	<u>X</u>

- No private element of expenses added back as no proprietor
- Drawings (cash or goods) is not relevant for companies as no proprietor. Any distributions (dividends) paid to shareholders) are not allowable deductions and are paid out of post tax profit
- Family salaries are not relevant for companies
- Legal fees regarding the issue of share capital are an expense only for companies and as they are of a capital nature, the expense is disallowed and added back in the adjustment of trading profit
- Legal fees with regard to registering patents and trademarks are allowable by statute
- Interest payable on a non-trading loans are added back, but the expense is deductible instead against interest income
- Interest payable to HMRC is treated as non-trading and is also tax relievable against interest income (interest receivable from HMRC is taxable as interest income)
- Capital Allowances – no private use of asset adjustments and only one AIA per GROUP of companies
- No complex basis period rules with opening years/closing years, overlap etc

- Property Income
 - Accruals basis (not actual basis as in personal computations)
 - Interest on loans IS allowable
 - NO rent a room relief
 - Property LOSSES MUST be offset against profits (charity donations can be wasted)
- Interest Income
 - Accruals basis
 - Receivable GROSS of tax
 - PAYABLE interest is included as part of trading profit if funding trade capital but if loan for NON Trading it is deductive against Interest Income e.g. loan to buy investment property
- Charity
- Dividends received from Investments

EXAMPLE 1

Westmorland Ltd has the following income and outgoings for the year ending 31 March 2019.

	£
Tax-adjusted trading profit	1,456,500
Property Income	25,000
Interest receivable	10,000
Chargeable gains	37,500
Capital losses	(2,500)
Dividends from UK companies	14,400
Qualifying charitable donations	(10,000)

Compute the Taxable Total Profits for the year ending 31 March 2019.

Answer to Example 1

Corporation tax computation for the chargeable accounting period of 12 months ended 31 March 2019

Tax adjusted trading profits	1,456,500
Property income	25,000
Interest receivable	10,000
Chargeable gains	37,500
Less: Capital losses	<u>(2,500)</u>
	<u>35,000</u>
	1,526,500
Less: Qualifying charitable donations	(10,000)
Taxable Total Profits	<u>1,516,500</u>

Note: Dividends from other companies (UK or overseas) are exempt and therefore are ignored

Long Period of Account

- Apportion between TWO CAPs
 - First 12 months
 - The remaining months

EXAMPLE 1

A plc prepared accounts for a 15 month period to 30 June 2019. The results for the period are as follows:

	£
Adjusted profit	4,000,000
Chargeable gain (sale of asset on 6 May 2019)	80,000
Qualifying charitable donations (paid annually on 31 July)	20,000

The tax written down value of plant and machinery qualifying for capital allowances at 1 April 2018 was nil.
The capital transactions in plant and machinery during the 15 month period were the purchase of new vans for £68,000 on 12 May 2018 and plant and machinery costing £77,500 on April 14, 2019.

Calculate the corporation tax liabilities for the relevant CAP's

	12 months to 31/3/2019 £	3 months to 30/6/2019 £
Adjusted profit (12 : 3)	3,200,000	800,000
Less: CA (W1)	(68,000)	(51,238)
Tax adjusted trading profit	3,132,000	748,762
Chargeable Gain (6/5/2019)	–	80,000
Qualifying charitable donations (31/7/2018)	(20,000)	–
Taxable Total Profits	3,112,000	828,762
Corporation Tax @ 19%	£591,280	£157,465

- Divide / Apportion Expenditure
 - Cap Allow - Calculate each period separately according to timings
 - Property Income - accruals
 - Interest Receivable - accruals
 - Charitable Donations - Date of payment
 - Chargeable gains - Date of disposal
 - Dividends - Date Received

W1) 12 months to 31/3/2018

WDV b/f
Additions qualifying for AIA - Vans

	Main pool	Allowances
WDV b/f	nil	
Additions qualifying for AIA - Vans	68,000	68,000
	(68,000)	
3 months to 30/6/2018		
WDV b/f	nil	
Additions qualifying for AIA		
Plant & Machinery	77,500	
AIA - (Maximum 200,000 × ¾)	(50,000)	50,000
	27,500	
	27,500	
WDA × 18% × ¾	(1,238)	1,238
		51,238
WDV c/f	26,262	

WDA × 18% × ¾

WDV c/f

Company Losses and Relief

- Must split between TRADING and NON-TRADING
- Trading Loss can be relieved
 - against TOTAL PROFITS of current period or
 - 12 month carry back to earlier period TOTAL PROFITS or
 - Carry forward to relieve against future total profits
- Can CHOOSE which relief to give lowest tax bill
- BUT claims cannot be partial for current and carry back
- NON-TRADING LOSSES
 - Property
 - Capital Losses

Company CHARGEABLE GAINS

- Arises in the same way as for individuals
- Disposal can mean sale or scrap/loss/destruction of asset
- Companies get extra deduction from gain for inflation effects (not available for individuals)

Calculation of gains and losses for companies

	£
Disposal proceeds (or market value)	X
Less incidental costs of disposal	(X)
Net proceeds	X
Less allowable costs	(X)
Unindexed gain	X
Less indexation allowance	(X)
Chargeable gain	X

Indexation Allowance

EXAMPLE 1

A company bought an asset on 6 June 1986 at a cost of £20,000.
Enhancement expenditure of £6,000 was incurred on 16 August 1990.
The asset is sold for £100,000 on 2 October 2018.
Incidental costs of sale are £1,000.

Calculate the chargeable gain arising on the disposal of the asset

Indexation factors are as follows:

June 1986 to October 2018	1.743
August 1990 to October 2018	1.125
June 1986 to December 2017	1.706
August 1990 to December 2017	1.067

Answer to Example 1

Sale proceeds
Less: Incidental costs of sale

Less: Cost
Enhancement expenditure

Unindexed gain

Less: Indexation allowance on cost $20,000 \times 1.706$

On enhancement $6,000 \times 1.067$

Chargeable gain

£	£
100,000	
(1,000)	
	99,000
20,000	
6,000	
	(26,000)
	73,000
34,120	
6,402	
	(40,522)
	32,478

As the date of disposal is post 31 December 2017, the indexation factors applied are only to December 2017

Share Matching Rules for companies

1. Shares bought Same day
2. Shares bought in previous 9 days
3. Shares in Share Pool (anything more than 9 days)

EXAMPLE 2

A Ltd bought the following shares in B Ltd:

20 August 1989	1,000 shares at a cost of £5,000
16 November 1996	2,000 shares at a cost of £12,000
7 March 2019	500 shares at a cost of £5,000

A Ltd sold 3,000 shares on 10 March 2019 for £36,000

Calculate the gain arising on the disposal in March 2019.

Indexation factors are as follows:

August 1989 to December 2017	1.419
August 1989 to November 1996	0.329
November 1996 to March 2019	0.861
November 1996 to December 2017	0.820

Calculate the gain on the 2,500 shares

		£
Proceeds	$\frac{2,500}{3,000} \times 36,000$	30,000
Cost		(14,167)
Unindexed gain		15,833
I.A (28,278 – 14,167)		(14,111)
Chargeable gain		<u>1,722</u>

Total Gains

Previous 9 days
Pool

Chargeable Gains to include in the corporation tax computation

Gains

1,000
1,722
2,722

1) Same day	X	
2) Previous 9 days	500 shares	
		£
Proceeds	$\frac{500}{3,000} \times 36,000$	6,000
Less cost		(5,000)
Chargeable gain		<u>1,000</u>

3) Share pool
Share Pool

20 August 1989
Index up to November 1996

5,000 x 0.329

Addition 16 November 1996

Index up to December 2017

18,645 x 0.820

Number £	Cost £	Indexed cost £
1,000	5,000	5,000
		1,645
1,000	5,000	6,645
2,000	12,000	12,000
3,000	17,000	18,645
		15,289
3,000	17,000	33,934
(2,500)	(14,167)	(28,278)
500	2,833	5,656

NOW PRACTICE MORE QUESTIONS