

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 2 & VAT

Corporation Tax Part 2

- Company Chargeable gains reliefs
 - ROLLOVER Relief - Replacing Business assets
 - Depreciating Assets

Rollover relief

- Deferring the chargeable gain if proceeds used to purchase another BUSINESS ASSET
- New AND old Assets must be used in the business and MUST either be
 - Land and Buildings or
 - Fixed Plant and Machinery
- Gain is taxed when 2nd asset is eventually sold
- Achieved by deducting the gain on the OLD asset from the cost of the NEW
- Must claim within 4 years
- NEW must be between 12 months before - 36 months after disposing of the OLD asset

EXAMPLE 1

JM Ltd bought a building for use in the business in October 1994 for £150,000. The building was sold in March 2019 for £400,000.

In June 2019 JM Ltd bought some land for use in the business for £500,000. Assume an indexation factor of 0.929 from October 1994 to December 2017

Calculate the chargeable gain and the base cost of the new asset.

Answer to Example 1

	£
Proceeds	400,000
Less Cost	(150,000)
Unindexed Gain	250,000

Less: I.A $0.929 \times 150,000$	(139,350)
Chargeable gain	110,650

Proceeds are fully reinvested into a qualifying asset within the specified time period, so the entire gain of £110,650 can be deferred until the sale of the land.

Base cost of the land	
Cost	500,000
Less Gain deferred	(110,650)
Base cost reduced to	389,350

EXAMPLE 2

A Ltd bought land for use in the business in May 2003 for £200,000.
The land was sold in March 2019 for £350,000.

In September 2018 A Ltd bought a factory for use in the business for £335,000. Assume an indexation factor from May 2003 to December 2017 of 0.543

Calculate the chargeable gain and the base cost of the new asset.

Answer to Example 2

	£
Proceeds	350,000
Cost	<u>(200,000)</u>
	150,000
Less: I.A $\frac{280.1 - 181.5}{181.5} = 0.543 \times 200,000$	<u>(108,600)</u>
Chargeable gain	<u>41,400</u>

Proceeds not reinvested = 350,000 - 335,000 = £15,000 Therefore £15,000 will be **chargeable** and the remaining gain of £26,400 (41,400 - 15,000) **can be deferred**

Base cost of new asset:

Cost	335,000
Gain deferred	<u>(26,400)</u>
	308,600

- Depreciating Assets
 - Asset with life up to 60 years
 - Fixed Plant and Machinery
- If new asset is depreciating, then
 - Deferred gain is NOT Deducted from cost of NEW asset
 - It is postponed until the EARLIEST of
 - Dispose NEW asset
 - New asset ceases to be used in the trade
 - 10 years after purchase

EXAMPLE 3

YR Ltd bought land for use in the business in April 1997 for £200,000. The land was sold for £350,000 in May 2010. In March 2013 YR Ltd bought fixed plant for use in the business, costing £390,000.

YR Ltd sold the plant in February 2019. (YR Ltd has a 31 March year end)

Calculate the chargeable gains as far as the above information allows for y/e 31 March 2011 and y/e 31 March 2019

Assume indexation factors as follows:

April 1997 to December 2017 0.812

April 1997 to May 2010 0.361

March 2013 to December 2017 0.171

Answer to Example 3

	£
Proceeds	350,000
Cost	<u>(200,000)</u>
	150,000
I.A $0.361 \times 200,000$	<u>(72,200)</u>
	77,800

The gain is deferred due to the purchase of the fixed plant within 3 years of the disposal date and will be chargeable in year ended 31 March 2019, when the depreciating asset is sold/ceases to be used in the trade (Feb 2019). This is earlier than 10 years from its date of acquisition (March 2023).

Corporation Tax Groups

- Each company prepares its own accounts and OWN corporation tax computations
- Profits are not pooled but certain reliefs are available
 - Related 51% companies - The limit for quarterly payments of Corp tax is divided between the number of related companies
 - AIA - only 1 for the WHOLE Group but they can allocate it between the companies how they like
 - Group Relief - allows to transfer ANY Part of trading loss to offset against another company's TTP of a corresponding accounting period
 - Group Chargeable Gains - Can transfer assets between companies without incurring a gain or loss.

PAYMENT OF TAX for Companies

- Notification
- Payment
- Corporation Tax returns
- Claims
- Records
- Compliance checks
- Determinations
- Appeals and disputes
- Penalties
- Inspection Powers

VAT

- Applies to ANY Business acting as a TRADER making TAXABLE SUPPLIES
 - Standard Rated
 - Zero Rated
- If reach threshold (£85000) in previous 12 months - Compulsory
- Notify within 30 days AFTER the end of the period where the threshold was exceeded
- REGISTRATION DATE will be 1st day of 2nd month after threshold exceeded. EG if exceed during March 19 , must register by 30.4.19 and date of registration will be 1st May 19

EXAMPLE 1

Orchid Ltd commenced trading on 1 June 2018. Its sales are as follows:

		£			£
2018	June	3,900	2019	January	4,800
	July	3,800		February	6,000
	August	4,300		March	6,100
	September	5,100		April	7,900
	October	4,700		May	8,200
	November	4,700		June	11,800
	December	4,900		July	17,500

The company's sales are all standard rated.

State

(a) When Orchid Ltd will become liable to compulsory VAT registration

(b) The date by which Orchid Ltd must notify HMRC

(c) The date Orchid Ltd will be registered from

Threshold Hit During July 19
Notify HMRC by 30.8.19
Register from 1.9.19

J 2018	3900	3900				
J	3800	7700	3800			
A	4300	12000	8100	4300		
S	5100	17100	13200	9400		
O	4700	21800	17900	14100		
N	4700	26500	22600	18800		
D	4900	31400	27500	23700		
J 2019	4800	36200	32300	28500		
F	6000	42200	38300	34500		
M	6100	48300	44400	40600		
A	7900	56200	52300	48500		
M	8200	64400	60500	56700		
J	11800		72300	68500		
J	17500			86000	HIT Threshold July 19	

EXAMPLE 2

Tulip Ltd commenced trading on 1 April 2019, and its forecast income is £90,000 per month. The company's sales are all standard rated.

State the date that Tulip Ltd must notify HMRC by and the date from which the company will be registered

EXAMPLE 3

Vine Ltd has been in business for a number of years. All of its sales are standard rated and are to the general public. The company is not registered for VAT. At present, Vine Ltd's annual income is £80,000.

The company is planning to put up its prices, and this will increase annual income to £87,000. There is however no further scope for any price increases. Vine Ltd's standard rated expenses are £4,800 p.a. (inclusive of VAT).

Determine if it is beneficial for Vine Ltd to put up its prices.

Pre-registration Input VAT

Can claim some costs incurred BEFORE registration date

- Stock or Fixed assets held at the date of registration Must have been purchased within 4 years
- Services supplied up to 6 months of registration date

De-registration

- Stop making taxable suppliers - ceases trading
- Rolling sales < £83,000 and will be for the next 12 months

ILLUSTRATION 1

Iris Ltd has been registered for VAT since 1990, and its sales are all standard rated. The company has recently seen a downturn in its business activities, and sales for the years ended 30 June 2019 and 2020 are forecast to be £60,000 and £49,500 respectively.

- Iris Ltd can request that HMRC cancel its VAT registration because its taxable supplies during the following 12-month period will not exceed £83,000.
- This is provided the fall in the value of taxable supplies is not due to the temporary or permanent cessation of taxable supplies.
- The company's VAT registration will be cancelled from the date on which the request is made or from an agreed later date.

The Tax Point Date

It is very important to correctly identify the time of supply or tax point, as this determines when output VAT will be due.

The VAT rules that determine the tax point in respect of a supply of goods are as follows:

- The basic tax point is the date goods are made available to the customer or service completed.
- If an invoice is issued or payment received before the basic tax point, then this becomes the actual tax point.
- If an invoice is issued within 14 days of the basic tax point, the invoice date will usually become the actual tax point.

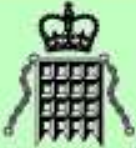
Output VAT and Input VAT

- VAT is chargeable on the **actual amount received** where a discount is offered for prompt payment. If the discount is not taken the VAT is charged on the full sale price and if the discount is taken then the VAT is based on the discounted price.
- Relief for irrecoverable (impaired) debts is only available if the output VAT has been accounted for and paid and debt is over six months old as measured from the time that payment was due. The relief is claimed as input VAT on the VAT return
- Input VAT cannot be recovered in respect of business entertainment of UK customers or on motor cars (unless they are used 100% for business purposes).
- Input VAT cannot be recovered in relation to private use by a proprietor of a business

VAT Returns

- QUARTERLY
- Each return should be filed online and for the period. For example, a return online and for the period 01/06/2011 to 31/08/2011

Value Added Tax Return

 Added value applications Ltd
74 Makins Rd
Henley on Thames

For the period 01/06/2011
to 31/08/2011

VAT due in this period on sales	1	0.00
VAT due in this period on EC acquisitions	2	0.00
Total VAT due (sum of boxes 1 and 2)	3	0.00
VAT reclaimed in this period on purchases	4	0.00
Net VAT to be paid to Customs or reclaimed by you	5	0.00
Total value of sales, excluding VAT	6	0.00
Total value of purchases, excluding VAT	7	0.00
Total value of EC sales, excluding VAT	8	0.00
Total value of EC purchases, excluding VAT	9	0.00

Calculate Adjustments Reconcile Print Clear ☐ Include Reconciled Close

ILLUSTRATION 3

For the quarter ended 31 March 2019 Buttercup Ltd had output VAT of £12,400 and input VAT of £7,100. Buttercup Ltd's VAT return for the quarter ended 31 March 2019 should be submitted by 7 May 2019. VAT of £5,300 (£12,400 - £7,100) is payable, and this is due to be paid by 7 May 2019 when the VAT return is submitted.

- Because VAT is a self-assessed tax, HMRC make control visits to VAT registered traders. The purpose of a control visit is to provide an opportunity for HMRC to check the accuracy of VAT returns.
- A business may choose to submit monthly returns but would only do so if it received regular VAT repayments. This would arise where the business had standard rated purchases and expenses but made zero rated sales and hence always had more input tax than output tax and therefore would claim a repayment. If a trader's VAT liability exceeds £2,300,000 over a 12 month period; they must make monthly payments on account of the VAT liability.

VAT invoices MUST have

- the VAT registration number;
- the tax point;
- the rate of VAT for each supply;
- the VAT-exclusive amount for each supply;
- the total VAT-exclusive amount;
- the amount of VAT payable.

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- Default Surcharge
 - Penalties and Interest
 - Cash Accounting and Annual Accounting Schemes
 - Flat Rate scheme
 - Group Vat registration

NOW PRACTICE MORE QUESTIONS