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McBRIDES
CHARTERED ACCOUNTANTS

An Introduction to Corporation Tax

Year commencing	1 April 2015	1 April 2014
Taxable Profits		
First £300,000	20%	20%
Next £1,200,000	20%	21.25%
Over £1,500,000	20%	21%

Up until 31 March 2015 there were two rates of corporation tax. From 1 April 2015 the main rate and the small profits rate have been unified and are set at 20%.

Self assessment

A company has to estimate its own corporation tax liability and pay this by the due date, which is nine months and one day after the end of its accounting period.

A company tax return has to be filed with HM Revenue & Customs within twelve months of the company's year end.

Interest is charged on late payment of corporation tax, and there are also penalties for late filing of a company tax return.

Tax saving tips

Expenses

Expenditure incurred before the company year end might reduce the current year's tax liability instead of next year's. Bringing forward expenditure by even a few weeks on, for example, building repairs, advertising, sales and marketing campaigns, and any other item deductible from profits can accelerate the tax relief by twelve months.

Plant and equipment

Depreciation is not allowed for tax purposes, but capital allowances are available.

The maximum amount of the annual investment allowance (AIA), attracting 100% relief, was temporarily increased to £250,000 from £25,000 for the period from 1 January 2013 to 31 December 2014. Budget 2014 extended the period of the temporary increase to 31 December 2015. It further increased the maximum amount of the AIA to £500,000 from 1 April 2014 for corporation tax and 6 April 2014 for income tax to 31 December 2015.

Second Budget 2015 reduced the AIA to a permanent level of £200,000 (instead of the temporary level of £25,000 previously announced) with effect from 1 January 2016.

Expenditure in plant and machinery (not cars) up to the maximum amount attracts 100% relief. Annual expenditure over these amounts enters either the 8% pool or the 18% pool, attracting a writing down allowance at the appropriate rate.

Any business that invests in energy-saving or environmentally beneficial equipment is entitled to claim a 100% first year allowance. Cars with CO_2 emissions of up to 75 g/km also qualify for a 100% first year allowance. Cars with CO_2 emissions over 130 g/km will enter the 8% pool. All other cars will enter the 18% pool.

There is a 100% capital allowance for the purchase of new, unused (not second-hand) vans, which cannot produce CO_2 engine emissions under any circumstances when driven (eg "electric vans").

Where commercially and financially appropriate, capital expenditure should be brought forward to make the earliest use of the available allowances.

Hire purchase and lease purchase

Hire purchase and lease purchase may provide a useful method of financing the purchase of an asset. Plant and equipment acquired on hire purchase will qualify for capital allowances on the full purchase price, even if the company has paid only the deposit.

Provisions

Specific provisions against bad debts or stock are allowable for tax purposes, but general provisions are not.

Bonuses to directors and staff

A proper provision may be made in the annual accounts for specific bonuses paid up to nine months after the year end. Take care to ensure that these are charged to PAYE and NI as appropriate.

Pension contributions

Contributions to registered pension schemes are normally allowable for tax in the year of payment. Tax relief may need to be spread where contributions in the current period are more than 2.1 times those of the previous period. The excess is the amount of the contribution that exceeds 1.1 times the contributions paid in the previous period. Where the amount of this excess is £500,000 or more the tax relief will be spread over 2 to 4 years.

Please note: Most income and capital gains earned by a pension fund on sums invested are tax free.

Capital gains

Capital gains are taxed at the effective rate of corporation tax (20%). Gains are calculated after deducting from the sale proceeds the market value at March 1982 (or cost of acquisition, if later), costs incurred in improving the asset, an indexation allowance, and certain disposal costs.

Reducing capital gains

Rollover relief

Claim rollover relief if your company buys new chargeable business assets within one year before or three years after selling a business asset. This effectively postpones any tax liability until the new asset is sold. Special rules apply if the new asset is a wasting asset.

Negligible value claim

Claim relief on assets that have become worthless. A loss can be claimed even though the asset has not been sold, and this can then be offset against chargeable gains.

Crystallising capital losses

Assets that have fallen in value since March 1982 (or date of acquisition if later) could be sold, thereby crystallising capital losses to set against other chargeable gains. This is easily achieved if the asset is a quoted share or security.

Deferring capital gains

Capital gains are realised when an *unconditional* contract for the sale of an asset has been made. In the case of *conditional* contracts, the sale is regarded as taking place when the condition is satisfied. You can therefore use a conditional contract, or grant an option, to delay the gain until after the year end.

How can we help?

Do contact us if you would like further help or advice on this subject.