

An introduction to Corporation Tax

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This factsheet provides an introduction into Corporation Tax. Including information on self-assessments, tax saving tips and capital gains tax. The corporation tax rate is currently 19%. The rate will reduce to 17% from 1 April 2020.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

Self-assessment

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

A company tax return has to be filed with HMRC 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) is £1 million.

The maximum amount of the annual investment allowance (AIA) is £1 million. Qualifying expenditure in plant and machinery (not cars) up to the AIA maximum amount attracts 100% relief. Annual expenditure over these amounts enters either the 6% pool or the 18% pool, attracting a writing down allowance at the appropriate rate.

Any business that invests in qualifying energy-saving or environmentally beneficial equipment is entitled to claim a 100% first year allowance. Cars with CO₂ emissions of up to 50 g/km also qualify for a 100% first year allowance. Cars with CO₂ emissions over 110 g/km will enter the 6% 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 CO₂ 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 should 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.

Pensions 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.

Capital gains

Capital gains are taxed at the effective rate of corporation tax (19%). 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 (to account for inflation up to December 2017), 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, being broadly an asset with an expected life of 50 years or less.

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 we can help

If you are concerned about your corporation tax liabilities or would like to discuss corporation tax planning, please contact us on 01494 675321 or by email on info@rousepartners.co.uk

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

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