Chapter 25

SELF ASSESSMENT AND PAYMENT OF TAX FOR COMPANIES

1 Corporation tax – payment dates

1.1 Notification of chargeability

A company falling within the scope of corporation tax for the first time must notify HMRC when its first accounting period begins, within 3 months of the start of the accounting period. Failure to notify chargeability to tax within 12 months of the end of the accounting period will lead to a standard penalty based on a percentage of the tax unpaid 12 months after the end of the accounting period. The standard penalty is discussed in chapter 24, (VAT) 8.1.

1.2 Payment of tax

(a) Companies pay tax by self assessment

(b) Estimated tax is payable 9 months and one day after the end of each accounting period (due date), with provisions for quarterly instalment payments for 'large' companies. Payment must be made electronically

(c) Interest due to the HMRC on tax paid late will run from the due date to the date of payment at a rate of 3.0% per annum.

(d) Interest on overpayments of tax will run from the later of the due date or the date tax was actually paid at a rate of 0.5% per annum.

(e) Under self assessment interest on tax paid late will be deductible against interest receivable.

Interest received on overpaid corporation tax will be taxable as Interest receivable

1.3 Quarterly Instalments

(a) Quarterly instalments apply to large companies.

(b) A large company is one paying the main rate of corporation tax.

(c) The instalments are based on the estimated current year's liability.

(d) The four quarterly instalments will be made in months 7, 10, 13 and 16 following the start of the accounting period. The instalments are due on the 14th of the month. Thus for the accounting year ended 31 March 2015 the first quarterly instalment payment would be due October 14, 2014 followed by further payments due January 14, April 14 and July 14, 2015

(e) Quarterly payments are not required if

» current augmented profits do not exceed £10 million

and

» the company was not large in previous CAP.

EXAMPLE 1

Photo plc has Taxable Total Profits for the year ended 31 December 2014 of £2M, its lowest profit figure for several years.

Show how the liability for the year ended 31 December 2014 will be settled.

2 Corporation tax return

(a) Companies that do not receive a tax return are required to notify HMRC if they have income or chargeable gains on which tax is due. This must be done within 12 months from the end of the accounting period in which the liability arises, otherwise the standard penalty for late notification will arise (as above 1.1).

(b) Complete accounts and computations are due 12 months after the end of the financial accounting period (this is called the filing date). If the accounts and computations are filed late there is a fixed penalty of £100. If the return is filed more than 3months after the filing date the fixed penalty is increased to £200 (This becomes £500 and £1,000 if it is the third consecutive time the return is late).

Returns must now be made online and any corporation tax paid electronically.

The HMRC software if used will now compute the amount of corporation tax payable.

The tax computation and accounts must be submitted online using inline eXtensible Business Reporting Language (iXBRL). This is the global standard for reporting business information in electronic format using tags that can be read by a computer.

Small companies with straightforward accounts and tax computations may use the HMRC software but other companies must use:

- commercial software that automatically inserts tags

- a tagging service

- conversion software that allows tags to be added to accounts and computations

(c) Returns may be subject to a random or specific enquiry by the HMRC. Written notice of the HMRC's intention to make an enquiry is given within 12 months from the date the return is received by HMRC.

(d) There will be an additional corporation tax related penalty of 10% of the tax unpaid 6 months after the return is due, if the self-assessment tax return is more than six months late, or 20% of the tax unpaid 6 months after the return is due, if more than 12 months late.

(e) HMRC may amend a return to correct obvious error within nine months of the day the return is filed. A company may amend a return within 12 months of the filing date.

3 Claims

(a) Wherever possible claims must be made on a tax return or on an amendment to it and must be quantified at the time the return is made.

(b) If a company believes it has made an error in a return, an error or mistake claim may be made within four years from the end of the accounting period.

(c) Other claims must be made within four years of the end of the accounting period unless a different time limit specified.

4 Records

(a) Companies must keep records until the latest of

- six years from the end of the accounting period
- the date any enquiries are completed
- the date after which enquiries may not be commenced

(b) All businesses records and accounts including contracts and receipts must be kept

(c) Failure to keep records can lead to a penalty or up to £3,000 for each accounting period affected

5 Enquiries

(a) HMRC may enquire into a corporation tax return provided that they first give written notice that they are going to enquire.

(b) The notice must be given within a year after the later of:

- 12 months following the date the return is actually received by HMRC
- If the return is late, 12 months following the relevant quarter days ie 31/1, 30/4, 31/7, 31/10

(c) An enquiry may be made due to:

- A suspicion income is understated
- Deductions being incorrectly claimed
- Other information in HMRC's possession
- Being part of a random review process

6 Determinations and Discovery assessments

(a) If a return is not delivered by the filing date, HMRC may issue a determination of the tax payable within 3 years of the filing date.

(b) If HMRC believe that not enough tax has been assessed for an accounting period they can make a discovery assessment to collect the tax.

(c) A discovery assessment can only be made if:

HMRC could not reasonably be expected to have been aware of a loss of tax and are supplied with information to draw their attention to a contentious matter such as the use of a valuation or estimate. HMRC can raise an assessment within 4 years from the end of the accounting period; this is extended to 6 years if there is a careless error or 20 years if there is a deliberate error or failure to notify a chargeability to tax.

7 Appeals and Disputes

(a) The company can appeal against amendments to the corporation tax return.

(b) The appeal must be normally be made within 30 days of the amendment and must state the grounds for appeal.

(c) The appeals procedure is as per VAT - see chapter 24.

8 Penalties for incorrect returns

The amount of penalty is based on the amount of tax understated, but the actual penalty payable is linked to the taxpayer's behaviour, as follows:

(i) there will be no penalty where a taxpayer simply makes a genuine mistake.
(ii) there will be a moderate penalty (up to 30% of the understated tax) where a tax payer fails to take reasonable care.
(iii) there will be a higher penalty (up to 70% of the understated tax) if error is deliberate.
(iv) there will be an even higher penalty (up to 100% of the understated tax) where the error is deliberate and there is also concealment of the error.

A penalty will be substantially reduced where the taxpayer makes disclosure, especially unprompted disclosure to HMRC.

9 Information and Inspection powers

These are as per VAT - see chapter 24.

Students may now attempt Practice Question 45