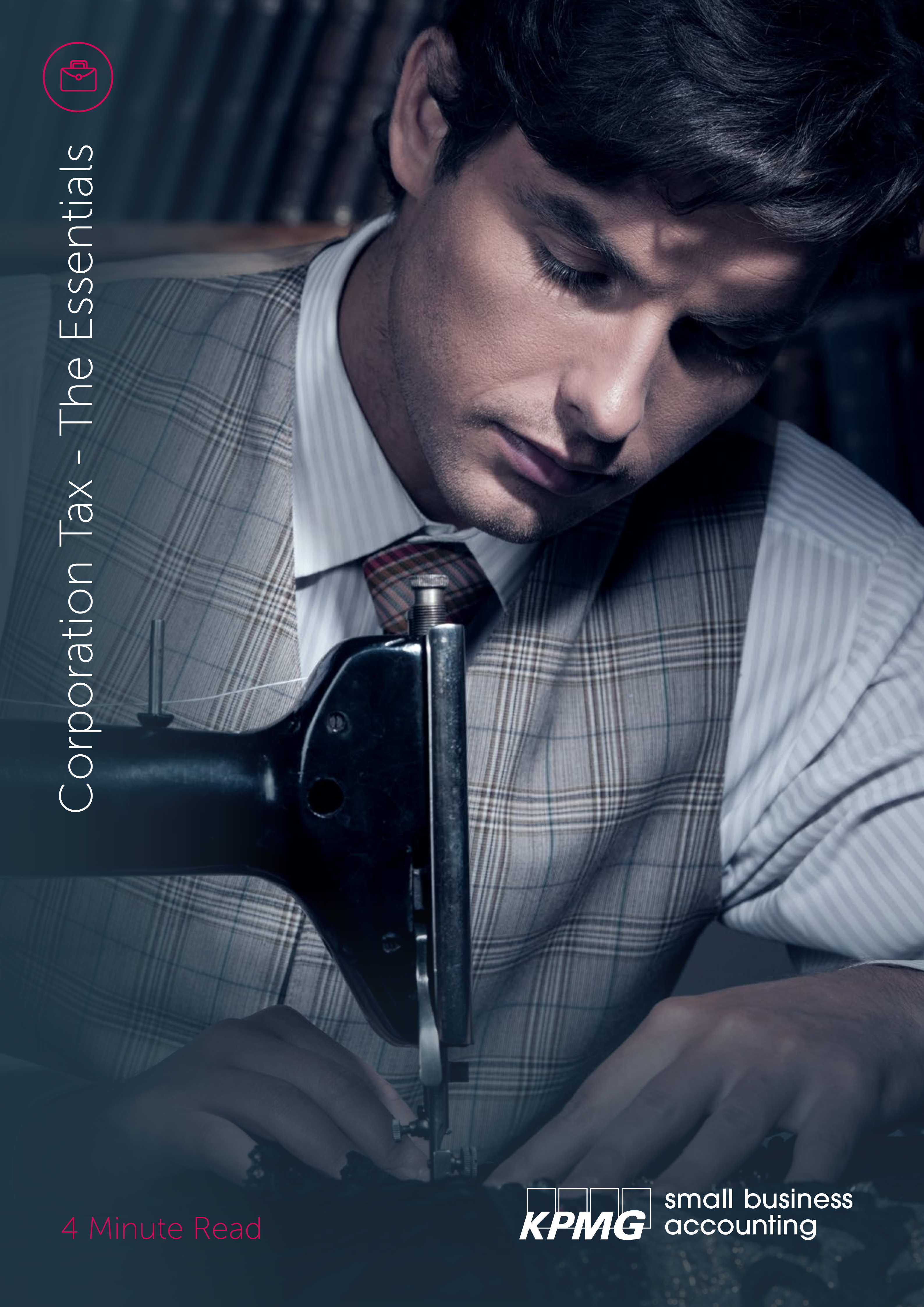
Corporation Tax - The Essentials



4 Minute Read

small business accounting

Corporation Tax - The Essentials

Worrying about tax is a distraction. The trick is to get clear on the tax rules from the start and set up a system that lets you manage your tax affairs correctly and efficiently. Then you'll be free to focus on building your business.

As a UK resident company, you'll be operating under the Corporation Tax Self Assessment (CTSA) regime. This makes notifying the tax authorities about your business, filing a return and paying your tax on time your responsibility.

Corporate Tax - Key Questions:

1 / Where do I begin with corporation tax?

2 / How do I file my tax return?

3 / When do I file my tax return?

4 / How will I know if HMRC is happy with my return?

5 / What rate is corporation tax charged at?

6 / How do I work out how much tax there is to pay?

7 / What happens if I'm not making a profit?

8 / When will I have to pay any tax due?

9 / What records do I need to support my tax return?

1 /

Where do I begin with corporation tax?

When you register with Companies House, your company will get a unique ten-digit tax reference number. Once you have this, you must contact HM Revenue & Customs (HMRC) within three months of starting to trade to let them know the company is trading.

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How do I file my tax return?

HMRC encourages companies to file online. When you file your corporation tax return online, you will also need to file supporting computation and statutory accounts prepared using HMRC's free online filing software or commercial software.

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When do I file my tax return?

Your company must complete a UK corporation tax return for each accounting period. An accounting period is usually 12 months long and normally matches the dates covered by your annual financial accounts. You must submit your corporation tax return within 12 months of the end of the accounting period.

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How will I know if HMRC is happy with my return?

Provided that you file your return on time, HMRC has up to 12 months to inquire into the return. If you don't hear from them within this period, you can assume they are satisfied with your return.

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What rate is corporation tax charged at?

The standard rate is 20% for all companies.

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How do I work out how much tax there is to pay?

Your company's accounting records are the starting point for working out the profits you'll pay tax on. But various rules mean the 'profits' figure in your financial accounts will not be exactly the same as the 'profits chargeable to corporation tax' figure on your tax return.

Disallowable expenses

Not all your company's expenditure counts when it comes to calculating profits for tax purposes. Items that are 'disallowable' for corporation tax purposes include:

- Client entertaining, hospitality and gifts
- Certain legal and professional fees
- Any spending on items that are not used wholly and exclusively for the purposes of the company's trade.

Timing differences

Timing differences in the way things are recorded for accounting and tax purposes will also affect the final figure. For example, tax relief on the purchase of, say, a computer, may be spread over a different period of time to how it was expensed in the accounts.

Tax relief

Sometimes you'll be able to make additional deductions to reduce the profits chargeable to tax. A good example of this is when you've spent money on activities that qualify as research and development (R&D).

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What happens if I'm not making a profit?

If you make a loss for tax purposes in an accounting period, your trading losses are automatically carried forward and set against future profits of the same trade. This has the effect of reducing your potential future corporation tax liabilities. If your company is doing work that qualifies as R&D, you can choose to surrender these losses and take a cash tax credit instead.

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When will I have to pay any tax due?

In general, corporation tax is due nine months and one day after the end of the accounting period it relates to. Interest on underpayments or late payments of corporation tax is added from the due date for payment to the actual date of payment.

If you file your corporation tax return and supporting documentation after the 12-month deadline, you'll get a late filing penalty of £100. There are more penalties if your return is three months, six months or twelve months late.

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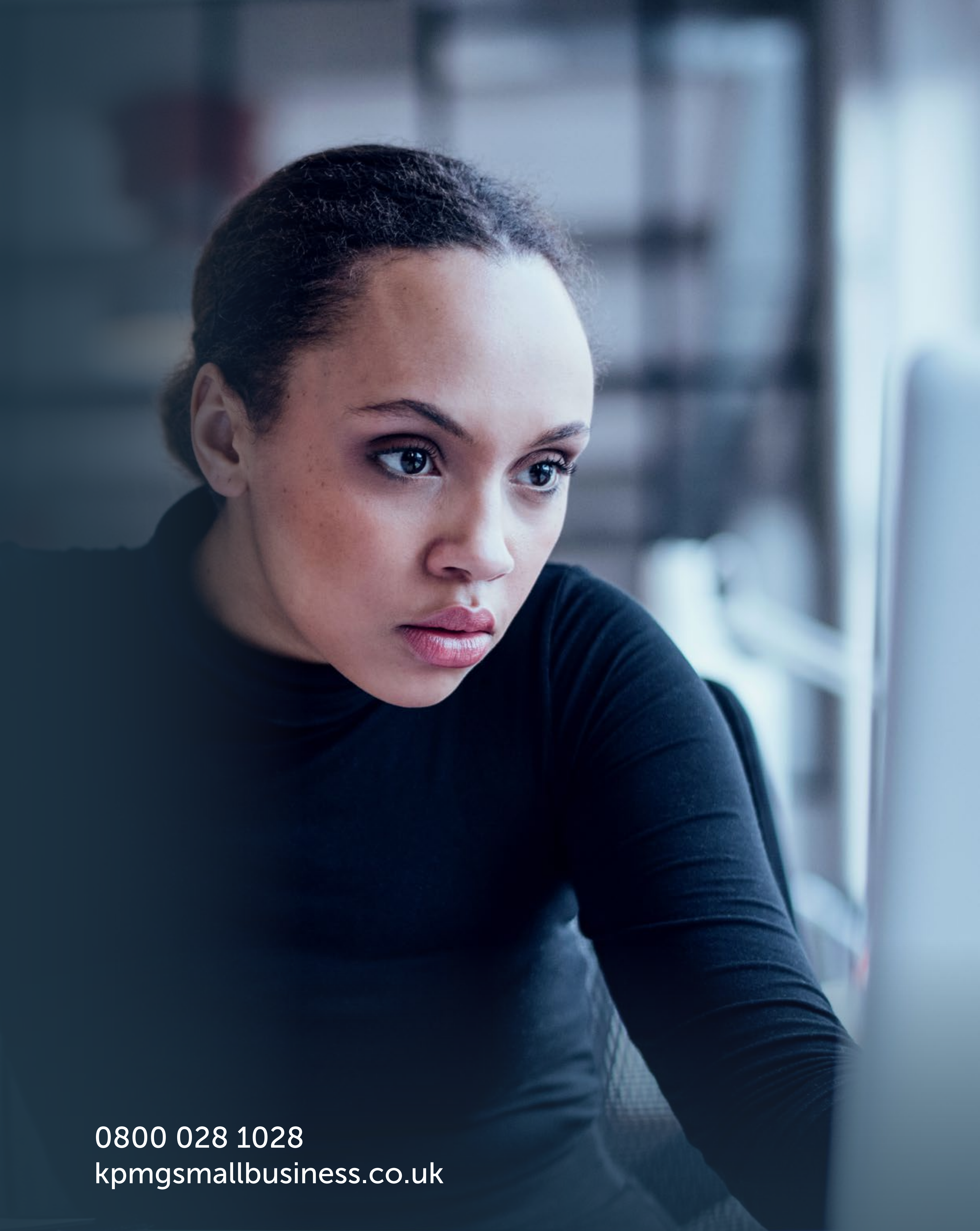
What records do I need to support my tax return?

Under CTSA rules, you must maintain full accounting records for tax purposes. These must include computer records, receipts for income, purchases and expenses, and all other supporting documents of the business (including accounts, books, deeds, contracts, vouchers and receipts).

You must keep hold of these records for six years from the end of the accounting period (or longer if enquiries are still ongoing for that year or an earlier year).



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