An Introduction to Corporation Tax

The main rate of corporation tax increased from 19% to 25% on 1 April 2023 for companies with profits over £250,000. The 19% rate became a small profits rate payable by companies with profits of £50,000 or less. Companies with profits between £50,000 and £250,000 pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

Self assessment

A company has to compute 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 amount of the annual investment allowance (AIA) is £1 million. Qualifying expenditure on plant and machinery (not cars) up to the AIA amount attracts 100% relief. Annual expenditure in excess of this amount enters either the 6% pool or the 18% pool, attracting a writing down allowance at the appropriate rate on a reducing balance basis.

Zero-emission cars qualify for a 100% first year allowance. Cars with CO_2 emissions over 50 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 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.

Full expensing

Between 1 April 2023 and 31 March 2026, companies investing in qualifying new and unused plant and machinery will benefit from first year capital allowances.

Under this measure, a company will be allowed to claim:

- A first year allowance of 100% on most new and unused plant and machinery expenditure that ordinarily qualifies for 18% main rate writing down allowances (Full Expensing).
- A first year allowance of 50% on most new and unused plant and machinery expenditure that ordinarily qualifies for 6% special rate writing down allowances.

The relief specifically excludes expenditure on cars, and most plant and machinery for leasing. The relief is only available for companies and not for unincorporated businesses.

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. Availability of plant and machinery allowances on assets acquired on lease purchase depends on how it has been accounted for by the company leasing the asset.

Provisions

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

Bonuses to directors and staff

A 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 paid in the current period are large compared to previous years.

Capital gains

Capital gains for companies are chargeable to corporation tax. 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 certain 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 conditions are satisfied. Conditional contracts can delay a gain being realised until after the year end, but caution should be exercised when using such contracts.

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