Corporation Tax

NIXONWILLIAMS

This factsheet is designed to explain what Corporation Tax is, the level at which it is paid, how it is calculated and when it has to be paid by.

Corporation Tax is a tax based on the profits of Limited Companies and is payable to HMRC. The rate at which Corporation Tax is paid is dependent on the level of company profits as follows:

£0 - £300,000	20%
£301,000 - £1,500,000	25% (effective rate)
£1,500,000+	24%

When calculating the Corporation Tax you first need to start with the profits per the accounts. This is calculated by deducting all expenses from the company's turnover to give a profit before tax figure which, for Corporation Tax purposes, is referred to as 'profits'.

From this there are a number of adjustments that need to be made to take into account various tax treatments of certain items, because some things in the accounts are not allowable for Corporation Tax (and a rare number of items are not subject to Corporation Tax). The main categories of disallowable expenses are:

1) Entertaining
2) Fines/Penalties or interest paid on late tax payments
3) PCG Subscriptions
4) Depreciation
5) Company Formation costs.

These are added back to the 'profits' to give the profits chargeable to Corporation Tax (PCTCT) and this is what the Corporation Tax rate is applied to.

To illustrate this with an example:

XYZ Limited had turnover of £100,000 and expenses of £20,000 which included £500 entertaining and £100 company formation costs. The profits per the accounts would be £80,000, however, when calculating the PCTCT you would add back £600 to give taxable profits of £80,600. The company is 'small' so pays corporation tax at 20% which would equal £16,120 (£80,600 x 20%).

To relay the figures to HMRC the company has to submit a CT600 (Corporation Tax return) along with a tax computation (this shows any adjustments between the 'profits' and 'PCTCT') and a copy of the accounts. These are all due to HMRC 12 months after the yearend in a specific format known as iXBRL.

Payment of the Corporation Tax is due to reach HMRC no later than 9 months and 1 day from the yearend.

The due dates may be earlier, such as in a company's first year. The CT600 can cover a period of 365 days and no more, so when an accounting period is longer than this two CT600's have to be done. In this case, the due dates are calculated from the last day of the 1st CT600 rather than the yearend.

Nixon Williams will take care of the Corporation Tax calculation along with the CT600. We will also submit these electronically to HMRC on your behalf (once you have approved the accounts) to conform to HMRC's latest iXBRL requirements.

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