LAVELLE COLEMAN

Lavelle Coleman Solicitors
20 On Hatch, Lower Hatch Street,
Dublin 2, Ireland.
t +353 1 644 5800
f +353 1 661 4581
dx 109010 Fitzwilliam
e law@lavellecoleman.ie
w www.lavellecoleman.ie

UK CORPORATION TAX

General

UK Corporation tax is similar in structure to Irish Corporation Tax. UK Corporation Tax is paid by limited companies on their profits. The rules applicable to Corporation Tax are similar to those that apply to Income Tax.

A company is subject to United Kingdom Corporation Tax if it is resident there. Being resident means that it is managed and controlled from there. A company can also be subject to Corporation Tax on the basis of being incorporated (i.e. formed) in England and Wales. Unlike in Ireland incorporation in England and Wales, Scotland or Northern Ireland automatically makes a company subject to UK Corporation Tax.

Where an Irish company has a branch or place of business in the UK then it will be subject to UK Corporation Tax on the profits of that branch.

The rates of Corporation Tax have been steadily reducing in the UK. From 1st April 2008 the Small Companies rate is 21%. The Small Companies rate applies to firms with profits of up to £300,000. On profits more than £1,500,000 the principal rate of 28% applies. For profits between £300,000 and £1,500,000 there is marginal relief which means the rate will be somewhere between 21% and 28%.

Returns and Administration

If a company is liable to pay Corporation Tax it must inform H M Revenue and Customs (HMRC). The company must make a self assessment tax return in which it calculates its tax liability accurately. Penalties and interest charges apply for failure to register or make returns.

There is legal obligation to keep sufficient records of the outgoings and incomes of the business to make a complete and correct Corporation Tax return. This will include details of all receipts, expenses and purchases. The requisite records will depend on the nature of the business. HMRC requires a company to keep its records for six years from the end of the accounting period. There are penalties for failure to keep records.

The company is responsible for calculating its Corporation Tax and paying it on time. Failure to do so can incur penalties.

A Corporation Tax return can be made in at any time after the end of the accounting period. It must be made by the statutory filing date at the latest. This is the later of 12 months after the end of accounting year period or 3 months after the date the company receives a notice to deliver tax (Form CT600) from HMRC. Penalties apply if the tax is not returned on time. The payment of Corporation Tax is due within 9 months of the last day of the accounting period. Interest will apply to late payment of Corporation Tax.

Larger companies (i.e. ones with profits of more than £1,500,000) must pay their tax by instalments. Payment will normally be by bank transfer or cheque. If tax is paid late, penalties and interest may arise. There are flat rate and fixed penalties for late filing. Interest is also charged on the due date to the date of payment.

The first step to working out Corporation Tax liability is to ascertain the accounting period for which the tax must be calculated. This may mean adjusting financial accounts in the same way that the income tax rules require a trader to adjust his financial accounts.

An accounting period can never be longer than 12 months but it can be less. It will normally be the company's account period. An accounting period for tax purposes starts when a company first comes in to the charge to Corporation Tax or immediately after the end of the previous accounting period.

The return will need to be accompanied by accounts and computations together with supplemental details as necessary to justify the returns. Where figures have not yet been ascertained estimates should be used.

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The CT600 form must be accompanied by certain additional supplementary returns which are relevant to the nature of the business.

These include the following:-

- loans to participators by close companies
- controlled foreign companies
- group and consortium form
- cross border royalties
- disclosure, tax avoidance scheme

The Corporation Tax form must be signed for and on behalf of the firm.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.

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