



**BUSINESS TAX CENTRE LIMITED**  
**TAX GUIDANCE – INTRODUCTION TO CORPORATION TAX**

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## Introduction to Corporation Tax

Corporation Tax is a tax on the taxable profits of limited companies and other organisations including clubs, societies, associations and other unincorporated bodies.

This guide gives you a basic overview of Corporation Tax. It tells you what Corporation Tax is, who's liable and what you must do and when if you are subject to Corporation Tax requirements. It outlines how the tax is calculated and what the tax rates are.

It also explains common HM Revenue & Customs (HMRC) Corporation Tax terms such as 'Corporation Tax Self Assessment', 'accounting period' and 'taxable profits'.

## What is Corporation Tax and who is subject to Corporation Tax Requirements

Corporation Tax is a tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies.

Taxable profits for Corporation Tax include:

- Profits from taxable income such as trading profits and investment profits (except dividend income which is taxed differently)
- Capital gains - known as 'chargeable gains' for Corporation Tax purposes

If your company or organisation is based in the UK, you'll have to pay Corporation Tax on all your taxable profits - wherever in the world those profits come from.

If your company isn't based in the UK but operates in the UK - for example through an office or branch (known to HMRC as a 'permanent establishment') - you'll only have to pay Corporation Tax on any taxable profits arising from your UK activities.

## What you need to do for Corporation Tax and when you need to do it

If your company organisation is subject to Corporation Tax requirements you must:

- **tell** HMRC that it's liable for Corporation Tax
- **Pay** the right amount of Corporation Tax on time
- **file** a Company Tax Return and supporting documents

There are different deadlines for each of these requirements. If you don't meet those deadlines, your company or organisation may be charged interest and/or penalties.

### Pay before you file

Unlike other taxes such as Income Tax or VAT - where in most cases the filing and payment deadlines are identical - this is not the case with Corporation Tax. The deadline to pay your Corporation Tax is before the deadline to file your Company Tax Return. Generally you must:

- **pay by 9 months** after the end of your company or organisation's Corporation Tax accounting period
- **file by 12 months** after the end of your company or organisation's Corporation Tax accounting period

For example, if your company or organisation's financial year runs from 1 April 2008 to 31 March 2009, and your Corporation Tax accounting period is the same, you must:

- pay your Corporation Tax for that period by 1 January 2010
- file your Company Tax Return for that period by 1 April 2010

If your company or organisation's taxable profits are over £1.5 million, you must pay Corporation Tax by instalments, all of which are due **before** the deadline to file your Company Tax Return.

### Using an accountant or tax adviser

You can deal directly with HMRC or you can appoint someone to deal with HMRC on your behalf for your Corporation Tax affairs. This is known as appointing an agent.

### What is Corporation Tax Self Assessment

HMRC also uses the term 'Corporation Tax Self Assessment'. This simply means that that it's up to you (rather than HMRC) to work out how much Corporation Tax your company or organisation must pay for each Corporation Tax accounting period. In other words you 'self assess' your own Corporation Tax. You do this by filling in a tax return known as a Company Tax Return and sending it to HMRC.

Corporation Tax Self Assessment for limited companies and organisations is a different tax from Self Assessment for individuals, self-employed, sole traders or partners. One common feature is that you self assess your liability for the tax.

### What is an accounting period for Corporation Tax

Your company or organisation pays Corporation Tax on taxable profits for each Corporation Tax accounting period.

A Corporation Tax accounting period is different from similar terms used by other HMRC tax areas (such as VAT accounting periods) or other government agencies (such as Companies House accounting reference periods).

Your company or organisation's Corporation Tax accounting period is normally 12 months long. This accounting period normally matches your company's 12 month financial year. Your company's financial year begins and ends with the dates covered by your company's annual report and accounts (financial accounts) as submitted to Companies House. These accounts are sometimes called statutory accounts or audited accounts.

But in some instances your Corporation Tax accounting period won't be the same as your company's financial year if for example:

- your accounts cover a period of more than 12 months - such as if your newly-formed company is preparing its first accounts to cover a period of more than 12 months, or your existing company changes its financial year end
- your company has been dormant and once again starts to carry on business activity, your Corporation Tax accounting period may start on a different day from the start of your financial year

### **Accounting periods if your company accounts cover a period shorter or longer than 12 months**

A Corporation Tax accounting period **can be shorter than 12 months**. For example, if your company accounts cover a period of less than 12 months, then the accounting period can be the same and you'll simply file one Company Tax Return covering that period.

A Corporation Tax accounting period **cannot be longer than 12 months**. If your company accounts cover a period longer than 12 months and your company is active throughout, you must file two Company Tax Returns because you'll have two Corporation Tax accounting periods. This is the case even though you only need to file one set of accounts at Companies House.

- The first accounting period covers the first 12 months.
- The second accounting period covers the rest of the time.

For example, if your company has its accounts prepared for 15 months from 1 January 2008 to 31 March 2009, your Corporation Tax accounting periods will be:

- 1 January 2008 to 31 December 2008 (12 months)
- 1 January 2009 to 31 March 2009 (3 months)

You'll need to file two Company Tax Returns to cover these two Corporation Tax accounting periods.

## **Taxable profits for Corporation Tax and how they are calculated**

To work out how much Corporation Tax your company or organisation will have to pay, you need to work out the profits you'll have to pay tax on, known to HMRC as your 'taxable profits for Corporation Tax'.

To work out your taxable profits, you start with your company's pre-tax profit figure (sometimes known as 'profit before tax') in your company's financial accounts for a financial year. You then:

- add back any depreciation charges you've included in your accounts
- deduct your capital allowances (they take the place of depreciation charges)
- add any other relevant income or chargeable gains
- deduct any other relevant deductions, relief's, allowances or losses

You then:

- apply the relevant tax rate(s) to calculate your gross Corporation Tax payable
- deduct any relevant tax credits and any Income Tax already deducted from interest income your company received (for example the tax deducted by your bank before it paid you interest)

Finally you deduct any Corporation Tax you've already paid, for example tax paid early, to find the amount of Corporation Tax you need to pay, or the amount of Corporation Tax you can claim back as an overpayment.

## Why you can't just pay Corporation Tax on your pre-tax profits in your accounts

Your accountant will prepare your company's accounts using recognised accounting standards. But the profit figures calculated in this way do not necessarily represent the appropriate amount of profit on which to pay Corporation Tax.

Also, your company's accounts may cover a different period from your Corporation Tax accounting period (see the section above on accounting periods).

So you need to make those various calculations and adjustments to your accounting profit before tax to work out your taxable profit for Corporation Tax. You do this by completing and filing a Company Tax Return. A Company Tax Return includes a return form (CT600) and other supporting documents.

## Corporation Tax financial years and Corporation Tax rates

### Corporation Tax financial years

For Corporation Tax, the tax year is called the 'financial year' or 'fiscal year' and runs from 1 April to 31 March. This is different from the tax year for individual taxpayers, which runs from 6 April to 5 April.

The Chancellor sets out the rates of Corporation Tax and various allowances, relief's and credits in the Budget each March and also in the Pre-Budget Report the previous November. Normally any changes are announced one or more financial years in advance of the year to which they will apply.

### Corporation Tax rates

There are currently two rates of Corporation Tax, depending on the company or organisation's taxable profits:

- the lower rate - known as the 'small companies' rate even though it is based on the amount of taxable profits rather than the overall size of a company
- the upper rate - known as the 'full' rate or 'main' rate

There is also a sliding scale between the lower and upper rates known as 'marginal rate relief'.

This means if your company or organisation profits are over the lower rate but less than the main rate, the effective rate of Corporation Tax you pay rises gradually from the lower rate to the higher rate depending on your taxable profit.

### If your Corporation Tax accounting period doesn't coincide with the Corporation Tax financial year

If your accounting period doesn't run from 1 April to 31 March it spans two Corporation Tax financial years. You'll need to apportion your company's taxable profits between the two financial years on a time basis.

For example, if your company's Corporation Tax accounting period runs from 1 July 2008 to 30 June 2009:

- The first nine months (274 days) fall into the 2008-09 Corporation Tax financial year. So you'll pay tax on 274/365ths of your taxable profit at the 2008-09 rates.
- The remaining three months (91 days) fall into the 2009-10 financial year. So you'll pay tax on 91/365ths of your taxable profit at the 2009-10 rates.

### File your Company Tax Return online

From 1 April 2011, you must pay your Corporation Tax **electronically**. And from then, for any accounting period ending after 31 March 2010, you must also file your Company Tax Return (including supporting documentation) **online**.

Most small companies and organisations can use HMRC Corporation Tax Online to file a Company Tax Return.