

Corporation tax by instalments

(Lecture B1204 – 13.58 minutes)

The rules for payment by instalments are found in The Corporation Tax (Instalment Payments) Regulations 1998 (SI 1998/3175 as amended).

Companies with a corporation tax liability of no more than £10,000 in a 12-month accounting period (reduced pro-rata for short periods) do not have to make instalment payments.

Each instalment (in a 12-month period) is 25% of the expected UK corporation tax liability for that accounting period.

Interest is charged on each instalment on the difference between the actual instalment that was paid and the amount that should have been paid based on the final agreed liability. The interest is a tax-deductible expense for the company.

If a company's profits exceed £1.5 million pa, the instalments are due:

1. By the 14th day of 7th month of accounting period;
2. By the 14th day of 10th month of accounting period;
3. By the 14th day of 1st month of following period;
4. By the 14th day of 4th month of following period.

'Profits' for this purpose are the total profits chargeable to corporation tax plus exempt dividends received, other than dividends from 51% related companies.

The profits are divided by the number of "51% related companies" (as defined by s273F CTA 2010 and used when dividing the upper and lower profit limits between companies).

S.1119 CTA 2010 defines a "51% related company". Broadly, 51% means holding greater than 50% of the ordinary share capital or being entitled to greater than 50% of the profits available for distribution, or being entitled to greater than 50% of the assets available for distribution in the event of a winding up.

Related companies

Two companies A and B are related if:

- a) A is a 51% subsidiary of B;
- b) B is a 51% subsidiary of A; or
- c) Both A and B are 51% subsidiaries of the same company.

The companies are related for the entire accounting period for tax purposes, even if they were only actually related for a part of it.

Dormant companies are ignored, as are pure parent companies with no management expenses that merely hold investments in 51% subsidiaries where their only income is dividends from the subsidiaries which is then distributed to its shareholders. This means that such a company cannot make other payments (such as to a charity).

Foreign companies are included (since s273F does not specifically exclude them).

The previous concept of 'associated companies' no longer exists and therefore, if a client who is an individual controls two separate companies, they are not related.

Therefore, if one of the companies had a profit of £1.4 million and the other had profit of £1.3 million chargeable to corporation tax, neither would be required to make instalment payments of their corporation tax liability.

Very large profits

Statutory Instrument 2017 No. 1072 - The Corporation Tax (Instalment Payments) (Amendment) Regulations 2017 amended the Instalment Payments regime for companies with very large profits for accounting periods beginning on or after 1 April 2019.

If profits exceed £20 million p.a. (again divided by the number of 51% related companies), instalments are accelerated so that all of the estimated corporation tax liability is paid within the accounting period. This requires careful cash management and amounts are due:

1. By the 14th day of 3rd month of the period;
2. By the 14th day of 6th month of the period;
3. By the 14th day of 9th month of the period;
4. By the 14th day of 12th month of the period.

Example 1

You provide corporation tax compliance support for ABC Limited, a UK company which is a subsidiary of a multi-national group.

You have established from the parent company that there are 124 group companies which are 51% related companies of the parent, including ABC Limited.

In its year ended 31 December 2020, ABC Limited has expected profits chargeable to corporation tax of approximately £100,000 and did not receive any dividend income, similar to previous years.

Should the company have pay tax by instalments for this accounting period?

Analysis

The regular profit limit will be no £1.5 million divided by 124 companies, i.e. £12,097.

The very large profit limit will be £20 million divided by 124 companies, i.e. £161,290.

ABC Limited's profits are large but not very large.

As ABC Limited's tax liability is £19,000, i.e. it exceeds £10,000, it should pay instalments of £4,750 by 14 July 2020, 14 October 2020, 14 January 2021 and 14 April 2021.

Example 2

You have two other UK resident clients, DEF Limited which is 75% owned by ABC Limited.

ABC Limited is 60% owned by XYZ Inc, an American company, which has over 100 non-UK 51% related companies.

ABC Limited expects profits chargeable to corporation tax of £300,000 in its year ended 31 December 2020 and dividends from DEF Limited of £100,000.

DEF Limited expects profits chargeable to corporation tax of £900,000 and will not receive any dividends.

Both companies have had similar profits in previous years.

Are either of the companies required to make instalment payments and, if so, how much and when are these due?

Analysis

The profit limits for instalment payments of ABC Limited will take into account the worldwide group as it is a 51% related company of all these companies (being commonly 51% held by the same parent).

Its limits are therefore a maximum of (£1.5 million ÷ 101 companies) £14,851 and (£20 million ÷ 101 companies) £198,020.

Its relevant profits are £300,000 (the dividends from DEF Limited are ignored), therefore it is liable to pay corporation tax of (19%) £57,000 by 4 instalments of £14,250 on:

1. 14 March 2020;
2. 14 June 2020;
3. 14 September 2020;
4. 14 December 2020.

DEF Limited is not a 51% related company of XYZ Inc as XYZ Inc only owns 45% (60% x 75%) of DEF Limited.

But DEF Limited is a 51% related company of ABC Limited so its profit limits are £750,000 and £10 million respectively.

With expected profits of £900,000, DEF Limited must pay its estimated corporation tax of (19%) £171,000 in 4 instalments of £42,750 on:

1. 14 July 2020;
2. 14 October 2020;
3. 14 January 2021;
4. 14 July 2021.

Conclusion

If acting for a UK subsidiary of a multi-national group, it is vital to establish the number of worldwide 51% related companies accurately, in order to advise the company on when its corporation tax payments are due.

As can be seen above, in a large global group, profits do not have to be very large to trigger payments in months 3, 6, 9 and 12 of the company's accounting period.

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