



An Introduction to Corporation Tax

There are two rates of corporation tax, and one effective marginal rate, as follows:

Year commencing	1 April 2010
Taxable Profits	
First	21%
£300,000	
Next	29.75%
£1,200,000	
Over	28%
£1,500,000	

The rate bands are scaled down where a company has associated companies (members of the same group or companies controlled by the same persons).

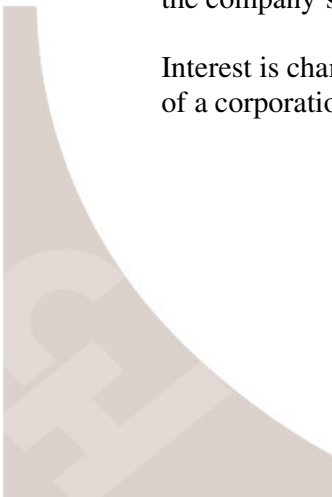
Self assessment

A company has to estimate its own corporation tax liability and pay this on the due date, which is nine months and one day after the end of its accounting period.

A corporation tax return has to be filed with HM Revenue & Customs within twelve months of the company's year end, although by concession an extra week is allowed.

Interest is charged on late payment of corporation tax, and there are also penalties for late filing of a corporation tax return.

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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 first £100,000 of investment in plant and equipment (not cars) each year attract an annual investment allowance (AIA) of 100%. Any annual expenditure over £100,000 enters either the 10% pool or the 20% pool, attracting a writing down allowance at the appropriate rate.

Any business that invests in energy-saving or environmentally beneficial equipment is entitled to claim a 100% first year allowance. Cars with CO₂ emissions of up to 110 g/km also qualify for a 100% first year allowance. Cars with CO₂ emissions over 160 g/km will enter the 10% pool. All other cars will enter the 20% pool.

With effect from 1 April or 6 April, there is a new 100% capital allowance for the purchase of new, unused (not second-hand) vans, which cannot produce CO₂ 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.

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 purchased on hire purchase will qualify for capital allowances on the full purchase price, even if the company has paid only the deposit.

Industrial buildings

Expenditure on new industrial buildings qualifies for writing down allowance of 1% on cost. Used industrial buildings may also qualify for an allowance, dependent upon allowances available to previous owners. Industrial buildings allowances are being phased out and will be abolished by April 2011.

Provisions

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

Bonuses to directors and staff

A proper 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 in the current period are more than 2.1 times those of the previous period. The excess is the amount of the contribution that exceeds 1.1 times the contributions paid in the previous period. Where the amount of this excess is £500,000 or more the tax relief will be spread over 2 to 4 years.

A charge may apply in respect of contributions where an individual has relevant income of £130,000 or more.

Please note: Most income and capital gains earned by a pension fund on sums invested are tax free.

Capital gains

Capital gains are taxed at the effective rate of 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, and certain disposal costs.

Reducing capital gains

Rollover relief

Claim rollover relief if your company buys 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.

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 condition is satisfied. You can therefore use a conditional contract, or grant an option, to delay the gain until after the year end.

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