Corporate and business tax

Corporation Tax Self Assessment

Corporation Tax Self Assessment (CTSA) was introduced in 1999. It completed the self assessment reforms introduced for individuals some years earlier by extending the principles of self assessment to company tax returns.

For most companies the process of moving to CTSA was straightforward. This is because the previous Pay and File rules for the submission of returns and the payment of tax were substantially unchanged.

Key Features

The key features are:

- a company is required to pay the tax due in advance of filing a tax return
- a 'process now, check later' enquiry regime when the tax return is submitted
- the inclusion in the tax return, and in a single self assessment, of the liabilities of close companies on loans and advances to shareholders and others, and of liabilities under Controlled Foreign Companies legislation
- the requirement for companies to self assess by reference to transfer pricing legislation.

Practical Effect of CTSA for Companies

Notice to file

Every year, the Revenue issues a Notice to file to companies. In most cases, the return must be submitted to the Revenue within 12 months of the end of the accounting period.

Submission of the return

The return required by a Notice to file contains the company's self assessment, which is final subject to:

- taxpayer amendment
- Revenue correction, or
- Revenue enquiry.

The company has a right to amend a return (for example changing a claim to capital allowances). The company has 12 months from the statutory filing date.

The Revenue has nine months from the date the return is filed to correct any 'obvious' errors in the return (for example an incorrect calculation). This process should be a fairly rare occurrence. In particular the correction of errors does not involve any judgement as to the accuracy of the figures in the return. This is dealt with under the enquiry regime.

Enquiries

Under CTSA, the Revenue checks returns and has an explicit right to enquire into the completeness and accuracy of any tax return. This right covers all enquiries, from straightforward requests for further information on individual items through to full reviews of a company's business including examination of the company's records. The main features of the rules for enquiries under CTSA are:

- the Revenue has a fixed period, of at least 12 months from the statutory filing date, in which to commence an enquiry
- if no enquiry is started within this time limit, the company's return becomes final - subject to the possibility of a Revenue 'discovery'
- the Revenue will give the company formal notice when an enquiry commences
- the Revenue is also required to give formal notice of the completion of an enquiry, and to state their conclusions
- a company may ask the Commissioners to direct the Revenue to close an enquiry if there are no reasonable grounds for continuing it.

Discovery assessments

The Revenue has the power to make an assessment (a 'discovery assessment') if information comes to light after the end of the enquiry period indicating that the self assessment was inadequate as a result of fraudulent or negligent conduct, or of incomplete disclosure.

Summary of Self Assessment Process

Example

A company prepares accounts for the 12 months ended 31 March 2004.

Key dates under CTSA are:

1.01.05	Payment of corporation tax
31.03.05	Filing of return
31.03.06	End of period for Revenue to open enquiry

On 31 March 2006 the company tax position is finalised subject to the Revenue's right to make a discovery assessment in some circumstances.

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Payment of Tax

There is a single, fixed due date for payment of corporation tax, nine months and one day after the end of the accounting period (subject to the Quarterly Instalment Payment regime for large companies).

If the payment is late or is not correct, there will be late payment interest on tax paid late and repayment interest on overpayments of tax.

Credit interest

If a company pays tax before the due date, it receives credit interest on amounts paid early. The rate of interest will fluctuate and is 0.25% below the average base lending rate of clearing banks. So, if the average rate is say 5% the credit interest rate is 4.75%. Any interest received is chargeable to corporation tax.

Loans to shareholders

If a close company makes a loan to a participator (for example most shareholders in unquoted companies), the company must make a payment to the Revenue if the loan is not repaid within nine months of the end of the accounting period. The amount of the tax is 25% of the loan. This tax is included within the CTSA system and the company must report loans outstanding to participators in the tax return.

Controlled Foreign Companies

A Controlled Foreign Company (CFC) is a non-UK company which is controlled by UK taxpayers and which operates in a 'low tax' country. If a UK company has a 25% interest in a CFC, it may need to include a share of the profits of the CFC in its tax due.

Transfer pricing

Transfer pricing rules require the market value of transactions between connected businesses to be recognised for tax purposes. Until 31 March 2004 the rules only applied to cross-border transactions. From 1 April 2004, the rules were extended to cover transactions within the UK. There are also record keeping regulations which require the companies to demonstrate that the transactions have taken place at market value.

How We Can Help

Do not hesitate to contact us if you require any further information.

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