J H GREENWOOD & COMPANY

CHARTERED ACCOUNTANTS

# Corporation Tax Self Assessment

FACTSHEET

**Tel:** 01289 302463
**Email:** enquiries@jhgreenwood.co.uk
**Web:** www.jhgreenwood.co.uk

## Key features

The key features include:

- 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, HMRC issues a notice to file to companies. In most cases, the return must be submitted to HMRC within 12 months of the end of the accounting period.

### Filing your company tax return online

Companies must file their Company Tax return online. Their accounts and computations must also be filed in the correct format - inline eXtensible Business Reporting Language (iXBRL).

Unincorporated organisations and charities that don't need to prepare accounts under the Companies Act can choose to send their accounts in iXBRL or PDF format. However, they must still file their tax return online and any computations must be sent in iXBRL format.

### Penalties

Penalties apply for late submission of the return of £100 if it is up to three months late and a further £100 if the return is over three months late. Additional tax geared penalties apply when the return is either six or twelve months late. These penalties are 10% of the outstanding tax due on those dates.

If the tax return is filed late three times in a row, the £100 penalties increase to £500 each.

### 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
- HMRC correction; or
- HMRC enquiry.

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

HMRC 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 judgment as to the accuracy of the figures in the return. This is dealt with under the enquiry regime.

### Enquiries

Under CTSA, HMRC 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:

- HMRC generally has a fixed period, of 12 months from the date the return is filed, in which to open an enquiry
- where the company is a member of a group (other than a small group), HMRC can open an enquiry up to 12 months from the due filing date
- if no enquiry is opened within this time limit and the company does not amend the return, the company's return becomes final - subject to the possibility of an HMRC 'discovery'
- HMRC will give the company formal notice when an enquiry opens
- HMRC is also required to give formal notice of the completion of an enquiry, and to state its conclusions

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- a company may ask the Tribunal to direct HMRC to close an enquiry if there are no reasonable grounds for continuing it.

### Discovery assessments

HMRC 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. The normal time limit for HMRC to make a discovery assessment is four years after the end of the relevant tax period, but is extended to six years if the loss of tax was caused by careless behaviour and further extended to 20 years in certain instances such as deliberate behaviour or failure to notify chargeability.

## Payment of tax

There is a single, fixed due date for payment of corporation tax which is nine months and one day after the end of the accounting period (subject to the Quarterly Instalment Payment regime for large and very 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. These interest payments are tax deductible/taxable.

### Credit interest

If a company pays tax before the due date, it receives credit interest on amounts paid early. 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 HMRC if the loan is not repaid within nine months of the end of the accounting period. The amount of the tax is 33.75% for loans made from April 2022. The company can reclaim the Corporation Tax paid on a director's loan that has been repaid, written off or released), subject to specified time limits.

### Additional rules for loans to shareholders

Further rules prevent the avoidance of the charge by repaying the loan before the nine month date and then effectively withdrawing the same money shortly afterwards.

A '30 day rule' applies if repayments totalling £5,000 or more are made and within 30 days, new loans or advances of at least £5,000 are made to the shareholder. The old loan is effectively treated as if it has not been repaid. A further rule stops the tax charge being avoided by just waiting 31 days before the company advances further funds to the shareholder. This is a complex area so please do get in touch if this is an issue for you and your company.

This tax is included within the CTSA system and the company must report loans outstanding to participators in the tax return.

## How we can help

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

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- Advice and Training on Manual and Computerised Account & Bookkeeping Systems


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Ava Lodge, Castle Terrace, Berwick upon Tweed
Northumberland TD15 1NP

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