CORPORATION TAX - QUARTERLY INSTALMENT PAYMENTS

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Under corporation tax self-assessment large companies are required to pay their corporation tax in four quarterly instalment payments. This factsheet considers the rules regarding these payments.

If your company is caught by the quarterly instalment payments rules, the first payment of corporation tax for a current accounting period will be before payment has been made for the previous accounting period. At Capworth Advisory , we can help check whether the regime may apply to your company and assist you to comply with the requirements of the regime for your business in the Kent area.
Under corporation tax self assessment large companies are required to pay their corporation tax in four quarterly instalment payments. These payments are based on the company's estimate of its current year tax liability.

Note that the overwhelming majority of companies are not within the quarterly payment regime and pay their corporation tax nine months and one day after the end of their accounting period.

We highlight below the main areas to consider if your company is affected by the quarterly instalments system.

Companies affected by quarterly instalment payments

Large companies
Only large companies have to pay their corporation tax by quarterly instalments. A company is large if its profits for the accounting period exceed the upper relevant maximum amount (URMA) in force at the end of that period. The URMA is £1.5 million and the rate of corporation tax is 19%.

Group companies
Where a company has one or more 51% related group companies, the URMA is reduced to the figure found by dividing that amount by one plus the number of

related 51% group companies. The URMA is also proportionately reduced for short accounting periods.

So, if a company has three 51% group companies the URMA is £375,000. Any of the companies that have taxable profits exceeding that figure will be subject to the instalment payments regime. Those which do not exceed that figure will not be subject to the regime.

Some companies have many group companies and are treated as being large even though their own corporation tax liability is relatively small. Where the corporation tax liability is less than £10,000 there is no requirement to pay by instalments.

Growing companies

A company does not have to pay its corporation tax by instalments in an accounting period if:

- its taxable profits for that accounting period do not exceed £10 million and
- it was not large for the previous year.

Where there are associated companies or 51% related group companies, the £10 million threshold is divided by one plus the number of associates or one plus the number of 51% related group companies at the end of the preceding accounting period. The threshold is also proportionately reduced for short accounting periods.

This gives companies time to prepare for paying by instalments (but see below).

The pattern of quarterly instalment payments

A large company with a 12 month accounting period will pay tax in four equal instalments, in months 7, 10, 13 and 16 following the start of the accounting period. The actual due date of payment is six months and 13 days after the start of the accounting period, then nine months and 13 days, and so on. So, for a company with a 12 month accounting period starting on 1 January, quarterly instalment payments are due on 14 July, 14 October, 14 January next and 14 April next.

There are special rules where an accounting period lasts less than 12 months.

Larger companies

Earlier dates will apply for the payment of corporation tax for larger companies and groups, for accounting periods starting on or after 1 April 2019. For companies with annual taxable profits of £20 million or more, tax will be payable in quarterly instalments in the third, sixth, ninth and twelfth months of their accounting period. For groups the £20 million threshold is divided by the number of companies in the group.

Pattern of payments for a growing company

If a growing company is defined as a large company for two consecutive years, the quarterly instalments payments regime will apply for the second of those years.

The transition from small to large is best illustrated by an example.
A company with a 31 December year end was large in 2019 for the first time and is expected to be large in 2020. Its tax payments will be as follows:

- For the 2019 accounting period, the tax liability is payable on 1 October 2020.
- For the 2020 accounting period, 25% of its tax for 2020 in each of July and October 2020 and January and April 2021.

As can be seen, the first instalment for 2020 is payable before the tax liability for 2019. It is therefore essential that budgets are prepared of expected profits whenever a company becomes large in order to determine:

- Whether the company will be large in the second year, and if so
- What tax payments will have to be made in month seven of the second year.
- Larger companies

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Working out quarterly instalment payments

A company has to estimate its current year tax liability (net of all reliefs and set offs) and then make instalment payments based on that estimate. This means that by month seven, a company has to estimate profits for the remaining part of the accounting period.

In particular note that tax due under the loans to participators legislation is also included.

A company's estimate of its tax liability will vary over time. The system of instalment payments allows a company to make top-up payments - at any time - if it realises that the instalment payments it has made are inadequate. A company will normally be able to have back all or part of any instalment payments already made if later it concludes that they ought not to have been made, or were excessive.

Interest and penalties

Interest is calculated only once a company has filed its tax return, or HMRC have made a determination of its corporation tax liability and the normal due date has passed.

The payments the company makes are compared to the amounts that ought to have been paid throughout the instalment period. If a company has paid too much for a period compared to the amount of corporation tax that was due to have been paid, it will be paid interest. If it has paid too little, it will be charged interest.

Rates of interest

Special rates of interest apply for the period from the due and payable date for the first instalment to the normal due and payable date for corporation tax (nine months and one day from the end of the accounting period).

Thereafter, the interest rates change to the normal interest rates for under and overpaid taxes. This two-tier system takes into account the fact that companies will be making their instalment payments based on estimated figures but, by the time of the normal due date, should be fairly certain about their liability.

Interest received by companies is chargeable to tax, and interest paid by companies is deductible for tax purposes.

Penalties

A penalty may be charged if a company deliberately fails to make instalment payments, or makes instalment payments of insufficient size.

Special arrangements for groups

There is a group payment arrangement facility which allows groups to make instalment payments on a group-wide basis, rather than company by company. This should help to minimise their exposure to interest.

How we can help

If you think your company in the Kent area may be affected by the corporation tax quarterly instalment payments regime, procedures will need to be set in place to estimate the liability.

We will be more than happy to provide you with assistance or any additional information required so please do contact us at Capworth Advisory