Corporation Tax

As Individuals are assessable under Income tax rules, UK based companies are assessed on their income and chargeable gains (capital gains tax for individuals) under Corporation Tax (CT). It is important to understand the general rules of Corporation tax as it differs from Income tax and Capital Gains tax, from the percentage of tax chargeable, the date the tax is due, all the way to the way it is filled out on the Tax return form.

The tax is chargeable once a company begins to trade or receives income that is chargeable to tax (e.g. interest income, rental income etc.). The corporation tax regime strictly speaking applies to corporate bodies, and includes Charities and Sports clubs.

Unlike how individuals pay tax, companies pay tax based on income generated within a chargeable accounting period (maximum of 12 month period.)

What does it mean to be a company?

When an individual is a sole trader, the business and the individual are one person and the individual is held responsible for all the assets and liabilities of the business.

When the individual decides to register his business as a company, the individual and the company are viewed as two separate legal entities. The company is liable for its assets and liabilities not the individual, the risk is Limited.

However it has been known where the individual is operating as a director and has plummeted the company intentionally for personal financial gain, and has been blacklisted and found guilty of mal practice. Hence there is still an element of risk to the individual.

How?

Firstly it important to be aware of the key terms in of CT, they are as follows:

Financial Year: it runs from the 1 April – 31 March each year. It is never longer than 12 month Period, and is there to help us asses which tax percentage applies.

Period of account: This is the number of months for which a company prepares its accounts. Usually 12 months, but can be longer.

Chargeable Accounting Period: This is always a 12 months period, never longer. If the company has a long period of account, the chargeable CAP is divided into two periods:
Various elements of CT

Trading Profit: These are the profits attributable to the company's main operations e.g. retail. It takes into account all income and expenditure from the trade.

Interest income: This section covers all the interest received (from bank accounts, other entities that pay interest to the company for loans etc.) and interest payable (interest the company pays for borrowings, mortgage interest for properties owned by the business etc.

Property profit: These are the profits (after taking into account all income and expenditure) from letting unfurnished and furnished property and similar to property income for individuals, is calculated on the accruals basis.

Note Mortgage interest is no longer allowable under Property profits but are included in interest income shown above.

Chargeable gain: These are the profits as a result of a sale of a company owned asset to another party in an arm's length transaction.

Dividends: These include dividends received from Non UK companies only. If dividends are received from UK companies or subsidiaries, different rules apply.