



Corporation Tax

Corporation Tax Guide by Finova Accountancy

Corporation Tax in the UK can be complex, given the numerous reforms over the years. Understanding its mechanics and impact on your business is crucial. Here's what you need to know about Corporation Tax, including the latest changes and key details.

IMPORTANT: Corporation Tax Rate Change (April 2023) As of April 2023, the Corporation Tax rate increased to 25%.

What is Corporation Tax? Corporation Tax is levied on the annual profits of UK-based companies and UK branches of overseas firms.

- **Current Rate:** From April 2023, companies with taxable profits above £250,000 pay 25%.
- **Small Profits Rate:** Companies earning £50,000 or less pay a reduced rate of 19%.
- **Marginal Relief:** Applies to profits between £50,000 and £250,000, with a gradual increase in the effective tax rate.

Marginal Relief Explained This relief provides a sliding scale tax rate for businesses with profits under £250,000.

- **Lower Limit:** £50,000
- **Upper Limit:** £250,000

Who Pays Corporation Tax? All UK limited companies must pay Corporation Tax on profits. This extends to unincorporated organisations like cooperatives, associations, and clubs.

Responsibility for Payment Company directors are legally responsible for filing and paying Corporation Tax on time. Though many hire tax specialists, the ultimate responsibility lies with directors.

How to Pay Corporation Tax Payments can be made electronically, at banks, or at post offices. Options include CHAPS (same-day), BACS transfers, direct debits, or credit/debit cards, generally taking up to three working days. Visit the UK Government website for full payment details.

Corporation Tax Deadlines

- **Filing:** Within 12 months after your accounting period ends.

- **Payment:** Due 9 months and one day after the accounting period ends. Larger companies may need to pay in instalments.

Late Filing Penalties

- **1 Day Late:** £100
- **Over 3 Months Late:** Another £100
- **Over 6 Months Late:** 10% of unpaid tax
- **Over 12 Months Late:** Additional 10% of unpaid tax Repeated late filings increase the £100 penalties to £500.

Penalties for Late Payments Interest accrues on overdue tax, and HMRC can:

- Use debt collection agencies
- Withdraw funds from your bank account
- Sell company assets
- Initiate court action or liquidate the company Contact HMRC immediately if you're unable to pay.

Errors in Tax Returns Penalties for inaccuracies depend on whether they're accidental or deliberate and whether you disclose them:

- **Accidental & Disclosed:** 0-30% of tax owed
- **Accidental & Undisclosed:** At least 15%
- **Deliberate & Disclosed:** 20-70%
- **Deliberate & Undisclosed:** 35-70%
- **Concealed Errors:** 30-100% (disclosed) or 50-100% (undisclosed) Higher penalties apply for offshore errors. Accurate returns are essential, and professional help is recommended.

Rate Trends & Dividends The Corporation Tax rate has dropped from 28% in 2010 to 19% in 2017, now standing at 25% as of April 2023. Dividends are not tax-deductible for Corporation Tax purposes. Shareholders pay Income Tax on dividends exceeding £1,000 (reducing to £500 in April 2024).

Need Help? Finova Accountancy is here to provide expert support and guidance. Contact our team for assistance with Corporation Tax.