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New corporation tax payment regime for companies with profits above £20 million

From 1 April 2019, companies with annual taxable profits exceeding £20 million will have to pay their corporation tax instalments earlier than currently required.

Under the Corporation Tax (Instalment Payments) (Amendment) Regulations 2017, HMRC is introducing a new classification called 'very large company' for the quarterly instalment payments (QIP) of corporation tax. A 'very large company' is one with profits above £20 million*. The current 'large company' classification – where profits are above £1.5 million* – is effectively being capped, and a subsequent 'very large company' tier being introduced.

Initially announced in the 2015 Budget and deferred in the 2016 Budget, the 'very large company' corporation tax changes are set to finally arrive.

How will businesses be affected?

For accounting periods beginning on or after 1 April 2019, 'very large companies' must pay their quarterly instalment payments four months earlier than the current cycle for 'large' companies. As a result, 'very large companies' must forecast taxable profits earlier than was previously required to enable the first QIP on account to be settled two months and 13 days into the accounting period.

Not only will QIPs now be due earlier, the Q1 payment for March 2020 will be due before the Q4 payment for March 2019. If this is not taken into account during forecasting activities, the effect on cash flow could be significant.

What are the new dates for QIPs?

For a 12-month accounting period, payments will be due in months three, six, nine and 12 of the accounting period to which the liability relates.

For instance, a company with a year end of 31 March 2020 must make its first payment on 14 June 2019 and then quarterly thereafter. The final payment will be due before the end of the accounting period on 14 March 2020, creating a bunching effect.

Although companies with a tax liability of £10,000 or less do not have to pay in instalments, the effect of the accelerated payment schedule on cash flow could be significant.

The table below illustrates the bunching effect of the transition between the old and new instalment payment schedules for 'very large companies' for March 2019 and March 2020 year ends.

Bunching effect of the old and new payment schedules

	y/e 31 Mar 2019	y/e 31 Mar 2020
14-Oct-18	✓	
14-Jan-19	✓	
14-Apr-19	✓	
14-Jun-19		✓
14-Jul-19	✓	
14-Sep-19		✓
14-Dec-19		✓
14-Mar-20		✓

What should businesses be aware of?

The main impacts for 'very large companies' affected by the new regime are cash flow and a risk of exposure to late payment interest.

Late payment interest on underpaid QIPs will automatically be calculated upon the submission of the Corporation Tax return. If a company deliberately fails to make instalment payments or deliberately underpays them, HMRC also has the power to levy penalties.

For groups of companies, a 'group payment arrangement' should be considered. This allows groups of companies to make joint payments of corporation tax. Payments made by a nominated group company can be easily allocated after year end between all tax-paying members of the group, thereby minimising their exposure to interest on underpaid tax.

How should businesses prepare?

Effective and early-stage forecasting is vital for 'very large companies' to transition smoothly to the new regime. This is especially relevant for businesses with fluctuating profits.

Our 70-strong team of tax experts supports businesses ranging from SMEs to some of the largest companies in the world. We can guide businesses through the compliance landscape, ensuring they meet all their obligations.

*(divided by the number of related 51% group companies plus 1)

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