

Quarterly Tax by Instalments Update

4 December 2017

QUARTERLY TAX BY INSTALMENTS

For the largest companies ('very large companies'), the tax instalment payment due dates will be 4 months earlier for accounting periods commencing on or after 1 April 2019. This was first announced in the Summer Budget 2015 to have effect from 1 April 2017, but was later postponed.

Under the new rules, quarterly tax payments will be due in months 3, 6, 9, 12, rather than months 7, 10, 13 and 16.

In this context, a 'very large' company is one where the taxable profits exceed £20million.

It is important to note that this limit is divided by the number of 51% companies in the worldwide group at the beginning of the tax period and applied on a company by company basis. For example, if a group had 100 members then this limit would reduce to £200k and companies in the group with taxable profits over £200k would fall under the new rules. It is therefore important to be aware of the size of the worldwide group.

For companies that are 'large' – those with taxable profits between £1.5million and £20million (subject to the same division of limits by 51% companies) – the payment dates remain the same as they are currently (i.e. months 7, 10, 13 and 16).

The payment due date for small companies also remains unchanged at 9 months and 1 day after the tax period end.

It may therefore be the case that across a group, companies have three different payment due dates. There needs to be awareness of these different due dates to ensure payments are made at the correct time.

Some groups may decide to enter a group payment arrangement. This would result in all group payments being made from one company. It allows a group to retrospectively allocate the payments it has made against the tax liabilities of its members. The group can do this after all the member companies' tax liabilities are known. This means the group can allocate its payments in a way that benefits it most. Because the interest rate that HMRC charges on an underpayment is higher than the interest they pay on an overpayment, this can result in a net saving of interest for the group.

One intriguing aspect to the new rules is that the 1st payment on account for the new payment dates will be due before the 4th payment on account for the preceding tax year and so care will be required when arranging tax payments to include the correct references for payments.

EXAMPLE

A company is a member of a group containing 10 '51% group companies'. It has a 31 December year-end and taxable profits of £5million. What are its quarterly payment due dates for years ending 31 December 2019 and 31 December 2020?

ANSWER

The company is a very large company as its taxable profits exceed £2million (£20million/10).

Year ended 31 December 2019:

(Old rules as accounting period commences before 1 April 2019).

Tax payment due dates July 2019, October 2019, January 2020, April 2020 (months 7, 10, 13, 16).

Year ended 31 December 2020:

Tax payment due dates March 2020, June 2020, September 2020, December 2020 (months 3, 6, 9, 12)

SUMMARY

Companies that will fall under these new rules should check the first payment that will fall under these rules. Financial models and cash flow forecasts should also be updated to reflect the earlier repayment dates.

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