A return period

For the purpose of reporting annual payments, interest and alternative finance payments, an accounting period is broken into different return periods.

Return periods are usually for three months and end on the last day in March, June, September and December. Most companies' accounting periods also end on one of these quarterly dates and are broken into four equal return periods of three months.

Example

If an accounting period is for 12 months ending 30 June, the return periods are:

- 1 July to 30 September
- 1 October to 31 December
- 1 January to 31 March
- 1 April to 30 June.

If a company's accounting period does **not** end on one of the quarter dates, a three month period is split into two return periods.

Example

If an accounting period is for 12 months ending 20 May, the return periods are:

- 21 May to 30 June
- 1 July to 30 September
- 1 October to 31 December
- 1 January to 31 March
- 1 April to 20 May.

Exceptionally, a short accounting period may fall between the first and last days of a quarter. If so, the return period will be the same as the accounting period.

Building societies

Special quarterly dates apply for building societies. These are 31 May, 31 August, 30 November and 28/29 February.

Some special cases

Payments to non-residents

Interest and Royalties paid to non-residents are sometimes charged to Income Tax at a reduced rate, as specified by the double taxation treaty relevant to the residence of the payee. A notice under the terms of SI1970/488 authorising this treatment must first be obtained from the HM Revenue & Customs Residency. Enter the gross amount of such interest or royalties in box 3 and the amount of tax deducted in box 4 on the CT61 Return.

For royalties only from 1 October 2002 where, as paying company, you reasonably believe the non-resident recipient of the royalty is entitled to double taxation relief, you may make such royalty payments without authority from HM Revenue & Customs. The sum deducted from the payment should be the same as if a direction under SI1970/488 had been given in accordance with the relevant double taxation treaty.

You should tick the box below boxes 3 and 4 if you have used this procedure. You will also need to complete form CT600H *Company Tax Return form – Supplementary Pages* when you fill in the company's CT600 Return. You will need to enter details of payments made during the return period on the supplementary pages.

Interest and Royalties Directive

From 1 January 2004 most payments of interest and royalties to associated companies in another EU Member State are exempted from UK tax under rules implementing the Interest and Royalties Directive. Where this is the case you will not have to deduct tax from payments of:

- interest where you hold a valid exemption notice, and
- royalties where you reasonably believe that the recipient is entitled to the benefits of the Directive.

You should tick the box below boxes 3 and 4 if you have used this procedure for payments of royalties.

Alternative finance payments and receipts

Sections 47 to Section 49A Finance Act 2005 and Part 6, Chapter 6 Corporation Tax Act 2009 identify types of alternative finance payment or receipt. These are alternative finance returns and profit share returns, and both are treated for UK tax purposes in the same way as interest paid or received. There may be a requirement to withhold tax on such payments when made to someone non-resident in the UK. Non-residents are entitled to claim the benefits of any Double Taxation Convention between the UK and their country of residence.

Manufactured interest

'Manufactured' interest is a payment representative of interest on a UK security. It arises as a result of stock borrowing, repo, or other transactions in securities. It can also include 'deemed' payments. It is covered in Part 11 ITA.

Manufactured interest paid

Companies paying manufactured interest must account for basic rate Income Tax on this, unless the payment is either:

- in respect of interest on a gilt-edged security or a security which pays interest without deducting tax, or
- to a company chargeable to Corporation Tax on it.

Manufactured interest received from non-residents

Companies have to pay basic rate tax on this income using Part 2 of the CT61 Return. This does not apply if:

- the payment is in respect of interest on a gilt-edged security or a security which pays interest without deducting tax, or
- the beneficial owner of the income is chargeable to Corporation Tax on the payment, or
- the non-resident received the real interest under deduction of tax, and did not reclaim the tax.

A company can set off tax paid in Part 2 against the Income Tax it deducts from annual payments shown in Part 1. To achieve this, the figures from boxes 18 and 19 should also be included in the totals at boxes 26 and 27 in Part 5.

For further guidance about manufactured interest go to **www.hmrc.gov.uk/mpgn/index.htm**

HM Revenue & Customs

Notes on completing your CT61 Return

Income Tax on company payments, interest paid, alternative finance payments, manufactured payments from abroad and tax on relevant distributions

Many companies no longer need to submit CT61 Returns. See pages 2 and 3 of these notes to check if you need to deduct tax from annual payments you make.

These notes give general guidance only. If you need further information, or have difficulty filling in the return, contact your HM Revenue & Customs office.

CT61 Notes (2010)

HMRC 09/10

Introduction

Companies have to deduct Income Tax from certain types of payment they make (see page 3 of these notes) and tax on relevant distributions. They then pay this tax to HM Revenue & Customs using the CT61 Return.

Each return relates to a **return period**. This is usually a three-month period. At the end of each return period, companies send in a CT61 Return showing their payments for that period. Return periods are fixed by law (see page 5 of these notes).

Please use the latest CT61 Return sent to you. Destroy all earlier returns and notes. If Income Tax is payable, please use the payslip at the bottom of the enclosed Notice.

We will charge interest on tax paid late. We may impose penalties if the return is late or incorrect.

When must I send a CT61 Return?

Send a return for any return period for which entries are needed in Parts 1, 2 or 3 of the return. This will be when the company has:

- deducted tax from an **annual payment, interest** or an **alternative finance payment** it has **paid** (see page 3 of these notes)
- **received** 'manufactured' interest from abroad (see page 6 of these notes)
- deducted tax from a relevant distribution.

'Nil' returns are **not** required.

If you only have entries in Part 5, you do not need to send a return. You can enter this information in Part 5 of a later return within the same accounting period.

However, you can send a return with entries in Part 5 only, if you are claiming repayment of tax already paid in an earlier return within the same accounting period (see page 4 of these notes).

Where a return is needed, the company must send it to the accounts office, and pay any tax due, by **14 days after** the end of the return period.

The Law

The main provisions covering CT61 Returns are contained in Part 15, Chapter 15 of the Income Tax Act 2007. This Act is referred to as ITA.

For this purpose, a company can be:

- a body corporate
- an unincorporated association
- a UK authorised unit trust or open-ended investment company, or
- a building society, local authority or deposit-taker.

Part 15 ITA does **not** apply to partnerships.

Annual payments, interest and **alternative finance payments** are covered by Part 15 ITA.

Interest and alternative finance payments paid by **building societies** are covered by Part 15, Chapters 2 and 4 ITA.

Interest and alternative finance payments paid by **banks** and **other deposit-takers** are covered by Section 851 ITA. Banks are defined in Section 991 ITA and deposit-takers are defined in Section 853 ITA.

Some payments, outlined below, may be made without deduction of tax under Part 15, Chapter 11 ITA.

CT61 Returns may also be used for payments of relevant distributions by a company, or principal company of a group within Part 12 of CTA 2010. Relevant distributions are defined in The Real Estate Investment Trusts (Assessment and Recovery of Tax) Regulations 2006 (SI 2006/2867) and include manufactured dividends representative of a dividend that falls within Section 785 (1) (a) or (b) CTA 2010.

New rules for annual payments, interest and alternative finance payments

Do not deduct tax from

- Donations to charities.
- Interest on quoted Eurobonds.

Deduct basic rate tax from

- Alternative finance payments.
- Yearly interest (other than to a UK bank).
- Interest paid by building societies, banks, and other deposit-takers (enter this separately at boxes 7 to 10).
- Interest distributions by UK authorised unit trusts and open-ended investment companies.
- The income element of purchased life annuities.
- Certain annuities and other annual payments.
- Certain royalties (see 'Some special cases' on pages 5 and 6).
- Payments under non-charitable deeds of covenant.
- Certain payments within five years of a demerger.
- Distributions by unauthorised unit trusts.

However, you do not need to deduct basic rate tax if any of the above payment types are paid:

- by a company* to another company that is resident in the UK (or is carrying on a trade in the UK and is chargeable to UK Corporation Tax on this income), or
- after 30 September 2002 to one of the tax-exempt bodies listed within Section 936 ITA. These include charities, local authorities, approved pension funds and government departments.

**But not a non-corporate deposit-taker or, in the case of payments made before 1 October 2002, a local authority.*

If you need any help deciding whether to deduct tax from a payment, please ask your HM Revenue & Customs office.

Rates of Income Tax on annual payments, interest and alternative finance payments

Basic rate of 20%. If the basic rate of Income Tax changes, use the rate in force on the date the payment is made.

Paying the tax deducted

If the company had to deduct tax, enter the relevant payments and the tax deducted in Parts 1, 2 and 3 of the return.

If tax is shown in box 22, the company must pay it, without demand, **within 14 days after** the end of the return period.

Annual payments, interest and alternative finance payments

If your company receives annual payments, interest and alternative finance receipts from which Income Tax has already been deducted, you can complete Part 5 of the return and set off this tax against the Income Tax your company has to pay on payments it makes.

If the Income Tax deducted from annual payments received exceeds that payable on annual payments made, the excess is carried forward and used for future return periods within the same accounting period.

Alternatively, the excess can be carried back to earlier return periods within the same accounting period and set off against Income Tax already paid. In these circumstances you can claim a repayment using box 30.

An accounting period

The accounting period is the period for which Corporation Tax is charged. It cannot exceed 12 months. It is usually (but not always) the same as the period for which the company's accounts are made up, for example the year ended 30 June.

Sometimes an accounting period is for less than 12 months, such as when a company changes its accounting date or ceases to trade.