

Changes affecting company tax return forms CT600

Announcements in the March 2007 Budget mean that forms in the CT600 series, particularly the CT600 Guide, need updating for periods ending after 31 March 2007. We cannot finalise the forms or revisions to CT Online services until after the Finance Bill becomes law (Royal Assent), and until any relevant Regulations are effective.

We will revise CT Online services as quickly as possible to allow you to continue using online services and all necessary changes should have been completed before the end of October 2007. Advisory online messages will alert you should there be any problems. Revised CT600 forms are available on our website at www.hmrc.gov.uk from the end of August 2007, and paper forms from the Orderline from late September 2007. Please read this Budget Insert whether you intend to use CT Online services or paper forms, to check everything is available that you need.

If you need to deliver a company tax return before online services and paper forms are updated then

- if the existing CT Online services or existing paper or approved software substitute forms contain all the entries you need to make you can continue to use them before the revised services and new forms are available.
- if, exceptionally, you need to deliver a company tax return for an accounting period (AP) that is affected by Budget changes before online services or paper forms have been revised, please follow the advice below, or in the text about a specific measure.

Please note that you cannot make a valid claim under any new proposal until after Royal Assent makes it law, and some other proposals come into effect at different dates referred to in the relevant article below. You can find more details and later updates by visiting our website at www.hmrc.gov.uk under 'Budget 2007'.

The rest of this leaflet tells you about the main CT areas affected by the legal changes.

Important

For financial year (FY) 2007 starting on 1 April 2007 there are changes to the small companies' rates of corporation tax and the marginal small company relief fractions used in calculating marginal small companies' relief. You can use the rates announced in the Budget before Royal Assent.

Most companies with profits will now pay a minimum rate of corporation tax of 20% on profits.

Rates, limits and fractions for financial years starting on 1 April	2006	2007
Main rate of corporation tax	30%	30%
Small companies' rate*	19%	20%
Small companies' rate can be claimed by qualifying companies with profits at a rate not exceeding	£300,000	£300,000
Marginal small companies' relief (MSCR) lower limit	£300,000	£300,000
MSCR upper limit	£1,500,000	£1,500,000
MSCR Fraction*	11/400	1/40
Special rate for unit trusts and open-ended investment companies	20%	20%

**For companies with ring fence profits the small companies' rate of tax on those profits remains at 19% and the MSCR fraction 11/400 for FY 2007 starting on 1 April 2007. Ring fence profits mean the income and gains from oil extraction activities or oil rights in the UK and UK Continental Shelf.*

The main rate of corporation tax applies when profits (including ring fence profits) are at a rate exceeding £1,500,000, or where there is no claim to another rate, or where another rate does not apply.

Notes on rates of tax for later years

For FY 2008 beginning 1 April 2008 there are two main rates of corporation tax. The main rate for most profits will be 28% but for ring fence profits it remains at 30%. These are the rates that large companies need to use in calculating their instalment payments of tax.

The small companies' rate of corporation tax will be 21% for FY 2008 starting 1 April 2008 and 22% for FY 2009 starting 1 April 2009. The small companies' rate on ring fence profits will remain at 19%. We will confirm all the rates, limits and fractions for FY 2008 in the table in next year's Budget Insert in time for you to use in completing company tax returns for periods ending after 31 March 2008.

Can companies that want to deliver their returns early make returns for periods straddling 1 April 2007 before the CT600 forms and CT Online services are changed?

CT Online services will be able to handle most returns from June 2007 but will only be able to handle marginal small companies' relief calculations involving ring fence profits from later in the year. The current paper form CT600 supports calculations if you use the correct rates, limits and fraction. Provided you follow the advice in the CT600 Guide and the guidance below you should be able to complete paper forms to show the correct corporation tax chargeable.

How do I calculate the tax for an accounting period straddling 1 April 2007?

For the purposes of the small companies' rate, or tax at the main rate including MSCR, you need to make calculations for each financial year part of the accounting period separately.

There are examples below showing you how to calculate the tax for a company with an AP that starts before, but ends after, 1 April 2007, the start of FY 2007. These examples involve small companies' rate, marginal small companies' relief or the main rate of corporation tax and APs that start before and end after 1 April 2007. Please also remember that FY 2007 covers a leap year and you may have 366 days in a full year AP if it includes 29 February 2008.

For companies with both ring fence and other profits that can claim to be taxed at either small companies' rate or can claim MSCR there are different small companies' rates and MSCR fractions for FY 2007 and separate calculations are necessary for ring fence and other profits. Where MSCR can be claimed companies need to apportion the FY 2007 part of the MSCR upper limit rateably between the ring fence and other profits.

Examples of APs straddling 1 April 2007 involving small companies' rate, or the main rate of corporation tax and marginal small companies' relief

Box numbers for form CT600 are shown in brackets to help you. None of the examples feature ring fence profits.

Example 1

Company has profits under £300,000, no ring fence profits, and no associated companies.

AP 1 March 2007 to 29 February 2008

Profits chargeable to corporation tax		£49,000 (37)	
Company claims to be charged at small companies' rate		X (42)	
Apportion 49000 profits to the FYs. You use 31/366 days for the first FY (days from the beginning of the AP to 31 March 2007) and 335/366 for the second FY (days from 1 April 2007 to the end of the AP).			
FY 2006 (43)	Profits 4150 (44)	chargeable at 19% (45)	788.50 (46)
FY 2007 (53)	Profits 44850 (54)	chargeable at 20% (55)	8970.00 (56)
Corporation tax and Corporation tax chargeable			£9758.50 (63 and 70)

Example 2

Company has profits over £300,000 but under £1,500,000, no ring fence profits, and no associated companies.

AP 1 May 2006 to 30 April 2007

Profits chargeable to corporation tax		£400,000 (37)	
Company claims marginal small companies' relief (MSCR)		X (42)	
As the main rate of corporation tax is the same for both FYs you can use boxes 43 to 46 on a paper return form without apportioning the profits between the FYs as shown in the workings below. CT Online and software packages will apportion using 335/365 days for the first FY 2006 (days from the beginning of the AP to 31 March 2007) and 30/365 for the second FY 2007 (days from 1 April 2007 to the end of the AP)			
FY 2006 (43)	Profits 400000 (44)	chargeable at 30% (45)	120000.00 (46)
			Corporation tax
			120000.00 (63)
Calculate MSCR			
For FY 2006 [(1,500,000/365 x 335) - 367123] x (11/400)	=	27763.70	
For FY 2007 [(1,500,000/365 x 30) - 32877] x (1/40)	=	3082.19	30845.89 (64)
Corporation tax net of MSCR			89154.11 (65)
Corporation tax chargeable			£89154.11 (70)

Example 3

Company has profits of £75,000, no ring fence profits, but has 3 associated companies.

The limit for a company without associated companies to be able to claim small companies' rate is £300,000. As this company has 3 associated companies the limit for this company is $300,000 \div 1+3 = £75,000$. This is the same as the figure of profits meaning that the company can claim to be taxed at the small companies' rate.

AP 1 January 2007 to 31 December 2007

Profits chargeable to corporation tax			£75000 (37)
Number of associated companies in this period	3 (39)		
Company claims to be charged at small companies' rate	X (42)		
Apportion profits to FYs, using 90/365 days for the first FY (days from the beginning of the AP to 31 March 2007) and 275/365 for the second FY (days from 1 April 2007 to the end of the AP)			
FY 2006 (43)	Profits 18493 (44)	chargeable at 19% (45)	3513.67 (46)
FY 2007 (53)	Profits 56507 (54)	chargeable at 20% (55)	11301.40 (56)
	Corporation tax and corporation tax payable		£14815.07 (63 and 70)

Subjects that affect forms CT600 for 2007 or for later years

Business Premises Renovation Allowance

This scheme for 100% first year allowances is now effective for qualifying expenditure incurred on or after 11 April 2007 for the capital costs a business incurs in converting or renovating business premises that have been vacant for at least a year to bring them back into business use. The scheme applies in designated areas of the UK which are now defined as Northern Ireland and the areas specified as development areas by the Assisted Areas Order 2007. This aligns the scheme with the new UK Assisted Areas Map for 2007 to 2013 under the European Commission's guidelines on national regional aid. Certain sectors are excluded from the scheme. These are fisheries and aquaculture, shipbuilding, coal, steel, synthetic fibres, the primary production of agricultural products (broadly foodstuffs) and the manufacture of products which imitate or substitute for milk or milk products, but generally not the processing or marketing of such products.

Capital allowances

The temporary 50% rate of first-year allowances for small businesses on most plant and machinery is extended for a further year to cover spending incurred on or after 1 April 2007 up to and including 31 March 2008. There are some exceptions, including spending on long-life assets, cars and assets for leasing. The rate of first-year allowances for medium-sized enterprises remains unchanged at 40%.

As part of a larger business package there are various reforms to the capital allowances system proposed which will take effect later, from 1 April 2008. These include:

- replacement of first-year allowances for small and medium-sized businesses by an annual investment allowance for the first £50,000 of expenditure on plant and machinery in the general pool
- reduction of writing-down allowances for plant and machinery in the general pool from 25% to 20%
- increase of writing-down allowances on long-life assets from 6% to 10%
- gradual phasing out of both industrial and agricultural buildings allowances with a final withdrawal of both schemes by FY 2010. To prepare for this most balancing adjustments and recalculations of writing-down allowances on sale are effectively withdrawn from 21 March 2007
- subject to consultation on the detailed design and scope, the setting of a rate of writing-down allowances on certain fixtures integral to buildings at 10%
- subject to consultation on the detailed design and scope, the introduction of a payable tax credit for losses resulting from capital expenditure on certain designated 'green' technologies.

North Sea oil and gas ring fence activities will keep their existing capital allowances treatment.

Consultation on modernising tax relief for business expenditure on cars was continuing as the Insert went into print. Please check our website for more up to date information.

Research and Development (R&D) Tax Relief

From a date appointed by the Treasury the small and medium enterprises (SME) definition is changed from companies having fewer than 250 employees and annual turnover not exceeding €50m and/or a balance sheet total not exceeding €43m to include companies with less than 500 employees, annual turnover not exceeding €100m and/or a balance sheet total not exceeding €86m. The SME R&D scheme is a notified State aid and any amendments to the scheme must be approved by the European Commission. At the time this insert went into print this date was not known. Please check our website for more up to date information.

The government also announced its intention to increase the rate of relief for large companies to 130%, and for SMEs to 175% of qualifying R&D expenditure in legislation to be included in the Finance Bill 2008.

Other measures announced that may interest you but do not necessarily affect the CT600

Changes to corporation tax enquiry windows, the existing powers to require online filing and electronic payment and the effective date of payment by cheque

The enquiry window is the period during which HMRC can enquire into company tax returns. Currently for returns delivered on time this enquiry window runs up to twelve months from the filing date. For companies who deliver their returns late the enquiry window runs up to and includes the first anniversary of the 31 January, 30 April, 31 July or 31 October next following the date the return was delivered.

For accounting periods ending after 31 March 2008 for most companies who file on time the enquiry window will close one year after the date the return was delivered. This is earlier than in the current legislation. This change will not apply to large groups of companies whose returns need to be looked at together, nor for any company that delivers its return late, where the existing rules will still apply.

In respect of online filing and electronic payment HMRC will have the power to make regulations on or after the date that Finance Bill 2007 receives Royal Assent. HMRC will also be able to make regulations that treat cheque payments as made when the funds clear. This will remove the cash flow advantage of cheque payment compared with electronic payment. It is expected that this power will be invoked **before** the requirement to pay electronically and file company tax returns online is expected to take effect, which is currently from 2011.

North Sea Fiscal Regime

At the time this Insert went to print and based on the paper published on Budget Day 2007 HM Revenue & Customs were continuing to work closely with the Industry, holding further discussions on the possible options for changes to the regime. These discussions were planned to last until September 2007. Further announcements about the outcome of these discussions may be made in the Chancellor's next pre-Budget Report and will be on our website.

Go to our website at www.hmrc.gov.uk for up to date detail on all the Budget 2007 and other changes and for detailed guidance.