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Corporation Tax - quarterly instalment payments

Under corporation tax self assessment large companies are required to pay their corporation tax in quarterly instalments. These payments are based on the company's estimate of its current year tax liability.

Note that the majority of companies are not within the quarterly instalment payments regime and pay their corporation tax nine months and one day after the end of their accounting period.

We highlight below the main areas to consider when determining if your company needs to pay corporation tax in instalments.

Companies within the scope of quarterly instalment payments

Large companies

Large companies have to pay their corporation tax by quarterly instalments. A company is large if its profits for the accounting period exceed the 'upper limit' in force at the end of that accounting period. The upper limit is £1.5 million. However, if a company has taxable profits in an accounting period which exceed £20 million, it will be considered 'very large' and separate rules apply (see below).

The main rate of corporation tax increased from 19% to 25% on 1 April 2023 for companies with profits over £250,000. The 19% rate became a small profits rate payable by companies with profits of £50,000 or less. Companies with profits between £50,000 and £250,000 pay tax at the main rate reduced by a marginal relief, providing a gradual increase in the effective corporation tax rate.

Group companies

When a company is a member of a group, the upper limit will be reduced. The rules on how this upper limit is reduced changed in April 2023.

For accounting periods beginning on or after 1 April 2023, the upper limit is reduced by dividing the limit by one plus the total number of associated companies. Broadly, a company is associated with another company if:

- one company has control of the other; or
- both companies are under the control of the same person or persons.

Control is usually defined by reference to ownership of share capital or voting rights. A company may be an 'associated company' regardless of where it is resident for tax purposes.

So, for example, if a company has two associated companies, the upper limit is reduced to £500,000.

Associated companies which did not carry on trades or business at any time during the accounting period are ignored. The upper limit is also proportionately reduced for accounting periods less than 12 months.

Any of the companies that have taxable profits exceeding the upper limit are considered 'large' and will be subject to the quarterly instalment payments regime. Those which do not exceed the upper limit will not be subject to the regime.

Some companies have many group companies and are treated as being large even though their own corporation tax liability is relatively small. Where the corporation tax liability is less than £10,000 there is no requirement to pay by instalments. This £10,000 limit is reduced proportionately if the accounting period is less than 12 months.

Growing companies

A company does not have to pay its corporation tax by instalments if:

- its taxable profits for that accounting period do not exceed £10 million; and
- it was not large for the previous year.

Where there are associated companies, the £10 million threshold is divided by one plus the number of associates at the end of the preceding accounting period. The threshold is also proportionately reduced for short accounting periods.

The effect of this exemption is that growing companies will not be instalment payers in the first accounting period in which they are large, unless the growth is substantial. It therefore gives them time to prepare for paying by instalments (but see below).

The pattern of quarterly instalment payments

A large company with a 12 month accounting period will pay tax in four equal instalments, in months seven, ten, 13 and 16 following the start of the accounting period. The first instalment payment is due six months and 13 days after the start of the accounting period, then each three months until the final instalment payment which is due three months and 14 days after the end of the accounting period. So, for a company with a 12 month accounting period starting on 1 January, quarterly instalment payments are due on 14 July, 14 October, 14 January next and 14 April next.

There are special rules where an accounting period lasts less than 12 months.

Pattern of payments for a growing company

If a growing company is defined as a large company for two consecutive years, the quarterly instalments payments regime will apply for the second of those years.

The transition from small to large is best illustrated by an example.

A company with a 31 December year end was large in 2022 for the first time (and had profits below the £10 million threshold) and is expected to be large in 2023. Its tax payments will be as follows:

- for the 2022 accounting period, the tax liability is payable nine months and one day after the end of the accounting period, i.e. on 1 October 2023.
- for the 2023 accounting period, 25% of its expected tax liability is due on each of 14 July 2023, 14 October 2023, 14 January 2024 and 14 April 2024.

As can be seen, the first instalment for 2023 is payable before the tax liability for 2022. It is therefore essential that budgets of expected taxable profits are prepared whenever a company becomes large in order to determine:

- whether the company will be large in the second year, and if so;
- what tax payments will have to be made in month seven of the second year.

Very large companies

For accounting periods beginning on or after 1 April 2019, 'very large' companies are required to pay corporation tax by instalments four months earlier than large companies. A company is a 'very large' company if its taxable profits for an accounting profit are more than £20 million. Similar to large companies, this threshold is reduced proportionately if the accounting period is less than 12 months, and where the company has one or more associated companies. The same corporation tax liability threshold test applies as with large companies, whereby if a company's corporation tax liability is less than £10,000, the company is not considered 'very large' and does not need to pay corporation tax in instalments.

For very large companies with a 12 month accounting period, quarterly instalment payments are due on the 14th day of the third, sixth, ninth and twelfth months of the accounting period.

Working out quarterly instalment payments

A company has to estimate its current year tax liability (net of all reliefs and set offs) and then make instalment payments based on that estimate. This means that by month three for very large companies and by month seven for large companies, a company has to estimate profits for the remaining part of the accounting period.

A company's estimate of its tax liability will likely vary over time, particularly as an accounting period progresses, and each instalment payment should be calculated on the revised estimate. The system of instalment payments allows a company to make top-up payments – at any time – if it realises that the instalment payments it has made are inadequate. A company will normally be able to claim back all or part of any instalment payments already made if later it concludes that they ought not to have been made, or were excessive.

Interest and penalties

HMRC charges interest on late or underpaid instalments. Interest is calculated and charged only once a company has filed its company tax return, or HMRC has made a determination of its corporation tax liability and the normal due date has passed.

HMRC will pay a company interest on instalment payments that turn out to be unnecessary, payments made early or overpayments. This interest is calculated and charged retrospectively once the liability for an accounting period is established, which is normally when the tax return is submitted.

Rates of interest

Special rates of interest apply for the period from the due and payable date for the first instalment to the normal due date for corporation tax (nine months and one day from the end of the accounting period).

Thereafter, the interest rates change to the normal interest rates for under and overpaid taxes. This two-tier system takes into account the fact that companies will be making their instalment payments based on estimated figures but, by the time of the normal due date, should be fairly certain about their liability.

Interest received by companies is chargeable to tax, and interest paid by companies is deductible for tax purposes.

Penalties

A penalty may be charged if a company deliberately fails to make instalment payments or makes instalment payments of insufficient size.

Special arrangements for groups

There is a group payment arrangement facility which allows groups to make instalment payments on a group-wide basis, rather than company by company. This should help to minimise their exposure to interest.

How we can help

If you think your company may be affected by the quarterly instalment regime, procedures will need to be set in place to estimate the corporation tax liability.

We will be more than happy to provide you with assistance or any additional information required, so please do contact us.

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