AFM – Common errors in tax compliance

6 June 2024

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Agenda

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2 Standard add backs and deductions

3 Trading company vs investment company

4 Tax compliance pitfalls

Tax computation proforma

Total profits

Trading profits	**X**
Less: capital allowances (including long funding leases and 3% Structure and Buildings Allowance ("SBA"))	(x)
Less: trading loss b/fwd pre 2017 (auto and no claim required)	(x)
Revised trading profits	**X**
Non-trading loan relationships ("NTLR") adjustments (interest income/expenses and FX adjustments)	x
Gains from chargeable assets/derivatives	x
Less: current year losses	(x)
Overseas dividends (not exempt from tax) and exempt dividends elected to be taxed	X
Non-trade Intangible Fixed Asset ("IFA") income	x
Add: RDEC 13% x qualifying Research & Development ("R&D") expense	X
Less: Double Tax Relief ("DTR") claimed as expense relief	(x)
Total Profits	**x**

Total taxable profits

Total profits	**X**
Less: current year losses (trading losses, NTRL deficits, property loss)	(x)
Less: b/fwd losses post 1 April 2017 including group relived post 2017 b/f losses (subject to relevant max restriction)	(X)
Revised total profits	**X**
Less: Qualifying charitable donation (“QCD”)	(x)
Total taxable profits (“TTP”)	**X**
Less: current year group relief (trading losses, NTRL deficits, property loss)	(X)
Revised TTP	**X**

Current tax payable

CT payable 25% x TTP	**X**
Less: DTR: Lower of UK CT & Foreign CT	(X)
Less: Research & Development Expenditure Credit (“RDEC”)	(X)
Add: Controlled Foreign Companies (“CFC”) charge	(x)
CT payable	**X**

- CT payable is due 9m and 1 day after the end of an accounting period
- Large or very large company – CT payable in quarterly instalments

Standard add backs and deductions

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Disallowed items (Added back)

Item	Why?
Depreciation	Capital expenditure
Accounting loss on disposal of a fixed asset	Taxable loss is deducted against trading profits
Impairment of investments	Impairment is not a taxable expense
Interest payments	Unallowable purpose or Transfer Pricing/Hybrids/Corporate Interest Restriction and Thin capitalisation adjustments
Fines and penalties	Not incurred wholly and exclusively for the business
Excess pension contributions	Excess disallowed using pension spreading rules
Legal fees	If not incurred wholly and exclusively for the business
Donation to charities	Deducted from TTP
Due diligence fees from taking over a company	Not incurred wholly and exclusively for the business
Bonus payments	If payment made after 9 months from end of accounting period
Gifts of alcohol	Not eligible as gift is alcohol

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Items to be deducted

Item	Why?
Bank interest receivable	Non-trading LR credit and is pooled with other non-trading LR deficits
Dividends	UK and overseas dividends that are exempt for tax purpose
Capital allowances	Eligible deduction for tax purposes
Share options being exercised in the accounting period	CT deduction is market value (MV) at exercise less price paid
WHT expensed	Only if company is loss making as not able to offset against CT payable
Accounting profits on disposal of fixed assets	Taxable profit is deducted against trading profits
Overseas PE election profits included in accounts	Profits exempts from UK CT and need to be deducted
Bonus/salary actual paid within 9 months after the accounting period	On the basis it has already been disallowed in a prior accounting period

Trading company vs investment company

Trading company vs investment company

Trading	Investment
Defined as ‘any venture in the nature of trade”	Company that is holding and passively managing investments
“Badges of trade” accepted by courts as a reasonable way to establish nature	Management expenses are allowable deductions against profits and can be carried forward
Substantial Shareholding Exemption (“SSE”) available if group disposes trading company that substantially carries out trading activities	SSE will likely be denied if there is a disposal of an investment company within a group.
Losses are eligible to be group relieved, brought forward and carried back – subject to loss restriction rules	Change of ownership in an accounting period will give rise to potential additional tax compliance needs
	Excess management expenses cannot be carried back but can be group relieved – subject to loss restriction rules

Tax compliance pitfalls

Tax compliance pitfalls

- Excel spreadsheet not correctly casting all line items
- Insufficient tax analysis for line items e.g. legal and professional fees
- Incorrect tax treatment of OCI items
- Irrecoverable VAT adjustments not picked up on tax adjusting items books net of VAT and fixed asset additions
- Using £’m and £’000 figures to get total tax charge in tax reconciliation
- Under-claiming capital allowances on fit-outs and lease improvements
- Not using standard tax template in tax software
- Rushing to finish computation and incorrectly inputting data into taxable income
- Gross vs tax amounts being muddled together

Questions?

Thank you!

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