

CHAPTER 5

SHORT ACCOUNTING PERIODS

5.1 Apportioning the limits

The corporation tax limits apply to a 12 month period. Therefore, when the chargeable accounting period is less than 12 months long, the limits must be **time apportioned**.

[CTA 2010 s.24\(4\)](#)

Illustration 1

Duncan Ltd changed its year end from 31 March to 31 December. With this in mind, it makes up its accounts for the 9 months to 31 December 2010.

To determine the amount of tax payable it is necessary to know the corporation tax limits. These need to be **adjusted for the fact that the chargeable accounting period is only 9 months long**.

The limits become:

£1.5m × 9/12	£1,125,000
£300,000 × 9/12	£225,000

The limit included in the marginal relief calculation should be the revised limit:

$$\text{Fraction} \times \text{£}(1,125,000 - \text{Augmented profits}) \times \frac{\text{TTP}}{\text{Augmented Profits}}$$

Assume that Duncan Ltd's results for the 9 months ended 31 December 2010 are as follows:

	£
TTP	200,000
FII	<u>50,000</u>
Augmented profits	<u>250,000</u>

As augmented profits are between the limits, marginal relief applies. The whole 9 month CAP falls in FY 2010.

Corporation tax liability:	£
£200,000 × 28%	56,000
Less marginal relief	
$\frac{7}{400} \times (1,125,000 - 250,000) \times \frac{200,000}{250,000}$	<u>(12,250)</u>
Corporation tax liability	<u>£43,750</u>

5.2 Short APs and associates

If a company had a short chargeable accounting period together with associated companies, the methodology remains the same i.e. ascertain the amended limits and calculate the tax accordingly.

[CTA 2010, s.24\(4\)](#)

Illustration 2

Ashdown Ltd has 3 subsidiaries. It draws up accounts for a 6 month period ended 30 September 2010.

The limits are apportioned for both the short chargeable accounting period and the number of associates:

$£1,500,000 \times \frac{6}{12} \times \frac{1}{4}$	£187,500
$£300,000 \times \frac{6}{12} \times \frac{1}{4}$	£37,500

The results for the 6 months ended 30 September 2010 are:

	£
TTP	160,000
FII	<u>30,000</u>
Augmented profits	<u>190,000</u>

As augmented profits exceed the upper limit, Ashdown Ltd is treated as a "Large" company and will pay corporation tax at the main rate: i.e.

$$£160,000 \times 28\% = \underline{£44,800}$$

5.3 Short APs and financial year straddles

If a company had a short chargeable accounting period which straddles a financial year, the normal rules for financial year straddles apply assuming the rates of the corporation tax change between the two financial years. We need to **time apportion TTP** in order to calculate corporation tax, but only where the rates of corporation tax change between the two Financial Years.

Illustration 3

Sky Ltd has TTP of £450,000 and FII of £30,000 for the 9 months ended 30 September 2011.

<i>9 m/e 30 September 2011</i>	
£	
TTP	450,000
FII	<u>30,000</u>
Augmented profits	<u>480,000</u>

The corporation tax limits must be time apportioned for a 9 month chargeable accounting period:

Upper limit = $9/12 \times £1,500,000 = £1,125,000$

Lower limit = $9/12 \times £300,000 = £225,000$

The augmented profits of £480,000 for the 9 month chargeable accounting period are between the £225,000 and £1,125,000 limits, therefore marginal relief will apply.

This chargeable accounting period straddles FY 2010 and FY 2011. Therefore we need to apportion TTP as follows:

	<i>Total</i>	<i>FY 2010</i>	<i>FY 2011</i>
	£	£	£
TTP	<u>450,000</u>	<u>150,000</u>	<u>300,000</u>
Main rate of tax		28%	27%
Corporation tax liability:			
£150,000 × 28% / £300,000 × 27%		£42,000	£81,000
		123,000	
Less marginal relief:			
$\frac{7}{400} \times (1,125,000 - 480,000) \times \frac{450,000}{480,000}$		<u>(10,582)</u>	
Corporation tax liability		<u>£112,418</u>	

Example 1

George Ltd and Zippy Ltd make up accounts for the 8 months ended 30 November 2010 which show the following results:

	<i>George Ltd</i>	<i>Zippy Ltd</i>
	£	£
TTP	1,300,000	198,000
Dividends received	45,000	7,200

Neither company has any associates.

Calculate the corporation tax liability for each company.

Example 2

Parasol Ltd draws up accounts for the period 1 April 2010 to 30 November 2010, showing TTP of £22,000 and FII of £12,000. Parasol Ltd has one associated company.

Calculate the corporation tax liability.

Example 3

Archer Ltd draws up accounts for the period 1 January 2010 to 30 September 2010 showing TTP of £56,000 and dividends received from non-associated companies of £4,000. Archer Ltd has four associated companies.

Calculate the corporation tax liability.

Answer 1

	<i>8 m/e 30 Nov 2010 George Ltd £</i>	<i>8 m/e 30 Nov 2010 Zippy Ltd £</i>
TTP	1,300,000	198,000
FII (dividends $\times \frac{100}{90}$)	<u>50,000</u>	<u>8,000</u>
Augmented profits	<u>£1,350,000</u>	<u>£206,000</u>
Upper limit (£1,500,000 \times 8/12)	1,000,000	1,000,000
Lower limit (£300,000 \times 8/12)	200,000	200,000
	Over upper limit	Between limits

The whole 8 month CAP falls into FY 2010.

Corporation tax liability:	£	£
£1,300,000 \times 28%	364,000	
£198,000 \times 28%		55,440
Marginal relief:		
$\frac{7}{400} \times (1,000,000 - 206,000) \times 198,000/206,000$		(13,355)
Corporation tax liability	<u>£364,000</u>	<u>£42,085</u>

Answer 2

Parasol Ltd - 8 months to 30 November 2010

	£
TTP	22,000
FII	<u>12,000</u>
Augmented profits	<u>£34,000</u>
Profit Limits (2 associates and an 8 month CAP)	
$\frac{1500000}{2} \times \frac{8}{12}$	£500,000
$\frac{300000}{2} \times \frac{8}{12}$	£100,000

Small profits rate applies. The whole 8 month CAP falls in FY 2010.

Corporation tax liability:	
£22,000 \times 21%	<u>£4,620</u>

Answer 3

<i>Archer Ltd</i>	<i>9 m/e 30 September 2010</i>
	£
TTP	56,000
FII (4,000 × 100/90)	<u>4,444</u>
Augmented profits	<u>60,444</u>

The corporation tax limits must be time apportioned for 5 associates and a 9 month chargeable accounting period:

$$\text{Upper limit: } \frac{1500000}{5} \times \frac{9}{12} = \text{£}225,000$$

$$\text{Lower limit: } \frac{300000}{5} \times \frac{9}{12} = \text{£}45,000$$

The augmented profits of £60,444 are between the £45,000 and £225,000 limits, therefore marginal relief will apply.

Although the chargeable accounting period straddles FY 2009 and FY 2010 there is no need to time apportion TTP because the corporation tax rates are the same in both financial years.

Corporation tax liability:	£
£56,000 × 28%	15,680
Less marginal relief:	
$\frac{7}{400} \times (225,000 - 60,444) \times \frac{56000}{60444}$	<u>(2,668)</u>
Corporation tax liability	<u>£13,012</u>