

CHAPTER 9

INTEREST ON LATE PAID TAX

9.1 Introduction

Interest runs **from the due date of payment to the day before the actual date of payment** of the tax where corporation tax is paid late. [TMA 1970, s.87A](#)

This applies to all payments of corporation tax - whether the company pays by instalments or not. So small companies, who are required to pay their tax 9 months and 1 day after the end of the chargeable accounting period, will also be charged interest where they pay that tax late.

Problems are experienced particularly by larger companies, as **tax due by instalments is based on the tax liability of the current year**, yet the payments are made during the year. A company will therefore have the problem of **estimating its tax bill**, which could well change during the year, so what they pay may not reflect their actual liability. If they do not pay enough, interest on overdue tax will run. If they pay too much, they will get **repayment interest**, but at a **lower rate**. [ICTA 1988, s.826](#)

Illustration 1

Guesswork Limited estimates its profits for the year ended 31 May 2011 to be £2 million when it makes its first instalment of corporation tax.

As this is a 12 month CAP each instalment will be $3/12 \times 100\% = 25\%$. The amount of tax due for the first instalment on 14.12.10 will therefore be:

$$\begin{aligned} (\pounds 2,000,000 \times 10/12 \times 28\%) + (\pounds 2,000,000 \times 2/12 \times 27\%) &= \pounds 556,667 \times 25\% \\ &= \pounds 139,167 \end{aligned}$$

At the beginning of March the company wins a major new contract which is likely to increase the company's predicted profit for the year to £2.2 million. For its second instalment due on 14.3.11 the company would be advised to make a payment as follows:-

$$\begin{aligned} (\pounds 2,200,000 \times 10/12 \times 28\%) + (\pounds 2,200,000 \times 2/12 \times 27\%) &= \pounds 612,333 \times 50\% \\ &= \pounds 306,167 \\ \text{Less tax paid on 14.12.10} &\quad \underline{(\pounds 139,167)} \\ &\quad \underline{\pounds 167,000} \end{aligned}$$

By the end of the chargeable accounting period the draft accounts reveal a taxable profit of £2.25 million. The company should therefore pay tax as follows on 14.6.11 in respect of its third instalment:

$$\begin{aligned}
 (\pounds 2,250,000 \times 10/12 \times 28\%) + (\pounds 2,250,000 \times 2/12 \times 27\%) &= \pounds 626,250 \times 75\% \\
 &= \pounds 469,687 \\
 \text{Less tax paid so far} &\quad \underline{\pounds 306,167} \\
 &\quad \underline{\underline{\pounds 163,520}}
 \end{aligned}$$

By the end of August the company has been audited and the profit originally anticipated has been reduced to £2.15 million. The company should therefore pay tax as follows on 14.9.11 in respect of its fourth instalment:

$$\begin{aligned}
 (\pounds 2,150,000 \times 10/12 \times 28\%) + (\pounds 2,150,000 \times 2/12 \times 27\%) &= \pounds 598,417 \times 100\% \\
 &= \pounds 598,417 \\
 \text{Less tax paid so far} &\quad \underline{\pounds 469,687} \\
 &\quad \underline{\underline{\pounds 128,730}}
 \end{aligned}$$

The company prepares its final corporation tax computations by the end of February 2012, which show a final taxable profit of £2,190,000.

The company therefore pays tax as follows on 1.3.12:

$$\begin{aligned}
 (\pounds 2,190,000 \times 10/12 \times 28\%) + (\pounds 2,190,000 \times 2/12 \times 27\%) &= \pounds 609,550 \\
 \text{Less tax paid by instalments} &\quad \underline{\pounds 598,417} \\
 &\quad \underline{\underline{\pounds 11,133}}
 \end{aligned}$$

It is normal for a company to **keep revising its estimated corporation tax liability** in this way.

Payments Summary:

	<i>Paid (based on estimates)</i>	<i>Cumulative (based on estimates)</i>	<i>Due (based on final liability)</i>	<i>Cumulative (based on final liability)</i>	<i>Overdue/ (overpaid)</i>
	£	£	£	£	£
14.12.10	139,167	139,167	152,387	152,387	13,220
14.3.11	167,000	306,167	152,387	304,774	(1,393)
14.6.11	163,520	469,687	152,388	457,162	(12,525)
14.9.11	128,730	598,417	152,388	609,550	11,133
1.3.12	<u>11,133</u>	609,550	_____		
	<u>609,550</u>		<u>609,550</u>		

HMRC will issue an interest statement once the return has been submitted and the final liability has been calculated.

Interest Summary:

14.12.10 to 13.3.11	Interest charged on £13,220 overdue
14.3.11 to 13.6.11	Interest credit on £1,393 overpaid

14.6.11 to 13.9.11	Interest credit on £12,525 overpaid
14.9.11 to 28.2.12	Interest charged on £11,133 overdue

Assuming a rate of interest on overdue tax of 7% and a rate of interest on overpaid tax of 5% the interest position can be calculated as follows:

	£
$£13,220 \times 7\% \times \frac{90}{365}$	228.18
$£(1,393) \times 5\% \times \frac{92}{365}$	(17.56)
$£(12,525) \times 5\% \times \frac{92}{365}$	(157.85)
$£11,133 \times 7\% \times \frac{168}{365}$	<u>358.70</u>
Interest due to HMRC	<u>£411.47</u>

HMRC will raise an **interest demand** which **must be settled within 30 days**. If it is settled late there will be interest charged on the interest.

HMRC have confirmed that they will accept payments of corporation tax at any time so if the company calculates and pays its corporation tax earlier this will stop the interest running.

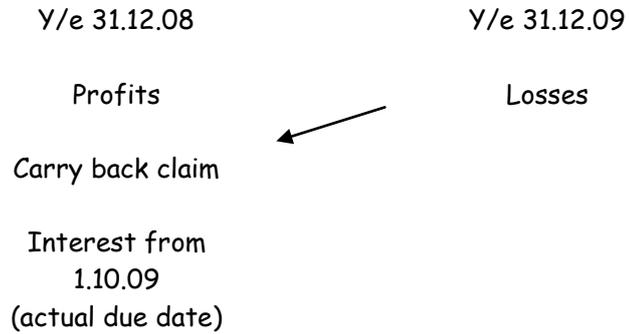
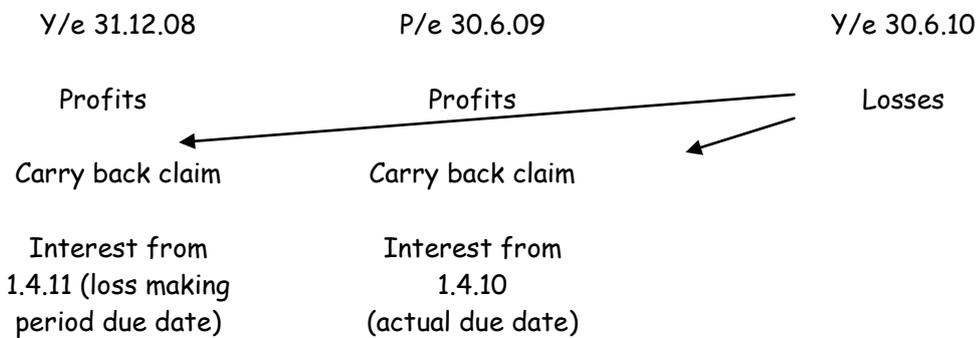
Any interest received will be taxed as non trading profit (LR). Any interest paid by the company will be treated as interest paid on a non-trading loan and can be deducted from non trading profit (LR) income.

[CTA 2009, s.482\(1\)](#)

9.2 Effect of carry backs

Where losses are carried back under s.37 CTA 2010 and result in a repayment of tax, then for calculating the interest on this repayment it is **treated as tax repaid for the accounting period of the loss unless the repayment arises in respect of an accounting period that falls wholly within the twelve months prior to the one in which the loss arose.**

If the carry back reduces an amount of unpaid tax, **interest will cease to run from the due date of the period in which the loss was made** for the amount of tax unpaid that the carry back negates. Apart from this it is ignored in calculating the interest on unpaid tax except for a chargeable accounting period falling wholly within the 12 months before the one in which the loss arose.

Illustration 2**Carry back - scenario 1 loss used in period arising wholly in previous 12m****Carry back- scenario 2 loss used in period arising NOT wholly in previous 12m**

For carry back of **non-trade deficits** on loan relationships the calculation of interest on overdue or overpaid corporation tax is not affected except that in the case of underpayments **the amount met by the carry back is treated as paid on the due date for the chargeable accounting period in which the deficit arose.**

Otherwise it is treated as a repayment of corporation tax for the chargeable accounting period in which the deficit arose.

9.3 Prospective amendments to interest rules

Following FA 2009 a single harmonised regime for charging interest in respect of all the taxes and duties administered by HMRC has been introduced, and it was announced in the Budget of 22 June 2010 that corporation tax will be brought within this single regime.

[FA 2009, Sch 53](#)

For those taxes where HMRC currently charge and pay interest, rates have been aligned by Treasury Order. Quarterly instalments payments (QIPs) for companies are outside this scheme and different rates continue to apply (although alignment does apply).

With effect from late September/early October 2009 minimum rates of interest have been in place. Currently HMRC are charging interest on underpaid quarterly instalment payments at a rate of 1.5% whereas interest paid on overpayments is calculated at a rate of 0.5%.

In addition a new regime has been introduced in respect of penalties for late payment of tax. The rules are looked at in the next chapter.

[FA 2009, Sch 56](#)