Inland Revenue

BUSINESS SERIES
CTSA/BK3

A modern system for corporation tax payments

A guide to Quarterly Instalment Payments

Contents

Quarterly Instalment Payments (QIPs) for large companies were introduced in 1999, at the same time as Corporation Tax Self Assessment. Advance Corporation Tax was abolished in the same year. This leaflet explains how QIPs work.

Introduction

Which accounting periods are affected by the changes?

Advance Corporation Tax (ACT) was abolished from 6 April 1999. This means that companies paying dividends (or making other distributions of profits) after that date no longer have to pay ACT. The Quarterly Instalment Payments system applies to accounting periods ending on or after 1 July 1999.

From 1999, 'large' companies started to pay their corporation tax in quarterly instalments. These payments are based on the company's estimate of its tax liability for the current accounting period, including tax due under Section 419 ICTA 1988 (loans to participators), Section 501A (ring-fenced trades) and Section 747 (controlled foreign companies).

Do all companies have to pay corporation tax by QIPs?

No. Only 'large' companies have to pay their corporation tax by quarterly instalments. Most companies continue to pay their corporation tax nine months and one day after the end of their accounting period.

What is a 'large' company?

Broadly, a company is large if its profits for an accounting period exceed the Upper Relevant Maximum Amount (URMA) in force at the end of that period and it therefore pays its tax at the main rate. URMA is currently £1.5 million and the main rate of corporation tax is 30%.

Can URMA be less than £1.5 million?

Sometimes. If a company has associated companies, divide URMA by the number of associated companies plus one. The new figure is the URMA for that company.

URMA is also proportionately reduced for accounting periods of less than 12 months.

What is an associated company?

A company is associated with another company if one is under the control of the other, or if both are under the control of the same person or persons. Control is, broadly, defined by reference to ownership of share capital, or voting power.

What about growing companies?

A growing company will not have to pay its corporation tax by instalments in an accounting period if

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

If a company has associated companies, the threshold is reduced by dividing £10 million by the number of associated companies plus one. This new figure is the threshold for that company. The threshold is also proportionately reduced for accounting periods of less than 12 months.

This gives companies time to prepare for paying by instalments, rather than finding unexpectedly that they have to do so as soon as they become large.

Is there a lower limit?

Yes. If a company's net tax liability is less than £10,000 (£5,000 for accounting periods ended before 1 July 2000), then that company will not have to pay by instalments. This means that companies in large groups do not have to make instalment payments if their own liability is small.

The pattern of Quarterly Instalment Payments

When are the QIPs due?

For accounting periods ending after 31 July 2002, a large company with a 12-month accounting period will pay tax in four equal instalments, in the seventh, tenth, thirteenth and sixteenth months following the start of the accounting period. Transitional rules applied before 2002, to ease the transition to QIPs. If you need details of these rules contact your local Inland Revenue office. The actual due dates of payment are six months and 13 days after the start of the accounting period, then nine months and 13 days, and so on. So, for a company with a 12-month accounting period starting on 1 January, QIPs are due on 14 July and 14 October of that year and 14 January and 14 April of the following year.

What about accounting periods that last less than 12 months?

For short accounting periods

- the last instalment is due three months and 14 days from the end of the accounting period, and
- there may be more instalments, up to a maximum of four in all, at three-monthly intervals, starting six months and 13 days from the start of the accounting period.

So, for a company with an eight-month accounting period starting on 1 January, QIPs are due on 14 July and 14 October, with a final instalment due on 14 December.

How did the transitional period work?

To help the transition to the new system, large companies initially had to pay only part of their tax by instalments. Transition started with accounting periods ending on or after 1 July 1999. These arrangements ceased for accounting periods ending on or after 1 July 2002, after which large companies have had to pay all their tax by instalments. Your local Inland Revenue office can tell you about the details for the transitional period.

Working out Quarterly Instalment Payments

How does a company work out how much to pay?

A company has to estimate its tax liability for the current accounting period (net of all reliefs and set-offs) and then make instalment payments based on that estimate. If the estimate changes, the company will need to recalculate its instalment payments based on the revised figure.

The amount of each instalment is calculated using the formula 3 x CTI/n

- **CTI** is the amount of a company's total liability for that accounting period (or, during the transitional period, a specified percentage amount), and
- **n** is the number of months in the accounting period.

To work out the amount of each instalment a company needs to

- estimate the tax payable for that accounting period
- use that amount of tax to represent CTI in the formula
- work out 3 x CTI/n
- allocate that amount or CTI, whichever is smaller, to the first QIP, and
- carry on doing this for later instalments, revising the figure for CTI as necessary, until the total amount allocated is equal to CTI.

Example 1 (Short accounting period)

Company A has an eight-month accounting period, running from 1 January to 31 August 2002. The company has profits of £3 million and a tax liability of £900,000 for this accounting period.

Step 1 – Work out CTI
CTI = £900,000

Step 2 – Work out 3 x CTI/n
3 x £ 900,000/8 = £ 337,500

Step 3 - Work out the amount for the first instalment

Whichever is the smaller of Step 1 or Step 2 will be the amount of the first instalment.

£337,500 (Step 2) is smaller than £900,000 (Step 1) so the first instalment will be **£337,500**. This amount is due on 14 July.

Repeat this exercise for the second instalment due on 14 October (which falls after the end of the company's accounting period). Second instalment = **£337,500**.

The third, and final, instalment is due on 14 December (three months and 14 days after the end of the accounting period). This instalment will be £900,000 - (2 x £337,500 = **£225,000**, bringing the total paid up to **£900,000** (CTI).

What if a company revises its estimate?

A company's estimate of its tax liability will vary over time. The system of instalment payments is flexible and 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 if it later finds it has paid too much (or should not have made a payment at all). Alternatively, the company may leave the overpayment with the Inland Revenue and reduce subsequent instalment payments.

Interest and penalties

When and how is interest worked out?

Interest is calculated only after a company has filed its tax return or if we have made a determination of its corporation tax liability and the normal due date has passed.

Late payment interest is charged on tax paid late and repayment interest is paid on tax overpaid or paid early, after the first instalment date has passed. Interest received from us by companies is now chargeable to tax, and interest paid to us by companies is deductible for tax purposes. Example 2 illustrates how the interest is worked out.

Example 2

Company B has a 12-month accounting period ending on 31 December and files its tax return showing a final liability of £120 million. It reviews the estimate of its final liability at regular intervals and, when appropriate, alters its instalment payments (or, if necessary, makes further payments) in order to minimise any interest charge.

- Column 1 shows the company's changing estimate of its final liability.
- Column 2 shows the payments it actually makes.
- Column 3 shows the correct amount for the payment, based on the actual final liability.

1. Company's estimate		**2. Payments made**		**3. Correct instalment liability**	
Estimate	£80m	14 Jul	£20m	QIP1 (due 14 Jul)	£30m
Estimate	£110m	14 Oct	£35m	QIP2 (due 14 Oct)	£30m
Estimate	£130m	1 Nov	£10m*		
Estimate	£140m	14 Jan	£40m	QIP3 (due 14 Jan)	£30m
Estimate	£120m	14 Apr	£15m	QIP4 (due 14 Apr)	£30m

*top-up payment as company thinks its liability may be higher than originally estimated

Interest will be charged or paid as follows.

- From 14 July to 13 October, Company B has paid £20m against a correct instalment liability of £30m. Interest will be charged on £10m from 14 July to 13 October.
- From 14 October to 31 October, Company B has paid £55m against a correct instalment liability of £60m. Interest will be charged on £5m from 14 October to 31 October.
- From 1 November to 13 January, Company B has paid £65m against a correct instalment liability of £60m. Interest will be paid on £5m from 1 November to 13 January.
- From 14 January to 13 April, Company B has paid £105m against a correct instalment liability of £90m. Interest will be paid on £15m from 14 January to 13 April.
- On 14 April, Company B makes its final payment of £15m, bringing its total payments to £120m, which is its correct liability, so no further interest is due.

Special rates of interest will apply for the period from the due 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).

After this, interest rates will change to those that apply to companies outside the QIP system. 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 the amount of their liability.

Can groups surrender overpayments?

Yes. Groups of companies will be able to minimise their exposure to interest on tax paid late by surrendering overpayments between group members, that is, offsetting amounts overpaid by one company against amounts underpaid by another company in the group. We have also introduced Group Payment Arrangements which allow groups to make instalment payments on a group-wide basis, rather than company by company. If you want more information about Group Payment Arrangements, please contact the Group Payment Team at either

Group Payment Team	Group Payment Team
Receivables Management	Receivables Management
Accounting & Payments	Accounting & Payments
Accounts Office	Accounts Office
St Mungo's Road	Victoria Street
Cumbernauld	Shipley
Glasgow	West Yorkshire
G67 1YZ	BD98 8AA
Tel: **01236 783488**	Tel: **01274 539561**

When are penalties charged?

Late or inadequate instalment payments will incur interest charges.

A penalty may be charged if a company deliberately fails to make instalment payments, or deliberately makes instalment payments that are too small. Like interest, the penalty will be charged only after a company has filed its tax return and the normal due date has passed.

More detailed guidance on when a penalty might be charged was published in June 1999 and was included in the August 1999 Tax Bulletin (TB42). You can see this Bulletin in your local Inland Revenue Office, or view it on our website at **www.inlandrevenue.gov.uk**

Further information

We produce a wide range of leaflets. Some you might find useful are

COP1	Putting things right. How to complain
COP14	Corporation tax. Self Assessment enquiries
CTSA/BK2	A guide to Corporation Tax Self Assessment for tax practitioners and Inland Revenue staff (Internet only)
CTSA/BK4	A general guide to Corporation Tax Self Assessment
IR37	Appeals against tax, National Insurance Contributions, Statutory Sick Pay, Statutory Maternity Pay, Statutory Adoption Pay and Statutory Paternity Pay
IR46	Clubs, societies and voluntary associations
NE1	First steps as a new employer
P/SE/1	Thinking of working for yourself?
SA/BK4	Self Assessment. A general guide to keeping records

Our leaflets are available at **www.inlandrevenue.gov.uk** and from any Inland Revenue office or Enquiry Centre. Most offices are open to the public from 8.30am to 5.00pm, Monday to Friday. Addresses are in your local phone book under 'Inland Revenue' and at **www.inlandrevenue.gov.uk/local**

You can get most of our leaflets from our Orderline, seven days a week (except Christmas Day, Boxing Day and New Year's Day) by

- phone or textphone (for Minicom users) on **0845 9000 404** between 8.00am and 10.00pm
- fax on **0845 9000 604**
- e-mail at **saorderline.ir@gtnet.gov.uk**
- writing to PO Box 37, St Austell, Cornwall PL25 5YN.

You can also call the CTSA Orderline on **0845 300 6555** (fax: **0845 300 6777**) between 8.00am and 10.00pm, seven days a week (except Christmas Day, Boxing Day and New Year's Day).

Orderline calls are charged at local rates.

Your library or Citizens Advice Bureau may also have copies of some of our leaflets, but may not have them all.

We have a full range of services for people with disabilities, including leaflets in Braille, audio and large print. For details, please ask your local Inland Revenue office or Enquiry Centre.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

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