

LBCA Chartered Accountants Corporation Tax Penalties

Table of contents

<u>Corporation Tax penalties</u>	2
Introduction	3
How to avoid Corporation Tax penalties	3
Penalties for not telling HMRC your company is liable for Corporation Tax	4
Penalties for not filing your Company Tax Return on time	5
Penalties for incorrect Company Tax Returns, documents and information	6
Penalties if you don't keep sufficient records for Corporation Tax	7
Penalties on instalment payments	8
Related guides on businesslink.gov.uk	8
Related web sites you might find useful	8

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Corporation Tax penalties

Subjects covered in this guide

Introduction

How to avoid Corporation Tax penalties

Penalties for not telling HMRC your company is liable for Corporation Tax

Penalties for not filing your Company Tax Return on time

Penalties for incorrect Company Tax Returns, documents and information

Penalties if you don't keep sufficient records for Corporation Tax

Penalties on instalment payments

Related guides on businesslink.gov.uk

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You can find this guide by navigating to:

Home > Taxes, returns & payroll > Corporation Tax > HMRC compliance checks, appeals, interest and penalties > Corporation Tax penalties

Introduction

If your company or organisation is liable for Corporation Tax, and you don't meet HM Revenue & Customs (HMRC) deadlines and requirements, then you may face a penalty.

If you have made an error, done something you shouldn't have, or not done something you should have, you must correct it immediately. If you do, you may not be charged a penalty or the penalty charged may be less.

This guide tells you about Corporation Tax penalties but if your company or organisation does not meet its responsibilities for other taxes and duties, further penalties may also arise. Guidance on those penalties can be found on the HMRC website under the specific tax or duty - for example Employers PAYE or VAT.

How to avoid Corporation Tax penalties

HM Revenue & Customs (HMRC) expects you to take 'reasonable care' over your company or organisation's tax affairs. If you took reasonable care but still made a mistake, HMRC may not charge a penalty or the amount of the penalty may be reduced. Examples of reasonable care include:

- Making sure your Company Tax Return is accurate and sending it into HMRC on time. This includes ensuring all company accounts, computations, claims and calculations are correct.
- If your company or organisation has profits chargeable to Corporation Tax but HMRC hasn't sent you a 'Notice to deliver a Company Tax Return', telling HMRC promptly - within 12 months of the end of your Corporation Tax accounting period.
- Keeping sufficient records to support your Company Tax Return, company accounts and any claims to allowances and reliefs.
- Providing HMRC with all the information they need when they ask.
- Asking HMRC if you're not sure about anything and following any advice they give you.

If you discover you have made a mistake, or not told HMRC something you should have, you should tell them immediately. This may reduce the amount of penalty you face or may mean you don't have to pay one at all. What reasonable care means will depend on your company or organisation's individual circumstances.

[Find out about taking reasonable care on the HMRC website - Opens in a new window.](#)

If you don't agree with a penalty HMRC has charged your company or organisation, you can appeal it.

Appealing against an HMRC Corporation Tax decision

Deadlines and requirements for Corporation Tax

Penalties for not telling HMRC your company is liable for Corporation Tax

If your company or organisation has Corporation Tax to pay but you don't receive a 'Notice to deliver a Company Tax Return' from HM Revenue & Customs (HMRC), you still must tell HMRC it's liable for Corporation Tax. The easiest way to do this is to use HMRC form CT41G (New company details). You must do this within 12 months of the end of your Corporation Tax accounting period.

If you don't, your company or organisation may be charged a penalty. HMRC calls this a 'failure to notify' penalty.

[Find form CT41G \(New company details\) and explanatory notes on the HMRC website - Opens in a new window.](#)

When a penalty may arise

Where the obligation to tell HMRC that your company or organisation is liable for Corporation Tax takes place on or after 1 April 2010, the penalty is based on the amount of tax that is unpaid or that your company or organisation is liable for. This is called the 'Potential lost Revenue' (PLR).

But HMRC won't charge a penalty if you had a 'reasonable excuse' for not notifying them at the right time, provided that you did so promptly after the reason for not notifying them ended.

[Read further guidance on reasonable excuse for failure to notify penalties on HMRC website - Opens in a new window.](#)

How is the penalty calculated?

The amount of the penalty is calculated by applying a percentage to the amount of tax that you owe. The percentage applied depends on whether your error (or failure) was:

- **careless** - a lack of 'reasonable care' (see previous sections for a definition)
- **deliberate** - such as intentionally sending incorrect information
- **deliberate and concealed** - such as intentionally sending incorrect information and taking steps to hide the error

Whilst the maximum penalty HMRC can charge your company or organisation depends on the type of failure, it may be less if you:

Corporation Tax penalties

- tell HMRC promptly and make a full disclosure of all the facts
- help HMRC to calculate what's owed (or not repayable) and allow them access to the records needed to do so

Maximum penalty for each type of failure

Type of failure	Maximum penalty payable
Non-deliberate	30% of the potential lost revenue
Deliberate but not concealed	70% of the potential lost revenue
Deliberate and concealed	100% of the potential lost revenue

Remember, if you took reasonable care but still made a mistake, HMRC will not charge a penalty.

The penalty may also be less if you don't wait until HMRC takes action before you tell them about your error. For example before they write to you or raise an assessment.

[Read about how a penalty can be reduced for disclosure - Opens in a new window.](#)

[Find out how a failure to notify penalty is calculated - Opens in a new window.](#)

HMRC's failure to notify penalty process prior to 1 April 2010

For accounting periods ending before 1 April 2010, a different penalty process applies.

[Read about the penalty process prior to 1 April 2010 on the HMRC website - Opens in a new window.](#)

Penalties for not filing your Company Tax Return on time

HM Revenue & Customs (HMRC) will normally send your company or organisation a letter telling you that you need to file a Company Tax Return. HMRC calls this letter a 'Notice to deliver a Company Tax Return'.

If HMRC has sent you this notice and you don't file your return on time, your company or organisation will be charged a penalty. HMRC may charge this penalty even if your company or organisation does not owe any Corporation Tax.

Automatic flat-rate penalties for late Company Tax Returns

If you file your Company Tax Return late, your company or organisation will be charged a

Corporation Tax penalties

flat-rate penalty of £100. HMRC will charge a further £100 penalty if you file your return more than three months late.

If your Company Tax Return is late for three or more accounting periods in a row, the initial flat-rate penalty increases to £500 with a further £500 charged if you file your return more than three months late.

Additional penalties for very late Company Tax Returns

If you don't file your Company Tax Return **by the later of:**

- 18 months from the end of your Corporation Tax accounting period
- your filing deadline

HMRC may charge your company or organisation further penalties from that date. These penalties will be on top of the flat-rate penalty or penalties you have already been charged.

These additional penalties are known as tax-related penalties because they are related to the amount of Corporation Tax your company or organisation owes. They are calculated as follows:

- where a return is filed between 18 and 24 months after the end of your company's accounting period - 10 per cent of any unpaid Corporation Tax
- where a return is still not filed 24 months after the end of your accounting period - a further 10 per cent of any unpaid Corporation Tax

Here, the amount of unpaid Corporation Tax is the amount due that you didn't pay by the date your company became liable to the first tax-related penalty.

Deadlines and requirements for Corporation Tax

[Find out what counts as a reasonable excuse for filing your online return late on the HMRC website - Opens in a new window.](#)

Penalties for incorrect Company Tax Returns, documents and information

HM Revenue & Customs (HMRC) may charge your company or organisation a penalty if you fraudulently or negligently file an incorrect Company Tax Return (including claims, computations, company accounts, statements or declarations).

If you discover that a return or other documentation you have already filed is incorrect and you don't correct the error without delay, HMRC will treat this error as negligence.

Corporation Tax penalties

Here, fraud involves a deliberate intention to deceive. Negligence simply means a lack of reasonable care and does not require any intent.

The maximum penalty that HMRC can charge your company or organisation is the difference between the Corporation Tax due on your return and the correct amount. But again, the maximum penalty may be reduced to reflect the seriousness of the error, your disclosure of it and how much you co-operate with HMRC to put it right.

Example

Your Company Tax Return shows Corporation Tax due of £50,000 but you have forgotten to include a chargeable gain and the correct amount of tax due is £60,000. The maximum penalty HMRC can charge your company or organisation is £10,000 (£60,000 - £50,000).

The penalty HMRC actually charges your company will be a lot lower than this if you:

- tell HMRC up front about your mistake without a prompt
- tell HMRC about your mistake immediately when HMRC asks about it during an 'enquiry' and help HMRC work out the right amount of tax you should pay

[Read about HMRC penalties for incorrect returns, documents and information on the HMRC website - Opens in a new window.](#)

Changes to the HMRC penalty system for Corporation Tax errors

HMRC is changing the way penalties are charged for Corporation Tax errors.

The new penalties will apply to errors in Company Tax Returns or other documents that cover Corporation Tax accounting periods starting on or after 1 April 2008 and are due to be filed on or after 1 April 2009.

HMRC may charge a penalty if you have made a careless or a deliberate mistake in your return or other documents. The penalty will be a percentage of the extra tax payable (or not repayable) when HMRC corrects your mistake. It's linked to the reason why the error occurred - and can be reduced if you try to put things right.

But HMRC will not charge a penalty if you took reasonable care to get things right but still made a mistake.

[Read more about the changes to penalties for Corporation Tax errors on the HMRC website - Opens in a new window.](#)

Penalties if you don't keep sufficient records for Corporation Tax

Corporation Tax penalties

Your company or organisation must keep sufficient business records to allow you to file a complete and accurate Company Tax Return.

If your company or organisation does not keep these records, it may be charged a penalty of up to £3,000. Generally HM Revenue & Customs only charges this type of penalty in serious cases - for example, where no records have been kept, records have been deliberately destroyed or your company or organisation has a history of failing to keep certain records.

Without proper records, it will also be very difficult to get your Company Tax Return right. So your company may also risk being charged penalties for filing an incorrect return.

Records for Corporation Tax: what you need to keep

Penalties on instalment payments

If your company's profits for an accounting period are at an annual rate of more than £1.5 million, you must normally pay your Corporation Tax for that period in instalments.

HM Revenue & Customs (HMRC) may charge a penalty if you deliberately fail to make instalment payments, or deliberately make instalment payments that are too small.

Any penalty will be charged only after you have delivered your Company Tax Return (or HMRC has made a determination) and the normal due date has passed.

[Read about penalties for late or deliberately understated instalment payments on the HMRC website - Opens in a new window.](#)

Related guides on businesslink.gov.uk

[Appealing against an HMRC Corporation Tax decision](#) | [Deadlines and requirements for Corporation Tax](#) | [Records for Corporation Tax: what you need to keep](#) | [Corporation Tax glossary](#) | [Deadlines and requirements for Corporation Tax](#) | [Corporation Tax glossary](#) | [How to pay Corporation Tax](#) | [Records for Corporation Tax: what you need to keep](#) | [Corporation Tax glossary](#) | [What to do if you can't pay Corporation Tax](#) |

Related web sites you might find useful

[Find form CT41G \(New company details\) and explanatory notes on the HMRC website - Opens in a new window](#)

[New systems for tax checks, penalties and appeals from HMRC - Opens in a new window](#)

Corporation Tax penalties

window

Changes to penalties for Corporation Tax errors - information from HMRC - Opens in a new window

Interest rates for late Corporation Tax payment - information from HMRC - Opens in a new window

Quarterly Corporation Tax payments - information from HMRC - Opens in a new window