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Published in Japanese  
Eikoku News Digest  
May 2017

## Changes to the UK Quarterly Instalment Payments Regime

The quarterly instalment payments (QIPs) for large companies have been in place for a number of years. In the summer budget 2015, the chancellor announced that “very large” companies with taxable profits of £20 million or more will have to pay their corporation tax earlier so that the QIPs will be due within the accounting period. It was initially announced that this change would apply to accounting periods beginning on or after 1 April 2017, but the measure has recently been delayed and will now apply to accounting periods beginning on or after 1 April 2019

The £20 million limit will be reduced proportionately where a company is a member of one or more 51% groups. The Government stated that the intention of the measure is to ensure that the largest companies pay tax closer to the point at which they earn their income.

The new rules, which relate only to very large companies, are effectively an add-on to the old rules, which continue unchanged in relation to large companies. To recap, a large company is one that has taxable profits of over £1.5 million in the accounting period. A large company with a 12 month accounting period is required to pay its corporate tax on the 14<sup>th</sup> day of months 7 and 10 in the accounting period to which the liability relates, and months 1 and 4 of the following accounting period. If a company has one or more related 51% companies, the threshold is divided by the number of those companies plus 1. The measure is by reference to the number of companies at the end of its accounting period. For example, if there are 3 related 51% group companies the threshold is £375,000 ( $£1.5 \text{ million} \div 4$ ).

All amounts are reduced proportionately for accounting period of 12 months or less. A company is not treated as large if its total liability for the accounting period is £10,000 or less.

Furthermore in order to provide some help for companies moving into the QIPs regime for the first time a company it is not large if it was not large in the 12 months immediately preceding the accounting period and the total profits are £10 million or less in that period. On the whole this means that large companies will not be liable to QIPS until the second period when they meet the definition of large.

## The new rules

With effect for accounting periods beginning on or after 1 April 2017 a large company is one which has profits of more than £1.5 million and £20 million or less. Companies with taxable profits of more than £20 million are defined as very large. A very large company will be required to pay corporation tax by instalments 4 months earlier than large companies.

As with large companies the thresholds are reduced as before for periods of less than 12 months and where the company has one or more related 51% group companies. It is important to note that, although the £10,000 liability limit remains, there is no “grace period” for very large companies: they qualify as very large in the first period that they exceed the threshold. For some companies, particularly small subsidiaries of very large groups, the lack of a grace period might be problematic. Such companies may have difficulty in assessing whether they will be large for a particular accounting period, and therefore liable to make instalment payments before an accurate estimate of profits for that period can be determined.

Generally speaking the payment dates for very large companies are as follows:

- 1<sup>st</sup> Instalment - 2 months and 13 days after the start of the accounting period
- 2<sup>nd</sup> Instalment - 3 months after the first
- 3<sup>rd</sup> Instalment - 3 months after the second
- 4<sup>th</sup> Instalment - 3 months after the third

In other words payments are due on the 14<sup>th</sup> day of months 3, 6, 9 and 12 of an accounting period.

## Summary

For companies with taxable profits of more than £20 million, prorated as appropriate, the due date for payment of corporation tax liabilities will become 4 months tighter, with commensurate cash flow implications. For those below this threshold, there will be no change in the due dates of their corporation tax liabilities, so that:

- Companies with profits of less than £1.5 million will continue to pay their corporation tax liability nine and one day after the accounting period ends.
- Companies with profits of more than £1.5 million and less than £20 million will continue on the old instalment basis, generally on the 14<sup>th</sup> day of the 7<sup>th</sup>, 10<sup>th</sup>, 13<sup>th</sup>, and 16<sup>th</sup> months following the commencement of an accounting period.
- Companies with profits of over £20 million will have instalments due on 14<sup>th</sup> day of months 3, 6, 9 and 12 of an accounting period.