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# CORPORATE TAX PLANNING

Even among those who follow good tax-planning practice and maintain forecasts running several years forward, it is unlikely that many foresaw the dramatic end to the 2019/20 tax year. With the impact of COVID-19 and the subsequent lockdown, the economy shrank a record 20.4% in April 2020, and 19.1% in the three months to May 2020. The impact on businesses across the board has been significant and although the economy is reopening slowly, it is clear a return to the 'old normal' is some time away or may never return at all.

Looking forward through the next 12 months, tax management and planning could play an important role in helping your business survive these uncertain times. Now is a good time to review whether the tax planning strategies of your business both short and long-term are still relevant for the 2020/21 tax year, regardless of whether the coronavirus crisis has had a positive or negative impact on your trading profits.

## Compliance & deadlines

The first thing to consider is whether your business is staying on top of its compliance obligations in respect of all taxes and any liabilities due.

Where possible, you should continue to file all returns on time, whether that be VAT, PAYE or Corporation Tax etc., to avoid incurring any unnecessary late-filing penalties. If your business is experiencing cashflow issues following the lockdown and you have tax liabilities becoming due, you should contact HMRC as soon as possible and see if it is possible to set up a time-to-pay arrangement.

If you are running a VAT-registered business, you may have taken advantage of the automatic deferral of VAT payments due between 20 March and 30 June 2020. Any liabilities deferred during this period do not need to be cleared in full until 31 March 2021. However, after 30 June 2020, VAT liabilities should be paid in full and within the usual payment deadlines, unless you have come to an arrangement with HMRC.

Companies House have automatically extended the filing deadline by three months for all private limited companies with an original filing deadline of up to and including 5 April 2021. It is important to note however that the Corporation Tax payment deadline remains nine months and one day after the end of the accounting period, so you may still want to have the Accounts prepared within that timescale to ascertain the liability payable.

## Loss relief & reduced taxable profits

Most businesses will likely have experienced a drop in their trading profits during the lockdown period. Inevitably this will lead to a lower Corporation Tax bill than the business would otherwise have expected, but could the timing of this reduction help your business manage its cashflow better?

As mentioned above, companies pay Corporation Tax based on their taxable profits for the accounting period and payment is due nine months and one day after the accounting period ends. Therefore, a company's year-end could make a significant difference to the size of its next Corporation Tax bill depending on how this date falls in comparison with the lockdown period. For a company with a year-end of 31 March 2020, little or no effect will have been felt in its trading figures for that year and it could find itself with a sizable Corporation Tax bill due by 1 January 2021, after nine months of potentially reduced trading conditions and cashflow. In the year to 31 March 2021, that same company may have made significant taxable losses as a result.

These trading losses can be carried back to the previous accounting year and used to obtain a refund on any Corporation Tax paid for the previous year. However, this means the company may have to wait the best part of a year to access this refund. The company could instead consider bringing forward the advantage of this loss by extending its year-end. A company can extend its year-end by up to six months to create a single 18-month period, subject to the agreement of Companies House and generally only if it has not already extended its accounting period within the last 5 years.

With a new company year-end of 30 September 2020, any losses generated during these six months are now absorbed within the trading profits of the 12 months to 31 March 2020. There will still be a Corporation Tax bill due by 1 January 2021 but in this scenario, it would be lower as a result since the profit for the whole 18 month period is apportioned between the first 12 months and the subsequent 6 months of the new accounting period.

## VAT

Last month, Chancellor Rishi Sunak announced that from 15 July 2020 to 12 January 2021, VAT in the hospitality and tourism sectors would be cut from the standard rate of 20% to 5%. The change in rate aims to stimulate consumer demand in these sectors, rather than reducing the tax burden for the business, but this does assume the full reduction in VAT is passed on to the consumer through lower prices. However, this is not mandatory and cashflow might be improved by not reflecting the full reduction in the sales price and retaining some of it within the business.

For some businesses in these sectors, additional thought will also need to be given as to whether their VAT liabilities could in fact be reduced by considering how they account for their VAT. Those that use the VAT flat-rate scheme, for example, may now need professional advice to work out whether the scheme is still worthwhile. This is far from straightforward as once you have left the scheme you cannot re-join it for 12 months and the VAT reduction has only been put in place for six months.

*The above is for general guidance only and no action should be taken without obtaining specific advice.*

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