HMRC - CH82342 - Example - Understatement Of Profits Creates An Aggregate Loss

You must check the date from which these rules apply for the tax or duty you are dealing with. See You must check the date from which these rules apply for the tax or duty you are dealing with. See for full details.

Company D, E, F and G are a group of companies.

Their returned results are

Company D’s return is found to contain a careless inaccuracy of £40,000. Its true profit is £150,000.

Company F can and does withdraw its Group Relief surrenders to Companies D and E and makes new surrenders of £150,000 to Company D and £50,000 to Company E.

Company G can and does withdraw its surrender to Company E and makes a new surrender to Company E of £85,000.

The inaccuracy has the effect of creating the aggregate loss recorded for the group and so the potential lost revenue (PLR) is calculated using the rules for losses, see CH82341.

The losses rules apply to the amount of Company D’s understated profit and the PLR for the inaccuracy is calculated in the context of the aggregate loss position of the group.

Under the normal rules for calculating PLR, Company D’s PLR (assuming liability at the small companies’ rate) would be 40,000 x 21% = 8,400. Instead, the inaccuracy is considered in the context of the aggregate loss for the group. The PLR for company D’s penalty is

Total PLR for Company D’s penalty = Nil + 5,250 + 1,500 = 6,750

Only £25,000 of the inaccuracy reduced group tax liability for the period. The balance created the group’s aggregate loss for the period.

In this example, at the time that the penalty is to be imposed, G has not made use of the surplus loss of £15,000 in a later or earlier period, so the PLR in respect of the £15,000 is calculated under the unused loss rule.

If Company G had used the surplus loss to reduce tax liability in another period, the PLR would be the additional tax due and payable when that loss was withdrawn.

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