HMRC - CH82344 - Example - Understatement Of Profits Increases The Aggregate Loss

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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 £10,000. Its true profit is £120,000.

Company F can and does withdraw its Group Relief surrenders to Company D and Company E and makes new surrenders of £120,000 to Company D and £80,000 to Company E.

Company G can and does withdraw its surrender to Company E and makes a new surrender to Company E of £80,000.

The inaccuracy had the effect of increasing the aggregate loss recorded for the group and 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 profits.

None of the amount has been used to reduce the amount of tax payable. The unused loss rule applies to £10,000.

PLR for Company D’s penalty is 10,000 x 10% = 1,000

If at the time the penalty is to be imposed Company G has used all or part of the excessive loss (£10,000) to reduce tax liability in another period, the PLR is the additional tax due and payable when that loss is withdrawn.

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