HMRC - OT21223 - The Supplementary Charge - Example 1 - The Carry Forward Of A CT Ring Fence Loss And A Shadow Computation Tracking Financing Costs

Year 1

The company has a corporation tax ring fence (CTRF) loss in the period of 50 and financing costs of 10. There is no adjusted ring fence (ARF) profit in the period.

The CTRF loss of 50 is carried forward to year 2. There is no liability to Corporation Tax (CT).

There is a shadow calculation to keep track of the financing costs that have to be excluded in calculating the ARF profit and SC and the amount of 40 is carried forward.

No supplementary charge (SC) is due.

Year 2

The company has a CTRF loss in the period of 10 and financing costs of 20. The ARF profit in the period is 10.

The CTRF losses are tracked and the losses of 60 are carried forward to year 3 (50 + 10). There is no liability to CT.

The shadow calculation has an amount of 40 brought forward and this is set against the ARF profit reducing it to nil. 10 of the amount brought forward has been used and the balance of 30 is carried forward (40 -10). There is no SC due.

Year 3

The company has a CTRF profit in the period of 30 and financing costs of 10. The ARF profit in the period is 40.

The CTRF loss brought forward into the period is 60 and 30 of this can be set against the CTRF profit reducing it to nil. The CTRF loss carried forward is the balance of 30 (60 -30). There is no liability to CT.

The shadow calculation has an amount of 30 brought forward and this is all set against the ARF profit reducing it to 10 (40 - 30). There is no carry forward from the period. A SC of 2 is due on the net ARF profit of 10.

Year 4

The company has a CTRF profit in the period of 10 and the financing costs are in fact income of 20. There is no ARF profit in the period.

The CTRF loss brought forward into the period is 30 and 10 of this can be set against the CTRF profit reducing it to nil. The CTRF loss carried forward is the balance of 20 (30 - 10). There is no liability to CT.

The shadow calculation has no amount brought forward and an amount of 10 from the period is carried forward. There is no SC due.

Year 5

The company has a CTRF profit in the period of 40 and financing costs of 10. The ARF profit in the period is 50.

The CTRF loss brought forward into the period is 20 and all of this can be set against the CTRF profit reducing it to 20 (40 - 20). There is no CTRF loss carried forward. There is a liability to CT of 6.

The shadow calculation has an amount brought forward of 10 and this is all set against the ARF profit reducing it to 40. There is no amount carried forward. A SC of 8 is due on the net ARF profit of 40.

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