HMRC - OT21224 - The Supplementary Charge - Example 2 - Group Relief Of Corporation Tax 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.

There is a CTRF loss of 50, of this 40 is surrendered as group relief and 10 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. The calculation gives a negative amount of 40.

As there has been a group relief surrender a proportion of this amount is treated as excluded in calculating the ARF profit. This exclusion is calculated by reference to the proportion of CTRF losses surrendered compared with the total CTRF loss of the period.

Here 40 of the 50 CTRF loss is surrendered and so the proportion to be excluded is 4/5. An adjustment of 32 is required (4/5 x 40) and the balance of 8 is carried forward (40 -32).

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. The CTRF loss of 10 from the period is surrendered as group relief. The loss of 10 brought forward from year 1 is carried forward to year 3. There is no liability to CT.

The shadow calculation has an amount of 8 brought forward and this is set against the ARF profit of 10 reducing it to 2 (10 - 8). There is no amount carried forward. SC of 0.4 is due on the ARF of 2.

No adjustment is required for the loss surrendered as group relief in the year as all the finance costs are excluded in the calculation of the ARF profit of the period.

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 10 and this can be set against the CTRF profit reducing it to 20 (30 -10). There is no CTRF loss carried forward. CT of 6 is due of the CTRF profit of 20.

The shadow calculation has no amount brought forward. The ARF profit for the period is 40. SC of 8 is due on the ARF of 40. There is no carry forward from the period.

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.

There is no CTRF loss brought forward into the period. CT of 3 is due on the CTRF profit of 10. There is no CTRF loss carried forward.

The shadow calculation has no amount brought forward, the amount of the period of 10 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.

There is no CTRF loss brought forward into the period. CT is due on the CTRF profit of 40. There is no CTRF loss carried forward. There is a liability to CT of 12.

The shadow calculation has an amount brought forward of 10 and this is set against the ARF profit reducing it to 40 (50 -10). There is no amount carried forward. A SC of 8 is due.

Summary

This example demonstrates how in respect of the CTRF profits and losses and the finance charges of this company over the whole 5yrs, the overall effect is to charge the company on an aggregate of adjusted ring fence profits of 82, while potentially giving relief of 32 against the adjusted ring fence profits of the group relief claimant in year 1.

This latter relief assumes that the claimant is subject to the Supplementary Charge. The resulting net figure (82-32) of 50 reflects the aggregate of the RFCT profits over 5 years of 20, and the aggregate finance charges over the 5 years of 30.

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