These notes refer to the Corporation Tax Act 2009 (c.4) which received Royal Assent on 26 March 2009

CORPORATION TAX ACT 2009

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 2: Charge to corporation tax: basic provisions

Chapter 2: Accounting periods

Overview

60. This Chapter gives the definition of accounting period. It is based on section 12 of ICTA.

61. The accounting period is a basic building block of corporation tax because corporation tax is charged by reference to accounting periods. For nearly all established UK resident companies the accounting period coincides with the 12 month period for which it makes up its accounts. Most of the Chapter is taken up with rules explaining what happens outside the usual case.

62. The Chapter does not rewrite section 12(8) of ICTA. Section 12(8) is an administrative provision that deals with the validity of assessments. The Chapter is concerned with when accounting periods begin and end, and not with the circumstances in which an officer of Revenue and Customs may make an assessment or determination.

Section 9: Beginning of accounting period

63. This section identifies when an accounting period begins. It is based on section 12 and section 342A of ICTA.

64. *Subsection (1)(a)* deals with the case in which a company comes within the charge to corporation tax. Subsection (1)(a) states an important general rule. This Act does not reproduce the two examples given in section 12(2)(a) of ICTA of circumstances in which this general rule would apply (becoming UK resident, acquiring a source of income). The examples add nothing useful and might obscure the general rule.

65. *Subsection (1)(b)* deals with the usual case of a company that is already within the charge to corporation tax so that a new accounting period begins when the previous accounting period ends.

66. *Subsection (4)* disapplies this section in the case of a company being wound up. Section 12, which makes special provision about companies being wound up, applies instead.

67. *Subsection (6)* is a general signpost that, in certain circumstances, the rules in this section are modified by rules in other provisions of the Corporation Tax Acts that deal with particular cases. The implications for accounting periods will be clear when considering the cases in question (for example, paragraph 3 of Schedule 10 to FA 2006 (sale of lessor companies) and paragraph 52 of Schedule 22 to FA 2000 (tonnage tax)).

Section 10: End of accounting period

68. This section identifies the end of an accounting period. It is based on section 12 of ICTA.

69. The starting point for the section to apply is that the company has an existing accounting period. The occurrence of any one of the listed events brings that accounting period to an end. In many cases section 9(1)(b) then applies to start a new accounting period.

70. The opening words of *subsection (1)* provide that an accounting period ends "on the first occurrence of any of" the events listed in paragraphs (a) to (j). These words fall to be read in relation to each accounting period which is commenced. The effect of these words is not that the first event on that list to occur settles how all subsequent accounting periods of that company are to end. Rather, the effect is that each accounting period may be ended by the occurrence of a different event, depending on what happens in that particular accounting period.

71. The rules applying to companies in administration have been integrated into the general rules. The case is different from where a company is being wound up. In that case (see section 12) there is a self-contained set of rules about when a company's accounting periods end. In the case of a company in administration, the general rules about when an accounting period of a company end continue to apply, but there are two additional circumstances in which an accounting period ends. These are the circumstances mentioned in subsection (1)(i) and (j).

72. The legislation rewritten by subsections (1)(i) and (j), (2), (3) and (4) only applies to companies that enter administration on or after 15 September 2003. This limitation is preserved in Schedule 2 (transitionals and savings).

Section 11: Companies with more than one accounting date

73. This section allows a company carrying on more than one trade to nominate the accounting date which marks the end of the accounting period. It is based on section 12 of ICTA.

74. The section is most likely to apply to a non-UK resident company carrying on more than one trade in the United Kingdom through a permanent establishment. If a UK resident company carries on more than one trade it prepares a single set of accounts to cover all the company's activities. A non-UK resident company may not be subject to these regulatory requirements. Without this section an accounting period would end at each separate accounting date.

75. The company is allowed to choose which accounting date is used for the purposes of the test in section 10(1)(b). The company's choice is subject to review by HMRC. In the source legislation this power is exercised by the Commissioners for HMRC. In practice it is exercised by an officer. *Subsection (3)* reflects that. See *Change 1* in Annex 1.

76. The source legislation does not provide for the situation where a company has one or more businesses in addition to its trades, or several businesses but no trade. The effect is that the company's choice and the officer of Revenue and Customs' discretion is limited to selection of an accounting date relating to one of the company's trades. In other words, neither the company nor the officer can choose as the accounting period end date an accounting date of one of the company's businesses which is not a trade.

Section 12: Companies being wound up

77. This section identifies the beginning and end of an accounting period if a company is being wound up. It is based on section 12 of ICTA.

78. Although the rules applying to companies in administration have been integrated into the general rules (see section 10(1)(i) and (j)), the separate exposition of the rules applying to companies being wound up have been preserved. This is because the scheme

of section 12(7) of ICTA is to provide for a self-contained set of rules about when an accounting period ends. It follows that the accounting period of a company being wound up does not end on the occurrence of any of the events listed in section 10(1)(b) to (j). Accordingly, it is not appropriate to add the termination events listed in section 12 to the list of termination events in section 10(1).

79. *Subsection (5)* is new. It makes provision for when a new accounting period of a company being wound up begins. Section 12(7) of ICTA provides for an accounting period to begin on the commencement of winding up, but does not provide for the commencement of any subsequent accounting period. The rule in section 12(2)(b) of ICTA, now section 9(1)(b) of this Act, continues to apply for that purpose. It is preferable to make separate provision for the commencement of a new accounting period after the end of 12 months, rather than rely on section 9(1)(b) for this purpose.

80. The reason for this is that the rule in clause 9(1)(b) of this Act is that a new accounting period only begins at the end of 12 months if the company is still within the charge to corporation tax. However, section 12(7) of ICTA does not make the company's remaining within the charge to corporation tax a condition of a new accounting period starting on the company beginning to be wound up. Also, that provision states that "an accounting period shall not end otherwise than by the expiration of 12 months from its beginning". Given that, section 12(2)(b) of ICTA must necessarily be modified in its application to companies being wound up.