



## **Guidance statement**

### **Transitional accounting period following corporate tax rate increase**

#### **Why is this necessary?**

In the Chief Minister's 2021 Budget address, an increase in the corporate tax rate from 10% to 12.5% was announced with effect from 1 August 2021.

This impacts accounting periods commencing before and ending after this date. The purpose of this guidance is to provide some clarification on what options are available and how to go about computing your tax liability for this transitional accounting period that spans this increase in tax rate.

#### **What options are available?**

You can opt to compute your tax liability for this transitional accounting period in one of 2 ways:

(a) Rule 6C.(2)(a)

A straight-line time-apportionment based on the relevant number of days from the start of the transitional accounting period up to 31 July 2021 at 10% and the relevant number of days from 1 August 2021 to the end of the accounting period at 12.5%.

(b) Rule 6C.(2)(b)

On an accruals basis, where taxable profits are charged at the different rates depending on when the relevant profits accrued.

See attached for worked example.

#### **Is the straight-line apportionment the default position?**

Yes. In the interests of ease of administration for both taxpayers and the authorities, the default position under the legislation is straight-line apportionment.

If the taxpayer chooses an accruals apportionment, it is incumbent on them to show that straight-line apportionment gives a materially unfair or disproportionate result by providing relevant evidence and explanations to demonstrate this.

#### **What do I need to do to opt for an accruals apportionment?**

You should notify the Commissioner in writing accompanying this with relevant evidence and explanations. This can be done when filing your tax return for this transitional accounting period. No specific form has been designed for this.



## **What constitutes relevant evidence and explanations?**

An accruals apportionment requires a signed statement issued by the directors, or other authorised officer of the company, explaining that the application of a straight-line apportionment gives a materially unfair and disproportionate result.

The Commissioner expects this statement to be accompanied by evidence, including comparable workings between the two methods of treatment based on applicable financial information such as management accounts, cash flow statements or any other similar accounting records used in the preparation of the financial statements that are being filed and that can reliably demonstrate the actual allocation of profits or losses on an accruals basis.

A reasonable approach to the level of evidence will be taken and cases will be reviewed and considered on an individual basis. Your election will not be unreasonably denied.

## **What happens if I do not provide the information required?**

If you do not notify the method used in computing your tax liability or provide the relevant information, the Income Tax Office will proceed to assess you under the straight-line apportionment method.

## **How do I treat accumulated tax losses?**

Accumulated tax losses may be treated in 2 different ways, depending on which option is elected.

- (a) If you opt for rule 6C.(2)(a), any tax losses brought forward should be relieved, to the extent available, against the total tax adjusted profits for the entire transitional accounting period, with the residual taxable profits time apportioned accordingly as indicated in this rule.
- (b) If you opt for rule 6C.(2)(b), any tax losses brought forward must be apportioned in the same proportion and manner as the tax adjusted profits (e.g. by reference to the date on which such profits accrue) and relieved, to the extent available, against each relevant tax adjusted profit.

See attached for worked example.

[END]



## WORKED EXAMPLE

### Data

Accounting period 31 December 2021

Total tax adjusted profit for transitional accounting period £150,000

Accrued tax adjusted profits in period from 1 January 2021 to 31 July 2021 £100,000

Accrued tax adjusted profits in period from 1 August 2021 to 31 December 2021 £50,000

(a) Rule 6C.(2)(a)

Total taxable profit for transitional accounting period £150,000

Tax liability from 1 January 2021 to 31 July 2021:

$£150,000 * 212/365 * 10\% = £8,712$

Tax liability from 1 August 2021 to 31 December 2021:

$£150,000 * 153/365 * 12.5\% = £7,860$

**Total tax liability for transitional accounting period - £16,572**

(b) Rule 6C.(2)(b)

Tax adjusted profit for period 1 January 2021 to 31 July 2021 £100,000

Tax adjusted profit for period 1 August 2021 to 31 December 2021 £50,000

Tax liability from 1 January 2021 to 31 July 2021:

$£100,000 * 10\% = £10,000$

Tax liability from 1 August 2021 to 31 December 2021:

$£50,000 * 12.5\% = £6,250$

**Total tax liability for transitional accounting period - £16,250**



**WORKED EXAMPLE – ACCUMULATED LOSSES BROUGHT FORWARD**

Data

Accounting period 31 December 2021

Total tax adjusted profit for transitional accounting period £150,000

Accrued tax adjusted profits in period from 1 January 2021 to 31 July 2021 £100,000

Accrued tax adjusted profits in period from 1 August 2021 to 31 December 2021 £50,000

Accumulated Loss £50,000

(a) Rule 6C.(2)(a)

Total taxable profit for transitional accounting period £100,000

Tax liability from 1 January 2021 to 31 July 2021:

$£100,000 * 212/365 * 10\% = £5,808$

Tax liability from 1 August 2021 to 31 December 2021:

$£100,000 * 153/365 * 12.5\% = £5,240$

**Total tax liability for transitional accounting period - £11,048**

(b) Rule 6C.(2)(b)

Accumulated loss £50,000

Proportion of loss attributable to period 1 January 2021 to 31 July 2021:

$£50,000 * £100,000 / £150,000 = £33,333$

Proportion of loss attributable to period 1 August 2021 to 31 December 2021:

$£50,000 * £50,000 / £150,000 = £16,667$

Tax adjusted profit for period 1 January 2021 to 31 July 2021:

$£100,000 - £33,333 = £66,667$

Tax adjusted profit for period 1 August 2021 to 31 December 2021:

$£50,000 - £16,667 = £33,333$

Tax liability from 1 January 2021 to 31 July 2021:

$£66,667 * 10\% = £6,667$

Tax liability from 1 August 2021 to 31 December 2021:

$£33,333 * 12.5\% = £4,167$

**Total tax liability for transitional accounting period - £10,834**