TAX TALK - ADVANCE TAX FOR COMPANIES 2015

FT: What is company advance tax?
CEO: Under Section 91 of the Income Tax Act, every company is required to pay FRCA Company Advance Tax. The Company Advance Tax is a way that companies pay the tax towards the expected income tax liability on its income, during the income year. For the example, for the 2015 income year, the amount to pay is based on the 2014 year's assessment.

FT: How the payments for the Company Advance Tax made?
CEO: Payments must be made in 3 installments on the 6th, 9th and 12th month of the taxpayer's fiscal year; also known as financial year end. The fiscal year of a company is the 12-month accounting period that ends on its annual balance date. This is usually the calendar year (1 January - 31 December). A company may, upon the FRCA'S approval adopt an accounting period other than 31 December (e.g. 1 April – 31 March, 1 July – 30 June, 1 November – 31 October).

FT: So what happens to the Company Advance Tax paid?
CEO: When a company lodges its annual income tax return after the end of the income year and the actual tax liability is calculated, the Company Advance Tax paid is credited against the tax assessment to work out if the company owes more tax or has overpaid. Hence, companies that have already made Company Advance Tax payments may make appropriate adjustments in the next instalment due date.

CEO: What is if the company made a loss for the previous year?
FT: Where the previous year's assessment is a loss there will be no Company Advance Tax payable however, authorized or responsible officers should make appropriate arrangements to pay some tax towards their current year's tax liability to avoid late payment penalties on final assessment which may be imposed if they are unable to pay the final tax on assessment by the due date.

FT: What happens where the previous assessment where is no previous assessment as the company is new?
CEO: Where the previous year's assessment has not been determined, there will be no Company Advance Tax payable however, the authorized or responsible officers should make appropriate arrangements to pay some tax towards their current year's tax liability to avoid late payment penalties on final assessment which may be imposed if they are unable to pay the final tax on assessment by the due date.

FT: How is the tax year for a company determined?
CEO: For companies that have adopted an accounting period ending on a date other than 31 December, parts of the fiscal year will fall into two calendar years (e.g. 31/12/2014 and 31/12/2015). In such cases, the calendar year in which more than half of the income year falls will be deemed to be the year of income for tax purposes and the profits for the fiscal year is regarded as the profits of that calendar year. Examples:

- for a company with fiscal year ending on 31 March, the profits for the fiscal year ending 31 March 2015 is deemed to be the profits for the calendar year 2014.
- for a company with fiscal year ending on 30 June, the profits for the fiscal year 30 June 2015 is deemed to be the profits for the calendar year 2014.
- for a company with fiscal year ending on 31 July, the profits for the fiscal year 31 July 2015 is deemed to be the profit for the calendar year 2015.

CEO: What happens when the company tax assessment is raised, the advance tax paid is more that the tax assessed?
FT: Each Company Advance Tax paid by a company during a tax year is credited against the company's Income Tax liability for the year. Where the amount of the credit allowed exceeds the Income Tax due for the year, the amount of the excess will be refunded to the company or the Company may instruct FRCA to retain the credit for the following years company advance depending.

CEO: What happens if you pay less or don't pay the company advance tax by the due dates?
FT: A penalty of 40% will be imposed for any insufficient advance tax payment. The penalty is applied on the difference between the advance tax payable based on the actual Income Tax liability of the company for the preceding tax year and the advance tax paid in the sixth, ninth and twelfth months respectively.

FT? Can the company request for a waiver of the penalty?
CEO: Yes, FRCA can review the penalty in cases where advance payments were short paid due to unforeseen circumstances. Taxpayers seeking a review of penalties should write to the FRCA and provide an explanation for any shortfall in advance tax payments.