Quilter

A guide to corporate investments

For financial advisers looking to provide investment advice to corporate clients

For financial advisers only

This brochure looks at company tax and the opportunities for investing cash held on deposit in alternative products. It covers the key tax principles which apply to investment bonds and collectives held by companies, as well as key considerations for the advice process.

Contents

Identifying the opportunity

Why do companies have surplus cash and what do you need to consider?

Generally, surplus cash arises where the company has more capital than they would usually require in the short term. The conversation you have with your corporate clients when deciding whether to invest is likely to be very similar to advising individuals - what is their attitude to risk and capacity for loss? To answer these questions the company must consider the factors which apply to their particular company, such as:

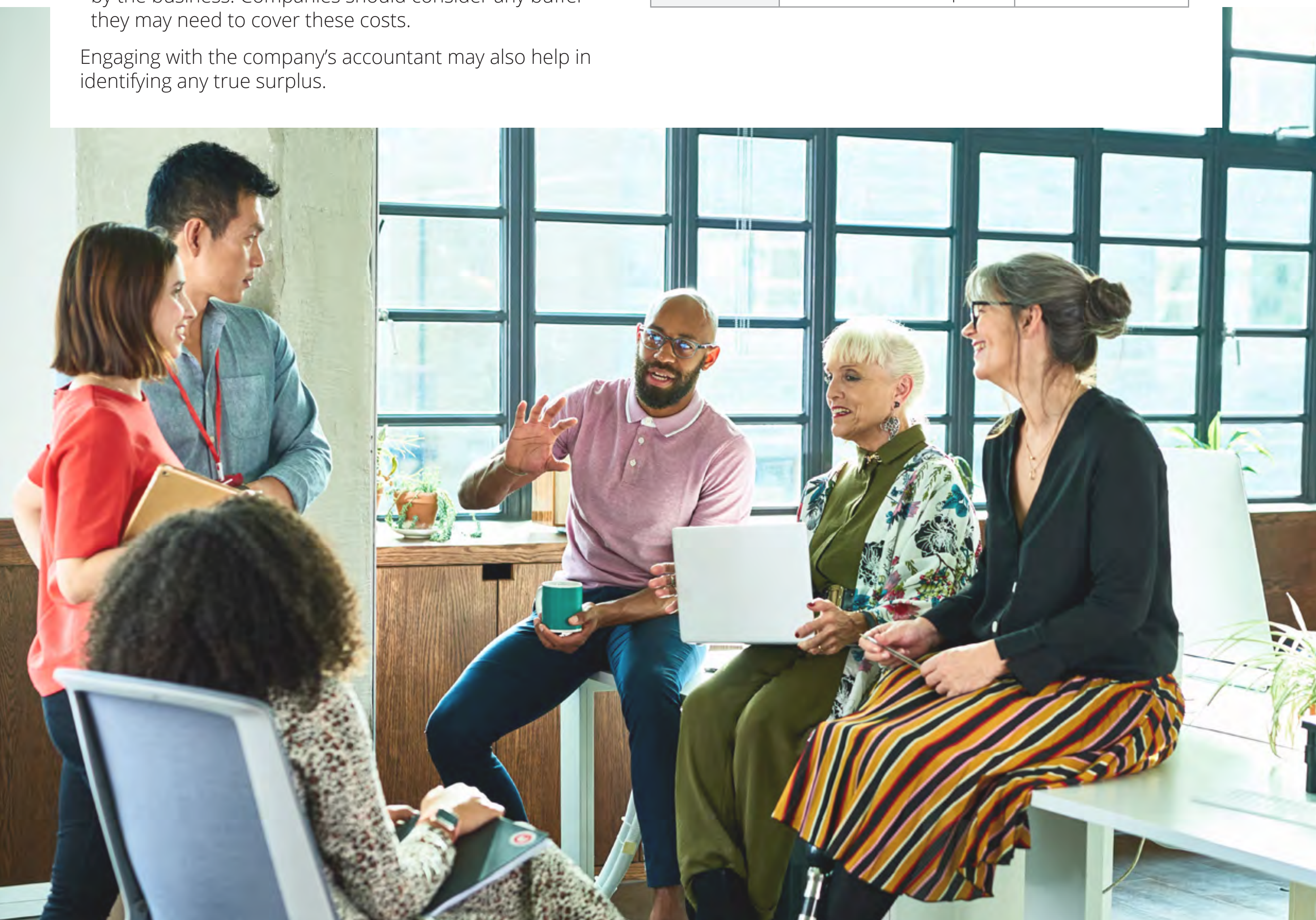
- **Seasonal changes –** Where a company's trade alters throughout the year, this may affect their cash flow. Cash which is currently surplus may be needed to carry the company during the low seasons.
- **Expenditure at irregular intervals –** Such as servicing, upgrading, and leasing costs for plant and machinery used by the business. Companies should consider any buffer they may need to cover these costs.

Engaging with the company's accountant may also help in identifying any true surplus.

Alternative uses for surplus cash

A company with surplus cash is likely to have already considered or exhausted the options for distributing the surplus, such as:

	Tax treatment	Deductible for corporation tax
Salary	Income tax on recipient National insurance on recipient and company	☑
Pension contribution	Limited by recipient's available annual allowance	☑
Dividend distribution	Paid from net company profits Taxed as dividend income for the recipient	☒



Why invest surplus cash?

Beat inflation
1

- Historically, investing produces better returns
- Market volatility can be smoothed over the longer term

Diversification
2

- Investment across sectors
- The company may select assets which negatively correlate with their usual trade
- Option for ESG investing

Corporation tax
3

- 25% on profits over £250,000
- 19% on profits up to £50,000
- No tax on dividends

2022 saw a sharp rise in inflation, reducing the purchasing power of a company's surplus cash. 2022 also saw a record-breaking rise in interest rates, although this increase is rarely reflected in the rate of interest offered to companies through deposit accounts. Companies may turn to investing their surplus cash with the aim of reducing the impact of inflation on their holdings. Investing opens opportunities in a wide range of sectors, allowing a company to diversify their portfolio and help reduce market volatility. As their financial adviser, you will also be able to help the company navigate ESG (Environmental, Social and Governance) investing - helping them to select investments which match the company's ethos.

In 2023 the downward trend of corporation tax rates came to an end with the standard rate rising from 19% to 25% from 1 April (a small profits rate applies to some companies with profits below £50,000 - **see page 4**).

Taxation of corporate investments

What tax does a company pay?

Corporation tax is what a company pays on profits it makes from:

- doing business (trading profits)
- investment income and gains (covered in this brochure)
- selling assets for more than they cost (chargeable gains).

If the company is based in the UK, it pays corporation tax on all its profits from the UK and abroad.

Rate of tax

Since April 2023 the main rate of corporation tax is 25% for companies with profits over £250,000. Companies with profits of up to £50,000 will benefit from the small profits rate of 19%. Companies with profits between £50,000 and £250,000 benefit from a marginal relief which provides an effective rate of between 19% and 25%.

The table below provides an indication of the effective rate which might apply:

Profits	Taxed at 25%	Relief applied	Tax after the relief	Effective Rate
Up to £50,000	N/A	Small profits rate	£9,500	19%
£100,000	£25,000	£2,250	£22,750	22.75%
£150,000	£37,500	£1,500	£36,000	24%
£200,000	£50,000	£750	£49,250	24.63%
£250,000 +	£62,500	£0	£62,500	25%

How is corporation tax applied?

How and when a corporation tax charge arises on a company's investments depends on the type of assets. Some assets are treated as **loan relationships** whilst others are taxed as capital assets.

Loan relationship rules

Certain investments are viewed as 'loans' between the company and another party. These fall under the 'loan relationship' rules.

The loan relationship legislation was originally introduced in the Finance Act 1996. The Finance Act 2008 extended the loan relationship rules to include:

- Life assurance policies and capital redemption policies (includes onshore and offshore investment bonds)
- Debt instruments and collective investments where the underlying investment was more than 60% invested in non-equity holdings, such as debt-based, stock-cash deposit, fixed interest, or government stock.

The exact treatment of these 'loan relationships' depends on the company's size and the accounting practices which apply.

Company accounting practices

There are two methods for valuing a loan relationship in a company's accounts.

Fair value	Historic value
The market value of the loan relationship is reported in the company's accounts at the end of each accounting year. Corporation tax will be due if there's an increase in value over the accounting period, regardless of whether there was a disposal or not.	The company reports the historic value of their loan relationships in their company accounts. The historic value refers to the purchase cost of the asset. This means the company will only pay corporation tax when all or part of the loan relationship is disposed of.

Which valuation practice applies?

The valuation method adopted will be dictated by which of the Financial Reporting Standards (FRS) the company falls under. There are four levels: micro, small, medium and large entities. Each standard has its own rules and requirements for preparing the company's accounts. However, as only micro-entities can use the historic valuation, it is usually enough to establish if the micro-entities regime can be applied.

Eligibility criteria for historic accounting		
Regime	*Micro-entities regime*	*Small, medium and large entities*
Turnover	Up to £632,000	£632,001 +
Balance sheet	Up to £316,000	£316,001 +
Employees	Up to 10	11 +
Valuation practice	**Historic value**	**Fair value**
Notes	Must not exceed two of the above	

In all cases we recommend checking with the company's accountant as a company eligible for the micro-entity regime may choose not to adopt it. A micro-entity may also be required to report the fair value of a loan relationship where it is classed as an investment company.

Capital assets

An investment which is not covered by loan relationship rules will be taxed as a capital asset. This Includes collective investments where 40% or more of the underlying assets are invested in equities.

Income

Collectives with 40% or more in equities will declare income as dividends. A company will have no corporation tax liability on dividends it receives. However, dividend distributions from collectives may contain a taxable element. **See page 7** - additional considerations.

Capital gains

Capital gains are taxed when a disposal takes place, such as a fund switch or surrender. Using capital assets as an investment effectively allows a company to defer the gains until a later date.

Summary of tax treatment

	"Collective 40% + invested in equities"	"Collective 60% + invested in debt / fixed interest"	Onshore Bond	Offshore Bond
Applicable Tax rules	Capital Asset	Loan Relationships		
Capital growth reporting	On disposal	**Fair value reporting** Fund value reported end of each accounting year. Taxed on annual increase. Annually rebased value used as cost for disposals in the following year. **Historic value reporting** Capital growth calculated on occurrence of a disposal.	**Fair value reporting** Bond surrender value reported end of each accounting year. Taxed on annual increase. Annually rebased value used as cost for any disposals in the following year. **Historic value reporting** Capital growth calculated on occurrence of a disposal. *The company does not report gains or losses relating to the underlying funds as these are owned by the life company.*	
Income distributions	No corporation tax on dividends	Taxed on an arising basis	No reporting required, funds owned by life company	
Tax credit available	N/A	N/A	Tax credit (20%) for life fund taxation available on full or partial encashment	N/A

Additional considerations

These factors may help you advise your corporate client when choosing an investment product for their surplus cash.

Product taxation

Income from collective investments

- Distributions are paid gross. Corporation tax is payable on any interest received.
- Not all dividend payments are tax free. Whilst dividends received by companies will usually have no further liability, some dividends paid may have originally come from non-equity sources. For example, a collective which holds 40% + in equity may also hold money market instruments to balance risk. All distributions from the fund itself will be classed as a dividend. However, some of that distribution may have been generated by the money market instruments.

Whilst Quilter will provide a summary of total interest and dividend distributions paid, the account holder (or their accountant) may need to contact the fund manager to determine if any part of a dividend distribution is taxable.

Onshore bonds

- UK based life assurance companies who provide onshore single premium investment bonds are liable for corporation tax on income and gains made on the underlying investments. This is like a company holding collectives directly, though the life assurance company will pay the policyholder rate which is 20%. This is managed and accounted for by the life assurance company. This is known as life fund taxation. On the full or part surrender of a bond, a policyholder who is a company is given a 20% tax credit to use against its corporation tax liability. Where the credit given exceeds the company's liability on the surrender, the credit may be used against the company's other liabilities.
- The overall life fund tax deducted within the bond may be less than 20% of the growth, depending on the type of investment and account activity. This is because life assurance companies do not pay corporation tax on dividend distributions. Therefore, a bond which derives some of its growth through dividend income will generally have paid less than 20% when considered as a blended rate. Regardless of this, the credit to the account holder is 20%.
- Where the tax treated as paid within the bond is higher than the corporation tax liability on the disposal, the credit may be used against other company profits in the same accounting period.

Offshore

- No UK corporation tax is paid at source. However, there may be a withholding tax. This is a tax on some dividend and interest income deducted in the country where the income was derived which cannot be reclaimed.

Fund switches

- Switches on collective investments will be considered as disposals so will need to be accounted for within the company's accounts. This may mean additional work for the company's accountant, particularly where a portfolio of collectives is actively managed.
- Onshore and offshore bonds are structured differently as the bond provider owns the assets within the bond. The effect of this is that any fund switches will not trigger a gain or loss position for the company.

Losses

Loan relationships

Losses (known as non-trading deficits) can be offset against profits in the year of the loss. Companies may also carry forward losses to be used in future years or carry back by 12 months. However, carried-forward losses cannot be used to reduce future profits more than 50% each year.

Capital assets

Losses on capital assets are known as non-trading losses and cannot be offset against profits made by the company's usual trading activity. However, they can be offset against profits on other capital assets or carried forward where losses are not used in the same accounting period (as there are no gains or a net loss).

The impact on tax reliefs for shareholders

Holding investments within a company can impact two key tax reliefs available for shareholders in the business. This will be particularly important when advising a client who owns the business as well as running it, as it may have a significant effect on their personal tax planning.

Business relief

Business relief is an inheritance tax (IHT) relief available to individuals holding qualifying investments. Where shares are held in an unlisted company for at least two years, the investment is eligible for business relief and may provide an IHT relief of up to 100% on the value of those shares. Losing this IHT saving could have a significant impact to shareholders who may need additional advice to plan for the additional liability on their death. For some, a lack of IHT planning may see the family business being sold off to fund the IHT bill.

Will business relief apply?

Shareholders cannot benefit from business relief if the company is deemed to be an 'investment company'. For shares which do qualify for business relief, the amount of the relief can be reduced where the company holds 'excepted assets'.

Investment company	Excepted assets
Where a company mainly deals with securities, stocks and shares, land or buildings, or making or holding investments.	Assets which aren't needed for future use in the business.
Whether or not a business is regarded as wholly or mainly an investment business has been the subject of many legal cases. *Useful guidance was provided in the case of Farmer v IRC (1999) which was to take into account the following factors:* *- the overall context of the business* *- the value of the assets employed in the trading and investment sides of the business* *- the time spent by the directors and employees* *- how turnover is split between trading and investment elements* *- the amount of profit derived from the investment and non-investment sides of the business* More information can be found in HMRC Tax Manual SVM111150	Two tests are conducted to identify excepted assets: ▸ The asset must have been used wholly or mainly for the purposes of the business in the two years prior to the transfer of value OR ▸ The asset must be required at the time of the transfer of value for future use for the purposes of the business. More information can be found in HMRC Tax Manual SVM111210
Shares in an investment company will have no business relief.	**Business relief is reduced if the company holds excepted assets.**

Business asset disposal relief

Business asset disposal relief provides a reduced rate of 10% capital gains tax on the disposal of a business. The reduced rate applies to gains on qualifying disposals up to a lifetime limit of £1,000,000. A higher rate taxpayer would usually pay 20% on gains; the availability of business asset disposal relief therefore represents a potential saving of £100,000 (10% of £1,000,000), which can make all the difference when selling the company on.

Will business relief apply?

Shares in a 'trading company' can qualify for the relief if held for at least two years by a person who is also an employee or director of the company.

Trading company
A company whose activities do not include, to a 'substantial extent', activities other than trading activities.
Substantial extent usually means 20%. Factors considered to identify a trading company: ▸ Turnover from non-trading activities. ▸ The value of trading vs non-trading assets held. ▸ Expenses incurred through non-trading activities. HMRC Tax Manual CG64090
Business asset disposal relief cannot be used against shares in a non-trading company.

Surplus cash also affects tax relief for shareholders

It's worth keeping in mind that a surplus of cash held within the company can itself be considered an investment and result in the loss or reduction of business relief and business asset disposal relief. As this can be a complex area, we recommend seeking further advice from the company's accountant.

Example calculations

***Example A** – onshore investment bond, historic cost accounting*

ABC Limited invests £100,000 at the start of their accounting year on 1 April 2020. The investment grows by 5% each year.

No corporation tax would be due until ABC Limited makes a disposal. The value stated in the accounts at the end of each accounting year would be the same as that shown at the start of the accounting period.

The company makes a partial encashment at the end of their 2025/26 reporting year. From April 2023, corporation tax rates increase from 19% to 25%. However, ABC Limited qualifies for corporation tax relief and pays an effective rate of 24%.

Accounting year	Value at start of year	Value at year end	Gain if fully surrendered at year end	Effective tax rate	Tax if fully surrendered	Tax if no surrender
01/04/2020 - 31/03/2021	£100,000	£105,000.00	£5,000.00	19%	£950.00	£0
01/04/2021 - 31/03/2022	£105,000.00	£110,250.00	£10,250.00	19%	£1,947.50	£0
01/04/2022 - 31/03/2023	£110,250.00	£115,762.50	£15,762.50	19%	£2,994.88	£0
01/04/2023 - 31/03/2024	£115,762.50	£121,550.63	£21,550.63	24%	£5,172.15	£0
01/04/2024 - 31/03/2025	£121,550.63	£127,628.16	£27,628.16	24%	£6,630.76	£0
01/04/2025 - 31/03/2026	£127,628.16	£134,009.56	£34,009.56	24%	£8,162.30	£0

Part surrenders

Full surrenders: Where fully surrendering the bond, skip straight to step 2 and use the total cost in place of the proportional cost.

ABC Limited makes a withdrawal of £50,000 at the end of the 2025/2026 accounting year where the value is £134,009.56

***Part A** - Calculate the surrender gain*

Step 1 - Proportional cost calculation

To work out the gain on this part surrender, we need first work out the cost. The total cost for the bond was £100,000. However, as only part of the bond is surrendered, we need to work out what proportion of the cost is removed.

A = The disposal

B = The value of the holding immediately prior to the surrender

C = Premiums paid

(A / B) x C = Investment cost used by surrender

(£50,000 / £134,009.56) x £100,000 = **£37,300 (Investment cost used by surrender)**

This means of the £100,000 invested, £37,300 will be used up by the surrender. If another part surrender takes place later, a revised cost must be used (£100,000 - £37,300 = £62,700).

Step 2 - Calculate the gain

Proceeds of sale – Proportional cost = Gain / Loss

£50,000 - £37,300 **= £12,700 gain**

Part B - *Calculate the gross gain and onshore credit*

UK life assurance companies pay a rate of 20% corporation tax on the income and gains generated by the underlying funds within the bond. This provides ABC Limited with a 20% credit which can be used to offset their corporation tax liability on the gain. It also means the gross gain made by the bond is actually higher than the gain calculated in part A. This is because the life company shows the bond's surrender value net of any corporation tax it must pay. A company holding an onshore investment bond must calculate and report the gross gain.

Step 3 - Gross up the gain by 20%

Gain / 0.8 = Gross gain

£12,700 / 0.8 = £15,875

This is the amount that the company will report as a non-trading credit and is taxed at their effective rate of 24% in this example

Step 4 - Calculate the corporation tax on the gross gain

Gross gain X Corporation tax rate = Corporation tax on gross gain

£15,875 x 24% = £3,810 corporation tax

Step 5 - Calculate the onshore bond tax credit

Gross gain X 20% = Onshore bond tax credit

£15,875 x 20% = £3,175

Step 6 - Calculate the corporation tax liability

Corporation tax on gross gain - Onshore bond tax credit

£3,810 - £3,175 **= £635 tax due**

Example calculations

***Example B** – onshore investment bond, fair value accounting*

XYZ Limited invests surplus cash of £100,000 into an onshore investment bond at the beginning of their accounting period on 1 April 2020. The investment grows by 5% each year.

The company's accountant uses the small entities reporting regime and therefore must report the 'fair value' of the investment bond each accounting year.

The company does not qualify for the reduced corporation tax rates and will pay 25% from 1 April 2023.

Accounting year	Value at year begin	Value at year end	Gain	Tax rate	Tax due on 'fair value'
01/04/2020 - 31/03/2021	£100,000	£105,000.00	£5,000.00	19%	£950.00
01/04/2021 - 31/03/2022	£105,000.00	£110,250.00	£10,250.00	19%	£1,947.50
01/04/2022 - 31/03/2023	£110,250.00	£115,762.50	£15,762.50	19%	£2,994.88
01/04/2023 - 31/03/2024	£115,762.50	£121,550.63	£21,550.63	25%	£5,387.66
01/04/2024 - 31/03/2025	£121,550.63	£127,628.16	£27,628.16	25%	£6,907.04

Each year any growth in the fair value of the bond is taxed at corporation tax rates. The tax due is not deducted from the bond and must be paid by XYZ Limited. The onshore bond tax credit does not apply to the fair value annual tax charge.

Part surrender

Full surrenders: Where fully surrendering the bond, skip straight to step 2 and use the total value at the end of the previous accounting year.

XYZ limited make a part surrender of £50,000 during the 2025/2026 reporting year. The table above shows that at the end of the 2024/25 year, the bond was worth this figure is £127,628.16. At the time of the encashment, the bond is worth £130,000.

***Part A** - Calculate the fair value gain*

Step 1 - Calculate the fair value cost

To work out the gain on this part surrender, we need first work out the cost. The total cost for the bond was £100,000. However, as the tax is paid on the 'fair value' each year, the 'cost' for the purpose of calculating the gain is the value at the end of the previous accounting period. In this example, this figure is £127,628.16. As only a part surrender is taking place, we must calculate the proportion of cost used.

A = the disposal

B = the value of the holding immediately prior to the surrender

C = the value at the end of the previous accounting year

(A / B) x C = investment cost used by surrender

(£50,000 / £130,000) x £127,628.16 = £ 49,087.75 (investment cost used by the surrender)

Step 2 - Calculate the fair value gain

Proceeds of sale – Proportional cost = Fair value gain / loss

£50,000 - £ 49,087.75 **= £912.25 gain**

Part B - Calculate the overall gross gain and onshore credit

UK life assurance companies pay a rate of 20% corporation tax on the income and gains generated by the underlying funds within the bond. This provides XYZ Limited with a 20% credit which can be used to offset their corporation tax liability on the gain when the bond is surrendered in full or in part. It also means the actual gain made by the bond is higher than the gains previously reported. This is because the life company shows the bond's surrender value net of any corporation tax it must pay. As a result the a company holding an onshore bond has so far only reported the net value of the bond in its annual accounts. The company must now calculate the gross gain achieved since the beginning of the loan relationship.

Step 3 - Calculate the overall gain

This step requires us to consider the total gain made since the bond's inception.

Surrender value immediately before surrender – total cost = overall gain / loss

£130,000 - £100,000 = £30,000

Step 4 - Proportional overall gain calculation

As this a part surrender, only a proportion of the overall gain applies.

A = the disposal

B = the value of the holding immediately prior to the surrender

C = the overall gain (step 3)

(A / B) x C = Investment cost used by surrender

£50,000 / £130,000 x £30,000 = £11,538.46

This is the overall gain which can be proportionately attributed to the £50,000 surrendered.

Full surrenders: Where fully surrendering the bond, skip straight to step 5 and use the total cost (£100,000).

Step 5 - Gross up the overall gain by 20%

Overall gain / 0.8 = Gross Overall Gain

£11,538.46 / 0.8 = £14,423.07

Continued overleaf

Example B continued

Step 6 - Calculate the onshore bond tax credit

Both the onshore bond tax credit (step 6) and the fair value gain (step 2) are reported in the company's accounts as a non-trading credit.

Gross overall gain X 20% = Onshore bond tax credit

£14,423.07 x 20% = £2,884.61

Part C *- Calculating the corporation tax liability*

Step 7 - The amount assessable to corporation tax

Both the onshore bond tax credit (step 6) and the fair value gain (step 2) are reported in the company's accounts as a non-trading credit.

Step 6 + Step 2 = The amount assessable

£912.25 + £2,884.61 = £3,796.86

Step 8 – Calculate the corporation tax liability

Step 7 X Corporation tax rate = Corporation tax

£3,796.86 x 25% = £949.22

Step 9 - Deduct the onshore tax credit

Step 8 – Step 6 = Corporation tax liability

£949.22 - £2,884.61 = £0 liability with an unused credit of £1,935.39, which may be offset against other liabilities which the company has in the same accounting year.

The remaining bond

Where a part surrender has taken place, the fair value of the remaining bond will also be taxable at the end of the accounting period.

For example. If the remaining bond is worth £81,500 at the end of the year, tax on the fair value will be:

Value at year start (£127,628.16) minus the fair value used by surrender (£ 49,087.75). This gives us an adjusted fair value of:

£127,628.16 - £49,087.75 = £78,540.41

Therefore:

Accounting year	Value at year begin	Value at year end	Gain	Tax rate	Tax due on 'fair value'
01/04/2025-31/03/2026	£78,540.41	£81,500	£2,959.59	25%	£739.89

Example calculations

***Example C** – collective investments*

MNO Limited has an investment account which holds two collectives. The tax treatment of collectives depends on their underlying assets:

Collective 1 - UK equity fund with more than 40% of the underlying assets invested in equities. It is therefore taxed as a capital asset. This means there will be no corporation tax until a disposal takes place. Dividends have no further liability.

Collective 2 – UK gilts fund with less than 40% equity and therefore taxed under loan relationships. MNO reports the fair value of its loan relationships on an annual basis and does not qualify for a reduction in corporation tax rates. Interest yields are taxed at corporation tax rates.

A £50,000 investment is placed into each collective at the beginning of MNO's accounting year on 1 April 2020.

Accounting Year	Asset	Value at year beginning	Capital Growth (3.5%)	Income Yield (1.5%)	Year end total value	Tax Rate	Tax on capital Growth	Tax on yield
01/04/2020 - 31/03/2021	Collective 1	£50,000.00	£1,750.00	£750.00	£52,500.00	19%	£0.00	£0.00
	Collective 2	£50,000.00	£1,750.00	£750.00	£52,500.00	19%	£332.50	£142.50
01/04/2021 - 31/03/2022	Collective 1	£52,500.00	£1,837.50	£787.50	£55,125.00	19%	£0.00	£0.00
	Collective 2	£52,500.00	£1,837.50	£787.50	£55,125.00	19%	£349.13	£149.63
01/04/2022 - 31/03/2023	Collective 1	£55,125.00	£1,929.38	£826.88	£57,881.25	19%	£0.00	£0.00
	Collective 2	£55,125.00	£1,929.38	£826.88	£57,881.25	19%	£366.58	£157.11
01/04/2023 - 31/03/2024	Collective 1	£57,881.25	£2,025.84	£868.22	£60,775.31	25%	£0.00	£0.00
	Collective 2	£57,881.25	£2,025.84	£868.22	£60,775.31	25%	£506.46	£217.05
01/04/2024 - 31/03/2025	Collective 1	£60,775.31	£2,127.14	£911.63	£63,814.08	25%	£0.00	£0.00
	Collective 2	£60,775.31	£2,127.14	£911.63	£63,814.08	25%	£531.78	£227.90

For this example, we have assumed:

- 3.5% capital growth and 1.5% income for each fund.
- Income is accumulated.
- Dividend payment is made of qualifying sources and has no taxable element.

Part surrender

MNO Limited surrender £10,000 from each fund at the beginning of the 2025/2026 accounting year. Each fund is worth £64,000 at the time. The gain of each fund is calculated as follows:

Collective 1

Step 1 - Proportionate costs

The amount originally invested is £50,000. As the income has accumulated within the fund, this increases the total cost:

£50,000 + £750 + £787.50 + £826.88 + £868.22 + £911.63 = £54,144.23 (total cost)

As this is a part surrender, only a portion of this cost is being used.

Continued overleaf

Example C continued

A = the disposal B = the value of the holding immediately prior to the surrender C = total cost (A / B) x C = investment cost used by surrender

(£10,000 / £64,000) x £54,144.23 = £8,460.04

Full surrenders: Where fully surrendering the collective, skip straight to step 2 and use the total cost in place of the proportional cost.

Step 2 - Calculate the capital gain

Proceeds of sale – Proportional cost = Gain / Loss

£10,000 - £8,460.04 gain

This is the gain reported by the company, on which tax is paid.

Step 3 - Calculate corporation tax

Gain X Corporation tax rate = Corporation tax

£8,460.04 x 25% = £2,115.01 corporation tax

Collective 2

Step 1 - Calculate the fair value cost

To work out the gain on this part surrender, we first need to work out the cost. The total cost for the collective was £50,000. However, as the tax is paid on the 'fair value' each year, the 'cost' for the purpose of calculating the gain is the value at the end of the previous accounting period. In this example, £63,814.08. As only a part surrender is taking place, we must calculate the proportion of cost used.

A = the disposal B = the value of the holding immediately prior to the surrender C = value at the end of the previous accounting year (A / B) x C = fair value cost

(£10,000 / £64,000) x £63,814.08 = £9,970.95

Step 2 - Calculate the gain

Proceeds of sale – fair value cost = Fair value gain / loss

£10,000 - £9,970.95 = £29.05 gain

Step 3 - Calculate the corporation tax

Fair value gain x Corporation tax rate

£29.05 x 25% = £7.20 corporation tax.

Total liability for both collectives: £2,115.01 + £7.20 = £2,122.21

This document was last updated in September 2023.

The value of investments can fall as well as rise and investors may not get back what they put in.

This document is based on Quilter's interpretation of the law and HM Revenue and Customs practice as at September 2023. We believe this interpretation is correct, but cannot guarantee it. Tax relief and the tax treatment of investment funds may change.

The value of any tax relief will depend on the investor's individual circumstances.

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The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.

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