

ENGINEUITY TUTORIAL



Corporation Tax



Corporation Tax

Corporation Tax is a tax on a company's taxable profit, which is defined as :-

$$\text{Taxable Profit} = \left[\begin{array}{c} \text{Operating Profit Before Interest \& Tax} \\ \text{Gross Profit} \end{array} \right] - \text{Overheads} - \text{Capital Allowances}$$

Capital Allowances are acquired by investing in the company's **capital base**, and are calculated on a 'written down' basis.

If the company makes a operating loss before interest and tax, no corporation tax is paid, and any capital allowances are carried forward to future periods.



Corporation Tax

Industry parameters



FINANCE

OVERHEADS

PROCUREMENT

JOB PROGRESSION

CASH ACCOUNT

Credit rate: 2 % per annum
 Overdraft rate: 6.6 % per annum
 Overdraft limit: 600,000

CAPITAL BASE

Increase limited to: 6 % this period
 Sold off limited to: 20 % this period
 Depreciation rate: 2.5 % per annum
 Capital writing down: 25 % per annum

INVESTMENTS

Restrictions

There cannot be more than: 6 investments at any point in time
 For each investment the maximum increase in the investment is limited to: 100000 each period

Benefits for jobs in progress

A minimum amount of: 200000 needs to have been invested to obtain any benefits for jobs in progress

For investments that deliver build cost reductions, once the minimum amount has been invested to obtain benefits, and depending upon how much has been invested, the build cost reductions are between: 0.3 and 0.5 %

For investments that provide risk management services, once the minimum amount has been invested to obtain benefits, and depending upon how much has been investment, for risks that strike the risk cost reductions are between: 30 and 40 %
 job delay reductions are between: 25 and 30 %

Cease trading

If an investment company ceases trading, the amount invested recovered is between: 25 and 85 %

MISCELLANEOUS

Cost of the management consultants report: 10,000 each period
 Corporation tax rate: 25 %

Fixed for all periods
 Can vary each period

The current corporation tax and capital writing down rates are shown in the **Industry parameters**.



Corporation Tax

Financial Performance

Navigate to "Main menu/Measuring performance/Assessing performance/Financial analysis"

Management consultants report Graphical analysis

OPERATIONAL

SHAREHOLDERS

INVESTMENTS

Summary

Assets and liabilities

Per	Status	Year/qtr	Job performance				Company performance				Shareholders		Future outlook		
			Total value	Total cost	Gross profit	GP % cost	Overhead costs	OVH % of cost	Net operating profit	NOP % cost	Share price	Dividend % cost	Company value	Forward workload	Forward margin
1	History	2023 (Q1)	0	0	0		34,080		-30,580		0.93		4,844,420	0	0
2	History	2023 (Q2)	0	0	0		84,000		-80,522		1.06		4,646,054	21,681,700	937,916
3	History	2023 (Q3)	7,880,711	7,402,859	477,852	6.5 %	169,720	2.3 %	237,934	3.2 %	1.05	1.4 %	4,754,218	20,973,480	903,198
4	History	2023 (Q4)	12,720,600	12,293,440	427,161	3.5 %	155,000	1.3 %	213,947	1.7 %	1.04	0.9 %	4,852,965	20,831,500	905,458

PERIOD 4

CLICK ON A LINE IN THE THE SUMMARY ABOVE TO SHOW THE PERIOD DETAILS

JOB PERFORMANCE

Measured value:	12,834,570	?
Early completion bonus:	0	
(less) Retention held:	131,220	?
Retention repaid:	17,253	?
Total value:	12,720,600	
(less) Costs:	12,293,440	?
Gross profit:	427,161	(3.5 % of job costs)

COMPANY PERFORMANCE

(less) Overheads:	155,000	?	(1.3 % of job costs)
Gross operating profit:	272,161		
(less) Corporation tax:	60,668	?	
(plus) Credit interest:	2,454	?	
(less) Overdraft interest:	0		
Net operating profit:	213,947	(1.7 % of job costs)	

FUTURE OUTLOOK

Forward workload:	20,831,500	?
Forward margin:	905,458	

Consider the following example where a company is in period 5, and the Financial Details are being reviewed for period 4.

For Period 4 we can see that the company's Gross Operating Profit (before tax & interest) was 272,161.

The Gross Operating Profit was then subject to Corporation Tax of 60,668. How was this calculated ?

We can use the **drill-down** to investigate further.



Corporation Tax



During period 4 a Corporation tax rate of 25% was levied on the taxable profit of 242,670 to give Corporation Tax of 60,668.

The tax burden was offset by the **Capital Allowances** of 29,491.

Capital Allowances are acquired by investing in the company's infrastructure (capital base), and are calculated on a 'written down' basis; the rate of writing down allowances is given in the **Industry parameters**.

We can use the **drill-down** to see exactly how the 29,491 was calculated.



Corporation Tax

Corporation Tax Analysis for Period 4

Gross profit: 427,161
 (less) Overheads: 155,000
 Operating profit before interest & tax: 272,161
 (less) Capital allowances: 29,491
 Taxable profit: 242,670
 Corporation tax rate: 25 %
Corporation tax paid: 60,668

Capital allowances are only used when the operating profit before interest & tax is > 0

Period	Capital additions				Capital allowance			
	Capital additions not written off at start of period	Period Additions	Period Reductions	Capital additions still to be written off after period	Capital allowance rate (% per annum)	Oper Profit Before Interest & Tax	Capital Allowance Used	Capital additions not written off carried forward
1	0	0	0	0	25 %	-34,080	0	0
2	0	0	0	0	25 %	-84,000	0	0
3	0	237,009	0	237,009	25 %	308,132	14,813	222,196
4	222,196	249,660	0	471,856	25 %	272,161	29,491	442,365

The Capital Allowances to be written off is adjusted each period as follows :-

- Increased/reduced by changes in the company's capital base
- Reduced by using up capital allowances that are written off by 25% per annum (6.25% per period)

Capital allowances **are not used if an operating loss** is made.

In period 4 an operating profit before interest & tax of 272,161 was made, and as a result capital allowances were used.

These amounted to 6.25% of 471,856, the amount still to be written off, giving a capital allowance figure of 29,491.