



Recording Corporation Tax

Generally there are three processes involved in processing Corporation Tax in your accounts.

- 1) The first step is to record the amount of corporation tax you owe as a liability. To do this you should record a journal entry to record the amount of Corporation Tax you owe. This is recorded as a Journal Entry between a Corporation Tax account and a Corporation Tax Liability account. This should be dated within the financial year it relates to.
- 2) The second step is to pay the Corporation Tax. You will pay the amount owed at a much later date and when you need to pay the tax you would record a bank payment against the Corporation Tax Liability account.
- 3) Finally you would record a journal between the Corporation Tax account and the Profit & Loss account.

There is a Corporation Tax account included in the default chart-of-accounts (6320) and this will act as your Liability account. To avoid confusion edit this account and change it's name to "Corporation Tax Liability". To do this go into the Financial section by clicking the Financial option in the main toolbar, highlight the 6320 account in the list, click the Edit button, change the Account Name and Save.

Next you need to setup a new account. Click the New button in the Financial section (or on the Account Details form) to create the account and enter the following details :

Account Ref : 5320
Account Name : Corporation Tax
Account Type : Equity
Report Group : Reserves

Then click Save & Close.

Click the Journal button in the Financial section. Enter the following lines (entering the amount which is relevant to you) :

| Account Ref. | Details | VC | Debit | Credit |
|--------------|-----------------|----|-------|--------|
| 5320 | Corporation Tax | 9 | 1000 | |
| 6320 | Corporation Tax | 9 | | 1000 |

This will ensure that the tax liability is correctly recorded on your Balance Sheet. This entry should be made before you produce your year-end balance sheet.

When you are actually paying the tax, which will be in your next financial year, you need to record a

Bank Payment. To do this open the Bank section from the main toolbar and click the Payment button. Select the correct bank account you are paying the tax from and enter the following line :

| Account Ref. | Details | Net | VC | VAT | Total |
|--------------|-------------------------|------|----|-----|-------|
| 6320 | Corporation Tax Payment | 1000 | 9 | 0 | 1000 |

In future years you may want to show the corporation tax figure for that particular year on your Balance Sheet rather than show an accumulative figure for all previous years as well. You should record a journal to clear-out the corporation tax amount and record it into an accumulative account such as the Profit & Loss account. To do this record a journal entry as below :

| Account Ref. | Details | VC | Debit | Credit |
|--------------|--------------------------|----|-------|--------|
| 5200 | Corporation Tax Transfer | 9 | 1000 | |
| 5320 | Corporation Tax Transfer | 9 | | 1000 |