

## **TAXREP 28/01**

### **SMALL ENTITY TAXATION**

**Entities whose taxable profits consist solely of bank/building society account interest:  
suggested easement to obviate reporting and payment of tax compliance obligations**

*Memorandum submitted in October 2001 to the Revenue by the Tax Faculty of the  
Institute of Chartered Accountants in England and Wales*

**ENTITIES WHOSE TAXABLE PROFITS CONSIST SOLELY OF BANK/BUILDING  
SOCIETY ACCOUNT INTEREST:  
SUGGESTED EASEMENT TO OBVIATE REPORTING AND PAYMENT OF TAX  
COMPLIANCE OBLIGATIONS**

**BACKGROUND**

1. In financial year 1999, small entities such as clubs and associations whose only taxable income was interest on deposit accounts were liable to corporation tax at 20% (or in earlier years at rates approximating to the rate withheld by banks and building societies on deposit account interest). The Revenue operated an easement for such taxpayers which meant that such entities were able to satisfy their reporting and payment compliance obligations by obtaining the agreement of the inspector of taxes to treat them as dormant under which a return is not issued for about five years in return for the taxpayer undertaking to receive deposit account interest under deduction of tax and notify the Revenue of any change in circumstances.
2. In the current and immediately preceding financial years (ie 2001 and 2000), the starting rate of corporation tax for the first £10,000 profits is 10%. As this tax rate is no longer nearly the same as the rate of tax withheld by banks and building societies on deposit accounts, it is necessary for small corporate entities such as clubs and associations whose taxable income consists solely of deposit account interest to submit a return to either pay tax of 10% or reclaim tax of  $(20-10) = 10\%$  depending on whether their deposit account interest is received gross or under deduction of tax respectively.
3. In many cases the professional fees for completing the return and advice on paying or reclaiming the tax exceeds the tax. We estimate that an average annual fee for attending on an on-going basis to the tax affairs of such a client is approximately £150.

**SUGGESTED REMEDY**

4. We recommend that the Revenue operate a de minimis easement to obviate the filing and payment/reclaim obligations.
5. We suggest that small entities whose income is wholly interest on bank/building society accounts be treated as dormant where the tax loss to the exchequer is less than £150 (ie an average fee). We further suggest that there should be no requirement for such taxpayers to operate net-of-tax deposit accounts.
6. Obviously it would be necessary for taxpayers whose interest receipts are near the de minimis threshold to monitor their position, but it would enable a large number of small taxpayers to meet their taxation obligations with minimal effort and cost on their and the Revenue's parts.

**FLAT MANAGEMENT ENTITIES**

7. We suggest that an equivalent easement be operated by the Revenue for flat management entities whose only taxable income is bank/building society interest whether or not they are within the terms of the article in August 2000 Tax Bulletin at pages 770-4.

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