

# 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: 1.8 % per annum  
Overdraft rate: 6.2 % per annum  
Overdraft limit: 625,000

**CAPITAL BASE**



Increase limited to: 7 % this period  
Sold off limited to: 24 % 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	2024 (Q1)	0	0	0		34,080		-29,080		0.93		4,845,920	0	0
2	History	2024 (Q2)	0	0	0		70,000		-65,645		1.06		4,662,431	19,783,380	826,173
3	History	2024 (Q3)	6,904,933	6,780,843	124,090	1.8 %	127,720	1.9 %	-247	0.0 %	0.94	1.6 %	4,534,196	15,051,310	627,212
4	History	2024 (Q4)	11,039,530	10,451,260	588,273	5.6 %	129,000	1.2 %	350,539	3.4 %	1.09	0.9 %	4,781,791	20,822,000	886,934

#### PERIOD 4

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

#### JOB PERFORMANCE

Measured value:	11,177,830	?
Early completion bonus:	0	
(less) Retention held:	152,517	?
Retention repaid:	14,214	?
Total value:	11,039,530	
(less) Costs:	10,451,260	?
<b>Gross profit:</b>	<b>588,273</b>	(5.6 % of job costs)

#### COMPANY PERFORMANCE

(less) Overheads:	129,000	?	(1.2 % of job costs)
<b>Gross operating profit:</b>	<b>459,273</b>		
(less) Corporation tax:	111,138	?	
(plus) Credit interest:	2,404	?	
(less) Overdraft interest:	0		
<b>Net operating profit:</b>	<b>350,539</b>	(3	

#### FUTURE OUTLOOK

Forward workload:	20,822,000	?
Forward margin:	886,934	

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 459,273.

The Gross Operating Profit was then subject to Corporation Tax of 111,138. How was this calculated ?

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



# Corporation Tax

## Corporation Tax Analysis for Period 4

Gross profit:	588,273
(less) Overheads:	129,000
Operating profit before interest & tax:	459,273
(less) Capital allowances:	14,720
Taxable profit:	444,553
Corporation tax rate:	25 %
<b>Corporation tax paid:</b>	<b>111,138</b>



During period 4 a Corporation tax rate of 25% was levied on the taxable profit of 444,553 to give Corporation Tax of 111,138.

The tax burden was offset by the **Capital Allowances** of 14,720.

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 14,720 was calculated.



# Corporation Tax

## Corporation Tax Analysis for Period 4

Gross profit:	588,273
(less) Overheads:	129,000
Operating profit before interest & tax:	459,273
(less) Capital allowances:	14,720
Taxable profit:	444,553
Corporation tax rate:	25 %
<b>Corporation tax paid:</b>	<b>111,138</b>

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 %	-70,000	0	0
3	0	0	0	0	25 %	-3,630	0	0
4	0	235,528	0	235,528	25 %	459,273	14,720	220,808

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 459,273 was made, and as a result capital allowances were used.

These amounted to 6.25% of 235,528, the amount still to be written off, giving a capital allowance figure of 14,720.