

Advanced Corporation Tax Guide

Advance Corporation Tax (ACT)?

ACT is the prepayment of corporate taxes by companies that distributed dividend payments to its shareholders during the year of assessment. A resident company which pays a dividend is liable to make advance payments of income tax (hereinafter referred to as advance corporation tax) at the specified rate, except to the extent that the distribution is made out of qualified income. The liability to pay advance corporation tax may be satisfied by an instalment of tax which has been paid and has not been set off against a final liability for income tax under section 150.

Who should pay ACT?

Any company distributing dividends to the shareholders is liable to pay ACT chargeable on the gross amount paid

Why should ACT be paid?

- To reduce direct burden to Taxpayer when filing year end income tax return.
- To curb tax evasion by companies which become insolvent.

How is ACT calculated?

The rate of advance corporation tax is 33.33% or 25/75. The applicable formula is:

$$\mathbf{A / (100 - A) \times 100}$$

Where **A** is the rate of tax specified in the Third Schedule for income other than manufacturing income

Example:

Assuming 2015/16 Chargeable Income was M100, 000. Then it follows that the final company tax liability was M16, 667. 00. The quarterly instalment will be calculated by $1/3 \times 16,667.00$ which is equal to M 5,000.00 per quarter. Therefore the total instalments paid will M 15,000.00 for the three quarters.

If it is assumed that the company paid dividends amount M60, 000.

Calculation of ACT payable:

$$\mathbf{M60, 000 \times 33.33\% = M19, 998}$$

The ACT liability will be satisfied by all instalments already paid (M19998-M15, 000) = ACT payable **M4, 998**. Note that All instalments and ACT paid are credited against company income tax liability.

What is the due date for filling ACT?

A resident company must, within seven (7) days of paying dividends, file a return of advance corporation tax showing:

- the amount of dividends paid,
- the amount of ACT paid,
- the amount of any advance corporation tax which has been satisfied in accordance with section 87(4); and
- Any other information required by the Commissioner General.