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The co-operative

Enhanced Deferred Tax Policy

Radstock Co-operative Society Limited ("Radstock") has a number of investment properties which are let on an arm's-length basis to third parties. None of these properties are rented to another group entity.

Section 16 of FRS 102 governs how these investment properties are measured (valued) for accounting purposes. FRS102 requires Radstock to initially measure an investment property at its original cost, comprising its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs.

Section 16.7 of FRS 102 then dictates how Radstock needs to measure (value) these investment properties for accounting purposes in later periods. The rules dictate that an investment property must be measured at fair value (which is to say open market value and is usually determined by an independent valuer) at each reporting date, with changes in fair value recognised in profit or loss.

Where the fair value (open market value) of an investment property increases, this reflects the fact that should the Society then sell the property, it would make a gain. On making any such gain on a sale would result in the Society paying corporation tax on chargeable gains (the company equivalent of capital gains). In order to recognise that, companies would have a future tax liability to pay on investment properties which have increased in value, section 29 of FRS 102 includes another requirement; that it should recognise, for accounting purposes, the contingent corporation tax which would be payable by the Society in the future, should it sell these properties. The Society does not have any active intention at this stage to sell any of its investment properties, but it nevertheless is required under accounting rules to recognise the deferred tax charge in its accounts.

When/if the Society does make a sale of any of the investment properties, any chargeable gain made on the sale(s) would form part of the Society's total profits subject to corporation tax. The Society would then pay corporation tax at the prevailing corporation tax rate (currently 19%, scheduled to increase to 25% from April 2023) on its total profits chargeable to corporation tax. Any corporation tax would be due to be paid 9 months after the end of the tax accounting period in which the investment property(ies) is sold, or potentially earlier, by quarterly instalments, if the Society is subject to the Corporation Tax (Instalment Payments) Regulations 1998.'

Accelerated capital allowances arise when there are temporary differences between the net book value of qualifying assets in the accounts and their equivalent tax written down values on the tax return. This is because the accounting treatment of capital assets is usually different than the tax treatment allowable. In the accounts, an asset is depreciated over its useful economic life; whereas capital allowances are set rules in tax law applied to the type of asset. The differences, however, between the net book value of qualifying assets in the accounts and their equivalent tax written down values – are only timing differences – as eventually, the accumulative depreciation and the capital allowances claimed will equal one another. The timing difference is recognised as a deferred tax provision in the accounts; and the movements in this provision will be recognised in annual instalments over the useful economic lives of the assets that it applies to.