Corporation Tax – New Rules from April 2023

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From April 2023, the full rate of Corporation tax increased to 25%. Whilst this is another hit to business owners, there is some better news for smaller companies.

The main rate of 25% is applicable to businesses who make annual taxable profits in excess of £250,000. For those companies with taxable profits less than £50,000, the rate will remain unchanged at 19% - welcome news for smaller businesses, for sure.

Where companies earn taxable profits between £50,000 and £250,000, marginal tax rates apply. Here, a marginal tax calculation increases the rate of tax, such that by the time you reach £250,000, the full rate of 25% is charged. A simple way to calculate the tax liability for these companies is to apply 19% to the first £50,000 of profits and then 26.5% to the balance of profits up to £250,000.

For example, a company with £120,000 of taxable profit would have a corporation tax liability of £28,050; calculated as:

	Profits	**Tax**
Small Rate - 19%	£50,000	£9,500
Marginal Rate - 26.5%	£70,000	£18,550
Total – effective rate 23.4%	**£120,000**	**£28,050**

By comparison, a company which earned £300,000 of taxable profit would have a tax liability of £75,000; being £300,000 x 25%.

Associated Companies

The cunning amongst you may think, *why don't I just split my business across multiple companies, thereby only suffering Corporation Tax at the lower rate*? Nice try, but HMRC already thought of that! To prevent businesses '*playing the game*'; they have re-introduced the Associated Company Rules.

Very simply, companies are 'associated' for Corporation Tax purposes, if one company has control of the other, or, if both companies are under common control – guidance on the Associated Company Rules can be found here. You should note that these rules also apply to companies which are not resident in the UK for tax purposes.

Where companies are associated, the limits used for determining the relevant rate of Corporation Tax are reduced for all of the associated companies. For example, if two companies are associated, they will both suffer 25% on profits in excess of £125,000 (£250,000 divided by 2) and they both move out of the 19% rate, once the profits reach £25,000 (again, £50,000 divided by 2).

An associated company which has not carried out any trade or business during the year, can be disregarded in determining the number of associated companies.

Time for a Review?

For those of you who operate more than one company, is now a good time for you to review your business structure/set-up? Are you paying tax at a higher rate than necessary?

Take Tom, for example, who has two trading companies. The first makes profits of £40,000 and the second makes profits of £10,000. Historically, he would have paid corporation tax at 19% for both companies, creating a total corporation tax liability of £9,500. But under the new regime, his corporation tax liability increases to £10,625, an increase of £1,125!

Does Tom need 2 companies? Could he merge his businesses into one company and reduce his tax bill? Would it be worth his while dis-incorporating one of his companies? These are some of the questions that Tom should be asking in order to keep his Corporation Tax liability to a minimum.

In addition to looking at the overall business structure, we would advise Tom that there are 'other legitimate ways' to minimise tax and now might be an opportune time to review them too. Things which he should consider include:

- Investing in fixed assets – would now be a good time to invest in or replace commercial vehicles, plant and machinery and IT?,
- Remuneration planning – would it be advantageous for Tom to revise his dividend/salary split?, and
- Pension contributions – in conjunction with his IFA, should Tom increase the company contributions to his pension fund?

CONTACT US

If you have any queries or need any advice, please do not hesitate to contact us on:

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