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## 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 on 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
<b>Small Rate - 19%</b>	£50,000	£9,500
<b>Marginal Rate - 26.5%</b>	£70,000	£18,550
<b>Total – effective rate 23.4%</b>	£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 system' 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 rate of Corporation Tax which prevails, are reduced across all of the associated companies. For example, if 2 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.



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### 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 businesses? These are some of the questions that Tom should be asking in order to keep his Corporation Tax liability to a minimum.

### CONTACT US

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