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A simple guide to the Corporation Tax increases from April 2023

Corporation tax

From April 2023, the planned increase in the corporation tax rate to 25% for companies with over £250,000 in profits will go ahead. Small companies with profits up to £50,000 will continue to pay corporation tax at 19%.

Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective corporation tax rate.

The new regime

From 1 April 2023, there is no longer a one-size-fits-all approach to corporation tax, and the rate at which companies pay corporation tax will depend on the level of their profits. There is something of a sense of déjà vu here, as the post-April 2023 regime looks rather like that applying for the financial year 2014 and previous years, with the resurrection of upper and lower profits limits (albeit at somewhat lower levels than applied in 2014) and marginal relief where profits fall between the two.

For the financial year 2023 (starting on 1 April 2023), the main rate of corporation tax will increase to 25% for companies whose profits exceed the 'upper profits limit', set at £250,000. Companies whose profits do not exceed the 'lower

profits limit', set at £50,000, pay corporation tax at the 'small profits rate', which remains at the current corporation tax rate of 19%.

The lower and upper profit limits are reduced proportionately where the accounting period is less than 12 months. They are also reduced where a company has one or more associates.

Companies whose profits fall between the lower and upper profits limits (reduced where appropriate) will pay corporation tax at the main rate, as reduced by marginal relief. This provides a gradual increase in the rate of corporation tax as profits increase until the main rate of 25% is payable once profits reach the upper profits limit.

Calculating marginal relief

Marginal relief applies to reduce the corporation tax payable where the company's profits fall between the lower and upper profits limit. The approach is to work out corporation tax on the profits at the main rate of 25% and to deduct the marginal relief.

Example 1: Marginal relief calculation

A Ltd prepares its accounts to 31 March each year. It has taxable profits (and

augmented profits) of £190,000 for the year to 31 March 2024.

The company has no associated companies.

The taxable profits for the year to 31 March 2024 fall between the lower and upper profits limits, so marginal relief comes into play.

Marginal relief is calculated in accordance with the above formula as follows.

$$\begin{aligned} &3/200 (\pounds250,000 - \pounds190,000) \times 1 \\ &= 3/200 (\pounds60,000) = \pounds900 \end{aligned}$$

The corporation tax payable by A limited is £46,600 ((£190,000 @ 25%) - £900). This is an effective rate of 24.52%.

Associated companies

The upper and lower profits limits are proportionately reduced to take account of the number of associated companies that the company has, with each limit being divided by N + 1, where N is the number of associated companies.

The impact of this is shown in the following table for companies with up to five associated companies.

Number of associated companies	Upper profits limit	Lower profits limit
0	£250,000	£50,000
1	£125,000	£25,000
2	£83,333	£16,667

3	£62,500	£12,500
4	£50,000	£10,000
5	£41,667	£8,333

A company counts as an associated company if it is associated for any part of the accounting period – thus, the reduction applies even if the companies are only associated for a number of days in the accounting period. However, a company is ignored for the purposes of calculating the applicable limits if it has not traded in the accounting period or, where the company was associated for only part of the accounting period, it did not trade during that period.

Two companies are associated with each other if one is under the control of the other or both are under the control of the same person or persons. Here, ‘control’ means 51%. However, in determining whether a person has control of a company, the rights and powers of their associates (which includes their spouse or civil partner and business partners) are taken into account.

Example 2: One associated company

B Ltd has one associated company. It has taxable profits (and augmented profits) of £150,000 for the year to 31 March 2024.

For a company with one associated company, the lower profits limit is £25,000, and the upper profits limit is £125,000. This means B Ltd must pay corporation tax at 25% on its profits as

they exceed the reduced upper profits limit of £125,000.

The associated company rules can have a distortive effect if profits between the companies are uneven.

Accounting period spans 1 April 2023

Where the accounting period spans 1 April 2023, the profits are apportioned to those falling within the financial year 2022, which are taxed at 19%, and those falling within the financial year 2023, taxed at the appropriate rate depending on the level of profits falling into that year, with the upper and lower profits limits being proportionately reduced.

Example 3: Apportionment of profits

C Ltd prepares accounts to 30 September each year. The company has taxable profits (and augmented profits) of £300,000 for the year to 30 September 2023.

Profits falling into the financial year 2022 are £150,000 (i.e. $6/12 \times £300,000$).

These are taxed at 19%.

The resulting corporation tax is £28,500.

For the financial year 2023, the lower and upper profit limits are proportionately reduced to reflect the fact that only six months of the accounting period falls in the financial year 2023. The lower profits limit is £25,000 (i.e. $£50,000 \times 6/12$) and the upper profits limit is £125,000 (i.e. $6/12 \times £250,000$). Profits for the period are £150,000 (i.e. $6/12 \times £300,000$). As these exceed the upper profits limit for the period, they are taxed at 25%, and the associated corporation tax is £37,500.

Thus, the company must pay corporation tax of £66,000 on its profits of £300,000 for the year to 30 September 2023 – an effective rate of 22%.
