



## Information Sheet

OCL Accountancy  
141 Englishcombe Lane Bath BA2 2EL  
Telephone: 01225 445507  
Email: [info@oclaccountancy.com](mailto:info@oclaccountancy.com)

We hope you enjoy reading this information sheet and find it useful. Please contact us if you would like to discuss any matters further.

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### Planning ahead for the corporation tax increase in 2023

For UK companies, one of the biggest taxes to be planning ahead for is the increase to corporation tax. The new rate will be effective from 1 April 2023.

Currently all companies, regardless of the size of their profits, suffer corporation tax at the rate of 19%. It is an historically low rate, and it will continue to be effective until 31 March 2023.

After this date, a new higher rate comes into effect for companies with profits over £50,000.

All companies with profits below £50,000 will continue paying the 19% rate of corporation tax.

Depending on the circumstances, if a company's profits lie between £50,000 and £250,000, it may be possible to claim some marginal tax relief to reduce the 25% rate. Profits over the £250,000 marginal relief upper limit will be taxed at 25%.

### Planning for new rates of corporation tax

#### Profit limits

The lower limit is £50,000 for the 2023 financial year and the upper limit £250,000. However these are annual limits and should therefore be time apportioned if used in an accounting period of less than 12 months.

The limits are also adjusted for the number of associated companies – the limits are divided by  $1 + N$  where N is the number of associated companies.

Corporation Tax charge and main rate at:

- 19% for the financial year beginning 1 April 2022
- 25% for the financial year beginning 1 April 2023 for taxable profits above £250,000
- Small Profits Rate at 19% for the financial year beginning 1 April 2023 for taxable profits up to £50,000

For profits that fall between £50,000 and £250,000 will be taxed at the effective marginal rate. Companies will wish to consider the timing of income and expenditure if they believe that their profits will be taxed as more than 19%.

Note that the rate of super deduction for capital allowances until 31 March 2023 takes the increased rate of corporation tax into account.

Companies which do not anticipate an increase in their tax rate in 2023 should plan to take advantage of the super-deduction before it expires.

If profits are going to be over £250,000 then waiting until 1 April 2023 to claim capital allowance instead of super deduction for capital allowances will be more beneficial.

Note that if the company year-end is other than 31 March, the tax computation for accounting periods spanning 1 April 2023 will be made in two stages – time apportioning profits to the period before and after the change.

*Please contact us if you'd wish to discuss how best to take advantage of this super deduction.*

### Marginal relief

Marginal relief is available if

- The company is UK resident
- The company is not a close investment holding company
- The company's 'augmented profits' exceed the lower profit limit, and

The company's augmented profits do not exceed the profit upper limit which is set at £250,000.

*Table illustrating corporation tax versus taxable profit between upper and lower limits from Apr 23.*

Taxable Profit	Corporation Tax	Overall tax rate
£ 50,000	£ 9,500.00	19.00%
£ 100,000	£ 22,750.00	22.75%
£ 150,000	£ 36,000.00	24.00%
£ 200,000	£ 49,250.00	24.63%
£ 250,000	£ 62,500.00	25.00%

**Impact of associated companies on corporation tax**

Where a company has multiple associated companies, the upper and lower profit limits for corporation tax purposes will reduce accordingly.

*The table below shows how the taxable profit limits for companies with up to five associated companies are adjusted.*

Associated Companies	Upper Profit Limit	Lower Profit 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