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## Corporation Tax Rates

At the Budget 2021, it was proposed that legislation will be introduced to set the Corporation Tax main rate at 25% from April 2023 (an increase on the current main rate of 19%).

The legislation will also introduce a Small Profits Rate at 19% from April 2023. The Small Profits Rate will continue to apply for a company, with no associates, and profits below the 'lower limit' of £50,000.

Where profits exceed the 'upper limit' of £250,000, all chargeable profits will be subject to Corporation Tax at the main rate of 25%.

Where a company's profits fall between the lower and upper limits of £50,000 and £250,000, a tapered rate will apply. This is achieved by the, potentially complicated, marginal relief provisions. These provisions aim to bridge the gap between the lower and upper limits, providing a gradual increase in the Corporation Tax (CT) rate, although where a company has no dividend income, the tax on the profits exceeding £50,000 can be explained more simply.

In short, profits exceeding £50,000 up to £250,000 are subject to an effective tax rate of 26.5%:

	<i>Scenario 1</i>	<i>Scenario 2</i>	<i>Scenario 3</i>
Chargeable profits (£)	50,000	75,000	250,000
First £50,000 taxed at 19%	9,500	9,500	9,500
Balance exceeding £50,000 taxed at 26.5%	n/a	6,625	53,000
Corporation Tax due, after marginal relief (£)	9,500	16,125	62,500

These provisions are similar to legislation which was repealed in April 2015 with the key difference being the lower and upper limits are reduced significantly.

Furthermore, the lower and upper limits will be reduced proportionately for dividends received from unconnected companies, short accounting periods and where the company has 'associated companies'.

Broadly, a company is associated with another company if, at that time or at any time within the preceding 12 months, one company has control of the other or both companies are under control of the same person or group of persons.

The associated company rule may have unexpected consequences for companies with low profits. For example, where two companies are under common control with profits of £10,000 and £40,000 respectively, the lower limit for each will be £25,000. Therefore £15,000 of the second company's profits will be liable to the higher rate of 26.5%, despite the combined profits not exceeding £50,000.

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The above intends to provide a brief introduction to the rules for calculating the amount of Corporation Tax due for the profits attributed to periods after 1 April 2023.

There are various rules and factors which can impact the rate of tax and care should be taken to ensure the correct amount of tax is calculated.

If you require any guidance or confirmation on the above, please speak to your usual Chavereys contact.

This document is intended as a general guide and although Chavereys have made every effort to ensure accuracy, they cannot accept liability for any errors of fact or opinion.

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