



BUSINESS & PERSONAL TAX SUPPORT

Corporation Tax Increases from 1 April 2023

Planning update 2022/23



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If you operate your business through a limited company, for example, as either a personal or family company, you will pay corporation tax on your profits. Currently, the rate of corporation tax that is payable is the same regardless of the level of your profits. For the financial year 2022 (i.e., the year from 1 April 2022 to 31 March 2023), the rate of corporation tax is set at 19%.

However, corporation tax is being reformed from 1 April 2023. The changes may affect how much corporation tax you pay and how you calculate your corporation tax liability. It is important to understand what the changes may mean for your business.

Corporation tax from April 2023

From 1 April 2023:

- The main corporation tax rate is increased to 25% where profits are over the upper profits limit, set at £250,000.
- A small profits rate will apply for companies whose profits are equal or below the lower profits limit, set at £50,000. The small profits rate is set at 19%.
- Companies with profits between the lower and upper limits (£50,000 and £250,000) will pay tax at the main rate of 25%, but this will be reduced by marginal relief. The effect of marginal relief is that the effective rate of corporation tax gradually increases from 19% where profits are £50,000 or less to 25% where profits are more than £250,000.

The limits are reduced if you have associated companies or if your accounting period is less than 12 months.

Impact if profits are £50,000 or less

If your company is a standalone company without associates and your taxable profits are £50,000 or less, you will be unaffected by the changes to corporation that come into effect from April 2023.

You will continue to pay corporation tax on your profits at 19%.

Marginal relief – profits between £50,000 and £250,000

If your company profits are between £50,000 and £250,000, you will pay more corporation tax than was the case in the financial year ending 31 March 2022.

The amount of tax you pay will be found by multiplying your profits by the main rate of 25% and deducting marginal relief.

Marginal relief is calculated in accordance with the following formula:

$$F \times (U - A) \times N/A$$

Where:

F is the standard marginal relief fraction

U is the upper limit

A is the amount of augmented profits

N is the amount of the taxable profits.

For the financial year 2023, the marginal relief fraction is 3/200.

This formula is not included to confuse you, but to illustrate that a new complication has been added to the determination of company tax liabilities.

The upper limit is £250,000. However, this is reduced if your company has associated companies or if your accounting period is less than 12 months.

Augmented profits are total taxable profits plus qualifying exempt distributions that are received from companies that are not 51% subsidiaries or owned through a consortium.

For example, if you have total taxable profits of £100,000 for the year to 31 March 2023, and did not receive any qualifying exempt distributions (so augmented profits are also £100,000), you will be entitled to marginal relief of:

$$\frac{3}{200} (\text{£}250,000 - \text{£}100,000) \times \frac{\text{£}100,000}{\text{£}100,000} = \text{£}2,250.$$

We have used reasonable care and skill in assembling the information in this update. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of this publication. Accordingly, the material presented does not constitute personal or business advice. You should not rely solely on this update to make (or refrain from making) any decision or take (or refrain from taking) any action.

Therefore, your corporation tax bill will be £22,750 ((£100,000 @ 25%) - £2,250). This is an effective rate of 22.75%.

Likewise, if your taxable profits are £200,000, you will be entitled to marginal relief of £750 and will pay corporation tax of £49,250 ((£200,000 @ 25%) - £750). This is an effective rate of 24.625%.

In this way the marginal relief smooths the transition from 19% to 25%.

Profits in excess of £250,000

If profits from your standalone company are more than £250,000, the rate at which you pay corporation tax will increase by 6%, from 19% to 25% from 1 April 2023. You will need to plan ahead for the impact of this increase, which will adversely affect your cashflow and will reduce your retained profits. A reduction in retained profits will mean there are less funds to distribute as dividends.

For every £10,000 of profits, you will pay an additional £600 in corporation tax from 1 April 2023.

Impact of associated companies

The lower (£50,000) and upper (£250,000) profit limits are reduced if you have associated companies. The limit is divided by the number of associated companies plus 1. For example, if you have one associated company, the lower limit is £25,000 and the upper limit is £125,000 – the limits are divided by two. Likewise, if you have four associated companies, the limits are £10,000 and £50,000 – the limits are divided by five.

Where you have associated companies, the reduction in the limits will affect the profits which are charged at the small companies' rate, the band to which marginal relief applies and point at which corporation tax is payable at the main rate.

For example, if you have one associated company so that the limits are halved, from 1 April 2023, you will pay corporation tax at the small profits rate if your profits are £25,000 or less. If your profits fall between £25,000 and £125,000 you will pay tax at 25%, as reduced by marginal relief. If

your profits are more than £125,000, you will pay corporation tax at the main rate of 25%.

The following table shows the lower and upper profit limits if you have no associated companies, or between 1 and 4 associated companies.

Number of associates	Lower profits limit	Upper profits limit
0	£50,000	£250,000
1	£25,000	£125,000
2	£16,667	£83,333
3	£12,500	£62,500
4	£10,000	£50,000

You may want to review your company structures prior to 6 April 2023. For example, if you have one company with taxable profits of £40,000 and one company with taxable profits of £5,000, the company with the taxable profits of £40,000 will not benefit from the small profits rate as the profits are above the lower limit of £25,000 that applies to a company with one associate. Merging the companies will mean that there is only one company and the combined profits of £45,000 will be charged at the small profits rate of 19%.

Short accounting periods

The lower and upper profit limits are also proportionately reduced if your accounting period is less than 12 months. For example, if you change your accounting date and prepare accounts for nine months when moving to the new date, the limits are £37,500 and £187,500.

We can help

If your company is likely to have profits in excess of £50,000 or has one or more associated companies, we will need to revisit options to minimise your corporation tax bills from 1 April 2023.

Please call so we can discuss your options.

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