



BUSINESS & PERSONAL TAX SUPPORT

Corporation tax from 1 April 2023

The new regime



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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.

For the financial year 2022 and previous tax years, all companies pay corporation tax at 19% regardless of the level of their profits. However, from 1 April 2023 (the financial year 2023 onwards), the rate at which a company pays corporation tax depends on the amount of their profits.

Corporation tax from April 2023

From 1 April 2023:

- The main corporation tax rate is 25% where profits are over the upper profits limit, set at £250,000 for a standalone company.
- A small profits rate applies for companies whose profits are equal or below the lower profits limit, set at £50,000 for a standalone company. The small profits rate is set at 19%.
- Companies with profits between the lower and upper limits (£50,000 and £250,000 for a standalone company) 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.

Where a company has one or more associated companies, the lower and upper profits limits are divided by the number of associates plus one. The limits are proportionately reduced where the accounting period is less than 12 months in length.

Profits are £50,000 or less

If your company is a standalone company without associates and your taxable profits are £50,000 or less, from 1 April 2023 onwards you will pay corporation tax on your profits at 19%.

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

If your company profits are between the lower and upper profit limits of £50,000 and £250,000 for a standalone company, your effective rate of corporation tax from 1 April 2023 will be between 19% and 25%.

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 for a standalone company. 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.

Where the company has no qualifying exempt distributions (so A and N are the same), the formula can be simplified to:

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

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:

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$\frac{3}{200} (\pounds250,000 - \pounds100,000) \times \pounds100,000 / \pounds100,000 = \pounds2,250$.

Therefore, your corporation tax bill will be $\pounds22,750$ ($(\pounds100,000 @ 25\%) - \pounds2,250$). This is an effective rate of 22.75%. Likewise, if your taxable profits are $\pounds200,000$, you will be entitled to marginal relief of $\pounds750$ and will pay corporation tax of $\pounds49,250$ ($(\pounds200,000 @ 25\%) - \pounds750$). 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 $\pounds250,000$, the rate at which you pay corporation tax is 25% from 1 April 2023. This is quite a jump from the 19% payable for the Financial Year 2022 and 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.

Where profits exceed the upper profits limits, for every $\pounds10,000$ of profits, you will pay an additional $\pounds600$ in corporation tax from 1 April 2023.

Impact of associated companies

The lower ($\pounds50,000$) and upper ($\pounds250,000$) 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 $\pounds25,000$ and the upper limit is $\pounds125,000$ – the limits are divided by two. Likewise, if you have four associated companies, the limits are $\pounds10,000$ and $\pounds50,000$ – 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 $\pounds25,000$ or less. If your

profits fall between $\pounds25,000$ and $\pounds125,000$ you will pay tax at 25%, as reduced by marginal relief. If your profits are more than $\pounds125,000$, 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	$\pounds50,000$	$\pounds250,000$
1	$\pounds25,000$	$\pounds125,000$
2	$\pounds16,667$	$\pounds83,333$
3	$\pounds12,500$	$\pounds62,500$
4	$\pounds10,000$	$\pounds50,000$

You may want to review your company structures to check that they remain tax efficient. For example, if you have one company with taxable profits of $\pounds40,000$ and one company with taxable profits of $\pounds5,000$, the company with the taxable profits of $\pounds40,000$ will not benefit from the small profits rate as the profits are above the lower limit of $\pounds25,000$ that applies to a company with one associate. Merging the companies will mean that there is only one company and the combined profits of $\pounds45,000$ 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 $\pounds37,500$ and $\pounds187,500$.

We can help

If your company is likely to have profits in excess of $\pounds50,000$ or has one or more associated companies, it is prudent to consider how you can minimise your corporation tax bills from 1 April 2023.

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Please call so we can discuss your options.

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