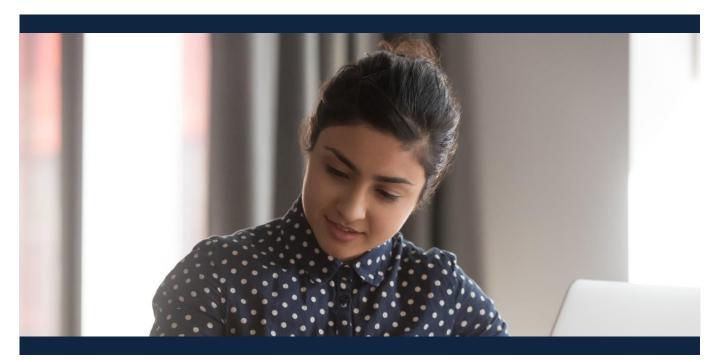
Broadcast



FACTSHEET: CORPORATION TAX CHANGES

SPECIAL ISSUE

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Small company owners should by now be aware of the corporation tax changes taking effect from 1 April 2023, but with the associated company rules being introduced at the same time, don't be caught off guard.

From 1 April 2023, there will be two rates of corporation tax:

- A small profits rate of 19% where profits are below £50,000; and
- A main rate of 25% where profits exceed £250,000.

Where profits are between £50,000 and £250,000, marginal relief applies so that the rate of tax is gradually increased from 19% to 25%. The effective tax rate on this band of profits is 26.5% – slightly higher still if a company receives dividend income.

Impact of associated companies

The profit thresholds are divided between associated companies. For example, if two companies are associated, they will respectively only benefit from the 19% tax rate on profits up to £25,000. This means each company pays around £1,875 more in corporation tax each year than if the full £50,000 limit had been available.

- Overall, this may make little difference if both companies have profits in excess of £25,000 the full £50,000 limit being utilised but it will if one company has minimal profits.
- Should this be the case, business owners may wish to consider running just the one company.

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Meaning of associated

The basic rule is that companies are associated if they are under common control – this means a shareholding of more than 50%. For example, two companies are associated if two people both have 30% shareholdings in each company.

- Companies only associated for part of an accounting period count as associated companies for the whole of that period.
- Overseas resident companies can be included.
- Dormant companies (not carrying on a trade or business) do not count as associated companies.

Determining whether or not a company is associated can get quite complex because shareholdings of associates can, in certain circumstances, be included.

The associated company rules almost certainly prevent the hiving off of profits to another company controlled by a spouse or civil partner in order to benefit from two £50,000 limits.

A detailed explanation of the associated company rules can be found here.

Corporate Tax calculations after 1 April

If your company's accounting period overlaps 1 April 2023, the profits must be divided between the period up to and including 31 March 2023, and the period after. If an accounting period is less than twelve months, the profit thresholds are applied pro rata.

If you would like help or have any questions on any of the topics discussed in this broadcast, please contact us to speak to a member of our dedicated team, call us on 01753 888211 or email info@nhllp.com

We are here to help.