



HMRC has launched a new campaign under which companies that may have incorrectly calculated their corporation tax marginal relief could receive a letter. The potential errors are understood to arise, in part, from the omission of associated companies in the calculations.

Associated companies

Directors will be aware that the first £50,000 of their company's profit benefits from a corporation tax rate of 19%, compared to the main rate of 25% applicable once profits hit £250,000. This means:

- Marginal relief eases the transition from the 19% rate to the main rate.
- Directors may not appreciate, however, that the £50,000 and £250,000 limits are shared across associated companies.
- For example, if a company has two associated companies, marginal relief will apply on profits between £16,667 and £83,333.

Essentially, companies are associated if one is under the control of the other, or if both are under common control. It doesn't matter whether a company is associated for part of an accounting period, or where a company is resident. However, dormant companies are not treated as associated.

The associated company rules can be quite complex, and, in some circumstances, a company owned by a spouse, civil partner, parent, child or sibling can be treated as an associated company.

One-to-many letters

Any company receiving a letter only has 30 days in which to respond to HMRC, and, if necessary, make any amendment. HMRC could, of course, be mistaken, such as where an alleged associated company is, in fact, dormant.

What a director should definitely not do is ignore a letter. If HMRC were to follow up with a formal compliance check, the process would likely be time-consuming and costly.

Planning

If a company's corporation tax is higher than it would otherwise be as a result of having associated companies, the overall company structure needs to be reviewed. For example, two companies under common control might have profits of £49,000 and £1,000 respectively. The total corporation tax bill could be reduced by £1,800 if the two companies were combined into one company.

HMRC's guidance on marginal relief can be found [here](#).

We can help

If you require further information on any issues raised in this Broadcast, please contact us. Call us on **01753 888 211** or email **info@nhllp.com**, we are here to help.