

We look at some of the details around the new 25% rate, and other changes affecting corporation tax bills.

Corporation tax rate rise – the return of marginal rates and associated companies

The Chancellor is increasing corporation tax to 25% from 1 April 2023. However, the new full rate of 25% is only applicable for companies making profits of over £250,000. Companies with profits of £50,000 or below will pay the small profit rate of 19%.

Companies will pay a marginal rate of corporation tax of 26.5% on profits between £50,000 and £250,000. Marginal rates of corporation tax are nothing new, however they are something we saw the end of nearly eight years ago.

When the new rules are introduced, a company with £100,000 of taxable profit will pay the following rates of corporation tax:

1st £50,000 @ 19% – £9,500
2nd £50,000 @ 26.5% – £13,250
Total corporation tax – £22,750 (22.75%)

Group company traps

The limits of £50,000 and £250,000 will be reduced where there are associated companies.

A company is associated with another company at a particular time if, at that time or at any other time within the preceding 12 months:

- one company has control of the other
- both companies are under the control of the same person or group of persons.

Example

If a group includes four companies, each company within that group would pay the following corporation tax rates:

Taxable profits <£12,500
19% (£50,000/4)

Taxable profits £12,501
£62,500 – 26.5%

Taxable profits above £62,500
25% (£250,000/4)

The rates above will apply for each active company.

Therefore in group company situations, care and planning will be needed where profits per company will be taxed at different rates.

Temporary carry back extension

Another corporation tax-related change is the temporary extension of the period over which incorporated and unincorporated businesses may carry back trading losses from one year to three years. This will apply to a maximum £2m of unused trading losses made in each of the tax years 2020/21 and 2021/22 by unincorporated businesses.

The same maximum will apply separately to companies' unused trading losses, after carry back to the preceding year, in relevant accounting periods ending between 1 April

2020 and 31 March 2021, and for periods ending between 1 April 2021 and 31 March 2022.

Super-deduction capital allowance

For the period 1 April 2021 until 31 March 2023, limited companies will be able to claim a 130% super-deduction capital allowance on qualifying plant and machinery investments. There is currently no proposed cap on the level of investment which qualifies for the 130% rate.

The government has also recently widened this super-deduction to cover property investors for allowances on plant and machinery within leased properties.

R&D tax credit repayments capped

Research and development (R&D) tax credit repayments for SMEs are now capped for accounting periods after March 2021. The cap limits the payable R&D credit to £20,000 plus 300% of an SME's total PAYE and NIC liability.

The cap does not apply to those companies which have employees creating or managing intellectual property and which don't spend more than 15% of their qualifying R&D expenditure on outsourcing the relevant R&D work to connected parties.

For more on the new corporation tax rates and what they mean for your business, please talk with your usual Shipleys contact or get in touch with one of our offices.

Buildings and land reliefs can reduce your tax liability

Claiming for reliefs and allowances can cut corporation tax bills for qualifying businesses.

One such allowance which applies to all businesses is the structures and buildings allowance (SBA), which covers expenditure on or after 29 October 2018 on the purchase or improvement of business premises.

A successful claim will give an annual allowance of 3% of the qualifying expenditure. This can then be used to reduce the annual taxable profit figure of the business by that sum for up to 50 years.

Premises must be taxable in the UK and used for a qualifying activity. Construction costs which count as qualifying expenditure for the SBA include:

- fees for design
- preparing the site for construction
- construction works
- renovation, repair and conversion costs
- fitting out works.

More from the Shipleys website at: <https://tinyurl.com/93vv897c>

Land remediation relief

Businesses planning to reduce their environmental impact can take advantage of several helpful government initiatives.

One of these is land remediation relief. If a property development project involves cleaning up contaminated land, up to 150% tax relief is available on the cost. If the development project makes a loss, a 24% cash repayment for the land remediation cost can be claimed.

More on this and other eco-friendly incentives at: <https://tinyurl.com/2hf2d4hz>