February 2023

CORPORATION TAX IN 2023

After multiple policy U-turns and much uncertainty, the main rate of Corporation Tax will rise from 19% to 25% from 1 April 2023.

The Government will also establish a 'small profits rate', which will hold Corporation Tax at 19% on profits of £50,000 or less. According to the Government, this means 70% of actively trading companies – 1.4 million businesses – will be completely unaffected.

Profits between £50,000 and £250,000 will be taxed at the marginal rate of 26.5% (see below) which results in the overall rate of Corporation Tax on total profits which exceed £50,000 (but are lower than £250,000) being somewhere between 19% and 25%. If profits for the year are just over £50,000 then the effective rate on total profits will only slightly exceed 19%, whereas if profits are nearing £250,000 then the rate will be almost 25% on total profits.

The full 25% Corporation Tax rate will only be applicable for companies with profits exceeding £250,000 a year, which means around 10% of all UK companies will pay the full higher rate, according to Spring Budget 2021 documents.

It is worth clarifying however that if a company makes a profit of over £250,000 for the year, all of it will be taxed at 25%, not just the amount above £250,000– unlike Income Tax, where portions of your income are taxed at gradually increasing rates after a tax-free allowance.

How the taper will work

As mentioned above, companies may be able to claim 'marginal relief' if their profits from 1 April 2023 are between £50,000 (lower limit) and £250,000 (upper limit).

However, these limits are proportionately reduced if your accounting period is shorter than 12 months. The lower and upper limits are also proportionally reduced by the number of associated companies your company has (broadly those companies in the same group or under common control).

So, if your company has three other associated companies, the limits are divided by four, reducing the lower limit to £12,500 and the upper limit to £62,500 for each company.

Mitigating corporation tax

In light of these proposed changes, businesses subject to Corporation Tax may wish to consider, where they can do so legitimately, accelerating income, so that it is accounted for before 1 April 2023, and deferring expenditure, so that it is incurred and accounted for after 31 March 2023.

So, for example, if you were planning to carry out significant repair work shortly and you anticipate profits of over £50,000, other things being equal, you may wish to delay undertaking this work until after 31 March 2023 as you will receive a greater amount of tax relief by doing so i.e. 25% or 26.5% rather than 19% (the current Corporation Tax rate).

Similarly, if you are considering having the company make significant employer pension contributions, again, other things being equal, you may wish to defer making such contributions until after 31 March 2023.

As always, each case needs to be considered on its own merits, and there can often be other factors to take into account, in addition to tax considerations. For example, with pension contributions one would not wish to do anything which would jeopardise maximising entitlement to the annual pension allowances. All aspects need to be considered carefully and appropriate advice should also be taken from your financial advisers, where applicable.

Finally, in relation to capital investment, as we have mentioned before, the 'Super Deduction' rate of 130% for brand new equipment is due to cease on 31 March 2023. The Annual Investment Allowance (AIA) limit is however remaining at its current level of £1,000,000 per annum.

The above is for general guidance only and no action should be taken without obtaining specific advice.

Bath
37 Great Pulteney Street
Bath
BA2 4DA
+44 (0)1225 460491

Chippenham
67 & 68 St Mary Street
Chippenham, Wiltshire
SN15 3JF
+44 (0)1249 444666

Trowbridge
5 Wicker Hill
Trowbridge, Wiltshire
BA14 8JS
+44 (0)1225 764441