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Corporation Tax

An overview

Corporation Tax is charged on the profits of companies and branches trading within the UK, and on the overseas branches of UK resident companies.

The main rate of Corporation tax of 19% which applies to all companies regardless of size will cease to apply from 1 April 2023.

From 1 April 2023, Corporation tax rates will vary from 19% to 25%.

A small profits rate of 19% will apply to companies whose profits are equal to or below £50,000.

Companies earning profits in excess of £250,000 will pay the full rate of Corporation tax, being 25%.

Companies earning profits between £50,000 and £250,000 will pay tax at a marginal rate, which means the overall rate will be between 19% and 25%.

It should be noted that the thresholds of £50,000 and £250,000 are proportionately reduced for short accounting periods. The thresholds are also divided by the number of active (i.e excludes dormant but includes overseas) associated companies (i.e. the number of companies that are associated with the company plus the company itself). For example, if the company has 4 active associates, the thresholds are divided by 5. In this case, the small profits rate threshold would be £50,000/5 = £10,000 and the full rate threshold would be £250,0000/5 = £50,000.

Large companies (i.e. companies that have profits in excess of £1.5 million) are required to pay their Corporation tax in quarterly instalments. The large company threshold of £1.5 million is also subject to apportionment, based on the length of the accounting period and the number of associated companies.

Very large companies (i.e. companies that have profits in excess of £20 million) are also required to pay their Corporation tax in quarterly instalments. This threshold is also subject to apportionment, based on the length of the accounting period and the number of associated companies.

Calculation of profits:

Business profits are calculated under UK GAAP or International Accounting Standards and adjustments are made for tax purposes depending on the particular source of income.

Deductions are allowed for most revenue expenditure which is included in the company accounts. Some expenditure is specifically excluded, such as the costs of business entertaining and depreciation of tangible assets.

Capital expenditure is also excluded, although this may qualify for a deduction under the capital allowances regime.

Chargeable gains:

Capital assets (e.g. land and buildings) are dealt with separately from trading profits and losses.

The proceeds of a sale, less the original purchase cost and an allowance for inflation (frozen at December 2017), are taxable as a chargeable gain. The chargeable gain is added to other income and the total taxable profits determines the applicable rate of tax. Different rules apply for the relief of losses (see below).

Use of losses:

Trading losses can be offset against profits to obtain tax relief in a number of ways:

- Offset in the same year – losses can be offset against other income and gains for the company in the same period.
- Carry back - losses from one accounting period can be carried back against profits of the previous 12-month period and a refund of overpaid tax can be obtained. This loss carry back period is extended to 3 years where the loss arises in an accounting period ending between 1 April 2020 and 31 March 2022.
- Carry forward – losses from 1 April 2017 can be carried forward indefinitely against total taxable profits. Restrictions are however in place if brought forward losses to be used exceed £5m. Relief for losses above the £5m threshold is limited to 50% of remaining trading profits.
- Terminal losses - the losses in the final twelve months of a business can be carried back against profits of the preceding three years.
- Group relief - losses can be passed around a group of companies where there is at least 75% ownership, such that the losses of one company can be relieved against the profits of another.

Capital losses are more restricted in their use, they can only be offset against capital gains and only in the current or later years (there is no carry back).. However, gains and losses can be transferred around a group so that the group suffers tax at the most beneficial rate.

Non Trading Profits:

Non trading items such as interest, property income, management expenses, intangible fixed assets, etc have their own specific rules for taxation and mechanisms for loss relief.

Administration:

Companies are required to submit a corporation tax return each year within 12 months of the end of the period of account.

An accounting period generally coincides with the company's period of account, except where the accounts are made up for a period over 12 months. When this happens, the accounts are split into on accounting period of the first 12 months and another covering the remaining period.

Filing of the company corporation tax return has to be done electronically using iXBRL tagging.

Payment of corporation tax is normally due 9 months and one day from the end of the accounting period for small companies.

Large companies have to make their payments in four quarterly instalments. In a 12 month accounting period, this will commence in the 7th month of the year to which the charge relates.

Very large companies have to make their payments in four quarterly instalments, commencing in the 3rd month of the year to which the charge relates. In a 12 month accounting period, this will be the 14th day of months 3, 6, 9 and 12 of the accounting period.

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