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CHARTERED ACCOUNTANTS

A quick guide to the **Corporation Tax Uplift**

COMPANIES FACE A POTENTIAL UPLIFT IN THE AMOUNT OF CORPORATION TAX THEY MUST PAY, AS NEW RULES AND RATES COME INTO EFFECT IN THE NEW TAX YEAR FROM 1 APRIL 2023.

From this date onwards, the main rate of Corporation Tax will rise from 19 per cent to 25 per cent for the most profitable companies.

The effective amount of Corporation Tax that is due will, however, rely on the taxable profits your company makes as follows:

- Companies with profits of up to £50,000 will pay Corporation Tax at 19 per cent.
- Companies with profits of £250,000 and over will pay Corporation Tax at 25 per cent.
- Companies with profits over £50,000 but under £250,000 will pay Corporation Tax on a sliding scale of between 19 per cent and 25 per cent.

Given this change to the taxation of companies' profits, some important steps need to be taken in the current and future tax years to manage your liabilities.

Understanding Marginal Rate Relief

For those with taxable profits below £50,000, who benefit from the standard small profit rate of Corporation Tax at 19 per cent, and those with profits above £250,000, that pay the main 25 per cent rate of tax, the new rules are quite simple.

However, where companies have taxable profits between these two thresholds, matters become a little more complicated as the rate of tax they pay will depend on their level of profit.

This is due to Marginal Rate Relief (MRR). This is tapered relief, which decreases as company's profits increase.

The basic method used by HM Revenue & Customs (HMRC) to calculate this relief is quite complex. In reaching a final figure, this calculation must consider:

- A company's augmented profits, including exempt distributions of a qualifying kind, which are generally dividends from third party companies;
- Basic profits, which are a company's trading profits and gains; and
- The Marginal Rate Relief fraction (3/200ths).

However, to simplify this we can eliminate exempt distributions of a qualifying kind, which many smaller companies won't be affected by, to create a set of tax rates as follows, which apply to each band of profit:

Profit Band	Marginal Rate
£0 to £50,000	19%
£50,001 to £249,999	26.5%
£250,000 plus	25%

This is an overly simplified expression of how this relief works and the actual effective rate of tax will vary based on taxable profits.

For example, let's take a business with £150,000 of taxable profits and break this down into the actual effective rate of tax:

Taxable Profit Slice	Corporation Tax Rate	Tax Due
£50,000	19%	£9,500
£100,000	26.5%	£26,500
Total Taxable Profit	**Effective Tax Rate**	**Total Tax Due**
£150,000	24%	£36,000

The effective rate of tax is, therefore, the rate that applies to the whole of the profits, providing a quick and effective calculation for assessing how MRR affects your future tax bills. Calculate at main rate and deduct MRR.

If you require further assistance in calculating the level of relief you are entitled to if your profits are between £50,000 and £250,000, HMRC has provided an online calculator to help you work this out.

However, for this calculator to be effective you need a clear picture of your taxable profits, which is best sought from an experienced tax adviser.

How does the Corporation Tax Uplift affect Group Companies?

According to HMRC, the *'lower and upper limits will be proportionately reduced for short accounting periods and where there are associated companies'*.

A company is considered to be associated with another company if at any time in the preceding 12 months:

- One company has control of the other company, or
- The companies are under the control of the same person or group of persons.

As part of the changes to Corporation Tax the related 51 per cent group company test under the Corporation Tax Act 2010, will be repealed and replaced by the associated company rules.

If you operate a group of companies or are within a group of companies and want to understand in more detail how these changes affect you, it is best to seek independent professional tax advice.

Managing the Corporate Tax Uplift

The amount of Corporation Tax you pay has always depended on the total value of your taxable profits. However, with the new rates so closely tied to your level of profitability, it has never been more important to seek advice and make use of the reliefs and allowances available to you.

In the upcoming tax year, there is perhaps never a better opportunity to manage your liabilities if you face a higher rate of tax, as you can take advantage of the current lower rate and some reliefs, which will end before the new tax year.

The Super-Deduction

Companies can claim a super-deduction on most new plant and machinery purchases that ordinarily qualify for main rate writing down allowances.

They can also use the first-year allowance on most new plant and machinery purchases that ordinarily qualify for special rate writing down allowances.

What is classified as plant and machinery?
These are many forms of 'tangible' assets used in the day-to-day running of a business. Some examples include:

- Ladders, drills, cranes.
- Office furniture.
- Refrigeration units.
- Electric vehicle charge points.
- Compressors.
- Foundry equipment.

Certain expenditure is excluded, for example, the acquisition of company cars. To benefit from the relief, the assets purchased must also be new and not second-hand or refurbished equipment.

This relief ends on 31 March 2023, but companies could bring expenditure in these areas forward.

Annual Investment Allowance

The Annual Investment Allowance (AIA) gives a deduction of 100 per cent for qualifying plant or machinery expenditure against a business's profits.

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Most tangible capital assets purchased outright or on HP by a business are considered plant and machinery to claim Capital Allowances.

When it comes to eco-friendly investments, this includes the purchase of energy-saving devices.

Unlike some Capital Allowance schemes, the AIA can also be claimed against second-hand and refurbished equipment.

An AIA limit of £1 million is now permanently in place.

100% First Year Allowances (FYA)

Like the AIA, where an asset qualifies for this allowance, you can deduct its full cost from your profits before tax.

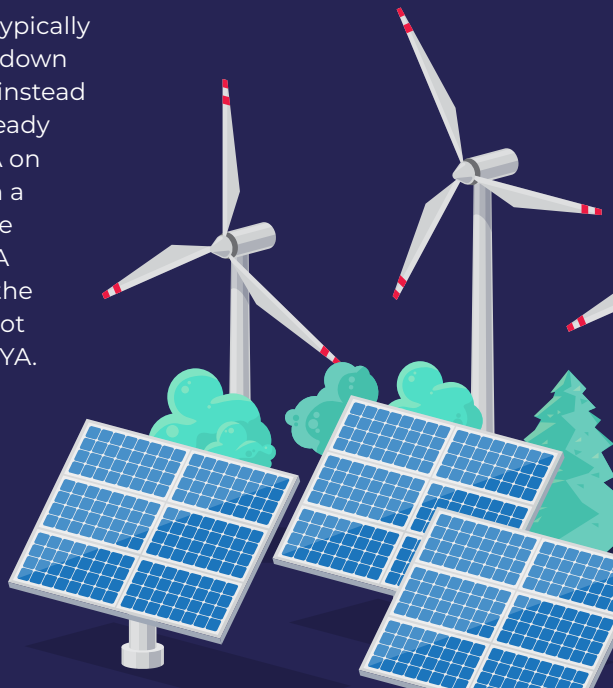
You can claim 'First Year Allowances' for a wide range of eco-friendly improvements to your business, including:

- Environmentally beneficial and energy-saving technologies.
- Electric cars and cars with zero CO_2 emissions.
- Zero-emission goods vehicles.
- Equipment for electric vehicle charging points.

To qualify for this relief the equipment must be new and unused. You also cannot typically claim items your business buys to lease to other people or for use within a home you let out.

If you do not claim all the first-year allowance you're entitled to, you can claim part of the cost in the next accounting period using writing down allowances.

You would typically use writing down allowances instead if you've already claimed AIA on items worth a total of more than the AIA amount or the item does not qualify for FYA.



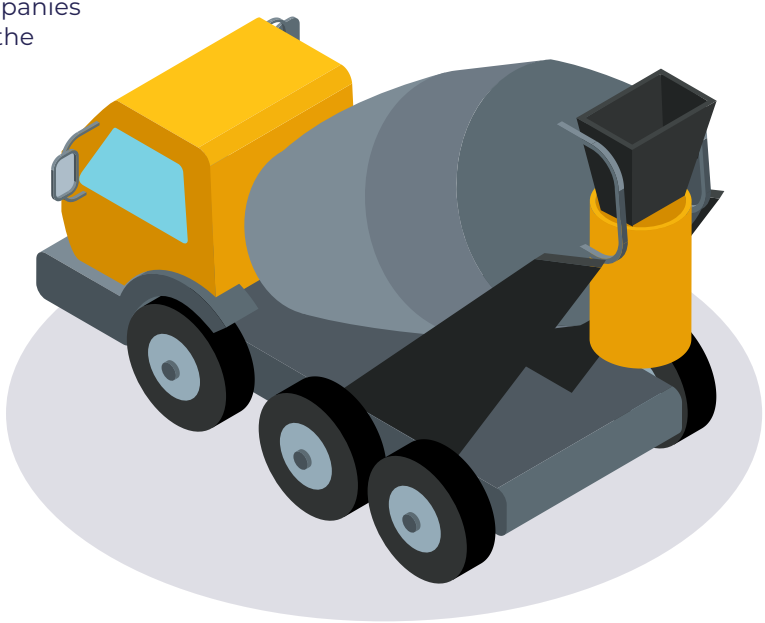
Full Expensing

From 1 April 2023, a new 'full expensing' Capital Allowance will ensure that 2026 investments made by companies in qualifying plant and machinery will qualify for a 100 per cent first-year allowance.

This applies to main rate assets and ensure that companies across the UK will be able to write off the full cost in the year of investment.

If your company is investing in special rate assets, including long-life assets, you can also benefit from a 50 per cent first-year allowance in the year of investment.

Unfortunately, expenditure on plant or machinery for leasing is excluded from first-year capital allowances due to long-standing concerns about abuse and wide scope for error.



Carrying forward losses

A company can claim Corporation Tax Relief when it has made a tax loss in an accounting period. While a company can't always accurately predict whether it will make a loss in any given year, it is possible to reduce a company tax bill by offsetting this year's loss against next year's profit.

To do so a company must actually make a taxable profit in the subsequent years as they must continue to trade to benefit from this relief.

Businesses should also be aware that there is a restriction on the total amount of some types of carried forward loss that you can use against your profits.

If your company is part of a group and has carried forward trading losses made on or after 1 April 2017, other companies in the group may be able to use those losses thanks to group relief.

R&D Tax Relief

The R&D Tax Relief Scheme was introduced in the UK to support, reward and encourage companies undertaking research and development (R&D).

To achieve this, it offers tax relief that reduces your company's Corporation Tax bill, or in some cases, will result in a payable tax credit.

Not every company or project may be eligible for this relief, but many might be.

Small to medium-sized companies (SMEs) can claim R&D tax credits through the SME scheme. It is open to solvent registered companies with fewer than 500 staff, and a turnover of under €100 million or a balance sheet total of under €86 million.

Small or medium-sized enterprise (SME) R&D tax relief allows companies to either:

- Deduct an extra 130 per cent of their qualifying costs from their yearly profit, as well as the normal 100 per cent deduction, to make a total 230 per cent deduction; or
- Claim a tax credit if the company is loss-making, worth up to 14.5 per cent of the surrenderable loss.

As long as the company is carrying out eligible R&D projects it should be eligible to make a claim. If you are unsure if a project is eligible, you should seek advice.

Companies with more than 500 staff or a turnover of over €100 million and a balance sheet totalling over €86 million are classed as large companies under the scheme and can claim a Research and Development Expenditure Credit (RDEC) instead.

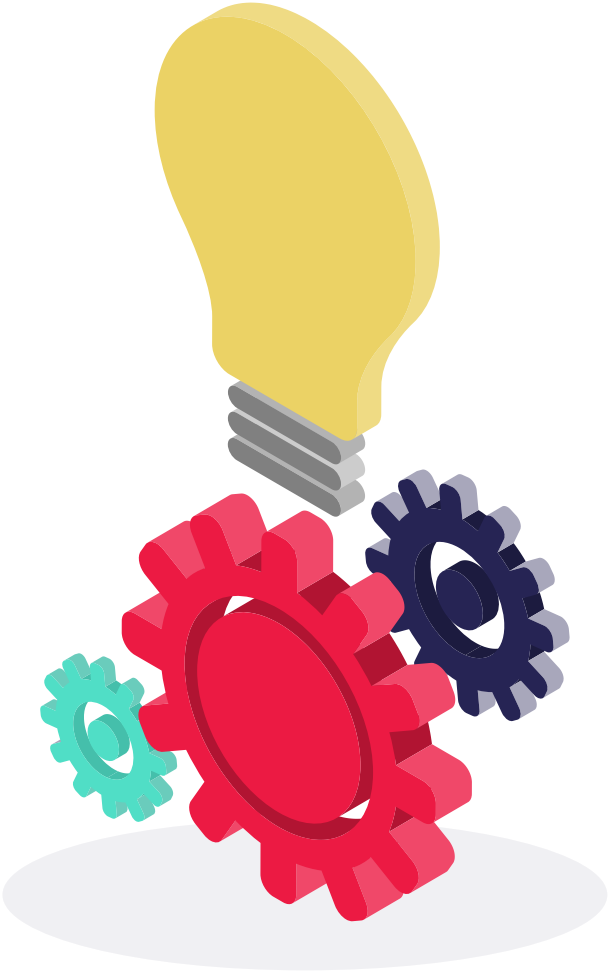
The RDEC is calculated at 13 per cent of your company's qualifying R&D expenditure and is taxable.

Depending on if your company is in profit or loss making the credit may be used to discharge Corporation Tax liabilities or result in a one-off cash payment.

From April 2023, several reforms will be introduced to this initiative and R&D tax relief rates will be altered as follows:

- The additional deduction rate for the SME scheme will be reduced from 130 per cent to 86 per cent – to make a new total deduction rate of just 186 per cent.
- The SME credit rate will decrease from 14.5 per cent to 10 per cent.
- The RDEC will increase to 20 per cent

Given the reductions to SME relief, it may make sense for SMEs to bring forward planned R&D expenditure into the current tax year to take advantage of the current rates of tax relief if possible.



Take action now

The time required to implement the steps in this guide before the changes take place is running out, although in some cases the reliefs and strategies outlined may prove useful in future years as well as your profits rise.

Given the changes to Corporation Tax, it is important you consider how these new rules will affect your plans, including how you will invest in your business in the future and remunerate shareholders and staff.

If you would like advice on these changes and how you can navigate this change, please **arrange a quick call with our tax team today**.

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