



Important matters to consider regarding upcoming changes to Corporation Tax rates and associated companies (November 2022)

The Chancellor has confirmed the new increases to the rates of Corporation Tax from 1 April 2023. Currently, the tax rate is 19% for all UK companies. Before the increase comes into force, you should review whether all of the entities are required in the group as this may help reduce the rate of Corporation Tax from 1 April 2023 and also determine whether the quarterly instalment regime applies.

From 1 April 2023, there will be two rates of Corporation Tax:

- The small profits rate (SPR) of 19% will apply to companies with profits of £50,000 or less
- The main rate of 25% will apply to companies with profits over £250,000
- For companies with profits between £50,000 and £250,000 able to claim marginal relief providing a gradual increase in the effective Corporation Tax rate

The £50,000 and £250,000 limits will be proportionately reduced for short accounting periods and divided by 1 plus the number of associated companies to determine which Corporation Tax rates are applicable.

E.g. If a company has 1 associated company, its profit limits would be divided by 2 and reduced from £50,000 and £250,000 to £25,000 and £125,000. If it had profits of £190,000, Corporation Tax of 25% would be due on the full £190,000.

Also from 1 April 2023, the 51% group company test will be replaced by the associated companies rules. 'Large' and 'very large' companies have to make quarterly payments of Corporation Tax if their profits exceed the £1.5m or £20m thresholds. To determine whether a company is 'large' or 'very large' for quarterly instalment payment (QIPs) purposes the £1.5m and £20m limits are currently divided by the number of 51% group companies. If a company has profits above the threshold then advanced quarterly Corporation Tax payments have to be made, with the dates of the quarterly payments dependent on whether the company is 'large' or 'very large'.

Associated companies

Broadly, a company is an associated company of another if, at that time or during any other time within the preceding 12 months:

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



Include

- Foreign companies
- Companies associated for any part of the accounting period

Exclude

- Dormant companies
- Passive holding companies

Control is defined by reference to:

- Percentage share ownership
- Voting power
- Any rights
- Entitlement to assets on winding up (loan creditors)

In deciding whether two or more companies are associated, control is determined by considering :

- The direct rights of an individual - the rights of ownership personal to the individual.
- The indirect rights of an individual - the rights of the individual's associates attributed to them according to whether the substantial commercial interdependence test applies.

An individual's associates include:

- Spouses and civil partners (included if separated but not if divorced)
- Parents, grandparents or remoter forebear
- Children, grandchildren or remoter issue
- Siblings
- Partners in partnerships
- An individual beneficiary will be associated with a trustee or settlor of a trust



Substantial commercial interdependence will occur between two companies as follows:

- **financial interdependence** (in particular, where one company gives direct or indirect financial support to the other, or two companies together have a financial interest in another business)
- **economic interdependence** (in particular, if they seek the same economic outcome, one undertakes activities benefitting the other or they have common customers), or
- **organisational interdependence** (share common management, employees, premises or facilities)

Where there is no substantial commercial interdependence between companies, the only companies that will be treated as being associated are the companies under the direct control of the same individual or group of individuals. The indirect rights of an individuals' associates are not taken into account.

E.g. If A Ltd and B Ltd are both held 100% by an individual A, they are associated but not in the same 51% group. From 1 April 2023, if their profits exceed £750k (£1.5m/2) they would have to start making quarterly instalment payments.

You will need to ascertain the number of associated companies to determine whether quarterly instalment payments will be required or if the company will move from being 'large' to 'very large' or vice versa for QIPs purposes for accounting periods starting after 1 April 2023.

As part of your tax planning, we would be happy to assist you with a review of your group structure and the number of associated companies so as to ascertain if the number of subsidiaries in the group can be reduced for UK Corporation Tax purposes.