2023 - UK Tax Burden 'Highest Since Late 60s'

Introduction

The corporation tax hike to a full rate of 25% from 1 April 2023 announced in the last Budget will increase the UK tax burden to the highest level since Roy Jenkins was Chancellor in the late 1960s, according to the fiscal watchdog.

The increased rates from 1 April 2023 for a single company are shown below. The rate changes have reintroduced the concept of tapering relief or marginal small companies' relief which applies where profits fall between the £50,000 lower limit at which the small companies' rate of 19% applies and the £250,000 upper limit at which the full corporation tax rate of 25% applies.

Single Company Illustration		
Profits	FY2023	FY2021-22
£0 to £50,000 (small profits rate/SPR)	19%	19%
£50,000 to £250,000 (marginal rate) – tapered increase	26.5%	19%
Over £250,000 (main rate)	25%	19%

Commenting on the main rate increase at the time of the Budget, Rishi Sunak said "I'm protecting small businesses with profits of £50,000 or less, by creating a small profits rate, maintained at the current rate of 19%. This means around 70% of companies – 1.4 million businesses – will be completely unaffected."

Associated company rules and shorter accounting periods

Associated company rules and shorter accounting periods will affect the corporation tax rates.
Where an accounting period is less than 12 months long, the SPR and main rate limits are proportionately reduced.

A further complication arises where a company has one or more "associated companies" at any time in its accounting period.

One company (A) is associated with another company (B) if A controls B or both A and B are under the control of a third person C (not necessarily another company). Where this is so, the limits of £50,000 and £250,000 are reduced to the fraction 1/1+number of associated companies.

Thus, if a company has 1 associated company, the limits are reduced to 1/2, i.e. are shared equally between the two companies.

Companies are normally included in the total of associated companies, even if they were associated for only part of the accounting period. Not just UK resident companies, but all companies worldwide under common control must be taken into account. However, a company which has not carried on any trade or business at any time in the accounting period (i.e. which Is dormant) is disregarded.

In certain circumstances, a non-trading holding company may also be excluded from the number of associated companies.

Conclusion

Therefore, associated companies, and not 51% group companies, will reduce the upper and lower rates. This will make both profit limit bands smaller for companies under common control and corporate groups, bringing more companies within the tapered or higher rate of tax.
We expect businesses to give more consideration to group structuring and the use of group relief when looking to reduce taxable profits to access the 19% rate.

How can Beavis Morgan help?

To find out more please contact Fiona Cross, Tax Partner, Beavis Morgan on T. 020 7417 0417 or E. fiona.cross@beavismorgan.com for a no obligation discussion.

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