Planning ahead for the Corporation Tax increase in 2023

As the United Kingdom ("UK") relaxes COVID restrictions and some relative normality returns, attention is now turning to the economy and efforts to reduce the burgeoning debt pile that has mounted over the past 2 years. The Chancellor announced at the last Budget a number of changes to Corporation Tax ("CT"), in particular, the CT rates and the introduction of the Super Deduction.

Corporation Tax rates changes - Summarised

Currently UK companies pay one rate of CT at 19%. The Chancellor announced at the Spring Budget in 2021 that the rates would change, with an old system of CT rates being resurrected.

From 1 April 2023, a company with profits greater than £250,000 ("upper limit") will pay CT at an increased rate of 25%. A company with profits less than £50,000 ("lower limit") will continue to pay tax at the current rate of 19%. If a company's profit falls between the two limits, they will pay an effective rate of tax of 26.5%. A breakdown of this is as follows:

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%

Associated Companies – The impact on Corporation Tax

A company's upper and lower limits are proportionately reduced by the number of companies it is associated with. For CT purposes, two companies are associated with each other if one is under the control of the other or both are under the control of the same person or persons. Control for this means 51%. However, in determining whether a person has control of a company, the rights, and powers of their associates (which includes their spouse or civil partner and business partners) are considered. For companies in a group, the associated company rules could mean the majority, if not all companies, could be paying CT at 25% from 1 April 2023.

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 considered. However, a company which has not carried on any trade or business at any time in the accounting period (i.e. dormant) is disregarded.

If a company's year-end spans 1 April 2023, the company would need to time apportion their profits and tax at the corresponding rates.

The New rates are to be introduced from 1 April 2023 meaning companies now have just over a year to make any changes or consider some tax planning.

Super Deduction – The clock is ticking

The Super Deduction for capital allowances was introduced on 1 April 2021 and will come to an end on 31 March 2023. The Deduction allows small and medium sized companies to claim a deduction of 130% of the cost of new qualifying plant and machinery against their taxable profits. Companies that are considering purchasing new plant and machinery may want to bring these purchases forward in order to benefit from the extra tax relief.

Planning ahead – Some practical tips

There is time for planning to mitigate the impact of the changes, but we recommend you take action immediately. For example, businesses can consider the following:

- Whether it is possible, where profits exceed the lower profits limit, to bring profits forward so that they are taxable in the 2021 or 2022 financial year, rather than after the start of April 2023
- If the corporation tax rate after 1 April 2023 is above 19%, defer expenses to ensure relief at the higher rate
- If any losses are made, consider whether it would be more beneficial to carry them forward rather than back. Later relief could be potentially at a higher rate vs earlier relief, but at a lower rate
- Given the impact of associated companies, restructuring may be beneficial to businesses looking to increase their profits and reduce tax liabilities

Other planning opportunities ahead of the rate rise

Building repairs and decorating
Expenses of a revenue nature, as opposed to those that are capital in nature, are deductible from taxable profits. Therefore, a company should consider whether any work that would give rise to such expenses can be carried out in the accounting period commencing after the rate rise to get tax relief at a higher rate.

Bonuses
A bonus must be actually paid within nine months of the year end in order to obtain a corporation tax deduction. If these conditions are not met then the tax deduction will be delayed until the following period of account. A late payment of bonuses could enable them to fall within the subsequent accounting period so as to secure a tax deduction at a higher rate.

Advancing income
The following techniques might be considered to advance income into an earlier period taxed at 19% provided GAAP and commercial requirements are met:

- timing of sales to fall into earlier accounting periods — simple acceleration of 'work done'
- shortening the accounting date to include a particularly profitable period

Pension contributions
Pension contributions are deductible for corporation tax on a paid basis, therefore consider delaying payment to a period liable to a higher rate of tax.

Capital allowances
Consider delaying the purchase of an asset to a period liable to a higher rate of corporation tax, especially if covered by the annual investment allowance or where the asset would attract enhanced capital allowances. The sale of fixed assets may be accelerated so that deduction of proceeds from the relevant pool occurs at the lower rate of tax.

Chargeable gains planning
Planning to minimise the tax rate charged on chargeable gains may include timing the dates of a disposal.

In summary

Each company will have its own unique tax position, especially if there are tax losses available. Early advice should therefore be taken before implementing any planning ideas.

If you would like to discuss the impact of the new Corporation Tax rate for your business, please contact your usual Beavis Morgan partner or email info@beavismorgan.com. Alternatively, please contact Rory Fairbairn in our Corporate Tax team. Details shown below.

For a no obligation discussion, please contact:

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