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Tax Planning for Higher UK Corporation Tax Rates

Introduction

It has been well publicised that Rishi Sunak is considering raising UK corporation tax (currently 19%) in the Budget on 3 March 2021 to start to address balancing the books for the costs of Covid. He has said that corporation tax rises are the most equitable way to raise revenues as it will only hit UK businesses who have made profits.

A rise of 5% to 24% has been mooted, leaving less profit after tax for future investment and extraction by business owners.

This article considers planning opportunities ahead of any rate rise that may occur. However, every company will have its own unique tax position, especially if there are tax losses available and so early advice should be taken before implementing any planning ideas.

Advancing income and deferring expenditure

With the threat of a corporation tax rate rise, deferring expenditure and advancing income to accelerate tax payments may be appropriate subject to considerations of liquidity, return on capital employed and the time value of money.

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.

How can Beavis Morgan help?

We can conduct a Corporation tax review to assist planning for a UK corporation tax rise.

To find out more, please contact Fiona Cross, Tax Partner, Beavis Morgan LLP, for a no obligation discussion:

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