



## Unification of corporation tax rates: consequential changes

---

### Who is likely to be affected?

Companies with small profits that are associated with other companies.

### General description of the measure

This measure deals with the consequential changes to tax legislation which arise from the adoption of a single rate of corporation tax for companies (other than those with oil and gas ring fence profits) from financial year 2015.

### Policy objective

This measure simplifies rules which ensure that tax is calculated appropriately where a company is associated with other companies. Those rules, which have applied for companies with small profits and which will continue to apply in limited circumstances, prevent a tax advantage from arising where a single business is operated through a number of associated companies.

### Background to the measure

The Government announced at Budget 2013 that a single unified rate of corporation tax of 20 per cent will apply on and after 1 April 2015.

On 10 December 2013 the Government published draft legislation proposing the repeal of the 'associated companies' provisions, which treat companies in common ownership and control as a single entity for the purposes of corporation tax rates. These changes are possible because the vast majority of companies will be subject to a single rate of corporation tax. These rules also prevent a tax advantage arising where companies divide. The Government proposes replacing the associated companies rules with simpler provisions in the areas where they are still needed.

## Detailed proposal

### Operative date

Changes relating to Patent Box, capital allowances and Quarterly Instalment Payments will have effect for accounting periods beginning on or after 1 April 2015.

All other changes are effective from 1 April 2015.

### Current law

Sections 25 to 30 Corporation Tax Act 2010 (CTA) include the associated companies rules which help ensure corporation tax is imposed at the correct rate. These provisions also apply to other situations, including whether a company needs to make instalment payments.

## Proposed revisions

### Corporation tax rates

Legislation will be introduced in Finance Bill 2014 to:

- impose a corporation tax charge for the Financial Year 2015;
- set the main rate of corporation tax on ring fence profits of companies for Financial Year 2015;
- set the small profits rates and marginal relief fractions for Financial Year 2014 and repeal the small profits rate provisions for non ring fence profits from 2015 onwards; and,
- amend the mechanism for fixing the ring fence rates and fraction, which will in future be in Part 8 CTA 2010 that contains the oil activities legislation.

This Tax Information and Impact Note (TIIN) does not cover the impacts of these rate changes. These were covered in a TIIN published on 20 March 2013.

### Simplifying the associated companies rules

Associated companies rules will still be necessary in some circumstances. The risk of companies gaining an unfair advantage with a loss of tax will, however, be significantly reduced.

The Government therefore proposes that the rules will be simplified in Finance Bill 2014 by replacing them with a 51 per cent group test. This will provide sufficient protection for the Exchequer while being simpler for the affected businesses to apply.

The areas where the new rules based on a 51 per cent group will be needed are:

- ring fence profits of oil and gas companies where there will continue to be more than one rate of corporation tax;
- Patent Box where companies with profits below limits of £1 million or £3 million can elect to use a simplified method in calculating the profits subject to tax at the 10 per cent rate;
- capital allowances which are restricted for assets with a useful life of 25 years or more (long life assets) where the expenditure exceeds a limit of £100,000; and,
- Quarterly Instalment Payments where regulations set an upper limit for profits above which a company must pay tax by instalments.

The table of impacts below relates to the changes relating to the associated companies rules.

### Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-	-10	negligible	negligible	negligible
	The Office for Budget Responsibility has included these numbers in its forecast.					
Economic impact	The measure is not expected to have any significant economic impacts.					
Impact on individuals and households	There is no impact on individuals because the changes affect companies only.					

<b>Equalities impacts</b>	The changes will have no impact on protected groups.
<b>Impact on business including civil society organisations</b>	The benefits for business of the unification and reduction of corporation tax rates were included in the TIIN: <i>Corporation tax: main rate and small profits rate</i> issued at Budget 2013. Any additional impact on business from the changes reflected in this measure is expected to be negligible. This measure is expected to have no impact on civil society organisations.
<b>Operational impact (£m) (HMRC or other)</b>	It is expected that there will be negligible operational impact as a result of these changes.
<b>Other impacts</b>	<u>Small and micro business assessment</u> : small businesses are unlikely to be affected, and any impact minimal as the changes simplify the legislation.  Other impacts have been considered and none have been identified.

### **Monitoring and evaluation**

The measure will be kept under review through regular communication with affected taxpayer groups.

### **Further advice**

If you have any questions about this change, please contact John Connor on 03000 585702 (email: [john.connor@hmrc.gsi.gov.uk](mailto:john.connor@hmrc.gsi.gov.uk)) or contact Clare Dunne on 03000 585961 (email: [clare.e.dunne@hmrc.gsi.gov.uk](mailto:clare.e.dunne@hmrc.gsi.gov.uk)).

**1 Charge for financial year 2015**

Corporation tax is charged for the financial year 2015.

**2 Small profits rate and fractions for financial year 2014**

- (1) For the financial year 2014 the small profits rate is –
  - (a) 20% on profits of companies other than ring fence profits, and
  - (b) 19% on ring fence profits of companies.
- (2) For the purposes of Part 3 of CTA 2010, for that year –
  - (a) the standard fraction is 1/400th, and
  - (b) the ring fence fraction is 11/400ths.
- (3) In subsection (1) “ring fence profits” has the same meaning as in Part 8 of that Act (see section 276 of that Act).

**3 Rates for ring fence profits and abolition of small profits rate for non-ring fence profits**

Schedule 1 –

- (a) sets the corporation tax rates for ring fence profits for the financial year 2015 and future years, and
- (b) contains provision about the abolition of the small profits rate for profits other than ring fence profits.

## SCHEDULE 1

Section 3

### CORPORATION TAX RATES

#### PART 1

##### ABOLITION OF SMALL PROFITS RATE FOR NON-RING FENCE PROFITS

- 1 CTA 2010 is amended as follows.
- 2 In section 1 (overview of Act), in subsection (2) –
  - (a) for “Parts 3” substitute “Parts 4”, and
  - (b) omit paragraph (a).
- 3 For section 3 (corporation tax rates) substitute –
 

**“3 Corporation tax rates**

  - (1) Corporation tax is charged at the rate set by Parliament for the financial year as the main rate.
  - (2) Subsection (1) is subject to any provision of the Corporation Tax Acts which provides for corporation tax to be charged at a different rate.”
- 4 Omit Part 3 (companies with small profits).
- 5 (1) Part 8 (oil activities) is amended as follows.
  - (2) In section 270 (overview of Part 8), after subsection (3) insert –
 

“(3A) Chapter 3A makes provision about the rates at which corporation tax is charged on ring fence profits.”
  - (3) After Chapter 3 insert –

#### “CHAPTER 3A

##### RATES AT WHICH CORPORATION TAX IS CHARGED ON RING FENCE PROFITS

##### *The rates*

#### **279A Corporation tax rates on ring fence profits**

- (1) Corporation tax is charged on ring fence profits at the main ring fence profits rate.
- (2) But subsection (3) provides for tax to be charged at the small ring fence profits rate instead of the main ring fence profits rate in certain circumstances.
- (3) Corporation tax is charged at the small ring fence profits rate on a company’s ring fence profits of an accounting period if –
  - (a) the company is UK resident in the accounting period, and

- (b) its augmented profits of the accounting period do not exceed the lower limit.
- (4) In this Act –
  - “the main ring fence profits rate” means 30%, and
  - “the small ring fence profits rate” means 19%.

#### *Marginal relief*

#### **279B Company with only ring fence profits**

- (1) This section applies if –
  - (a) a company is UK resident in an accounting period,
  - (b) its augmented profits of the accounting period –
    - (i) exceed the lower limit, but
    - (ii) do not exceed the upper limit, and
  - (c) its augmented profits of that period consist exclusively of ring fence profits.
- (2) The corporation tax charged on the company’s taxable total profits of the accounting period is reduced by an amount equal to –

$$R \times (U - A) \times \left(\frac{N}{A}\right)$$

where –

R is the marginal relief fraction,  
U is the upper limit,  
A is the amount of the augmented profits, and  
N is the amount of the taxable total profits.

- (3) In this Chapter “the marginal relief fraction” means 11/400ths.

#### **279C Company with ring fence profits and other profits**

- (1) This section applies if –
  - (a) a company is UK resident in an accounting period,
  - (b) its augmented profits of the accounting period –
    - (i) exceed the lower limit, but
    - (ii) do not exceed the upper limit, and
  - (c) its augmented profits of that period consist of both ring fence profits and other profits.
- (2) The corporation tax charged on the company’s taxable total profits of the accounting period is reduced by the sum equal to the marginal relief fraction of the ring fence amount.

#### **279D The ring fence amount**

- (1) In section 279C “the ring fence amount” means the amount given by the formula –

$$(UR - AR) \times \left(\frac{NR}{AR}\right)$$

- (2) In this section –

UR is the amount given by multiplying the upper limit by –  

$$\frac{AR}{A}$$

AR is the total amount of any ring fence profits that form part of the augmented profits of the accounting period,

NR is the total amount of any ring fence profits that form part of the taxable total profits of the accounting period, and

A is the amount of the augmented profits of the accounting period.

*The lower limit and the upper limit*

**279E The lower limit and the upper limit**

- (1) This section gives the meaning in this Chapter of “the lower limit” and “the upper limit” in relation to an accounting period of a company (“A”).
- (2) If no company is a related 51% group company of A in the accounting period –
  - (a) the lower limit is £300,000, and
  - (b) the upper limit is £1,500,000.
- (3) If one or more companies are related 51% group companies of A in the accounting period –
  - (a) the lower limit is –  

$$\frac{£300,000}{(1 + N)}$$

and
  - (b) the upper limit is –  

$$\frac{£1,500,000}{(1 + N)}$$

where N is the number of those related 51% group companies.
- (4) For an accounting period of less than 12 months the lower limit and the upper limit are proportionately reduced.

*Related 51% group companies*

**279F “Related 51% group company”**

- (1) For the purposes of this Chapter a company (“B”) is a related 51% group company of another company (“A”) in an accounting period if for any part of the accounting period –
  - (a) A is a 51% subsidiary of B,
  - (b) B is a 51% subsidiary of A, or
  - (c) both A and B are 51% subsidiaries of the same company.
- (2) The rule in subsection (1) applies to each of two or more related 51% group companies even if they are related 51% group companies for different parts of the accounting period.
- (3) But a related 51% group company is ignored for the purposes of this section if –

- (a) it has not carried on a trade or business at any time in the accounting period, or
  - (b) it was a related 51% group company for part only of the accounting period and has not carried on a trade or business at any time in that part of the accounting period.
- (4) Subsection (3) is subject to subsections (5) to (9).
- (5) Subsection (6) applies if a company carries on a business of making investments in an accounting period and throughout the period the company –
  - (a) carries on no trade,
  - (b) has one or more 51% subsidiaries, and
  - (c) is a passive company.
- (6) The company is treated for the purposes of subsection (3) as not carrying on a business at any time in the accounting period.
- (7) A company is a passive company throughout an accounting period only if the following requirements are met –
  - (a) it has no assets in that period, other than shares in companies which are its 51% subsidiaries,
  - (b) no income arises to it in that period other than dividends,
  - (c) if income arises to it in that period in the form of dividends –
    - (i) the redistribution condition is met (see subsection (8)), and
    - (ii) the dividends are franked investment income received by it,
  - (d) no chargeable gains accrue to it in that period,
  - (e) no expenses of management of the business mentioned in subsection (5) are referable to that period, and
  - (f) no qualifying charitable donations are deductible from the company's total profits of that period.
- (8) The redistribution condition is that –
  - (a) the company pays dividends to one or more of its shareholders in the accounting period, and
  - (b) the total amount paid in the form of those dividends is at least equal to the amount of the income arising to the company in the form of dividends in that period.
- (9) If income arises to a company in an accounting period in the form of a dividend and the requirement in subsection (7)(c) is met in respect of the income –
  - (a) neither the dividend nor any asset representing it is treated as an asset of the company in that accounting period for the purposes of subsection (7)(a), and
  - (b) no right of the company to receive the dividend is treated as an asset of the company for the purposes of subsection (7)(a) in that period or any earlier accounting period.



*Augmented profits*

**279G “Augmented profits”**

- (1) For the purposes of this Chapter a company’s augmented profits of an accounting period are –
  - (a) the company’s taxable total profits of that period, plus
  - (b) any franked investment income received by the company that is not excluded by subsection (2).
- (2) This subsection excludes any franked investment income which the company (“the receiving company”) receives from a company which is –
  - (a) a 51% subsidiary of –
    - (i) the receiving company, or
    - (ii) a company of which the receiving company is a 51% subsidiary, or
  - (b) a trading company or relevant holding company that is a quasi-subsidiary of the receiving company.
- (3) For the purposes of subsection (2)(b) a company is a quasi-subsidiary of the receiving company if –
  - (a) it is owned by a consortium of which the receiving company is a member,
  - (b) it is not a 75% subsidiary of any company, and
  - (c) no arrangements of any kind (whether in writing or not) exist by virtue of which it could become a 75% subsidiary of any company.

**279H Interpretation of section 279G(2) and (3)**

- (1) For the purposes of section 279G(2)(a), a company (“A”) is a 51% subsidiary of another company (“B”) only at times when –
  - (a) B would be beneficially entitled to more than 50% of any profits available for distribution to equity holders of A, and
  - (b) B would be beneficially entitled to more than 50% of any assets of A available for distribution to its equity holders on a winding up.
- (2) The requirement in subsection (1) is in addition to the requirements of section 1154(2) (meaning of 51% subsidiary).
- (3) In determining for the purposes of section 279G(2)(a) whether or not a company is a 51% subsidiary of another company (“C”), C is treated as not being the owner of share capital if –
  - (a) it owns the share capital indirectly,
  - (b) the share capital is owned directly by a company (“D”), and
  - (c) a profit on the sale of the shares would be a trading receipt for D.
- (4) In section 279G(2)(b) and this section –
 

“trading company” means a company whose business consists wholly or mainly of carrying on a trade or trades, and

“relevant holding company” means a company whose business consists wholly or mainly of holding shares in or securities of trading companies that are its 90% subsidiaries.

- (5) For the purposes of section 279G(3), a company is owned by a consortium if at least 75% of the company’s ordinary share capital is beneficially owned by two or more companies each of which –
  - (a) beneficially own at least 5% of that capital,
  - (b) would be beneficially entitled to at least 5% of any profits available for distribution to equity holders of the company, and
  - (c) would be beneficially entitled to at least 5% of any asset of the company available for distribution to its equity holders on a winding up.
- (6) The companies meeting those conditions are called the members of the consortium.
- (7) Chapter 6 of Part 5 (equity holders and profits or assets available for distribution) applies for the purposes of subsections (1) and (5) as it applies for the purposes of section 151(4)(a) and (b).”

## PART 2

### AMENDMENTS CONSEQUENTIAL ON PART 1 OF THIS SCHEDULE

#### *Finance Act 1998*

- 6 In Schedule 18 to FA 1998 (company tax returns, assessments and related matters), in paragraph 8 (calculation of tax payable), in subsection (1), for “section 19, 20 or 21 of the Corporation Tax Act 2010 (marginal relief for companies with small profits)” substitute “Chapter 3A of Part 8 of the Corporation Tax Act 2010 (marginal relief for companies with small ring fence profits etc)”.

#### *Finance Act 2000*

- 7 In Schedule 22 to FA 2000 (tonnage tax), in paragraph 57 (exclusion of relief or set-off against tax liability), in sub-paragraph (6), for paragraph (a) substitute –
  - “(a) any reduction under Chapter 3A of Part 8 of CTA 2010 (marginal relief for companies with small ring fence profits), or”.

#### *Capital Allowances Act 2001*

- 8 In section 99 of CAA 2001 (long-life assets: the monetary limit) –
  - (a) in subsection (4) –
    - (i) for “If, in a chargeable period, a company has one or more associated companies” substitute “In the case of a company (“C”), if, in a chargeable period, one or more companies are related 51% group companies of C”, and
    - (ii) for “number of associated” substitute “number of related 51% group”, and
  - (b) omit subsection (5).

- 9 In Part 2 of Schedule 1 to that Act (defined expressions), at the appropriate place insert –

“related 51% group company”	section 279F of CTA 2010 (as applied by 1119 of that Act).”
-----------------------------------	---

*Corporation Tax Act 2009*

- 10 In section 104N of CTA 2009 (payment of R&D expenditure credit) in subsection (3), in the definition of “*Amount A*”, in paragraph (b), after “main rate” insert “(or, in the case of ring fence profits, the main ring fence profits rate)”.
- 11 In section 1114 of that Act (calculation of total R&D aid for the purposes of the cap), after “aid is calculated” insert “(or, in the case of a ring fence trade (within the meaning of section 277 of CTA 2010) the main ring fence profits rate at that time)”.
- 12 In Schedule 4 to that Act (index of defined expressions), at the appropriate place, insert –

“main ring fence profits rate”	section 279A(4) (as applied by 1119 of CTA 2010)”.
--------------------------------------	--

*Corporation Tax Act 2010*

- 13 (1) Chapter 3 of Part 8A of CTA 2010 (profits arising from the exploitation of patents etc: relevant IP profits) is amended as follow.
- (2) In section 357CL (companies eligible to elect for small claims treatment) –
- (a) in subsection (5) for “the company has no associated company” substitute “no other company is a related 51% group company of the company”,
  - (b) in subsection (6) –
    - (i) for “the company has one or more associated companies” substitute “one or more other companies are related 51% group companies of the company,” and
    - (ii) for “those associated” substitute “those related 51% group”, and
  - (c) omit subsection (9).
- (3) In section 357CM (small claims amount) –
- (a) in subsection (5) for “the company has no associated company” substitute “no other company is a related 51% group company of the company”,
  - (b) in subsection (6) –

- (i) for “the company has one or more associated companies” substitute “one or more other companies are related 51% group companies of the company,” and
  - (ii) for “those associated” substitute “those related 51% group”, and
  - (c) omit subsection (8).
- 14 (1) Part 12 of CTA 2010 (real estate investment trusts) is amended as follows.
  - (2) In section 534 (tax treatment of profits), omit subsection (3).
  - (3) In section 535 (tax treatment of gains), omit subsection (6).
  - (4) In section 543 (profit: financing-cost ratio), omit subsection (5).
  - (5) In section 551 (tax consequences of distribution to holder of excessive rights), omit subsection (6).
  - (6) In section 552 (“the section 552 amount”), in subsection (2), for “rate of corporation tax mentioned in section 534(3) (rate determined without reference to sections 18 to 23)” substitute “main rate of corporation tax”.
  - (7) In section 564 (breach of condition as to distribution of profits), omit subsection (4).
- 15 (1) Part 13 of CTA 2010 (other special types of company etc) is amended as follows.
  - (2) In section 614 (open-ended investment companies: applicable corporation tax rate), omit “(and sections 18 and 19 (relief for companies with small profits) do not apply)”.
  - (3) In section 618 (authorised unit trusts: applicable corporation tax rate), omit “(and sections 18 and 19 (relief for companies with small profits) do not apply)”.
  - (4) In section 627 (companies in liquidation etc: meaning of “rate of corporation tax” in case of companies with small profits) –
    - (a) for subsections (1) and (2) substitute –
      - “(1) This section applies if corporation tax is chargeable on ring fence profits of a company for a financial year.
      - (2) References in this Chapter to the “main rate of corporation tax”, so far as relating to those profits, are to be taken –
        - (a) if corporation tax is to be charged on those profits at the main ring fence profits rate, as references to that rate;
        - (b) if corporation tax is to be charged on those profits at the small ring fence profits rate, as references to that rate;
        - (c) if corporation tax on those profits is to be reduced by reference to the marginal relief fraction within the meaning of Chapter 3A of Part 8 (see sections 279B and 279C), as including references to the marginal relief fraction (and with references to a rate being “fixed” or “proposed” read accordingly as references

- to the marginal relief fraction concerned being fixed or proposed).”
- (b) accordingly, in the heading for the section, for “**small profits**” substitute “**ring fence profits**”.
- (5) In section 628 (company in liquidation: corporation tax rates), for “the rate of corporation tax” (in each place it occurs) substitute “the main rate of corporation tax”.
- (6) In section 630 (company in administration: corporation tax rates), for “the rate of corporation tax” (in each place it occurs) substitute “the main rate of corporation tax”.
- 16 In section 1119 of CTA 2010 (Corporation Tax Acts definitions), at the appropriate places insert –
- ““main ring fence profits rate” has the meaning given by section 279A(4),” and
- ““related 51% group company” is to be read in accordance with section 279F,”.
- 17 (1) Schedule 4 to CTA 2010 (index of defined expressions) is amended as follows.
- (2) Insert the following entries at the appropriate places –

“the main ring fence profits rate	section 279A(4) (as applied by section 1119)”
---	--

“the marginal relief fraction (in Chapter 3A of Part 8)	section 279B(3)”
--	---------------------

“related 51% group company	section 279F (as applied by section 1119)”
----------------------------------	--

“the small ring fence profits rate	section 279A(4)”
--	---------------------

- (3) Omit the entries for –
- “associated company (in Part 3)”;
- “close investment holding company (in Part 3)”;
- “the ring fence fraction (in Part 3)”;
- “the small profits rate”;

“the standard fraction (in Part 3)”.

- (4) In the entry for “augmented profits (in Part 3)” –
  - (a) in the first column for “Part 3” substitute “Chapter 3A of Part 8”, and
  - (b) in the second column, for “32” substitute “279G”.
- (5) In the entry for “the lower limit (in Part 3)” –
  - (a) in the first column for “Part 3” substitute “Chapter 3A of Part 8”, and
  - (b) in the second column for “24” substitute “279E”.
- (6) In the entry for “the upper limit (in Part 3)” –
  - (a) in the first column for “Part 3” substitute “Chapter 3A of Part 8”, and
  - (b) in the second column for “24” substitute “279E”.

*Finance Act 2012*

- 18 In section 102 of FA 2012 (policy holders’ rate of tax on policyholders’ share of I-E profit), omit subsection (5).

*Finance Act 2013*

- 19 In section 6 of FA 2013 (main rate for financial year 2015) –
  - (a) in subsection (1) for “the rate” substitute “the main rate”,
  - (b) in that subsection, omit “on profits of companies other than ring fence profits”, and
  - (c) omit subsection (2).
- 20 In Schedule 25 to FA 2013, omit paragraph 19.

PART 3

COMMENCEMENT AND TRANSITIONAL PROVISION

- 21 (1) The amendments made by paragraphs 8, 9 and 13 have effect in relation to accounting periods beginning on or after 1 April 2015.
  - (2) Accordingly –
    - (a) despite the repeal of Part 3 of CTA 2010 by paragraph 4 of this Schedule, sections 25 to 30 of that Act (interpretation of references to associated companies) continue to apply for the purposes of section 99 of CAA 2001, and sections 357CL and 357CM of CTA 2010, in relation to accounting periods beginning before but ending on or after 1 April 2015, and
    - (b) in relation to the application of sections 25 to 30 of CTA 2010 for those purposes, paragraph 22(2) of this Schedule is to be ignored.
- 22 (1) The other amendments made by this Schedule have effect for the financial year 2015 and subsequent financial years.
  - (2) In the case of an accounting period (a “straddling period”) –
    - (a) beginning before 1 April 2015, and
    - (b) ending on or after that date,the repealed small profit provisions and the new ring-fence small profit provisions apply as if the different parts of the straddling period falling in the different financial years were separate accounting periods.

- (3) For this purpose—  
    “the repealed small profit provisions” means Part 3 of CTA 2010,  
    “the new ring-fence small profit provisions” means sections 279A(3)  
    and 279B to 279H”.
- (4) For the purposes of sub-paragraph (2) all necessary apportionments are to be made between the two separate accounting periods.

**EXPLANATORY NOTE**

**CORPORATION TAX: CHARGE FOR FINANCIAL YEAR 2015**

**SUMMARY**

1. Clause X charges corporation tax (CT) for the financial year beginning 1 April 2015.

**DETAILS OF THE CLAUSE**

2. Clause X charges CT for the financial year beginning 1 April 2015.

**BACKGROUND NOTE**

3. Parliament charges CT for each financial year. This clause charges CT for the financial year beginning 1 April 2015. The rate of CT for the financial year 2015 was set at 20 per cent in section 6 (1) Finance Act 2013.
4. If you have any questions about this change, or comments on the legislation, please contact Clare Dunne on 03000 585 961 (email:clare.e.dunne@hmrc.gsi.gov.uk).



**EXPLANATORY NOTE**

**CORPORATION TAX: SMALL PROFITS RATE AND FRACTIONS FOR FINANCIAL YEAR 2014**

**SUMMARY**

1. Clause X sets the small profits rate of corporation tax (CT) for the financial year beginning 1 April 2014 at 20% for all profits apart from “ring fence profits” of North Sea oil companies, where the rate is set at 19%. Additionally, it sets the fraction used in calculating marginal relief from the main rate at 1/400 for all profits apart from “ring fence profits”, where the fraction is set at 11/400.

**DETAILS OF THE CLAUSE**

2. Subsection (1) sets the small profits rate of CT for the financial year beginning 1 April 2014.

3. Subsection (2) sets the marginal relief standard and ring fence fractions.

**BACKGROUND NOTE**

4. Companies with profits up to £300,000 pay CT at the small profits rate.

5. Companies with profits between £300,000 and £1,500,000 (the lower and upper limits) benefit from marginal relief.

6. Marginal relief has the effect of gradually increasing the rate of tax for a company as its profits move from the lower to the upper profits limit.

7. The example below illustrates the effect of marginal relief for a company with taxable non-ring fence profits of £500,000. Its tax liability is calculated as follows:

£500,000 at 21 per cent	£105,000
Minus 1/400 of £1,000,000*	£2,500
Tax payable	£102,500

\*£1,000,000 is the difference between the upper limit and the profit.

8. The example below illustrates the effect of marginal relief for a company with taxable ring fence profits of £500,000. Its tax liability is calculated as follows:

£500,000 at 30 per cent	£150,000
Minus 11/400 of £1,000,000*	£27,500
Tax payable	£122,500

\*£1,000,000 is the difference between the upper limit and the profit

9. Where two or more companies are associated with one another, the profits limits are divided by the number of associated companies.

10. If you have any questions about this change, or comments on the legislation, please contact Clare Dunne on 03000 585961 (email: [clare.e.dunne@hmrc.gsi.gov.uk](mailto:clare.e.dunne@hmrc.gsi.gov.uk)).

## EXPLANATORY NOTE

### CORPORATION TAX: ABOLITION OF SMALL PROFITS RATE FOR NON-RING FENCE PROFITS AND THE SETTING OF RATES FOR RING FENCE PROFITS

#### SUMMARY

1. Clause X and Schedule Y abolish the small profits rate of corporation tax (CT) for companies with profits other than ring fence profits and set the rates of CT and the marginal relief fraction for ring fence profits for the financial year 2015 onwards.

#### DETAILS OF THE SCHEDULE

##### *Part 1*

2. Part 1 makes changes to the Corporation Tax Act (CTA) 2010. Paragraph 1 introduces the changes.
3. Paragraph 2 makes minor changes to section 1 CTA 2010, (overview of the Act.)
4. Paragraph 3 amends section 3 CTA 2010 to remove the reference to the small profits rate of CT.
5. Paragraph 4 repeals Part 3 CTA 2010, (companies with small profits.) Part 3 previously contained the rules for computing marginal relief.
6. Paragraph 5 inserts Chapter 3A in Part 8 CTA 2010 (oil activities). Chapter 3A includes new sections 279A to 279H CTA 2010 and makes provision for the rates of CT chargeable on ring fence profits and marginal relief.
7. New section 279A provides for the rates of tax charged on ring fence profits. Where the augmented profits of the company exceed a lower limit of £300,000, CT on ring fence profits is charged at the main ring fence profits rate of 30 per cent. Where the augmented profits do not exceed this limit, CT on ring fence profits is charged at the small ring fence profits rate of 19 per cent.
8. New sections 279B to 279H provide for the calculation of marginal relief where the augmented profits of a company with ring fence profits exceed the lower limit of £300,000 but do not exceed an upper limit of £1,500,000.
9. New section 279B states how relief is calculated for companies with only ring fence profits and sets the marginal relief fraction at 11/400.
10. New sections 279C and 279D set out how relief is calculated where a company has ring fence and other profits.

11. New section 279E sets the lower limit at £300,000 and the upper limit at £1,500,000. Where the company has one or more “related 51% group companies”, the upper and lower limits are divided by the number of “related 51% group companies” plus 1.

12. New section 279F defines a “related 51% group company” for the purposes of determining the amount by which the upper and lower limits are divided. This replaces the associated companies rules previously in Part 3 CTA 2010. Subsection (1) defines a “related 51% group company” by reference to a “51% subsidiary” which is itself defined for corporation tax purposes by section 1119 CTA 2010. Subsections (2) and (3) retain some of the rules from the associated companies legislation in Part 3 CTA 2010. Subsection (2) covers a situation where 2 or more companies are “related 51% group companies” for different parts of the accounting period, and subsection (3) excludes dormant companies from the definition. Subsections (4) to (9) expand on the types of company that are excluded under subsection 3.

13. New sections 279G and 279H define “augmented profits” for the purposes of determining whether the upper or lower limits have been exceeded.

## ***Part 2***

14. Part 2 makes changes to legislation consequential on Part 1 of the Schedule. Most of the changes are minor, ensuring that references to marginal relief and rates of CT are omitted or amended to apply only to ring fence profits where appropriate. For example:

- Paragraph 6 amends paragraph 8 subsection (1) Schedule 18 FA 1998 (company tax returns, assessments and related matters) so that references to sections 19, 20 and 21 CTA 2010 (marginal relief for companies with small profits) are replaced by Chapter 3A Part 8 CTA 2010 (rates at which CT is charged on ring fence profits.)
- Paragraph 15 subparagraphs (1) to (3) amend sections 614 and 618 CTA 2010 (authorised investment funds) so that the references to sections 18 and 19 CTA 2010 (marginal relief for companies with small profits) are omitted. Authorised investment funds cannot have ring fence profits and marginal relief will no longer be due; and,

15. Paragraphs 8 and 13 contain more significant amendments arising through replacement of the previous associated companies rules with the “related 51% group company” legislation in new section 279F. Paragraph 8 amends section 99 Capital Allowances Act (CAA) 2001 so that the “related 51% group company” rules are used to determine the amount of the monetary limit in computing capital allowances on long life assets. Paragraph 13 amends sections 357CL and 357CM CTA 2010 so that the “related 51% group company” rules are used to determine the profit limit for companies electing for small claims treatment under the Patent Box legislation.

**Part 3**

16. Part 3 makes commencement and transitional provisions.
17. Paragraph 21 provides that changes relating to the Capital Allowances Act and the Patent Box legislation will apply for accounting periods beginning on or after 1 April 2015.
18. Paragraph 22 provides that all other changes will apply with effect from the financial year 2015 onwards.

**BACKGROUND NOTE**

19. This measure makes changes to legislation to unify the rate of corporation tax chargeable on a company's profits (other than oil and gas ring fence profits) from the Financial Year 2015. The rate of tax is to be known as "the main rate".
20. Corporation tax will continue to be charged at two rates on ring fence profits (to be renamed "the main ring fence profits rate" and "the small ring fence profits rate"). The legislation relating to these rates and marginal relief has been moved to new Chapter 3A within Part 8 CTA 2010 that contains the Oil Activities legislation.
21. The new legislation changes the way in which the marginal relief fraction and ring fence rates of tax are set. Currently, the rates are set by Parliament for each financial year through a provision in the Finance Bill. From Financial Year 2015, the ring fence rates and fraction will be fixed in Chapter 3A of Part 8 CTA 2010. "The main rate" of corporation tax will continue to be set by Parliament for each financial year.
22. The anti-fragmentation rules within the legislation for computing marginal relief (now applicable only to ring fence profits) have been simplified by replacing the associated companies rules (previously in Part 3 CTA 2010) with a "related 51% group companies test". The upper limit of £1,500,000 and lower limit of £300,000 will now be divided amongst the claimant company and its "related 51% group companies", the latter being based on the definition of a 51% subsidiary in section 1119 CTA 2010.
23. The associated companies anti-fragmentation rules were also used in the long life assets legislation (section 99 of the Capital Allowances Act (CAA) 2001) and the legislation covering the small claims treatment in the Patent Box regime (sections 357CL and 357CM CTA 2010). These rules have also been replaced by the "related 51% group companies" test.
24. If you have any questions about this change, or comments on the legislation, please contact Clare Dunne on 03000 585961 (email: [clare.e.dunne@hmrc.gsi.gov.uk](mailto:clare.e.dunne@hmrc.gsi.gov.uk)).

**2014 No.**

**CORPORATION TAX**

**The Corporation Tax (Instalment Payments) (Amendment)  
Regulations 2014**

*Made* - - - - - \*\*\*  
*Laid before the House of Commons* \*\*\*  
*Coming into force* - - - - - \*\*\*

The Treasury make the following Regulations in exercise of the powers conferred by sections [59E(1), (2)(a) and (5)(b)] of the Taxes Management Act 1970(a).

**Citation and commencement**

1.—(1) These Regulations may be cited as the Corporation Tax (Instalment Payments) (Amendment) Regulations 2014 and come into force on [.....].

(2) These Regulations have effect in relation to accounting periods beginning on or after 1st April 2015.

**Amendment of the Corporation Tax (Instalment Payments) Regulations 1998**

2. The Corporation Tax (Instalment Payments) Regulations 1998(b) are amended as follows.

**Amendment of regulation 2**

3.—(1) Regulation 2 (interpretation) is amended as follows.

(2) In paragraph (2) for the words from “company’s” to the end substitute—

“company’s—

- (a) adjusted taxable total profits of that period, plus
- (b) any franked investment income received by the company that is not excluded income.”

(3) After paragraph (2) insert—

“(2A) In paragraph (2)—

- (a) a company’s “adjusted taxable total profits” of a period are what would have been the company’s taxable total profits of the period in the absence of sections 1(2A), 2B and 8(4A) of TCGA 1992 and section 2(2A) of CTA 2009 (certain gains on relevant high value disposals by companies etc chargeable to capital gains tax not corporation tax), and

---

(a) 1970 c. 9; section 59E was inserted by section 30 of the Finance Act 1998 (c. 36). None of the amendments to section 59E are relevant to sections [59E(1), 59E(2)(a) or 59E(5)].

(b) S.I. 1998/3175, amended by 2011/1785, there are other amending instruments but none is relevant.

- (b) “excluded income” is franked investment income which is excluded by section 279G(2) of CTA 2010(a).”

### **Amendment of regulation 3**

- 4.—(1) Regulation 3 (large companies) is amended as follows.
- (2) In paragraph (1) for the words from “the” to the end substitute “£1,500,000”.
- (3) In paragraph (5)—
- (a) for the words from “Sections” (where it first appears) to “limits” substitute “Sections [279E and 279F] of CTA 2010 (the lower and the upper limit and “related 51% group company”) shall apply so as to reduce the amounts specified in paragraphs (1) and (3)(a) in accordance with those sections as they apply to reduce the upper and lower limits specified in section [279E(2)] of CTA 2010”.
- (b) in sub-paragraph (a)—
- (i) for “associated” substitute “related 51% group”, and
- (ii) for “24(3)” substitute “[279E(3)]”.
- (4) Omit paragraph (8).

[...] 2014

*Name*  
*Name*

Two of the Lords Commissioners of Her Majesty’s Treasury

### **EXPLANATORY NOTE**

*(This note is not part of the Regulations)*

These Regulations amend the Corporation Tax (Instalment Payments) Regulations 1998 (S.I. 1998/3175) (“the principal Regulations”) following changes to simplify tax legislation as a result of the unification of corporation tax rates. The principal Regulations provide that a large company’s liability to corporation tax for an accounting period is due and payable in instalments.

Regulation 1 deals with citation, commencement and effect.

Regulation 3 amends regulation 2 which defines the terms used to substitute the reference to the definition of “augmented profits” in section 32 of Corporation Tax Act 2010 (which has been repealed) with a new term, “adjusted taxable total profits”, in a new regulation 2(2A).

Regulation 4 amends regulation 3 which defines a large company to insert the profit limit, omit references to repealed terms and insert a reference to “related 51% group company” (a term inserted by the simplification measures in Finance Act 2014).

[A Tax Information and Impact Note covering this instrument was published on [.....] and is available on the HMRC website at [http://www.hmrc.gov.uk/the\\_library/tiins.htm](http://www.hmrc.gov.uk/the_library/tiins.htm). [it remains an accurate summary of the impacts that apply to this instrument.]]

---

(a) Section 279G was inserted by the Finance Act 2014 (c. \*).

**EXPLANATORY MEMORANDUM TO  
THE CORPORATION TAX (INSTALMENT PAYMENTS) (AMENDMENT)  
REGULATIONS 2014**

**2014 No. [XXXX]**

1. This explanatory memorandum has been prepared by Her Majesty's Revenue and Customs and is laid before the House of Commons by Command of Her Majesty.

[This memorandum contains information for the Select Committee on Statutory Instruments.]

2. **Purpose of the instrument**

- 2.1 These Regulations amend the Corporation Tax (Instalment Payments) Regulations 1998 (S.I. 1998/3175) ("the principal Regulations") the purpose of which is to provide for collection of corporation tax by instalments.

- 2.2 These Regulations amend regulations 2 and 3 of the principal Regulations so that references to definitions in the Corporation Tax Act 2010 ("CTA 2010") that will be repealed as a result of the unification of tax rates are replaced by new, simplified definitions.

3. **Matters of special interest to the Select Committee on Statutory Instruments**

- 3.1 None

4. **Legislative Context**

- 4.1 Under section 59D Taxes Management Act 1970 ("TMA 1970"), corporation tax is due and payable nine months and one day after the expiry of an accounting period. However, the principal Regulations provide that companies that are defined as large are required to pay corporation tax in instalments that fall due before that date.

- 4.2 Regulation 3 of the principal Regulations defines a large company for this purpose, and in doing so uses definitions included in Part 3 CTA 2010 that makes provision for companies with small profits and marginal relief.

- 4.3 As a result of the unification of corporation tax rates for the financial year 2015 onwards, small profits rate and marginal relief will no longer apply to companies other than those with oil and gas ring fence profits. Part 3 CTA 2010 will be repealed, and the legislation rewritten in Chapter 3A Part 8 CTA 2010 (oil activities.)



4.4 These Regulations amend the principal Regulations to replace the repealed definitions, and where appropriate, use the rewritten, simplified definitions in Part 8 CTA 2010.

4.5 The changes will apply to accounting periods beginning on or after 1 April 2015.

## **5. Territorial Extent and Application**

5.1 This instrument applies to all of the United Kingdom.

## **6. European Convention on Human Rights**

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation, no statement is required.

## **7. Policy background**

7.1 At Budget 2013, the Government announced that a single unified rate of corporation tax of 20 per cent will apply from 1 April 2015 to profits other than oil and gas ring fence profits.

7.2 Consequently, Part 3 CTA 2010 that includes the legislation for companies with small profits and marginal relief will be repealed and the legislation rewritten to new Chapter 3A Part 8 CTA 2010 that includes the oil activities legislation.

7.3 The principal Regulations previously used some of the definitions included within Part 3 CTA 2010, and are therefore amended by these Regulations to replace or where appropriate use the rewritten definitions in Chapter 3A Part 8 CTA 2010. The changes are as follows:

7.3.1 The insertion of a monetary profits limit of £1,500,000 to replace the “upper limit” (also £1,500,000) previously defined in Part 3 CTA 2010 and used to determine if a company is large and therefore within the scope of the principal Regulations.

7.3.2 The replacement of references to “associated companies” with references to “related 51 per cent group companies” used to ensure the £1,500,000 limit is shared between related companies, the new “related 51 per cent group” definition has been written in Part 8 CTA 2010 and is simpler to apply than the “associated companies” definition.

7.3.3 The insertion of a definition of “profits” to replace the definition of “augmented profits” previously included in Part 3 CTA 2010 and used for the purposes of applying the £1,500,000 limit.

7.4 The changes will apply to accounting periods beginning on or after 1 April 2015.

7.5 There are no plans to consolidate the principal Regulations.

## **8. Consultation outcome**

8.1 [The Regulations will be published on the HMRC website alongside related draft primary legislation for a period of 12 weeks.]

## **9. Guidance**

9.1 The Company Taxation Manual (published on the HMRC website) and other relevant guidance will be updated to include the above changes.

## **10. Impact**

10.1 The impact on business, charities or voluntary bodies is negligible.

10.2 The impact on the public sector is expected to be negligible.

10.3 A Tax Information and Impact Note covering this instrument was published on 10 December 2013 alongside related draft Finance Bill legislation and available in *Overview of Legislation in Draft*, published on the GOV.UK website on 10 December 2013. [It remains an accurate summary of the impacts that apply to this instrument.]

## **11. Regulating small business**

11.1 The legislation does not apply to small business.

## **12. Monitoring & review**

The measure will be kept under review through regular communication with affected taxpayer groups.

## **13. Contact**

Clare Dunne at HMRC can answer any queries regarding the instrument.

Tel: 03000 585 961

email: [clare.e.dunne@hmrc.gsi.gov.uk](mailto:clare.e.dunne@hmrc.gsi.gov.uk)