HM Revenue & Customs

Corporation tax: main rate

Who is likely to be affected?

Incorporated businesses with profits above £1.5 million which pay corporation tax (CT) at the main rate, and incorporated businesses with profits between £300,000 and £1.5 million which pay tax at the main rate reduced by marginal relief.

General description of the measure

The measure adds an additional 1 per cent to the previously announced reduction of the CT main rate for the Financial Year beginning 1 April 2014. The CT main will be set at 21 per cent for the Financial Year beginning 1 April 2014.

Policy objective

This measure supports the Government's objective of a more competitive corporate tax system to provide the right conditions for business investment and growth.

Background to the measure

Budget 2012 announced that the main rate for the financial year beginning 1 April 2012 would drop by an extra 1 per cent to 24 per cent, followed by two further annual 1 per cent cuts to 22 per cent by the Financial Year beginning 1 April 2014.

Autumn Statement 2012 announces an additional 1 per cent reduction to that previously announced, so from 1 April 2013 the rate will be 23 per cent followed by 21 per cent for the Financial Year beginning 1 April 2014.

This tax information and impact note in part supersedes the note published at Budget 2012 to reflect the changes announced then to the CT main rate.

Detailed proposal

Operative date

The reduction in the CT main rate for Financial Year 2014 will have effect on and after 1 April 2014.

Current law

A rate of 24 per cent for the Financial Year beginning 1 April 2012 was set by section 5 of the Finance Act 2012 for all non-ring fence profits and a rate of 23 per cent for the Financial Year beginning 1 April 2013 was set by section 6 of the Finance Act 2012.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to reduce the main rate of CT for all non ring fence profits to 21 per cent from April 2014.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-10	-415	-785	-875	-875
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	A lower corporation tax rate makes the UK more attractive as a destination to locate business activity. A reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment.					
Impact on individuals and households	This measure concerns incorporated businesses and has no direct impact on individuals or households.					
Equalities impacts	This measure concerns the taxation of the body corporate which is a non-gender/race specific entity in law. As such it is very unlikely that there will be any impact on equality.					
Impact on business including civil society organisations	This measure will lower the tax bills of 40,000 businesses which have profits over £1.5 million and pay at the main rate of CT; and a further 41,000 which have profits between £300,000 and £1.5 million and pay at the main rate of CT but receive marginal relief. This measure is expected to result in negligible one-off costs as businesses familiarise themselves with the rate change and update administrative systems. The change makes little difference to the complexity of the tax calculation and is not expected to increase compliance costs on an ongoing basis. This measure will have no impact on civil society organisations					
Operational impact (£m) (HMRC or other)	Implementation is likely to have only minor operational impact but will necessitate some changes to HM Revenue & Customs IT systems and online filing products.					
Other impacts	Competition assessment: a lower CT main rate makes the UK more attractive as a destination to locate. Small firms impact test: although only a minority of small businesses pay CT at the main rate, for those affected, the impact is positive - a reduction in the main rate of CT will reduce capital costs for businesses and promote higher levels of business investment. Other impacts have been considered and none have been identified.					

Monitoring and evaluation

The measure will be monitored and assessed alongside other measures in the Government's package of corporation tax changes.

Further advice

If you have any questions about this change, please contact Ellen Milner on 020 7147 3961 (email: ellen.milner@hmrc.gsi.gov.uk).

2 Charge and main rate for financial year 2014

(1) Corporation tax is charged for the financial year 2014.

(2) For that year the rate of corporation tax is—

(a) 21% on profits of companies other than ring fence profits, and

(b) 30% on ring fence profits of companies.

(3) In subsection (2) "ring fence profits" has the same meaning as in Part 8 of CTA 2010 (see section 276 of that Act).

EXPLANATORY NOTE

CORPORATION TAX: CHARGE AND MAIN RATE FOR FINANCIAL YEAR 2014

SUMMARY

1. This clause charges corporation tax (CT) for the financial year beginning 1 April 2014 and sets the main rate of CT at 30 per cent on oil and gas ring fence profits and 21 per cent on non-ring fence profits.

DETAILS OF THE CLAUSE

2. <u>Subsections (1) and (2)</u> set the charge and the main rate of CT for the financial year beginning 1 April 2014.

BACKGROUND NOTE

3. The main rate of CT is paid by companies with profits of more than £1,500,000 (the upper profits limit).

4. Where two or more companies are associated with one another, the profits limit is reduced. This is done by dividing the limit by the number of associated companies.

5. Profits from oil extraction and oil rights in the UK and the UK Continental Shelf (“ring fence profits”) will continue to be subject to a separate main rate of CT applicable to those ring fenced profits. Profits from activities which are not ring fenced will continue to be charged at the main rate of CT applicable to all other profits.

6. If you have any questions about this change, or comments on the legislation, please contact Ellen Milner on 020 7147 3961 (email: ellen.milner@hmrc.gsi.gov.uk).

1 Small profits rate and fractions for financial year 2013

(1) For the financial year 2013 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 3/400ths, 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).

EXPLANATORY NOTE

CORPORATION TAX: SMALL PROFITS RATE AND FRACTIONS FOR FINANCIAL YEAR 2013

SUMMARY

1. This clause sets the small profits rate of corporation tax (CT) for the financial year beginning 1 April 2013 at 20 per cent for all profits apart from "ring fence profits" of North Sea oil companies, where the rate is set at 19 per cent. Additionally, it sets the fraction used in calculating marginal relief from the main rate at 3/400 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 2013.

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

BACKGROUND

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 from the main rate.

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 @ 23 per cent	£115,000
minus 3/400 of £1,000,000*	£7,500
Tax payable:	£107,500

* £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 @ 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 Ellen Milner on 020 7147 3961 (email: ellen.milner@hmrc.gsi.gov.uk).