

Spring Budget 2023.

Changes to Corporation tax within the 2023 Spring Budget.



How the April tax rise affects SMEs

From April 2023, the primary corporation tax rate has risen from 19% to 25%. This rise is going to affect companies with profits over £250,000. Smaller businesses, with earnings, up to £50,000 will continue to pay the current 19% rate. A tapered rate is in place for taxable profits between these two amounts. Corporation tax is mandatory for all UK companies. Unincorporated businesses, such as sole traders and partnerships, are taxed via income tax using self-assessment.

Context around the measure

In March 2021, the then Chancellor of the Exchequer, Rishi Sunak announced the corporation tax rise to commence in April 2023. The Government's Fiscal policy at the time was to reduce the annual deficit and deliver "sustainable public finances" after £400 billion spending was signed off by Rishi Sunak in 2020 due to the Covid-19 pandemic.

After Boris Johnson Resigned as Prime Minister in July 2022 and was replaced by Liz Truss, the Government's approach to fiscal policy changed drastically. The third Chancellor of the Exchequer in 2022, Kwasi Kwarteng, delivered his 'mini budget' on 23 September 2022. Within this mini-budget, he announced a range of tax cuts and cancelled the planned rise in corporation tax.

The Mini Budget created much controversy, and as a result, the Government was forced into a U-turn on many of the proposals. Significantly this included retaining the corporation tax rise to 25% planned for April 2023.



Rates and Thresholds

The Rise in corporation tax will predominantly affect larger companies, with the new rates being applied to companies with profits exceeding £250,000 per year. With this in mind, only 10% of UK companies will pay the higher rate.

Companies that are earning £50,000 or less in profits will be put onto the 'small profits rate' this tax rate is held at 19%

The UK Government has stated that due to these changes and the new thresholds in place, 70% of companies totalling 1.4 million businesses will not be affected by these rate rises.

For companies that have a profit that ranges between £50,000 and £250,000, there is a tapered system being introduced.

If your company has a profit of £300,000, all of it will be taxed at 25%, not just the amount above £250,000. Unlike Income tax where portions of your income are taxed at gradually increasing rates after a tax-free allowance.



How the taper will work

Companies and organisations might be able to claim a slight relief if their profits from 1 April 2023 are between the lower limit (£50,000) and the higher limit (£250,000). These Limits are reduced if your account period is shorter than 12 months. The lower and upper limits are reduced by the number of associated companies your company has. This is known as adjusted limits.

If your company has three associated companies, these limits are divided by 4. This reduces the lower limit to £12,500 and the upper limit to £62,500. If you are a non-UK resident company or a close investment holding company, you cannot claim marginal relief.

To determine the tax amount you must pay, you need the following formula:

$$(\text{Adjusted upper limit} - \text{Augmented profits}^*) \times (\text{taxable total profit} \div \text{augmented profits}) \times (\text{standard marginal relief fraction}).$$

*Augmented Profits are 'Taxable Total Profits' plus exempt dividends received.

What is the marginal relief fraction?

In the Equation provided by the government, the marginal relief fraction is set at $\frac{3}{200}$ ths; This is the difference between the introductory rate and the marginal rate, displayed as a fraction.

Calculating your tax bill after marginal relief

As well as using the Formula provided, the Government has created an online calculator that will calculate your corporation tax bill after marginal relief. You must have the same data used in the Formula provided to use this calculator. To ensure the calculator's accuracy, ensure that the data you input is accurate; otherwise, your tax bill will be incorrect.

Full expenditure allowance that has no upper limit

To encourage more investment, the government announced that for three years, all businesses could claim complete tax relief on all capital expenditures on qualifying assets without limit. For companies paying tax at 25%, this effectively retains the same level of comfort as is currently available under the super deduction relief that expired on the 31st of March, 2023. The UK has the lowest Corporation tax rate in the G7 alongside its generous investment incentives such as the super deduction.

Complete expensing aims to build on the success of the super deduction. Full expensing was introduced due to the results of the capital allowances survey. Businesses across the UK voiced their opinions, and they showed a clear preference for the other options. The UK Government state that "the UK's capital allowances regime will remain world-leading" due to the implementation of this scheme.



Mitigating corporation tax

Corporation tax is rising for many companies. However, they can still benefit from tax planning. For example, the annual investment allowance will remain at its highest permanent level of £1 million from 1 April 2023.

As well as this, R&D expenditure is set to increase from 13% to 20% to invest more tax money into UK R&D projects.

However, The SME additional deduction will be cut to 86% from 1 April. The SME credit will also decrease from 14.5% to 10%. The reasoning behind these deductions is to try to make the RDEC scheme more competitive.



Creative industry tax reliefs for Corporation Tax

Creative industries are also receiving several tax relief schemes, including Video Game tax relief, film tax relief and television relief. In addition, the Government promised in the autumn 2022 statement that they plan to "build upon the success of the audiovisual subset of the creative industry tax reliefs" to "further incentivise the production of culturally British content".

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