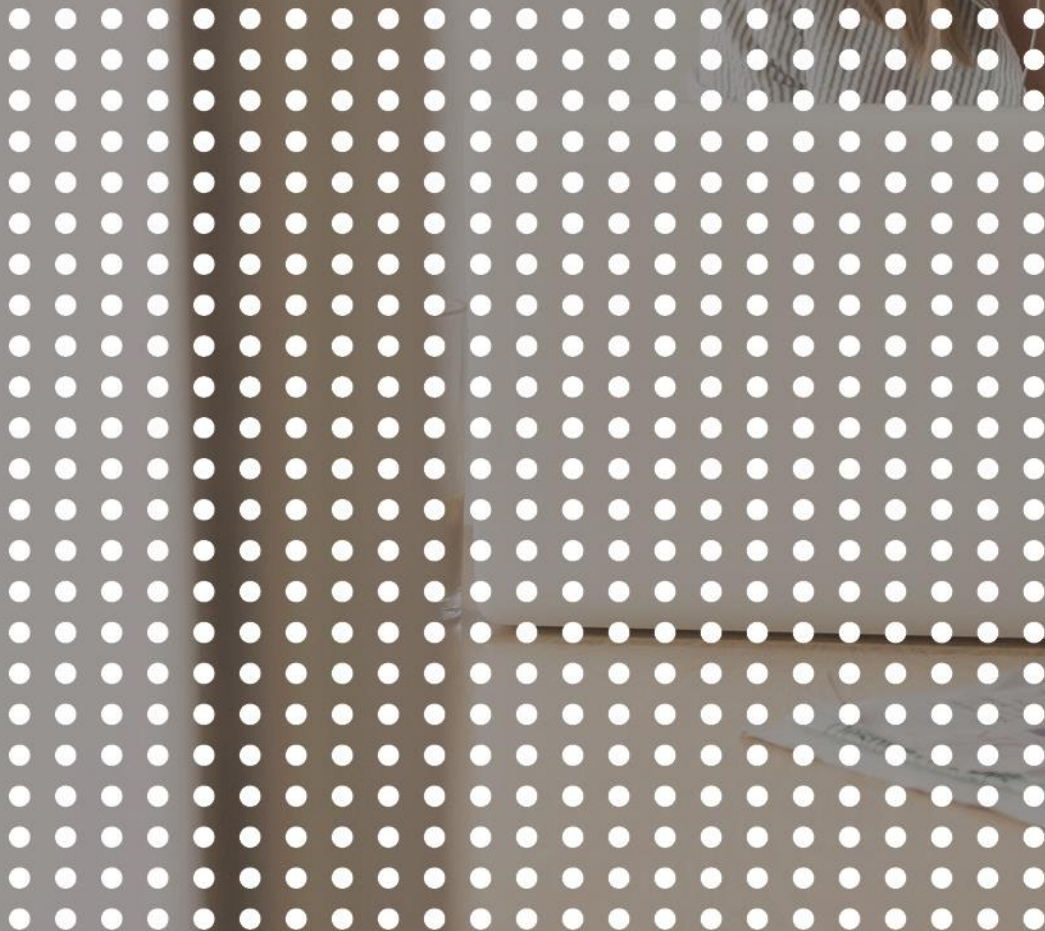


Corporation Tax rate for investment companies

February 2023



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Investment companies to be taxed at 25%

The Finance Act 2021 (FA 2021) outlined the largest single increase in corporation tax rates since the 1970s, increasing the main corporation tax rate from 1 April 2023 by around a third from 19% to 25%. FA 2021 also reintroduced a 'small profits rate' for companies with profits below £50,000, and a marginal rate for profits between £50,000 and £250,000. However, the small and marginal rates provide no shelter for investment companies that, from 1 April 2023, will pay corporation tax at the top 25% rate irrespective of their profits.

Should your company's accounting period straddle the effective date of 1 April 2023, the corporation tax rate will be a blended rate for that year. For example, 23.5% for a company with a 31 December 2023 year end. This blended rate is the rate at which all profits of the accounting period will be taxed, including investment disposals, regardless of when, during the year they are sold.

There are some exceptions: if your company invests in property the small and marginal rates will still apply, as long as you are letting property on a commercial basis to unconnected parties. There is also respite for holding companies of trading groups, although the small and marginal profits limits noted above will be proportionally reduced by the number of associated companies.

What if my company doesn't exist solely to hold investments?

If the main purpose of your company is to undertake a trade, but it also holds investments then it is likely that it will still benefit from the small and marginal company rates on all profits, whether derived from the trade or from investments. To qualify for these reduced rates the purpose of the company must be 'wholly or mainly' to trade, with the investments incidental to the main trade(s).



Corporation tax is self-assessed so the company, or more likely, its tax advisers will seek to determine its main purpose, in order to apply the correct corporation tax rate in the company's tax return. There is little definitive guidance from HMRC on what constitutes 'wholly or mainly' but in establishing the company's main purpose, consideration will be given to the proportion of income from trading, the level of assets invested in investments versus trade, and the board's time spent on the trade versus investments.

Do I need to do anything now?

Whilst the company's investment strategy will involve much wider considerations than tax, from a corporation tax perspective, it is worth seeking investment advice as to whether to dispose of investments with large unrealised gains before the company's accounting period in which the rate increases. Consideration should also be given to any capital losses carried forward in the company such that these are optimally utilised.

What other changes will I see in my accounts?

The rate change is effective from 1 April 2023 and will only be reflected in tax payable after that date.

However, more immediately, you are likely to see tax disclosures in the notes to the accounts with an explanation of the upcoming rate increase and the new rate reflected in the deferred tax provision (where applicable). Deferred tax is an estimate of tax likely to be paid in the future and is provided for at the rate it is likely to unwind at. Therefore, your tax advisers may start providing now for deferred tax at the 25% rate. Whilst this may not be of a great significance to those portfolios that are in their early stages, a company with significant unrealised gains will notice the change on its net asset position.

Need more help?

For more information, please contact Louise Anderson at louise.anderson@ct.me or Conall Boyle at conall.boyle@ct.me

- Information correct at August 2021.

CT ● Accountants
● Advisers

