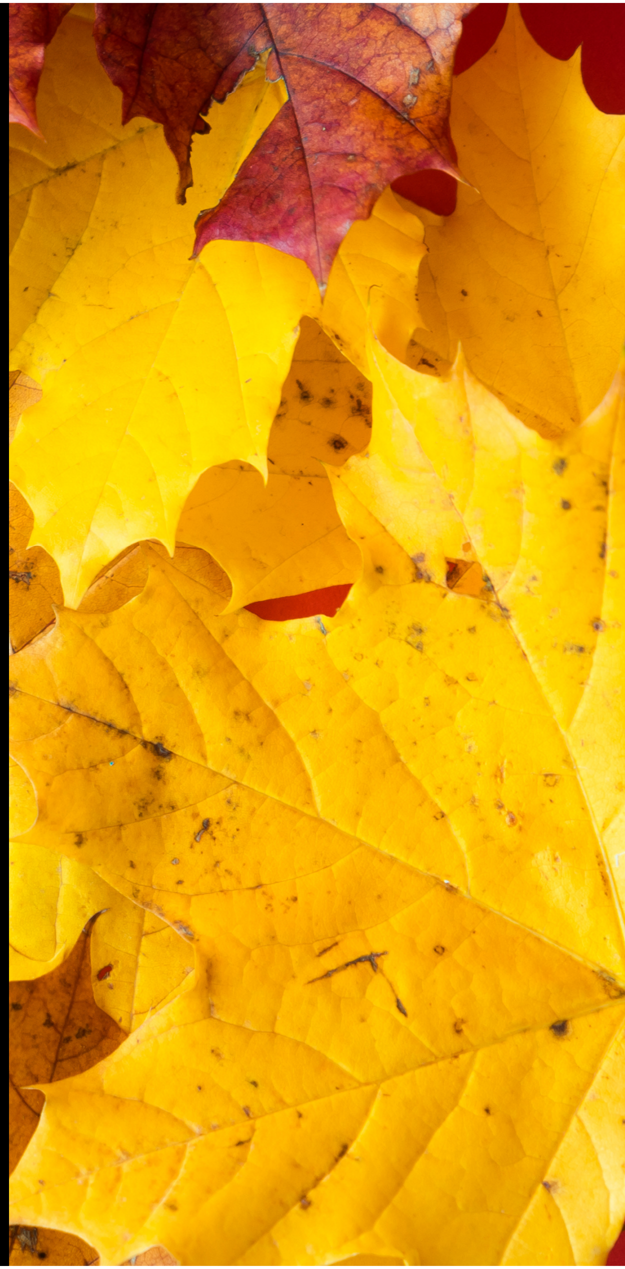
Corporation Tax 2023 – new rates and profit extraction

Marsland
Nash
Associates

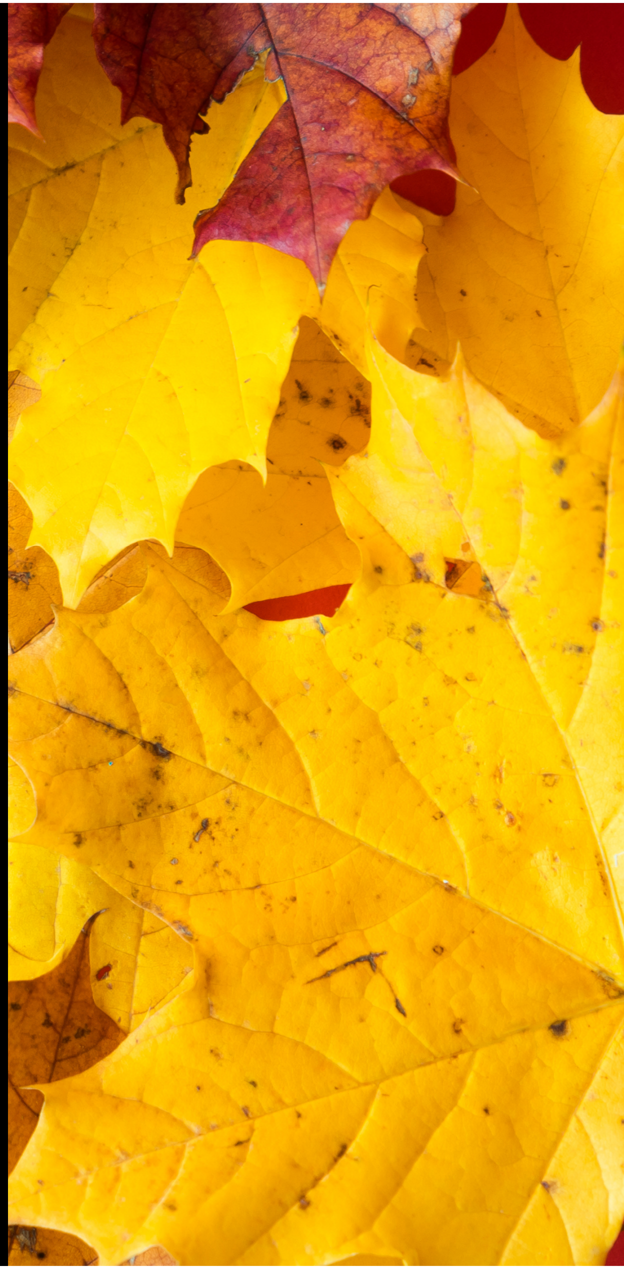
A company makes £200k profit before tax in 23/24, the shareholder takes £120k of dividends in the 23/24 tax year.

What is the top rate of corporation plus dividend tax payable on the profits extracted?

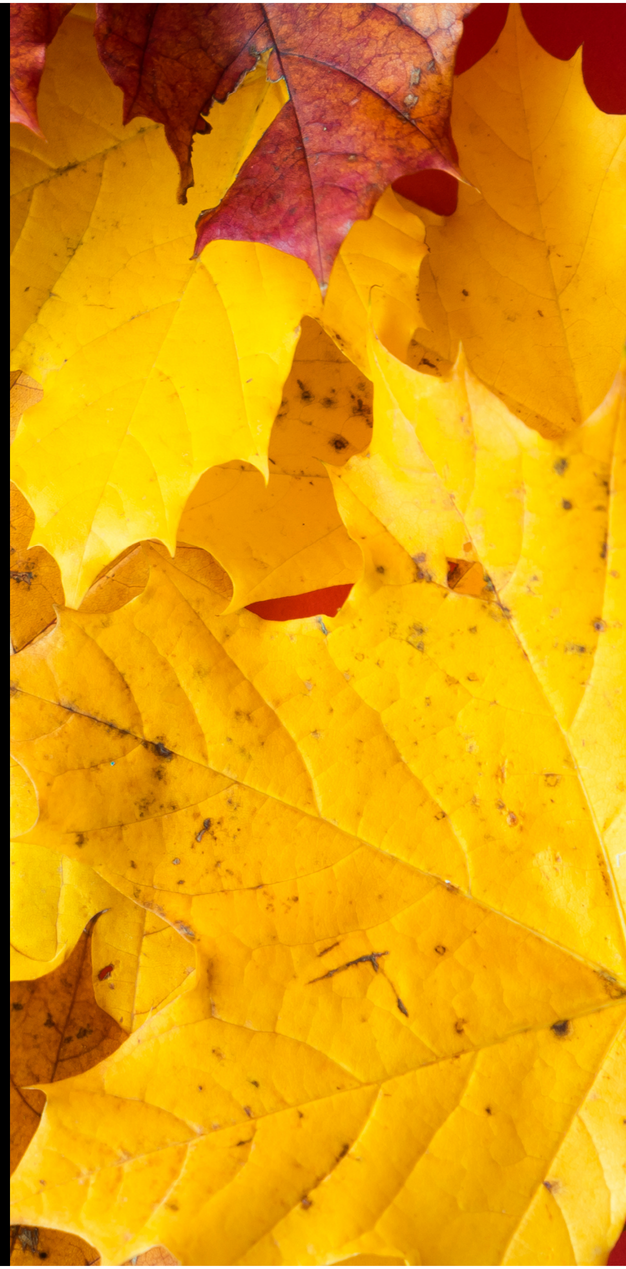


A) Less than 50%
B) 50% - 75%
C) More than 75%

- Phone a friend?
- 50/50?
- Ask the audience?



77.1%

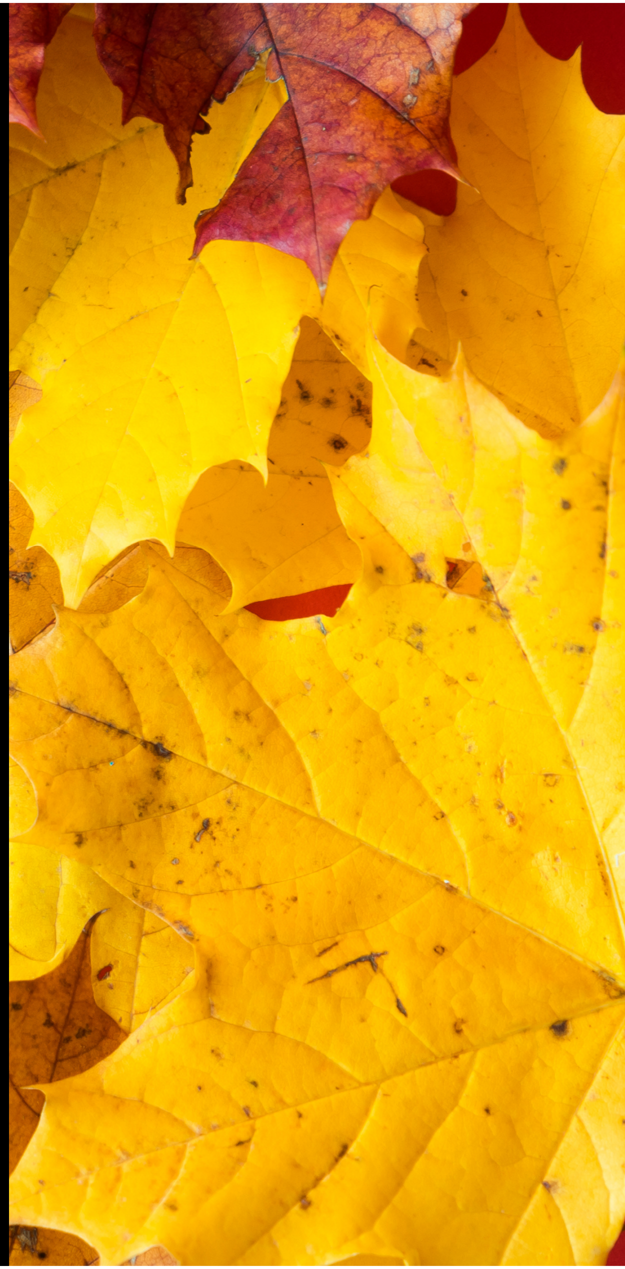


Corporation tax 26.5%

Dividend 33.75% plus loss of personal allowance = 50.6%

50.6%+26.5%= 77.1%

Why you need a proactive tax advisor

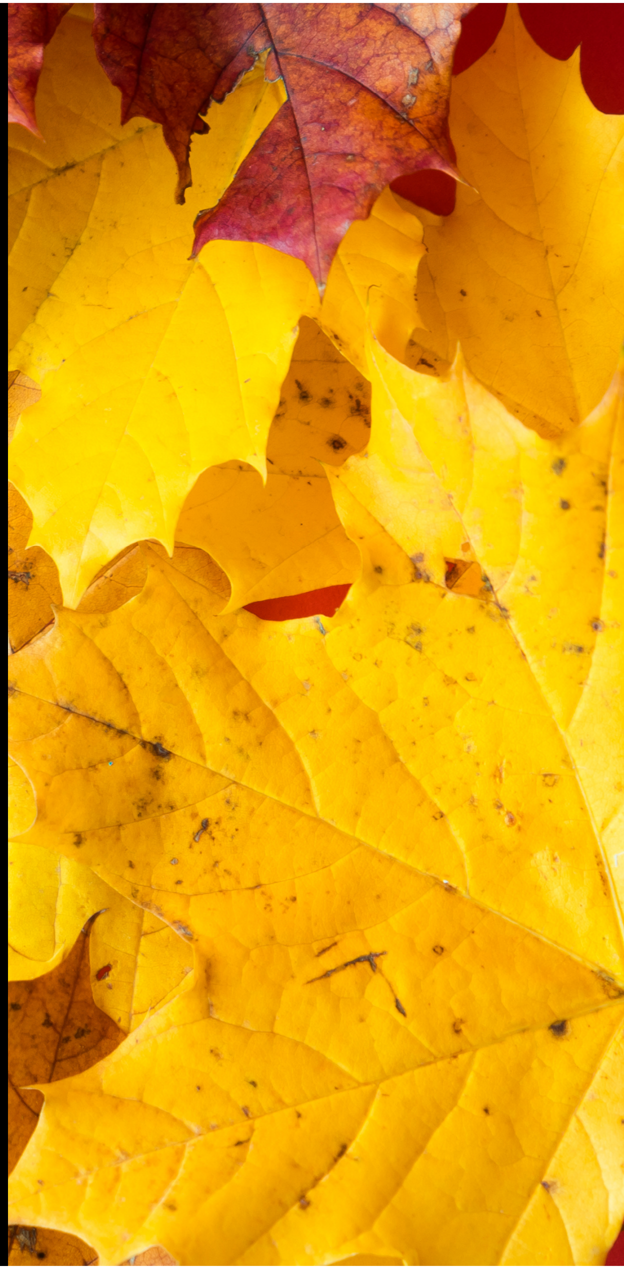


Corporation tax background

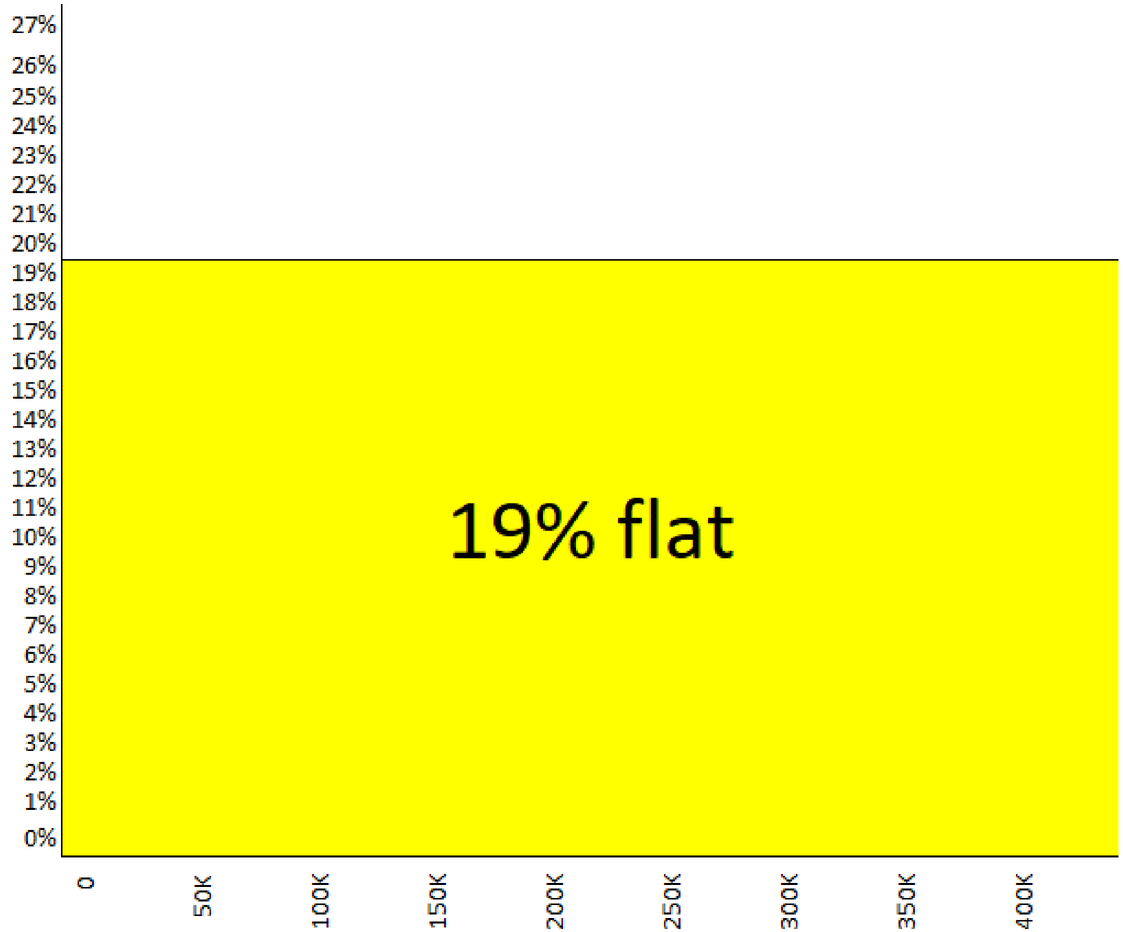
- In 2017 the main corporation tax dropped to 19% and it remained there until 2022. The corporation tax rate for small companies has since been the same as the main rate since 2015.
- The rate was scheduled to drop to 17% in 2020 but this cut was reversed 2020.
- In 2021 the then Chancellor Rishi Sunak announced an increase to 25% for profits over £250k with marginal relief 50k-250k
- In his infamous Autumn 22 “Growth Plan” budget Kwazi Kwarteng cancelled the planned cut.
- The next month his successor, the 4th Chancellor of 2022, Jeremy Hunt reversed the U turn and we now have the highest rates, effective from April 2023.

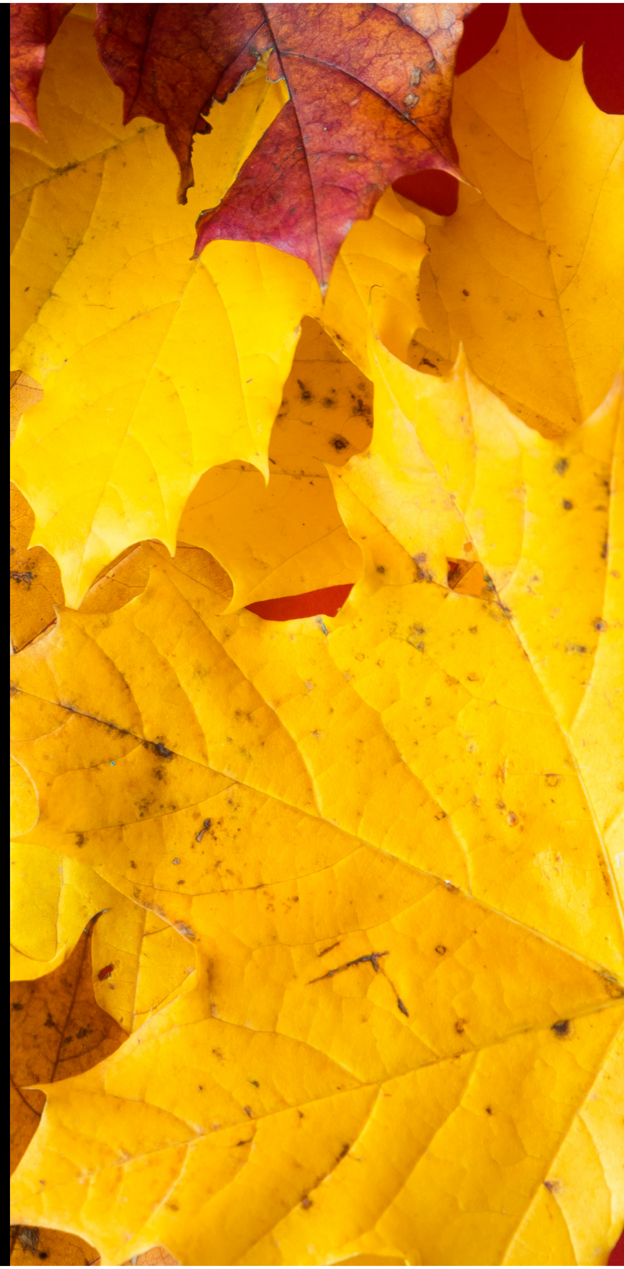
Corporation tax -the new rates

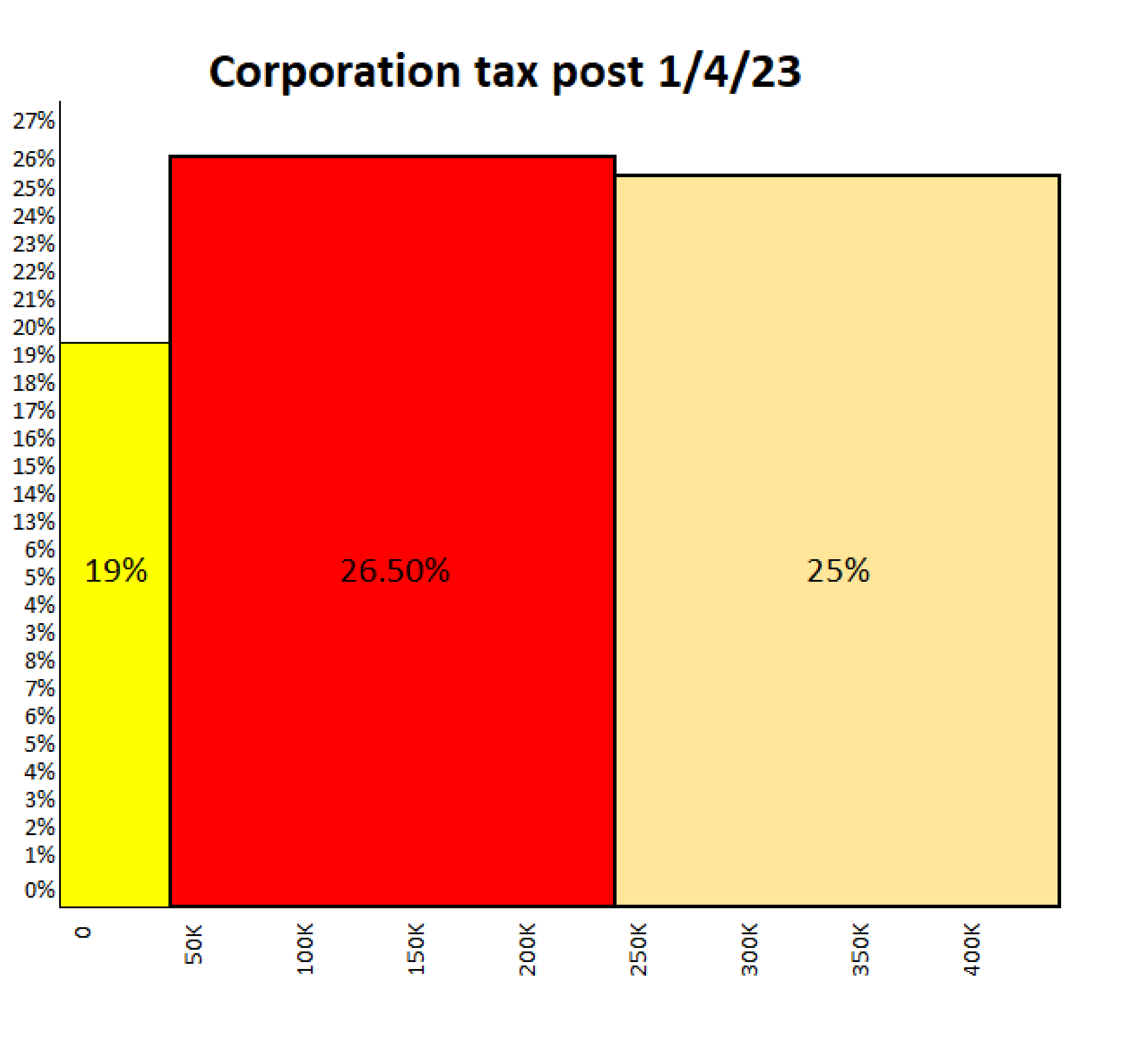
- The first £50,000 of profits are taxed at 19%
- Profits above £250,000 are taxed at 25%
- In between each pound of profit from 50k to 250k is taxed at 26.5%
- Example £150,000 profit
- £50,000 x 19% = £9,500
- £100,000 x 26.5%=£26,500
- Total tax £36,000 an overall 24% rate
- At £200,000 profit, tax is £49,250 a 24.6% rate and £11,250 more tax than the previous year

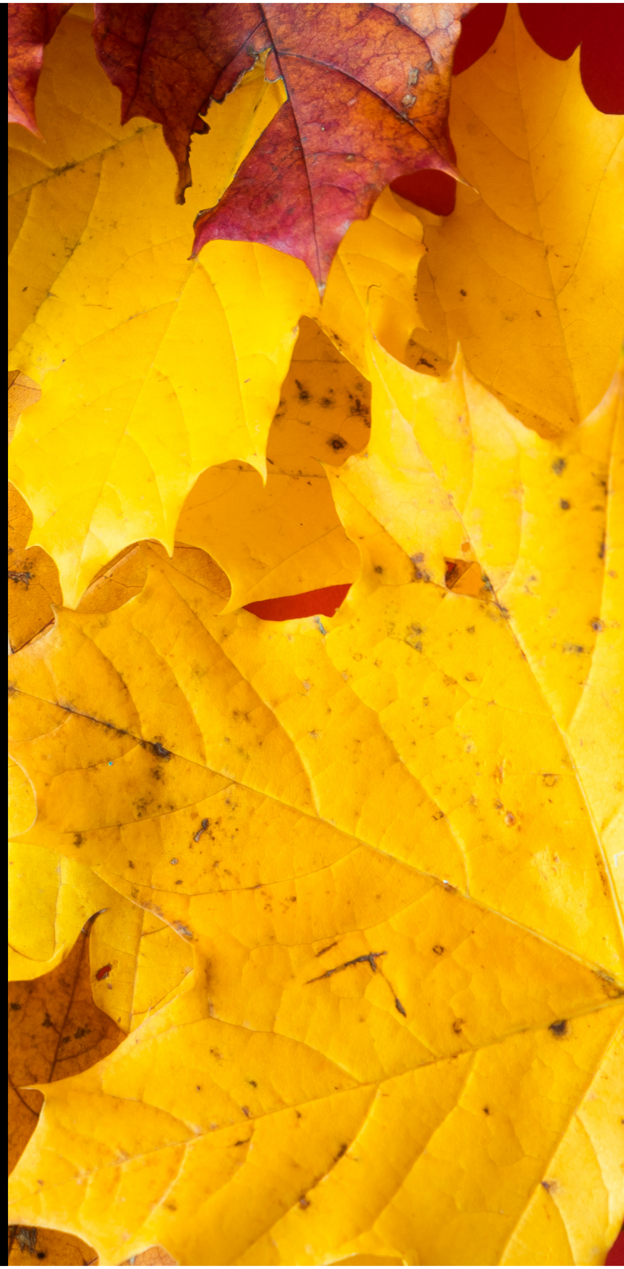


Corporation tax pre 1/4/23






Corporation tax post 1/4/23
27%
26%
25%
24%
23%
22%
21%
20%
19%
18%
17%
16%
15%
14%
13%
6%
5%
4%
3%
8%
7%
6%
5%
4%
3%
2%
1%
0%
19%
26.50%
25%
0
50K
100K
150K
200K
250K
300K
350K
400K

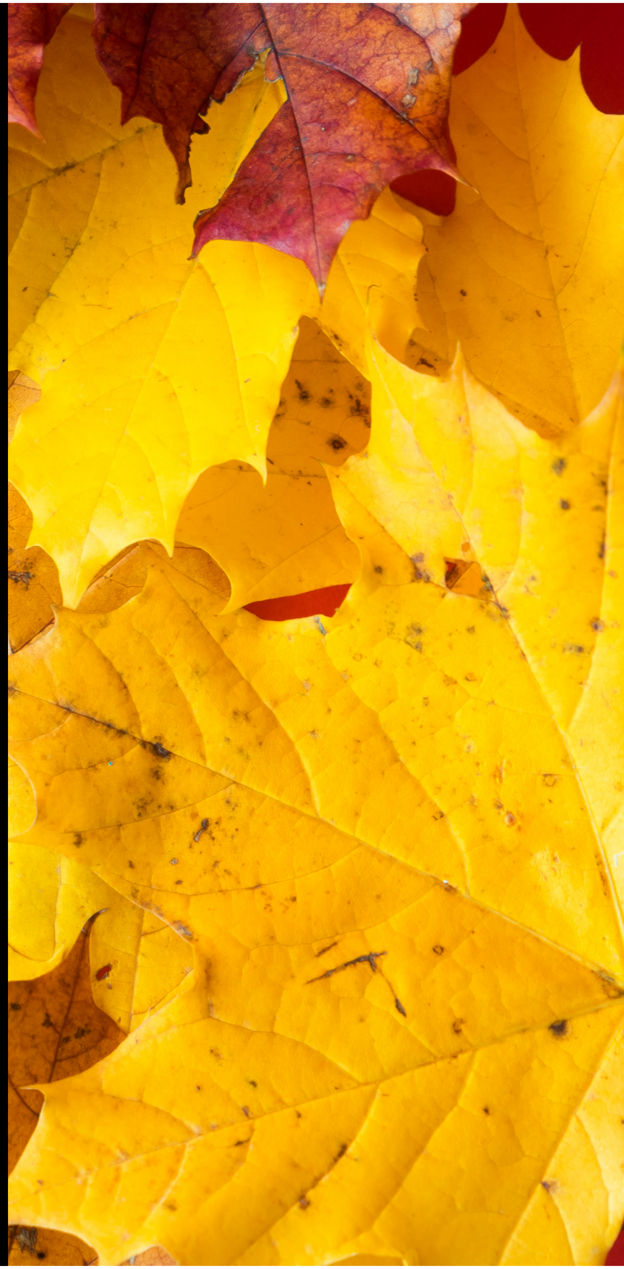


Tax planning points on Corporation Tax

- Consider timing of capital allowances, new equipment purchased or contracted for on HP by year end will receive tax relief at highest rate.

- Employer pensions are very efficient, reducing corporation tax at highest rate.

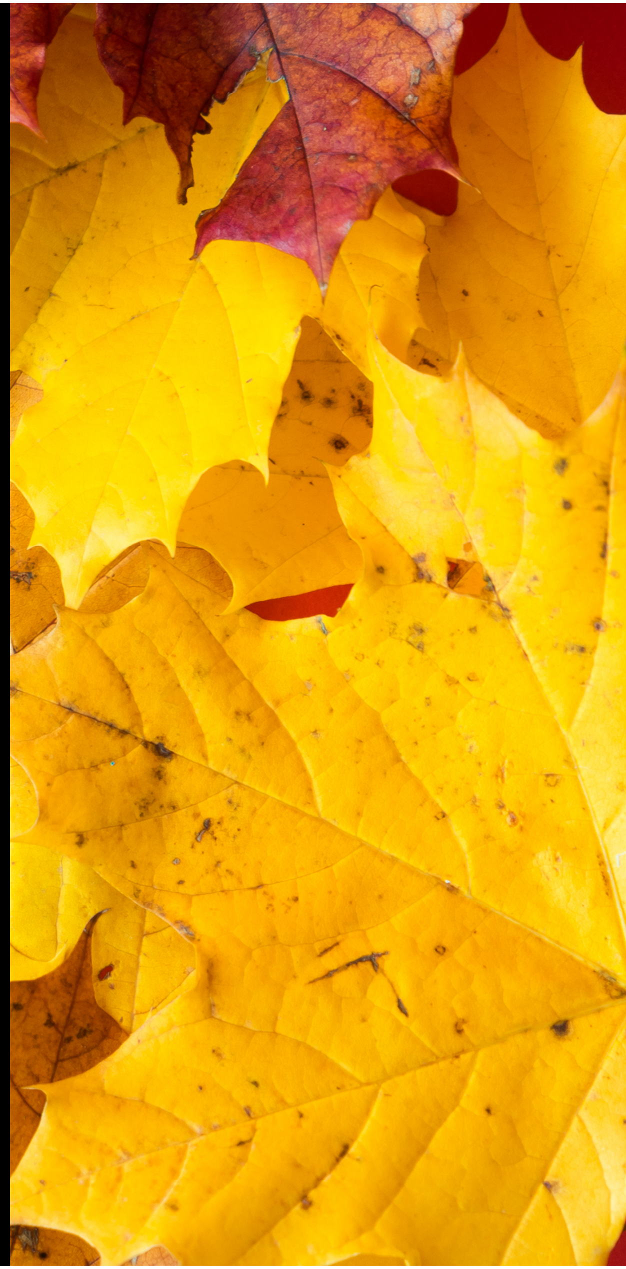
- Salary/pension for family members- even if the family member pays basic rate tax the company may save tax at 26.5%, versus paying dividend tax on drawings. Unless they are directors salary must be commercial.



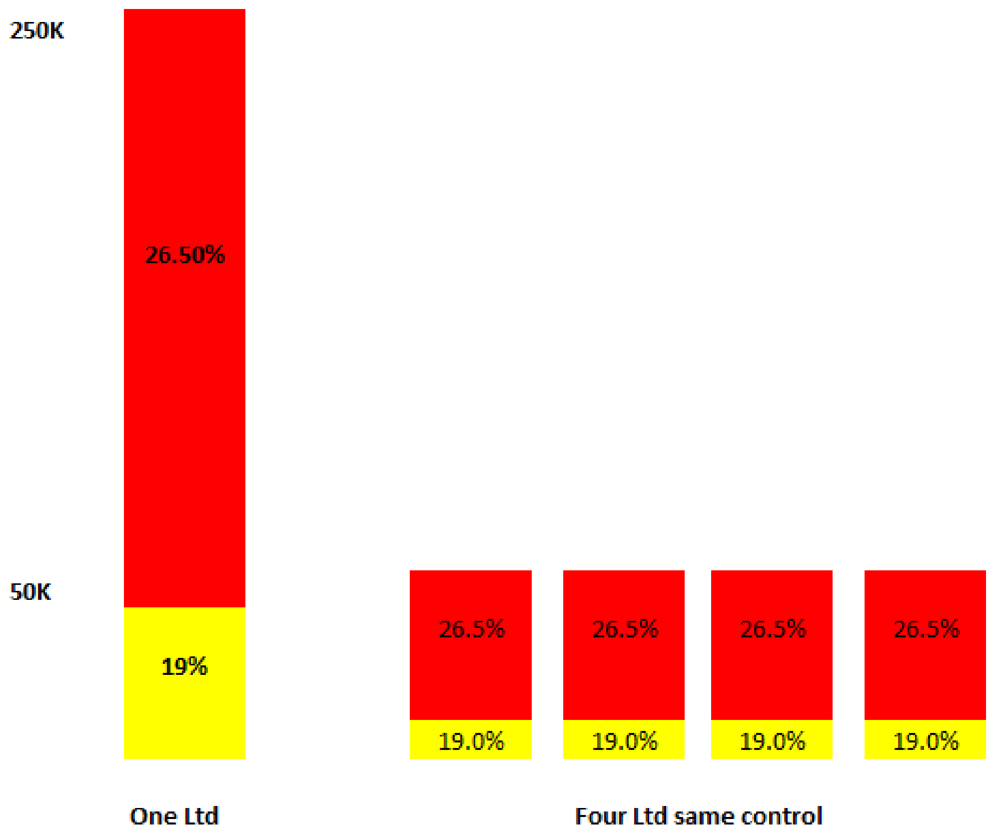
Associated companies

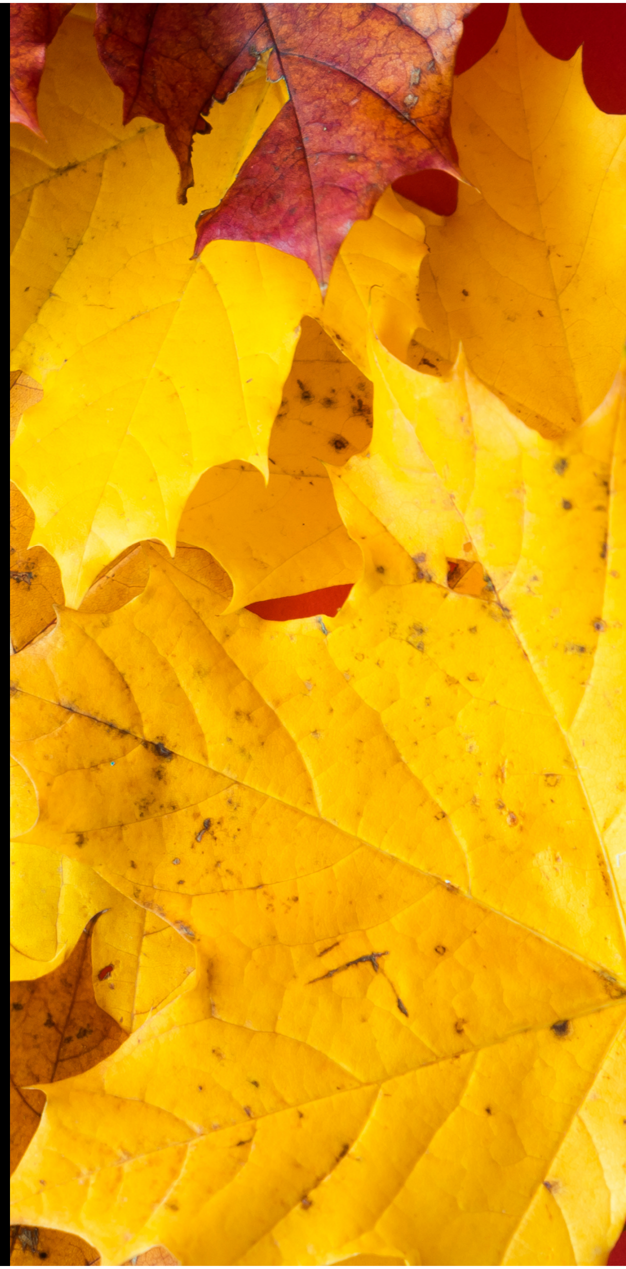
- Special rules prevent artificial splitting of businesses to secure lower rates of CT.
- Common control and commercial interdependance tests
- E.g. 4 companies that are associated : each gets ¼ of the bands:
- 12,500 at 19%
- 12,500-62,500 at 26.5%
- 62,500 + at 25%

- Holding companies may not count



SPLITTING OF TAX BANDS





Examples:

£50,000 profits

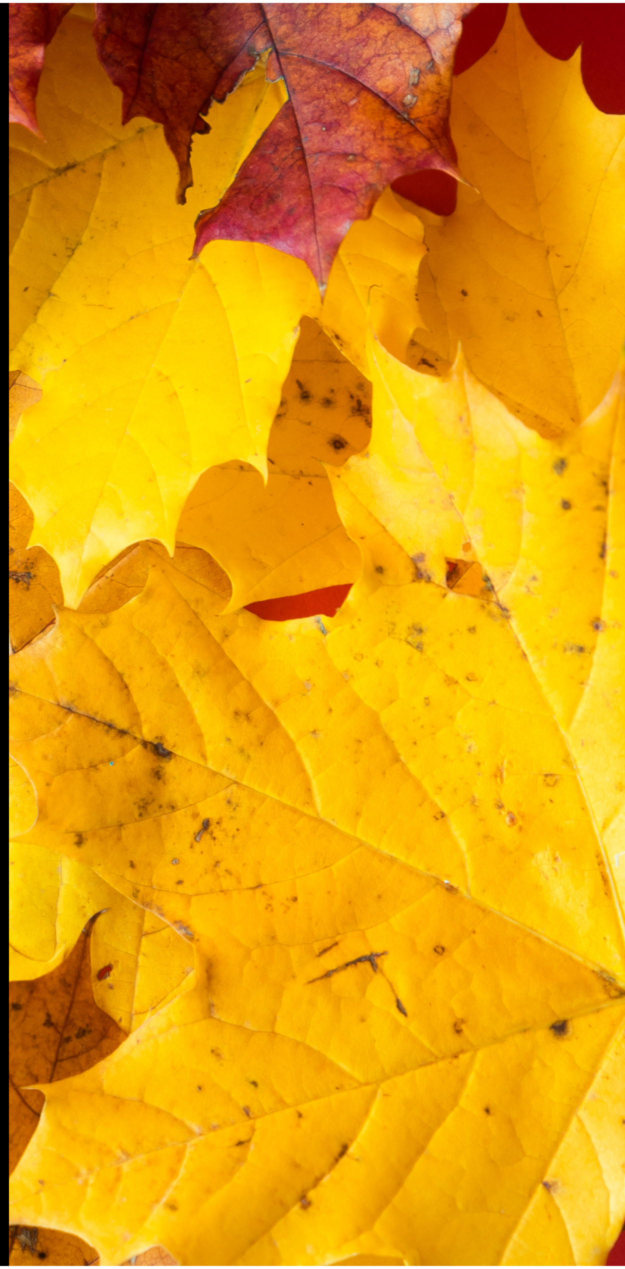
Before 1/4/23	£9,500	19%
After 1/4/23	£9,500	19%
	Same	

£80,000 profits

Before 1/4/23	£15,200	19%
After 1/4/23	£17,450	21.8%
	+£2,250	

£150,000 profits

Before 1/4/23	£28,500	19%
After 1/4/23	£36,000	24%
	+£7,500	



Further planning points

- You will need to show more profits to have the same post tax reserves available for dividends- dividends are from reserves after corporation tax
- Low salary /dividends remains the best extraction tool unless very high dividend
- Interest on loans and pensions contributions will receive tax deduction at the company's highest rate
- Electric cars will get tax relief at the highest corporation tax rate but are only a benefit at a fraction of the cost price, far more efficient than personal ownership, IF you want a new electric car.
- It may be possible to gift shares to family members and hold over gains to open up further unused basic rate dividends.