

17 March 2004

---

## TAX TREATMENT OF SMALL INCORPORATED BUSINESSES

---

### Who is likely to be affected?

1. Companies or groups with profits chargeable to corporation tax below the threshold for the small companies' rate who make distributions to non-company shareholders.

### General description of the measure

2. The combined effect of measures introduced to support small business and the long standing differences between the tax treatment of earned income and dividend income have resulted in a number of businesses incorporating, solely or mainly, for tax reasons.

3. This measure puts matters on a more balanced footing by ensuring that when profits are distributed to non-company shareholders by a company or group, profits are charged at a minimum rate of corporation tax of 19%.

4. There will be rules to cover situations where distributions made exceed profits for the relevant accounting period.

5. There will also be new administrative requirements for companies coming into the corporation tax regime.

### Operative date

6. The minimum rate will apply to distributions made on or after 1 April 2004.

### Current law and proposed revisions

7. The rate at which corporation tax is payable depends on the amount of a company's profits for the financial year in question. Corporation tax is charged at the Starting rate (currently 0%) where profits are £10,000 or less, the Small companies' rate (currently 19%) where profits are £50,001 - £300,000, and the main rate (currently 30%) for profits exceeding £1,500,000. Marginal relief is given to smooth the transition from one rate to another where profits fall within these limits.

8. The measure will ensure that a minimum rate of corporation tax of 19% is charged when a company makes distributions to non-company shareholders. Lower rates of corporation tax will continue to apply where profits are retained or are distributed to other companies.

**Further advice**

9. If you have any questions about this change, please contact Inland Revenue helpline on 0845 3021418.

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)