

Budget 2009



BN03

22 April 2009

CORPORATION TAX SMALL COMPANIES' RATE

Who is likely to be affected?

1. Companies with profits chargeable to corporation tax (CT) lower than the lower relevant maximum amount (LRMA) (currently £300,000), companies with CT profits between LRMA and the upper relevant maximum amount (URMA) (currently £1.5 million), and companies with profits from oil extraction and oil rights in the UK and the UK Continental Shelf ('ring fence profits').

General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to keep the small companies' rate for all profits, apart from ring fence profits, at 21 per cent from 1 April 2009 and keep the fraction used in smoothing the difference between the main rate of CT and the small companies' rate (marginal small companies' rate) at 7/400.
3. The small companies' rate for ring fence profits will remain at 19 per cent from 1 April 2009 and the marginal small companies' relief fraction for ring fence profits will remain at 11/400.

Operative date

4. The measure will have effect on and after 1 April 2009.

Current law and proposed revisions

5. The various CT rates are found in the Income and Corporation Taxes Act 1988 (ICTA) and are legislated annually in the Finance Act (FA). The current provisions for the charge of CT can be found at sections 6 and 7 of FA 2008.
6. The current rules at section 13 of ICTA provide that where a company is not a close investment-holding company and its CT profits (other than ring fence profits) are lower than the LRMA (currently £300,000), those profits are taxed at the lower rate of CT, known as the 'small companies' rate' (currently 21 per cent).

7. Legislation will be introduced in Finance Bill 2009 to maintain the small companies' rate at 21 per cent for non-ring fence profits. The small companies' rate for ring fence profits will also remain at 19 per cent for the financial year 2009-10.
8. Section 13(2) of ICTA entitles companies with a profit of between £300,000 and £1.5 million to marginal relief ('marginal small companies' relief') from tax computed at the main rate. The fraction used in calculating this relief is currently $\frac{7}{400}$ for non-ring fence profits and $\frac{11}{400}$ for ring fence profits.
9. As there is no change to the small companies' rate, the fraction for non-ring fence profits will remain at $\frac{7}{400}$ and for ring fence profits the fraction will also remain at $\frac{11}{400}$.
10. The upper and lower limits for the small companies' rate are set at section 13 (3) of ICTA. These will remain unchanged.

Further advice

11. If you have any questions about this measure, please contact your local HMRC office. Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk