

Small companies' relief

Summary

1. This paper presents draft clauses which rewrite sections 13, 13ZA and 13A of ICTA.
2. Section 13 of ICTA provides for a reduced rate of corporation tax to be charged on the profits of companies if their profits are less than a specified amount. Marginal relief may be available if the profits are greater than the specified amount. Sections 13ZA and 13A supply interpretation rules about 51 percent subsidiaries and close investment holding companies. The extent of the relief depends on the number of associated companies that a company has.
3. A clause elsewhere in Bill 6 will explain that corporation tax rates (including the small companies' rate) are set by Parliament.
4. Our approach to labels such as "total profits" and "net profits" is still developing.
5. For the purposes of the present draft the term "total profits" is used to describe a sum which includes everything within the charge to corporation tax, including chargeable gains. This sum is arrived at without any deductions, except those allowed in arriving at the constituent parts of a company's income or in calculating its chargeable gains.
6. "Net profits" means total profits less the deductions (such as group relief and losses) that are made in calculating a company's profits chargeable to corporation tax.
7. The paper contains:
 - the draft clauses, with origins;
 - draft explanatory notes; and
 - draft notes outlining three proposed changes in the law.
8. The three proposed changes enact two statements of practice and an extra-statutory concession. Outline details are as follows:
 - Change 614 enacts SP1/94 and drops the need for a formal claim for small companies'.
 - Change 615 enacts SP5/94 and allows some holding companies not to count as associated companies.

- Change 616 enacts parts of ESC C9. It allows some other companies not to count as associated companies.

Questions for the committee

9. We would be grateful for any comments you may have on these draft clauses and the proposed changes.

Closing date for comments

10. We would welcome any comments by 18 April 2008. If possible, they should be sent by e-mail to:

jackie.bartlett@hmrc.gsi.gov.uk

Written comments should be sent to:

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11. Please note that the names of respondents may be published unless they ask for their comments to be treated in confidence.

9 January 2008