

# TAX AND YOUR PROPERTY COMPANY *continued*

## 'New' Corporation Tax Code... Explained

The 'old' (pre-April 2023) 19% flat rate of Corporation Tax for all companies was replaced by a new code producing a variable rate of up to 25% of profit. In our experience, this major change has not been well understood by company landlords. This breakdown examines how the new code works, and what tax planning options are available to mitigate the impact.

### THE 'MAIN' RATE OF CORPORATION TAX HAS INCREASED TO 25%

The 'old' Corporation Tax (CT) rate of 19% has been scrapped in favour of the following:

- ▶ A 'small profits' CT rate of 19% for companies with profits of less than £50k.
- ▶ A 'main' CT rate of 25% for companies with profits of more than £250k.

This change meant an increased tax bill of around a third for some companies. (A 6%-point increase from a starting rate of 19% is almost one-third, i.e.  $6/19 = 31.6\%$  increase.)

Companies with profits between £50k (the 'Lower Limit') and £250k (the 'Upper Limit') pay a rate between 19% and 25%, rising gradually as profits exceed £50k.

### HOW IS CORPORATION TAX NOW CALCULATED?

Marginal Relief (MR) is a reduction in the tax bill, which is applied to the 'main' CT rate and acts to lower the CT between the £50k Lower Limit and £250k Upper Limit. It is given as a fraction of 3/200 of the profit amount and the £250k Upper Limit.

For example, Company A makes a profit of £150k in the year ended 31 March 2025 (its profit is therefore £100k below the £250k Upper Limit). The CT bill is as follows:

<b>£150k @ 25%</b>	<b>= £37.5k</b>
<b>Minus: Marginal Relief @ 3/200 x £100k</b>	<b>= £1.5k</b>
<b>Tax bill:</b>	<b>£36k</b>
<b>Effective tax rate = £36k / £150k</b>	<b>= 24%</b>

If Company A had made different profits in the same year, its CT bill would have been as follows:

<b>£250k profit = £62.5k tax</b>	<b>= 25%</b>
<b>£100k profit = £22.75k tax</b>	<b>= 22.75%</b>
<b>£50k profit = £9.5k tax</b>	<b>= 19%</b>

The above figures show how the effective tax rate rises from 19% up to 25% as profits increase through the range £50k to £250k.



For companies with short or long accounts periods, the Upper and Lower Limit is pro-rated, e.g., if a new company wanted to shorten its first year-end to align with the tax year, it would have a reduced threshold (9/12 of the Upper and Lower Limit for that year).

### HOWEVER – THE EFFECTIVE TAX RATE IS NOT THE MARGINAL TAX RATE!

Bear with me if your head hurts!

The 'effective' tax rate on the above example of £100k profits is 22.75% (as the tax bill is £22.75k, and the profit is £100k, the effective tax rate is 22.75%). This is simply the average tax rate paid on the entire profit.

However, as the new tax code has two tax rates (Lower Limit = 19%, Upper Limit 25%), the marginal tax rate (the rate on profits between these limits) is actually higher, at **26.5%**.

To illustrate, Company A makes £50k profit, Company B makes £51k profit:

**Company A tax bill is £9.5k... simply, £50k @19%**

**Company B tax bill is 25% of £51k, minus 3/200 of £199k (the difference between the £51k profit and the £250k Upper Limit) – so: £51k @25% = £12,750**

**Minus: Marginal Relief @ 3/200 x £199k = £2,985**

**Tax bill: £9,765**

**The difference in the tax bill is £265 on a £1k extra profit... this shows that the 'marginal' tax rate between £50k and £250k of profits is actually 26.5% (£265 / £1,000 = 26.5%).**



## I HAVE MORE THAN ONE COMPANY – DOES THAT CHANGE ANYTHING?

Many landlords have multiple companies; these are called 'associated companies'.

This means the Upper and Lower Limits are reduced by one plus the number of associated companies, e.g., if a company has three associated companies, the limits would be divided by four, to become £12.5k and £62.5k (rather than £50k and £250k).

This might appear unfair, but the reasoning is to stop the obvious 'abuse' that would otherwise follow if company owners could simply set up lots of companies and ensure that each has profits of no more than £50k.

An 'associated company' is one that controls another, usually because it owns 51%+ of the shares, or because the same person(s) has control over both companies in some other way (e.g., voting rights, rights to income distributions, etc.).

It's usually pretty obvious if companies are 'associated' for tax purposes. Companies owned by parents, children, spouses, business partners, siblings, and grandchildren / grandparents are all deemed to be 'associated' and so included in the associated company assessment.

## Any tips to be more tax-efficient in this new company tax world?

### 1. NOW IS A 'GOOD' TIME TO SPEND COMPANY MONEY!

It sounds obvious, but a higher tax rate means more tax relief on the same cost. For example:

- ▶ Director's pension contributions – using up any old unused allowances (potentially going back three years) can allow a much larger company pension contribution to be made (up to a £200,000 maximum if the previous three years' contributions weren't made).
- ▶ Buying business assets / equipment / vehicles on which capital allowances can be claimed.

- ▶ Property training costs – either actual expenditure or committing to the training contractually (allowing the cost to be accrued when the contract is signed).
- ▶ Timing of writing off bad debts, and being stricter with accruals to try to 'pull' future costs into the current year – within reason – as many smaller companies don't bother too much with this aspect of accounts and tax returns.
- ▶ Being diligent with claiming allowances for business mileage, home office, telephone, subscriptions, paying salary and fees to family (for work done), trivial benefits, director's party allowance, etc.

### 2. 'PUSHING' INCOME INTO THE FUTURE

It's generally difficult to defer income into the future; however, income has to be accounted for on the 'accruals' basis (rather than 'cash received' basis). This means that income received in advance can be 'deferred' into the following year, so it becomes non-taxable in the current year.

For example, if a tenant pays their monthly rent on 28 March 2025, for a company with a 31 March 2025 year-end then only three days of this income relates to the 31 March year... the remainder should be included in the following year as income, thereby saving tax in the current year.

### 3. CHECK FOR ANY 'UNNECESSARY' COMPANIES

Associated companies act to reduce the Upper and Lower CT limits, dragging more profits into the >£50k range and so leading to more tax payable.

It makes sense to check, therefore, that any additional companies really are worth retaining, e.g., because the activities of each company wouldn't work within a single company (such as mixing a VATable trade with VAT-exempt residential property rental). Any 'unnecessary' companies can be closed via a voluntary dissolution (this costs £10 at Companies House).

### 4. DON'T RUN OUT OF CASH – OR AT LEAST AGREE A HMRC 'TIME TO PAY' ARRANGEMENT

A higher tax rate could cause a cash flow issue for a company. In this case, the company could apply to HMRC to operate a 'Time to Pay' scheme, which allows for a tax payment plan to be agreed – often HMRC are surprisingly supportive. This is clearly a better option than allowing unpaid tax bills to potentially get out of hand.

## Summary

The 'new' corporation tax regime will affect property companies with profits exceeding £50k per year. The impact of this affects far more landlords than would have been the case if Section 24 hadn't been introduced, as there are now far more property companies in existence.

Many smaller companies with modest profits may only be mildly affected by the changes, but it's nonetheless an unwelcome tax increase, reducing some of the benefit of owning a company. Taking time to understand the changes in principle and how the maths works can enable company owners to understand their company finances better and, in turn, hopefully allow for changes that may save tax as a result.

*Get in touch*

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