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corporation tax

what you need to know

Corporation Tax in the UK is complex, with numerous reforms over the years. Understanding how it works and its impact on your business is crucial. This guide covers everything you need to know about Corporation Tax, including recent changes and essential details.

IMPORTANT: Corporation Tax Rate Change in April 2023

As of April 2023, the Corporation Tax rate in the UK has changed to 25%.

What is Corporation Tax?

Corporation Tax Rate (April 2023 onwards): 25%

Corporation Tax is a tax levied on the annual profits of UK resident companies and branches of overseas companies operating in the UK. The current rate is 25% for all limited companies.

Previous Rate: Up to April 2023, the main Corporation Tax rate was 19%.

Current Rate: From April 2023, the main rate is 25% for companies with taxable profits above £250,000.

Small Profits Rate (SPR): Companies with profits of £50,000 or below pay a reduced rate of 19%.

Marginal Relief: Companies with taxable profits between £50,000 and £250,000 can benefit from marginal relief, resulting in a gradual increase in the effective Corporation Tax rate.



what you need know

Marginal Relief

Marginal Relief allows companies with profits below £250,000 to reduce their Corporation Tax bill. The relief provides a gradual increase in the average Corporation Tax rate for qualifying businesses.

Lower limit: £50,000

Upper limit: £250,000

Who Pays Corporation Tax?

All taxable UK limited companies must pay Corporation Tax on their annual

Who is Responsible for Paying Corporation Tax?

The responsibility for ensuring Corporation Tax returns are filed and paid on time lies with the company directors. While many companies hire tax specialists to prepare these returns, the legal obligation remains with the directors.

How is Corporation Tax Paid?

Corporation Tax can be paid electronically, at a bank, or at a post office. Payment methods include CHAPS for same-day payments, and BACS transfers, direct debits, and credit/debit card payments, which typically take around three working days. Detailed payment instructions can be found on the UK Government website.

When is the Corporation Tax Deadline?

Filing Deadline: Your Corporation Tax return must be filed within 12 months after the end of the accounting period it covers.

Payment Deadline: The Corporation Tax bill must be paid within 9 months and one day after the end of the accounting period. Large companies may need to pay in installment, with some payments due during the accounting year.





corporation tax compliance

Penalties for Missing the Corporation Tax Return Filing Deadline

Penalties for late filing are as follows

- 1 day late: £100
- More than 3 months late: Additional £100
- More than 6 months late: 10% of the unpaid Corporation Tax
- More than 12 months late: Additional 10% of any unpaid Corporation Tax

If your Corporation Tax return is late three times in a row, the £100 penalties increase to £500. More information on penalties can be found on the UK government website.

Penalties for Not Paying Corporation Tax on Time

If a company cannot pay its Corporation Tax on time, interest will be charged on the outstanding balance. HMRC may take actions such as:

- Contacting debt collection agencies
- Recovering money directly from your bank or building society account
- Selling your assets
- Initiating court proceedings
- Liquidating the company

It's crucial to contact HMRC promptly if you cannot pay your Corporation Tax, as they may offer a payment plan.

Inaccuracies in Corporation Tax Returns

Filing inaccurate Corporation Tax returns can lead to fines, depending on the nature and disclosure of the error:

- **Accidental errors disclosed to HMRC:** Fine between 0-30% of the total Corporation Tax bill
- **Accidental errors not disclosed:** Minimum fine of 15%
- **Deliberate, unconcealed inaccuracies disclosed:** Fine between 20-70%
- **Deliberate, unconcealed inaccuracies not disclosed:** Fine between 35-70%
- **Deliberately concealed inaccuracies disclosed:** Fine between 30-100%
- **Deliberately concealed inaccuracies not disclosed:** Fine between 50-100%

Higher penalties may apply for inaccuracies related to offshore issues. Ensuring accurate and thorough Corporation Tax returns is essential, and professional tax accountants can help.



what you need know

Corporation Tax Rate Trends

Since 2010, the UK Corporation Tax rate has generally decreased. In 2010, the rate was 28%, and it gradually reduced to 19% by 2017. As of April 2023, the main rate is now 25%.

Corporation Tax and Dividends

Dividends to Shareholders: Companies do not pay Corporation Tax on dividends received, but shareholders must pay Income Tax on dividends exceeding £1,000 before 6 April 2024, with the threshold reducing to £500 in April 2024.

Dividends and Corporation Tax: Dividends are not tax-deductible expenses and do not reduce the company's Corporation Tax bill.

Sole Traders and Corporation Tax

Sole traders do not pay Corporation Tax. Instead, they pay Income Tax on their business profits through self-assessment.

Need Help?

If you need assistance with Corporation Tax, please contact our dedicated team for expert advice and support.

