



Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART I

THE CHARGE TO TAX

Small companies' rate

13 Small companies' relief.

- (1)^{M1}Where in any accounting period the profits of [^{F1}a company which—
- (a) is resident in the United Kingdom, and
 - (b) is not a close investment-holding company (as defined in section 13A) at the end of that period.]

do not exceed the lower relevant maximum amount, the company may claim that the corporation tax charged on its basic profits for that period shall be calculated as if the rate of corporation tax (instead of being the rate fixed for companies generally) were such lower rate (to be known as the “small companies' rate”) as Parliament may from time to time determine.

- (2) Where in any accounting period the profits of any such company exceed the lower relevant maximum amount but do not exceed the upper relevant maximum amount, the company may claim that the corporation tax charged on its basic profits for that period shall be reduced by a sum equal to such fraction as Parliament may from time to time determine of the following amount—

$$\left(M - P \right) \times \frac{I}{P}$$

where—

M is the upper relevant maximum amount;

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P is the amount of the profits; and

I is the amount of the basic profits.

(3) The lower and upper relevant maximum amounts mentioned above shall be determined as follows—

- (a) where the company has no associated company in the accounting period, those amounts are [^{F2}£300,000] and [^{F3}£1,500,000] respectively;
- (b) where the company has one or more associated companies in the accounting period, the lower relevant maximum amount is [^{F2}£300,000] divided by one plus the number of those associated companies, and the upper relevant maximum amount is [^{F3}£1,500,000] divided by one plus the number of those associated companies.

(4) In applying subsection (3) above to any accounting period of a company, an associated company which has not carried on any trade or business at any time in that accounting period (or, if an associated company during part only of that accounting period, at any time in that part of that accounting period) shall be disregarded and for the purposes of this section a company is to be treated as an “associated company” of another at a given time if at that time one of the two has control of the other or both are under the control of the same person or persons.

In this subsection “control” shall be construed in accordance with section 416^{F4} except that, in the application of subsection (6) of that section in relation to the company (“the taxpayer company”) and another company or companies for the purposes of this section, the references to an associate of a person (“P”) include a partner of the person only if the condition in subsection (4A) below is met.]

[^{F5}(4A) The condition referred to in subsection (4) above is that relevant tax planning arrangements have at any time had effect in relation to the taxpayer company (whether in connection with its formation or otherwise).

(4B) In subsection (4A) above “relevant tax planning arrangements” means arrangements which—

- (a) involve P and the partner, and
- (b) secure a relevant tax advantage.

(4C) In subsection (4B) above—

“arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), other than any guarantee, security or charge given to or taken by a bank, and

“relevant tax advantage” means a reduction of the taxpayer company's liability to corporation tax by virtue of an increase in relief under this section.]

(5) In determining how many associated companies a company has got in an accounting period or whether a company has an associated company in an accounting period, an associated company shall be counted even if it was an associated company for part only of the accounting period, and two or more associated companies shall be counted even if they were associated companies for different parts of the accounting period .

(6) For an accounting period of less than 12 months the relevant maximum amounts determined in accordance with subsection (3) above shall be proportionately reduced.

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(7) For the purposes of this section the profits (but not the basic profits) of a company for an accounting period shall be taken to be the amount of its profits for that period on which corporation tax falls finally to be borne, with the addition of franked investment income ^{F6} other than franked investment income (if any) which the company ("the receiving company") receives from a company resident in the United Kingdom which is—

- (a) a 51 per cent. subsidiary of the receiving company or of a company ^{F7} . . . of which the receiving company is a 51 per cent. subsidiary; or
- (b) a trading or holding company which does not fall within ^{F8} subsection (7A) below] and which is owned by a consortium the members of which include the receiving company.]

which the company (if a member of a group) receives from companies within the group ^{F9F10} . . .] ; and for this purpose distributions received by the company from another are to be treated as coming from within the company's group if, but only if, dividends so received are group income or would be group income if the companies so elected.

^{F11}(7A) A company falls within this subsection if—

- (a) it is a 75 per cent subsidiary of any other company, or
- (b) arrangements of any kind (whether in writing or not) are in existence by virtue of which it could become such a subsidiary.]

(8) For the purposes of this section the basic profits of a company for an accounting period shall be taken to be the amount of its profits for that period on which corporation tax falls finally to be borne.

^{F12}^{F13}(8AA) Section 13ZA applies for the interpretation of subsection (7) above.]

(8AB) The reference in subsection (7) above to franked investment income received by a company applies to any such income received by another person on behalf of or in trust for the company, but not to any such income received by the company on behalf of or in trust for another person.]

^{F14}(8A) ^{F15}]

(9) ^{F16}

Textual Amendments

- F1** 1989 s.105(1) *in relation to accounting periods beginning after 31 March 1989. Previously* "a company resident in the United Kingdom".
- F2** Words in s. 13(3) substituted (with effect in accordance with s. 86(3) of the amending Act) by [Finance Act 1994 \(c. 9\), s. 86\(2\)\(a\)](#)
- F3** Words in s. 13(3) substituted (with effect in accordance with s. 86(3) of the amending Act) by [Finance Act 1994 \(c. 9\), s. 86\(2\)\(b\)](#)
- F4** Words in s. 13(4) inserted (1.4.2008) by [Finance Act 2008 \(c. 9\), s. 35\(2\)\(4\)](#)
- F5** S. 13(4A)-(4C) inserted (1.4.2008) by [Finance Act 2008 \(c. 9\), s. 35\(3\)\(4\)](#)
- F6** Words in s. 13(7) substituted (with effect in accordance with [Sch. 3 para. 7\(4\)](#) of the amending Act) by [Finance Act 1998 \(c. 36\), s. 31, Sch. 3 para. 7\(2\)](#)
- F7** Words in s. 13(7)(a) repealed (with application in accordance with s. 86(6) and [Sch. 33 Pt. 2\(11\)](#) Note of the amending Act) by [Finance Act 2001 \(c. 9\), s. 86\(2\)\(a\), Sch. 33 Pt. 2\(11\)](#)
- F8** Words in s. 13(7)(b) substituted (with application in accordance with s. 86(6) of the amending Act) by [Finance Act 2001 \(c. 9\), s. 86\(2\)\(b\)](#)
- F9** Words in s. 13(7) inserted (3.5.1994) by [Finance Act 1994 \(c. 9\), s. 138, Sch. 16 para. 11\(2\)](#)

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- F10** Words in s. 13 (7) repealed (with effect in accordance with Sch. 6 para. 1(4) of the amending Act) by Finance (No. 2) Act 1997 (c. 58), ss. 36, 52, Sch. 6. para. 1(2), Sch. 8 Pt. 2(11) Note
- F11** S. 13(7A) inserted (with application in accordance with s. 86(6) of the amending Act) by Finance Act 2001 (c. 9), s. 86(3)
- F12** S. 13(8AA)(8AB) inserted (with effect in accordance with Sch. 3 para. 7(4) of the amending Act) by Finance Act 1998 (c. 36), s. 31, Sch. 3 para. 7(3)
- F13** S. 13(8AA) substituted (with application in accordance with s. 86(6) of the amending Act) by Finance Act 2001 (c. 9), s. 86(4)
- F14** S. 13(8A) inserted (3.5.1994) by Finance Act 1994 (c. 9), s. 138, Sch. 16 para. 11(3)
- F15** S. 13(8A) repealed (with effect in accordance with Sch. 6 para. 1(4) of the amending Act) by Finance (No. 2) Act 1997 (c. 58), ss. 36, 52, Sch. 6. para. 1(3), Sch. 8 Pt. 2(11) Note
- F16** S. 13(9) repealed (with effect in accordance with Sch. 20 Pt. 3(2) Note of the repealing Act) by Finance Act 1999 (c. 16), s. 139, Sch. 20 Pt. 3(2)

Modifications etc. (not altering text)

- C1** S. 13 modified (for the financial year 1991 and subsequent financial years) by Finance Act 1991 (c. 31, SIF 63:1), s. 25(3)
S. 13 modified (for the financial year 1994 and subsequent financial years) by Finance Act 1994 (c. 9), s. 86(3)
- C2** S. 13 applied (27.7.1999) by Finance Act 1999 (c. 16), s. 28(7)(b)
- C3** S. 13 applied (19.7.2006) by Finance Act 2006 (c. 25), s. 26(10)
- C4** For rates and fractions see Table K Vol.1.
- C5** S. 13(2) amended (for the financial year 1990) by Finance Act 1991 (c. 31, SIF 63:1), s. 23(2)
- C6** S. 13(2) amended (for the financial year 1991) by Finance Act 1991 (c. 31, SIF 63:1), s. 25(1)(b)
S. 13(2) amended (for the financial year 1992) by Finance (No. 2) Act 1992 (c. 48), s. 22(b).
S. 13(2) modified (for the financial year 1993) by Finance Act 1993 (c. 34), s. 54(b)
S. 13(2) modified (for the financial year 1994) by Finance Act 1994 (c. 9), s. 86(1)(b)
S. 13(2) modified (for the financial year 1995) by Finance Act 1995 (c. 4), {s. 38(b)}
S. 13(2) modified (for the financial year 1996) by Finance Act 1996 (c. 8), s. 78(b)
S. 13(2) modified (for the financial year 1997) by Finance Act 1997 (c. 16), s. 59(b)
S. 13(2) modified (for the financial year 1998) by Finance Act 1998 (c. 36), s. 28(2)(b)
S. 13(2) modified (for the financial year 1999) by Finance Act 1998 (c. 36), s. 29(2)(b)
S. 13(2) modified (for the financial year 2000) by Finance Act 2000 (c. 17), s. 36(b)
S. 13(2) modified (for the financial year 2001) by Finance Act 2001 (c. 9), s. 55(b)
S. 13(2) modified (for the financial year 2002) by Finance Act 2002 (c. 23), s. 31(b)
- C7** S. 13(4)(5) applied (with effect in accordance with s. 579 of the affecting Act) by Capital Allowances Act 2001 (c. 2), s. 99(5) (with Sch. 3 paras. 54, 55)
S. 13(4)(5) applied (with effect in accordance with Sch. 14 para. 10 of the 1997 affecting Act) by Capital Allowances Act 1990 (c. 1), s. 38D(6) (as inserted by Finance Act 1997 (c. 16), s. 84, Sch. 14 para. 2)
- C8** S. 13(7) amended (27.7.1993 with application as mentioned in s. 78(11) of the Amending Act) by 1993 c. 34, s. 78(6)(11)

Marginal Citations

- M1** SOURCE-1972 s. 95; 1973 Sch. 14 2, 4; 1983 (No. 2) s. 2(2); 1987 (No. 2) s. 74(4)

[^{F17}13ZA] Interpretation of section 13(7)

- (1) In determining for the purposes of section 13(7) whether one body corporate is a 51 per cent subsidiary of another, that other shall be treated as not being the owner of any share capital—
- (a) which it owns indirectly, and

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- (b) which is owned directly by a body corporate for which a profit on the sale of the shares would be a trading receipt.
- (2) Notwithstanding that at any time a company (“the subsidiary company”) is a 51 per cent subsidiary of another company (“the parent company”) it shall not be treated at that time as such a subsidiary for the purposes of section 13(7) unless, additionally, at that time—
- (a) the parent company would be beneficially entitled to more than 50 per cent of any profits available for distribution to equity holders of the subsidiary company, and
 - (b) the parent company would be beneficially entitled to more than 50 per cent of any assets of the subsidiary company available for distribution to its equity holders on a winding-up.
- (3) For the purposes of section 13(7) and this section—
- (a) “trading or holding company” means a trading company or a company the business of which consists wholly or mainly in the holding of shares or securities of trading companies that are its 90 per cent subsidiaries;
 - (b) “trading company” means a company whose business consists wholly or mainly of the carrying on of a trade or trades;
 - (c) a company is owned by a consortium if 75 per cent or more of the ordinary share capital of the company is beneficially owned between them by companies of which none—
 - (i) beneficially owns less than 5 per cent of that capital,
 - (ii) would be beneficially entitled to less than 5 per cent of any profits available for distribution to equity holders of the company, or
 - (iii) would be beneficially entitled to less than 5 per cent of any assets of the company available for distribution to its equity holders on a winding up,and those companies are called the members of the consortium.
- (4) Schedule 18 (equity holders and assets etc. available for distribution) applies for the purposes of subsections (2) and (3)(c) above as it applies for the purposes of section 413(7).]

Textual Amendments

- F17** S. 13ZA inserted (with application in accordance with s. 86(6) of the amending Act) by [Finance Act 2001 \(c. 9\), s. 86\(5\)](#)

[^{F18}**13AA**Corporation tax starting rate.

^{F19}

Textual Amendments

- F18** S. 13AA inserted (with effect in accordance with s. 28(6)(7) of the amending Act) by [Finance Act 1999 \(c. 16\), s. 28\(1\)](#)
- F19** S. 13AA repealed (with effect in accordance with s. 26(8)-(11) of the repealing Act) by [Finance Act 2006 \(c. 25\), s. 26\(1\), Sch. 26 Pt. 3\(1\)](#), Note

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[^{F20}13AB] The non-corporate distribution rate

^{F21}

Textual Amendments

F20 S. 13AB inserted (with effect in accordance with s. 28(4)(5) of the amending Act) by Finance Act 2004 (c. 12), s. 28(1)(6)

F21 S. 13AB repealed (with effect in accordance with s. 26(8)-(11) of the repealing Act) by Finance Act 2006 (c. 25), s. 26(2), Sch. 26 Pt. 3(1), Note

[^{F22}13A] Close investment-holding companies.

- (1) A close company is for the purposes of section 13(1) ^{F23} . . . a “close investment-holding company” unless it complies with subsection (2) below.
- (2) A company (“the relevant company”) complies with this subsection in any accounting period if throughout that period it exists wholly or mainly for any one or more of the following purposes—
 - (a) the purpose of carrying on a trade or trades on a commercial basis,
 - (b) the purpose of making investments in land or estates or interests in land in cases where the land is, or is intended to be, let to persons other than—
 - (i) any person connected with the relevant company, or
 - (ii) any person who is the [^{F24}spouse or civil partner] of an individual connected with the relevant company, or is a relative, or the [^{F25}spouse or civil partner] of a relative, of such an individual or of the [^{F24}spouse or civil partner] of such an individual,
 - (c) the purpose of holding shares in and securities of, or making loans to, one or more companies each of which is a qualifying company or a company which—
 - (i) is under the control of the relevant company or of a company which has control of the relevant company, and
 - (ii) itself exists wholly or mainly for the purpose of holding shares in or securities of, or making loans to, one or more qualifying companies,
 - (d) the purpose of co-ordinating the administration of two or more qualifying companies,
 - (e) the purpose of a trade or trades carried on on a commercial basis by one or more qualifying companies or by a company which has control of the relevant company, and
 - (f) the purpose of the making, by one or more qualifying companies or by a company which has control of the relevant company, of investments as mentioned in paragraph (b) above.
- (3) For the purposes of subsection (2) above, a company is a “qualifying company”, in relation to the relevant company, if it—
 - (a) is under the control of the relevant company or of a company which has control of the relevant company, and
 - (b) exists wholly or mainly for either or both of the purposes mentioned in subsection (2)(a) or (b) above.

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- (4) Where a company is wound up, it shall not be treated as failing to comply with subsection (2) above in the accounting period that (by virtue of subsection (7) of section 12) begins with the time which is for the purposes of that subsection the commencement of the winding up, if it complied with subsection (2) above in the accounting period that ends with that time.
- (5) In this section—
“control” shall be construed in accordance with section 416, and
“relative” has the meaning given by section 839(8).
- (6) Section 839 shall apply for the purposes of this section.]

Textual Amendments

- F22** S. 13A inserted (in relation to accounting periods beginning after 31 March 1989) by [Finance Act 1989 \(c. 26\), s. 105\(2\)\(3\)](#)
- F23** Words in s. 13A(1) repealed (with effect in accordance with s. 26(8)-(11) of the repealing Act) by [Finance Act 2006 \(c. 25\), s. 26\(3\), Sch. 26 Pt. 3\(1\)](#), Note
- F24** Words in s. 13A(2)(b)(ii) substituted (5.12.2005) by [The Tax and Civil Partnership Regulations 2005 \(S.I. 2005/3229\), regs. 1\(1\), 48\(b\)](#)
- F25** Words in s. 13A(2)(b)(ii) substituted (5.12.2005) by [The Tax and Civil Partnership Regulations 2005 \(S.I. 2005/3229\), regs. 1\(1\), 48\(a\)](#)

Modifications etc. (not altering text)

- C9** S. 13A applied (1.1.2009) by [The Authorised Investment Funds \(Tax\) Regulations 2006 \(S.I. 2006/964\), reg. 14B\(3\)\(a\)](#) (as inserted by [The Authorised Investment Funds \(Tax\) \(Amendment No. 3\) Regulations 2008 \(S.I. 2008/3159\), regs. 1\(1\), 11](#) (with regs. 30, 31))

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