



Corporation Tax Act 2010

2010 CHAPTER 4

PART 3

COMPANIES WITH SMALL PROFITS

The small profits rate

18 Profits charged at the small profits rate

Corporation tax is charged at the small profits rate on a company's taxable total profits of an accounting period if—

- (a) the company is UK resident in the accounting period,
- (b) it is not a close investment-holding company in the period, and
- (c) its augmented profits of the accounting period do not exceed the lower limit.

Marginal relief

19 Marginal relief

(1) This section applies if—

- (a) a company is UK resident in an accounting period,
- (b) it is not a close investment-holding company in the period,
- (c) its augmented profits of the accounting period—
 - (i) exceed the lower limit, but
 - (ii) do not exceed the upper limit, and
- (d) its augmented profits of the period do not include any ring fence profits.

(2) The corporation tax charged on the company's taxable total profits of the accounting period is reduced by an amount equal to—

Status: Point in time view as at 01/07/2012.

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$$F \times (U - A) \times \frac{N}{A}$$

where—

F is the standard fraction,

U is the upper limit,

A is the amount of the augmented profits, and

N is the amount of the taxable total profits.

- (3) In this Part “the standard fraction” means the fraction set by Parliament as the standard fraction for the purposes of this Part.

20 Company with only ring fence profits

- (1) This section applies if—
- (a) a company is UK resident in an accounting period,
 - (b) it is not a close investment-holding company in the period,
 - (c) its augmented profits of the accounting period—
 - (i) exceed the lower limit, but
 - (ii) do not exceed the upper limit, and
 - (d) its augmented profits of the period consist exclusively of ring fence profits.
- (2) The corporation tax charged on the company's taxable total profits of the accounting period is reduced by an amount equal to—

$$R \times (U - A) \times \frac{N}{A}$$

where—

R is the ring fence fraction,

U is the upper limit,

A is the amount of the augmented profits, and

N is the amount of the taxable total profits.

- (3) In this Part “the ring fence fraction” means the fraction set by Parliament as the ring fence fraction for the purposes of this Part.

21 Company with ring fence profits and other profits

- (1) This section applies if—
- (a) a company is UK resident in an accounting period,
 - (b) it is not a close investment-holding company in the period,
 - (c) its augmented profits of the accounting period—
 - (i) exceed the lower limit, but
 - (ii) do not exceed the upper limit, and
 - (d) its augmented profits of that period consist of both ring fence profits and other profits.
- (2) The corporation tax charged on the company's taxable total profits of the accounting period is reduced by the total of—
- (a) the sum equal to the ring fence fraction of the ring fence amount, and

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(b) the sum equal to the standard fraction of the remaining amount.

(3) In this Part “ring fence profits” has the same meaning as in Part 8 (see section 276).

22 The ring fence amount

(1) In section 21 “the ring fence amount” means the amount given by the formula—

$$(\text{UR} - \text{AR}) \times \frac{\text{NR}}{\text{AR}}$$

(2) For the purposes of this section—

UR is the amount given by multiplying the upper limit by—

$$\frac{\text{AR}}{\text{A}}$$

AR is the total amount of any ring fence profits that form part of the augmented profits of the accounting period,

NR is the total amount of any ring fence profits that form part of the taxable total profits of the accounting period, and

A is the amount of the augmented profits of the accounting period.

23 The remaining amount

(1) In section 21 “the remaining amount” means the amount given by the formula—

$$(\text{UZ} - \text{AZ}) \times \frac{\text{NZ}}{\text{AZ}}$$

(2) For the purposes of this section—

UZ is the amount given by multiplying the upper limit by—

$$\frac{\text{AZ}}{\text{A}}$$

AZ is the total amount of any profits other than ring fence profits that form part of the augmented profits of the accounting period,

NZ is the total amount of any profits other than ring fence profits that form part of the taxable total profits of the accounting period, and

A is the amount of the augmented profits of the accounting period.

The lower limit and the upper limit

24 The lower limit and the upper limit

(1) This section gives the meaning in this Part of “the lower limit” and “the upper limit” in relation to an accounting period of a company.

(2) If the company has no associated company in the accounting period—

(a) the lower limit is £300,000, and

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- (b) the upper limit is £1,500,000.
- (3) If the company has one or more associated companies in the accounting period—
- (a) the lower limit is—

$$\frac{\pounds 300,000}{1 + N}$$

and

- (b) the upper limit is—

$$\frac{\pounds 1,500,000}{1 + N}$$

where N is the number of those associated companies.

- (4) For an accounting period of less than 12 months the lower limit and the upper limit are proportionately reduced.

Modifications etc. (not altering text)

- C1** Ss. 24-30 applied (with modifications) by S.I. 1998/3175, reg. 3(5) (as substituted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Corporation Tax \(Instalment Payments\) \(Amendment\) Regulations 2011](#) (S.I. 2011/1785), regs. 1(1), **4(8)**)

25 Associated companies

- (1) For the purposes of section 24, a company is another company's associated company in an accounting period if it is an associated company (see subsection (4)) for any part of the accounting period.
- (2) The rule in subsection (1) applies to each of two or more associated companies even if they are associated companies for different parts of the accounting period.
- (3) But an associated company is ignored for the purposes of section 24 if—
- (a) it has not carried on a trade or business at any time in the accounting period, or
- (b) it was an associated company for part only of the accounting period and has not carried on a trade or business at any time in that part of the accounting period.
- (4) For the purposes of this Part, a company is an associated company of another at any time when—
- (a) one of the two has control of the other, or
- (b) both are under the control of the same person or persons.
- (5) In subsection (4) “control” has the same meaning as in Part 10 (see sections 450 and 451).
- (6) In this section—
- (a) subsection (3) is subject to section 26, and
- (b) subsections (4) and (5) are subject to sections 27, 28, 29 and 30.

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- C2** Ss. 25-30 applied by Capital Allowances Act 2001 (c. 2), s. 99(5) (as substituted (with effect in accordance with s. 1184(1) of the amending Act) by [2010 c. 4, s. 1184\(1\)](#), [Sch. 1 para. 332](#) (with [Sch. 2](#)))

26 Section 25(3): treatment of certain non-trading companies

- (1) Subsection (2) applies if a company carries on a business of making investments in an accounting period and throughout the period the company—
- carries on no trade,
 - has one or more 51% subsidiaries, and
 - is a passive company.
- (2) The company is treated for the purposes of section 25(3) as not carrying on a business at any time in the accounting period.
- (3) A company is a passive company throughout an accounting period only if the following requirements are met—
- it has no assets in that period, other than shares in companies which are its 51% subsidiaries,
 - no income arises to it in that period other than dividends,
 - if income arises to it in that period in the form of dividends—
 - the redistribution condition is met (see subsection (4)), and
 - the dividends are franked investment income received by it,
 - no chargeable gains accrue to it in that period,
 - no expenses of management of the business mentioned in subsection (1) are referable to that period, and
 - no qualifying charitable donations are deductible from the company's total profits of that period.
- (4) The redistribution condition is that—
- the company pays dividends to one or more of its shareholders in the accounting period, and
 - the total amount paid in the form of those dividends is at least equal to the amount of the income arising to the company in the form of dividends in that period.
- (5) If income arises to a company in an accounting period in the form of a dividend and the requirement in subsection (3)(c) is met in respect of the income—
- neither the dividend nor any asset representing it is treated as an asset of the company in that accounting period for the purposes of subsection (3)(a), and
 - no right of the company to receive the dividend is treated as an asset of the company for the purposes of subsection (3)(a) in that period or any earlier accounting period.

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- C2** Ss. 25-30 applied by Capital Allowances Act 2001 (c. 2), s. 99(5) (as substituted (with effect in accordance with s. 1184(1) of the amending Act) by [2010 c. 4, s. 1184\(1\), Sch. 1 para. 332](#) (with [Sch. 2](#)))

[^{F1}27 Attribution to persons of rights and powers of their associates

- (1) This section applies if—
- it is necessary to determine in accordance with section 25(4) and (5) whether a company is an associated company of another company, and
 - the relationship between the two companies is not one of substantial commercial interdependence.
- (2) In the application of section 451 (meaning of “control”: rights to be attributed) for the purposes of the determination, any person to whom rights and duties fall to be attributed under subsections (4) and (5) of that section is to be treated, for the purposes of those subsections, as having no associates.
- (3) The Treasury may by order prescribe factors that are to be taken into account in determining whether a relationship between two companies amounts to substantial commercial interdependence for the purposes of this section.]

Textual Amendments

- F1** [S. 27](#) substituted (with effect in accordance with s. 55(2)-(5) of the amending Act) by [Finance Act 2011 \(c. 11\), s. 55\(1\)](#)

Modifications etc. (not altering text)

- C1** Ss. 24-30 applied (with modifications) by S.I. 1998/3175, reg. 3(5) (as substituted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Corporation Tax \(Instalment Payments\) \(Amendment\) Regulations 2011](#) (S.I. 2011/1785), regs. 1(1), **4(8)**)

28 Associated companies: fixed-rate preference shares

- (1) In determining for the purposes of section 25(4) whether a company is under the control of another, fixed-rate preference shares held by a company are ignored if the company holding them—
- is not a close company,
 - takes no part in the management or conduct of the company which issued the shares, or in the management or conduct of its business, and
 - subscribed for the shares in the ordinary course of a business which includes the provision of finance.
- (2) In this section “fixed-rate preference shares” means shares which—
- were issued wholly for new consideration,

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- (b) do not carry any right either to conversion into shares or securities of any other description or to the acquisition of any additional shares or securities, and
 - (c) do not carry any right to dividends other than dividends which—
 - (i) are of a fixed amount or at a fixed rate per cent of the nominal value of the shares, and
 - (ii) together with any sum paid on redemption, represent no more than a reasonable commercial return on the consideration for which the shares were issued.
- (3) In subsection (2)(a) “new consideration” has the meaning given by section 1115.

Modifications etc. (not altering text)

- C1** Ss. 24-30 applied (with modifications) by S.I. 1998/3175, reg. 3(5) (as substituted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Corporation Tax \(Instalment Payments\) \(Amendment\) Regulations 2011 \(S.I. 2011/1785\)](#), regs. 1(1), **4(8)**)
- C2** Ss. 25-30 applied by Capital Allowances Act 2001 (c. 2), s. 99(5) (as substituted (with effect in accordance with s. 1184(1) of the amending Act) by [2010 c. 4, s. 1184\(1\)](#), **Sch. 1 para. 332** (with [Sch. 2](#)))

29 Association through a loan creditor

- (1) A company (“A”) is not under the control of another company (“B”) for the purposes of section 25(4) if—
- (a) B is a loan creditor of A,
 - (b) there is no other connection between A and B, and
 - (c) either—
 - (i) B is not a close company, or
 - (ii) B's relationship to A as a loan creditor arose in the ordinary course of a business which B carries on.
- (2) Subsection (3) applies if—
- (a) two companies (“A” and “B”) are controlled by the same person who is a loan creditor of each of them,
 - (b) there is no other connection between A and B, and
 - (c) either—
 - (i) the loan creditor is a company which is not a close company, or
 - (ii) the loan creditor's relationship to each of A and B as a loan creditor arose in the ordinary course of a business which the loan creditor carries on.
- (3) In determining for the purposes of this Part whether A and B are associated with each other, rights which the loan creditor has as a loan creditor of A, or as a loan creditor of B, are ignored.
- (4) In subsection (2)(a) “control” has the same meaning as in section 25(4).
- (5) In this section—
- (a) “connection” includes a connection in the past as well as a connection in the present, and

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- (b) references to a connection between two companies include any dealings between them.
- (6) In this section references to a loan creditor of a company are to be read in accordance with section 453.

Modifications etc. (not altering text)

- C1** Ss. 24-30 applied (with modifications) by S.I. 1998/3175, reg. 3(5) (as substituted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Corporation Tax \(Instalment Payments\) \(Amendment\) Regulations 2011 \(S.I. 2011/1785\)](#), regs. 1(1), **4(8)**)
- C2** Ss. 25-30 applied by Capital Allowances Act 2001 (c. 2), s. 99(5) (as substituted (with effect in accordance with s. 1184(1) of the amending Act) by [2010 c. 4, s. 1184\(1\)](#), [Sch. 1 para. 332](#) (with [Sch. 2](#)))

30 Association through a trustee

- (1) Subsection (2) applies if—
- (a) two companies (“A” and “B”) are controlled by the same person by virtue of rights or powers (or both) held in trust by that person, and
 - (b) there is no other connection between A and B.
- (2) In determining for the purposes of this Part whether A and B are associated with each other, the rights and powers mentioned in subsection (1)(a) are ignored.
- (3) In subsection (1)—
- (a) “control” has the same meaning as in section 25(4),
 - (b) “connection” includes a connection in the past as well as a connection in the present, and
 - (c) the reference to a connection between A and B includes any dealings between them.

Modifications etc. (not altering text)

- C1** Ss. 24-30 applied (with modifications) by S.I. 1998/3175, reg. 3(5) (as substituted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Corporation Tax \(Instalment Payments\) \(Amendment\) Regulations 2011 \(S.I. 2011/1785\)](#), regs. 1(1), **4(8)**)
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Supplementary

31 Power to obtain information

^{F2}(1)

- (2) Subsections (3) and (4) apply if a company (“the issuing company”) appears to an officer of Revenue and Customs to be a close company.

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- (3) The officer may, for the purposes of this Part, by notice require the issuing company to provide the officer with—
- (a) particulars of any bearer securities issued by the company,
 - (b) the names and addresses of the persons to whom the securities were issued, and
 - (c) details of the amounts issued to each person.
- (4) The officer may, for the purposes of this Part, by notice require—
- (a) any person to whom bearer securities were issued by the company, or
 - (b) any person to or through whom bearer securities issued by the company were subsequently sold or transferred,
- to provide any further information that the officer reasonably requires with a view to enabling the officer to find out the names and addresses of the persons beneficially interested in the securities.
- (5) In this section—
- “loan creditor” has the meaning given by section 453, and
 - “securities” includes—
- (a) shares, stocks, bonds, debentures and debenture stock, and
 - (b) any promissory note or other instrument evidencing indebtedness to a loan creditor of the company.

Textual Amendments

- F2** S. 31(1) omitted (with effect in accordance with Sch. 23 para. 65 of the amending Act) by virtue of Finance Act 2011 (c. 11), **Sch. 23 paras. 64(2)(a), 65(1)(a)** (with Sch. 23 paras. 50, 65(1)(b))

32 Meaning of “augmented profits”

- (1) For the purposes of this Part, a company's augmented profits of an accounting period are—
- (a) the company's taxable total profits of that period, plus
 - (b) any franked investment income received by the company that is not excluded by subsection (2).
- (2) This subsection excludes any franked investment income which the company (“the receiving company”) receives from a company which is—
- (a) a 51% subsidiary of—
 - (i) the receiving company, or
 - (ii) a company of which the receiving company is a 51% subsidiary, or
 - (b) a trading company or relevant holding company that is a quasi-subsiary of the receiving company.
- (3) For the purposes of subsection (2)(b) a company is a quasi-subsiary of the receiving company if—
- (a) it is owned by a consortium of which the receiving company is a member,
 - (b) it is not a 75% subsidiary of any company, and
 - (c) no arrangements of any kind (whether in writing or not) exist by virtue of which it could become a 75% subsidiary of any company.

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33 Interpretation of section 32(2) and (3)

- (1) For the purposes of section 32(2)(a), a company (“A”) is a 51% subsidiary of another company (“B”) only at times when—
 - (a) B would be beneficially entitled to more than 50% of any profits available for distribution to equity holders of A, and
 - (b) B would be beneficially entitled to more than 50% of any assets of A available for distribution to its equity holders on a winding up.
- (2) The requirement in subsection (1) is in addition to the requirements of section 1154(2) (meaning of “51% subsidiary”).
- (3) In determining for the purposes of section 32(2)(a) whether or not a company is a 51% subsidiary of another company (“C”), C is treated as not being the owner of share capital if—
 - (a) it owns the share capital indirectly,
 - (b) the share capital is owned directly by a company (“D”), and
 - (c) a profit on the sale of the shares would be a trading receipt for D.
- (4) In section 32(2)(b) and this section—
 - (a) “trading company” means a company whose business consists wholly or mainly of carrying on a trade or trades, and
 - (b) “relevant holding company” means a company whose business consists wholly or mainly of holding shares in or securities of trading companies that are its 90% subsidiaries.
- (5) For the purposes of section 32(3), a company is owned by a consortium if at least 75% of the company's ordinary share capital is beneficially owned by two or more companies each of which—
 - (a) beneficially owns at least 5% of that capital,
 - (b) would be beneficially entitled to at least 5% of any profits available for distribution to equity holders of the company, and
 - (c) would be beneficially entitled to at least 5% of any assets of the company available for distribution to its equity holders on a winding up.
- (6) The companies meeting those conditions are called the members of the consortium.
- (7) Chapter 6 of Part 5 (equity holders and profits or assets available for distribution) applies for the purposes of subsections (1) and (5) as it applies for the purposes of section 151(4)(a) and (b).

34 Close investment-holding companies

- (1) For the purposes of this Part, a close company (“the candidate company”) is a close investment-holding company in an accounting period unless throughout the period it exists wholly or mainly for one or more of the permitted purposes set out in subsection (2).

There is an exception to this rule in subsection (5).

- (2) The candidate company exists for a permitted purpose so far as it exists—
 - (a) for the purpose of carrying on a trade or trades on a commercial basis,

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- (b) for 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 commercially (see subsection (3)),
 - (c) for the purpose of holding shares in and securities of, or making loans to, one or more companies each of which—
 - (i) is a qualifying company, or
 - (ii) falls within subsection (4),
 - (d) for the purpose of co-ordinating the administration of two or more qualifying companies,
 - (e) for the purpose of the making of investments as mentioned in paragraph (b)—
 - (i) by one or more qualifying companies, or
 - (ii) by a company which has control of the candidate company, or
 - (f) for the purpose of a trade or trades carried on on a commercial basis—
 - (i) by one or more qualifying companies, or
 - (ii) by a company which has control of the candidate company.
- (3) For the purposes of subsection (2)(b), any letting of land is taken to be commercial unless the land is let to—
- (a) a person connected with the candidate company (“a connected person”), or
 - (b) a person who is—
 - (i) the spouse or civil partner of a connected person,
 - (ii) a relative of a connected person, or the spouse or civil partner of a relative of a connected person,
 - (iii) the relative of the spouse or civil partner of a connected person, or
 - (iv) the spouse or civil partner of a relative of the spouse or civil partner of the connected person.
- (4) A company falls within this subsection (see subsection (2)(c)(ii)) if—
- (a) it is under the control of the candidate company or of a company which has control of the candidate company, and
 - (b) it exists wholly or mainly for the purpose of holding shares in or securities of, or of making loans to, one or more qualifying companies.
- (5) If a company is wound up and was not a close investment-holding company in the accounting period that ends (by virtue of section 12(2) of CTA 2009) immediately before the winding up starts, the company is not treated for the purposes of this Part as being a close investment-holding company in the subsequent accounting period.
- (6) In this section “qualifying company” means a company which—
- (a) is under the control of the candidate company or of a company which has control of the candidate company, and
 - (b) exists wholly or mainly for either or both of the purposes mentioned in subsection (2)(a) and (b).
- (7) In this section—
- “control” has the meaning given by section 450, and
 - “relative” means brother, sister, ancestor or lineal descendant.

Status:

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