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## SCHEDULES

### SCHEDULE 1

Section 7

#### CORPORATION TAX RATES

##### PART 1

###### ABOLITION OF SMALL PROFITS RATE FOR NON-RING FENCE PROFITS

- 1 CTA 2010 is amended as follows.
- 2 In section 1 (overview of Act), in subsection (2)—
- (a) for “Parts 3” substitute “ Parts 4 ”, and
- (b) omit paragraph (a).
- 3 For section 3 (corporation tax rates) substitute—

##### “3 Corporation tax rates

- (1) Corporation tax is charged at the rate set by Parliament for the financial year as the main rate.
- (2) Subsection (1) is subject to any provision of the Corporation Tax Acts which provides for corporation tax to be charged at a different rate.”
- 4 Omit Part 3 (companies with small profits).
- 5 (1) Part 8 (oil activities) is amended as follows.
- (2) In section 270 (overview of Part 8), after subsection (3) insert—
- “(3A) Chapter 3A makes provision about the rates at which corporation tax is charged on ring fence profits.”
- (3) After Chapter 3 insert—

##### “CHAPTER 3A

###### RATES AT WHICH CORPORATION TAX IS CHARGED ON RING FENCE PROFITS

###### *The rates*

##### Corporation tax rates on ring fence profits

- 279A(1) Corporation tax is charged on ring fence profits at the main ring fence profits rate.

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- (2) But subsection (3) provides for tax to be charged at the small ring fence profits rate instead of the main ring fence profits rate in certain circumstances.
- (3) Corporation tax is charged at the small ring fence profits rate on a company's ring fence profits of an accounting period if—
- (a) the company is UK resident in the accounting period, and
  - (b) its augmented profits of the accounting period do not exceed the lower limit.
- (4) In this Act—
- “the main ring fence profits rate” means 30%, and
- “the small ring fence profits rate” means 19%.

### *Marginal relief*

#### **Company with only ring fence profits**

279B) This section applies if—

- (a) a company is UK resident in an accounting period,
  - (b) its augmented profits of the accounting period—
    - (i) exceed the lower limit, but
    - (ii) do not exceed the upper limit, and
  - (c) its augmented profits of that 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—

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

where—

R is the marginal relief 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 Chapter “the marginal relief fraction” means 11/400ths.

#### **Company with ring fence profits and other profits**

279C) This section applies if—

- (a) a company is UK resident in an accounting period,
- (b) its augmented profits of the accounting period—
  - (i) exceed the lower limit, but
  - (ii) do not exceed the upper limit, and

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- (c) 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 sum equal to the marginal relief fraction of the ring fence amount.

### **The ring fence amount**

279D) In section 279C “the ring fence amount” means the amount given by the formula—

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

- (2) In this section—

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

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

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.

### *The lower limit and the upper limit*

### **The lower limit and the upper limit**

279E) This section gives the meaning in this Chapter of “the lower limit” and “the upper limit” in relation to an accounting period of a company (“A”).

- (2) If no company is a related 51% group company of A in the accounting period—
  - (a) the lower limit is £300,000, and
  - (b) the upper limit is £1,500,000.
- (3) If one or more companies are related 51% group companies of A in the accounting period—
  - (a) the lower limit is—

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

and

- (b) the upper limit is—

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

where N is the number of those related 51% group companies.

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

*Related 51% group companies*

**“Related 51% group company”**

279(1) For the purposes of this Chapter a company (“B”) is a related 51% group company of another company (“A”) in an accounting period if for any part of the accounting period—

- (a) A is a 51% subsidiary of B,
  - (b) B is a 51% subsidiary of A, or
  - (c) both A and B are 51% subsidiaries of the same company.
- (2) The rule in subsection (1) applies to each of two or more related 51% group companies even if they are related 51% group companies for different parts of the accounting period.
- (3) But a related 51% group company is ignored for the purposes of section 279E if—
- (a) it has not carried on a trade or business at any time in the accounting period, or
  - (b) it was a related 51% group 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) Subsection (3) is subject to subsections (5) to (9).
- (5) Subsection (6) applies if a company carries on a business of making investments in an accounting period and throughout the period the company—
- (a) carries on no trade,
  - (b) has one or more 51% subsidiaries, and
  - (c) is a passive company.

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- (6) The company is treated for the purposes of subsection (3) as not carrying on a business at any time in the accounting period.
- (7) A company is a passive company throughout an accounting period only if the following requirements are met—
  - (a) it has no assets in that period, other than shares in companies which are its 51% subsidiaries,
  - (b) no income arises to it in that period other than dividends,
  - (c) if income arises to it in that period in the form of dividends—
    - (i) the redistribution condition is met (see subsection (8)), and
    - (ii) the dividends are franked investment income received by it,
  - (d) no chargeable gains accrue to it in that period,
  - (e) no expenses of management of the business mentioned in subsection (5) are referable to that period, and
  - (f) no qualifying charitable donations are deductible from the company's total profits of that period.
- (8) The redistribution condition is that—
  - (a) the company pays dividends to one or more of its shareholders in the accounting period, and
  - (b) 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.
- (9) If income arises to a company in an accounting period in the form of a dividend and the requirement in subsection (7)(c) is met in respect of the income—
  - (a) 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 (7)(a), and
  - (b) no right of the company to receive the dividend is treated as an asset of the company for the purposes of subsection (7)(a) in that period or any earlier accounting period.

#### *Augmented profits*

#### **“Augmented profits”**

- 279(1) For the purposes of this Chapter a company's augmented profits of an accounting period are—
- (a) the company's adjusted taxable total profits of that period, plus
  - (b) any franked investment income received by the company that is not excluded by subsection (3).
- (2) A company's “adjusted taxable total profits” of a period are what would have been the company's taxable total profits of the period in the absence of sections 1(2A), 2B and 8(4A) of TCGA 1992 and section 2(2A) of CTA 2009 (certain gains on relevant high value disposals by companies etc chargeable to capital gains tax not corporation tax).

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- (3) 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-subsubsidiary of the receiving company.
- (4) For the purposes of subsection (3)(b) a company is a quasi-subsubsidiary 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.

#### **Interpretation of section 279G(3) and (4)**

- 279G(1) For the purposes of section 279G(3)(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 279G(3)(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 279G(3)(b) and this section—
- “trading company” means a company whose business consists wholly or mainly of carrying on a trade or trades, and
- “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 279G(4), 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

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- (c) would be beneficially entitled to at least 5% of any asset 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)."

## PART 2

### AMENDMENTS CONSEQUENTIAL ON PART 1 OF THIS SCHEDULE

#### *Finance Act 1998*

- 6 In Schedule 18 to FA 1998 (company tax returns, assessments and related matters), in paragraph 8 (calculation of tax payable), in subsection (1), for “section 19, 20 or 21 of the Corporation Tax Act 2010 (marginal relief for companies with small profits)” substitute “ Chapter 3A of Part 8 of the Corporation Tax Act 2010 (marginal relief for companies with small ring fence profits etc) ”.

#### *Finance Act 2000*

- 7 In Schedule 22 to FA 2000 (tonnage tax), in paragraph 57 (exclusion of relief or set-off against tax liability), in sub-paragraph (6), for paragraph (a) substitute—
  - “(a) any reduction under Chapter 3A of Part 8 of CTA 2010 (marginal relief for companies with small ring fence profits), or”.

#### *Capital Allowances Act 2001*

- 8 In section 99 of CAA 2001 (long-life assets: the monetary limit)—
  - (a) in subsection (4)—
    - (i) for “If, in a chargeable period, a company has one or more associated companies” substitute “ In the case of a company (“C”), if, in a chargeable period, one or more companies are related 51% group companies of C ”, and
    - (ii) for “number of associated” substitute “ number of related 51% group ”, and
  - (b) omit subsection (5).
- 9 In Part 2 of Schedule 1 to that Act (defined expressions), at the appropriate place insert—

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“related 51% group company

section 279F of CTA 2010 (as applied by 1119 of that Act).”

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*Corporation Tax Act 2009*

- 10 In section 104N of CTA 2009 (payment of R&D expenditure credit) in subsection (3), in the definition of “*Amount A*”, in paragraph (b), after “main rate” insert “ (or, in the case of ring fence profits, the main ring fence profits rate) ”.
- 11 In section 1114 of that Act (calculation of total R&D aid for the purposes of the cap), after “aid is calculated” insert “ (or, in the case of a ring fence trade (within the meaning of section 277 of CTA 2010) the main ring fence profits rate at that time) ”.
- 12 In Schedule 4 to that Act (index of defined expressions), at the appropriate place, insert—

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“main ring fence profits rate	section 279A(4) (as applied by 1119 of CTA 2010)”.
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*Corporation Tax Act 2010*

- 13 (1) Chapter 3 of Part 8A of CTA 2010 (profits arising from the exploitation of patents etc: relevant IP profits) is amended as follows.
- (2) In section 357CL (companies eligible to elect for small claims treatment)—
- (a) in subsection (5) for “the company has no associated company” substitute “ no other company is a related 51% group company of the company ”,
  - (b) in subsection (6)—
    - (i) for “the company has one or more associated companies” substitute “ one or more other companies are related 51% group companies of the company, ” and
    - (ii) for “those associated” substitute “ those related 51% group ”, and
  - (c) omit subsection (9).
- (3) In section 357CM (small claims amount)—
- (a) in subsection (5) for “the company has no associated company” substitute “ no other company is a related 51% group company of the company ”,
  - (b) in subsection (6)—
    - (i) for “the company has one or more associated companies” substitute “ one or more other companies are related 51% group companies of the company, ” and
    - (ii) for “those associated” substitute “ those related 51% group ”, and
  - (c) omit subsection (8).
- 14 (1) Part 12 of CTA 2010 (real estate investment trusts) is amended as follows.
- (2) In section 534 (tax treatment of profits), omit subsection (3).
  - (3) In section 535 (tax treatment of gains), omit subsection (6).
  - (4) In section 543 (profit: financing-cost ratio), omit subsection (5).
  - (5) In section 551 (tax consequences of distribution to holder of excessive rights), omit subsection (6).
  - (6) In section 552 (“the section 552 amount”), in subsection (2), for “rate of corporation tax mentioned in section 534(3) (rate determined without reference to sections 18 to 23)” substitute “ main rate of corporation tax ”.



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- (7) In section 564 (breach of condition as to distribution of profits), omit subsection (4).
- 15 (1) Part 13 of CTA 2010 (other special types of company etc) is amended as follows.
- (2) In section 614 (open-ended investment companies: applicable corporation tax rate), omit “(and sections 18 and 19 (relief for companies with small profits) do not apply)”.
- (3) In section 618 (authorised unit trusts: applicable corporation tax rate), omit “(and sections 18 and 19 (relief for companies with small profits) do not apply)”.
- (4) In section 627 (companies in liquidation etc: meaning of “rate of corporation tax” in case of companies with small profits)—
- (a) for subsections (1) and (2) substitute—
- “(1) This section applies if corporation tax is chargeable on ring fence profits of a company for a financial year.
- (2) References in this Chapter to the “main rate of corporation tax”, so far as relating to those profits, are to be taken—
- (a) if corporation tax is to be charged on those profits at the main ring fence profits rate, as references to that rate;
- (b) if corporation tax is to be charged on those profits at the small ring fence profits rate, as references to that rate;
- (c) if corporation tax on those profits is to be reduced by reference to the marginal relief fraction within the meaning of Chapter 3A of Part 8 (see sections 279B and 279C), as including references to the marginal relief fraction (and with references to a rate being “fixed” or “proposed” read accordingly as references to the marginal relief fraction concerned being fixed or proposed).”
- (b) accordingly, in the heading for the section, for “**small profits**” substitute “**ring fence profits**”.
- (5) In section 628 (company in liquidation: corporation tax rates), for “the rate of corporation tax” (in each place it occurs) substitute “ the main rate of corporation tax ”.
- (6) In section 630 (company in administration: corporation tax rates), for “the rate of corporation tax” (in each place it occurs) substitute “ the main rate of corporation tax ”.
- 16 In section 1119 of CTA 2010 (Corporation Tax Acts definitions), at the appropriate places insert—
- ““main ring fence profits rate” has the meaning given by section 279A(4),”
- and
- ““ related 51% group company” is to be read in accordance with section 279F.”.
- 17 (1) Schedule 4 to CTA 2010 (index of defined expressions) is amended as follows.
- (2) Insert the following entries at the appropriate places—

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“the main ring fence profits rate	section 279A(4) (as applied by section 1119)”
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“the marginal relief fraction (in Chapter 3A of section 279B(3) Part 8)”

“related 51% group company section 279F (as applied by section 1119)”

“the small ring fence profits rate section 279A(4)”

- (3) Omit the entries for—
- “associated company (in Part 3)”;
  - “close investment holding company (in Part 3)”;
  - “the ring fence fraction (in Part 3)”;
  - “the small profits rate”;
  - “the standard fraction (in Part 3)”.
- (4) In the entry for “augmented profits (in Part 3)”—
- (a) in the first column for “Part 3” substitute “ Chapter 3A of Part 8 ”, and
  - (b) in the second column, for “32” substitute “ 279G ”.
- (5) In the entry for “the lower limit (in Part 3)”—
- (a) in the first column for “Part 3” substitute “ Chapter 3A of Part 8 ”, and
  - (b) in the second column for “24” substitute “ 279E ”.
- (6) In the entry for “the upper limit (in Part 3)”—
- (a) in the first column for “Part 3” substitute “ Chapter 3A of Part 8 ”, and
  - (b) in the second column for “24” substitute “ 279E ”.

#### *Finance Act 2012*

- 18 In section 102 of FA 2012 (policy holders' rate of tax on policyholders' share of I-E profit), omit subsection (5).

#### *Finance Act 2013*

- 19 In section 6 of FA 2013 (main rate for financial year 2015)—
- (a) in subsection (1) for “the rate” substitute “ the main rate ”,
  - (b) in that subsection, omit “on profits of companies other than ring fence profits”, and
  - (c) omit subsection (2).
- 20 In Schedule 25 to that Act (charge on certain high value disposals by companies etc), omit paragraph 19.

### **PART 3**

#### COMMENCEMENT AND TRANSITIONAL PROVISION

- 21 (1) The amendments made by paragraphs 8, 9 and 13 have effect in relation to accounting periods beginning on or after 1 April 2015.
- (2) Accordingly—

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- (a) despite the repeal of Part 3 of CTA 2010 by paragraph 4 of this Schedule, sections 25 to 30 of that Act (interpretation of references to associated companies) continue to apply for the purposes of section 99 of CAA 2001, and sections 357CL and 357CM of CTA 2010, in relation to accounting periods beginning before but ending on or after 1 April 2015, and
  - (b) in relation to the application of sections 25 to 30 of CTA 2010 for those purposes, paragraph 22(2) of this Schedule is to be ignored.
- 22 (1) The other amendments made by this Schedule have effect for the financial year 2015 and subsequent financial years.
- (2) In the case of an accounting period (a “straddling period”)—
  - (a) beginning before 1 April 2015, and
  - (b) ending on or after that date,the repealed small profit provisions and the new ring fence small profit provisions apply as if the different parts of the straddling period falling in the different financial years were separate accounting periods.
- (3) For this purpose—
  - “the repealed small profit provisions” means Part 3 of CTA 2010,
  - “the new ring fence small profit provisions” means sections 279A(3) and 279B to 279H”.
- (4) For the purposes of sub-paragraph (2) all necessary apportionments are to be made between the two separate accounting periods.

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