

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 6: Corporation Tax: Small Profits Rate and Fractions for Financial Year 2014

Background Note

4. Companies with profits up to £300,000 pay CT at the small profits rate.
5. Companies with profits between £300,000 and £1,500,000 (the lower and upper limits) benefit from marginal relief.
6. Marginal relief has the effect of gradually increasing the rate of tax for a company as its profits move from the lower to the upper profits limit.
7. The example below illustrates the effect of marginal relief for a company with taxable non-ring fence profits of £500,000. Its tax liability is calculated as follows:

£500,000 at 21 per cent	£105,000
Minus 1/400 of £1,000,000 ¹	£2,500
Tax payable	£102,500
* £1,000,000 is the difference between the upper limit and the profit.	

8. The example below illustrates the effect of marginal relief for a company with taxable ring fence profits of £500,000. Its tax liability is calculated as follows:

£500,000 at 30 per cent	£150,000
Minus 11/400 of £1,000,000 ¹	£27,500
Tax payable	£122,500
* £1,000,000 is the difference between the upper limit and the profit	

9. Where two or more companies are associated with one another, the profits limits are divided by the number of associated companies.