



SME & OMB tax planning post FA 2021

10 MAY 2021

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Today's presenters



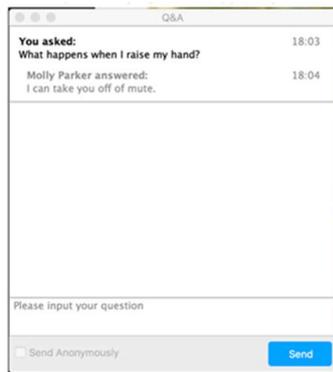
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Ask a question



The screenshot shows a Q&A window with the following content:

Text	Time
You asked: What happens when I raise my hand?	18:03
Molly Parker answered: I can take you off of mute.	18:04

Below the table is a text input field with the placeholder text "Please input your question". At the bottom left is a checkbox labeled "Send Anonymously" and at the bottom right is a blue "Send" button.

To ask a question

Click on the **Q&A** button in the bottom toolbar to open the submit question prompt.

Type in your question and click **send**.

Note. If you wish to ask your question anonymously check the **send anonymously** box shown on the illustration to the left.

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CORPORATION TAX RATES

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CORPORATION TAX RATES



Year	Small Profits Rate	Standard Rate
2006	19%	30%
2007	20%	30%
2008	21%	28%
2009	21%	28%
2010	21%	28%
2011	20%	26%
2012	20%	24%
2013	20%	23%
2014	20%	21%

Year	Small Profits Rate	Standard Rate
2015	-	20%
2016	-	20%
2017	-	19%
2018	-	19%
2019	-	19%
2020	-	19%
2021	-	19%
2022	-	19%
2023	19%	25%

 MOORE Kingston Smith

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CORPORATION TAX FROM 1 APRIL 2023



Augmented Profits	Corporation Tax
More than £250,000	Taxable Total Profits x 25%
More than £50,000 but no more than £250,000	Taxable Total Profits x 25% Less Marginal Relief
No more than £50,000	Taxable Total Profits x 19%

- Augmented Profits:
 - Taxable Total Profits
 - Exempt distributions, except those from within a 51% group

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MARGINAL RELIEF



- Marginal Relief reduction calculation:

$$F \times (U - A) \times (N/A)$$

Where:

F = Standard Marginal Relief Fraction [3/200]

U = Upper Limited [£250,000]

A = Augmented Profits

N = Taxable Total Profits

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MARGINAL RELIEF



- Example
- In the year ended 31 March 2024 ABC Limited makes Taxable Total Profits of £100,000 and receives exempt distributions of £50,000 from a minority holding
- Augmented Profits = £150,000

Taxable Total Profits x 25%	£100,000 x 25%	£25,000
Less Marginal Relief	$F \times (U - A) \times (N/A)$	
	$(3/200) \times (250,000 - 150,000) \times (100,000/150,000)$	(£1,000)
TOTAL		£24,000

ASSOCIATED COMPANIES



- Where a company has one or more associated companies the lower and upper limits are divided by the total number of associated companies.
- Associated companies:
 - One has control of the other or both are under the control of the same person/persons (possibly including associates)
 - Includes companies associated for any part of the accounting period
 - Does not include companies that have not carried on a trade or business at any time in the accounting period
- A company is treated as not carrying on a business if:
 - It carries on a business of making investments
 - It does not carry on a trade
 - Its only assets are shares in 51% subsidiaries
 - Its only income is dividends which are paid out to shareholders in the period
 - It has no chargeable gains, expenses of management, or charitable donations

CLOSE INVESTMENT HOLDING COMPANIES



- Close Investment Holdings Companies cannot use the small profits rate or marginal relief
- Close Investment Holding Companies:
 - A close company that does not exist for a “permitted purpose”, which includes:
 - Carrying on a trade on a commercial basis
 - Making investments in land that is to be let commercially
 - Holding shares in or making loans to one or more “qualifying companies”
 - Co-ordinating the administration of two or more “qualifying companies”
 - Qualifying companies – a company under the control of the close company (or its parent company), which exists wholly or mainly to carry on a commercial trade and/or commercial property letting business

EFFECTIVE TAX RATES – HIGHER RATE TAXPAYERS



	Company - salary	Company - dividends		Unincorporated
Pre-tax profits	100.00	100.00	100.00	100.00
Employer's NICs	(12.13)			
Corporation Tax	-	(19.00)	(25.00)	
Gross received	87.87	81.00	75.00	
Income tax	35.15	(26.33)	(24.38)	(40.00)
NICs	1.76			(2.00)
Net received	50.97	54.68	50.63	58.00
Effective tax rate	49.0%	45.3%	49.4%	42.0%

EFFECTIVE TAX RATES – ADDITIONAL RATE TAXPAYER



	Company - salary	Company - dividends		Unincorporated
Pre-tax profits	100.00	100.00	100.00	100.00
Employer's NICs	(12.13)			
Corporation Tax	-	(19.00)	(25.00)	
Gross received	87.87	81.00	75.00	
Income tax	39.54	(30.86)	(28.58)	(45.00)
NICs	1.76			(2.00)
Net received	46.57	50.14	46.43	53.00
Effective tax rate	53.4%	49.9%	53.6%	47.0%

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CORPORATION TAX LOSSES

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CORPORATION TAX TRADING LOSSES



- Trading loss relief claims:
 - S37 CTA 2010
 - Trading losses set against total profits of the same accounting period
 - Unused trading losses set against total profits of the preceding 12 months – extended for terminal losses
 - S45A CTA 2010
 - Brought forward (post 1 April 2017) trading losses can be set against total profits of future periods (subject to some limitations)
 - Group Relief
 - Current year and brought forward (post 1 April 2017) trading losses can be set against total profits of group companies (subject to some limitations)

ENHANCED CARRY BACK



- S37(3) CTA 2010

If the company makes a claim, the relief is given by deducting the loss from the company's total profits of-

 - (a) the accounting period in which the loss is made ("the loss-making period"), and
 - (b) if the claim so requires, previous accounting periods so far as they fall (wholly or partly) within the period of ~~12 months~~ **3 years** ending immediately before the loss-making period begins.
- Available for trading losses incurred in accounting periods ending between 1 April 2020 and 31 March 2022
- Losses are set against profits of more recent years before earlier years.
- Claim must be made within 2 years of the end of the loss making period (or within such further period as HMRC may allow)

DEFINITIONS



- 2020 claim
 - A s37 claim relating to a loss incurred in an accounting period ending between 1 April 2020 and 31 March 2021
 - ...but not a s37 claim that could have been made without the enhanced provisions
- 2021 claim
 - A s37 claim relating to a loss incurred in an accounting period ending between 1 April 2021 and 31 March 2022
 - ...but not a s37 claim that could have been made without the enhanced provisions
- De minimis 2020 claim
 - Total relief given as a result of the claim, plus the relief given as a result of 2020 claims already made by the company, is less than £200,000
- De minimis 2021 claim
 - Total relief given as a result of the claim, plus the relief given as a result of 2021 claims already made by the company, is less than £200,000

CAP ON ENHANCED CARRY BACK



- Companies that are not members of groups
 - Total of 2020 claims must not exceed £2,000,000
 - Total of 2021 claims must not exceed £2,000,000
- Companies that are members of groups:
 - May make de minimis claims without reference to the group
 - May only make a non-de minimis 2020 claim such that total 2020 claims for the group do not exceed £2,000,000
 - May only make a non-de minimis 2021 claim such that total 2021 claims for the group do not exceed £2,000,000

ADMINISTRATION



- Generally:
 - 2020 claims may not be made at any time before 31 March 2021
 - 2021 claims may not be made at any time before 31 March 2022
 - Claims must be made in the company tax returns for the periods to which they relate
- De minimis claims not subject to these requirements
- A Loss Carry-Back Allocation Statement is required where a group member is making a non-de minimis claim

EXAMPLE



	y/e 30/09/17	y/e 30/09/18	y/e 30/09/19	y/e 30/09/20	y/e 30/09/21
Trading profits/(losses)	1,500,000	3,500,000	2,000,000	(5,500,000)	(4,500,000)

	£
Losses of y/e 30/09/20	5,500,000
Against profits of y/e 30/09/19 (no limit)	(2,000,000)
Against profits of y/e 30/09/18 (subject to cap)	(2,000,000)
Remaining	1,500,000

	£
Losses of y/e 30/09/21	4,500,000
Against profits of y/e 30/09/18	(1,500,000)
Remaining	3,000,000

INCOME TAX LOSSES

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INCOME TAX TRADING LOSSES



- Trading loss relief claims:
 - S64 ITA 2007
 - Trading losses deducted from general income of the tax year of the loss, or of the previous tax year, or of both tax years
 - S83 ITA 2007
 - Unrelieved trading losses deducted against future profits of the trade

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INCOME TAX TRADING LOSSES



- Trading loss relief claims:
 - S72 ITA 2007
 - Trading losses of the first 4 years of the trade can be deducted from general income of the 3 tax years before the one in which the loss is made
 - S89 ITA 2007
 - Trading losses made in the 12 months prior to permanent cessation can be deducted from trading profits of the final tax year and of the previous 3 tax years
 - s261B TCGA 1992
 - Following a claim under s64 ITA 2007, excess trading losses can be treated as allowable losses for capital gains tax purposes

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ENHANCED CARRY BACK



- Relief for 2020/21 trading losses:
 - Applies to trading losses for which a s64 ITA 2007 claim has been made
 - Trading loss is set against trading profits of 2018/19 and then those of 2017/18
 - Enhanced carry-back limited to £2,000,000
 - Claim must be made on or before 31 January 2023
- Equivalent rules for 2021/22 trading losses
- Certain restrictions on the use of trading losses apply

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EXAMPLE



	2017/18	2018/19	2019/20	2020/21
Trading profits/(losses)	2,000,000	1,200,000	900,000	(3,800,000)
Property business profits	90,000	80,000	120,000	50,000
Total profits	2,090,000	1,280,000	1,020,000	50,000

	£
Losses of 2020/21	3,800,000
Against profits of 2020/21	(50,000)
Against profits of 2019/20	(1,020,000)
Against trading profits of 2018/19	(1,200,000)
Against trading profits of 2017/18 (subject to cap)	(800,000)
Remaining	730,000

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DISCLAIMER



This presentation covers topics only in general terms and is intended to give a wide audience an outline understanding of issues in tax. It therefore cannot be relied on to cover specific situations; applications of the principles set out will depend on the particular circumstances involved. Furthermore, responses given in the presentation to questions are based on only an outline understanding of the facts and circumstances of the cases and therefore do not form an appropriate substitute for considered specific advice tailored to your circumstances. We recommend that you obtain professional advice before acting or refraining from acting based on any of its contents. We would be pleased to advise you on the application of the principles outlined in this presentation to your specific circumstances, but in the absence of such specific advice cannot be responsible or liable.

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