CORPORATION TAX UK 2025-2026

What is Corporation Tax?

Corporation Tax is the tax that UK limited companies and some other organisations pay on their taxable profits. These profits can include:

- Trading profits
- Investment income (with some exceptions)
- Chargeable gains from selling assets

UK Corporation Tax rates (current)

For financial years starting on or after 1 April 2023 (including 2025 and 2026), the UK operates a two-rate system:

1. Small Profits Rate
    - 19%
    - Applies if taxable profits are £50,000 or less
2. Main Rate
    - 25%
    - Applies if taxable profits exceed £250,000
3. Profits between £50,000 and £250,000
    - Taxed at 25% but reduced by Marginal Relief
    - This creates a gradual increase in the effective tax rate from 19% up to 25%

Marginal Relief (important in practice)

If your company's profits fall between £50,000 and £250,000, Marginal Relief reduces the Corporation Tax bill so there isn't a sudden jump from 19% to 25%.

Key points:

- Relief applies automatically when you calculate Corporation Tax correctly
- The profit limits are reduced if:
    - Your accounting period is shorter than 12 months, or

- You have associated companies (limits are divided between them)

Who pays Corporation Tax?

Corporation Tax is paid by:

- UK limited companies
- Foreign companies with a UK permanent establishment
- Some clubs, co-operatives, and associations

Sole traders and partnerships do not pay Corporation Tax (they pay Income Tax instead).

When is Corporation Tax paid?

For most companies:

- Payment deadline:
  > 9 months and 1 day after the end of the accounting period
- Company Tax Return (CT600) must still be filed even if:
  - No tax is due, or
  - The company made a loss

Link: [Corporation Tax rates and allowances - GOV.UK]

Example of Corporate Tax calculation

Step 1: Start with your accounting profit

This is the profit shown in your company's accounts before tax.

Example:

Accounting profit = £120,000

This figure comes from:

```
Sales
- Allowable business expenses
= Accounting profit
```

Step 2: Adjust to get taxable profit

You must adjust accounting profit for tax rules.

Add back non-allowable expenses

These cannot be deducted for tax, such as:

- Client entertaining
- Fines and penalties
- Personal expenses
- Depreciation (replaced by capital allowances)

Deduct allowable tax reliefs

For example:

- Capital allowances (instead of depreciation)
- R&D relief
- Brought-forward trading losses

Example adjustments:

```
Accounting profit                      £120,000
Add back non-allowable expenses          £5,000
Less capital allowances                (£10,000)
-----------------------------------------------
Taxable profit                         £115,000
```

Step 3: Identify which Corporation Tax rate applies

For accounting periods starting on or after 1 April 2023, the rates are:

Taxable profit	Rate
Up to £50,000	19%
£50,001–£250,000	25% with Marginal Relief
Over £250,000	25%

Your £115,000 profit falls in the Marginal Relief band.

Step 4: Calculate tax at the main rate (25%)

Even in the Marginal Relief band, the calculation starts at 25%.

```
£115,000 × 25% = £28,750
```

Step 5: Calculate Marginal Relief

Marginal Relief reduces the tax bill for profits between £50k and £250k.

Simplified Marginal Relief formula

(works for most single companies with no investment income):

```
Marginal Relief = (Upper limit − Profits) × 1.5%
```

Using the example:

```
(£250,000 − £115,000) × 1.5% = £2,025
```

Step 6: Deduct Marginal Relief from the tax

```
Tax at 25%             £28,750
Less Marginal Relief   (£2,025)
--------------------------------
Corporation Tax due  £26,725
```

Effective tax rate

```
£26,725 ÷ £115,000 ≈ 23.2%
```

Step 7: Check for associated companies

If your company has associated companies, the profit thresholds are reduced.

Example:

- 3 companies under common control

- **Thresholds divided by 3**

Standard	With 3 companies
£50,000	£16,667
£250,000	£83,333

Step 8: Apply losses (if relevant)

If your company has trading losses:

- Current-year losses can reduce taxable profits
- Carried-forward losses can shelter future profits

Corporation Tax is calculated after losses are applied.

Step 9: Final amount = Corporation Tax payable

This is the figure reported:

- On your CT600 Company Tax Return
- And paid to HMRC 9 months and 1 day after your accounting period ends (for most small companies)

Summary

```
Accounting profit
± Tax adjustments
= Taxable profit
Apply 25% rate
– Marginal Relief (if applicable)
– Losses (if applicable)
= Corporation Tax due
```

What counts as a loss for Corporation Tax?

A trading loss arises when, after making normal tax adjustments, a company's allowable expenses exceed its trading income for an accounting period. The loss is calculated using the same tax-adjusted method as profits (including capital allowances and excluding disallowed items).

Link: [Work out and claim relief from Corporation Tax trading losses - GOV.UK]

Different loss types exist (trading, property, capital), but trading losses have the most flexible relief options.

Order in which losses are applied (core principle)

HMRC allows trading losses to be used in a specific order, depending on what the company chooses to claim:

1. Against profits in the same accounting period
2. Carried back to the previous accounting period
3. Carried forward to future accounting periods
4. Surrendered as group relief (if the company is in a group)

This choice is made through the Company Tax Return (CT600). [gov.uk]

Using losses in the same accounting period

If your company has:

- Trading profits from one activity, and
- Trading losses from another activity
  within the same accounting period, the loss can be offset immediately against those profits.

Effect:

```
Trading profit
– Trading loss
= Reduced taxable profit
```

Carrying a trading loss back (refund of tax already paid)

If the loss cannot be fully used in the same year, HMRC allows you to carry it back to the previous accounting period, provided the company was trading then.

Key rules:

- Normal carry-back period: 12 months
- Offsets profits of the immediately preceding period

- Can generate a Corporation Tax refund if tax was paid in that year
- Must be claimed within 2 years of the end of the loss-making period.

Example

- Year 1 profit: £40,000 → tax paid
- Year 2 loss: £25,000
  Carry back £25,000 → reclaim Corporation Tax paid on £25,000 of Year 1 profits.

Carrying losses forward (most common in practice)

If losses are not used in the same year or carried back, they are carried forward automatically.

Rules:

- Losses can be carried forward indefinitely
- Used to reduce profits in future accounting periods
- For losses arising on or after 1 April 2017, they can usually be offset against total profits, not just the same trade
- Claimed when profits arise (not when the loss occurs).

Example:

```
Year 1: Trading loss       (£30,000)
Year 2: Trading profit      £80,000
Taxable profit Year 2       £50,000
```

Corporation Tax is calculated only on £50,000

Loss restriction (large profits only)

For accounting periods starting on or after 1 April 2017, carried-forward losses are subject to a restriction only if profits exceed £5 million.

- First £5 million of profits: losses can offset 100%
- Profits above £5 million: losses can offset 50% of the excess

This restriction does not affect most small and medium-sized companies

Group relief (if applicable)

If companies are in the same 75% group, a trading loss can be:

- Surrendered to another group company
- Used against that company's profits in the same period

This is optional and claimed via CT600 group relief schedules.

Where losses appear in the Corporation Tax calculation

Losses are applied before Corporation Tax rates:

```
Accounting profit
± Tax adjustments
= Taxable profit before losses
− Trading losses used
= Taxable profit after losses
Apply 19% / 25% + Marginal Relief
= Corporation Tax due
```

End!