

Inland Revenue Marginal Small Companies Relief Computation

There is a reduced rate payable for small limited companies. The amount of corporation tax relief is calculated via the calculation below, which appears to be complicated, but if worked through methodically is fairly simple. Any good tax software will also calculate the rate and the relief.

The marginal relief is available for companies with profits between £10,000 and £50,000 but only up to the 31st March 2006.

The relief is worked out in days, and if a company's accounts have a year end other than 31st March there are 2 separate to the calculation to reflect the possible change in tax rates from one year to the next.

An example is a good method of showing how the relief is calculated.

A company has a year end of 31st December 2004 (leap year 366 days)

From 01/01/2004 to 31/03/2004

Profit before tax = £18,000

A = 91/366 (=0.2486) B = 91/366 (=0.2486)

$$\frac{A \times (\text{profit before tax})}{\text{profit before tax} \times A} \times \frac{19}{400} \times \frac{[50000 \times A] - [\text{profit before tax} \times B]}{1}$$

which equates to

$$\frac{19}{400} \times [50,000 \times A] - [\text{profit before tax} \times B]$$

i.e.

$$\frac{0.2486 \times 18,000}{18,000 \times 0.2486} \times 0.0475 \times \frac{[50,000 \times 0.2486] - [18,000 \times 0.2486]}{1}$$

$$= 0.0475 \times [12430 - 4474.8]$$

$$= £377.87$$

The same calculation is repeated for 275/366 (£1142.07) and the sum is the actual marginal small companies' relief.

$$= £1519.94$$

The corporation tax payable is

$£18,000 \times 19\% = £3420$ less the marginal relief of $£1519.94$

Corporation tax payable = $£1900.06$

The underlying relief is 10.56% (which is $£1,900.06/£18,000$)

The Government website supplies an excellent guide to working out the tax a company has to pay (CT600 Long Version) including a marginal relief calculator.

The guide can be found at

http://www.hmrc.gov.uk/ctsa/mrr_worksheet.htm

and the calculator at

<https://online.inlandrevenue.gov.uk/calculators/mrr/MrrPage0.jsp>

The following table shows the details of the rates to apply.

Financial year beginning 1 April	2000	2001	2002	2003	2004
Rate of corporation tax	30	30	30	30	30
Corporation tax starting rate	10	10	0	0	0
Small companies rate (also used for an investment trust's housing investment profits)	20	20	19	19	19
Non-corporate distribution rate	N/A	N/A	N/A	N/A	19
Special rate for authorised unit trusts and open-ended investment companies	20	20	20	20	20
Limits for marginal relief where there are no associated companies (£ 000s)					
First relevant amount for starting rate (limit for starting rate)	10	10	10	10	10
Second relevant amount for starting rate (upper limit for marginal starting rate relief)	50	50	50	50	50
Lower amount for small companies' rate (limit for small companies' rate)	300	300	300	300	300
Upper amount for small companies' rate (upper limit for marginal small companies' relief)	1500	1500	1500	1500	1500

Marginal relief fractions

Marginal starting fraction (S13AA(3) ICTA1988)	1/40	1/40	19/400	19/400	19/400
Marginal small companies fraction (S13(2) ICTA1988)	1/40	1/40	11/400	11/400	11/400