Tax explainer: Corporation Tax

Introduction

Corporation Tax is a tax paid by companies on their profits. It is one of the main taxes businesses in the UK face and is crucial for company tax planning. This factsheet outlines how Corporation Tax works, the rates applicable for the 2025/26 tax year, and how businesses can manage their tax obligations.

Corporation Tax Rate
For the 2025/26 tax year, the main Corporation Tax rate is:

- 25% for businesses with profits over £250,000.
- Small profits rate of 19% applies to businesses with profits of £50,000 or less.
- Marginal Relief for Profits Between £50,000 and £250,000

For businesses with profits between £50,000 and £250,000, a marginal relief applies. This means the Corporation Tax rate gradually increases from 19% to 25% depending on the level of profits.

Businesses with profits in this range will pay a reduced rate.

How Corporation Tax Is Calculated
Corporation Tax is calculated on the company's profits, which include:

- Trading profits: Income from business activities, such as sales of goods or services.
- Investment profits: Interest from savings, dividends, and rental income.
- Capital gains: Profits made from the sale of assets like property or shares.

Businesses can deduct allowable expenses from their income to calculate taxable profits, including:

- Staff wages and salaries
- Office and operational expenses
- Depreciation of assets
- Business interest payments

Filing and Payment of Corporation Tax
Corporation Tax returns must be filed within 12 months of the end of the company's accounting period. Payments of Corporation Tax are due 9 months and 1 day after the end of the accounting period for most companies.

Allowable Deductions and Reliefs

Research and Development (R&D) Tax Credits
Businesses can claim relief for R&D activities that seek to advance technology or science.

Capital Allowances
Businesses can claim deductions for qualifying capital expenditures, such as machinery, office equipment, and buildings.

Loss Relief
If a company makes a loss in one year, it may be able to carry the loss forward or back to offset against profits in other years, reducing taxable profits.

Patent Box
This relief allows companies to pay a reduced rate of Corporation Tax on income derived from patents and other intellectual property.

Corporation Tax for International Companies
Companies operating internationally need to account for any overseas income or business activity. The UK has agreements with many countries to avoid double taxation, allowing tax paid in another country to be offset against UK tax obligations.

Conclusion

Corporation Tax is a fundamental aspect of running a business in the UK, and understanding the rates, filing deadlines, and allowable deductions is vital for tax planning and compliance.

Contact Parry and Parry for expert guidance on managing your company's Corporation Tax obligations and optimising your tax position.

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