These notes refer to the Finance Act 2014 (c.26) which received Royal Assent on 17 July 2014

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

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

Summary

1. This section sets the small profits rate of corporation tax (CT) for the financial year beginning 1 April 2014 at 20% for all profits apart from "ring fence profits" of North Sea oil companies, where the rate is set at 19%. Additionally, it sets the fraction used in calculating marginal relief from the main rate at 1/400 for all profits apart from "ring fence profits", where the fraction is set at 11/400.

Details of the Section

2. Subsection (1) sets the small profits rate of CT for the financial year beginning 1 April 2014.

3. Subsection (2) sets the marginal relief standard and ring fence fractions.

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:

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£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.

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