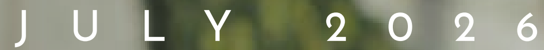

SPOTLIGHT ON:

Associated company rules: Protecting your corporation tax thresholds

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WHAT EVERY OWNER-MANAGED GROUP NEEDS TO KNOW

Running more than one limited company is common for many owner-managers. You might have a trading company alongside a property company, a separate company for a different service line, a holding company above the group, or an old company kept for a brand name.

Each company may have made sense when it was set up. The issue is what happens when the corporation tax rules look at those companies together.

Since 1 April 2023, the UK has used a tiered corporation tax system. The thresholds that decide whether a company pays the 19% small profits rate, the 25% main rate, or a rate (due to marginal relief) between the two can be divided between associated companies. The more associated companies there are, the lower each company's thresholds become.

This guide explains how the rules apply to accounting periods falling within the corporation tax financial year starting 1 April 2026, who counts as an associated company, and the practical steps that can help protect your position.

THE CORPORATION TAX RATE STRUCTURE

For the financial year starting 1 April 2026, the main corporation tax rates remain:

- 19% small profits rate for companies with profits up to £50,000
- 25% main rate for companies with profits over £250,000
- marginal relief for companies with profits between £50,000 and £250,000

The government's Corporate Tax Roadmap also confirmed its intention to cap the headline corporation tax rate at 25% for this parliament and to keep the small profits rate and marginal relief at current rates and thresholds.

The marginal relief band is not always as simple as it looks. Companies in the band are first taxed at 25%, then marginal relief is deducted using the standard 3/200 fraction. In practice, this means profits within the marginal band can suffer an effective marginal rate of 26.5%.

That is why profit levels inside the marginal band need careful monitoring. The rate on the next pound of profit can be higher than many owners expect. The associated company rules can move a company into that band earlier than expected.

WHAT IS AN ASSOCIATED COMPANY?

The starting point is control. A company is associated with another company if:

- One company controls the other, or
- Both companies are under the control of the same person or persons.

For accounting periods beginning on or after 1 April 2023, the main corporation tax thresholds are divided by the total number of associated companies, including the company itself.

An associated company can count even if it is associated for only part of the accounting period. That point is easy to miss when companies are set up, sold, struck off or reorganised partway through a year.

For a 12-month accounting period, the standard limits are divided like this:

- One company only: £50,000 lower limit and £250,000 upper limit
- Two associated companies in total: £25,000 lower limit and £125,000 upper limit each
- Three associated companies in total: £16,667 lower limit and £83,333 upper limit each
- Four associated companies in total: £12,500 lower limit and £62,500 upper limit each
- Five associated companies in total: £10,000 lower limit and £50,000 upper limit each

A standalone company with £40,000 of taxable profits may expect to pay corporation tax at 19%. If it has three other associated companies, its lower limit could fall to £12,500 and its upper limit to £62,500. That same £40,000 profit could then sit inside the marginal relief band.

CONTROL AND ASSOCIATES

Control is wider than direct share ownership. It can include rights to voting power, income, assets on a winding up, and rights held indirectly.

The rules can also look at the rights of a person's associates.
For an individual, associates include:

- A spouse or civil partner
- Parents, grandparents and other lineal ancestors
- Children, grandchildren and other lineal descendants
- Siblings
- Partners in a partnership
- Certain trustees and personal representatives.

The rules do not automatically treat every family company as associated. Where companies are controlled by associates, HMRC assesses whether there is substantial commercial interdependence between them.

This distinction is important. A husband's trading company and a wife's separate trading company in an unrelated sector will not usually be associated just because they are married. The position changes if the companies share customers, premises, staff, funding, equipment or management.

SUBSTANTIAL COMMERCIAL INTERDEPENDENCE

The substantial commercial interdependence test looks at three types of connection.

FINANCIAL INTERDEPENDENCE

This can apply when one company provides financial support to another, directly or indirectly, or when both have a financial interest in the same business. Examples could include inter-company loans, guarantees, shared funding arrangements or informal financial support.

ECONOMIC INTERDEPENDENCE

This can apply when companies work towards the same economic objective, when one company's activities benefit the other, or when they have common customers. Shared sales channels, regular referrals, or a linked customer base can all point towards economic interdependence.

ORGANISATIONAL INTERDEPENDENCE

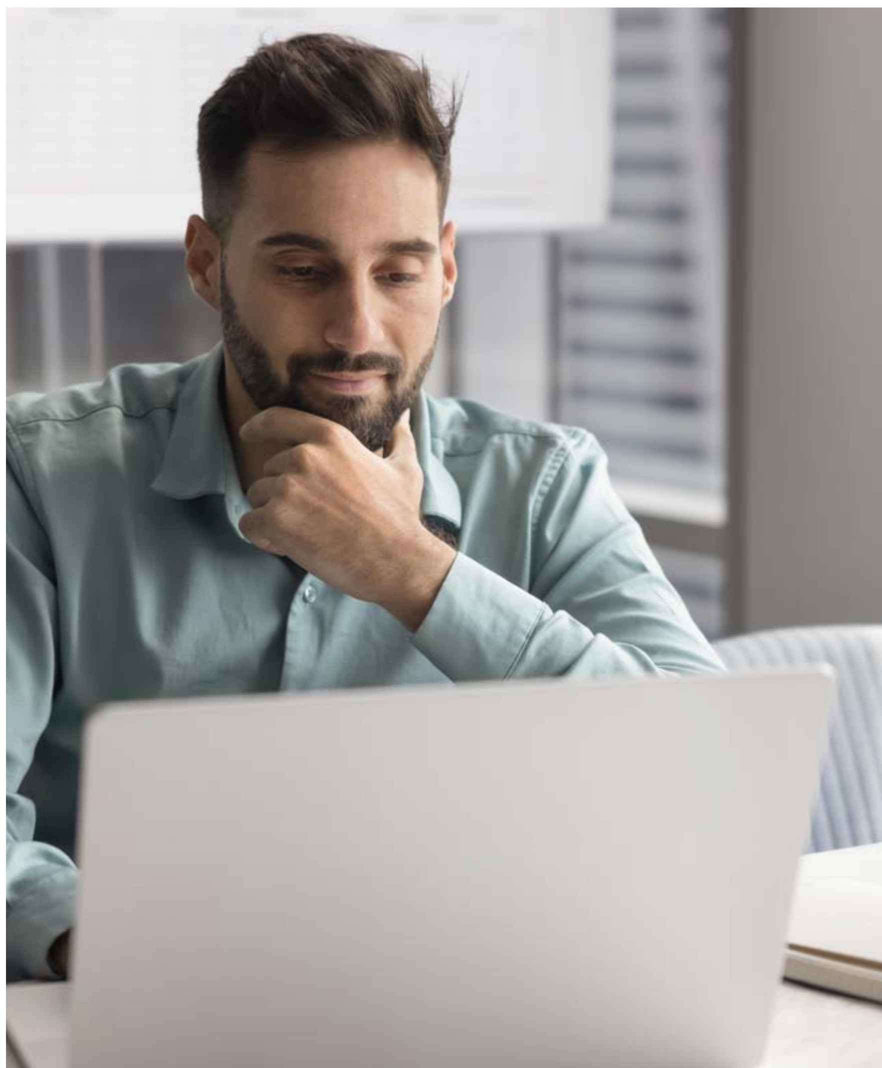
This can apply where companies share management, employees, premises or equipment. It may also include shared admin support, shared systems or shared operational resources.

None of the three connection types needs to exist. A strong link in one area may be enough, but the answer depends on the facts. The test is whether the interdependence is substantial, not whether the businesses are identical.

In practice, the situations most likely to create a problem include:

- Shared premises, especially where one company provides space free of charge or below market rent
- Inter-company loans without clear commercial terms
- Common employees, directors or management
- Shared customer bases or regular referrals between companies
- One company supplying goods or services to another on non-arm's-length terms
- Shared vehicles, equipment, systems or admin support.

Good records help. If companies are genuinely separate, keep evidence of separate premises, separate customers, separate employees, separate management and properly priced transactions.



DORMANT AND PASSIVE COMPANIES

Not every related company reduces the thresholds. A company can be disregarded if it has not carried on any trade or business at any time during the relevant accounting period. For corporation tax purposes, trading includes activities such as buying, selling, renting property, advertising, employing someone or receiving interest.

That means a company may fail the exclusion even if it looks inactive. A small bank interest receipt, a one-off invoice, rental income or investment activity can be enough to show that it is carrying on a business.

It is also important to separate Companies House dormancy from corporation tax dormancy. Filing dormant accounts does not automatically mean a company is ignored for associated company purposes.

There is also a separate exclusion for certain passive holding companies, but it is narrow. Broadly, the company must carry on no trade, hold only shares in 51% subsidiaries, receive only dividend income, meet redistribution conditions and avoid other activities such as chargeable gains or management expenses. A holding company should not be assumed to qualify without checking the details.

QUARTERLY INSTALMENT PAYMENTS

Associated companies can also affect when corporation tax is paid.

A company is usually treated as large for corporation tax payment purposes if its annual taxable profits exceed £1.5m but do not exceed £20m. For accounting periods beginning on or after 1 April 2023, that £1.5m threshold is divided by the number of associated companies, including the company itself.

For example, if a company has two associated companies, there are three companies in total. The £1.5m threshold is divided by three, giving an adjusted threshold of £500,000.

That can create a real cashflow issue. A company with annual taxable profits of £600,000 might not expect to pay corporation tax by quarterly instalments as a standalone company. If it has two associated companies, it could be brought into the large company payment regime.

Large companies with a 12-month accounting period normally pay corporation tax in four instalments:

- Six months and 13 days after the first day of the accounting period
- Three months after the first instalment
- Three months after the second instalment
- three months and 14 days after the end of the accounting period.

For a company with a 1 January to 31 December accounting period, those dates would usually be 14 July, 14 October, 14 January and 14 April.

The rules are different for very large companies. A company is usually very large if its annual profits exceed £20m, again with the threshold reduced for associated companies. Very large companies with a 12-month accounting period pay earlier, on the 14th day of months 3, 6, 9 and 12 of the accounting period.

There are exceptions. For example, a company may not need to pay by instalments where its total corporation tax liability is less than £10,000. There can also be a first-year exception for companies becoming large, provided profits do not exceed the relevant £10m threshold, adjusted for associated companies where necessary. These rules need checking before payment dates are assumed.

COMMON SITUATIONS THAT CATCH OWNERS OUT

THE FORGOTTEN COMPANY

An old company may have been kept for a brand name, project or trading style. If it has any activity, it may not qualify for ignoring.

THE PROPERTY COMPANY

A separate company may hold premises and rent them to the trading company. Common ownership, a rental relationship and shared premises can create financial, economic or organisational links.

THE FAMILY GROUP

A parent may help an adult child start a company by providing premises, a loan, equipment or referrals. That support can create substantial commercial interdependence even where day-to-day management is separate.

THE SPOUSE COMPANIES

Two spouses may run separate companies. The companies may look independent, but shared admin support, shared staff, shared vehicles, or shared customers can change the position.

THE INVESTMENT COMPANY

A personal investment company is not automatically dormant. If it holds investments, receives income or carries on business activity, it may need to be counted unless a specific exclusion applies.

PRACTICAL STEPS TO PROTECT YOUR THRESHOLDS

- **Review all connected companies each year:** List every company you and your associates control or have an interest in. Note whether each company is active, dormant, passive, trading, investment-based or potentially linked to another company.
- **Check whether each company is still needed:** Companies set up years ago for a specific project, contract or brand may no longer serve a purpose. Closing a company can remove it from future counts, but timing matters because a company can count if it was associated for part of the accounting period.
- **Keep arrangements on commercial terms:** Where companies share premises, lend money, provide services or recharge costs, put proper agreements in place. Use commercial rates, issue invoices, and keep records.
- **Separate operations where possible:** Separate premises, staff, bank accounts, systems, equipment and customer bases can all help show that companies operate independently.
- **Plan profits across the group:** Where companies are unavoidably associated, review projected profits early. Timing expenditure, pension contributions, capital allowances and other reliefs may help manage exposure to the marginal relief band.
- **Document genuine independence:** If two companies under family control are not substantially commercially interdependent, keep a short note explaining why. Cover the different activities, customers, premises, resources, management and financial arrangements.

FINAL THOUGHTS

The associated company rules can affect both the rate of corporation tax a company pays and the date the tax is due. A company with related entities should not assume that the full £50,000 and £250,000 thresholds are available without checking the position.

If you run more than one company, have family members or business partners with their own companies, or are considering setting up a new company for a project or property, it is worth reviewing the structure before next year-end.

A clear review can help identify which companies count, whether any exclusions apply, and whether the group has moved closer to the marginal relief band or quarterly instalment payment rules.

If you would like a review of your associated company position before your next year-end, please get in touch.

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