

2026/27 EDITION

# UK Corporation Tax Planning Guide 2026/27

For owner-managed businesses and Finance Directors

---

**Shamim Bhuiyan FCCA, CTA, BSc**

Founder, The Tax Lead · Chartered Certified Accountants & Tax Advisers

[thetaxlead.co.uk](https://thetaxlead.co.uk) · +44 (0) 203 376 0933

---

BOUTIQUE UK TAX & ACCOUNTANCY

# Contents

---

|                   |                                                 |
|-------------------|-------------------------------------------------|
| <b>FOREWORD</b>   | Why this guide                                  |
| <b>CHAPTER 01</b> | UK corporation tax in 2026/27: the landscape    |
| <b>CHAPTER 02</b> | Marginal relief: modelling and management       |
| <b>CHAPTER 03</b> | Capital allowances: Full Expensing, AIA, SBA    |
| <b>CHAPTER 04</b> | R&D tax relief in 2026/27                       |
| <b>CHAPTER 05</b> | Group structures and reliefs                    |
| <b>CHAPTER 06</b> | Profit extraction: salary, dividends, pension   |
| <b>CHAPTER 07</b> | Loss relief: current, carry-back, carry-forward |
| <b>CHAPTER 08</b> | Transfer pricing and the 2026 reforms           |
| <b>CHAPTER 09</b> | Exit reliefs and SSE                            |
| <b>APPENDIX</b>   | How The Tax Lead can help                       |

# Foreword

---

Corporation tax planning isn't about exotic schemes. It's about systematically managing six well-defined levers: profit timing, capital allowances, R&D, group structures, distributions and exit. Each of these is mature, established UK tax law — but the cumulative effect of running them well versus poorly can swing 5–10% of your effective tax rate.

This guide is written for owner-managed business owners and Finance Directors who want a clear, current view of what's available in 2026/27.

---

# UK corporation tax in 2026/27: the landscape

---

## Headline rates

| Profit band        | Rate                                     |
|--------------------|------------------------------------------|
| £0 – £50,000       | 19% (small profits rate)                 |
| £50,001 – £250,000 | 26.5% <b>effective</b> (marginal relief) |
| £250,001+          | 25% (main rate)                          |

The "effective" 26.5% in the marginal band exists because marginal relief tapers from 19% to 25% gradually. Every £1 of profit in the band costs 26.5p in tax — higher than the headline 25% on profits above £250k. This is the **cliff edge** that catches many growing companies.

## Associated companies

The thresholds (£50k, £250k) are **divided** by the number of associated companies plus the parent. Two associated companies → thresholds become £25k and £125k. Three → £16,667 and £83,333.

Associated companies include:

- Companies under common control of the same person or persons
- Including spouse/civil partner attributions
- Including connected companies via family

**This is the single biggest miss in OMB tax planning.** A founder with three trading companies plus a dormant family investment company may have a small profits threshold of just £12,500.

## What's frozen, what's changing

Frozen to April 2030: 25% main rate, 19% small profits rate, £50k/£250k bands. Coming in 2026: dividend rate rises (basic 8.75% → 10.75%, higher 33.75% → 35.75%). Coming in 2027: pension assets brought within IHT scope.

---

# Marginal relief: modelling and management

---

## Three worked examples

### Scenario A: £80,000 profit

- All in marginal band
- Effective tax:  $£80,000 \times 26.5\% = £21,200$
- Marginal benefit of £1 extra deduction: 26.5p

### Scenario B: £180,000 profit

- All in marginal band
- Effective tax:  $£180,000 \times 26.5\% = £47,700$
- Marginal benefit of moving profit out of this band: 6.5% (vs 19% if pushed below £50k)

### Scenario C: £350,000 profit

- £50k @ 19% = £9,500
- £200k @ 26.5% = £53,000
- £100k @ 25% = £25,000
- Total: £87,500
- Effective rate: 25.0%

## Year-end planning levers

1. **Pull deductions forward** — pension contributions, repairs, professional fees, bonus accruals (within 9-month rule)
2. **Push income back** — invoicing timing where genuinely linked to performance
3. **Pension contribution** — directly tax-deductible, no employer NIC, no personal income tax (within annual allowance)
4. **Capital expenditure** — AIA, Full Expensing for genuine investment needs

## The £50k cliff edge planning

If profit is forecast at £62k, a £12k pension contribution drops profit to £50k → tax at 19% throughout instead of 19% on £50k + 26.5% on £12k. Effective saving:  $£12,000 \times (26.5\% - 19\%) = £900$  + the personal tax efficiency of the pension contribution itself.

## Capital allowances: Full Expensing, AIA, SBA

### 2026/27 capital allowances regime

| Allowance                   | Rate | Max       | Restrictions                           |
|-----------------------------|------|-----------|----------------------------------------|
| Full Expensing              | 100% | Unlimited | Companies only, new plant only         |
| FYA 50% (special rate)      | 50%  | Unlimited | Companies only, new special rate plant |
| Annual Investment Allowance | 100% | £1m/year  | All businesses, new or second-hand     |
| Main pool WDA               | 18%  | —         | Remaining balance                      |
| Special rate pool WDA       | 6%   | —         | Remaining balance                      |
| SBA                         | 3%   | —         | Commercial structures only             |

### Decision logic for capital expenditure

For a company with £200k of qualifying plant purchase (new):

- Use AIA on the first £200k? **Yes** — same 100% relief, simpler.
- For purchases above £1m, use AIA on £1m + Full Expensing on the excess.
- For second-hand plant, only AIA works (not Full Expensing).

### Worked example — £150,000 new machinery

Company in marginal band (26.5% effective rate):

- AIA on £150,000 → £150,000 deduction → £39,750 tax saving year 1
- Without AIA, year 1 WDA at 18% = £27,000 deduction → £7,155 tax saving

The full £150k deduction saves £32,595 more in year 1 cash than basic WDA — that's 21.7% of the asset cost recovered as immediate tax saving.

## Integral features — special rate pool

Don't forget that thermal insulation, electrical systems, water systems, HVAC, lifts and similar count as **special rate pool**. On a £500k building refurbishment, 30–40% might be special rate — that gets 50% Full Expensing FYA (companies) or AIA up to £1m.

---

## R&D tax relief in 2026/27

---

### The merged RDEC scheme

From April 2024, R&D relief was reformed. Most companies use the merged RDEC:

- **20% above-the-line credit** on qualifying R&D expenditure
- Net cash benefit after CT: approximately 15% of qualifying spend
- For loss-making companies, surrenderable for cash at lower rate

### Enhanced R&D Intensive Support (ERIS)

For loss-making SMEs spending **30%+ of total expenditure on R&D**:

- Enhanced credit: 27% (more generous than RDEC)
- Substantial cash flow benefit for genuinely R&D-intensive businesses
- The 30% test is strict — gaming it is a HMRC enquiry trigger

### PAYE/NIC cap

For SME claims, the payable credit is capped at £20,000 + 300% of the company's PAYE/NIC liability. This is meant to prevent fraudulent companies with no employees claiming.

### What qualifies — the practical test

R&D for tax purposes requires:

- A **scientific or technological** advance (not commercial advance)
- **Uncertainty** in achieving the advance — a competent professional couldn't readily deduce the solution
- The company is **seeking to resolve** the uncertainty through systematic work

Examples of what typically qualifies:

- New software architecture or algorithms
- Novel chemical formulations
- New manufacturing processes
- Improved materials with quantifiable performance gains

Examples of what typically doesn't qualify (despite being claimed):

- Building a standard CRUD application using existing frameworks

- Customising off-the-shelf software for an internal use case
- Aesthetic redesign of products
- Market research and competitor analysis

## **HMRC has changed posture**

Since 2023, HMRC has materially increased enquiries on R&D claims, particularly:

- SMEs claiming for software development
- Subcontractor-heavy claims
- Claims where the "competent professional" hasn't documented the technological uncertainty

A well-documented claim is more important than a maximised one. Over-claims attract penalties and damage future credibility.

---

## Group structures and reliefs

---

### When to consider a group

A simple holding company over your trading company adds compliance cost (more accounts, more CT600s) but unlocks:

- **Group relief** for losses
- **Group payment arrangement** (single CT payment for the group)
- **Chargeable gains group** (no CT on inter-group asset transfers)
- **SDLT group relief** on property transfers
- **Substantial Shareholdings Exemption** on sale of subsidiaries (gain exempt)

### Group relief — losses

A 75% subsidiary can surrender trading losses to another 75% subsidiary (or to the parent). The losses offset the receiving company's profits in the same accounting period.

Example: HoldCo has SubA (£200k profit) and SubB (£150k loss). SubB surrenders £150k loss to SubA. SubA pays CT on £50k (mostly at 19%) instead of £200k (mostly at 25%).

### Substantial Shareholdings Exemption (SSE)

Gain on sale of a 10%+ subsidiary held for 12 continuous months in the last 6 years is **exempt** from CT — providing both companies are trading (or in a trading group) and the buyer is independent.

This is the key planning lever for owners selling a trading business: sell PropCo or trading sub from within a holding structure, not as direct individual shareholders.

### When NOT to incorporate a group

Don't add a holding company if:

- Annual profit is below £50k (no marginal relief benefit)
- No plan to acquire or dispose of subsidiaries
- No property to separate
- Compliance cost (~£2k/year extra accounts + tax) outweighs benefit
- BADR would be lost (BADR requires direct 5%+ shareholding for 2 years — adding a holdco mid-way restarts the clock)



## Profit extraction: salary, dividends, pension

### The April 2026 dividend rate rises

| Band            | Rate to March 2026 | Rate from April 2026 |
|-----------------|--------------------|----------------------|
| Basic rate      | 8.75%              | <b>10.75%</b>        |
| Higher rate     | 33.75%             | <b>35.75%</b>        |
| Additional rate | 39.35%             | 39.35% (unchanged)   |

Dividend allowance: £500 (frozen).

### Combined CT + dividend wrapper rate

For a basic-rate individual extracting via dividends:

- Company earns £1; pays 19% CT = 81p
- 81p paid as dividend; 10.75% tax = 8.7p
- Net to shareholder: 72.3p
- Combined wrapper rate: 27.7%

For a higher-rate individual:

- $81p \times 35.75\% = 28.9p$  tax
- Net: 52.1p
- Combined wrapper rate: 47.9%

For an additional-rate individual:

- $81p \times 39.35\% = 31.9p$  tax
- Net: 49.1p
- Combined wrapper rate: 50.9%

Compare to salary extraction at higher rate:

- £1 salary → company saves 19% CT (less 15% employer NIC) = net 81p cost
- Actually: gross £1 + 15% NIC = £1.15 cost; less 19% CT = 93.2p after-tax cost
- Employee: 40% IT + 2% NIC = 58p net

Dividends remain marginally more efficient than salary for higher earners, but by a smaller margin than pre-April 2026.

## Optimal salary level

Two viable choices for owner-directors with no other employment income:

**Option A: £5,000 (Secondary Threshold)** - No employer NIC - No employee NIC - Uses very little personal allowance - Best when Employment Allowance is NOT available (sole-director companies)

**Option B: £12,570 (full personal allowance)** - Employer NIC:  $(£12,570 - £5,000) \times 15\% = £1,135.50$  - But Employment Allowance of £10,500 wipes out most of this - Better when EA is available (multiple employees) AND company has good profit

For a multi-director company with Employment Allowance: each director taking £12,570 salary is generally optimal.

## Employer pension contributions — the often-best option

A £20,000 employer pension contribution:

- £20,000 deductible against CT → ~£5,300 CT saved (marginal band)
- Zero employer NIC
- Zero employee income tax
- Doesn't count against £100k Adjusted Net Income trap
- Net cost to company: £14,700; net benefit to director: £20,000 of pension

Compare to a £20,000 dividend at higher rate:

- $£20k \times 35.75\% = £7,150$  personal tax
- Net to director: £12,850

The pension option is **£7,150 better** before considering investment growth.

**Catch:** money is locked in until 55 (rising to 57). For someone close to retirement, this is fine. For a 35-year-old founder, the trade-off needs careful thought.

## Director loans — the s.455 trap

Money taken out of the company as a director loan rather than salary/dividend:

- If not repaid within 9 months of year end → 33.75% s.455 tax (refundable if loan eventually repaid)
- If balance exceeds £10,000 → beneficial loan rules (BIK at HMRC official rate, currently 2.25%)
- "Bed and breakfasting" rules prevent repaying just before year end and re-borrowing immediately after



## Loss relief: current, carry-back, carry-forward

---

### Available reliefs

1. **Current year offset** — automatic against current year other income (e.g. property income)
2. **12-month carry-back** — claim against prior year profits, recovering CT paid
3. **Carry forward indefinitely** — but subject to 50% restriction above £5m profit threshold
4. **Group surrender** — share losses with profitable group companies
5. **Terminal loss relief** — final 12 months losses can be carried back 3 years on cessation

### Worked example — start-up loss

A new company makes a £80,000 trading loss in year 1. In year 2 it earns £150,000 profit.

Options:

- Carry forward the £80k loss → year 2 taxable profit = £70k → tax at marginal rate (~26.5%) = ~£18,550. Saving: £80k × 26.5% = £21,200.
- Better: no prior year to carry back to, so carry forward is the only option here. But year 2 effective benefit at 26.5% is greater than at 19% (where the saved profit would otherwise sit).

For a more mature company where you have choice, timing losses against high-rate years is the key.

### The 50% restriction

For losses carried forward into a year where profits exceed £5m, only 50% of the excess profit can be offset by carried-forward losses. This rarely affects SMEs but matters for groups approaching that scale.

---

# Transfer pricing and the 2026 reforms

---

## Who's affected

Transfer pricing rules require transactions between related parties to be at arm's length. Applies to:

- Large companies (250+ employees, or turnover > €50m AND assets > €43m)
- SMEs are generally exempt
- BUT: SMEs can still be caught for cross-border transactions with certain territories

## January 2026 reforms — widened "related persons"

The definition of related persons has been **widened** from January 2026 to capture more group structures and indirect control situations. Mid-market groups previously outside scope may now fall within.

## What documentation is required

- **Master file:** high-level overview of global business
- **Local file:** specific UK transactions with related parties
- **Country-by-country reporting:** for groups > €750m turnover

## Common SME-level transfer pricing risks

Even where the SME exemption applies, two areas attract enquiry:

1. **Cross-border financing** — interest on intra-group loans (the SME exemption doesn't fully shelter you here)
  2. **Royalty arrangements** — IP licensed from a related overseas entity
-

## Exit reliefs and SSE

---

### Business Asset Disposal Relief (BADR)

- **18% CGT rate** (vs 24% higher rate or 25%+ corporate)
- **£1 million lifetime limit** per individual
- Requires: trading company, 5%+ shareholding, employed/officer for 2+ years before sale

For a couple owning a business jointly: £2m lifetime BADR pool. On a £3m sale at 18%/24%, structuring matters — splitting the gain optimally saves £180k.

### Investors' Relief

- 18% CGT rate (same as BADR)
- £10 million lifetime limit
- For investors who are NOT employees/directors
- Shareholdings must be in trading companies and held for 3+ years

### Substantial Shareholdings Exemption

- **Zero CT** on the gain on sale of a 10%+ trading subsidiary
- Held for 12 continuous months in the last 6 years
- Buyer must be independent

For a sale structured as **share sale of a subsidiary out of a holding company**, SSE exempts the entire gain. The proceeds remain inside the holding company and can be reinvested.

### Pre-sale planning window

24 months before a planned exit, review:

- BADR qualifying status (employment, shareholding, trading)
- SSE position if planning to sell subsidiary shares
- Group structure (any restructuring needed?)
- Property held inside or outside trading entity?
- Director loan accounts (must be cleared by sale)
- Pension contributions for tax-efficient extraction

Getting this in place 24+ months out is generally too tight. Most well-planned exits start the tax review 36 months ahead.

---

## How The Tax Lead can help

The Tax Lead provides corporation tax advisory for owner-managed businesses and Finance Directors. We handle:

- Marginal relief planning and associated company review
- Capital allowances optimisation (including retrospective claims)
- R&D tax relief preparation and HMRC enquiry defence
- Group structure design and SSE qualification
- Profit extraction modelling under the new dividend rates
- Pre-sale tax planning

Founded by Shamim Bhuiyan FCCA, CTA, BSc — Forvis Mazars trained Corporation Tax Specialist, currently Head of Tax — Europe at a major digital infrastructure operator.

Free 30-minute consultation: [thetaxlead.co.uk/contact](https://thetaxlead.co.uk/contact)

---

*This guide is general information current as of April 2026. It is not tax advice and should not be relied upon for any specific decision without professional advice. The Tax Lead Limited is regulated by ACCA. © 2026.*