
What They Mean for Your Corporation Tax Bill

Glossary

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If you run more than one company, you may (or may not!) have come across the term “associated companies” when reading about corporation tax. It sounds technical, but it can have a real impact on how much tax both businesses pay, so let’s break it down:

What does “associated companies” mean?

HMRC says two companies are associated if:

- One company controls the other, or
- Both are under the control of the same person (or group of people).

In plain English: if you’re a shareholder in more than one company, they might count as associated by means of your ownership, even if you don’t fully own all of them.

Why does it matter?

Corporation tax rates in the UK are tiered. Since April 2023, the main rate of corporation tax is 25%, but there’s a small profits rate of 19% if your company makes £50,000 or less in taxable profits. Between £50,000 and £250,000, you get a tapered rate.

Here’s the catch:

- Those £50,000 / £250,000 thresholds aren’t just for one company.
- If you have associated companies, the thresholds are shared between them.

So if you have two associated companies, the £50,000 limit becomes £25,000 each.

What counts as “control”?

This is the key bit. HMRC looks at control in different ways:

- If you own more than 50% of a company, you control it outright.
- If you own exactly 50%, and another person owns the other 50%, HMRC treats you as jointly controlling that company.
- A company can be associated either by the same person controlling both, or the same group of persons controlling both.

Some Scenarios:

Scenario 1: The simple 100% + 50% case

- Company 1: Shareholder A owns 100%.
- Company 2: Shareholder A and Shareholder B each own 50%.

Result: Shareholder A controls Company 1 outright, and jointly controls Company 2. Because they are a controller in both, the companies are **associated**.

Scenario 2: The “different partners” case

- Company 1: Shareholder A and Shareholder B each own 50%.
- Company 2: Shareholder A and Shareholder C each own 50%.

Who controls what?

- Company 1 is controlled by the group **A + B**.
- Company 2 is controlled by the group **A + C**.

These are different controlling groups. Since HMRC requires the *same* group of people to control both, these companies are not associated.

Even though Shareholder A appears in both companies, they can't control either company alone, they always need a different partner to exercise joint control. That's why HMRC doesn't treat them as linked.

Scenario 3: If one company is owned outright

- Company 1: Shareholder A owns 100%.
- Company 2: Shareholder A and Shareholder B each own 50%.

Result: Shareholder A controls Company 1 alone, and jointly controls Company 2.

The key difference here is that Shareholder A can already run Company 1 entirely by themselves. Because they are a sole controller of one company and a joint controller of the other, HMRC says the companies are associated i.e. the “same person” (A) has control in both.

Key takeaways

- Owning multiple companies can reduce the profit thresholds for lower corporation tax rates.
- 50% ownership can still mean control if you share it equally with another person.
- The “same group” rule means it's possible to be 50:50 in two different companies with different partners and not be associated.
- But if you own one company outright and 50% of another, they will be associated.

FAQs:

What if you don't really "run" both?

HMRC will look at whether the second company is genuinely trading independently. If it's just a passive investment, or you're not really involved in decisions, it might not count as associated. But where you (alone or jointly) can direct the company's affairs, expect HMRC to treat them as linked.

What if one of the companies is dormant?

Providing the company hasn't traded at all during the accounting period, they are generally not considered an associated company. HMRC guidance (CTM03760 and CTM03790) states that: "A company which has not carried on any trade or business at any time during the accounting period concerned should be disregarded."

What if one of the companies is loss-making?

Unfortunately, a loss-making company would still count as an associated company for corporation tax purposes.

Need a hand?

If you're juggling more than one company, it's worth checking how the rules apply to your setup. If you're unsure, please feel free to reach out to your dedicated accountant or email support@mightyaccounting.com.

Read this guide online (always the latest version): <https://app.mightyaccounting.com/Knowledge/article/associated-companies-explained>