

BMC ACCOUNTANTS LTD

Chartered Accountants & Registered Auditors

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NI CORPORATION TAX RATE

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From 1 April 2018, the new NI corporation tax rate will come into effect.

The rate will be 12.5% - well below the UK main rate.

Note that the UK main rate, currently 20%, will reduce by 2020 to 18%.

12.5%

DOES IT APPLY TO YOU?

The NICT rate will apply only to NI profits. These are qualifying trading profits made by companies that are "Northern Ireland" companies in the relevant accounting period.

A company will be a Northern Ireland company for these purposes if the company carries on a qualifying trade in the period and either the SME condition or the large company condition is met. The tests for different enterprise sizes are discussed in more detail below. It is each of these tests that introduce the territorial aspect to the NICT regime with different rules for different enterprises.

WHEN WILL THE NEW RATE COME INTO FORCE?

The new rate will come into force on 1 April 2018.

QUALIFYING COMPANIES

SME's

A company must meet two distinct strands to be a qualifying SME.

The company must be both an SME and a Northern Ireland employer, in the relevant period.

A company will be an SME if it meets the EU definition contained in Commission Recommendation 2003/361/EC (6 May 2003). That requires the company to have a maximum number of staff of 250 and either annual turnover of less than €50m or a balance sheet total of less than €43m.

An SME will be a Northern Ireland employer when:

- 75 percent or more of the total workforce's working time spent in the UK, is spent in NI itself;
- and
- 75 percent or more of the company's workforce expenses for working time spent in the UK are attributable to time spent in NI

The SME test thus takes the format of an "in/out" provision –

this means an SME will lose out if it cannot meet the NI employer condition.

A year of grace is provided if the SME was a NI employer for the previous 12 months. This permits some latitude in meeting the NI employer

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test. However, if the SME fails the NI employer test for a second consecutive accounting period, then none of its profits will qualify for the NI rate and it will be subject to the UK main rate.

LARGE COMPANIES

A 'large company' is a company that is not an SME and one that has a 'NI Regional Establishment' (NIRE) for the relevant period.

A NIRE exists if the large company has either:

- A fixed place of business in NI through which the business is wholly or partly carried on, or
- An agent who has the authority to conclude business in NI on behalf of the large company.

This NIRE requirement is designed to ensure the large company has a genuine NI presence and is broadly similar to the UK permanent establishment rules.

QUALIFYING TRADE

The NI rate will apply to qualifying profits of a "qualifying trade", (one that is within the charge to UK corporation tax and is not an excluded trade).

Non-trading activities(e.g. property income, investment income) are excluded. These will, therefore, continue to be taxed at the relevant UK main rate.

Examples of excluded trades are oil activities (taxed as ring-fence trades), lending and investment (i.e. many financial services businesses), investment management, long-term insurance business and re-insurance.

However, the trades of lending and investment, investment management and re-insurance can, by election, be deemed to be a qualifying trade, but only where "back-office activities" are being carried on.