RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

Associated Companies and Why They Matter

Run more than one company, or share control with family or a business partner? ***This could be splitting your tax thresholds without you knowing it.***

Why this matters

If you own or control more than one company, and I mean control in the tax sense, not just on paper, HMRC may treat those companies as 'associated'. That single word can quietly reshape your corporation tax bill, because the tax-free thresholds that decide your rate get divided between every associated company you have, not just the one you happen to be looking at.

The rates in question

Since 1 April 2023, companies pay corporation tax at 19% on profits up to £50,000 (the small profits rate) and 25% on profits above £250,000 (the main rate). Profits in between get marginal relief, a sliding scale between the two.

Those figures, £50,000 and £250,000, aren't fixed. They're shared out equally across every company HMRC decides is associated with yours.

What that looks like in practice

- One company on its own: the full £50,000 and £250,000 thresholds apply
- Two associated companies: thresholds halve to £25,000 and £125,000 each
- Four associated companies: thresholds quarter to £12,500 and £62,500 each
- A company earning £40,000 profit could sail through at 19% on its own, or land in marginal relief territory the moment a second or third associated company appears

How HMRC decides you're associated

Broadly, two companies are associated if one controls the other, or if the same person (or group of people) controls both. Control isn't only about who owns the shares; it stretches to voting rights, entitlement to profits, and rights on a winding-up.

It can also reach further than you'd expect. Rights held by a spouse, civil partner, sibling, parent, or child, or by a business partner, can be attributed to you where there's substantial commercial interdependence between the companies: shared premises, shared staff, shared customers, or one financially propping up the other.

And dormant doesn't always mean invisible. A company sitting quietly at Companies House can still count as associated if it holds an investment property, earns bank interest, or does anything at all beyond nothing.

A NOTE FROM HERMIT

I see this catch people out more than almost anything else in corporation tax. A director sets up a second company for a genuinely separate reason, a new venture, a property bought through a company, a family member's business, and doesn't think to mention it when we're doing the sums. Suddenly the thresholds they were planning around have halved, and nobody decided that on purpose.

What to do next

- Make a list of every company you or your close family control, including dormant ones
- Check whether any of them have real commercial links to each other: shared premises, staff, or customers
- Get your corporation tax thresholds recalculated properly rather than assumed
- Talk to us before you set up a new company structure, not after