

# Red Flag Update

Important updates for GP practices

## ASSOCIATED COMPANIES RULE CHANGES COULD AFFECT MANY GP PARTNERS

From 1 April 2023, all Limited companies are required to disclose the number of associated companies on their corporation tax return.

The challenge facing GP partners, who may also have a personal service company, is that their partners are 'linked businesses' under the new rules, meaning companies that your fellow GP Partners own, could impact the amount of corporation tax applied for your own limited company.

This is best explained with an example;

GP Health Partnership, is a practice with 5 Partners. Each partner has a separate limited company, from which they carry out private clinics, third party locum work or out of hours work.

HMRC view all Partners' personal companies as associated for tax purposes.

### Why is this important?

The number of associated companies directly effects the Corporation Tax rate that applies to a company's profit.

The government introduced the Small Profits Rate for companies with taxable profits below £50,000 and tapering of the tax rate between 19% and 25% for companies with taxable profits between £50,000 and £250,000.

These thresholds are divided equally by the number of associated companies.

Using the example of GP Heath Partnership above, the marginal rate threshold of £250,000 will be divided by 5, resulting in a new threshold of £50,000. If any of the Partners' companies have profits in excess of £50,000, then their company would be paying corporation tax at the higher rate of 25%.

You may also find that your business falls into the Quarterly Instalment Payment (QIPs) regime.

The standard threshold for QIPS is £1.5 million. Dividing this by 5, due to our 5 associated companies, results in a new threshold of £300,000 for taxable profits. For a company with taxable profits beyond this, they will need to make quarterly payments of Corporation Tax to HMRC during their accounting year, rather than a single payment 9 months after the year end.

### What do GP partners need to do?

1. Find out if your partners and/or family members have interests in other companies.
2. Forecast the likely profit levels of your company and make sure you take advantage of tax planning opportunities to make sure you don't pay more tax than necessary.
3. Establish how your thresholds for corporation tax may be affected by associated companies.
4. Consider whether there's good reason to rationalise the number of associated entities for low level trading entities.



For further information on the above or to arrange a consultation, please contact:

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