

Associated companies

Associated companies rules as they apply to small companies' rate of corporation tax are to be changed with effect from 1 April 2008.

A company is an 'associated company' of another for this purpose if one of the two has 'control' of the other or both are under the control of the same person or persons. 'Control' is defined in ICTA 1988, s 416:

"The ability to exercise or to acquire control, whether direct or indirect, over the company's affairs. It includes the possession of, or right to acquire:

- (a) the greater part of the share capital or issued share capital; or
- (b) the greater part of the voting power; or
- (c) so much of the issued share capital as would give the right to receive the greater part of the company's income, were all that income distributed; or
- (d) rights to the greater part of the company's assets in a distribution on a winding-up or in any other circumstances.

The definition of 'control' will be amended to ensure that the rights or powers held by business partners will be attributed only when 'relevant tax planning arrangements have at any time had effect in respect of the taxpayer company'. 'Relevant tax planning arrangements' will be defined as arrangements which involve the shareholder or director and the partner and secure a tax advantage by virtue of greater relief under section 13 of ICTA 1988.