EXPLANATORY MEMORANDUM TO

THE CORPORATION TAX (TREATMENT OF UNRELIEVED SURPLUS ADVANCE CORPORATION TAX) (AMENDMENT) REGULATIONS 2026

2026 No. 196

1. Introduction

1.1 This Explanatory Memorandum has been prepared by His Majesty's Revenue and Customs ("HMRC") and is laid before the House of Commons by Command of His Majesty.

2. Declaration

2.1 Dan Tomlinson MP, Exchequer Secretary to the Treasury, confirms that this Explanatory Memorandum meets the required standard.

2.2 James Konya, Deputy Director for Corporation Tax at HMRC, confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Eva Upali at HMRC can be contacted by email at the following address with any queries regarding the instrument: ACTreform@hmrc.gov.uk.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This instrument amends the Corporation Tax (Treatment of Unrelieved Surplus Advance Corporation Tax) Regulations 1999 (S.I. 1999/358) ("the 1999 regulations"). The 1999 regulations were introduced following abolition of the Advance Corporation Tax ("ACT") regime to ensure that any unrelieved surplus ACT balances could still be accessed to broadly the same extent had the ACT regime continued. This was achieved through the introduction of the shadow ACT rules which involved a notional calculation of ACT paid on distributions made after 5 April 1999. This instrument amends the shadow ACT provisions and cancels all remaining shadow ACT balances. This affects fewer than 100 companies that continue to report unrelieved surplus ACT balances in their company tax returns.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The instrument amends the rules that limit the amount of unrelieved surplus ACT that can be set off against (i.e. deducted from) a company's corporation tax liability,

removes the use of shadow ACT, extinguishes any remaining balances of shadow ACT, and updates the obsolete legislative references in the 1999 regulations.

5.2 Prior to 1999, ACT was paid by UK companies on qualifying distributions made in an accounting period. The ACT paid could be set off against corporation tax paid in an earlier accounting period, surrendered to a subsidiary company, or set off against corporation tax payable for the current accounting period. If the ACT could not be set off, it was carried forward for set off against corporation tax in future accounting periods as unrelieved surplus ACT.

5.3 When the ACT regime was abolished in 1999, it was estimated that companies had around £7bn of unrelieved surplus ACT balances. Twenty-six years after the ACT regime was abolished, the shadow ACT rules have served their purpose to ensure that set-offs were maintained at consistent levels. However, there are still companies with significant balances of unrelieved surplus ACT.

What was the previous policy, how is this different?

5.4 In order to enable the continued utilisation of unrelieved surplus ACT balances, the shadow ACT rules were introduced and designed to maintain relief at pre-abolition rates. This instrument removes the shadow ACT rules (and use of shadow ACT) and amends remaining rules, allowing companies to speed up utilisation of their remaining unrelieved surplus ACT balances.

6. Legislative and Legal Context

How has the law changed?

6.1 The Corporation Tax (Treatment of Unrelieved Surplus Advance Corporation Tax) Regulations 1999 (S.I. 1999/358) allowed unrelieved surplus ACT balances to be accessed to broadly the same extent as would have been the case had the ACT regime not been abolished. These rules introduced the shadow ACT regime which involved a notional calculation of ACT paid on distributions made after 5 April 1999.

6.2 Relief for unrelieved surplus ACT was capped at 20% of a company's profits for the accounting period but this was reduced by any shadow ACT. If the shadow ACT did not exhaust the 20% limit, the unrelieved surplus ACT could be set off against corporation tax liabilities for that accounting period. If shadow ACT exceeded the 20% limit, no relief for unrelieved surplus ACT was possible and the surplus shadow ACT was either carried back (displacing previously set-off unrelieved surplus ACT) or carried forward and treated as shadow ACT of subsequent accounting periods.

6.3 This instrument removes the shadow ACT rules and extinguishes shadow ACT balances, simplifying relief and reducing the administrative burden for companies with unrelieved surplus ACT balances.

Why was this approach taken to change the law?

6.4 This is the only possible approach to make the necessary changes. This instrument amends the Corporation Tax (Treatment of Unrelieved Surplus Advance Corporation Tax) Regulations 1999 (S.I. 1999/358) which provides for the set off of unrelieved surplus ACT.

7. Consultation

Summary of consultation outcome and methodology

7.1 A consultation has not taken place as this instrument lifts a restriction on the utilisation of unrelieved surplus ACT balances and is wholly beneficial to affected companies.

8. Applicable Guidance

8.1 Guidance will be published in the Company Taxation Manual in due course.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A Tax Information and Impact Note covering this instrument has been published on the GOV.UK website[1].

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because the measure only applies to the small number of companies that still have balances of unrelieved surplus ACT.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because this only affects companies.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 Consideration will be given to monitoring this measure through information collected from return data and kept under review through communication with affected taxpayer groups.

10.2 The instrument does not include a statutory review clause because it amends United Kingdom tax legislation and therefore falls within the exceptions at section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

[1] Tax Information and Impact Note: http://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).