

8. CORPORATE TAXATION

A. INTRODUCTORY NOTE

1. The tables in this section are derived mainly from data on corporation tax assessments and payments, and on returns of qualifying distributions, franked investment income and annual payments. Two tables (table 8.14 and 8.15) are based on petroleum revenue tax assessments.

B. CORPORATION TAX

2. Corporation tax falls on the income and chargeable gains (collectively the "profits") of companies. A company means any body corporate (including public corporations) or unincorporated association (including industrial and provident societies, clubs and trade associations) but not a partnership, a local authority or local authority association. For realisations made before 17 March 1987, the amount of chargeable gains is reduced by the appropriate fraction - see paragraph 8 of the notes on Section 11 (Capital gains tax). Corporation tax, which was introduced by the Finance Act 1965, is payable 9 months after the end of the company's accounting period or within one month of the issue of an assessment, whichever is the later. However, some companies which have been carrying on the same trade since before April 1965 were, until recently, able to keep the due date of 1 January in the year following the financial year in which their accounting period ended. The provisions of the Finance Act 1987 brought the due dates of these companies into line with the majority over a three year period. Special provisions have always been in force for most building societies but they are also being phased out. In very broad terms the 9-month lag will apply to all accounting periods ending in financial year 1990-91. The various rates of corporation tax and capital gains relief since April 1968 are shown at Appendix A.4.

3. The Finance Act 1972 introduced an imputation system of corporation tax with effect from April 1973 (paragraph 6 of the notes on Section 1 describes the system in operation prior to this), which ensures that, for each company, the same rate of corporation tax applies to their total profits, whether retained or distributed. Income tax is not charged on dividends but when any qualifying distribution (normally a dividend) is made, advance corporation tax (ACT) is payable by the company and this serves as a tax credit to the shareholders. The ACT payment may ultimately be set against the corporation tax liability of the company, initially for the accounting period in which the distribution was made or, if that is inadequate, against the liability of another year. The rates of ACT are shown in Appendix A.4.

4. Double taxation relief. A company resident in the United Kingdom is entitled to claim credit against the United Kingdom corporation tax payable on income or chargeable gains from any foreign source, for foreign tax paid on the same income or gains. The relief may be due either under a double taxation agreement or under unilateral relief provisions. More details are given in the Board's booklets *Corporation Tax* (pamphlet IR18) and the supplements, and *Double Taxation Relief* (pamphlet IR6).

5. A fuller description of corporation tax as originally enacted in 1965 appears on pages 85 to 88 of the *112th Report of the Commissioners of Inland Revenue* (Cmnd 4262) and the change to the "imputation" system made by Finance

Act 1972 is explained on pages 5 and 6 of the *115th Report* (Cmnd 5168). The system is also described in the *Green Paper on Corporation tax* (Cmnd 8456). For a description of other taxes on profits, now no longer charged, see *Inland Revenue Statistics 1975* paragraphs 30-40.

C. PETROLEUM REVENUE TAX

6. Petroleum revenue tax (PRT) is charged on the profits of winning oil and gas under licence in the United Kingdom, its territorial waters and designated areas of its continental shelf. The charge is on the landed value of oil and gas, less royalties, supplementary petroleum duty, the expenses incurred in finding, extracting, landing it and putting it into a saleable condition, and other reliefs described below. The allowable PRT expenses are operating costs for the field including capital expenditure but not interest. The tax is charged on profits arising in each 6 month chargeable period and advance payments of PRT (see paragraph 9) are creditable in full against PRT. PRT is charged on each field separately and in general a company cannot defer paying tax on the profits of one field by off-setting against those profits the development costs of another field. However, certain types of exploration and appraisal expenditure are allowed immediate PRT relief and following the 1987 Budget 10 per cent of development expenditure in new offshore fields outside the Southern Basin of the North Sea can be set against PRT liabilities in other fields. The rates at which PRT has been charged are:

1975 - 1978	45 per cent
1979	60 per cent
1980 - 1982	70 per cent
1983 - 1990	75 per cent

7. Apart from the 100 per cent relief for expenditure and certain loss relief provisions, the following additional reliefs are currently given:

- i. Uplift-a supplement of 35 per cent is given on qualifying expenditure (broadly, initial exploration and development expenditures) up to the "pay-back" period for each field: that is the period in which cumulative field income first exceeds cumulative allowable expenditure (including uplift), royalty, supplementary petroleum duty and advance petroleum revenue tax. The restriction does not apply to any expenditure incurred before 1 January 1981 or incurred before 1 January 1983 in pursuance of a contract entered into before 1 January 1981. A supplement of 75 per cent was given for chargeable periods ending before January 1979 and there was a transitional rate of 66 $\frac{2}{3}$ per cent for certain expenditure incurred after 1 January 1979. Uplift is intended to compensate for the fact that interest and other costs of financing are not deductible for PRT purposes.

- ii. Oil Allowance-an oil allowance currently equal in value to 0.25 million tonnes of oil (or to the PRT profits for the field if less) is given to each field for each 6 month chargeable period, subject to a cumulative limit of 5 million tonnes per field. This allowance has been doubled for offshore

fields outside the Southern Basin of the North Sea which were approved on or after 1 April 1982 (ie 0.5 million tonnes per chargeable period up to a cumulative limit of 10 million tonnes per field). The allowance for Southern Basin and onshore fields approved on or after 1 April 1982 was reduced to 0.125 million tonnes, with a cumulative limit of 2.5 million tonnes in the Finance Act 1988. For chargeable periods ending before January 1979 the oil allowance was 0.5 million tonnes, for all fields, with a cumulative limit of 10 million tonnes.

- iii. Safeguard—there is a provision which gives automatic protection for the periods up to “pay-back” and for half as many periods again. In any of these periods, if the PRT charge would otherwise reduce the return on a field before corporation tax to less than 15 per cent of cumulative “upliftable” expenditure measured on the basis of historical cost, the charge is cancelled. A tapering provision ensures that the PRT charge will not be more than 80 per cent of the amount (if any) by which the return exceeds 15 per cent of the capital expenditure to date.

8. Supplementary petroleum duty (SPD) was charged from 1 January 1981 until 31 December 1982 at a rate of 20 per cent on gross revenues from oil and gas won under licence in the United Kingdom or on the United Kingdom Continental Shelf, less an allowance equal to the value of 0.5 million tonnes of oil per field per 6 month chargeable period. The duty will be refundable at the end of field life if the field has not reached profitability.

9. Advance petroleum revenue tax (APRT) was charged from 1 January 1983 until 31 December 1986. The charge was based on gross profits and calculated in a similar way to SPD but with the following tax rates:

1 January 1983	- 30 June 1983	20 per cent
1 July 1983	- 31 December 1984	15 per cent
1 January 1985	- 31 December 1985	10 per cent
1 January 1986	- 31 December 1986	5 per cent

10. Payments of APRT are credited pound for pound against any PRT liability currently due or carried forward to be credited against future PRT. Any payments which have not been offset against PRT after 5 years from the first APRT payment are repaid. However, the Advance Petroleum Revenue Tax Act 1986 introduced earlier repayments for fields which had not reached “pay-back” before 1 July 1986, subject to a limit of £15 million for each participator in the field.

D. NOTES ON TABLES

11. Tables 8.1 to 8.13 relate to cases within the scope of corporation tax, as defined in paragraph 2 above.

12. The analyses by industry conform as far as possible with the Standard Industrial Classification (SIC) of 1980. However, it does not follow that the figures for each industry are directly comparable with statistics produced by other departments (eg production statistics) where the unit of classification may be different (eg the establishment as opposed

to the company which may cover more than one establishment). A table showing the definition of the industries used in this publication in terms of the Divisions and Classes of the 1980 SIC is given in Appendix B.

Tables 8.1 to 8.3

13. These tables provide figures for the latest years for which reasonably reliable information is available. The tables are based on a sample representing all cases for which an assessment has been or is expected to be made. The sample data are from 3 separate sources:

- i. tax assessments where they have been agreed with HM Inspector of Taxes;
- ii. taxpayers' own tax computations as submitted to HM Inspector of Taxes and provisionally amended by him pending final agreement;
- iii. extrapolation from agreed assessments for past years or for related cases;

The first two of these sources are used where possible and are more reliable than the third. Large cases are covered more than proportionately by the first two sources.

14. These tables include figures relating to the assessing period, usually a 12-month period, ending in the financial year shown. The tables include the trading profits, other income (including gains), allowances and reliefs of cases within the scope of corporation tax. Gross trading losses are not shown in the table. Where losses made in the current or an earlier period are set against income of the current period those losses are included in deductions.

15. The figures for capital allowances are the amounts which the taxpayer may claim in the period, less balancing charges. For any one case this figure, or the stock relief, or the total of both may exceed the gross trading profit, leading to a loss for tax purposes. In these cases a zero rather than negative figure is included in the net trading profits column.

16. The column ‘number of cases’ in these tables includes only those cases with positive amounts of income (gross trading income, or other income or gains). Cases with gross trading losses and no other income are excluded as are companies still regarded by the district as, in some sense, ‘live’ although without any reported income for the year. The total number of both these types of cases in 1987-88 was about 310,000.

Tables 8.4 to 8.6

17. Tables 8.4 and 8.5 present analyses of mainstream corporation tax payments made in recent years. These are payments made during the course of the financial year shown, in respect of liabilities arising in earlier periods. The bulk of these payments relate to liabilities arising in the immediately preceding calendar years. The figures shown here are gross of repayments so that the total differs from that shown in table 1.2 by the value of repayments made during the year. The provisions of the Finance Act, 1987 concerning the calculation of due dates (referred to in para. 2 above) began to take effect in 1989-90. In brief, their effect was to bring forward some companies' due dates from 1990-91 to 1989-90 and to leave

some building societies without a due date in 1989-90.

Table 8.6 shows the changes in the incidence of payments between 2 years. There is a considerable amount of movement into and out of tax liability in any one year and this table gives an indication of that movement. Tables 8.4 to 8.6 have been produced by grossing up information on the sample of corporation tax cases referred to in paragraph 13 above.

Tables 8.7 to 8.9

18. In these tables estimates are given of the statutory capital allowances claimed by all cases within the scope of corporation tax. The totals here differ from those given in tables 8.1 to 8.3 because they include allowances claimed by companies incurring trading losses in the period (see paragraph 16 above). Although claimed in the year they may not necessarily be set against profits in the tax assessment for that year. Unused capital allowances may be set against profits in earlier or later years but these movements between years are not reflected in these tables. The estimates of totals are based upon the same sample used for tables 8.1 to 8.4. The breakdown into different types of asset are based upon a smaller sample of companies.

19. Capital allowances provide a variety of reliefs from corporation tax in respect of expenditure on certain types of capital asset incurred for the purposes of carrying on a trade. The types of capital asset which qualify for relief and the rates of allowances since 1965 are given in Appendix A.3.

Tables 8.10 to 8.13

20. These tables show companies' franked payments and franked investment income (ie receipts of franked payments), annual payments made and received, and the tax thereon - advance corporation tax and income tax. Franked payments are the total value of distributions made by companies plus the advance corporation tax due on those distributions. The major item classed as a distribution is a company's dividends (including capital dividends). Annual payments, from which income tax has to be deducted, include yearly interest and patent royalties, annuities, certain rents and easements, and payments under deed of covenant.

21. Distributions are not subject to corporation tax in the hands of a recipient company. Franked investment income may be set off against franked payments by a company before calculating the amount of advance corporation tax payable. Similarly where a company receives income from which income tax has been deducted in any accounting period, it may set off that income tax against its own liability to income tax on annual payments. Unlike distributions, income from which income tax has been deducted forms part of the company's corporation tax assessment and the income tax deduction may be set off against the corporation tax liability on the total income, provided it has not already been used to reduce the company's income tax liability on annual payments.

22. Whilst liability to corporation tax is assessed annually in accordance with a company's own accounting period, notification of distributions and annual payments, and payment of the associated advance corporation tax and income tax, is dealt with quarterly. The return period for the notification of these payments is normally a calendar quarter but provision is made for other return periods where the company's accounting

period does not commence immediately after or end with a calendar quarter. The figures in these tables relate to payments made (and tax due on those payments) in the 12 months ending on 31 March. There are therefore timing differences between these figures and those provided in tables 8.1 to 8.9.

23. Intra Group Dividends. A parent company and its subsidiary (if both are resident in the United Kingdom) may elect jointly that the subsidiary shall pay dividends to the parent or to fellow subsidiaries without accounting for advance corporation tax. A similar but more restricted election is available for members of a consortium. Where dividends are paid in accordance with such an election the amounts are not included in these tables. If a company chooses to account for advance corporation tax despite this election the related franked payments and franked investment income are included in tables 8.10 and 8.12.

24. Tax Credit Paid to Non-residents (table 8.10). Where dividends are paid to non-residents who are covered by a double taxation agreement the company may pay a lower rate of tax on the complete franked payment than the United Kingdom rate. In these cases the company may be authorised to pay to the non-resident the difference between the full tax credit (ACT) and the reduced rate applying under the double taxation agreement.

25. Repayments (tables 8.10 and 8.11). Advance corporation tax and income tax must be accounted for quarterly rather than annually. If in a return period franked payments exceed franked investment income, or income tax on payments made exceeds income tax on payments received, a payment of tax is due to the Inland Revenue in respect of that return period. If the position is reversed in a later return period within the same accounting period of the company, the company is entitled to a repayment of tax.

26. Annual Payments to Non-residents (table 8.11). Income tax is deducted from annual payments at source and accounted for to the Inland Revenue. Where the annual payment is made to a non-resident the deduction is often at a reduced rate under the terms of a double taxation agreement.

Tables 8.14 and 8.15

27. These tables relate to petroleum revenue tax assessments made by 30 June 1990 for chargeable periods ending on or after 30 June 1984, including estimated assessments which may subsequently be revised. The figures do not include fields in production which have not yet been assessed to petroleum revenue tax.

28. In table 8.14, "gross profit" consists of the proceeds of sale (the market value of oil is used in certain circumstances) with an adjustment for the change over the period in market value of oil held in stock. "Other chargeable receipts" include tariff receipts (net of tariff receipts allowance) and receipts from the disposal or loss of certain assets.

29. The licence debit is the element in the PRT computation which broadly allows for royalty payments to the Secretary of State for Energy. There is a preliminary deduction for the royalties payable in respect of each chargeable period and this is adjusted in subsequent periods to the amounts actually paid. The deduction only takes into account cash payments. Royalty taken in kind is already deducted in the determination

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of gross profits. For chargeable periods covered by the table it also includes any licence payments other than royalties covered by Section 118 of the Finance Act 1981. SPD debits relate to amount allowed in 1984 in respect of SPD on production from earlier years. The amounts allowed were £2 million or less in each period. The figures for expenditure in a particular chargeable period refer to expenditure deducted against profits in an assessment for the period and include, where applicable, uplift on that expenditure.

30. Gross profits from oil and gas production in the chargeable periods up to the end of 1983 were £58,219 million and net petroleum revenue tax payable was £13,001 million.

31. Table 8.15 shows the numbers of oil and gas fields and tax assessed by liability to petroleum revenue tax and size of assessment in each chargeable period. An oil and/or gas field, as used in the table, means a "single petroleum geological structure". The extent of a field is determined by the Secretary of State for Energy and only covers areas licensed for petroleum production; for an off-shore field, it excludes portions outside the United Kingdom Continental Shelf. The tax assessed on the field is the sum of assessments on all companies with an interest in the field; these assessments are sometimes reduced by expenditure outside the field (see paragraph 6). Some of the ranges in the table have been aggregated to preserve taxpayer confidentiality. The table shows a lower number of fields assessed on either half of 1989 than on the second half of 1988: this is because of late assessments still to be made on some fields with no current liability (as noted in paragraph 27).

TABLE 8.1
Corporation Tax
 Computation of liability: financial year 1985-86¹
 Number, income, allowances, deductions and tax, by industry

Numbers: actual; Amounts: £ million

Industry	Number of cases	Gross trading profits	Capital allowances ²	Net trading profits	Other income and gains
Agriculture, forestry, fishing	10,848	385	180	241	87
Energy and water supply	1,379	14,605	4,496	10,386	2,682
Extraction, metal mfg, chemicals	12,081	4,040	1,516	2,720	1,142
Metal goods and engineering	56,974	7,790	2,255	5,882	1,408
Other manufacturing	45,670	6,684	2,158	4,774	1,594
Construction	58,512	2,170	631	1,647	692
Distribution and repairs	106,752	7,893	2,241	5,926	2,677
Hotels and catering	30,020	626	237	435	245
Transport and communication	22,161	5,846	2,468	3,634	697
Banking, finance and insurance	33,888	10,937	3,458	8,359	9,134
Business services	90,231	3,443	1,389	2,394	3,084
Other services	53,047	1,535	477	1,126	450
Overseas activities	1,097	1,854	229	1,711	2,008
Not classified	2,705	29	9	27	37
Total	525,365	67,837	21,744	49,262	25,937
Percentage of sample data from agreed assessments or tax computations	86%	97%	96%	97%	84%

Industry	Deductions allowed	Income chargeable to tax	ACT set-off	Other reliefs set against tax	Tax payable
Agriculture, forestry, fishing	133	195	7	9	64
Energy and water supply	4,432	8,635	810	340	2,406
Extraction, metal mfg, chemicals	1,557	2,304	288	219	462
Metal goods and engineering	3,406	3,884	426	121	1,058
Other manufacturing	2,536	3,831	466	192	953
Construction	1,208	1,131	68	56	344
Distribution and repairs	2,913	5,689	456	460	1,446
Hotels and catering	336	344	22	13	107
Transport and communication	2,355	1,976	251	41	508
Banking, finance and insurance	8,810	8,684	591	769	2,240
Business services	2,933	2,545	191	110	750
Other services	668	908	47	46	285
Overseas activities	586	3,133	63	1,170	73
Not classified	34	31	-	4	8
Total	31,907	43,290	3,686	3,550	10,704
Percentage of sample data from agreed assessments or tax computations	90%	95%	95%	95%	95%

¹The figures relate to the earnings of accounting periods ending in the financial year 1985-86. In aggregate they correspond approximately to the earnings of the calendar year 1985.

²Capital allowances less balancing charges set off against trading profits.

TABLE 8.2
Corporation Tax
 Computation of liability: financial year 1986-87¹
 Number, income, allowances, deductions and tax, by industry

Numbers: actual; Amounts: £ million

Industry	Number of cases	Gross trading profits	Capital allowances ²	Net trading profits	Other income and gains
Agriculture, forestry, fishing	10,680	415	125	298	123
Energy and water supply	1,575	11,567	3,901	8,267	2,871
Extraction, metal mfg, chemicals	12,010	4,691	1,346	3,442	1,456
Metal goods and engineering	55,290	8,469	2,065	6,633	1,928
Other manufacturing	44,614	7,260	1,554	5,794	1,816
Construction	59,542	2,611	521	2,130	630
Distribution and repairs	105,860	8,917	1,782	7,316	2,618
Hotels and catering	29,296	720	198	543	330
Transport and communication	22,230	6,868	1,688	5,326	762
Banking, finance and insurance	30,974	12,001	2,223	10,026	8,956
Business services	96,033	4,579	1,192	3,557	3,785
Other services	52,236	1,657	418	1,303	599
Overseas activities	1,131	1,465	287	1,314	1,344
Not classified	6,807	111	29	98	139
Total	528,278	71,331	17,329	56,047	27,357
Percentage of sample data from agreed assessments or tax computations	82%	94%	95%	94%	80%

Industry	Deductions allowed	Income chargeable to tax	ACT set-off	Other reliefs set against tax	Tax payable
Agriculture, forestry, fishing	156	265	11	8	78
Energy and water supply	4,333	6,805	225	403	1,632
Extraction, metal mfg, chemicals	1,757	3,141	375	170	610
Metal goods and engineering	2,891	5,670	639	146	1,293
Other manufacturing	2,352	5,258	522	182	1,230
Construction	1,008	1,752	99	56	490
Distribution and repairs	2,821	7,113	525	397	1,686
Hotels and catering	382	491	27	13	141
Transport and communication	1,793	4,295	78	36	1,367
Banking, finance and insurance	8,514	10,468	601	767	2,441
Business services	3,637	3,705	254	95	1,014
Other services	649	1,253	68	67	335
Overseas activities	673	1,985	53	659	43
Not classified	107	130	1	12	34
Total	31,073	52,331	3,478	3,011	12,394
Percentage of sample data from agreed assessments or tax computations	86%	92%	89%	90%	93%

¹The figures relate to the earnings of accounting periods ending in the financial year 1986-87. In aggregate they correspond approximately to the earnings of the calendar year 1986.

²Capital allowances less balancing charges set off against trading profits.

TABLE 8.3
Corporation Tax
 Computation of liability: financial year 1987-88¹
 Number, income, allowances, deductions and tax, by industry

Numbers: actual; Amounts: £ millions

Industry	Number of cases	Gross trading profits	Capital allowances ²	Net trading profits	Other income and gains
Agriculture, forestry, fishing	10,709	447	121	327	129
Energy and water supply	1,596	11,108	3,753	7,696	2,361
Extraction, metal mfg, chemicals	11,521	5,187	1,397	3,849	1,342
Metal goods and engineering	52,610	8,642	2,055	6,918	1,528
Other manufacturing	43,916	8,054	1,739	6,439	1,915
Construction	61,387	3,444	617	2,892	687
Distribution and repairs	103,459	10,449	2,042	8,538	2,766
Hotels and catering	27,288	798	239	595	231
Transport and communication	22,255	7,683	2,306	5,536	893
Banking, finance and insurance	33,602	10,906	2,474	8,943	8,205
Business services	100,958	5,689	1,637	4,486	4,064
Other services	53,042	2,142	422	1,760	773
Overseas activities	1,226	1,459	259	1,228	2,167
Not classified	12,926	276	126	218	162
Total	536,495	76,284	19,187	59,425	27,223
Percentage of sample data from agreed assessments or tax computations	82%	84%	82%	84%	68%

Industry	Deductions allowed	Income chargeable to tax	ACT set-off	Other reliefs set against tax	Tax payable
Agriculture, forestry, fishing	148	308	12	9	88
Energy and water supply	3,818	6,239	177	274	1,926
Extraction, metal mfg, chemicals	1,382	3,809	353	183	800
Metal goods and engineering	2,356	6,090	516	118	1,506
Other manufacturing	2,250	6,104	559	166	1,417
Construction	975	2,604	144	65	706
Distribution and repairs	2,994	8,310	620	249	2,051
Hotels and catering	317	509	29	16	136
Transport and communication	1,613	4,816	72	35	1,582
Banking, finance and insurance	8,240	8,908	367	501	2,271
Business services	3,442	5,108	287	112	1,396
Other services	731	1,802	75	65	493
Overseas activities	621	2,774	46	812	115
Not classified	136	244	6	9	71
Total	29,023	57,625	3,263	2,614	14,558
Percentage of sample data from agreed assessments or tax computations	74%	81%	78%	78%	82%

¹The figures relate to the earnings of accounting periods ending in the financial year 1987-88. In aggregate they correspond approximately to the earnings of the calendar year 1987.

²Capital allowances less balancing charges set off against trading profits.