1982

3. COMPANY INCOMES

A. INTRODUCTORY NOTE

1. The tables in this section are derived mainly from data on corporation tax assessments and on returns of qualifying distributions, franked investment income and annual payments. One table (Table 3.12) is based on petroleum revenue tax assessments. Further statistics on company incomes appear in the Green Paper on *Corporation Tax* (Cmnd 8456).

B. CORPORATION TAX

2. Corporation tax falls on the income and chargeable gains (collectively the 'profits') of companies. A company means any body corporate or unincorporated association (including industrial and provident societies, clubs and trade associations) but not a partnership, a local authority or local authority association. The amount of chargeable gains is reduced by the appropriate fraction – see paragraph 31 of the notes on Section 4 (Capital and Wealth). The tax was introduced by the Finance Act 1965, prior to which companies were liable to income tax on their total income and to profits tax as well. Corporation tax is payable 9 months after the end of the company's accounting period or within 1 month of the issue of an assessment, whichever is the later. However under the system applying before the Finance Act 1965, all companies liable to tax had a due date of 1 January in the year following the financial year in which their accounting period ended. Companies continuing within the charge to corporation tax in respect of the trade which they carried on before April 1965 are permitted to keep the same interval for payment, so there is still a large proportion of corporation tax paid on 1 January each year. The various rates of corporation tax and capital gains relief since 1965 are shown in Appendix A4.

3. Between 1966-67 and 1972-73 companies were also liable, in addition to the corporation tax payable on their profits, to income tax at the standard rate deductible from any income they distributed. Substantial changes were made in April 1973 when the imputation system of corporation tax introduced by the Finance Act 1972 took effect. A single rate of corporation tax continues to apply to company profits, subject to special arrangements for small companies, for insurance companies and for building societies, but income tax is no longer deducted from dividends. Instead, when a qualifying distribution (normally a dividend) is made, advance corporation tax (ACT) is payable which may be set against the corporation tax assessed on the profits of the accounting period in which the distribution is made so as to reduce the amounts of tax remaining to be paid. The rates of ACT are shown in Appendix A4. The sum of the distribution and ACT is called a franked payment. The recipient of the distribution is normally entitled to a tax credit equivalent to the ACT paid.

4. 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 IR 18) and supplements, and *Double Taxation Relief* (pamphlet IR6).

5. A fuller description of corporation tax as originally enacted 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). Further details are given in pamphlet IR 18. 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 and on the United Kingdom continental shelf. The charge is on the landed value of oil and gas less royalties (as 12½ per cent of the landed value of production), supplementary petroleum duty and the expenses incurred in finding, extracting, landing it and putting it into a saleable condition. Supplementary petroleum duty (SPD) was introduced in the Finance Act 1981 initially for the three chargeable periods 1 January 1981 to 30 June 1982. (This was to enable an overall review of the North Sea oil taxation system including consideration of alternatives to SPD to be made before a permanent change was introduced.) It is charged at a rate of 20 per cent on gross revenues from oil and gas won under licence in the United Kingdom or United Kingdom continental shelf less an allowance equal to the value of the 500,000 tonnes of oil, or the equivalent volume of gas, production per field per 6 month period. The duty is refundable if the field never reaches profitability. The allowable PRT expenses are field costs and include capital expenditure but not interest. The tax is charged, currently at the rate of 70 per cent on field profits arising in each 6 month chargeable period. Apart from the 100% relief for expenditure and certain loss relief provisions, the following reliefs are currently given:

i. *Uplift* – a supplement of 35 per cent is given on certain (broadly capital) expenditure, notably expenditure on bringing the field into production. The Finance Act 1981 restricted uplift to qualifying expenditure incurred before the participator breaks even in the field ie when his cumulative incomings from a field first exceed his cumulative outgoings. The restriction does not apply to any expenditure incurred before 1 January 1981 or which is incurred before 1 January 1983 in pursuance of a contract entered into before 1 January 1981.

ii. *Oil allowance* – an oil allowance currently equal in value to ¼ 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.

iii. *Safeguard* – where PRT profits for any chargeable period (before deduction of any upliftable expenditure) are less than 15 per cent of the total upliftable expenditure allowed to date, the PRT charge is cancelled. Above this level the PRT charge may not exceed 80 per cent of the excess of profits over 15 per cent of total upliftable expenditure. The Finance Act 1981 restricted the relief to a period half as long again as it takes the participator to break even in the field. This restriction applied from 1 January 1981.

7. Proposals for further changes to the North Sea fiscal regime were included in the 1982 Finance Bill but these do not apply to data in this volume. Details of the rates of petroleum revenue tax, rates of uplift and the oil allowance for chargeable periods up to the end of 1981 are given in Appendix A7.

D. NOTES ON THE TABLES

8. The tables include all data to hand relating to North Sea oil and gas activities. They exclude data relating to public corporations.

9. The analyses by industry conform as far as possible with the Standard Industrial Classification (SIC) of 1968. However, it does not follow that the figures for each group are directly comparable with other statistics produced by other departments (eg production statistics) where the unit of classification may be different (eg the establishment as opposed to the financial unit which may cover more than one establishment). A table showing the definition of the trade groups used in this publication in terms of the Minimum List Headings of the 1968 SIC is given in Appendix B.

Tables 3.1. to 3.4

10. These tables provide figures for the latest years for which reasonably reliable estimates can be made. They relate to assessments processed by the end of 1981 including estimated assessments where agreement had not yet been reached. Because of the presence in these tables of those estimated assessments (which are subject to amendment when agreement is reached) and the considerable time taken to reach that agreement for some large companies, revisions to the figures in later years can sometimes be considerable. The tax figures quoted here are accruals ie tax falling due from income arising in the particular year; the actual payment is made in a later period, as described in paragraph 2 above. They cannot therefore be directly compared with the financial year figures of tax *receipts* in table 1.1.

11. The figures of tax relate to corporation tax assessed, after deducting double taxation relief and income tax borne by deduction at source from income received and after other tax adjustments. The tax figures are before setting off advance corporation tax.

12. Tables 3.2 and 3.3 show details of income, capital allowances and stock relief, losses and other charges and deductions taken into account in arriving at the net amount chargeable to corporation tax in agreed cases, together with the net amount chargeable in estimated cases. The number of assessments, the amounts set off for double taxation relief etc and the amount of corporation tax refer to agreed and estimated cases combined.

Tables 3.5 to 3.7

13. In these tables estimates are given of the statutory capital allowances due for the year. The figures do not include any element of unused allowances brought forward from earlier years nor do they exclude those carried forward to later years. Consequently they do not represent the amounts actually allowed against profits in the assessment. The columns in the tables showing totals are based on comprehensive assessments data: the analyses are based on sample information.

14. 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 A3.

15. Although, in general, investment allowances ceased to be available in respect of expenditure incurred on or after 17 January 1966, they were claimed in some instances on later payments due under a legally binding contract entered into before that date.

Tables 3.8 to 3.11

16. These tables show franked and annual payments made by companies, franked payments received by them (referred to as franked investment income) and annual payments received, advance corporation tax paid under the imputation system of corporation tax, and income tax deducted from annual payments. Franked payments consist of distributions and 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 deeds of covenant.

17. 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 so as to reduce the amount of advance corporation tax payable. Similarly where a company receives income under deduction of income tax in any accounting period, it may claim to set off that income tax against its own liability of income tax on payments. Income received under deduction of tax is assessable to corporation tax on the company and any income tax suffered by deduction may be set off against the corporation tax liability on the income, provided it has not already been used to off-set the company's income tax liability.

18. Whilst liability to corporation tax is assessed annually and in accordance with a company's own accounting period, notification of distributions and annual payments, as well as accounting for advance corporation tax and income tax, is dealt with quarterly. A return period' for 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 four return periods which end in the first quarter of the calendar year.

There are therefore timing differences between these figures and those provided in tables 3.1 to 3.7.

19. Intra Group Dividends (table 3.8). 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 are shown as intra group dividends.

20. Tax Credit Paid to Non-residents (table 3.8). Dividends may be paid to non-residents who are covered by double taxation agreements by which they are entitled to 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 dividend plus the excess tax credit.

21. Repayments (tables 3.8 and 3.9). 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.

22. Annual Payments to Non-residents (table 3.9). 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.

Table 3.12

23. This table relates to petroleum revenue tax assessments made by 31 December 1981 including estimated assessments which may be subsequently revised. The figures do not include those fields in production but not yet assessed to petroleum revenue tax.

24. The licence debit is the element in the PRT computation which broadly allows for royalty payments to the Secretary of State for Energy. It only takes into account cash payments, and royalty taken in kind is already deducted in the determination of gross profits. For chargeable periods after 31 December 1980 it also includes any licence payments other than royalties covered by section 118 of the Finance Act 1981.

25. 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.

3.1

Company incomes

Analysis by industry: Number of assessments made / Net amount chargeable (NAC) / Corporation tax assessed — for the years 1975 – 1978[1]

See notes on page 35

Numbers: thousands; Amounts: £ million

Industry	1975			1976			1977			1978[2]		
	Numbers	NAC[3]	Tax	Numbers	NAC[3]	Tax	Numbers	NAC[3]	Tax	Numbers	NAC[3]	Tax
Agriculture and horticulture	8.9	46.4	21.7	9.2	55.4	26.7	9.6	59.9	28.5	10.4	61.1	28.4
Forestry and fishing	0.4	2.6	1.3	0.5	3.1	1.6	0.5	4.0	2.0	0.6	4.3	2.1
Mining and quarrying other than coal	0.9	44.8	22.1	0.9	65.5	32.6	1.0	116.2	59.5	1.1	178.6	91.8
MANUFACTURING												
Food	4.0	123.9	58.8	3.9	126.3	60.8	3.9	142.6	69.6	4.4	197.2	96.2
Drink	0.7	173.7	86.0	0.7	278.4	131.9	0.7	253.9	121.7	0.7	278.8	140.3
Tobacco	0.1	61.3	22.0	0.1	104.8	40.6	0.1	45.8	11.1	0.1	151.8	63.2
Chemical, oil and allied trades	3.5	283.6	114.6	3.4	422.6	170.4	3.6	517.6	219.1	3.9	524.9	232.5
Iron and steel	2.5	77.4	37.9	2.4	57.7	29.0	2.6	73.1	35.5	2.8	93.3	45.1
Non-ferrous metals	0.9	37.3	18.2	0.9	33.1	15.1	1.0	41.5	19.0	1.0	91.8	44.7
Electrical engineering and electrical goods	9.1	331.3	155.3	9.5	431.3	210.3	10.6	496.0	241.8	12.3	599.3	290.4
Shipbuilding and marine engineering	1.4	19.2	9.3	1.5	58.1	29.7	1.7	136.5	70.4	1.9	314.0	162.2
Vehicles	3.8	84.3	31.0	3.9	124.8	49.6	4.2	232.7	104.0	4.9	361.9	181.3
Other non-electrical engineering	20.3	320.0	152.7	21.0	464.5	222.1	23.4	495.7	236.5	27.0	603.4	299.4
Metal goods not elsewhere specified	8.1	133.5	64.3	8.1	126.2	60.9	8.6	139.6	68.1	9.5	165.4	79.6
Cotton	0.6	23.8	6.9	0.6	22.6	5.3	0.5	29.5	10.1	0.5	34.5	11.0
Wool	1.0	12.6	6.3	0.9	15.3	7.6	0.9	22.5	11.3	1.0	31.5	15.6
Other textiles	3.2	42.2	20.8	3.1	45.5	20.4	3.2	68.5	31.0	3.4	79.8	38.7
Leather, leather goods and fur	1.4	11.4	5.6	1.4	10.5	5.1	1.4	13.4	6.4	1.4	24.5	12.1
Clothing	6.7	72.2	34.7	6.6	63.8	30.1	6.9	79.7	37.0	7.5	121.4	58.6
Bricks, pottery and glass	3.3	159.5	72.2	3.3	179.5	81.9	3.5	189.5	87.9	3.7	278.8	117.9
Manufacturers of wood and cork	5.0	61.4	30.9	4.9	53.8	26.9	5.3	59.1	29.3	5.7	65.9	32.9
Paper and printing	11.4	170.7	78.0	11.6	249.4	112.0	12.5	326.5	158.2	13.8	391.6	194.8
Rubber manufacturing	0.8	23.5	10.4	0.8	44.8	17.4	0.8	47.4	19.1	0.9	46.0	19.8
Other manufacturing industries	4.8	62.6	27.8	4.8	67.8	30.1	5.2	82.7	37.5	5.9	101.2	47.8
TOTAL MANUFACTURING	92.6	2,285.4	1,043.7	93.4	2,980.8	1,357.2	100.6	3,493.8	1,624.6	112.3	4,557.0	2,184.1
Building and contracting	46.0	265.2	126.0	47.4	335.3	160.9	50.9	299.3	139.1	55.9	339.0	160.6
Road transport	10.3	42.0	20.4	10.7	43.1	20.6	11.3	47.0	22.5	12.6	66.3	31.8
Shipping	0.7	36.3	17.3	0.7	49.9	23.6	0.7	65.5	32.4	0.8	48.6	23.9
Other transport and communications (excluding railways), storage	6.2	75.4	35.2	6.4	106.3	49.5	7.0	115.6	54.3	7.9	132.2	64.5
Distributive trades (wholesale)	31.9	744.5	252.0	32.3	576.2	254.5	34.2	715.8	323.8	37.8	866.4	381.4
Distributive trades (retail)	38.0	564.1	282.5	37.8	574.4	276.5	39.9	791.8	394.7	44.5	962.3	483.7
Insurance banking and finance	67.2	1,859.4	645.5	66.9	2,895.6	887.8	69.7	3,452.3	1,144.8	77.7	3,651.8	1,198.4
Professional services	9.5	66.2	29.0	10.6	78.9	34.5	13.7	111.9	47.7	17.9	155.0	70.4
Entertainment and sport	16.8	81.1	39.7	16.9	96.4	48.5	17.4	113.2	55.4	19.4	162.4	80.0
Other services	68.1	228.6	104.5	68.3	398.1	164.1	72.5	477.9	201.6	81.7	777.3	358.6
Undertakings abroad	0.9	2,568.7	29.6	0.9	2,083.7	28.7	0.8	2,550.8	277.8	0.8	2,668.3	426.5
Finance abroad	0.2	179.1	18.5	0.2	215.1	22.2	0.2	185.7	37.2	0.2	227.4	32.4
TOTAL ALL INDUSTRIES	398.6	9,089.7	2,689.0	403.1	10,557.8	3,389.5	430.0	12,600.7	4,445.9	481.6	14,858.0	5,618.6

[1] Generally the figures relate to the earnings of accounting periods ending in the financial year to the following 31 March: in aggregate they correspond approximately to the earnings of the calendar year.
[2] Provisional.
[3] Figures for the net amount chargeable are after deducting debenture and other interest, but include capital gains as adjusted for corporation tax.