

## **Tax under consideration by UK-based and non-UK based businesses**

### **Request**

How much of the £25 billion of outstanding tax issues relates to:

- companies where the ultimate parent of the group is in the UK
- companies where the ultimate parent of the group is outside the UK

### **Response**

The £25 billion figure referred to relates to tax under consideration for businesses covered by HM Revenue & Customs' (HMRC's) Large Business Service (LBS). The LBS is responsible for the 770 largest businesses that pay a significant proportion of the total business taxes and duties that HMRC collects.

Tax under consideration is initially an estimate of a maximum potential additional tax liability before a full investigation of the specific facts has taken place, and analysis of relevant law, and before applying any reliefs or allowances. It is not actual tax either owed or unpaid. In many cases, when HMRC has looked at the full facts it becomes clear that there is no further liability at all. Experience is that when HMRC look across all relevant issues under enquiry, only around half of the estimate of tax under consideration is tax actually chargeable.

The £25 billion figure quoted is not an annual figure. It is a snapshot as at a particular date, including enquiries which may have been open for several years. HMRC use tax under consideration as a tool to help to direct resources where HMRC think there is the most potential tax at risk, so that HMRC do not focus efforts on unproductive small issues. This approach has proved highly successful, as evidenced by the progressive rise in the LBS's compliance yield since 2005-06.

For Corporation Tax purposes, a company which is resident in the UK is normally subject to tax on the whole of its profits on a worldwide basis (subject to the exemption of some types of foreign profits and relief for double taxation). This treatment applies whether the company is ultimately owned by a UK resident parent company or an overseas parent. A company which is not resident in the UK is only liable to Corporation Tax if it carries on a trade in the UK through a permanent establishment. A non-resident company may also be liable to UK Income Tax on non-trading income. Again, this is true regardless of whether the parent company is resident in the UK or elsewhere.

It is therefore not possible to draw a simple distinction between 'British-based' and 'overseas-based' companies for tax purposes. HMRC has however looked to see whether the recorded location of the ultimate parent of each group of companies is within the UK or outside the UK. HMRC has taken 'company' as referring to a 'business' as recorded on the LBS system - in most cases a 'business' will actually be a group of companies.

On this basis, at 31 March 2011:

- 293 businesses where the recorded location of the ultimate parent of the group was in the UK had tax under consideration of £14.4 billion.
- 258 businesses where the recorded location of the ultimate parent of the group was outside the UK had tax under consideration of £11.1 billion.

These figures cover all taxes, including Corporation Tax, VAT, PAYE and National Insurance contributions.