

1989

8. COMPANY INCOMES

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. One table (table 8.14) is 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 are able (for the years covered in this issue) to keep the due date of 1 January in the year following the financial year in which their accounting period ended, 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 April 1966 are shown at Appendix A.4.

3. The Finance Act 1972 introduced an imputation system of corporation tax with effect from April 1973 (paragraph 4 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 - 1989	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% 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 $\frac{1}{4}$ 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 $\frac{1}{2}$ 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 2½ 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 ½ 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 participant in the field.

D. NOTES ON THE 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 1986-87 was about 300,000.

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 1.1 by the value of repayments made during the year. 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.

Table 8.14

27. This table relates to petroleum revenue tax assessments made by 30 June 1989 for chargeable periods ending on or after 30 June 1983, 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. Gross profits from oil and gas production in the chargeable periods up to the end of 1982 were £42,866 million and net petroleum revenue tax payable was £9,465 million.

28. 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 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. SPD debits relate to amount allowed in 1983 and 1984 in respect of SPD on production from earlier years. The amounts allowed were £2 million or less in each period.

30. 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.

TABLE 8.1
Corporation tax
 Computation of liability: financial year 1984-85¹
 Number, income, allowances, deductions and tax, by industry

Numbers: actual; Amounts: £ million

Industry	Number of cases	Gross trading profits	Capital allowances ²	Stock relief ³	Net trading profits
Agriculture, forestry, fishing	10,674	406	207	23	216
Energy and water supply	1,298	13,056	5,259	31	9,029
Extraction, metal mfg, chemicals	11,684	3,614	1,460	117	2,264
Metal goods and engineering	55,454	6,566	2,737	279	4,312
Other manufacturing	43,822	5,994	2,471	229	3,650
Construction	55,558	2,022	736	135	1,324
Distribution and repairs	102,251	7,013	2,603	402	4,614
Hotels and catering	31,542	528	254	5	333
Transport and communication	21,192	4,947	2,973	8	2,498
Banking, finance and insurance	32,687	8,378	6,088	34	5,372
Business services	79,011	3,049	1,754	83	2,020
Other services	51,917	1,243	599	16	810
Overseas activities	1,104	2,159	271	10	1,935
Not classified	859	5	2	-	5
Total	499,053	58,980	27,414	1,372	38,382
Percentage of sample data from agreed assessments or tax computations	86%	96%	96%	98%	97%

Industry	Other income and gains	Deductions allowed	Income chargeable to tax	ACT set-off	Other reliefs	Tax payable
Agriculture, forestry, fishing	61	134	143	5	13	50
Energy and water supply	2,064	3,796	7,297	1,173	131	2,071
Extraction, metal mfg, chemicals	1,103	1,868	1,499	176	180	345
Metal goods and engineering	1,128	2,678	2,762	343	132	806
Other manufacturing	1,334	2,276	2,708	338	189	740
Construction	442	963	803	48	58	267
Distribution and repairs	2,258	2,939	3,933	315	385	1,131
Hotels and catering	179	327	185	13	12	61
Transport and communication	608	2,552	554	45	55	156
Banking, finance and insurance	6,791	7,909	4,254	272	763	960
Business services	2,611	2,671	1,960	157	115	638
Other services	353	553	610	37	47	201
Overseas activities	1,568	649	2,854	57	1,223	55
Not classified	8	3	10	1	2	2
Total	20,508	29,318	29,572	2,980	3,305	7,483
Percentage of sample data from agreed assessments or tax computations	89%	93%	95%	98%	93%	95%

¹The figures relate to the earnings of accounting periods ending in the financial year 1984-85. In aggregate they correspond approximately to the earnings of the calendar year 1984.

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

³Stock relief less recoveries set-off against trading profits.

TABLE 8.2
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	Stock relief	Net trading profits
Agriculture, forestry, fishing	10,832	388	180	-	243
Energy and water supply	1,347	14,515	4,464	-	10,329
Extraction, metal mfg, chemicals	12,093	3,990	1,455	-	2,706
Metal goods and engineering	56,942	7,272	2,286	-	5,430
Other manufacturing	45,679	6,419	2,151	-	4,514
Construction	58,798	2,102	634	-	1,580
Distribution and repairs	106,492	7,719	2,227	-	5,793
Hotels and catering	30,339	621	229	-	425
Transport and communication	22,087	5,488	2,317	-	3,411
Banking, finance and insurance	34,612	11,021	3,371	-	8,425
Business services	89,650	3,562	1,347	-	2,544
Other services	52,936	1,500	472	-	1,100
Overseas activities	1,119	1,967	200	-	1,833
Not classified	3,028	60	24	-	56
Total	525,954	66,624	21,357	-	48,389
Percentage of sample data from agreed assessments or tax computations	81%	93%	91%	-	93%

Industry	Other income and gains	Deductions allowed	Income chargeable to tax	ACT set-off	Other reliefs	Tax payable
Agriculture, forestry, fishing	81	129	195	7	9	65
Energy and water supply	2,706	4,670	8,365	947	340	2,171
Extraction, metal mfg, chemicals	1,143	1,545	2,304	267	224	477
Metal goods and engineering	1,401	2,913	3,918	399	129	1,091
Other manufacturing	1,591	2,303	3,802	433	198	967
Construction	682	1,165	1,097	58	56	341
Distribution and repairs	2,632	2,913	5,512	427	424	1,441
Hotels and catering	238	316	347	23	13	108
Transport and communication	682	2,114	1,979	250	40	515
Banking, finance and insurance	9,038	8,554	8,909	581	810	2,307
Business services	3,004	2,872	2,676	209	110	792
Other services	453	659	894	38	59	280
Overseas activities	1,962	617	3,178	58	1,189	89
Not classified	47	45	58	1	6	17
Total	25,660	30,815	43,234	3,698	3,607	10,661
Percentage of sample data from agreed assessments or tax computations	80%	85%	91%	91%	91%	91%

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 8.3
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	Stock relief	Net trading profits
Agriculture, forestry, fishing	10,643	421	123	-	308
Energy and water supply	1,473	11,708	3,672	-	8,214
Extraction, metal mfg, chemicals	12,068	4,310	1,015	-	3,372
Metal goods and engineering	55,594	8,013	1,626	-	6,577
Other manufacturing	44,456	7,100	1,611	-	5,612
Construction	60,497	2,509	529	-	2,031
Distribution and repairs	106,535	8,763	1,781	-	7,196
Hotels and catering	29,899	705	208	-	519
Transport and communication	22,278	6,828	1,669	-	5,280
Banking, finance and insurance	35,791	11,066	2,041	-	9,179
Business services	95,108	4,627	1,198	-	3,644
Other services	52,313	1,673	409	-	1,330
Overseas activities	1,013	1,357	166	-	1,251
Not classified	8,906	258	74	-	229
Total	536,574	69,338	16,122	-	54,769
Percentage of sample data from agreed assessments or tax computations	79%	75%	74%	-	76%

Industry	Other income and gains	Deductions allowed	Income chargeable to tax	ACT set-off	Other reliefs	Tax payable
Agriculture, forestry, fishing	98	134	272	10	8	83
Energy and water supply	3,141	3,847	7,535	761	405	1,549
Extraction, metal mfg, chemicals	1,306	1,552	3,126	361	170	620
Metal goods and engineering	1,865	2,951	5,491	572	147	1,291
Other manufacturing	1,741	2,170	5,183	490	177	1,236
Construction	616	937	1,710	87	58	484
Distribution and repairs	2,466	2,791	6,871	455	380	1,683
Hotels and catering	287	339	467	28	14	130
Transport and communication	767	1,833	4,214	275	62	1,156
Banking, finance and insurance	8,614	7,741	10,052	499	711	2,450
Business services	3,304	3,168	3,780	251	95	1,048
Other services	577	659	1,248	62	69	333
Overseas activities	1,081	574	1,758	35	554	64
Not classified	254	170	313	17	17	80
Total	26,117	28,866	52,020	3,903	2,867	12,207
Percentage of sample data from agreed assessments or tax computations	68%	72%	74%	71%	82%	74%

¹ The 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.

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