

8. 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 4.12) 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. 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, currently at the rate of 75 per cent, 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.

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 which is incurred before 1 January 1983 in pursuance of a contract entered into before 1 January 1981. The 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 $2\frac{1}{2}$ million tonnes in the Finance Act 1988.

- 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 $\frac{1}{2}$ 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

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.

10. Details of the rates of petroleum revenue tax, rates of uplift and the oil allowance for chargeable periods up to the end of 1987 are given in Appendix A.7.

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. Thus this column and the two following display the relative importance of the components of income and allowances in the tax assessments. Stock relief was discontinued with effect from 13 March 1984.

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 1985-86 was about 335,000.

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 para 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. 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 early interest and patent royalties, annuities, certain rents and assessments, 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 are included in table 8.10 in total franked payments.

24. Tax Credit Paid to Non-residents (table 8.10). Dividends may be paid to non-residents who are covered by a double taxation agreement under which 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 dividend plus the excess tax credit.

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 31 December 1986 for chargeable periods ending on or after 30 June 1980, 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 1979 were £11,131 million and net petroleum revenue tax payable was £1,594 million.

28. Other chargeable receipts include tariff receipts (net of tariff receipts allowance) and receipts from the disposal of certain assets. To avoid the possibility of identifying receipts of individual companies, other chargeable receipts for periods ending on or before 30 June 1983 have been included with the gross profit figures for the relevant periods.

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.

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 1983-84¹

Number, income, allowances, deductions and tax, by industry

Industry	Numbers: actual; Amounts: £ million				
	Number of cases	Gross trading profits	Capital allowances ²	Stock relief ³	Net trading profits
Agriculture, forestry, fishing	10,512	360	237	45	135
Energy and water supply	1,305	13,794	6,395	329	8,538
Extraction, metal mfg, chemicals	11,257	3,256	1,432	352	1,778
Metal goods and engineering	52,739	6,225	2,912	866	3,328
Other manufacturing	41,465	5,413	2,329	597	2,993
Construction	52,547	1,848	875	301	998
Distribution and repairs	94,863	6,382	2,474	1,995	3,641
Hotels and catering	32,366	492	249	19	290
Transport and communication	19,947	5,145	3,405	29	2,135
Banking, finance and insurance	30,849	6,670	3,638	182	4,299
Business services and leasing	70,882	2,641	1,235	189	1,631
Other services	49,673	1,132	698	38	613
Overseas activities	1,006	1,880	313	24	1,644
Not classified	817	16	13	2	6
Total	470,228	55,264	26,205	4,968	32,029
Percentage of sample data from agreed assessments or tax computations	90%	98%	97%	97%	98%

Industry	Other income and gains	Deductions allowed	Income chargeable to tax	ACT setoff	Other reliefs	Tax payable
Agriculture, forestry, fishing	57	101	91	2	8	36
Energy and water supply	3,216	4,905	6,849	1,243	769	1,429
Extraction, metal mfg, chemicals	850	1,376	1,252	174	166	301
Metal goods and engineering	1,121	2,364	2,085	216	117	727
Other manufacturing	1,135	2,092	2,036	281	155	604
Construction	406	834	570	41	42	210
Distribution and repairs	1,651	2,496	2,796	305	234	877
Hotels and catering	186	296	180	17	11	63
Transport and communication	649	2,354	430	25	25	167
Banking, finance and insurance	6,185	7,171	3,313	287	731	666
Business services and leasing	2,116	2,231	1,516	132	78	556
Other services	378	452	539	26	53	196
Overseas activities	1,080	583	2,141	104	930	54
Not classified	9	6	9	-	1	3
Total	19,039	27,261	23,807	2,853	3,320	5,889
Percentage of sample data from agreed assessments or tax computations	96%	97%	97%	98%	99%	96%

¹The figures relate to the earnings of accounting periods ending in the financial year 1983-84. In aggregate they correspond approximately to the earnings of the calendar year 1983.

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 1984-85¹

Number, income, allowances, deductions and tax, by industry

Industry	Numbers: actual; Amounts: £ million				
	Number of cases	Gross trading profits	Capital allowances ²	Stock relief ³	Net trading profits
Agriculture, forestry, fishing	10,691	402	204	23	216
Energy and water supply	1,352	12,950	5,223	31	9,059
Extraction, metal mfg, chemicals	11,755	3,726	1,575	120	2,294
Metal goods and engineering	55,255	6,688	2,755	291	4,396
Other manufacturing	43,780	5,933	2,437	236	3,655
Construction	55,088	1,965	750	135	1,282
Distribution and repairs	101,747	7,110	2,659	401	4,676
Hotels and catering	32,076	530	247	4	339
Transport and communication	21,117	5,457	3,047	8	2,924
Banking, finance and insurance	34,187	8,346	5,921	36	5,288
Business services and leasing	78,392	3,118	1,722	87	2,092
Other services	51,985	1,249	595	16	799
Overseas activities	1,141	2,190	276	9	1,963
Not classified	1,554	27	5	1	23
Total	500,120	59,691	28,329	1,398	39,006
Percentage of sample data from agreed assessments or tax computations	86%	94%	95%	96%	94%

Industry	Other income and gains	Deductions allowed	Income chargeable to tax	ACT setoff	Other reliefs	Tax payable
Agriculture, forestry, fishing	63	132	147	5	13	52
Energy and water supply	2,059	3,865	7,253	1,169	131	1,990
Extraction, metal mfg, chemicals	1,171	1,881	1,584	171	202	370
Metal goods and engineering	1,125	2,737	2,784	342	132	816
Other manufacturing	1,244	2,231	2,668	327	165	754
Construction	444	923	803	43	57	272
Distribution and repairs	1,955	2,850	3,781	318	292	1,153
Hotels and catering	147	293	193	11	12	67
Transport and communication	640	3,003	561	45	53	161
Banking, finance and insurance	6,905	7,804	4,389	258	716	1,048
Business services and leasing	2,692	2,693	1,991	147	109	668
Other services	354	536	617	33	46	210
Overseas activities	1,640	690	2,913	60	1,228	75
Not classified	10	14	19	-	1	8
Total	20,349	29,652	29,703	2,929	3,157	7,644
Percentage of sample data from agreed assessments or tax computations	87%	91%	93%	96%	92%	93%

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 8.3

Corporation tax

Computation of liability: financial year 1985-86¹

Number, income, allowances, deductions and tax, by industry

Industry	Numbers: actual; Amounts: £ million				
	Number of cases	Gross trading profits	Capital allowances ²	Stock relief ³	Net trading profits
Agriculture, forestry, fishing	10,766	402	185	-	252
Energy and water supply	1,284	11,121	3,312	-	8,219
Extraction, metal mfg, chemicals	12,441	4,099	1,798	-	2,696
Metal goods and engineering	56,993	7,138	2,193	-	5,312
Other manufacturing	45,951	6,476	2,157	-	4,570
Construction	58,260	2,295	687	-	1,705
Distribution and repairs	105,779	7,969	2,188	-	6,061
Hotels and catering	30,707	611	215	-	426
Transport and communication	21,888	5,636	2,818	-	3,419
Banking, finance and insurance	29,973	10,717	3,407	-	7,959
Business services and leasing	87,645	3,654	1,629	-	2,538
Other services	52,892	1,453	493	-	1,058
Overseas activities	1,123	1,909	132	-	1,787
Not classified	7,155	110	26	-	93
Total	522,857	63,590	21,240	-	46,095
Percentage of sample data from agreed assessments or tax computations	81%	77%	74%		78%

Industry	Other income and gains	Deductions allowed	Income chargeable to tax	ACT setoff	Other reliefs	Tax payable
Agriculture, forestry, fishing	80	132	200	7	9	66
Energy and water supply	2,642	3,977	6,884	978	341	1,478
Extraction, metal mfg, chemicals	1,246	1,562	2,380	261	243	491
Metal goods and engineering	1,386	2,667	4,031	395	122	1,140
Other manufacturing	1,509	2,212	3,867	408	193	1,006
Construction	755	1,349	1,111	55	54	349
Distribution and repairs	2,514	2,942	5,633	423	422	1,482
Hotels and catering	198	289	335	16	12	109
Transport and communication	715	2,133	2,001	40	44	726
Banking, finance and insurance	8,778	8,214	8,523	559	768	2,209
Business services and leasing	2,924	2,803	2,659	201	102	797
Other services	440	627	871	38	53	271
Overseas activities	1,949	634	3,102	43	1,175	86
Not classified	75	75	93	1	7	30
Total	25,211	29,616	41,690	3,425	3,545	10,240
Percentage of sample data from agreed assessments or tax computations	70%	74%	75%	70%	83%	75%

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.

³Stock relief less recoveries set off against trading profits.