

9. CORPORATION TAX

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 9.14 and 9.15) 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 12 (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 applies to all accounting periods ending in financial year 1990-91. The various rates of corporation tax and capital gains relief since April 1969 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 - 1991	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 tons, for all fields, with a cumulative limit of 10 million tons.

- 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 participant in the field.

D. NOTES ON TABLES

11. Tables 9.1 to 9.13 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 9.1 to 9.3

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 may exceed the gross trading profit, leading to a loss for tax purposes. In these cases a zero is included in the net trading profits column rather than a negative figure.

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 1988-89 was about 335,000.

Tables 9.4 to 9.7

17. Tables 9.4 and 9.5 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 and by any errors arising from the use of sample data. 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.

Tables 9.6 and 9.7 show 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 9.4 to 9.7 have been produced by grossing up information on the sample of corporation tax cases referred to in paragraph 13 above.

Tables 9.8 and 9.9

18. In these tables estimates are given of the statutory capital allowances claimed against trading income by all cases within the scope of corporation tax. The totals here differ from those given in tables 9.1 to 9.3 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 9.1 to 9.4. 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 9.10 to 9.13

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 9.1 to 9.9. Franked investment income and income under deduction of income tax received in a return period need not be reported if there is no liability to tax against which it can be set off. Income in a period may therefore be understated in the quarterly returns.

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 9.10 and 9.12.

24. Tax Credit Paid to Non-residents (table 9.10). 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 tax at the full rate and the tax at the reduced rate applying under the double taxation agreement.

25. Repayments (tables 9.10 and 9.11) arise in three ways. 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. An entitlement to repayment of advance corporation tax also arises if a company's liability for a return period is exceeded by its tax payment and the tax credits paid to non-residents. Finally, a repayment of advance corporation tax is due to the extent that liability to PRT or SPD reduces the amount of advance corporation tax which can be set off against a corporation tax liability.

26. Annual Payments to Non-residents (table 9.11). 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 9.14 and 9.15

27. These tables relate to petroleum revenue tax assessments made by 30 June 1991 for chargeable periods ending on or after 30 June 1985, 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 9.14, "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 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.

30. Gross profits from oil and gas production in the chargeable periods up to the end of 1984 were £77 billion and net petroleum revenue tax payable was £17.5 billion.

31. Table 9.15 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. PRT assessments are sometimes made late when there is no tax liability, so the total number of fields assessed for any chargeable period may be higher in versions of the table in future years. This is especially likely for the more recent periods.

TABLE 9.1
Corporation tax
 Computation of liability: financial year 1986-87¹
 Number, income, allowances, deductions and tax, by industry

Numbers: thousands; Amounts: £ million

Industry	Number of cases	Gross trading profits	Capital allowances ²	Net trading profits	Other income & gains
Agriculture, forestry, fishing	10,569	407	126	298	131
Energy, water supply	1,691	11,781	3,997	8,408	2,963
Extraction, metal mfg, chemicals	12,178	5,079	1,562	3,751	1,416
Metal goods and engineering	56,187	8,578	2,074	6,827	2,089
Other manufacturing	46,164	7,678	1,621	6,163	2,017
Construction	60,890	2,658	561	2,161	654
Distribution and repairs	108,892	9,193	1,971	7,456	2,807
Hotels and catering	28,914	737	230	552	343
Transport and communication	22,770	6,945	1,703	5,410	881
Banking, finance and insurance	31,545	12,838	2,714	10,520	8,853
Business services	98,476	4,479	1,157	3,542	3,782
Other services	52,883	1,765	445	1,394	606
Overseas activities	1,038	1,425	294	1,295	1,430
Not classified	4,444	64	23	57	43
All industries	536,641	73,627	18,478	57,834	28,015
Percentage of sample data from agreed assessments or tax computations	83%	95%	95%	95%	85%

Industry	Deductions allowed	Income chargeable to tax	ACT setoff	Other reliefs set against tax	Tax payable
Agriculture, forestry, fishing	162	267	12	8	78
Energy, water supply	4,501	6,870	238	419	1,819
Extraction, metal mfg, chemicals	1,853	3,314	421	166	635
Metal goods and engineering	3,169	5,747	720	168	1,218
Other manufacturing	2,616	5,564	614	194	1,242
Construction	1,012	1,803	116	57	488
Distribution and repairs	3,045	7,218	589	401	1,646
Hotels and catering	421	474	39	14	123
Transport and communication	1,962	4,329	85	48	1,397
Banking, finance and insurance	9,334	10,039	676	816	2,173
Business services	3,684	3,640	276	96	957
Other services	691	1,309	73	68	345
Overseas activities	672	2,053	52	664	42
Not classified	50	50	1	1	15
All industries	33,172	52,677	3,912	3,120	12,178
Percentage of sample data from agreed assessments or tax computations	87%	95%	91%	93%	97%

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 9.2
Corporation tax
Computation of liability: financial year 1987-88¹
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 & gains
Agriculture, forestry, fishing	11,074	448	120	341	135
Energy, water supply	1,679	11,376	4,427	7,613	2,582
Extraction, metal mfg, chemicals	12,185	6,044	1,677	4,436	1,770
Metal goods and engineering	55,650	9,480	2,336	7,554	1,895
Other manufacturing	46,918	8,957	1,906	7,222	2,256
Construction	63,955	3,634	683	3,023	738
Distribution and repairs	109,709	11,012	2,289	8,897	3,017
Hotels and catering	27,939	917	268	707	356
Transport and communication	23,064	7,795	2,357	5,640	1,167
Banking, finance and insurance	33,731	13,202	3,719	10,616	9,561
Business services	108,327	5,907	1,592	4,756	4,513
Other services	52,423	2,085	459	1,681	773
Overseas activities	1,126	1,340	322	1,135	1,682
Not classified	8,035	163	66	132	197
All industries	555,815	82,360	22,221	63,753	30,642
Percentage of sample data from agreed assessments or tax computations	84%	94%	93%	93%	82%

Industry	Deductions allowed	Income chargeable to tax	ACT setoff	Other reliefs set against tax	Tax payable
Agriculture, forestry, fishing	163	313	14	9	86
Energy, water supply	4,042	6,153	938	287	932
Extraction, metal mfg, chemicals	1,734	4,472	525	271	772
Metal goods and engineering	2,903	6,546	709	161	1,424
Other manufacturing	2,825	6,653	684	210	1,440
Construction	1,102	2,659	162	64	707
Distribution and repairs	3,248	8,666	705	262	2,070
Hotels and catering	409	654	66	19	145
Transport and communication	1,835	4,972	351	54	1,362
Banking, finance and insurance	9,878	10,299	560	620	2,428
Business services	3,850	5,419	351	134	1,416
Other services	808	1,646	90	71	426
Overseas activities	558	2,259	67	633	91
Not classified	203	126	4	7	34
All industries	33,558	60,837	5,226	2,802	13,333
Percentage of sample data from agreed assessments or tax computations	85%	93%	91%	90%	94%

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.

TABLE 9.3
Corporation tax
 Computation of liability: financial year 1988-89¹
 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 & gains
Agriculture, forestry, fishing	11,222	402	158	289	208
Energy, water supply	1,603	9,101	3,925	5,659	2,598
Extraction, metal mfg, chemicals	12,415	6,406	1,798	4,743	1,741
Metal goods and engineering	55,894	11,893	3,105	9,061	1,832
Other manufacturing	46,172	9,840	2,499	7,639	2,557
Construction	65,836	4,940	884	4,130	899
Distribution and repairs	108,274	12,535	2,948	10,011	3,866
Hotels and catering	26,247	980	388	706	360
Transport and communication	23,046	8,162	5,326	5,111	1,180
Banking, finance and insurance	33,843	16,610	5,581	13,132	10,664
Business services	119,140	7,544	2,225	5,929	5,417
Other services	51,587	2,397	620	1,872	727
Overseas activities	1,168	1,592	333	1,385	1,508
Not classified	12,560	339	99	293	274
All industries	569,007	92,741	29,889	69,960	33,831
Percentage of sample data from agreed assessments or tax computations	83%	82%	75%	83%	73%

Industry	Deductions allowed	Income chargeable to tax	ACT setoff	Other reliefs set against tax	Tax payable
Agriculture, forestry, fishing	193	304	17	11	79
Energy, water supply	3,392	4,865	587	345	771
Extraction, metal mfg, chemicals	2,133	4,351	455	222	848
Metal goods and engineering	3,565	7,328	878	173	1,517
Other manufacturing	3,270	6,926	673	233	1,524
Construction	1,299	3,730	198	94	1,021
Distribution and repairs	3,694	10,183	740	605	2,262
Hotels and catering	395	671	65	20	149
Transport and communication	1,791	4,500	343	47	1,189
Banking, finance and insurance	12,173	11,623	696	619	2,768
Business services	4,724	6,622	479	194	1,649
Other services	853	1,746	103	63	449
Overseas activities	699	2,194	107	600	61
Not classified	243	324	9	18	87
All industries	38,424	65,367	5,350	3,244	14,374
Percentage of sample data from agreed assessments or tax computations	74%	83%	77%	85%	85%

¹The figures relate to the earnings of accounting periods ending in the financial year 1988-89. In aggregate they correspond approximately to the earnings of the calendar year 1988.

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