Office of Tax Simplification

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15 November 2016

Corporation Tax Computation Review

Supplementary paper on Tax Adjustments

This paper supplements the progress report and call for evidence we published on 1 November.[1]

Tax adjustments are the amounts added to or subtracted from accounting profit to arrive at taxable profit. The list below, and the tables, represent what we think are the most frequent adjustments that companies use.

We want to use this list to help identify those adjustments which would benefit from simplification.

We have set out the information in three levels of detail:

- **a summary list** (below) in broad categories with a brief explanation
- **a summary table** of the 70 adjustments which we think are relatively common or important
- **a comprehensive table**, for reference, including 430 or so adjustments or relevant provisions which we used to draw up the above table of 70 common adjustments

Each table includes some columns indicating, for example, which of the adjustments are likely to matter to most companies, or which could be affected by Schedular reform.

We welcome your views:

1. Which adjustments should be a priority for review, for examples, because they are disproportionately complex or burdensome compared to the tax outcome?
2. Is anything missing, that you would like to see simplified? In particular, those adjustments which impact on small companies?
3. What causes the complexity, and can you provide us with examples?

How to contact us

Please send your comments to **ots@ots.gsi.gov.uk**; we are always happy to meet interested groups to discuss views and ideas on how the tax system can be simplified.

We will be publishing our final report and recommendations before Budget 2017 and, although we think this is an ongoing conversation, it would be helpful to have your views by the end of 2016.

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[1] See paragraph 2.5 of the progress report, which is available at https://www.gov.uk/government/consultations/ots-review-of-the-corporation-tax-computation-consultation

The summary list of adjustments

Permanent or 'absolute' adjustments

These adjustments involve adding or subtracting an amount from accounting profit. The list below is thought to be broadly in order of frequency for most companies.

- depreciation, amortisation, profits or losses on sale
- capital allowances (including managing various types of pools)
- entertaining
- penalties/fines
- wholly & exclusively/private use/remoteness
- capital/revenue (for example some legal and professional fees)
- repairs/renewals
- deferred revenue expenditure
- capital-in-revenue
- R&D relief
- goodwill/intangibles
- splitting out capital gains
- 'tax nothings' (for example abortive capital expenditure)
- patent royalties

Timing adjustments

Although capital allowances and the related depreciation are, taken together, a timing difference, we have included them in the list above as they operate separately.

Other significant sources of 'timing' adjustments, include the following

- pension contributions
- 9 months rule on unpaid remuneration
- share schemes, EBTs etc
- general/specific provisions

Adjustments that would be affected or potentially disappear with Schedular reform

- splitting out bank interest
- splitting out property or other forms of income/expense such as management expenses
- pre trading expenditure and post-cessation receipt rules
- distinguishing between trading and management expenses deductions
- splitting out donations

Specialist provisions, such as:

- loan relationships (other than in relation to bank interest)
- financial instruments
- transfer pricing (including thin capitalisation)
- DTR
- sector-specific regimes or reliefs (for example oil, life insurance, creative industries)