

3. 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 3.12) is based on Petroleum Revenue Tax assessments.

2. The analysis of assessments by industry for 1976 which appeared in *Inland Revenue Statistics 1980* (Table 3.3) has been revised on the basis of the latest available information (Table 3.2). It is expected that the 1977 data in this edition (Table 3.3) will be revised in a subsequent edition. Similar revisions have been made to Tables 3.9 to 3.11.

B. CORPORATION TAX

3. Corporation tax falls on the income and chargeable gains (collectively the "profits") of companies. The amount of chargeable gains is reduced by the appropriate fraction—see para 34 of the notes on Section 4 (Capital and Wealth). A company is any body corporate or unincorporated association but not a local authority or local authority association. The tax was introduced by the Finance Act 1965 prior to which companies were liable to income tax on their total income and to profits tax as well. It is payable 9 months after the end of the company's accounting period or, if later, within one month of the making of the assessment. However, the interval for payment under the earlier system is maintained for trading companies previously liable to income tax, so that corporation tax is payable for many companies on 1 January in the year following the financial year in which the company's account ends.

4. Between 1966/67 and 1972/73 companies were also liable to income tax at the standard rate deductible from any income they distributed in addition to the corporation tax payable on their profits. Substantial changes were made in April 1973 when the imputation system of corporation tax introduced by the Finance Act 1972 took effect. A single rate of corporation tax continues to apply to company profits, subject to special arrangements for small companies, for insurance companies and for building societies, but income tax is no longer deducted from dividends. Instead, when a qualifying distribution (normally a dividend) is used, ^{made} Advance Corporation Tax (ACT) is payable which may be set against the corporation tax assessed on the profits of the accounting period in which the distribution is made so as to reduce the amounts of tax remaining to be paid. The rates of ACT are shown in Appendix A4. The sum of the distribution and ACT is called a franked payment. The recipient of the distribution is normally entitled to a tax credit equivalent to the ACT paid.

5. Distributions are not subject to corporation tax in the hands of a recipient company. A qualifying distribution plus the tax credit attaching to it, may be set off against franked payments made by the company. ACT is ultimately payable to the extent that franked payments for a period exceed franked investment income.

6. A further description of corporation tax as originally enacted appears on pages 85 to 88 of the 112th Inland Revenue Report and the change to the "Imputation" system made by Finance Act 1972 is explained on pages 5 and 6 of the 115th Report. More details are given in the Board's booklet *Corporation Tax* (pamphlet IR 18).

7. For a description of other taxes on profits, now no longer charged, see *Inland Revenue Statistics 1975* paras 30–40.

Double Taxation

8. Agreements in force with most Commonwealth and many foreign countries provide for the relief of double taxation. In general, income of certain classes arising in one country may be exempt from tax, or liable only to a limited tax, in that country if it flows to a resident of the other country. Where income remains liable to tax in both countries the UK, for its part, gives relief against the UK tax on the overseas income.

The relief is the lesser of (a) the overseas taxes imposed on the income, and (b) the UK taxes on that income. Where no agreement is in force, the UK gives to UK residents "unilateral relief" on similar lines against UK tax on income arising abroad for the corresponding overseas taxes on it.

C. PETROLEUM REVENUE TAX

9. Petroleum Revenue Tax is charged on the profits of winning oil and gas under licence in the United Kingdom and on the UK Continental Shelf. The charge is on the landed value of oil and gas less the expenses incurred in finding, extracting, landing it and putting it in a saleable condition. These expenses are licence royalties and field costs—including capital expenditure but not interest. The tax is charged, currently at the rate of 70 per cent, on field profits arising in each 6-month chargeable period. Apart from the 100 per cent relief for expenditure and certain loss relief provisions, the following reliefs are currently given:

- (i) *Uplift* A supplement, now 35 per cent, is given on certain (broadly, capital) expenditure, notably expenditure on bringing the field into production.
- (ii) *Safeguard* Where PRT profits for any calendar year (before deduction of any upliftable expenditure) are less than 30 per cent of the total upliftable expenditure allowed to date, the PRT charge is cancelled. Above this level, the PRT charge may not exceed 80 per cent of the excess of profits over 30 per cent of total upliftable expenditure.
- (iii) *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, currently subject to a cumulative maximum allowance of 5 million tonnes per field.

Details of the rates of petroleum revenue tax, rates of uplift and the oil allowance for chargeable periods up to the end of 1980 are given in Appendix A.7.

10. In November 1980 the Chancellor of the Exchequer announced proposals for a supplementary North Sea tax and a review of the PRT reliefs. The proposals for the Supplementary Petroleum Duty and PRT changes are included in the 1981 Finance Bill and will have effect from 1 January 1981, so neither will apply to data in this volume.

D. NOTES ON TABLES

11. The tables include all data to land relating to North Sea oil and gas activities.

TABLES 3.1 TO 3.4

12. These tables relate to assessments made by 31 October 1979 for the years shown, including estimated assessments for which agreement was incomplete at that date. (The tax figures therefore differ from those of *receipts* in a financial year, shown in Table 1.1). Further revisions will be made in the next edition as the information becomes more complete.

In some instances assessments information will not become available for inclusion in the tables until a considerable time after the accounting period to which it relates, nor will it necessarily become available in chronological order. Some of the revisions therefore may be large.

13. Some of the reported figures of gross trading profits (summarised in Tables 3.2 and 3.3) may have been distorted as a result of the retrospective introduction of stock relief in the Budget of November 1974 (Finance Act 1975). Information on this is incomplete, but the effect is not thought to be large for the accounting periods in Tables 3.2 and 3.3.

14. The figures of tax relate to corporation tax assessed, after deducting double taxation relief and income tax borne by deduction at source from income received. The tax figures are before setting off advance corporation tax.

15. The analyses by industry conform as far as possible with the Standard Industrial Classification of 1968. Although the definitions of the industries coincide as far as possible with the 1968 SIC it does not follow that the figures for each group are directly comparable with other statistics produced by other departments (eg labour statistics) where the unit of classification may be different (eg the establishment as opposed to the financial unit which may cover more than one establishment). A table showing the definition of the trade groups used in this publication in terms of the Minimum List Heading of the 1968 SIC is given in Appendix B.

TABLES 3.2 AND 3.3

16. These tables show for the most recent years available details of income, capital allowances and stock relief, losses and other charges and deductions taken into account in arriving at the net amount chargeable to Corporation tax in agreed cases, together with the net amount chargeable in estimated cases. Numbers, set off for double taxation relief (DTR) etc. and Corporation tax refer to agreed and estimated cases combined.

TABLES 3.5 TO 3.7

17. In these tables estimates are given of the statutory capital allowances due for the year. Capital allowances

provide relief from corporation tax in respect of certain capital expenditure incurred for the purposes of carrying on a trade. Rates of capital allowances since 1959 are given in Appendix A3.

18. The allowances represent the amounts allowable against profits of the accounting periods ending in the fiscal year to the following 31 March, but, broadly, they approximate to those due for the calendar year.

19. The figures do not include any element of unused allowances brought forward from earlier years nor do they exclude those carried forward to later years. Consequently they do not represent the amounts actually allowed against profits in the assessment. The analyses by class of asset and type of allowance are based on sample information.

20. Although, in general, investment allowances ceased to be available in respect of expenditure incurred on or after 17 January 1966, they were claimed in some instances on later payments due under a legally binding contract entered into before that date.

TABLES 3.8 TO 3.11

21. These tables show franked and annual payments made by companies, franked investment income and annual payments received, Advance Corporation Tax paid under the imputation system of corporation tax, and Schedule 20 Income Tax paid by deduction from annual payments.

22. A parent company and its subsidiary (if both are resident in the UK) may elect jointly that the subsidiary shall pay dividends to the parent or to fellow subsidiaries without accounting for advance corporation tax. Such dividends are not included in the totals unless, notwithstanding the election, a company accounts for advance corporation tax—such cases are shown as Intra Group Dividends in the tables.

When dividends are paid to a non-resident who is entitled to a tax credit under an appropriate Double Taxation Agreement, the company may also pay him an amount representing the excess of the tax credit over his liability to UK tax.

23. When a company has paid advance corporation tax in respect of franked payments made in a return period falling in any accounting period and in a later return falling within the *same* accounting period, the company receive franked investment income, repayment is due to the company if the franked investment income exceeds the franked payments made in that later period. The amount of repayment will be the lesser of:

- a. the advance corporation tax paid.
- b. the tax credit attaching to the excess of the franked investment income received in that later return period over the franked payments made in the later return period.

Annual payments from which income tax has to be deducted and accounted for under Schedule 20 Finance Act 1972 include:—

- a. Yearly interest and patent royalties.
- b. Annuities.

c. Payment under a deed of covenant.

d. Certain rents and assessments.

24. Where a company receives income under deduction of income tax in any accounting period, it may claim to set off that income tax against its own liability of income tax on payments. Income received under deduction of tax is assessable to corporation tax on the company and any income tax suffered by deduction is set off against that corporation tax liability unless it has been set off against the income tax liability on the payments.

25. 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 3.12

26. This table relates to petroleum revenue tax assessments made by 31 December 1980, including estimated assessments which may be subsequently revised. The figures do not include those fields in production but not yet assessed to petroleum revenue tax.

27. The licence debit is the element in the PRT computation which broadly allows for royalty payments to the Secretary of State for Energy. It only takes into account cash payments, and royalty taken in kind is already deducted in the determination of gross profits.

28. 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.

3.1

Company income

Analysis by industry: Number of assessments made
 Net amount chargeable³ (NAC) } for the years 1974 to 1977^{1, 2}
 Corporation tax assessed

See notes on page 22.

Numbers: thousands; Amounts: £ million

Industry	1974			1975			1976			1977 ⁴		
	Numbers	NAC	Tax	Numbers	NAC	Tax	Numbers	NAC	Tax	Numbers	NAC	Tax
Agriculture and horticulture	8.8	35.6	16.1	8.9	46.4	21.7	9.1	57.2	27.2	9.3	65.6	31.5
Forestry and fishing	0.5	3.9	1.9	0.4	2.6	1.3	0.5	4.0	2.0	0.5	4.9	2.4
Mining and quarrying other than coal	0.8	34.8	16.3	0.9	47.5	23.6	0.8	62.5	31.4	0.9	100.2	51.6
MANUFACTURING												
Food	4.0	47.1	22.1	4.0	104.0	48.5	3.9	121.3	58.0	3.8	168.4	83.6
Drink	0.7	83.6	37.4	0.7	188.0	93.9	0.7	286.7	135.4	0.6	256.2	126.0
Tobacco	0.1	43.3	10.9	0.1	61.6	21.8	0.1	74.4	35.4	0.1	48.5	12.5
Chemical, oil and allied trades	3.4	310.3	128.8	3.5	285.1	116.9	3.3	426.3	175.0	3.4	511.2	219.1
Iron and steel	2.4	59.3	27.1	2.5	78.5	38.4	2.4	59.2	29.9	2.5	78.9	40.0
Non-ferrous metals	1.0	25.4	11.6	0.9	36.3	18.0	0.9	40.0	18.0	0.9	43.7	21.3
Electrical engineering and electrical goods	8.7	195.6	90.5	9.1	341.8	163.9	9.4	453.4	223.1	10.2	516.1	254.1
Shipbuilding and marine engineering	1.3	12.0	5.8	1.4	15.7	7.4	1.5	32.0	16.2	1.6	98.7	50.8
Vehicles	3.7	63.5	24.0	3.8	85.5	33.0	3.9	128.8	54.0	4.1	258.7	118.3
Other non-electrical engineering	19.5	196.6	87.4	20.3	325.7	156.1	20.9	489.8	235.5	22.7	554.9	268.5
Metal goods not elsewhere specified	7.9	83.0	38.9	8.1	133.7	64.9	8.0	124.5	60.1	8.4	149.7	73.9
Cotton	0.7	28.2	6.2	0.6	23.1	6.9	0.6	22.9	5.4	0.5	33.3	12.2
Wool	1.0	14.2	6.4	1.0	12.6	6.3	0.9	15.6	7.8	0.9	24.4	12.4
Other textiles	3.2	40.0	17.2	3.2	42.2	20.8	3.1	46.9	21.1	3.1	72.6	33.1
Leather, leather goods and fur	1.5	9.9	4.7	1.4	11.2	5.5	1.4	10.9	5.3	1.4	15.1	7.3
Clothing	6.8	61.6	28.9	6.7	73.8	35.5	6.6	62.8	30.1	6.6	77.6	36.6
Bricks, pottery and glass	3.4	61.6	18.6	3.3	158.6	71.7	3.3	185.0	84.2	3.4	201.5	94.4
Manufacturers of wood and cork	4.9	44.2	21.7	5.0	61.7	31.1	4.8	55.0	27.6	5.1	69.4	34.8
Paper and printing	11.1	118.8	51.9	11.4	171.5	78.4	11.5	241.1	117.7	12.1	323.4	159.2
Rubber manufacturing	0.8	12.3	5.0	0.8	19.7	8.4	0.8	36.6	17.7	0.8	52.6	21.8
Other manufacturing industries	4.7	45.4	18.4	4.8	65.7	29.8	4.8	70.4	31.4	5.0	92.1	42.5
TOTAL MANUFACTURING	90.8	1,555.9	663.5	92.6	2,296.0	1,057.2	92.8	2,983.6	1,388.9	97.2	3,647.0	1,722.7
Building and contracting	44.8	208.0	97.6	46.0	265.1	126.3	47.1	354.4	172.4	49.1	399.3	191.7
Road transport	10.2	31.7	15.1	10.3	44.0	21.5	10.6	46.6	22.4	10.9	59.9	29.1
Shipping	0.7	27.9	12.5	0.7	33.5	16.0	0.7	46.9	22.6	0.7	63.0	32.0
Other transport and communications (excluding railways), storage	5.9	70.3	32.6	6.2	73.3	34.5	6.3	106.8	51.0	6.8	129.5	62.9
Distributive trades (wholesale)	23.7	344.9	151.3	23.7	609.5	187.4	23.8	462.5	205.5	24.5	588.6	271.2
Distributive trades (retail)	46.4	582.8	279.9	46.2	713.1	355.1	45.8	729.5	349.8	46.9	978.2	486.7
Insurance banking and finance	73.1	1,589.6	488.9	71.8	2,005.3	651.3	71.0	2,901.8	908.2	72.3	3,495.5	1,203.4
Professional services	6.3	32.9	15.1	6.5	39.8	18.7	7.1	53.3	24.0	8.9	84.9	38.6
Entertainment and sport	16.5	73.2	35.6	16.8	82.6	40.5	16.7	103.9	52.6	16.7	125.5	62.0
Other services	65.2	219.0	83.7	66.4	221.8	101.8	66.1	402.6	165.1	68.2	502.9	219.7
Undertakings abroad	0.9	4,539.6	25.0	0.9	2,540.2	31.0	0.9	1,416.8	29.1	0.8	2,411.5	169.0
Finance abroad	0.2	158.5	23.5	0.2	177.9	18.5	0.2	179.5	14.1	0.2	161.0	31.1
TOTAL ALL INDUSTRIES	394.8	9,508.6	1,938.6	398.5	9,198.7	2,706.4	399.5	9,911.9	3,4663.3	413.9	12,817.5	4,605.6

¹ Generally the figures relate to the earnings of accounting periods ending in the financial year to the following 31st March; in aggregate they correspond approximately to the earnings of the calendar year.

² Industrial and Provident Societies, clubs and associations are included.

³ Figures for the net amount chargeable are after deducting debenture and other interest, but include capital gains as adjusted for corporation tax.

⁴ Provisional.