



Management of Large Business Corporation Tax

Large Business Service

Corporation Tax receipts and enquiries

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Introduction

In 2007 National Audit Office (NAO) reported on HMRC's management of large business Corporation Tax (CT). On the basis of that report the Public Accounts Committee (PAC) reviewed HMRC's management of large business CT and published their own report in October 2008. The PAC report recommended that HMRC publish:

- analyses of Corporation Tax payments by large businesses at business and sector level (Recommendation 1)
- analyses of open enquiries on large businesses by value band (Recommendation 3)

The charts on the following pages provide the information recommended by the PAC.

The information shown relates to businesses dealt with by the Large Business Service at 1 April 2009 and figures for 2005/2006 have been adjusted to reflect that population.

The level of detail that can be published is limited by the need to ensure that tax details of individual businesses cannot be identified or deduced.

Corporation Tax payments

PAC Conclusion and Recommendation 1

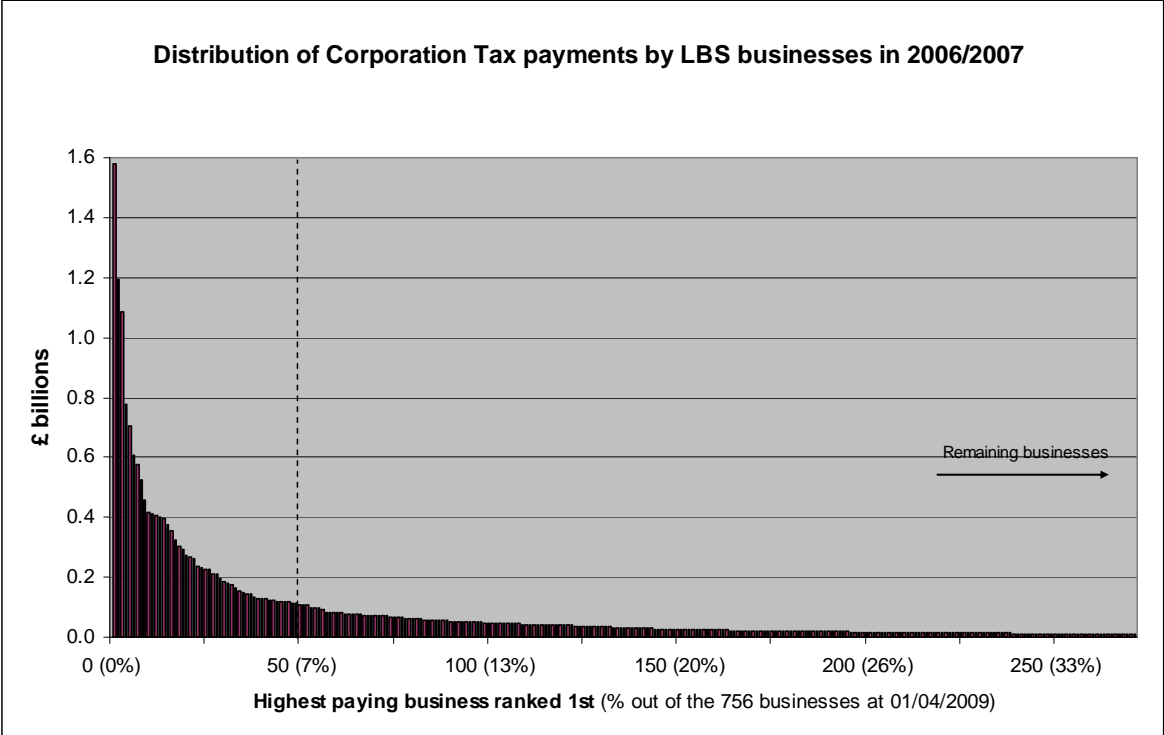
The Corporation Tax paid by large businesses is heavily skewed towards a small number of businesses. In 2005-06, of the 700 largest businesses in the UK, 50 paid two-thirds of the tax raised, and 181 paid none.

The analysis published in the National Audit Office's report provides transparency on the variations in tax revenue and the contributions from different sectors of the economy. The Department should publish a similar analysis each year with explanations of the trends.

Corporation Tax Payments by LBS businesses

The details published in the NAO report related to the financial year 2005/2006. Chart 1 below is in the format used in the NAO and PAC reports. It shows the amounts paid by individual LBS businesses for their accounting periods ending in the financial year 2006/2007 (year to 31 March 2007). The amounts paid are shown in descending order of value.

Chart 1



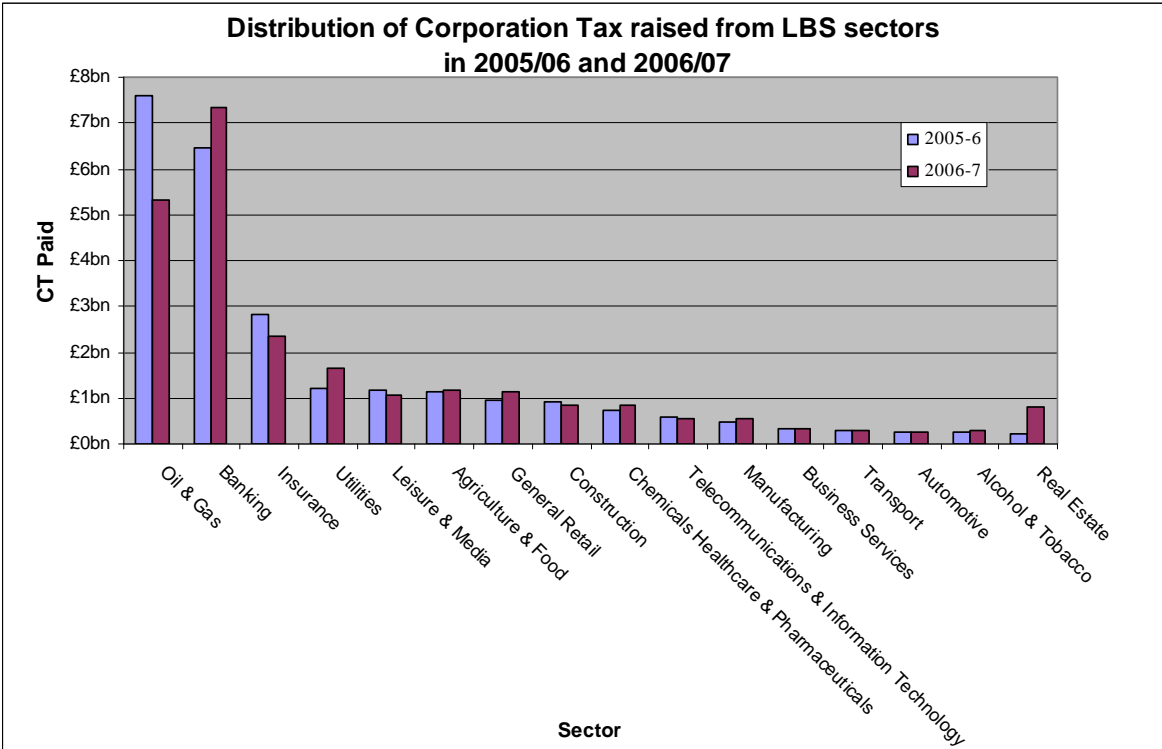
On the basis shown in chart 1 the 50 businesses paying the largest amounts (6.6% of the total number of LBS businesses) paid some 66% of the total paid by all LBS businesses. This reflects the fact that a small number of businesses dealt with by LBS are significantly larger than the other businesses.

74 businesses paid no Corporation Tax and a further 138 paid less than £500k.¹

Distribution of Corporation Tax payments by sector

The details published in the NAO report related to the financial year 2005/2006. Chart 2 below also shows details for the following year and is in the format used in the NAO and PAC reports. It shows the total CT paid by businesses in each LBS sector for their accounting periods ending in the financial years 2005/2006 and 2006/2007 (years to 31 March 2006 and 2007).

Chart 2



Total CT receipts for LBS businesses for their accounting periods ending in the financial year 2006-07 were £24.85bn which was £575m (2.3%) less than receipts for their accounting periods ending in the financial year 2005-06. A commentary on the trends is provided below.

¹ The NAO analysis for 2005/2006 included all businesses that paid less than £500k

Commentary on trends in Corporation Tax payments

Sector trends 2006/2007 – Sectors with significant changes²

Banking Increase in CT payments: £883m (13.6%)
Profits from commercial and investment banking increased in 2006, helped by various factors such as low costs from defaults.

Insurance Reduction in CT payments: £501m (17.6%)
The different types of activity within the sector (General Insurance, Life Assurance, Pensions, Savings and Reinsurance) were affected differently by a variety of factors. One particular factor was a fall in bond market values in 2006 after a rise in 2005 which contributed to the lower level of CT payments in 2006/2007.

Oil & Gas Reduction in CT payments: £2,300m (29.8%)
In January 2006 there was an increase in the rate of the oil and gas supplementary tax charge. As a transitional measure businesses were allowed to defer capital allowances from the previous year so that they could be used against the higher rate. As a result there was a large increase in CT paid in 2005/06 because of the hold over of allowances, producing an apparent reduction in 2006/07 receipts.

Chemicals Healthcare & Pharmaceutical Increase in CT payments: £120m (16.8%)
Changes in this sector related mainly to particular circumstances of individual businesses.

General Retailing Increase in CT payments: £202m (21.1%)
Changes in this sector related mainly to particular circumstances of individual businesses.

Real Estate Increase in CT payments: £597m (273.6%)
The new Real Estate Investment Trust (REIT) tax regime was introduced for certain property investment companies in 2006/2007. Companies choosing to enter the scheme had to pay an entry charge based on the value of their property holdings. The increase in CT payments for 2006/2007 related primarily to REIT entry charges.

Utilities Increase in CT payments: £415m (33.8%)
The sector covers a wide variety of activities and business structures, with increasing international involvement. General improvements in pricing and supply levels, with some reductions in costs, increased profits in energy businesses in particular.

² Commentary is provided for sectors which had a change of £100m or 25% against previous year

Corporation Tax Enquiries

PAC Conclusion and Recommendation 3

Of the £2.7 billion additional tax generated by the Department's Corporation Tax enquiries in 2006-07, 99% came from 40% of the enquiries.

To increase the yield from enquiries and make better use of its staff the Department should target those businesses that pose the greatest risks of non-compliance. To demonstrate its progress in targeting risks it should publish annually the distribution of its enquiries by value.

The details published in the NAO report related to the position in 2007. Charts 3 and 4 below also show the position at 1 April 2009 and are in the format used in the NAO and PAC reports. The values shown are those expected on closure of enquiries.

Chart 3

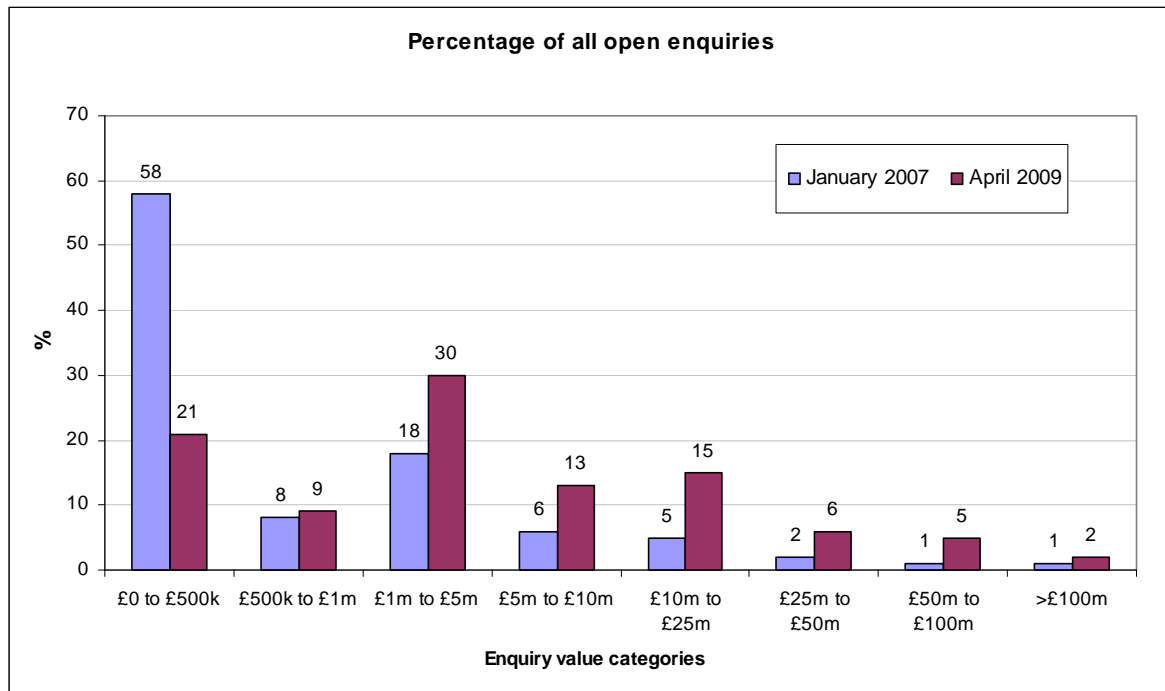


Chart 3 shows the percentage of LBS open Corporation Tax enquiries falling into the specified value bands. It shows that the percentage of LBS enquiries involving less than £500k has been reduced from 58% of open enquiries at January 2007 to 21% at April 2009. Over the same period the percentage involving over £10m tax has increased from 9% to 28%. Those changes reflect the LBS emphasis on moving resources from lower risks to higher risks.

Chart4

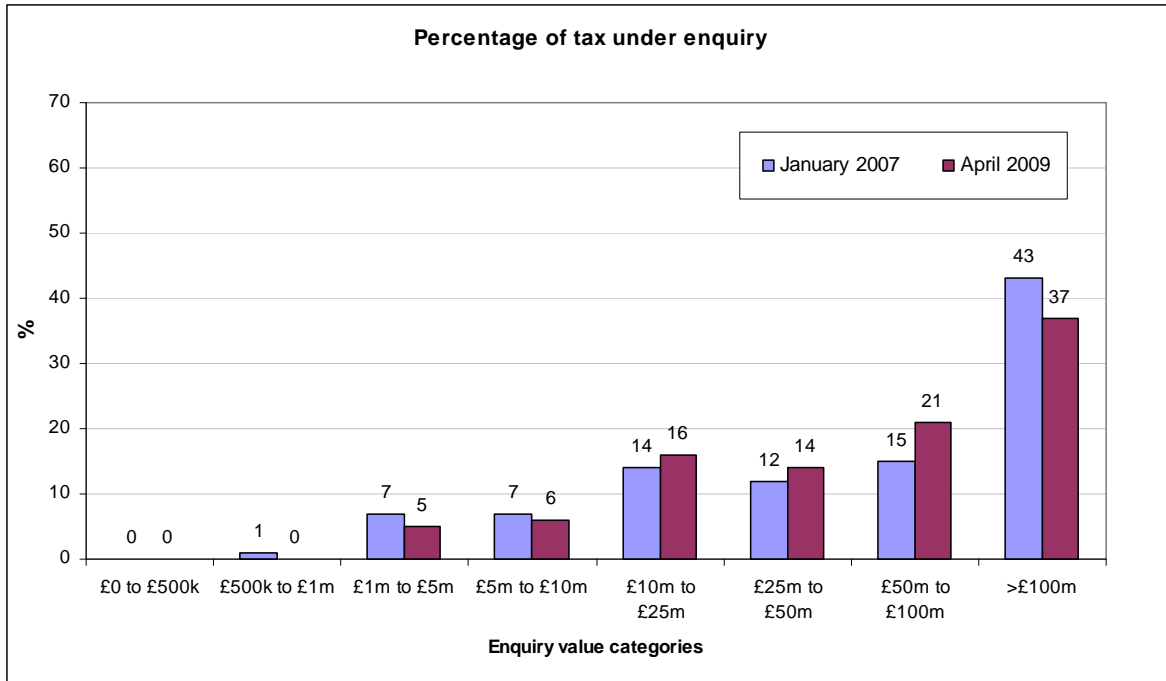


Chart 4 shows the percentage of all Corporation Tax under enquiry falling into the specified value bands. Enquiries involving over £10m tax account for 88% of the total tax under enquiry (84% at January 2007). The reduction from 43% to 37% in the percentage of tax relating to enquiries over £100m reflects the resolution of some very large enquiries in the year to March 2009.