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Business income manual 2017

UK tax on UK resident companies and companies with permanent institutions in the UK Throughout this article, the term pound and q symbol refer to the pound sterling. Tax revenues of the CORPORATION of Great Britain for 1999-2016, both in absolute terms and as a percentage of GDP. Taxation in the United Kingdom of the Government Departments of HM Treasury HM Revenue and Uk Customs Vat Tax PAYE National Insurance Corporation Capital Gains Tax Inheritance Tax Inheritance Pre-owned Asset Tax Stamp Duty Reserve Stamp Duty Annual Tax on converted Home Insurance Premium Tax Air Passenger Tax The Welsh Tax Office's Income Tax Tax On Landfill Tax Local Government Council Tax Domestic Rates in Northern Ireland Business Rates in England Business Rates in Scotland Business Rate in Northern Ireland Vte Corporation Tax in the United Kingdom is a corporate tax levied on profits of UK resident companies and on profits of organisations registered abroad with permanent institutions in the UK. Until April 1, 1965, companies were taxed at the same income tax rates as individual taxpayers, with additional income tax levied on companies. The Finance Act of 1965 replaced this structure for companies and associations with a single corporate tax, which took its basic structure and rules out of the income tax system. Since 1997, the British rewrite Tax Law Rewrite Project has modernized UK tax laws, starting with income tax, while the legislation introducing corporate tax itself has been changed, the rules governing income tax and corporate tax have thus diverged. Corporate tax is regulated by the Corporate Income and Corporation Tax Act 1988 (as amended) before the project is rewritten. Originally introduced as a classic tax system in which companies were taxed on their profits and company shareholders were also subject to income tax on dividends received, the first major amendment to the corporation tax saw it move to a dividend payment system in 1973, under which an individual receiving dividends was entitled to a tax credit representing a corporate tax already paid by the company. paying dividends. The classical system was reintroduced in 1999 with the abolition of the upfront corporate tax and the repaid tax breaks on dividends. Another change a single basic tax rate divided into three parts. Tax competition between jurisdictions reduced the basic corporate tax rate from 28% in 2008-2010 to a fixed rate of 20% compared to April 2015. The UK Government has faced problems with corporate tax structure, including the decisions of the European Court of Justice that its aspects are incompatible with EU treaties. Tax evasion schemes, such as the financial sector, have also proved to be irritant and have been opposed by complex anti-tax evasion legislation. The complexity of the corporate tax system is a recognized issue. The Labour government, backed by opposition parties, carried out a wide-ranging reform of the Tax Law Rewrite Project, which resulted in the adoption of the Corporate Taxation Act in 2010. The tax gradually integrates common accounting practices with corporate taxation in various specific areas based directly on accounting. The corporation's total net tax revenue in 2016-17 was a record 56 billion euros. The story of Jim Callaghan, chancellor of the Exchequer, who introduced corporation tax in 1965. Until 1965, companies were subject to income tax on their profits at the same rates as individual taxpayers. There is a system of dividend payment, under which income tax paid by the company is compensated by obligations on income tax of the shareholder who received dividends from the company. The standard rate of income tax in 1949 was 50%. If the company paid a dividend of 100 pounds, the recipient would be treated as if he had earned 200 pounds and paid 100 pounds of income tax - a tax paid by the company, fully covered the tax paid from an individual on dividends paid. However, if an individual is taxed at a higher rate (known as surtax), he (not the company) will be required to pay additional tax. In addition to income tax, companies are also subject to income tax, which is deducted from the company's profits when determining income tax liabilities. It was a differentiated tax, with a higher tax rate on dividends (profits distributed to shareholders) than for profits saved in the company. By penalizing the distribution of profits, it was hoped the companies would retain profits for taxation, which was considered a priority after the Second World War. 13 The tax did not make the desired effect, so the distributed income tax was increased by 20% 14 by the post-war Labour government to encourage companies to save more of their profits. At the time of Hugh Gateskell's 1951 budget, income tax was 50% for distributed profits and 10% for undistributed profits. A series of reductions in income tax was brought in from 1951 onwards by the new Conservative government. Tax rates decreased to 22.5% on distributed profits and 2.5% on undistributed profits by 1957, but income tax was no longer taxed on income Derick Heathcote-Amori's March 1958 budget replaced the differentiated income tax with a single measure of income tax applicable to both undistributed and distributed profits. This gradual reduction and the eventual abolition of capital taxation reflects the ideological differences between the Conservative and Labour parties: parties: The approach is to distribute profits among holders of capital to invest elsewhere, while Labour has sought to force companies to retain profits to reinvest in the company in the hope that it will benefit the company's workforce. The Finance Act of 1965, 1965, replaced the income tax and income tax system from 1 April 1965 with the Corporate Tax, which reintroduced aspects of the old system. Corporate tax is levied at a flat rate on all profits, but an additional tax is then paid if the profits are distributed as dividends to shareholders. In fact, the dividends were double taxation. This corporate tax method is known as the classical system and is similar to the one used in the United States. The effect of the tax is to return to the distribution tax, which runs from 1949 to 1959: dividend payments are taxed more tax than profits saved in the company. The Finance Act of 1965 also introduced a capital gains tax of 30% levied on the profits levied on the disposal of the capital assets of individuals. Until 1965, capital gains were tax-free, and it was advantageous for taxpayers to argue that the receipt was tax-free capital rather than taxable income. Pre-Corporation Tax Home article: Pre-corporation tax The basic tax structure, where company profits are taxed as profits and dividend payments are then taxed as income, remained unchanged until 1973, when a partial tax payment system was introduced to pay dividends. Unlike the previous system of imputed, the tax credit to the shareholder was less than the corporate tax paid (the corporation tax was above the standard rate of income tax, but the change, or set, was only standard tax). When companies made the distribution, they also paid an upfront corporation tax (known as ACT) which could be imposed against the basic corporation tax, subject to certain restrictions (the full amount the ACT paid cannot be recovered if significantly larger amounts of profits were distributed). Individuals and companies that received dividends from a British company received a tax credit representing the ACT. Individuals can receive a tax credit for their income tax liabilities. When introduced, the ACT was set at 30 per cent of the gross dividend (the actual amount paid plus the tax credit). If the company paid a dividend of 70 pounds the company will pay 30 euros of upfront corporate tax. The shareholder will receive a cash payment of 70 euros plus a tax credit of 30 euros; thus, the person would be considered to have earned 100 pounds, and had already paid a tax of 30 pounds on him. ACT paid by company will be deducted against its final core principal tax bill. To the extent that the individual's dividend tax was less than the tax credit - for example, if his income was too low to pay tax (below 595 pounds in 1973-1974) - he would be able to return some or all of the 30 pounds of tax paid by the company. The credit was only partial, as the company would pay 52% tax (small companies had lower rates but still higher than the ACT rate), and thus the 70 pounds received by the person actually represented a pre-tax profit of 145.83 euros. Accordingly, only a part of the double taxation was exempted. The ACT is not paid on dividends from one British company to another (unless the creditor company has decided to pay it). In addition, the recipient company was not taxed on this dividend receipt, except for dealers of shares and life-providing companies for a portion of their profits. Because the payer company would have inflicted tax on the payments it made, the company that received the dividend also received a loan that it could have used to reduce the amount it had paid or, in some cases, apply for a tax credit refund. The ACT level was linked to the basic rate of income tax between 1973 and 1993. Norman Lamont's March 1993 budget reduced the ACT rate and tax credit to 22.5 per cent since April 1993 and 20 per cent since April 1994. These changes were accompanied by a reduction in income tax on dividends to 20%, while the basic rate of income tax remained at 25%. Those subject to taxation were easily affected by the change because income tax liabilities were still balanced by the tax credit received, although higher taxpayers paid an additional 25% tax on the amount of dividends actually received (net), up from 20% before the change. This change has had a greater impact on pensions and non-taxpayers. The pension fund, which receives a dividend income of 1.2 million euros before the change, would be able to return 400,000 euros in taxes, which gives a total income of 1.6 million euros. After the change, only 300,000 pounds was returned, which reduced revenues to 1.5 million euros, a drop of 6.25%. Gordon Brown's 1997 summer budget stopped pension funds and other tax-exempt companies from immediately returning tax breaks, as well as for individuals from April 1999. This tax change has been blamed for the poor state of The British Pension Service, while usually ignoring the more significant effect of the dotcom crash of 2000, when the FTSE-100 lost half its value to fall from 6,930 in early 2000 to just 3,490 by March 2003. Despite this, critics such as MP Frank Field have described it A hammer blow, as the Sunday Times described it as a fraud, with a hypothetical income of 1.5 million euros described above, a drop to 1.2 million euros, a 20% drop in revenue because no tax would be refunded. The abolition of the upfront corporation tax from 6 April 1999 by the ACT was abolished, abolished, has been reduced to 10%. There was a corresponding reduction in the basic rate of income tax on dividends to 10%, while a new higher rate of 32.5% was introduced, which led to an overall effective 25% tax rate for taxpayers with a higher rate on dividends (after the establishment of this conditional tax credit against tax liability). While non-taxpayers could no longer claim this amount from the treasury (unlike taxpayers who could deduct it from their tax bill), 20% of the ACT (which would previously have been deducted from dividends before payment) is no longer charged. The repeal of the ACT was effectively one of the biggest tax grabs ever by the Chancellor, as pension companies could no longer return the tax paid on dividends (along with pensioners and other income dependents). It is currently worth more than 10 billion euros a year and is one of the factors that lead to the death of the final wage pension system. (ref: . This is one of the biggest tax grabs ever sold as a tax repeal. The ACT, which was incurred before 1999, could still be used against the company's tax obligations provided it could establish it under the old system of change. In order to maintain the flow of payments related to corporation tax upfront payments, large companies (including most of the corporation's tax revenues) were subjected to a quarterly tax-paying installment scheme. Betting on its introduction in 1965, corporate tax was levied by 40%, rising to 45% in the 1969 budget. This figure then fell to 42.5 per cent in the second budget of 1970 and 40 per cent in 1971. In 1973, along with the introduction of the Upfront Corporate Tax (ACT), Conservative Chancellor Anthony Barber created a basic rate of 52%, along with smaller companies a rate of 42%. This apparent increase was negated by the fact that under the ACT scheme dividends are no longer subject to income tax. Geoffrey Howe's Conservative budget in 1979 cut the small business rate to 40 per cent, before further slashing the 1982 budget to 38 per cent. Budgets from 1983-1988 fell sharply in both major and small companies, falling to 35% and 25% respectively. Budgets between 1988 and 2001 led to a further drop to 30 per cent of the principal rate and 19 per cent of small business rates. From April 1983 to March 1997, the rate of small companies was pegged to the basic rate of income tax. In the 1980s there was briefly a higher tax rate imposed on capital gains. Chancellor Gordon Brown's 1999 Budget introduced an initial rate of 10 per cent for profits ranging from 0 to 10,000 euros, starting in April 2000. Marginal assistance was used, which means that companies with profits of between 10,000 and 50 euros were paid at a rate between the starting rate and the rate of small companies (19% in 2000). The 2002 budget reduced the starting rate to zero, while the marginal benefit was applied in the same way. It's this. A significant increase in the number of companies incorporating as businesses that acted as self-employed, paying income tax on profits of just over 5,000 pounds, were attracted to the corporation tax rate of 0% of income up to 10,000 pounds. Previously, self-employed persons could distribute profits as dividend payments rather than salaries. For companies with profits of less than 50,000 pounds, the corporate tax rate ranged from 0% to 19%. Since dividend payments come with a base rate tax credit, provided the recipient does not earn more than the base rate of the surcharge, no additional tax will be paid. The number of new companies formed in 2002-2003 reached 325,900, which is 45% more than in 2001-2002. The fact that individuals working in this way could potentially pay no tax at all was felt by the Government as unfair tax evasion, and the 2004 budget introduced a non-copyary distribution rate. This ensured that in cases where a company is paid below the small company rate (19% in 2004), dividend payments to non-corporate companies (e.g. individuals, trusts and personal representatives of deceased persons) will be subject to additional corporate tax, resulting in up to 19% corporate tax. For example, a company making a profit of 10,000 pounds and paying dividends of 6,000 pounds to an individual and 4,000 pounds to another company will pay 19% corporate tax on 6,000 pounds. Although the measure had significantly reduced the number of small businesses included in the 2006 Budget, the Chancellor stated that small-scale tax evasion by registration was still a serious problem and had completely abolished the starting rate. Historic Tax Revenues The following graph shows the tax revenues of a British corporation from 1999 to 2017: taxable profits and accounting profits The starting point for calculating taxable profits is pre-tax profits (excluding life-providing companies). The corporate tax rules generally worked in parallel with income tax until 1993, when the first statutory rule on transferring income reporting to the common accounting practice was introduced, although the courts were already moving towards the requirement to calculate trading profits using general accounting rules. The Finance Act of 1993 introduced rules to allow a tax on foreign exchange profits and losses to mimic their circulation in the company's financial statements in most cases. The Finance Act 1994 introduced similar rules for financial instruments, and the Finance Act 1996 also brought the ratio of most credit relationships in line with the accounting regime. about the finances of 1997 saw something similar with rental premiums. A year later, the 1998'41 Finance Act went even further, making it clear that taxable trading profits (separate from those accruing to Lloyd's corporate name or to life guarantee company) and rental business profits are equal to profits calculated under general general Accounting Practices (GAAP) if there is no specific statutory or case law rule to the contrary. This was followed by the Finance Act 2004, which provided that where a company with an investment business could make deductions for management expenses, they were calculated on the basis of data provided in the financial statements. International financial reporting standards since 2005 for all companies registered in the European Union must prepare their financial statements using the International Financial Reporting Standards (IFRS) modified by the EU. Other British companies may accept IFRS. The Corporate Tax Act is changing in such a way that IFRS profits are largely respected in the future. The exceptions are certain financial instruments and some other measures to prevent tax arbitration between IFRS companies and companies applying GAAP. Tax evasion is defined by the UK government as bending the rules of the tax system to gain a tax advantage that Parliament never intended. Unlike most other countries, most British tax professionals are accountants rather than academic lawyers. Until 2013, there was no general rule in the UK to combat corporation tax evasion (GAAR). However, he inherited an anti-tax rule on securities transactions, and has since added various mini-GAARs. The most famous mini-GAAR prevents the deduction of interest paid when the loan to which it belongs is made for irrefutable purposes. In 2013, the government introduced a general rule to combat tax evasion to manage the risk of tax evasion. The Finance Act 2004 introduced disclosure rules requiring promoters of certain schemes of tax evasion related to financing or employment to disclose the scheme. Taxpayers who use these schemes should also disclose their use when they submit their tax returns. This is the first of its kind in the UK, and the Finance Act 2005 showed that a number of tax avoidance schemes were blocked earlier than expected before disclosure rules. The need for big incomes At the beginning of the 21st century, the government sought to increase corporate tax revenues. In 2002, it introduced a separate 10% surcharge on profits from oil and gas companies, and the Finance Act 2005 included measures to accelerate when the oil and gas business had to pay tax. Instead of paying tax in four equal instalments in the seventh, tenth, thirteenth and sixteenth months after the start of the reporting period, they will have to consolidate their third and fourth payments and pay them in the thirteenth creating a cash flow advantage for the government. The Finance Act 2005 (No. 2) continued measures specifically relating to life-making companies. When it was originally announced (as Finance (No. 3) Bill 2005) Legal and General told the Stock Exchange that 300m had been wiped off its value, and and (Norwich Union) has announced that the tax changes will see its policyholders 150 million euros. The method of collecting corporate tax collection powers must be passed annually by Parliament, otherwise there is no authority to collect it. The fee for the financial year (starting on April 1 of each year) is levied as a result of successive financial acts. The tax is levied on the company's accounting period, which is usually the 12-month period for which the company prepares its accounts. Corporate Tax Administration by Her Majesty's Tax and Customs (HMRC). The corporation's valuation tax is levied on the company's net profit. With the exception of some life-providing companies, the company carries it as a direct tax. Until 1999, corporation tax was not due to if HMRC raised the valuation on the company. However, companies were required to provide HMRC with some details so that the correct amount could be assessed. This changed during the accounting periods ending on or after 1 July 1999, when self-assessment was introduced. Self-assessment means that companies have an obligation to evaluate themselves and take full responsibility for this assessment. If self-esteem is wrong by negligence or negligence, the company may be held accountable. The self-assessment tax return must be delivered to HMRC 12 months after the end of the account period in which the reporting period falls (although the tax must be paid before that date). If the company cannot submit a refund by then, it is liable to punishment. HMRC can then issue a tax ruling that cannot be appealed - but in practice they wait until another six months. In addition, the most common claims and choices that can be made by the company must be part of its tax return, with a time limit of two years after the end of the reporting period. This means that the company filing its declarations more than a year later suffers not only from fines for delays in filing applications, but also because of the inability to make these claims and elections. Since 2004, there has been a requirement for new companies to notify HM Revenue and Customs about their formation, although HMRC has been notified of new company registrations from Companies House. Companies will then receive an annual CT603 notice, approximately 1-2 months after the end of the company's financial period, notifying it of its annual profit. This should also include the company's annual reports and possibly other documents, such as auditors' reports, that are required for certain companies. Schedular System Home article: Schedular tax system In the Kingdom the rule of source applies. This means that something is taxed only if there is a specific provision, bringing it within the charge to the tax. Accordingly, profits are levied on corporate tax only if it under one of the following, and otherwise not exempt from the direct provision of the Tax Act: taxes: Income from British Land (61) Schedule D Taxable Income, not subject to another Schedule F Income from British Dividends, as defined by the legislation that is not taxed as income, CFC charges profits made by controlled foreign companies where there is no exception: in practice, companies are not taxed under Schedule F. Most companies are exempt from Schedule F and there is a provision for those companies that are taxed on UK dividends (i.e. dealers in shares) that removes the fee from Schedule F in Schedule D. Controlled Foreign Company (CFC) is a company controlled by a resident of the UK who is not a resident of the UK and is subject to a lower tax rate in the territory in which it is a resident. Under certain circumstances, UK resident companies that control CFC corporation tax pay tax on what the UK's tax profits would be from this CFC. However, due to a wide range of exceptions, very few companies suffer from CFC fees. Schedules B, C and E used to be, but no longer exist. Authorized unit trusts and OEICs are not taxed on their taxable profits. Schedule D itself is divided into a number of cases: Scope Case I Profits from British Trade (68) Case III Percentage Income and Profit/Loss on Loans, Derivatives, Financial Instruments and Intangible Assets (Case V Overseas Income) - Case V Overseas Income- Case VI's annual income, which is not subject to I, III and V, and other income/profits specifically taxed under the notes of the vi and IV business relate only to income tax, not corporation tax. Strictly speaking, the Corporation Tax Act 2010 replaces the historical terminology of Schedule A, Schedule D Case I, etc. in more descriptive terms, but this does not affect the substantial application of the schedular system, so, for example, different rules apply to the use of tax losses depending on the nature of the income under which the loss occurs. Most direct expenses are deducted when calculating taxable income and taxable income. Notable exceptions include any entertainment expenses for customers. Companies with investment businesses can deduct certain indirect costs, known as management expenses when calculating their taxable profits. Similar assistance is available for the company's living expenses taxed on the basis of I minus E, which relate to the basic guarantee of the life of the company and the general annuity business. Donations made to charities are also usually deducted when calculating taxable income if they are made in accordance with Gift Aid. Rates and Payments Budget 2007 announced a reduction in the base rate from 30% to 28%, since April 2008 At the same time, the rate of small companies has been increased from 19% to 20% since April 2007, 21% in April 2008, to stop individuals artificially incorporating as small companies to avoid paying their due share of tax, a practice if left unattended would cost the rest of the taxpayers billions of pounds. Speed Speed the tax is determined by the fiscal year, which lasts from April 1 to the following March 31. The fiscal year 2017 fiscal year began on April 1, 2017 and ends on March 31, 2018. In cases where the company's accounting period fluctuates the financial year in which the corporate tax rate has changed, the company's profits during this period are divided. For example, a company pays at the rate of small companies for the accounting period from January 1 to December 31 and receives 100,000 euros in profits in 2007, will be considered to have made 90/365 '100,000 - 24,657.53 euros in 2006 (there are 90 days between January 1 to March 31), and 275/365-100 000 yuan 75 34.47 in 2007, and will pay 19% on the FY06 part, and 20% on the FY07 part. Since April 1, 2010, HM Revenue and Customs has updated its terminology, and the rate of former small companies is now called Small Profits Rate. Corporate tax rates for 2008-2014 financial years 2008-2014 2014, 2014 Small profit rate 21% 20% 20% 20% 20% Small profit upper limit 300,000 euros 300,000 euros (300,000 euros) 300,000 euros (300,000 margin limits of assistance) - 300,001 euros - 1,500,000 euros (300,000 margin limits of assistance) - 300,001 euros - 1,500,000 euros (300,000 margin limits of assistance) - 300,001 euros - 1,500,000 euros (3 500,000 euros 300,001 euros - 1,500,000 euros 300 001 euros - 1,500,000 euros 300 001 euros - 1,500,000 euros Basic rate 28% 26% 24% 23% 21% shown on the right side are divided into one plus the number of partners (usually the only partners of the company are colleagues in the group of companies, but the term is more broadly defined) the main activity of which is investment). They also do not apply to companies that are in liquidation after the first 12 months. Authorized division trusts and open investment companies are taxed at the basic rate of income tax, which is 20% compared to 2010. Companies operating in the oil and gas industry in the UK or on the UK continental shelf are subject to an additional 10% fee for their profits from these activities, and most companies are required to pay taxes nine months and a day after the end of the reporting period. Large companies are required to pay quarterly contributions in the seventh, tenth, thirteenth and sixteenth months after the start of the full reporting period. These times are modified where the reporting period lasts less than twelve months. Since 2005, third and fourth quarters, including an additional 10 per cent, have been merged to tax oil and gas profits. In fiscal year 2004-2005, about 39,000 companies paid corporate tax at the basic rate. These 4.7% of active companies are responsible for 75% of all corporation tax revenues. About 224,000 companies paid at the rate of small companies, with 34,000 companies little help. 264,000 were in the starting rate, with benefit from the lower band of marginal relief. Total revenue was 41.9 billion euros from 831,885 companies. Only 23,480 companies were responsible for more than 100,000 euros. HM Revenue and Customs's investigation powers HMRC has one year from the usual filing date, which is itself a year after the expiration of the account period, to open an investigation into the return. This period is extended if the refund is late. The investigation is ongoing until all matters that HMRC wishes to know about the return are addressed. However, the company may ask income tax commissioners to close the investigation if they believe there is an unjustified delay. If either party disputes the amount of tax that is paid, they can apply to either the General or the Special Commissioner for Income Tax. Appeals for points of law can be filed in the High Court (the Court of Session in Scotland), then the Court of Appeal, and finally with leave, in the House of Lords. However, actual decisions are binding and can only be appealed if no reasonable commissioner has been able to make such a decision. Once the investigation is closed or the time to start the investigation has passed, HMRC may not reopen until the previous year if they become aware of an issue they could not reasonably have known about at the time, or in cases of fraud or negligence. In cases of fraud or negligence, they can reopen cases from up to 20 years ago. Once the HMRC investigation is closed, or after the final decision by the courts, the taxpayer has 30 days to change their return, and make additional claims and choices if necessary before the assessment becomes final and final. If there is no request, the score becomes final and final as the only period in which the Income can open the request passes. Exemption from double taxation There is a risk of double taxation whenever a company receives an income that is already taxed. This may be a dividend income that will be paid out of the profits of another company after tax and which may have incurred withholding tax. Or it could be because the company itself has suffered from foreign taxes, perhaps because it conducts part of its trade through an overseas permanent institution, or because it receives other types of foreign income. Double tax avoids UK dividends by exempting them from taxes for most companies: only dealers in stocks suffer tax on them. In cases where double taxation arises from the payment of taxes abroad, assistance is available either in the form of expenses or in the form of credit assistance. The exemption from expenses allows you to consider the foreign tax as a deduction of expenses in tax calculations. Credit assistance is provided as a deduction from the tax UK, but is limited to the amount of UK tax incurred on foreign income. There is a system of ground association, so that foreign taxes incurred in high tax areas can be established in respect of taxable income associated with low tax territories. Since July 1, 2009, new rules and regulations have been introduced Non-UK dividends are from corporate tax, so these double tax rules for non-UK dividends will have less common application in practice after that date. Loss exemption Detailed and separate rules apply to how all different types of losses can be established within the company's calculations. A detailed explanation of this can be found in: UK Corporation Tax Benefits. Group Relief UK does not allow tax consolidation where companies in the group are treated as if they are a single entity for tax purposes. One of the main advantages of tax consolidation is that tax losses in one entity in the group are automatically exempt from the tax profits of another. Instead, the UK is authoring a form of loss relief called group aid. In cases where the company has losses arising during the reporting period (except for capital losses or losses arising under Case V or VI Schedule D) exceeding its other taxable income during that period, it may surrender these losses to a member of the group with sufficient taxable profit for the same reporting period. A company that receives losses can compensate them for its own taxable profits. Exceptions include that a company in the oil and gas industry cannot accept a group relief from the profits arising from its oil and gas business, and a life-giving company can only accept group relief from its taxable profits at the standard shareholder rate applicable to that company. Separate rules apply to companies with dual residents. Full group relief is allowed between companies subject to UK corporation tax, which are in the same 75% group where companies have a common end parent, and at least 75% of shares in each company (except the final parent) are owned by other companies in the group. Companies in the 75% group do not all must be British residents or subject to UK tax breaks. An open investment company cannot be part of the group. The relief of the consortium is allowed in cases where the company, which is taxed on uk corporations, is owned by a consortium of companies, each of which owns at least 5% of the shares and together owns at least 75% of the shares. A consortium company can only surrender or accept losses in proportion to how much of this company is owned by each consortium group. Example Calculation Example Is an example of a settlement involving a company that has one partner from which it receives the help of a group of 50,000 pounds. Example Company Ltd - Schedule A (UK Land) 100,000 Schedule D - Case I (UK Trade) 200,000 - Case I Loss Advanced 1 (100,000) 100,000 - Case III (Credit Relationship, Financial Instruments) 100,000 - Case V (overseas) 300,000 - Case VI (other annual profit) 10,000 cash profit (capital gains) 150,000 permissible (capital) losses, (50,000) 100,000 less: Non-trade debits withdrawn 2 (50,000) : Deduction of management expenses 3 (20,000) Less: Fees (donations (donations (donations UK Charities) (10,000) Less: Aid Group Accepted (50,000) Profits Charged with Corporate Tax 580,000 Tax 750) Less: Double Tax Benefit 5 (30,000) Tax Liabilities for the period 97,250 Note: 1 UK trade loss raised from previous reporting periods, should be exempt as much as possible from any trading profit in the current reporting period. They cannot be exempt from non-trading profits. 2 Forward-traded non-traded debts can be used against non-trading profits; they cannot reduce trading profit 3 Deduction of management expenses due to expenses incurred on management of the company's investments. 4 Ultimate Aid Calculations is as follows: Marginal Aid Faction × (Upper Limit ÷ (Partners - 1) - Profit) 1/40 × (1,500,000 ÷ (1'1) - 580,000) 5 30,000 pounds overseas tax was included in the taxable D Case V figure. Double tax breaks available at the bottom of overseas taxes have been hit and UK corporation tax has been hit by overseas earnings. Interaction with European law While there are no European Union directives on direct taxes, British law must comply with European law. In particular, legislation should not be discriminatory under the EU treaty. A number of cases have been referred to the European Court where United Kingdom tax law is considered discriminatory, usually against the freedom of creation and freedom of movement of capital. The key cases that have been resolved include: Hearcht , when the Court found that the way the partial-imposed system operated before its abolition in 1999 was discriminatory; Lankhorst-Hohorst is a German case that implied that UK law on transfer prices and fine capitalization may have contravened EU law (the Finance Act 2004 amended the fight against this threat); Marks and Spencer - where it was argued that British parents should be able to ease the loss of foreign subsidiaries from the tax profits of their UK sub-group (On 7 April 2005, the Attorney General gave a conclusion supporting the British parent's demand to compensate for the loss of their EU subsidiaries, where there was no effective relief of losses in EU member states in which the subsidiaries were located). However, a compromise agreement was reached in the final decision in which the national interest, in order to prevent excessive tax losses, in most cases outweighed the restriction on the freedom of movement of capital. Accordingly, although no specific new legislation has been enacted, assistance for losses abroad will only be available when they cannot be used in overseas jurisdictions; Cadbury Schweppes - where it was recognized that CFC rules only if they are fully artificial mechanisms designed to avoid the UK tax normally paid. In addition, the case of ICI v Colmer has led the UK to amend the definition of the group to facilitate the relief Previously, the definition required that all companies and intermediate parent companies in the group be UK residents. There are also a number of other cases, slowly, towards the European Court of Justice. In particular: The Litigation Group's ruling arguing that dividends received from foreign companies should be tax-exempt in the same way as dividends received from British companies are tax-exempt; Claims that the UK's CFC legislation is contrary to EU law (in particular, Vodafone). Recent events of the Corporation for Tax Reform There have been a number of proposals for corporate tax reform, although only a few have been accepted. In March 2001, the Government published a technical note, the Small Business Tax Review, which considered simplifying corporate tax for small companies by better aligning their profits for tax purposes with those registered in their accounts. In July of the same year, the government also published an advisory document Taxation of big business: government strategy and corporate tax reform. It produced a strategy to modernize corporate taxes and proposals to facilitate capital gains on significant shares of companies. In August 2002, corporate tax reform was published and an advisory paper was published outlining the initial proposals to abolish the Chemular system. This was followed in August 2003 by the Corporation's tax reform, an advisory document that also discussed the possible repeal of the Schedular system, as well as the question of whether the system of capital allowances (tax depreciation) should be abolished. It also made proposals that were eventually enacted in the Finance Act 2004. (The first two of the following were in response to threats to the UK tax base stemming from recent european court rulings.) The changes were: The introduction of transfer pricing rules for transactions between the UK and the UK. Transfer pricing rules require that some transactions be considered transactions that have taken place at arm-ended prices for tax purposes where they have not actually occurred as such. Merging the rules of fine capitalization with the rules of transfer pricing. Thin capitalization rules limit the amount a company can claim as a tax deduction for interest when it receives loans at non-commercial rates (e.g. from related parties). Extending the deduction to management expenses to all companies with investment business. Previously, the company had to be fully or mostly engaged in the investment business to qualify. In December 2004, the Corporation's tax reform was published - a technical note. It sets out the government's decision to abolish the henul system, replacing schedules and cases by two pools: a commercial and a rented pool; and the pool is everything else. The Government had decided that capital allowances would remain, although some reforms would be implemented, mainly affecting the leasing industry. Other legislation Other major reforms adopted, adopted, Exemption from taxable income tax at the disposal of significant shares in trading companies and groups (accepted under the Finance Act 2002). 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