



International tax policy

Tashkent state university of economics

Lecture 4




Origins of the United Kingdom's Corporation Tax

- ◎ Finance Act 1965 removed companies and associations from income tax (and a special company profits tax) and created:
- ◎ Corporation Tax, payable by UK resident companies and associations
- ◎ Tax borrowed its basic structure and many rules from income tax
- ◎ 1965 Finance Act also introduced a Capital Gains Tax (CGT). Companies don't pay CGT but are liable to CT on "chargeable gains"
- ◎ Rules have gradually diverged over time from those for income tax but some components linger on, e.g. schedular base.



The tax base:


- ◎ CT System has evolved rules on:
 - ◎ Income streaming (in a schedular system like UK)
 - ◎ Loss carry forward/carry back
 - ◎ Tax deductibility
 - ◎ Group relief
 - ◎ Rollover relief for capital gains and indexing
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Early History of Rates 1965 -1980

- ◎ Tax rate started out at 40% in 1965
- ◎ Raised to 45% in 1969
- ◎ Reduced to 42.5% in 1970
- ◎ Reduced to 40% in 1971
- ◎ Main rate of 52% introduced, and small companies rate of 42% in 1973.



Need for reform

- ◎ System prior to 1984 had
 - ◎ High rates
 - ◎ Narrow base
 - ◎ Negative effective marginal tax rates for some types of investment
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Significant corporate tax reforms since 1980

- ◎ **1984 Major Reforms** - Announcement of major reduction in CT rates from 52% in 1982/3 to 35% in 1986/7. First year and initial allowances phased out by 1986/7. Small companies rate cut in one step to 30% from 83/84. Stock relief abolished.
- ◎ 1986 - Small companies CT rate cut from 30% to 29%.
- ◎ 1987 Small companies CT rate cut from 29% to 27%
- ◎ 1988 Small companies rate cut from 27% to 25%

Significant CT changes in the 1990s.

- ① 1991 Main CT rate cut from 35% to 34% in 1990/91 and to 33% from 1991/92. Loss carry back extended from one to three years. 1992 Temporary enhanced capital allowances between November 1992 and October 1993: first year allowances of 40% on plant and machinery and initial allowance of 20% on industrial buildings
- ① 1995 Small companies rate cut from 25% to 24%.
- ① 1996 Small companies rate cut from 24% to 23%. Writing down allowances for long life assets cut from 25% to 6%.
- ① 1997 Main CT rate cut from 33% to 31%. Small companies rate cut from 23% to 21%. Loss carry back reduced from three years to one year. Windfall tax imposed on privatised utilities.



Significant CT Changes in the 1990s continued.

◎ 1998 Main CT rate cut from 31% to 30%. Small companies rate cut from 21% to 20% from 1999/00. Advanced Corporation Tax abolished from 1999/00. System of quarterly instalment payments phased in from 1999/00

◎ 1999 New starting rate for small companies introduced at 10% from 2000/01




CT changes since 2000

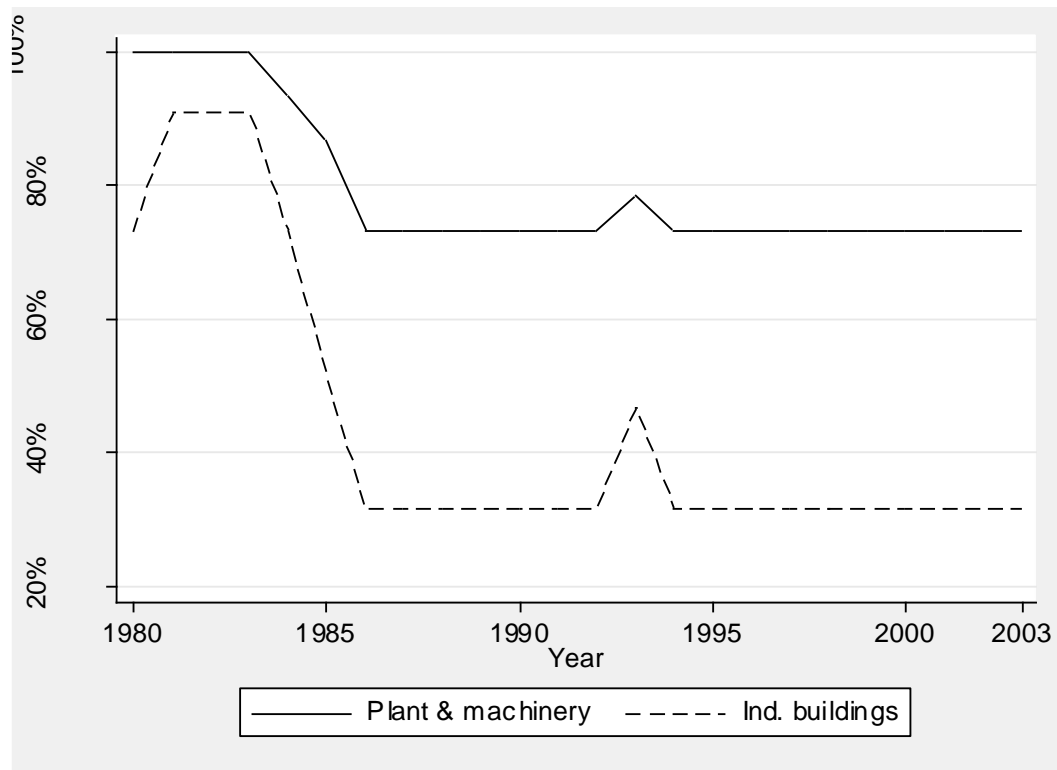
- ◎ 2002 Small companies rate cut from 20% to 19%. Starting rate cut from 10% to 0%.
- ◎ 2004 Non-corporate distribution rate (NCDR) of 19% introduced. First year investment allowances for SMEs raised to 50% for one year.
- ◎ 2006 Abolition of 0% rate and NCDR. All profits up to £50,00 to be taxed at 19% small co. rate.



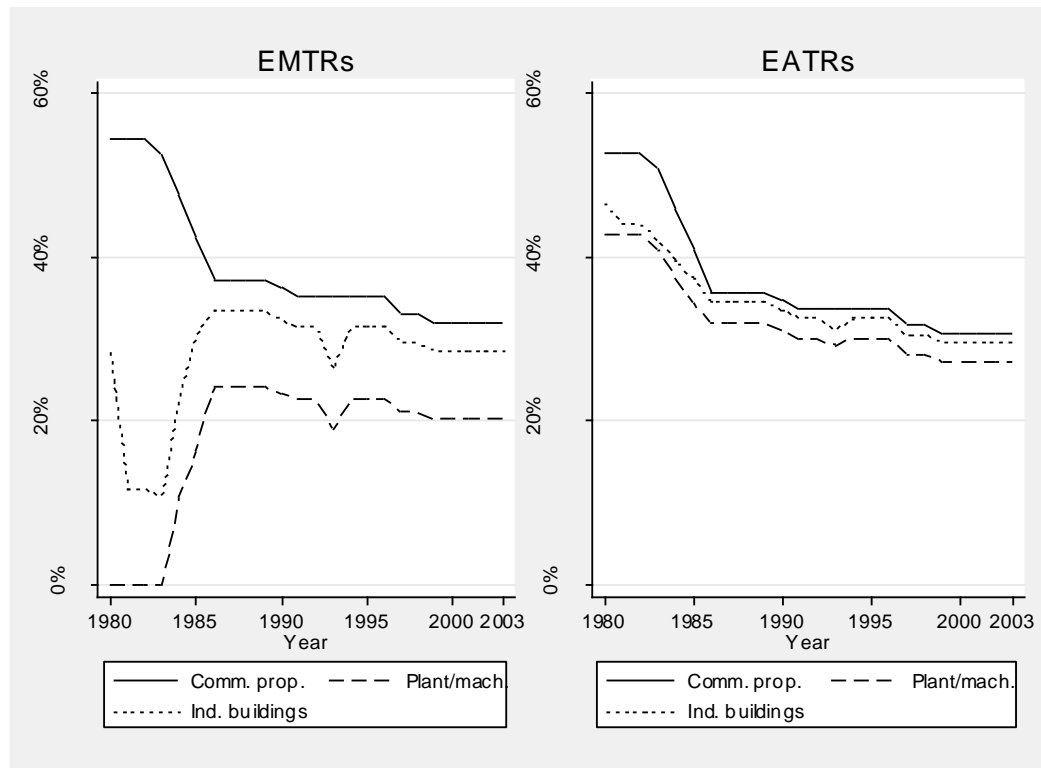
Current UK CT System: Lower rate & broader base

- ⊙ Elimination of very high negative EMTRs which could result in investment where no economic case because of effective subsidy via tax system
 - ⊙ Revenues maintained
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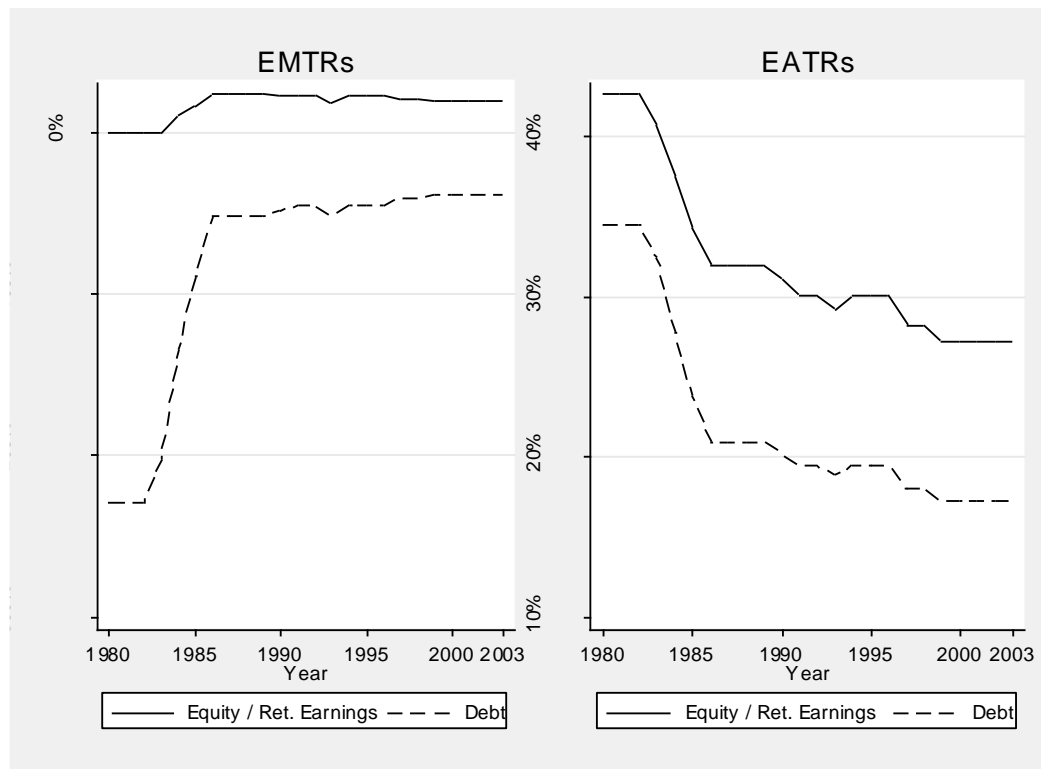
Investment Allowances for Different Assets



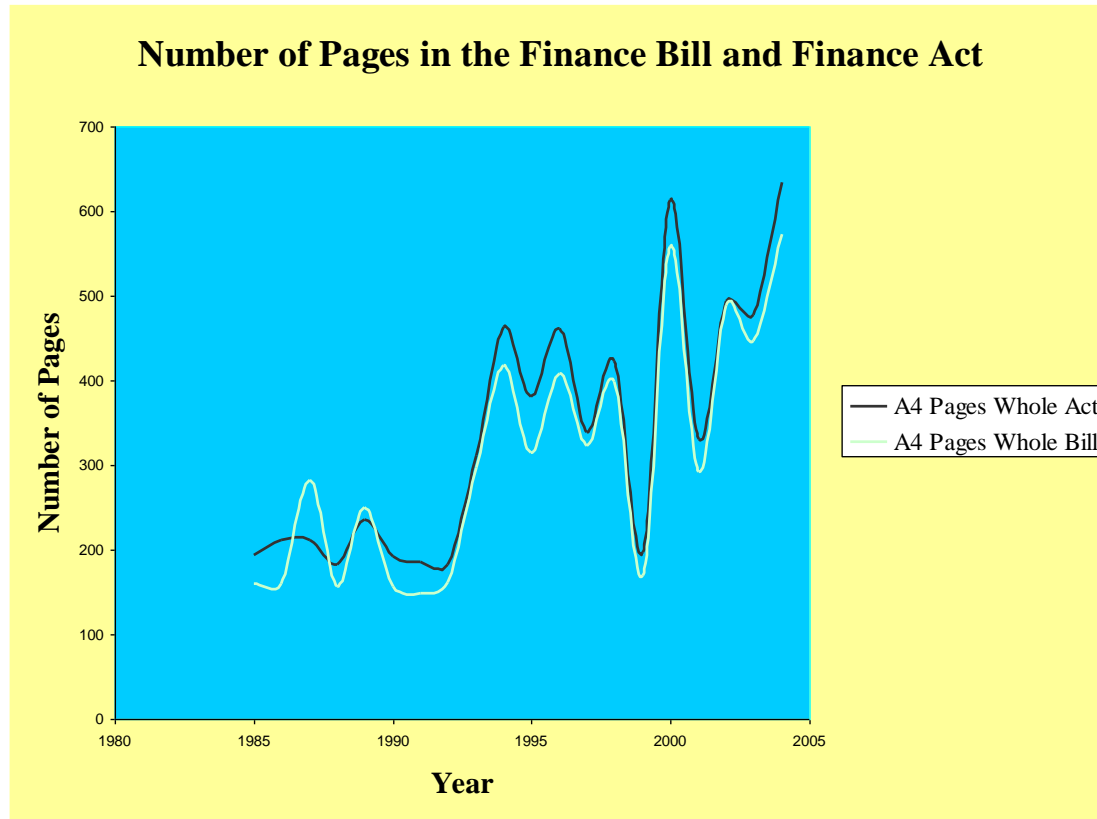
Effective Tax Rates for Investments in Different Assets



Effective Rates for Plant and Machinery Investments Financed from Different Sources



The complexity of the tax system is growing





In the context of fiscal rules since 1997 which decree:

◎ **Golden rule**

- ◎ Over the economic cycle, the Government will borrow only to invest and not to fund current spending

◎ **Sustainable investment rule**

- ◎ Net public debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level (40%)
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