Office for National Statistics

Article

Improvements to accruals methodology for Corporation Tax, Bank Corporation Tax Surcharge and the Bank Levy: 2017

This article explains the methodology behind the improvements made to Accruals Methodology for Corporation Tax, Bank Corporation Tax Surcharge and the Bank Levy introduced in Public Sector Finances bulletin released on 21 February 2017.

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1 . Introduction

In the Public Sector Finances bulletin released on 21 February 2017, we introduced an improved methodology for the time of recording of receipts related to Corporation Tax, Bank Corporation Tax Surcharge and the Bank Levy.

Prior to February 2017, we used cash receipts for the Corporation Tax and the Bank Surcharge as a proxy for accrued revenue. The improved methodology described in this article derives accrued revenue figures by adjusting cash receipts to more accurately reflect the time at which the economic activity relating to the tax receipts took place. In addition to these changes the accrual methodology for the Bank Levy has been modified to make it consistent with the approach used for Corporation Tax.

The changes to the recording of corporate taxes are in line with the accrual principles prescribed in the European System of Accounts 2010 and the System of National Accounts 2008, which require that taxes should be recorded “when the activities, transactions or other events occur that create the liabilities to pay taxes” (System of National Accounts 2008, paragraph 8.58).

2 . Corporation Tax and the Bank Surcharge

Corporation Tax and Bank Corporation Tax Surcharge collected by HM Revenue and Customs (HMRC) are based on the taxable profits in companies’ accounting periods. These accounting periods are usually 12 months in duration and can start in any month, although many companies have either calendar year or financial year accounting periods.

There are 3 distinct Corporation Tax payment regimes:

- non-oil companies or groups with chargeable profits over £1.5 million are required to pay their estimated Corporation Tax and/or Bank Corporation Tax surcharge liabilities in quarterly instalment payments (QIP); these payments are currently due by the middle of months 7, 10, 13 and 16 following the start of the accounting period for such companies with year-long accounting periods

- small non-oil companies are required to pay their liabilities within 9 months and 1 day from the end of their accounting period

- oil companies (large and small) are required to pay North Sea Corporation Tax (also referred to as Ring-Fenced Corporation Tax) in 3 equal instalments paid on the 14th day of July, October and January (months 7, 10 and 13 from the start of a calendar year accounting period)

In addition to the Corporation Tax, from January 2016, certain companies operating in the financial sector are subject to an additional charge known as the Bank Corporation Tax Surcharge. The payment schedule for the Bank Corporation Tax Surcharge is the same as that for non-oil companies or groups with chargeable profits over £1.5 million.

Prior to 21 February 2017, the approach to recording both Corporation Tax and Bank Corporation Tax Surcharge in public sector finances used monthly cash receipts as a proxy for accrued receipts. This resulted in higher Corporation Tax receipts being recorded for January, April, July and October than for other months.

3 . The Bank Levy

In addition to Corporation Tax and the Bank Corporation Tax Surcharge, banks and building societies are liable to pay a separate Bank Levy. This is a charge on the size of their balance sheets (whereas Corporation Tax is payable on chargeable taxable profits). The levy was introduced following the financial crisis and is based "upon the total chargeable equity and liabilities as reported in the relevant balance sheets at the end of a chargeable period" (Bank Levy Review, HMRC, 2014).

The current payment schedule for most banks paying the Bank Levy is quarterly instalments in January, April, July and October.

Prior to 21 February 2017, accrued receipts for the Bank Levy were estimated by summing the receipts in the peak receipts' months (January, April, July and October) and the receipts in the preceding 2 months and spreading these receipts evenly over the 3 month period.

4 . Forthcoming changes to the payment schedule of Corporation Tax

At the summer Budget 2015, the then Chancellor of the Exchequer announced that from April 2017 onwards, the instalment payment due dates for non-oil companies or groups with chargeable profits over £20 million would be brought forward to the 3rd, 6th, 9th and 12th months of a year-long accounting period. Subsequently, at Budget 2016, it was announced that the start date for this measure would be delayed until April 2019.

Should it be implemented this revised payment schedule would mean that substantial amounts of Corporation Tax and Bank Corporation Tax Surcharge cash payments would be received earlier than would have otherwise have been the case.

Corporation Tax and Bank Corporation Tax Surcharge are currently accounted for on a cash equals accrued receipts basis in the public sector finances (and national accounts). Therefore this change in the payment schedule will elevate estimates of accrued receipts for Corporation Tax and Bank Corporation Tax Surcharge during the period in which the new payment due dates start to take effect, even though there will have been no change in underlying actual accruals. At Budget 2016, it was estimated that this increase would be around £6 billion for financial year ending March 2020 and over £3 billion in financial year ending March 2021. Given that tax revenue is a component of public sector net borrowing this would mean that public sector net borrowing in these 2 years would be reduced by around £6 billion and £3 billion respectively, all else being equal.

5 . Improvements to accrual methodologies

We have worked closely with HMRC and HM Treasury to improve the accruals estimates for Corporation Tax, Bank Corporation Tax Surcharge and the Bank Levy through the introduction of time-adjusted cash data into the public sector finance statistics. This change brings the treatment of corporate taxes in line with the approach taken when estimating tax accruals for most other taxes. The improved methodology aligns cash receipts more closely to the period in which the economic activity underlying those receipts took place.

The new methodology, which has been implemented in the Public Sector Finances released on 21 February 2017, applies a different accruals approach to each of the 3 distinct Corporation Tax regimes mentioned earlier in this article:

- for non-oil companies or groups with chargeable profits over £1.5 million, monthly cash receipts are equally spread over the 3 month period 4 to 6 months previously
- for oil companies, monthly cash receipts are spread over the 4 month period 3 to 6 months previously
- for other companies or groups, monthly cash receipts are spread over the 12 month period 10 to 21 months previously

In addition, for cash receipts relating to the Bank Levy, the receipts are spread over the 3 month period 4 to 6 months previously.

The main benefits of the improved methodology are that:

- it aligns the accrued estimates more closely to the period of the economic activity that generates the tax liability
- it smoothes the monthly Corporation Tax profile more evenly over the year, which is appropriate, given that the economic activity to which the tax applies is contiguous through the year
- it reduces the impact that changes in cash payment schedules will have on the accrued tax estimates

It should be noted that the method of time-adjusting cash receipts means that estimates of accrued corporate taxes for recent periods include an element of forecast. Indeed in any particular month's Public Sector Finances publication the Corporation Tax reported for the most recent 2 months will be entirely based on HMRC forecasts. This is not a new development as accrued estimates for most taxes are based on time-adjustments. For instance, PAYE-accrued estimates for a particular month are based on the cash receipts in the following month and accrued estimates for VAT are based on cash outturn during the following 3 month period. However, the accrual methodology for the corporate taxes differs in terms of duration, with accrued estimates for a particular month being based on cash outturn during the period 3 to 21 months following this month.

One drawback of the new methodology is that when cash receipts change as a result of a change in the tax regime, these receipts changes are accrued back across earlier months with some of the change being accrued back to the months prior to the date at which the tax regime change came into force. For example, from April 2017 the Corporation Tax rate will be reduced to 19% and this will mean that accrued tax estimates for the financial year ending March 2017 will be less than they otherwise would be if the Corporation Tax rate was not being lowered in the following year. This is simply a feature of the accruals methodology adopted. The Office for National Statistics (ONS), HMRC and HM Treasury are continuing to work closely to investigate whether the accrued methodology can be further refined.

Due to historic changes in the payment schedule for Corporation Taxes and data limitations the new methodology has been only applied back to the financial year ending March 2001. Data for the period financial years ending March 2001 to March 2005 have been estimated by ONS, while data from financial year ending March 2006 onwards have been compiled and provided by HMRC.

As of 21 February 2017, the improved methodology has only been applied to the Public Sector Finances publication estimates of corporate taxes. The new methodology will feed into wider national accounts publications at a later date, which is yet to be established.

6 . Conclusion

Implementation of this new methodology has had an impact on the reported time series for public sector net borrowing (PSNB). Full details on PSNB can be found in both the Annex to this article and the Public Sector Finances bulletin released on 21 February 2017.

As well as revising the annual time series, a further consequence of these changes is that both central government receipts and PSNB follow a somewhat smoother monthly path, with the usual July peak (as a result of the increased self-assessment payments each July) no longer being such a prominent feature.

No timing adjustments to cash receipts are currently made in the public sector finances to estimates of self-assessed Income Tax, Capital Gains Tax and Stamp Duty Land Tax. We are continuing to work with HMRC and HM Treasury to investigate and improve, where appropriate, accruals methods for these taxes.

7 . Annex : Impact of methodology change on public sector net borrowing

Table 1: Impact of changes to the recording of corporation tax, bank surcharge and bank levy receipts on central government net borrowing

UK £billion

	Corporation Tax[1] receipts			Bank Levy			
Financial year	As previously reported[2]	As reported in this bulletin[3]	Revision	As previously reported[4]	As reported in this bulletin[3]	Revision	Total impact of new receipts methodology on central government and public sector net borrowing
2000/01	32.4	34.9	2.4	0.0	0.0	0.0	-2.7
2001/02	32.1	32.6	0.5	0.0	0.0	0.0	-0.5
2002/03	29.5	30.1	0.6	0.0	0.0	0.0	-0.6
2003/04	28.5	30.7	2.3	0.0	0.0	0.0	-2.3
2004/05	34.0	38.5	4.4	0.0	0.0	0.0	-4.4
2005/06	42.3	46.0	3.7	0.0	0.0	0.0	-3.7
2006/07	44.8	46.3	1.5	0.0	0.0	0.0	-1.5
2007/08	47.0	47.1	0.1	0.0	0.0	0.0	-0.1
2008/09	43.9	37.6	-6.4	0.0	0.0	0.0	6.4
2009/10	36.6	40.1	3.4	0.0	0.0	0.0	-3.4
2010/11	43.0	43.8	0.8	0.0	0.0	0.0	-0.8
2011/12	43.1	42.4	-0.7	1.8	2.4	0.5	0.1
2012/13	40.5	41.8	1.3	1.6	1.8	0.2	-1.5
2013/14	40.3	41.6	1.3	2.3	2.4	0.1	-1.4
2014/15	43.0	44.1	1.1	2.8	3.1	0.3	-1.4
2015/16	44.4	46.0	1.6	3.4	3.2	-0.2	-1.4

Source: Office for National Statistics

Notes:

1. Includes bank corporation tax surcharge

2. Previously reported on a cash = accrued basis

3. Accrued data now compiled on a time-adjusted cash basis

4. Accrued data previously reported using smoothed cash data

5. Financial year 2015/16 represents the financial year ending 2016 (April 2015 to March 2016).

A further breakdown of Table A1 is available providing the impact on net borrowing of moving to the time adjusted cash recording for Corporation Tax, Bank Surcharge and Bank Levy on both quarterly and financial year basis and in £ million. This breakdown is provided in Table Annex A1.

Table A1: Impact on net borrowing of moving to the time adjusted cash recording for Corporation Tax, Bank Surcharge and Bank Levy.