Critically analyse corporation tax in the uk. do you think that corporation tax i...

Law

Taxation Law By Due Corporation tax is a tax for companies. This tax includes tax on their income and capital gains. The total tax is calculated by the application of principles laid down in s 9 of ICTA 1988 for income tax, and s 8(3) of the TCGA 1992 for capital gains tax. The assessment rules for corporation tax are very similar to the income tax assessment rules for individuals. Companies are required to file their returns for a financial year which is a period of 12 months from April 1st to March 31st. According to s 8(1) of ICTA 1988, the general scheme of corporation tax is that a company has to account for all the profits that it has made regardless of the sources. Most of the portion of total profits of a company is income from trade. It is computed in the same manner as it is computed for individuals i. e. rules regarding the expenses allowed to be deducted are almost the same. The biggest problem with corporate tax is that of double taxation. A company is taxed as a separate person just like individuals are taxed as separate persons. On paper, a company is a separate person but in reality, it is actually made up of individuals that include shareholders, employees, customers, suppliers etc. When tax is paid by the company, it is, of course, paid by the individuals who constitute the company. This tax is paid at the end of the “ financial year”. But when the end of “ assessment year” approaches, the same individuals who paid the company’s tax are taxed again on their incomes. The individuals, especially shareholders, receive their income from the company and are taxed twice on the same income. This double taxation is very unfair. It also encourages the shareholders to retain their profits in the company. This is also not good for the economy as money should remain in a state of flux as much as possible. The problem of double taxation is not easy to be dealt with. If the companies are taxed only once, all the shareholders would be taxed at the same rate which would be very unfair. It is because different shareholders have different levels of income and they should be taxed proportionately. The other option is to tax the shareholders and not the company. This would then encourage the shareholders to retain their profits in the company and show a lower level of income for taxation purposes. This would also be very unfair. In order to deal with this problem, some countries have adopted the system of imputation. In this system, a company's tax is imputed to the income of the shareholders. This means that it is ascertained how much a shareholder has contributed to the payment of the company's tax. It is done upon the receipt of dividends. In UK, a partial imputation system is used in which only a part of the corporation tax paid is imputed to the shareholder. Another measure to tackle double taxation and discourage retention of profit in the company is the split rate system. In this system, the income that is distributed is taxed at a lower rate than the income that is retained. This system can work in harmony with the imputation system. In UK, distributed income is taxed at a lower rate than the retained income. Therefore, by the application of a calculated approach, UK tackles the problem of double taxation to a great degree. The European Union has encouraged all the member countries to bring the taxation system into harmony so that companies cannot take unfair advantage of different tax environments. Currently, some countries have the classical system of taxation which completely disregards the problem of double taxation. Others have the system of partial imputation which includes UK too. Some countries use the split rate system but it is rarely used solely. It is mostly used in combination with the partial imputation system. If all the countries use the same system of taxation, the problems created by corporation tax can be curtailed to a great degree. However, it is not that easy in reality because different countries have different fiscal needs. Corporation tax is a fair tax in general because companies enjoy working in a stable legal system and they must be accounted for enjoying this benefit. However, the manipulation of this system is possible because companies have the tendency to take their operations overseas to get in such a tax environment that requires them to pay the least. This problem can be solved if the taxation systems are harmonized across borders. Another problem is that corporate tax can bring those shareholders into tax bracket that belong to a different country. There are many multinational companies that consist of shareholders from different countries. These shareholders are made to pay tax in another country which can be regarded as unfair. This problem can be fixed if the distinction between resident and non-resident shareholders is recognized. Corporate tax should not be abolished. However, there are some measures that can be taken to make it better and fairer. References Income and Corporation Taxes Act 1988 (UK) s 8(1) Income and Corporation Taxes Act 1988 (UK) s 9 Lads, D. & Chowdry M., ‘ Capital Gains Tax’, Taxation Principles and Policy. 2007. Taxation of Chargeable Gains Act 1992 (UK) s 8(3)