Working Party No. 2 on Tax Policy Analysis and Tax Statistics

CASH VERSUS ACCRUAL ACCOUNTING

(Note by the United Kingdom)

This document is submitted to the Steering Group on Revenue Statistics to Working Party No.2 FOR DISCUSSION under item III of the Agenda of their meeting to be held on 14 November 2000.

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WHOLE OF GOVERNMENT ACCOUNTS: APPROACH TO THE RECOGNITION OF TAXATION REVENUES

**Issue:** The approach to the recognition of tax revenues that will form the basis for developing detailed accounting policies for taxation.

**Action:** FRAB’s endorsement is sought for the proposed overall approach that, for Whole of Government Accounts purposes, taxation revenues will be deemed to accrue evenly over the (tax return) period for which they are due, but will be recognised only at the point that they can be reliably measured.

If the FRAB endorses this approach then the Taxation Accounting Policies Group will develop detailed accounting policies for taxation for approval at a future FRAB meeting.

**DETAIL**

**Background**

1. The overall aim of the WGA project is to publish a fully audited set of GAAP-based WGA for 2005-06, covering the whole of the public sector as far as is practicably possible. As part of the staged approach agreed by Ministers, Central Government Accounts are due to be published for 2002-03, with a dry run for 2001-02. The CGA will be based on department’s resource accounts, but will include financial information that is not currently included within the RAB boundary, including the accounts of NDPBs. This paper looks at one of the other additional sets of information: taxation receipts.

2. Treasury’s scoping report “Whole of Government Accounts”, published in July 1998, notes that, with the introduction of RAB, all expenditure will be on a full accruals basis and that it would, therefore, make sense for all taxation receipts to be treated on a similar basis. The benefits of recording tax receipts on an accruals basis would be that:

   - income from taxation would be put on a consistent timing basis with expenditure;
   - accruals should in principle provide a better estimate of the underlying budgetary position; and
   - at the macroeconomic level, better accruals information could help to inform tax collection and tax policy decisions.

Cash will, however, remain an important measure of revenue collected because any differences between accrued tax and collected tax must be met by borrowing.
3. The report concedes that there are difficulties associated with compiling tax accruals data, although the complexities would largely be associated with direct taxes rather than indirect taxes. In order to address the issues associated with accruals based accounting for taxation receipts, the WGA team within the Treasury has convened a Taxation Accounting Policies Group comprising representatives from within Treasury and from the Inland Revenue, Customs and Excise, the Office for National Statistics and the National Audit Office. The WGA team has also consulted the Department of the Environment, Transport and the Regions in relation to National Non-Domestic Rates and the Driver and Vehicle Licencing Agency in relation to vehicle excise duty (driving licence fees and fees for a vehicle’s first registration are fee income and therefore included within the RAB boundary).

4. The group’s remit is to co-ordinate the accounting policy-making process for the tax revenues, and to consider proposals on accounting policies and practical implementation of policies in order to provide a consistent, cost-effective overall approach within the WGA project. The group’s first task has been to determine a general approach to accounting for taxation revenues that is in accordance with GAAP-based principles and which can be used to underpin detailed accounting policies for the majority, if not all, forms of tax. If the FRAB endorses the approach proposed in this paper, the group will work up detailed accounting policies for the individual taxes which will be presented to FRAB for agreement at a future meeting. Once accruals-based policies have been developed and applied, it is hoped that the methodology can also be used for National Accounts data.

Statement of principles

5. Although GAAP sets out some high level principles for revenue recognition, there is no specific accounting standard on taxation. The overall approach to recording taxation on an accruals basis will therefore need to be justifiable in terms of compliance with these high level principles. The principles promulgated in the Accounting Standards Board’s Statement of Principles for Financial Reporting are relevance and reliability (chapter 3). Information is relevant if it has the ability to influence the economic decisions of users and is provided in time to influence those decisions. Information is reliable if it can be depended on by users to represent faithfully what it either purports to represent or could be reasonably be expected to represent, and therefore reflects the substance of the transaction and other events that have taken place. These principles need to be complied with if WGA are to meet the needs of the users of WGA - government planners and managers, Parliament, taxpayers, financial and other commentators, academia and international bodies such as the EC and OECD.

6. Chapter 5 of the Statement of Principles discusses recognition principles. The effect of a transaction will be recognised if sufficient evidence exists that a critical event has occurred in the appropriate cycle associated with the activity and if the monetary amount can be measured with sufficient reliability. Where the amount is subject to measurement uncertainty (Chapter 6 of the Statement of Principles), the only way to determine an appropriate amount is through the use of estimates. The use of estimates is acceptable so long as the method is generally acceptable and supported by a reasonable amount of confirmatory evidence. Prudence requires a greater reliability of measurement for income and assets than for expenditure and liabilities. But the Statement of Principles notes that the deferral of a stage of the recognition process until the uncertainty resolved itself will often reduce the relevance of the financial statements, which will need to achieve a balance between the competing demands of reliability and relevance.
7. The Treasury’s 1998 Report noted that the matching concept in GAAP does not need to be applied in quite the same way in the public sector as for company accounts. Nevertheless, the users of the accounts might expect to see certain information about the matching of expenditure and liabilities in WGA against taxation income, debtors and accrued income. These issues are complex because for some taxes, for example corporation tax, there is a lag before the impact of (say) a change in tax rates is felt, which may defer the impact of the change into the next year but one after the budget. Such effects will be considered further by the Group as part of their work in developing practical and cost-effective accounting policies.

**International precedent**

8. The WGA team researched precedent from those countries that already prepare whole of government accounts: Canada, Australia, New Zealand and the USA. This research established that other countries considered three options for recognising tax receipts:

- on a cash basis;
- accruals basis, at the point that a reliable estimate or assessment was available; or
- accruals basis, as the taxpayer’s obligation arose (ie, at the point of economic activity).

WGA cannot account for taxation receipts on a cash basis if the accounts are to meet the needs of users and achieve the benefits outlined in paragraph 2 above (on a consistent timing basis with expenditure). The choice lies between the two accruals based options, and will need to be determined with reference to the principles of relevance and reliability.

9. Of these options, no country has adopted the third (economic activity) basis. In the UK, Treasury’s 1998 WGA scoping study report noted that any move to obtain data based on the point of economic activity would require substantial and complex changes to operational IT systems which would involve significant cost for the Revenue Departments. Any additional requirements might also lead to substantial compliance costs for business. The use of statistical analysis and the modelling of taxpayers’ liabilities might be a proxy for recognising revenue when a taxpayer’s liability arises - ie., a proxy for economic activity. But this approach itself gives rise to measurement uncertainty and it is unlikely that appropriate confirmatory evidence could be obtained without significant expenditure on systems or without additional burdens on industry and individuals.

10. The problem of measurement uncertainty will be most apparent with corporation tax and self assessed income tax, which will inevitably be the most complex taxes to deal with on an accruals basis because of time lags and different accounting periods. As a result of these factors, combined with loss carry-forward provisions etc., the economic activity basis will produce much less reliable data than accruing on the basis of proper computations. Hence the first accruals approach of recognising revenue at the point that it can be reliably measured appeared to the Group to be the one which best meets the requirements of the Statement of Principles.

11. New Zealand, Australia and the USA adopt an approach that is a mix of the second option (the availability of a reliable estimate or assessment) with a fall back position of a later recognition point - when the tax becomes due. This approach was also mooted as a possible option in the Treasury’s scoping study report. It is probably true to say that New Zealand’s accounting policies are the furthest developed in this area. Canada currently accounts for tax receipts on a cash basis, but will adopt accruals based accounting, in line with the other three countries, from 2001-02. For pragmatic reasons, the UK may in the end be forced to adopt a mixed approach, but accruing at the point when the tax becomes due is not a leading option at the moment.
National Accounts considerations

12. Although the European System of Accounts (ESA 95) aims to accrue taxes when the economic activity takes place, it is recognised that this is not currently possible. National Accounts, therefore, include revenues on an adjusted cash basis. By moving to an approach that aims to accrue for taxation revenues at the point that a reliable estimate or assessment is available (the second option), the UK’s National Accounts would move closer to the aims of ESA 95.

13. National Accounts are currently produced on a quarterly and annual basis. Additionally, the Office for National Statistics, with the Treasury, compile monthly net borrowing data (an accruals measure) based on information received directly from revenue departments or on the adjusted cash basis. Until monthly data can be made available using the proposed new methodology, the data used for this exercise will continue to be compiled using the existing time-adjusted cash methodology. Annual outturn data, when they become available on the new basis, will be used to inform the calculation of the monthly net borrowing data, subject to any policy constraints on the revision of accruals based information.

Working group approach

14. Taking into account the need for compliance with overall GAAP principles, and looking at international experience, the group considered the current arrangements for collecting taxation data and the current accounting arrangements for the major taxes - income tax; national insurance contributions; corporation tax; and VAT. The Group examined how options for accruals accounting could be applied to these major taxes. The Group also considered the options in relation to other taxes to determine whether the overall approach, which the FRAB is invited to endorse, could apply across all taxation revenues.

The group’s conclusions

15. Based on discussions about the capabilities of existing systems, the group concluded that there would be fundamental problems associated with capturing taxation data on an accruals basis that attempted directly to mirror economic activity or taxable events. This was particularly the case with the direct taxes, although it might be possible to make certain assumptions about the phasing of economic activity in relation to indirect taxes such as VAT. Any changes to systems would, as noted in the scoping report, be costly both for the Revenue Departments and for business and the taxpayer.

16. The group therefore examined the scope for developing a practical and cost-effective accruals based approach using information available from tax returns or assessments, and which also seemed to comply with GAAP and international precedent. By doing so, WGA and any sub-set thereof would include sustainable and auditable figures giving a realistic reflection of the amounts due for the financial year. By adopting this solution, the group recognised that one of the underlying assumptions is that taxation receipts accrue evenly over the tax period to which they relate. A comparison between years of taxation revenues reported in WGA may well show fluctuations that are due not only to changes in tax and duty rates but also to changes in the underlying economic cycle.
On indirect taxes

17. The current administrative and accounting arrangements for indirect taxes collected by Customs and Excise and the Driver and Vehicle Licencing Agency is such that amounts are paid over very soon after (or, in the case of the DVLA, before) they become due. This means that accruals data can be captured by using current systems and procedures. Sufficient data to establish accruals figures as at the end of the financial year will be available in the first few days of July following the year-end for all indirect taxes collected by Customs and Excise, and in June for vehicle excise duty. Adjustments will arise (as a result of assurance activity by VAT inspectors, for example), but there is sufficient historical data to facilitate the estimation of any accruals that might be required.

18. The group concluded, therefore, that the approach that taxation receipts should be recognised at the point that they can be reliably measured should apply to all indirect taxes.

On direct taxes

19. Conversely, there can be a longer lag between the end of the financial year or taxable event and the time the final instalment of a direct tax is assessed and is due for payment. This can range from approximately one month in the case of PAYE income tax to nearly one year in the case of self-assessment income tax.

20. The Inland Revenue carries out annual reconciliations between the amounts of PAYE income tax and National Insurance Contributions paid over by employers and the amounts reported to be due in respect of employees. These reconciliations, which cover about 66 per cent of total tax revenues collected by the Inland Revenue, are largely carried out in October following the tax year end and should produce sufficiently reliable data for accruals purposes at that time. Amounts due for the remaining income tax and National Insurance Contributions collected from higher rate tax payers and the self employed (covering a further eight per cent of tax revenues) will not be known until self assessment returns have been submitted, largely by February of the year following the end of the tax year. Income tax and National Insurance Contributions paid by instalments under the self assessment process in January and July are based on estimated liabilities and the final return is not due at the latest to the Inland Revenue until 10 months (31 January) after the year end.

21. Corporation Tax, which accounts for some 17 per cent of the total tax collected by the Inland Revenue, is also moving to payment by self assessed, estimated instalments for large companies. For small companies (representing about 15 per cent of the tax take), tax is paid nine months after the end of the accounting period to which it relates. The Group considers that, although there are difficulties to be overcome in the development of detailed accounting policies, nevertheless the approach of recognising tax revenues when they can be reliably measured can also be applied to corporation tax.

22. National non-domestic rates are accounted for by local authorities to the Department of the Environment, Transport and the Regions. National non-domestic rates are collected in the financial year to which they relate, and the only adjustments that might be expected will result from appeals against valuations. These amounts fall due when the case has been settled, and thus there should be sufficient, reliable information to account for these tax revenues on an accruals basis. Local authorities are required to submit unaudited final figures to the Department by the end of August each year, and audited figures by the end of October. Thus the Department is likely to be able to provide accruals figures within the same time frame as the main revenue departments.
23. The group concluded, therefore, that the approach that taxation receipts should be accounted for at the point that they can be reliably measured, should apply to all direct taxes. The group further concluded that although the tax year-end and the financial year-end do not coincide, taking one year with another, it is unlikely that material distortions will arise if the year-ends are deemed to be the same.

**Proposed approach to the recognition of taxation revenues**

24. The group recommends that accounting for taxation revenues should be based on the approach that revenues should be recognised as income for the period for which they are due and at the point that they can be reliably measured.
WHOLES OF GOVERNMENT ACCOUNTS: TAXATION – GENERAL ACCOUNTING POLICIES

Issue: FRAB’s consideration of accounting policies for taxation based on the principles agreed at the FRAB’s meeting on 18 May 2000.

Action: FRAB’s endorsement is sought for the general accounting policies for taxation as outlined in the annex to this paper.

If the FRAB endorses these general policies, they will be applied in practice to taxation income during the dry run process.

DETAIL

Background

1. At its meeting on 18 May 2000 the FRAB endorsed the overall approach to the recognition of tax revenues in Whole of Government Accounts: taxation revenues will be deemed to accrue evenly over the (tax return) period for which they are due, but will be recognised only at the point that they can be reliably measured.

2. The overall approach was based around the need to comply with the high level principles of relevance and reliability, promulgated in the Accounting Standards Board’s (ASB) Statement of Principles for Financial Reporting (SoP) and discussed in detail in the paper put to the FRAB on 18 May 2000. The SoP states that information is relevant if it has the ability to influence the economic decisions of users and is provided in time to influence those decisions. Information is reliable if it can be depended on by users to represent faithfully what it either purports to represent or could be reasonably be expected to represent.

3. The departments represented on the Taxation Accounting Policies Group worked with the WGA team and the NAO to develop general accounting policies for each tax and duty head. In taking the work forward, the Group ensured that proposals for recognising income followed the recognition principles set out by the ASB. The Group considered in particular any ‘measurement uncertainty’ and the need to consider the impact on the principles of relevance and reliability of any delay in recognising the income due to the absence of confirmatory evidence to support any estimate of an accrual. The results of this work are summarised for each tax in the annex attached to this paper.

4. The Group also had regard to the need to achieve a balance between relevance and reliability where any deferral of a stage in the recognition process, due to measurement uncertainty, might reduce the relevance of the financial statements. In the light of this, WGA accounting policies might need to adopt a mixed approach to accruing for taxation revenues – that is, that there might be no real alternative to cash accounting for some of the taxes and duties.

Summary of conclusions on general accounting policies

5. Detailed consideration of each tax and duty head confirmed the Group’s initial conclusions: while it is possible to develop an accruals accounting policy for the majority of taxes, there is a significant time lag between the end of the financial year and date of receipt of information about liabilities in relation
to other taxes. The annex gives brief details of the timing of information about tax liabilities and the general accounting policy that best reflects the principles of relevance and reliability.

In summary, the proposed accounting bases are:

<table>
<thead>
<tr>
<th>Tax/duty head</th>
<th>1999-2000 cash receipts £m</th>
<th>Proposed accounting basis</th>
<th>Recognition of change in tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax (for material sources)</td>
<td>£93,020</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>Corporation Tax – instalment regime</td>
<td>£11,500</td>
<td>Accruals</td>
<td>Partly in year following that in which change took effect; fully reflected two years after.</td>
</tr>
<tr>
<td>Corporation Tax – non-instalment regime</td>
<td>£22,852</td>
<td>Cash</td>
<td></td>
</tr>
<tr>
<td>Petroleum Revenue Tax</td>
<td>£853</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td>£2,122</td>
<td>Cash</td>
<td>Year following that in which change takes effect.</td>
</tr>
<tr>
<td>Inheritance Tax</td>
<td>£2,047</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>Stamp Duties</td>
<td>£6,898</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>Social Security Contributions</td>
<td>£56,283</td>
<td>Accruals, other than Class III (cash)</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>VAT</td>
<td>£56,779</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>Customs duties and levies</td>
<td>£2,044</td>
<td>Accruals</td>
<td></td>
</tr>
<tr>
<td>Other C&amp;E taxes and duties¹</td>
<td>£38,910</td>
<td>Accruals</td>
<td></td>
</tr>
<tr>
<td>Vehicle Excise Duty</td>
<td>£4,738</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
<tr>
<td>National non-domestic rates</td>
<td>£13,384</td>
<td>Accruals</td>
<td>In year in which change takes effect.</td>
</tr>
</tbody>
</table>

Proposed accounting policies

The Group seeks the FRAB’s endorsement of the general accounting policies outlined

¹ Mineral Oil duties: Tobacco, Spirits, Wine, Cider, Perry, Beer, Betting and Gaming duties; Air Passenger Duty; Insurance Premium and Landfill taxes; Climate Change Levy
The two main components of personal income tax are PAYE (including PAYE paid by higher rate employees) and self assessed income tax (self employed and balance of higher rate employees).

Income Tax collected at source is paid over by employers to the Inland Revenue by the 19th of the month following the month of collection from the employee. Final, annual returns are due to the Inland Revenue by 19th May, after which time employers will issue P60s to employees. The Inland Revenue carries out a reconciliation exercise in October and identifies any amounts due to or from the employer in respect of PAYE income tax for the year.

Details of the self assessed income tax for the higher rate employee, and therefore the amount due to or from the taxpayer, will not be available until approximately one year after the tax year to which the tax return relates.

The self-employed pay income tax in instalments based on their self assessed liability for the previous year.

Tax deducted from savings income by banks and building societies is due quarterly in respect of interest credited to depositors’ accounts in the previous quarter. The due date is normally the 15th day of the month following the end of the quarter – for banks, calendar quarterly. Building societies’ quarters end in November, February, May and August.

Company income tax is deducted by companies and other paying agents on distributions other than dividends. The tax is on the 15th day of the month following the end of the calendar quarter.

PAYE income tax (and income tax relating to higher paid employees otherwise covered by the self assessment system) collected, and amounts due to or from employers, for the tax year just ended will be available in the October following the end of the tax year – in time for CGA/WGA for the financial year with which the fiscal year is (almost) coterminous. PAYE income tax will, therefore, be accounted for on an accruals basis.

Self-assessed income tax (for those who pay by instalments) will be deemed to accrue evenly over the tax year in which the relevant accounting period ends. The accrual will be based on the two payments on account (received in the January in the tax year and the July following it), with a statistical estimation of the balancing payment, net of repayments, due in the January of the year following the end of the tax year.

Tax deducted from savings income will be deemed to accrue evenly over the quarter for which the tax is due. For any quarter straddling the WGA financial year-end, the appropriate proportion of duty will be accounted for in that year.

Company income tax will be deemed to accrue evenly over the quarter to which the tax relates. Amounts due for the quarter ending March will be accrued in the WGA financial year.
Income Tax

Most income tax repayments are made following a claim. The timing and frequency of these claims vary according to the type of repayment and behaviour of the claimant. Repayments on tax relief for contributions to personal pensions and the investment income on PEPs are generally made monthly.

A provision will be made for repayments of income tax (other than self-assessed income tax – netted off self-assessed income tax as part of the statistical estimation) that will be made in years subsequent to the WGA financial year.

Other categories of income tax not specifically mentioned (for example, Investigation settlements and Foreign and Colonial) will be accounted for on a cash basis.

Any changes in the tax rate will be partly reflected in the financial year in which the change takes effect (PAYE element). The impact of any tax rate change on any final payment/repayment will not be reflected until the financial year after the year in which the change takes effect.

Working Families’ Tax Credit

Tax credits are currently undergoing change. The Working Families’ Tax Credit is due to be replaced in 2003 by the Integrated Tax Credit, which will also replace the Children’s Tax Credit and the family element of certain benefits.

The Inland Revenue is working up detailed regulations in respect of the Integrated Tax Credit.

No decisions have yet been taken on the treatment of tax credits due to the ongoing work on the regulations,
Corporation Tax is split between CT for the larger taxpayers (taxable profits of more than £1.5 million) and those taxpayers whose taxable profits are less than £1.5 million.

Corporation Tax for larger companies is in a transitional period, at the end of which they will pay by four quarterly instalments of 25 per cent of their estimated tax liability for the year. The first payment is due 6 months and 13 days after the start of the company’s accounting period, with the fourth payment due on the 14th day of the 16th month after the start of the accounting period. The final tax return is due 12 months after the end of the accounting period (two years after the start of the accounting period).

Corporation Tax for companies with taxable profits less that £1.5 million is due 9 months and 1 day after the end of the company’s accounting period, with the return due to be filed 12 months after the end of the accounting period.

<table>
<thead>
<tr>
<th>TAX OR DUTY HEAD</th>
<th>BRIEF DETAILS</th>
<th>RECOGNITION POINT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation Tax</td>
<td>Corporation Tax is split between CT for the larger taxpayers (taxable profits of more than £1.5 million) and those taxpayers whose taxable profits are less than £1.5 million.</td>
<td>Two policies are required for the recognition of Corporation Tax to reflect the two regimes.</td>
</tr>
<tr>
<td></td>
<td>Corporation Tax for larger companies is in a transitional period, at the end of which they will pay by four quarterly instalments of 25 per cent of their estimated tax liability for the year. The first payment is due 6 months and 13 days after the start of the company’s accounting period, with the fourth payment due on the 14th day of the 16th month after the start of the accounting period. The final tax return is due 12 months after the end of the accounting period (two years after the start of the accounting period).</td>
<td>Self-assessed Corporation Tax will be deemed to accrue evenly over the period of the tax return and the relevant amounts will be brought into CGA/WGA. For example, where a company has a 31/12 year end, CGA/WGA will include CT for the 9 months April to December and 3 months January to March.</td>
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<tr>
<td></td>
<td>Corporation Tax for companies with taxable profits less that £1.5 million is due 9 months and 1 day after the end of the company’s accounting period, with the return due to be filed 12 months after the end of the accounting period.</td>
<td>Balancing payments or repayments (including those relating to pre-instalment regimes) will be accounted for when they can be reliably measured.</td>
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<td></td>
<td>Corporation Tax outside the instalment regime will be accounted for in the year in which it falls due (normally, therefore, on a cash basis). Changes in the tax rate are partly reflected in the year following that in which they took effect, and fully reflected two years after.</td>
<td>Changes in the tax rate are reflected in the year in which the changes take effect.</td>
</tr>
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<tr>
<td>Petroleum Revenue Tax</td>
<td>Petroleum Revenue Tax is payable, in addition to Corporation Tax, by companies who extract oil and gas under licence from fields approved for development before 15 March 1993. (Companies extracting from fields approved at a later date are subject only to CT.) PRT is assessed on the cash flow from each oil field, with cash receipts being offset by various reliefs. PRT is currently charged at 50 per cent. It is paid by six monthly instalments, calculated as 12.5 per cent of the tax liability from the previous six-month accounting period (APs end on 30 June and 31 December) followed by a balancing payment. The latter, as calculated by the companies, are paid in September and March following the end of the June and December APs. Final adjustments are based on assessments made by the Inland Revenue in the following December and June.</td>
<td>Petroleum Revenue Tax will be deemed to accrue evenly over the accounting period and the relevant amounts will be brought into CGA/WGA:  50 per cent of the January to June figures covering Q1 based on the IR assessment in December of the financial year;  July to December figures covering Q2 and Q3 based on the IR assessment in June (after the financial year end); and  50 per cent of the January to June figures covering Q4 based on the company assessment (balance received in September (after the financial year-end). Any changes in the tax rate will be reflected in the financial year in which the change takes effect.</td>
</tr>
<tr>
<td>Capital Gains Tax</td>
<td>The vast majority of Capital Gains Tax receipts are paid over at the same time as the final income tax payment under self-assessment arrangements (i.e. 10 months after the finish of the financial year in which the accounting period ends). Some payments are received outside SA or included in PAYE codes for the following year (i.e. two years after the relevant account period), but these are not material.</td>
<td>Capital Gains Tax will be accounted for in the financial year in which it is received. Changes in the tax rates will be reflected in the financial year following the year in which the rate took effect.</td>
</tr>
<tr>
<td>Inheritance tax</td>
<td>Inheritance tax is due to be paid six months after the month in which death occurs. Probate is not granted until the tax has been paid. Payments are often made on account before the settlement of the liability, where the final liability may take some time (even years) to agree. Reliable estimates of the amount of inheritance tax due can be made using information available six months after the end of the financial year.</td>
<td>Inheritance tax will be accounted for in the financial year in which the relevant death occurred. A statistical estimation of the amount due will be based on the information available six months after the end of the year. Changes in the tax rate will be reflected in the year in which they take effect.</td>
</tr>
</tbody>
</table>
Stamp duties are payable on house purchase and on transactions in stocks and shares. Stamp duty on house purchase is due on completion of the transaction and is received up to one month after the house is bought. Stamp duty on registered share transactions is paid 21 days after the settlement on a weekly basis. Payments are made through the Stock Exchange’s CREST system: these are normally received on a weekly basis each Friday and these correspond to transactions made during the week ending three Fridays earlier. Non-CREST payments relate to non-registered shares but where there is a document that requires stamping. Less than 10 per cent of Stamp Duty is collected through non-CREST, and the proportion is falling. Amounts are typically due 30 days after the transaction.

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<td>Stamp duties</td>
<td>Stamp duty is payable on house purchase and on transactions in stocks and shares.</td>
<td>Stamp duty will be accounted for in the financial year in which the transaction (house purchase or share transactions) occurred. For house purchases, the average lag between completion and receipt is two weeks, and the accrual will be calculated by accruing 50 per cent of April’s receipts in the preceding financial year. Stamp duty on transactions in registered shares will be accounted for in the financial year in which the transaction took place. Where the relevant week ended on a Friday in the new financial year, stamp duty will be deemed to have accrued evenly over the week in question and the appropriate amount taken to WGA. In view of the reducing amount of stamp duty received in relation to non-registered shares, amounts will be accounted for as received. Changes in the tax rate will be reflected in the year in which they take effect.</td>
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</tbody>
</table>

Stamp duty on house purchase is due on completion of the transaction and is received up to one month after the house is bought. Stamp duty on registered share transactions is paid 21 days after the settlement on a weekly basis. Payments are made through the Stock Exchange’s CREST system: these are normally received on a weekly basis each Friday and these correspond to transactions made during the week ending three Fridays earlier. Non-CREST payments relate to non-registered shares but where there is a document that requires stamping. Less than 10 per cent of Stamp Duty is collected through non-CREST, and the proportion is falling. Amounts are typically due 30 days after the transaction.
Social Security Contributions are arranged in four classes.

Class I contributions are deducted from salaries each month and paid over to the Inland Revenue by employers with PAYE Income Tax. Class IA contributions are due in respect of company cars. Class I and IA contributions are included in the October reconciliation exercise, when amounts due to or from employers are calculated.

Class II contributions are collected from the self employed, subject to a small earnings exemption. These flat rate contributions are collected monthly in arrears by direct debit or, where a direct debit has not been set up, by quarterly invoice in arrears.

Class III contributions are paid voluntarily to the Inland Revenue to help people qualify for State Retirement Pension.

Class IV contributions are paid by the self employed on their profits.

<table>
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<tbody>
<tr>
<td>Social Security Contributions</td>
<td>National Insurance contributions are arranged in four classes.</td>
<td>Class I and IA contributions collected, and amounts due to or from employers, for the tax year just ended will be available in the October following the end of the tax year – in time for CGA/WGA for the financial year with which the fiscal year is (almost) coterminous.</td>
</tr>
<tr>
<td></td>
<td>Class I contributions are deducted from salaries each month and paid over to the Inland Revenue by employers with PAYE Income Tax. Class IA contributions are due in respect of company cars. Class I and IA contributions are included in the October reconciliation exercise, when amounts due to or from employers are calculated.</td>
<td>Class II contributions accrue evenly over the period for which they are collected. They will be accounted for in the WGA financial year to which they relate, with any apportionment as necessary for quarters straddling the financial year-end.</td>
</tr>
<tr>
<td></td>
<td>Class II contributions are collected from the self employed, subject to a small earnings exemption. These flat rate contributions are collected monthly in arrears by direct debit or, where a direct debit has not been set up, by quarterly invoice in arrears.</td>
<td>Class III contributions will be accounted for when received.</td>
</tr>
<tr>
<td></td>
<td>Class III contributions are paid voluntarily to the Inland Revenue to help people qualify for State Retirement Pension.</td>
<td>Class IV contributions will be accounted for in the year in which the relevant accounting period ends. The approach is directly equivalent to that for self assessed income tax set out above.</td>
</tr>
<tr>
<td></td>
<td>Class IV contributions are paid by the self employed on their profits.</td>
<td>Changes in the NI rate for all Classes will be reflected in the year in which the change takes effect.</td>
</tr>
<tr>
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</tbody>
</table>
| Value Added Tax          | HM Customs and Excise receives quarterly returns detailing VAT due from (or to) a trader. VAT is collected in staggers (for example, ending 31 March, 30 April, 31 May), is payable at the end of the month following the stagger-end date and is usually collected on time.  
There are slight variations in these arrangements for certain traders (for example Payment on Account traders or repayment traders). | VAT will be deemed to accrue evenly over the quarter to which the return relates. Thus VAT received in April for the March stagger-end, two thirds of the VAT received in May for the April stagger-end, and one third of the VAT received in June for the May stagger-end will be accounted for in the WGA financial year.  
Any changes in tax rates will be reflected in the financial year in which the change took effect. |
| Mineral Oil (Fuel) duties | Mineral Oil (Fuel) duties comprise excise duties on mineral oils, on fuel substitutes and on gas road fuel.  
Most mineral oils duty is collected through the deferment regime: duty will be payable by the end of the month in which the deferment period ends (midnight on the 14th day). Where the trader is not in the deferment regime, payment of duty has to be made before the oil is removed from the premises or from duty suspension.  
Where a trader in fuel substitutes has a deferment for mineral oils, then fuel substitutes are accounted for under the deferment regime. Where the trader does not have a deferment, calendar monthly returns are due, with payment made by the 15th day of the following month.  
Gas road fuel duty is accounted for by the trader in quarterly returns and may be in staggers. Payment is due with the return – 15 days after the end of the accounting period. | For all duty collected through the deferment regime, duty will be deemed to accrue evenly over the month to which the return relates. For the deferment period ending at midnight on 14th April the appropriate proportion (for ease of calculation, 50 per cent) will be accounted for in the WGA financial year.  
Where duty is not collected through the deferment regime:  
For mineral oils, duty will be accounted for as received.  
For fuel substitutes, the March return will be accrued in the WGA financial year.  
For gas road fuel, duty will be deemed to accrue evenly over the period to which the return relates. For any quarter straddling the WGA financial year-end, the appropriate proportion of duty will be accounted for in that year.  
Any changes in duty rate will be reflected in the financial year in which the change took effect. |
### Tobacco duties

Returns are required daily of all chargeable deliveries, although the returns may be submitted monthly. Tobacco duties are split between imports and removals from registered premises.

Where the trader has a deferment:

The period for imports ends at midnight on the 14th day of the month, with payment due by 29th.

The period for removals is calendar monthly, with payment due on the 15th day of the following month.

Where the trader does not have a deferment, payment must be made before removal.

Tobacco duties will be deemed to accrue evenly over the month covered by the return. For the deferment period ending at midnight on 14th April the appropriate proportion (for ease of calculation, 50 per cent) will be accounted for in the WGA financial year.

Where duty is not collected through the deferment regime, it will be accounted for as received.

Any changes in duty rate will be reflected in the financial year in which the change took effect.

### Spirits duties

Spirits duty arises at the date on which spirits are distilled or manufactured. Returns are made quarterly by the 14th day after the end of the quarter.

Spirits duties will be deemed to accrue evenly over the quarter covered by the return.

Any changes in duty rate will be reflected in the financial year in which the change took effect.

### Wine, cider and perry duties

The duty point for imports is the date of import if not taken into duty suspension and otherwise the date of physical or electronic removal from registered premises. Returns are mainly rendered for calendar month periods, with return and payment due by the 15th day of the following month. Where traders take goods into duty suspension, the rules shown under tobacco duties apply.

Wine, cider and perry duties will be deemed to accrue evenly over the month covered by the return. The March return will be accrued in the WGA financial year.

Any changes in the duty rate will be reflected in the financial year in which the change took effect.

### Beer duties

Returns are made for calendar month periods and must be rendered by the 15th day of the following month. Duty is payable at the duty point – but registered brewers (involving the majority of the duty collected) may pay by the 25th day of the month following that in which the duty arises.

Beer duties will be deemed to accrue evenly over the month covered by the return. The March return will be accrued in the WGA financial year.

Any changes in duty rate will be reflected in the financial year in which the change took effect.
### TAX OR DUTY HEAD

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<tr>
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<tbody>
<tr>
<td>Betting and gaming duties</td>
<td>Betting and gaming duties comprise: general betting duty, gaming duty, pool betting duty and bingo excise duty.</td>
<td>General betting duty and bingo excise duty will be deemed to accrue evenly over the month covered by the return. The March return will be accrued in the WGA financial year.</td>
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<td></td>
<td>For general betting duty: returns are made calendar monthly and must be submitted, with the payment, by the 15th following the end of the period in which the duty point falls. Bingo excise duty returns are due on the last Sunday in the month.</td>
<td>Casino duty will be deemed to accrue evenly over the quarter for which interim payments are due, with an appropriate adjustment by quarter based on the final return.</td>
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<td>For casino duty, traders make an interim quarterly payment on account, due one month past the end of the quarter. A six month final return, with a final payment, is due one month after the end of the six month period. Returns are made on a calendar quarterly basis with the exception of the single largest trader.</td>
<td>Pool betting duty and lottery duty will be deemed to accrue evenly over the period covered by the return.</td>
</tr>
<tr>
<td></td>
<td>For pool betting duty and lottery duty, returns are made for periods of one week and are due, with the payment, on the fifteenth of the month after that in which the duty point arises.</td>
<td>To be decided.</td>
</tr>
<tr>
<td></td>
<td>Amusement machine duty is payable on application for a licence by direct debit or cheque.</td>
<td>Any changes in duty rate will be reflected in the financial year in which the change took effect.</td>
</tr>
<tr>
<td>Air passenger duty</td>
<td>The duty point is a chargeable passenger on a chargeable flight. Returns for calendar months, together with the associated payment, are due on the 22nd day after the end of the period. Payments by direct debit will be taken on the 29th day after the end of the period.</td>
<td>Air passenger duty will be deemed to accrue evenly over the month covered by the return. The March return will be accrued in the WGA financial year. Any changes in duty rate will be reflected in the financial year in which the change took effect.</td>
</tr>
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<tr>
<td>Insurance premium tax</td>
<td>Returns are made for three month periods, which may be staggered, and are due, with the associated payment, one month after the end of the accounting period. (Note: the majority of staggers are calendar quarters.) Traders paying by credit transfer are given an additional seven days to pay.</td>
<td>Insurance premium tax will be deemed to accrue evenly over the period covered by the return. For any quarter straddling the WGA financial year-end, the appropriate proportion of duty will be accounted for in that year. Any changes in duty rate will be reflected in the financial year in which the change took effect.</td>
</tr>
<tr>
<td>Landfill tax</td>
<td>Returns are made for three month periods, with the return and the associated payment due one month after the end of the accounting period.</td>
<td>Landfill tax will be deemed to accrue evenly over the period covered by the return. For any quarter straddling the WGA financial year-end, the appropriate proportion of duty will be accounted for in that year. Any changes in duty rate will be reflected in the financial year in which the change took effect.</td>
</tr>
<tr>
<td>Customs duties and levies</td>
<td>The basic duty point is the date of import of the goods. Commercial importers may apply for deferment of the duty payment – the deferment period is calendar monthly with payment due on the 15th day of the following month. If a trader does not have a deferment facility or the deferment limit is exceeded, payment must be made before removal. Customs duties and levies are EU Own Resources. Member States are permitted to retain a percentage (currently 10%) of the amounts raised to cover the costs of collection.</td>
<td>Customs duties and levies will be deemed to accrue evenly over the month covered by the duty deferment period. The March return will be accrued in the WGA financial year. WGA will account for the retained percentage as income, with the remainder being accounted for through the balance sheet, to reflect amounts due from importers as noted above and the amounts due to the EU. Any changes in duty rate will be reflected in the financial year in which the change took effect.</td>
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<tr>
<td>Climate Change Levy</td>
<td>Returns will cover three month periods, and the return and the associated payment will be due one month after the end of the accounting period.</td>
<td>Climate Change Levy will be deemed to accrue evenly over the period covered by the return. For any quarter straddling the WGA financial year, the appropriate proportion will be accounted for in that year. Any change in duty rate will be reflected in the financial year in which the change took effect.</td>
</tr>
<tr>
<td>Vehicle Excise Duty</td>
<td>Although VED is collected six-monthly or annually in advance, VED falls due on a monthly basis (inferred from the fact that vehicle keepers can claim refunds for whole months if they dispose of the vehicle).</td>
<td>VED will be deemed to accrue over 12 monthly periods and the relevant 12 months will be accounted for in the WGA financial year. Amounts paid in advance for April and beyond will be accounted for as deferred income at 31 March. Any changes in duty rate will be reflected in the financial year in which the change took effect.</td>
</tr>
<tr>
<td>National Non-Domestic Rates</td>
<td>Contributions by local authorities to the NNDR pool for a financial year are based on the amount that the authority, acting diligently, could collect given the gross rateable value of their area. Payments out of the pool are based on the amounts that DETR has calculated as the distributable amount. The amount must be paid out regardless of the amounts paid in.</td>
<td>Amounts of national non-domestic rates to be collected, and the amounts to be paid out, will be accounted for in the WGA financial year to which they relate. Any changes in the NNDR rate will be reflected in the financial year in which the change took effect.</td>
</tr>
</tbody>
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