CHAPTER 3

COMPANIES AND PUBLIC CORPORATIONS

3.0 THE CORPORATE SECTOR

SCOPE OF THE SECTOR

This sector consists of (*a*) privately controlled corporate enterprises organised for profit, and (*b*) public corporations. The former cover public and private companies, building societies and co-operatives. They exclude private non-profit-making bodies serving persons (such as charities and trade unions), the life funds of life assurance companies and the funds of superannuation schemes, all of which are covered in Chapter 2.

Public corporations are defined as public trading bodies created by the Central Government or other public authority, but with a substantial degree of financial independence [**73**, p. 237]. Their main distinguishing characteristics are firstly, public control with respect to the appointment of the boards of management; and secondly, freedom, in principle, to manage their affairs 'without detailed control by Parliament or other elected body'. Certain bodies, such as the Port of London Authority, which broadly meet these criteria are, however, classified on other grounds as local authority trading enterprises, and the present definition should be considered in relation both to the definition of local authority enterprises in Chapter 5.0 and also that for Central Government trading enterprises in Chapter 4.0. For a complete list of public corporations see C.S.O. [**73**], pp. 249–50; the list has naturally changed over time and figures for any year relate to the position in that year (but see Table 31).

The estimates of trading profits in Chapters 3.1 and 3.2 cover all corporate enterprises operating in the United Kingdom, irrespective of whether they are British companies or United Kingdom branches and subsidiaries of foreign companies; i.e. the figures broadly represent profits earned by companies in the United Kingdom, whatever their nationality. The appropriation account in Chapter 3.3 brings in, in addition, the profits of British companies trading overseas and of overseas branches and subsidiaries of British companies; and takes out the profits earned in the United Kingdom by foreign-owned branches and subsidiaries. The savings of the sector thus relate to corporations of British nationality. The problem of the boundary lines between British and foreign enterprises, and between resident and non-resident enterprises, is discussed in some detail in Chapter 6.0. Reference should also be made to that chapter for a note of certain differences between the present (inter-war) and Blue Book (post-war) distinction between companies operating abroad and companies operating in the United Kingdom.

The present chapter covers the profits and non-trading income of the corporate sector and also the distribution of total corporate income. Corporate capital formation is covered in Chapter 9, but prior to 1946 is not separately identified since the sources available for that period do not provide a basis for a distinction between corporate and non-corporate capital formation.

3.1 GROSS TRADING PROFITS OF COMPANIES, 1889–1965

DEFINITION OF THE SERIES

These estimates are restricted to companies operating in the United Kingdom, including all United Kingdom shipping and air transport companies, and also including the United Kingdom branches and subsidiaries of foreign companies.[1]

Profits are measured before providing for depreciation and stock appreciation and no deduction is made for the imputed rents of owner-occupied trading property. For elaboration of the definition (including an explanation of the treatment of financial concerns) see Chapter 7.0. The definitions are broadly the same for 1920–38 except that the present estimates deduct royalties, etc. from trading profits (and add them to rent). The post-1946 treatment of royalties, etc. is not specifically described by the C.S.O., and this probably means that they are included in trading profits. For

[1] For certain qualifications regarding the pre-1938 definition of profits of companies operating in the United Kingdom see Chapter 6.0.

the period before 1920 there are the differences in treatment of imputed rent from owner-occupied trading property, royalties etc., bank interest and interest of financial intermediaries: these are discussed and quantified in Chapter 7.2.

This series can be carried back to 1889, omitting 1914–19. Before that (and during World War I) it is not possible to distinguish corporate from non-corporate profits. The estimates for 1889–1913 and 1920–65 are shown in Table 1 and for 1889–1913 and 1920–38 are also given in Table 29. For 1855–88 and 1914–19 company profits are shown combined with other trading income in Table 1. For periods before 1946 there is no separate trade classification of *company* profits except for the two years 1927 and 1937 covered in Table 30; a classification of total trading profits is given for 1920–38 in Tables 26 to 28.

The scope of the company sector was defined in Chapter 3.0 and is affected both by the steady process of incorporation of private firms (with a corresponding reduction in income from self-employment) and by nationalisation and denationalisation. The influence of the transfer to public corporations is considered in Chapter 3.2 and Table 31.

METHODS OF ESTIMATION

1946–1965

The Blue Book estimates are derived from data on company profits which are compiled by the Inland Revenue as the basis for assessment to income tax, and adjusted by the C.S.O. for various differences in treatment required by national income accounts. These adjustments are broadly similar in character to those made for 1927–38 in Chapter 7.1, though there is rather more information available for the modern period as a basis for the additions and deductions.

1938–1945

Estimates for this period were given by the C.S.O. [**77**, p. 200, and **65**, Cmd. 7933, p. 22] but on the basis of definitions different from those currently employed. The most important points are that profits were then measured *after* provision for depreciation (based largely on the amounts allowed by the Inland Revenue) and after deduction of the imputed rental income from owner-occupied trading property. New estimates were constructed by interpolating between the current Blue Book estimates for 1938 and 1946 by means of the series obtained by adding back the depreciation allowances for companies[1] and an allowance for rent of owner-occupied property[2] to the original estimates given in [**77**] and [**65**].

1920–1938 and 1889–1913

The estimates for these periods are described in full in Chapters 7.1 and 7.2 respectively.

CONSISTENCY AND RELIABILITY

This is considered in Chapter 7.1, p. 151, and 7.2, p. 157. Reliability grades are allocated as follows:[3]

1889–1913	B	1939–1945	B
1920–1926	C	1946–1965[a]	B
1927–1938	B		

[a] See C.S.O. [**73**], p. 235.

Reliability grades for the periods for which company profits are not estimated separately are given for total trading profits and non-farm income from self-employment in Chapter 7.2.

3.2 GROSS TRADING SURPLUSES OF PUBLIC CORPORATIONS, 1926–65

DEFINITION OF THE SERIES

A general definition of a public corporation was given in Chapter 3.0. The first such body to be formed was the Central Electricity Board (1926), followed a year later by the British Broadcasting Corporation; but the major enterprises were created by the nationalisation of coal in 1947, the railways and electricity supply in 1948 and gas supply in 1949. The coverage of the sector is naturally affected by policy changes; in particular steel and road haulage were included while nationalised and with denationalisation were progressively transferred to the company sector. For a list of public corporations see C.S.O. [**73**], pp. 249–50.

The series presented in Tables 1 and 29 relates to the gross trading surpluses of public corporations operating wholly or mainly in the United Kingdom

[1] The total wear and tear allowances (later called depreciation allowances) are given in the annual Inland Revenue *Reports*, and the amount allowed for companies operating in the United Kingdom is given for 1938 and 1946 in the 1956 Blue Book [**75**], p. 61. Allowances for companies in 1939–45 were estimated by interpolating linearly between the percentage of the total allowed to companies in 1938 and 1946 and applying this to the published totals.

[2] The rental income was assumed to be the same for 1939–46 as in 1938. This seems a not unreasonable assumption given the stability of total rental income during the war years. The 1938 estimate is taken from the data described in Chapter 7.1.

[3] See Chapter 1.4 for further description of the grades used.

(including the two airways corporations: B.O.A.C. and B.E.A., but not Cable and Wireless Ltd), measured before providing for depreciation and stock appreciation and before deduction of interest payments.

METHODS OF ESTIMATION

All the information required is derived from the published accounts of the individual corporations. For 1946–64 estimates have been made for the Blue Book by the C.S.O. For 1926–38 new estimates were made from the accounts of the following corporations:

	Commencing date
Central Electricity Board [**72**]	1926
British Broadcasting Corporation [**12**]	1927
London Passenger Transport Board [**84**]	1933

Two other corporations were in existence before 1938: the Electricity Board for Northern Ireland (1932) and the Scottish Special Housing Association (1937) but the former showed a surplus of only £0.1 m. in 1938, the latter a loss of £0.1 m., and they were ignored.

The series was extended to cover 1939–45, but during the war a number of corporations including the B.B.C. and B.O.A.C. were not operating on a normal profit or loss basis. They either received a grant from the Government to cover their expenses or carried out work for the Government for which they received no payment[1] and these corporations are included in the Central Government estimates for 1939–45.

In view of the changing scope of the sector in the period 1926–65 the figures for public corporations alone are of limited significance. More interest may attach to the following series which are shown in columns (1) to (3) of Table 31. Column (1) sets out the total gross trading profits of all incorporated enterprises: companies, public corporations and local authority and central government trading enterprises. This total is then split into two parts. Column (2) shows what may be loosely described as 'sometime nationalised industries', the term 'nationalised' being used to cover public sector profits as a whole. For 1946–65 this series covers the profits of public corporations and public enterprises, and of companies which were nationalised at some time during the period since 1938.[2] Broadly speaking, it covers the corporate profits of the following ten industries, all of which have been wholly or partly in the public sector at some time in the period 1926–65: coal mining, gas, electricity, water, railways, road haulage and road passenger transport, air transport, docks and canals, the Post Office and iron and steel. However this is *not* a precise description, partly because some of the profits included relate to individual companies in public ownership and to minor industries not listed (e.g. the profits – strictly depreciation and interest charges – of the Forestry Commission, included in the Central Government trading surplus); partly because some of the industries are not completely covered. In particular, the profits of any companies in the above industries which have not been nationalised at any time since 1938 will be omitted; this would apply, for example, to some private water supply companies and to companies in the road haulage, road passenger transport, air transport and dock industries.

For 1920–38 this distinction between those companies which have, and those which have not been nationalised since 1938 cannot be made, and the series in column (2) covers all corporate profits in the ten industries listed above. The final series for 'never nationalised industries' in column (3) is simply the difference between columns (1) and (2) and is subject to similar reservations regarding its precise coverage in the inter-war and post-war periods.

CONSISTENCY AND RELIABILITY

The estimates of the gross trading surpluses of public corporations are consistent in definition before and after 1938 though subject, of course, to the massive changes in the composition of the sector. The reliability of the series may be taken as Grade A throughout.

[1] *Annual Report and Statement of Accounts of the British Overseas Airways Corporation for the year ended 31st March 1947*, 1947, [**71**], p. 6.

[2] This series is derived as the difference between the *Blue Book* estimates for gross trading profits of all companies and for the profits of all companies except those nationalised during some part of the period since 1938. See [**73**], 1968, p. 44, and 1957, p. 26.

3.3 CORPORATE INCOME APPROPRIATION ACCOUNT, 1920–38 AND 1946–65

DEFINITION OF THE SERIES

The term corporate sector is used here – and in Tables 11 and 32 – to cover companies and public corporations as defined in Chapter 3.0 (i.e. including co-operatives, banks and building societies but not life assurance companies).[1] The income of the sector consists of gross trading profits, income from abroad and non-trading income. A brief definition of each of these items is given in the following paragraphs. There is a more detailed account of the distinction between domestic profits and income from abroad in Chapter 6.0.

The first of these income items is simply the sum of the gross trading profits of companies and public corporations *operating* in the United Kingdom, from Chapters 3.1 and 3.2. It is measured without any deduction for stock appreciation and before deduction of depreciation or direct taxes.

The second item, income from abroad, has two elements: firstly, the profits of British companies operating abroad plus the profits of foreign branches and subsidiaries of British companies. These profits are measured *after* deduction of depreciation and before deduction of taxes paid to overseas governments. The whole profit is included whether or not it is remitted to the United Kingdom. The second element is non-trading income (rent, interest, profits and dividends) received from abroad by the corporate sector.[2] This does not include undistributed profits of companies operating overseas.

The third item, non-trading income, is confined to the sector's receipts of rent, interest and dividends from other sectors in the United Kingdom. It includes, in particular, interest on loans to the public sector, interest received by banks, building societies and other financial concerns from persons and public authorities, and rent received by property companies letting land and buildings to the personal or public sectors. Interest and dividends received by companies from investments in, or loans to, other British companies (e.g. deposit interest received by industrial companies from banks, or interest and dividends received by unit trusts, or other financial companies from investments in British industrial companies) are excluded, since the object is to provide a consolidated account for the corporate sector as a whole.[3]

For the period 1920–38 the definitions are somewhat different in that the series which follows most directly from the data available yields an estimate for income from abroad limited to the trading profits earned abroad; and non-trading income from abroad is merged with non-trading income arising in the United Kingdom. This, of course, leaves total income unaffected, but a reallocation to show the same split as in the post-war period can only be made on the basis of an additional and somewhat unsatisfactory assumption (see p. 61). There are also the relatively minor changes in the definition of domestic trading profits and income from abroad discussed in Chapter 6.0.

Payments out of this income cover three items: dividends and interest paid by, or due from, the corporate sector to other sectors; profits and taxes due abroad; and United Kingdom taxes on income. The balance represents the undistributed profits of all corporations of British nationality, after taxation but before providing for depreciation (except on profits earned abroad) or stock appreciation.

The dividends and interest paid out during the year are shown before deduction of income tax. As on the income side, dividends paid by one company to another in the United Kingdom are excluded on consolidation; and dividends paid to foreign parent companies form part of the profits due abroad and are therefore excluded from this item. Five separate series are given in Table 32, showing payments of debenture interest, dividends on preference and ordinary shares, cooperative society dividends and interest, interest on building society shares and deposits and other interest, primarily bank deposit interest. Dividends *paid* during a year will not normally equal the dividends *accrued* during the year, i.e. part of the payments will represent the distribution of income earned in a previous year, and part of the amount appropriated for distribution in the current year will not actually be paid until the following year. A series is therefore included for additions to dividend reserves, equal to the estimated excess of accruals of dividends over actual payments in the year.[4]

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1 It does not include local authority trading enterprises and so differs from the use of the term 'corporate enterprises' in Chapter 7.1.

2 For 1920–62 the net earnings of United Kingdom insurance companies from their overseas branches and subsidiaries are not included in this item. See Chapter 6.3.

3 One exception to this is that any interest received by companies on holdings of public corporation loan stock is not eliminated; however this is logical since the corporations largely borrow from the Central Government, and there is no real distinction between a holding of, say, British Transport Stock (guaranteed by the Government) and a holding of Treasury Stock.

4 As explained below (p. 58) the basic information available for most of the inter-war period relates to accruals rather than payments so that the former is the more reliable item in the 1920–38 estimates.

Profits and taxes due abroad cover the profits earned in the United Kingdom by foreign-owned branches and subsidiaries (whether or not distributed) plus the taxes paid to overseas governments by United Kingdom companies operating abroad.

United Kingdom taxes on income paid by the corporate sector in the period 1920–38 were income tax, excess profits duty, corporation profits tax and national defence contribution. Estimates are given for both the amount of tax actually paid during the year and the amount of the addition to tax reserves, i.e. the excess of the accruals of tax over the actual payments. The timing of the accruals and payments of tax is explained on p. 63, below.[1] Both the tax payments and the additions to reserves are net amounts after deducting the income tax that the companies pay over to the Inland Revenue but recover from shareholders by deduction from dividends.

A detailed appropriation account for the years 1920–38 is given in Table 32 and a slightly more compressed version covering also 1946–65 appears as Table 11. Table 32 contains the more reliable allocation of inter-war non-trading income and income from abroad. Table 11 contains the less reliable re-allocation which is consistent with the 1946–65 data.

SOURCES AND METHODS OF ESTIMATION

1946–1965

Blue Book estimates for this period are based primarily on Inland Revenue data and balance of payments information, much of it similar in principle to the sources used below for the inter-war period, though generally more detailed and comprehensive.

1939–1945

No estimates have been made for the war years.

1920–1938

The estimates of gross trading profits have already been described in Chapters 3.1 and 3.2. The main source for the receipts of non-trading income from home and abroad and for the payment of dividends and interest was unpublished sample data collected by the Inland Revenue, and it will be helpful to describe this new material before proceeding to the individual series given in Table 32.

Three sets of data are available: the first for 1922 and 1923, the second for selected years between 1927 and 1937, and the third for 1936–8. For 1922 and 1923 (and also 1912) the *Report of the Committee on National Debt and Taxation* [**61**, paras. 48–52] contains estimates supplied by the Inland Revenue of the total trading profits of companies, and of their undistributed income after payment of interest, dividends, royalties, etc. and after depreciation. The estimates were based on a sample investigation and it seems certain that they were derived in the same manner as those for later years described in the following paragraph. The appendices to the Colwyn Committee's Report also contain a figure for the value in 1922 of companies' owner-occupied trading property [**61**, Appendix XI, p. 97] and this must have been added back in arriving at total income. No details of the other items of non-trading income and income distributed, which would have been needed to estimate undistributed income, have survived.[2]

The second set of sample data covers the eight years 1927, 1930–2 and 1934–7. Information was collected by the Inland Revenue on the 196–6 returns (see p. 132, n. 1) for each of these years for the following items:

- (i) Gross trading income as assessed for Schedule D (cases I and II)
- (ii) Wear and tear allowance
- (iii) Interest on Government securities, etc. and income from abroad (cases III–V)
- (iv) Interest, dividends etc. received after deduction of tax (but stated gross)
- (v) Schedule A net value (or net rental) of property owned and let
- (vi) Schedule A net value of property owned and occupied: mills, factories etc.
- (vii) Schedule A net value of property owned and occupied: other buildings
- (viii) Income distributed,[3] before deduction of tax: interest on loan capital
- (ix) Income distributed,[3] before deduction of tax: dividends
- (x) Income distributed,[3] before deduction of tax: royalties, ground rents, etc.
- (xi) Balance of undistributed income (before deduction of tax)

With regard to items (iv), (viii) and (ix) it should be noted that the interest and dividend flows include duplication arising from payments by one company to another. Some partial elimination of intra-group pay-

[1] See also p. 52 for a comment on the relationship between corporate savings, measured after deduction of taxes accrued, and government saving, measured after taking credit only for taxes actually received.

[2] An unpublished Inland Revenue table, dated 1931, contains estimates of undistributed income by trade groups for 1912, 1923 and 1927 and notes that the figures for the first two years represent a revision of the estimates furnished to the Colwyn Committee.

[3] Irrespective of date of payment.

ments may have been made (e.g. payment of a dividend by a subsidiary to its holding company may be omitted on both sides) but the extent of such elimination is not known. See, however, the comment on p. 60, below.

The actual material made available to me consisted of the original summary worksheets giving the total of the sample estimates[1] for each item for each trade group,[2] together with the estimated net trading income (i.e. items (i) minus (ii) above) for *all* companies and also the Inland Revenue's estimate of undistributed income for all companies. This was obtained by grossing-up item (xi) on the basis of the sample and aggregate data for net trading income. The samples were fairly large and for 1927, for example, contained over 15,000 companies accounting for about 55% of the estimated total additions to reserves.

The third set of data relates to the years 1936–8 and comes partly from the information published by the Inland Revenue in the *94th Report* [**30**, Tables 54–67] showing companies' costs and appropriation of income expressed as a percentage of turnover for twenty-eight separate grade groups, and partly from certain unpublished data relevant to these tables. As compared with the eleven items listed above the *94th Report* differs in the following respects: losses are shown separately; items (iii) to (vii) are all grouped together as 'other income'; dividends distributed are amounts actually paid in the year, not amounts accruing; and income and profits tax are deducted before arriving at undistributed income. The tables were based on a special sample of some 16,000 companies but the sample was also drawn from the 196–6 field, i.e. companies which had at some stage made a trading profit exceeding £2,000.

The three sets of data were used to make what may be termed 'first approximation' estimates for eleven of the inter-war years and the remaining eight years were filled in by interpolation and extrapolation. These first approximation estimates were made for all companies (and public corporations) excluding insurance, banking and finance – which is best treated separately – beginning with the eight years covered by the second set of data. The sample results obtained for each of the broader trade groups for the eleven listed items were grossed-up for each year by a factor equal to the ratio of the grossed-up Inland Revenue estimate of undistributed income to the sample figure. The totals for all trade groups for each item for each year were then further adjusted by a small margin so as to bring the trading profit net of wear and tear (and minus losses) equal to the non-financial company and public corporation component of the gross profit estimates made in part (*a*) of Chapter 7.1, less the corresponding share of the published total of wear and tear allowances. Profit in these first approximation estimates is thus measured after subtracting losses allowed for tax purposes but before correction for losses actually incurred and before all other 'national income' adjustments to the assessed gross trading profits.

To make use of the third set of data it is first necessary to convert the percentages in the *94th Report* to a money basis. This was done for each trade group by taking the percentage for trading profit, deducting the percentages for depreciation allowances, losses and profits tax (i.e. N.D.C.) and treating the result as equivalent to the figures for net true income in £ million as given in the *92nd Report*.[3] The relationship between the percentage for net true income and the corresponding figure in £ million then gives a factor which can be applied to the percentages in the *94th Report* for all other items. Coal mining, gas, electricity and water, shipping and railways were excluded from the *94th Report* and corresponding estimates for these groups were made on the basis of the unpublished data collected for them by the Inland Revenue. Provisional data underlying the published tables also afforded a means of allocating the total of 'other income' to the constituent items (numbered (iii) to (vii)).

The two sets of data overlap in the years 1936 and 1937. The grossed-up gross trading income and wear and tear estimates derived from these two sources were the same, since they had each been adjusted to a common base, and there were only minor discrepancies in the two sets of estimates for other income, interest distributed and royalties. A few slight adjustments to the first approximation estimaies were made in the light of these discrepancies but in general the estimates based on the *94th Report* were adopted as likely to be the more reliable. For dividends the two series are differently defined and so could not be

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[1] In the case of railway and insurance companies the estimates were not based on samples, the Inland Revenue relying instead on the *Railway Returns* [**26**] and Board of Trade *Annual Returns of Life Insurance Companies* [**18**].

[2] The basic sample data was classified on the basis of some ninety trade groups but the grossed-up estimates were made only on the broader basis of thirty-six groups. Cf. p. 133, below.

[3] The actual figures in the *92nd Report* are for companies and local authorities and the latter element was deducted in the two cases: road transport and docks, canals etc. (other public utilities are not covered by the *94th Report*) where it was significant. For shipping and 'other transport and communication' the *94th Report* (p. 64) contains revisions to the estimates of net true income published in the *92nd Report* and these were taken into account when making the estimates.

expected to agree, but the 1936–8 estimates for dividends *paid* from the *94th Report* rise very steeply and it was impossible to reconcile them with the estimates for dividends *accrued* in 1936 and 1937 derived from the earlier samples. Scrutiny of the figures for individual industries for dividends received and dividends paid in 1936–8 suggested that in certain industries the payments and receipts in 1937 and 1938 may have been on a more gross basis than those for 1936 (i.e. more of the dividends paid by and received from subsidiaries may have been shown separately in the basic returns and not netted out)[1] and both receipts and payments were reduced accordingly for 1937 and 1938. The revised figures for dividends paid were then adjusted to a dividends accrued basis by means of the assumption about timing of dividend payments described on p. 62, below.

The data so far considered provides first approximation estimates for 1927, 1930–2 and 1934–8. For gross trading profits and wear and tear allowances annual estimates are readily available and for the remaining items estimates were made by interpolating and extrapolating subject to the control on the series for 1922 and 1923 given by estimates derived from the Colwyn Committee data.[2] Most of these items are fairly stable from year to year and there is little scope for error in free-hand interpolation. This is not true, however, for dividends (ordinary and preference) accrued, and for this item interpolation and extrapolation was based on the summaries of company accounts published by *The Economist*.[3] After several experiments it appeared that the most satisfactory method of using this data (as tested by the fit in benchmark years) was to calculate a payment ratio – equal to *The Economist's* figures for dividends expressed as a percentage of the corresponding profits (including non-trading income) *before* debenture interest – and apply this to the first approximation estimates for net trading profits and non-trading income combined. A certain measure of trial and error was involved in this process since dividends received were partly estimated by reference to the movements in dividends distributed.

This completes the so-called first approximation estimates.

The next step was to establish certain additional estimates for the single year 1938 to serve as benchmarks for the final series. These estimates relate to rent, interest and dividends received by the corporate sector and to payments of dividends and debenture interest by the sector. The data are set out in Table 3.1 and come from three sources. The first, and most crucial, set of figures are those for 1938 given in, or implied by, the 1957 Blue Book [**75**, 1957, pp. 25–7]. The second set of figures are taken either from the first approximation estimates for 1938 for non-financial companies and corporations which we have just described, or from estimates derived in Chapter 7.1 for financial companies.

Thirdly, there are a set of intra-sector estimates indicated by the differences between certain items common to the first two sources. These differences arise because the Blue Book estimates for 1938 are always fully consolidated at the level stated (e.g. the estimates for non-financial companies include interest and dividend receipts from and payments to financial companies, but exclude all interest and dividend flows between non-financial companies), whereas the first approximation estimates are at most only very partially consolidated (see pp. 58–9, above). The differences thus represent a very rough approximation to the interest and dividend flows between non-financial companies or, at the level of the corporate sector as a whole, between financial and non-financial companies. They can only be a rough approximation since they would also reflect all estimation errors in the two sets of data. However, as Table 3.1 shows, the intra-sector estimates seem broadly plausible and there are no hopeless inconsistencies or wrong signs.

One further basic assumption is then required in order to derive the final annual estimates, namely, that the intra-sector payments of dividends and interest were the same proportion of total payments in each of the years 1920–37 as in the benchmark year 1938.

This completes the preliminary proceedings and we turn next to a brief description of the sources and methods used to obtain each of the appropriation account items in Table 32. A summary of the sources for the rather complicated interest and dividend items is also given in Table 3.1.

Gross trading profits of companies and public corporations operating in the United Kingdom

This is simply the total of gross trading profits before provision for depreciation and stock appreciation from Chapters 3.1 and 3.2.

[1] I have not investigated the question adequately but it seems possible that this change in presentation might have been the result of certain provisions of the national defence contribution assessments. See Spicer and Pegler, *Income Tax*, 17th edition, 1947 [**244**], pp. 606–13.

[2] In using this data it was assumed that the figures for net trading profits were after repayments of excess profits duty and payments of corporation profits tax and excluded the special assessment in 1923 of income received by the railway companies under Section XI of the 1921 Act (see p. 144, below).

[3] Accounts published in the year ended 30 June were taken for the preceding calendar year.

Trading profits earned abroad

The 1957 Blue Book has an estimate for 1938 of £106 m. for the profits of British companies, and their subsidiaries and branches, operating abroad (after depreciation and before deduction of taxes paid to overseas governments). The series for gross trading profits of companies operating abroad made in Chapter 7.1 ends with £96 m. in 1938 and deducting depreciation would reduce this to £80 m. £16 m. of this £26 m. discrepancy represents the Blue Book estimate for taxes paid by companies to overseas governments.[1] These taxes have been added back in the Blue Book series, but they are not included in the series from Chapter 7.1 (since such taxes would have been an allowable deduction in arriving at the amount of income assessed for United Kingdom taxation). The remaining discrepancy, in so far as it is not simply a difference in estimation, is probably accounted for by the difference in the allocation of profits between home and overseas operations discussed in Chapter 6.0. To the extent that this is so, an increase in the present estimates would involve a duplication of income already included in the profits of companies operating in the United Kingdom.

An estimate of £96 m. has, therefore, been taken as the benchmark for 1938. An accurate addition for taxes paid to overseas governments in earlier years would require knowledge of the area distribution of British overseas assets and of foreign tax rates, and in the absence of such information the series for gross trading profits less wear and tear allowances of companies operating abroad has been raised by a constant 20% (96:80) each year. There is an offsetting item for taxes paid abroad on the payments side of the appropriation account, so that any error here will not affect the estimate of undistributed income.

Non-trading income

This is composed of separate estimates for non-financial corporate enterprises and for financial companies. For the former the 'first approximation' estimates include an annual series for the gross receipts (i.e. including those from all other companies) of non-trading income (items (iii) to (v)). This is reduced, as shown in Table 3.1, to exclude first the rent, interest and dividends received from other non-financial companies, and secondly the non-trading income received from financial companies.

For the non-trading income of insurance, banking and finance companies (excluding life assurance) an estimate is made in Chapter 7.1 (pp. 141–3) but it is necessary to exclude from that the amounts received from other United Kingdom resident companies, as these receipts must be eliminated on a consolidation of the financial and non-financial companies. The method by which this is done is indicated in Table 3.1 and includes estimates (from Chapter 7.1) for the dividends and interest received by investment and unit trusts and by finance houses, land companies, etc., and for the interest received by banks on advances to the company sector.

The preceding calculations correspond to the estimates on the basis followed in the 1957 Blue Book. From 1961, however, the Blue Book changes its allocation of corporate income to show two new series, with the following estimates for 1938:

	£m.
Rent and non-trading income arising in the United Kingdom	190
Income from abroad	158

The total, £348 m., is unchanged and comparison with the earlier allocation (see e.g. row 1 of Table 3.1) yields a figure for 1938 of £52 m. (£242 m. – £190 m.) for non-trading income from abroad. In order to obtain a series consistent with the new Blue Book arrangement one can make the further assumption that the split of non-trading income from abroad between corporate enterprises and persons or public authorities was the same in each year from 1920 to 1937 as in 1938.[2] This is done in Table 11, but this is clearly somewhat less reliable than the initial presentation in Table 32.

We can now proceed to the allocation of this total of trading profits and non-trading income.

Debenture interest etc.

Item (viii) of the first approximation estimates gives an annual series for debenture interest paid by non-financial companies and public corporations ending with £73 m. in 1938 and as a rough guess this might be raised by about £6 m. to cover debenture interest paid by financial companies. As shown in Table 3.1 this total is £9 m. more than the Blue Book estimate of £70 m.: £61 m. for companies plus £9 m. for public corporations. The difference was assumed to represent intra-sector payments and the series was adjusted downwards proportionately.

Ordinary and preference dividends

For non-financial companies the estimate of gross dividends paid was obtained from the first approxima-

[1] See the 1967 Blue Book [**75**], pp. 10 and 28.

[2] Total property income from abroad is estimated in Chapter 6.3 and total non-trading income is obtained by deducting from this the series described above (ending with £96 m. for 1938) for trading profits earned abroad.

tion estimates of dividends distributed (item (ix)) by making a standard assumption that an interim dividend equal to 40% of the amount distributed was paid in the same calendar year, and a final dividend of 60% in the following calendar year.[1] This is clearly not a very satisfactory procedure, but errors will largely be offset by compensating errors in the additions to dividend reserves, and the undistributed profits will reflect the basic data which, except for 1936–8, related to dividends accrued.

As shown in Table 3.1 this was then reduced each year to exclude firstly, the estimated dividends paid to other non-financial companies; and secondly, the dividends paid to financial companies (unit and investment trusts, etc.).

For insurance, banking and finance companies an annual series for dividends paid was compiled for banks, non-life insurance companies, investment and unit trusts and finance companies.[2] This totals £66 m. in 1938, and was used to extrapolate the corresponding Blue Book estimate for 1938 of £76 m. (see Table 3.1). The series was then reduced, as shown in Table 3.1, to exclude dividends paid to other companies; and added to the previous series for dividends paid by non-financial companies. This gives a consolidated series for dividends paid by the corporate sector.

Co-operative society dividends and interest

Annual figures for the interest on shares and dividends on sales paid by the retail co-operative societies are given in the *Reports of the Chief Registrar of Friendly Societies* [**28**]. Interest and dividends paid by the wholesale societies are omitted since they are almost exclusively paid to the retail societies.

Interest on building society shares and deposits

An estimate for this item was made in Chapter 7.1 and is described on p. 143, below.

Other interest paid by banks etc.

This has two components. Firstly, the 1957 *Blue Book* [**75**, Table 29] gives an estimate of £10 m. for interest paid by banks to depositors outside the company sector, and this was extrapolated back to 1920 by reference to the total of deposits at the London clearing banks and a rate of interest taken as 2% below bank rate. Secondly, the interest paid by railway companies to railway workers' superannuation funds as stated in the *Railway Returns*.

Additions to dividend reserves

The assumption made to derive an estimate of gross dividends paid by non-financial companies from the first approximation estimates of dividends accrued (and the reverse procedure for 1936–8) has been described on pp. 61–2, and a very rough approximation to the addition to dividend revenues was obtained from the excess of dividends accrued over dividends paid. As noted above it reflects the errors in the assumption about the timing of dividend payments.

Profits due abroad and taxes paid abroad

This item covers remittances of film royalties, other profits earned in the United Kingdom by branches and subsidiaries of non-resident concerns (both these categories measured net of United Kingdom tax), and foreign taxes paid by United Kingdom companies operating abroad. A rough estimate of this last component has been described above in connection with the estimate of profits earned abroad. An estimate of film royalties remitted abroad is available for 1933[3] and the annual article on the balance of payments in the *Board of Trade Journal* enables the series to be extended from 1931 to 1938. It was extrapolated back to 1920 in the light of comments by Stone and Rowe in their chapter on consumers' expenditure on entertainment [**249**, II, p. 80].

These two items would account for about £23 m. of the £33 m. shown in the Blue Book for 1938, leaving £10 m. for profits earned in the United Kingdom by foreign companies. This was first extrapolated back to 1920 by means of the Chapter 7.1 estimates of gross profits in manufacturing industry, and the resulting series for 1920–38 was then adjusted downwards by multiplying by a factor rising from 0.5 in 1920 to

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[1] It would be possible but unrewarding to compile data on this point for the inter-war period. The first comprehensive data readily available are for 1964–6 and show interim dividends varying from 36% of total ordinary dividends to 53%. The average for the three years is 43%. See Council of the Stock Exchange, *Interest and Dividends Securities quoted on the Stock Exchange* [**269**], 1964, p. 22, 1965, p. 12. See also C.S.O., *Sources and Methods* [**73**], p. 231.

[2] *The Banker's Magazine* (August 1939 and earlier issues) compiled a series for dividends distributed by thirty-six banks and since the majority of bank dividends were declared net of tax this was grossed-up at the relevant rates. An article on insurance companies in *The Banker* for July of each year indicated that dividends of non-life companies were broadly equal to interest received and a series was made on this assumption. For the remaining trusts and finance companies the estimate made in Chapter 7.1 for income received was taken as a proxy for dividends declared.

[3] S. Rowson, 'Value of Remittances Abroad for Cinematograph Films', *J.R. Statist. Soc.* XCVII, 1934 [**240**], p. 640.

0.95 in 1928. This adjustment is designed to allow for an approximate doubling of direct foreign investment in Britain between 1920 and 1929.[1]

United Kingdom taxes on income

In estimating the tax charge on the corporate sector it is necessary to distinguish between the tax accrued and the tax paid, the difference representing the addition to tax reserves; and accrual and payment must each be divided between the amount relevant to the company's own tax liability and the amount relating to the income distributed by the company to its shareholders after deduction of tax.

The differences in timing and content of these various concepts can be illustrated as follows. Firstly, the total income of a company on which income tax has to be paid *in* any year of assessment ended 5th April, say 1937/8, will consist of:

(*a*) trading profits as defined for tax purposes earned in accounting periods ended at any date in the preceding year of assessment 1936/7,[2] e.g. profits for the calendar year 1936;

(*b*) the net annual value in 1937/8 of owner-occupied trading property assessed under Schedule A;

(*c*) rent and non-trading income received by the company. If it is income received before deduction of tax (and assessable under Cases III–V of Schedule D) the assessment for 1937/8 will relate to income received in the preceding year of assessment 1936/7. If it is income received net of tax (e.g. dividends and interest received from other companies in the United Kingdom) the tax will have been deducted at the standard rate for the year in which the amount payable becomes due;[3] a dividend being deemed to be due on the date on which it is declared payable. Broadly speaking, this will be the year of assessment in which the dividend is received.

To obtain the tax paid by the company (whether actually paid or suffered by deduction at source on income received) on its own, i.e. undistributed, income,[4] it is necessary to deduct

(*d*) the gross dividends and interest distributed to shareholders. The timing naturally follows the rule given under (*c*) for dividends received and the deduction for the year of assessment 1937/8 will relate broadly to dividends paid in that year.

Since payment actually falls due in January 1938 there is thus a lag of two calendar years between the year in which we show trading profits as having been earned and the year in which we show tax on that profit as paid. For non-trading income the lag is one year.

Having considered payment of income tax it is now necessary to look at the provision which has to be made for the excess of tax accruals over tax payable. Actual company practice in this regard was still very much in the formative stage in the inter-war years, and there was no generally agreed procedure. For the purpose of the present estimates the following standard form of provision, which conforms broadly to the post-war procedure adopted for the Blue Book estimates, has been followed. An addition to tax reserves is calculated for any calendar year, say 1938, as follows:

(*a*) Provision is made for tax on trading profits (including net annual value of owner-occupied property) earned in 1938, calculated at the standard rate for the current year of assessment 1938/9.[5]

plus (*b*) An adjustment to the provision for the previous year, i.e. the profits earned in 1937 taxed at the difference between the standard rates for 1938/9 and 1937/8. This second instalment thus brings the provision for 1937 up to the amount which will actually be paid in 1939.

less (*c*) Tax paid in 1938, i.e. the trading profits of 1936 taxed at the standard rate for 1937/8.

less (*d*) Tax on 60% of ordinary and preference dividends plus debenture interest distributed in 1938 (equal the final dividend payable in 1939) calculated at the standard rate for 1938/9 minus tax on 60% of dividends and interest distributed in 1937 calculated at the standard rate for 1937/8.

It will be noted that the first three elements in the above calculation ignore non-trading income on which tax has been deducted at source, and which would

[1] Long-term direct investment by the United States of America in Great Britain was reported to be $485 m. at end-1929 and $474 m. at end-1936. See League of Nations, *Balances of Payments* [**104**], 1937, p. 203, and 1930, p. 179. There is no corresponding figure for 1920, but direct investment by the United States in Europe as a whole was estimated at $693 m. in 1919 and Britain's share of this may have been about $150–200 m. See C. M. Lewis, *America's Stake in International Investments*, 1938, [**200**], p. 606.

[2] Prior to 1927/8 this would more commonly have been the average of the three preceding years.

[3] Section 39 of the Finance Act 1927.

[4] See, however, the notes to Table 32 for an estimate of the total United Kingdom tax accruing on corporate income, including tax on distributed profits, for the years 1920–38.

[5] The rate at which tax would eventually be paid is that for the *following* year of assessment, 1939/40, but this rate would not normally be known at the time when the accounts for 1938 were being drawn up. The rate applicable to a year of assessment is fixed by the Finance Act passed at the beginning of the year of assessment, i.e. usually in April or May of the year following the year in which profits were earned.

normally appear net of tax in the company's accounts so that no provision for tax is required. Further, they relate to the taxes on the total trading profits of the company and not merely to the undistributed portion. This is, therefore, corrected by the fourth element in the calculation whereby the company takes into account the tax it will deduct from dividends due to be paid. This is calculated at the standard rate for the current year[1] applied to the 60% of the dividend distributed which is assumed to be paid in the following year, less the corresponding provision in the previous year.

All except one of the series required to calculate payments of income tax and the additions to reserves are available from the estimates of non-trading income received, and dividends and interest paid and accrued, made earlier in this chapter. The exception is the estimate of corporate trading profits as defined for tax purposes, and this was derived as follows. The total actual income, Schedule D in each year of assessment as shown in the *Reports* forms the basis of the series. It is then necessary to add back the three categories of exemptions, none of which relate to corporate profits, and also the non-trade deductions;[2] and to deduct the actual income from interest on war securities etc. and from Dominion and foreign securities and possessions; and the profits as assessed for tax of local authorities and individuals and firms. The information necessary for these additions and deductions is available in the Inland Revenue *Reports* or in the material used for Chapter 7.1.[3] The crucial item is the estimate for individuals and firms and, as explained on pp. 145–6, an estimate of the actual earned income assessed under Schedule D was made on the basis of the earned income allowances.

All the above points relate to income tax and it is also necessary to allow for payment and accrual of excess profits duty, corporation profits tax and national defence contribution. Actual payments during the calendar year are known (see Chapter 4.1) and it is only necessary to allocate the payments of E.P.D. and C.P.T. between corporate and non-corporate enterprises; this was done on the same rather arbitrary basis as in Chapter 7.1. Accruals of these taxes were also estimated in Chapter 7.1 and the addition to tax reserves is calculated as the excess of accrual over payments. For E.P.D. and C.P.T. this was in fact a negative item, both because of negative accruals reflecting repayments of E.P.D., and because reserves were run down as delayed payments were made (in amounts exceeding £2 m. until 1927) after liability under E.P.C. and C.P.T. had ceased.

Balance

The balance remaining is undistributed income after taxation and provision for dividends but before provision for depreciation and stock appreciation. In addition to provision for these two items it represents the sum available for the net acquisition of real or financial assets by the corporate sector.

[1] Tax will actually be deducted at the standard rate for 1939/40 but again this is not known when the provision for tax is made.

[2] The exemptions are listed on p. 158, below; the non-trade deductions are discussed on p. 130, n. 1. Strictly that part of the expenses of management which relates to financial concerns other than life insurance companies ought not to be added back.

[3] For 1927–38 this is in fact equal to the assessed gross trading profits less losses *allowed* as measured in part (a) of Chapter 7.1, less wear and tear allowances for companies and public corporations, subject to the minor discrepancy in timing between the assessments *for* 1936–8 in the *92nd Report* and the original assessments *in* 1937/8 to 1939/40 (see p. 130, n. 2). For 1920–6 there is the further complication that the income as defined for tax purposes represented a mixture of years according to the precise basis of assessment. Working directly from the actual income avoids this complication.

Footnotes to Table 3.1:

[a] This is made up from the following Blue Book (1957, Tables 28, 32 and 26) estimates for non-financial concerns.

	£ m.
Non-trading income plus trading profits earned abroad:	
Companies	180
Public corporations	3
Less Trading profits earned abroad	97

[b] Row *h* represents the estimate for dividends received by unit and investment trusts and by financial houses etc.

[c] The first approximation series are adjusted to measure dividends paid rather than dividends accrued. See p. 62.

[d] Interest and dividend payments by financial companies (excluding interest paid on bank deposits) is given in the Blue Book, 1957 (Table 29) as £106 m., of which £24 m. (Table 26) is interest on building society shares and deposits. A further £6 m. (this is a rough allowance – see row *w* and note (e)) must be deducted to exclude debenture interest, leaving £76 m. for dividends paid.

[e] This is only a guess. Any error would mean compensating errors in rows *x*, *r* and *s*.

TABLE 3.1 NON-TRADING INCOME RECEIVED AND PAID BY THE CORPORATE SECTOR IN 1938

		Estimate for 1938 (£ m.)	Source of 1938 estimate	Source of estimate for 1920–37
I	*Rent, interest and dividends received*			
a	Received by N from N, F and P	173	First approximation, items (iii) + (iv) + (v)	As for 1938
b	*Less* Dividends received by N from N	(78)		See row *n*
c	Rent and interest received by N from N	(9)	Row *n*; $a-(b+d)$	Same % of $a-b$ as in 1938, i.e. 9.5 %
$d =$	Received by N from F and P	86	Blue Book, 1957, Tables 26, 28 and 32[a]	$a-(b+c)$
e	*Less* Received by N from F	5	$d-f$	Same % of *d* as in 1938, i.e. 5.8 %
$f =$	Received by N from P	81	$l-k$	$d-e$
g	Received by F from N and P	220	Blue Book, 1957, Table 29	See Chapter 7.1, p. 142[b]
	Less Received by F from N:			
h	Dividends	28	The total of £59 m. is from Blue Book 1957, Table 29. Rows *h* and *i* as for 1920–37 and $j =$ residual	See Chapter 7.1, p. 142[b]
i	Interest on bank advances	26		See Chapter 7.1, p. 140
j	Rent etc.	5		Same % of $g-(h+i)$ as in 1938, i.e. 3.0 %
$k =$	Received by F from P	161	$g-(h+i+j)$	As for 1938
l	Total received by N and F from P	242	Blue Book, 1957, Table 3	$f+k$
II	*Interest and dividends paid*			
	Ordinary and preference dividends paid			
m	Paid by N to N, F and P	515	First approximation, item (ix)[c]	As for 1938
n	*Less* Paid by N to N	(78)	$m-o$	Same % of *m* as in 1938, i.e. 15.1 %
$o =$	Paid by N to F and P	437	Blue Book, 1957, Table 28	$m-n$
p	*Less* Paid by N to F	28	Row *h*	As for 1938
$q =$	Paid by N to P	409	$o-p$	As for 1938
r	Paid by F to N, F and P	76	Blue Book, 1957, Tables 26 and 29 and row *w*[d]	Special estimate, see p. 62
s	*Less* Paid by F to N and F	(4)	$r-t$	Some % of *r* as in 1938, i.e. 5.3 %
$t =$	Paid by F to P	72	$u-q$	$r-s$
u	Total paid by N and F to P	481	Blue Book, 1957, Table 26	$q+t$
	Debenture interest paid			
v	Paid by N to N, F and P	73	First approximation, item (viii)	As for 1938
w	Paid by F to N, F and P	6	[e]	Same % of *v* as in 1938, i.e. 4.1 %
x	*Less* Paid by N and F to N and F	(9)	$v+w-y$	Same % of *v* as in 1938, i.e. 4.1 %
y	Total paid by N and F to P	70	Blue Book, 1957, Tables 26 and 32	$v-(x-w)$

NOTES: F = Financial companies other than building societies

N = Non-financial (industrial and commercial) companies and public corporations other than co-operative societies

P = Public authorities, persons and non-residents

Figures in brackets are implied estimates of intra-sector payments and are particularly uncertain. See p. 60.

See p. 64 for footnotes to table.