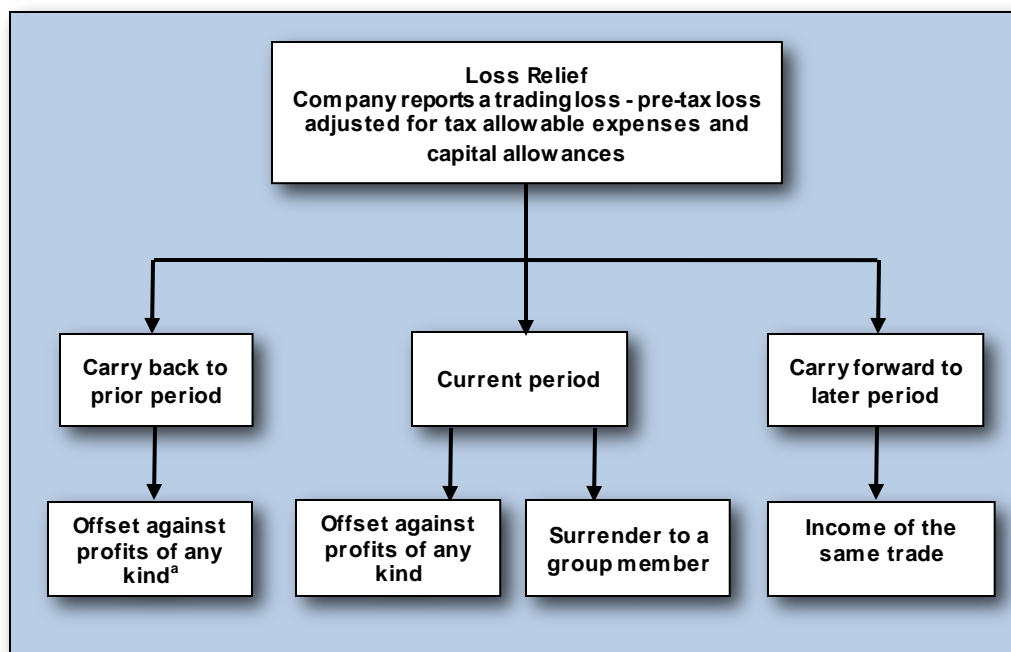


26 Corporation Tax Losses

- 26.1** Companies are liable for Corporation Tax in respect of all profits arising from income or gains. Where a company reports a trading loss in an accounting period, that loss can be used to obtain relief from the payment of Corporation Tax in a variety of ways as set out in Figure 26.1.
- 26.2** For years prior to 2011, Corporation Tax returns did not include the cumulative value of losses available for offset against future profits. Up to and including 2010, companies were only obliged to declare a loss on their return in the year the loss was generated. They were not required to restate any unused losses in subsequent years except to the extent that they wished to offset any of the earlier losses against profits in that year. Notwithstanding that Revenue had been provided annually with details of losses incurred by companies, it did not have a record of the cumulative value of losses available to companies for future offset. It calculated the amount of unused losses available for carry forward to future years using available information and estimates of the level of losses utilised in relation to group relief.¹

Figure 26.1 Corporation Tax loss relief



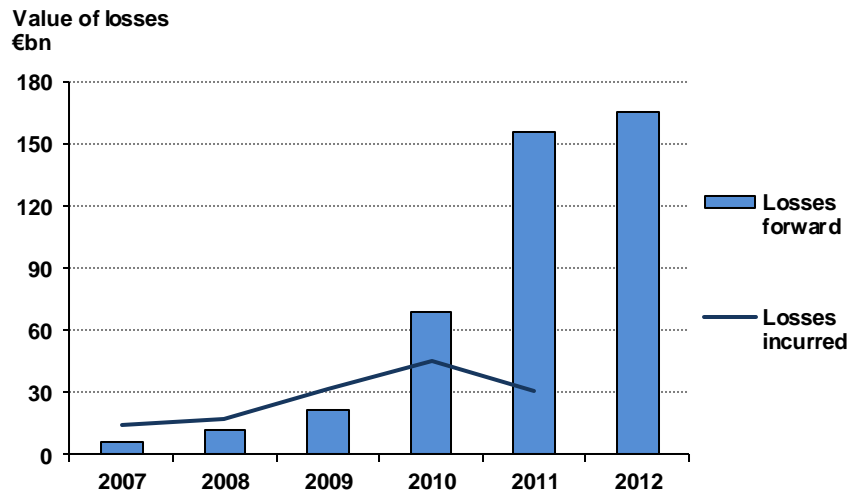
Note: a Where a company ceases to trade and reports a loss in the last twelve months of trade, this loss can be carried back and used to reduce trading income of the same trade in the preceding three years.

¹ Section 411 of the Taxes Consolidation Act 1997 provides for a system of relief for trading losses under which the loss of one member of a group may be set off against the profits of another member of the group.

Trend in Losses Available for Offset

26.3 The trend in estimated losses brought forward from earlier accounting periods and declared losses incurred in the accounting periods 2007 to 2011 are set out in Figure 26.2.

Figure 26.2 Trend in losses forward and losses incurred, 2007 to 2012^{a,b}



Source: Corporation Tax returns for accounting periods ending between 2007 and 2011.

Notes: a Losses only, capital allowances are not included.

b 2012 losses forward are the estimated losses unused at end-2011.

26.4 Losses incurred in 2011 were around 30% lower than in 2010 at just over €31 billion. The main factor contributing to this was a sharp fall in losses incurred in the financial and insurance sector. However, losses in that sector still accounted for over 75% of all losses reported in 2011.

26.5 At the end of 2010, Revenue had estimated that around €119 billion of losses remained unused. However, reported losses brought forward on the Corporation Tax returns for 2011 was €37 billion higher at €156 billion. A significant part of the increase in losses brought forward is due to steps taken by Revenue to improve the quality of its information about losses. Revenue engaged with a number of the largest loss-making companies to ensure that their 2010 returns included data on cumulative losses being brought forward. In addition, for 2011 and future years, the format of the Corporation Tax return has been amended to require all companies to include their cumulative losses.

26.6 In 2011, a total of €205 billion was available for offset against profit (2010: €141 billion). This comprised

- losses brought forward of €156 billion
- losses incurred in 2011 of €31 billion
- capital allowances amounting to €18 billion.

26.7 Using information derived from the 2011 Corporation Tax returns, Revenue estimates that around €22.7 billion of losses and capital allowances were used to reduce the amount of Corporation Tax payable for 2011 or earlier periods.¹ This resulted in a reduction of an estimated €2.8 billion in Corporation Tax receipts.

¹ Almost €0.6 billion of losses was offset against prior years' tax.

- 26.8** Revenue estimates that €165 billion of losses and €18 billion of capital allowances remained unused at the end of 2011 and are available to carry forward in future years. The extent to which the losses will have an effect on future Corporation Tax receipts depends on the future profits made by the companies carrying the losses.

Sectoral Losses and Capital Allowances

- 26.9** Three sectors of the economy account for 77% of the losses and capital allowances available for carry forward at the end of 2011 while four sectors account for a further 16%. Details of the losses and capital allowances available and utilised in 2011 and unused at the end of 2011 are set out by sector in Figure 26.3.

Figure 26.3 Estimate of losses and capital allowances available, utilised and unused at year-end, 2011

Sector	Losses available 2011 ^a	Utilised in 2011		Losses forward 2012
		€ bn	€bn	
Financial and insurance activities	116.3	4.5	4%	111.8
Administrative and support service activities	23.1	5.7	25%	17.4
Construction	12.0	0.9	8%	11.1
Information and communication	9.8	1.3	13%	8.5
Manufacturing	13.2	5.1	39%	8.1
Transportation and storage	8.0	1.1	14%	6.9
Wholesale and retail trade	8.1	1.5	19%	6.6
Other ^b	14.7	2.6	18%	12.1
Total	205.2	22.7	11%	182.5

Source: Corporation Tax returns 2011

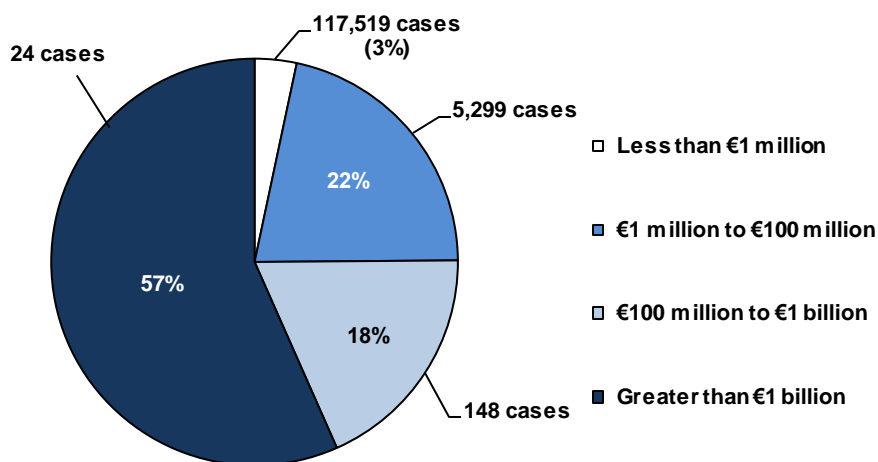
- Notes:
- a Includes losses brought forward, current year losses and capital allowances.
 - b Six sectors in the 'other' category account for around €12 billion of the losses available for offset in 2011 - professional services, real estate, accommodation, electricity and gas, agri-business and mining.

1 Two of the NAMA institutions merged into Irish Bank Resolution Corporation Limited which went into liquidation in February 2013. When the liquidation is completed, any losses remaining unused will cease to be available.

2 The National Asset Management Agency Act (NAMA Act) 2009 amended the Taxes Consolidation Act 1997 to restrict the use of losses of participating institutions in accounting periods commencing after the passing of the NAMA Act. The maximum amount of losses that can be used in each period is half of the excess group trading profits over group trading losses for that period, so that a minimum of 50% of group trading profits will remain chargeable to tax.

- 26.10** A large proportion of the €205 billion losses and capital allowances available for offset in 2011 against Corporation Tax is accounted for by a relatively small number of taxpayers, as shown in Figure 26.4. Analysis of these balances shows that 24 cases account for €116 billion or 57% of the total.

- Five institutions participating in the National Asset Management Agency (NAMA) had combined losses and capital allowances accounting for almost a third of the total available in 2011 (€67 billion).¹ The rate at which the losses for the institutions participating in NAMA can be used is restricted.²
- 19 other companies had combined losses and capital allowances available in 2011 amounting to €49 billion. €31 billion of these were in seven companies in the financial and insurance sector.

Figure 26.4 Losses and capital allowances available for offset, 2011

Source: 2011 Corporation Tax returns

Conclusions

- 26.11** Losses and allowances used in 2011 resulted in reductions in Corporation Tax receipts estimated at €2.8 billion.
- 26.12** Revenue had been provided with details of losses incurred by companies in their annual Corporation Tax returns prior to 2011, but it did not have a record of the cumulative value of losses available to companies for future offset. This was addressed by a change in the 2011 Corporation Tax return form which required companies to provide more complete information on the losses carried forward from earlier accounting periods. Arising from the change in the format, Revenue now has better information to use in tax forecasting and planning.
- 26.13** The amount of losses and capital allowances available to companies for relief against payment of Corporation Tax in 2012 and later periods was estimated by Revenue at around €183 billion. The losses and allowances available for offset are highly concentrated in a small number of companies. Detailed review of these cases should also assist Revenue and the Department of Finance in estimating the likely impact of the losses on future tax receipts.