

8. Tax

Taxation expense

	2007 £m	2006 £m
Current taxation expense		
UK corporation tax		
Current tax	(140)	(91)
Double tax relief	29	35
Adjustment in respect of prior years	(21)	(93)
	(132)	(149)
Overseas tax charges		
Current year	(160)	(91)
Adjustment in respect of prior years	-	15
	(160)	(76)
	(292)	(225)
Deferred taxation expense		
UK		
Origination and reversal of temporary differences	(103)	25
Adjustment in respect of prior years	39	27
Tax rate adjustment ¹	(5)	-
Overseas		
Origination and reversal of temporary differences	22	(49)
Adjustment in respect of prior years	4	5
Attributable to recoverable deferred tax assets	-	4
	(43)	12
Taxation expense	(335)	(213)

1 The UK current tax rate will be reduced from 30% to 28% with effect from 1 April 2008. In line with this change, the rate applying to UK deferred tax assets and liabilities has also been reduced from 30% to 28%, creating a rate adjustment, which is partly reflected in the Consolidated income statement and partly in the Consolidated statement of recognised income and expense.

Notes to the Group accounts (continued)

8. Tax (continued)

The following table shows a reconciliation from the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2007 £m	2006 £m
Profit before tax	1,235	859
UK corporation tax rate	30.0%	30.0%
Expected income tax expense	(371)	(258)
Effect of tax rates in foreign jurisdictions	(13)	(20)
Expenses not tax effected	(38)	(50)
Income not subject to tax	70	69
Research and development tax credits	39	34
Goodwill	(44)	(9)
Chargeable gains	(28)	–
Utilisation of previously unrecognised tax losses	23	–
Recoverable deferred tax asset previously unrecognised	–	4
Current year losses not tax effected	(11)	(9)
Adjustments in respect of prior years	22	(46)
Adjustments in respect of equity accounted investments	36	34
Other	(20)	38
Taxation expense	(335)	(213)

Current tax taken in equity

	2007 £m	2006 £m
Relating to financial instruments	(1)	(1)
Relating to share-based payments	28	–
Relating to pensions	69	22
	96	21

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Property, plant and equipment	1	1	(71)	(68)	(70)	(67)
Intangible assets	–	–	(372)	(143)	(372)	(143)
Provisions	271	261	(2)	(1)	269	260
Goodwill	–	–	(25)	(17)	(25)	(17)
Pension/retirement plans:						
Deficits	522	793	–	(15)	522	778
Additional contributions	106	158	–	–	106	158
Share-based payments	75	82	–	–	75	82
Financial instruments	6	25	–	–	6	25
Other items	16	19	(7)	(47)	9	(28)
Rolled over capital gains	–	–	(18)	(19)	(18)	(19)
Capital losses carried forward	18	19	–	–	18	19
Unremitted overseas earnings	–	–	–	(1)	–	(1)
Trading losses carried forward	7	15	–	–	7	15
Deferred tax assets/(liabilities)	1,022	1,373	(495)	(311)	527	1,062
Set off of tax	(455)	(296)	455	296	–	–
Net deferred tax assets/(liabilities)	567	1,077	(40)	(15)	527	1,062

8. Tax (continued)

Movement in temporary differences during the year

	At 1 January 2007 £m	Exchange movements £m	Acquisitions (note 31) £m	Other movements £m	Recognised in income £m	Recognised in equity £m	At 31 December 2007 £m
Property, plant and equipment	(67)	–	(8)	1	4	–	(70)
Intangible assets	(143)	(5)	(272)	–	47	1	(372)
Provisions	260	(2)	42	(3)	(28)	–	269
Goodwill	(17)	–	18	–	(26)	–	(25)
Pension/retirement plans:							
Deficits	778	(3)	7	–	(50)	(210)	522
Additional contributions	158	–	–	–	(1)	(51)	106
Share-based payments	82	–	–	–	1	(8)	75
Financial instruments	25	–	–	–	(7)	(12)	6
Other items	(28)	2	7	1	25	2	9
Rolled over capital gains	(19)	–	–	–	1	–	(18)
Capital losses carried forward	19	–	–	–	(1)	–	18
Unremitted overseas dividends	(1)	–	–	–	1	–	–
Trading losses carried forward	15	1	–	–	(9)	–	7
	1,062	(7)	(206)	(1)	(43)	(278)	527

	At 1 January 2006 £m	Exchange movements £m	Acquisitions £m	Other movements £m	Recognised in income £m	Recognised in equity £m	At 31 December 2006 £m
Property, plant and equipment	(66)	3	–	1	(5)	–	(67)
Intangible assets	(180)	15	–	(8)	30	–	(143)
Provisions	239	(21)	–	4	38	–	260
Goodwill	11	–	–	–	(28)	–	(17)
Pension/retirement plans:							
Deficits	1,313	(29)	–	6	(130)	(382)	778
Additional contributions	–	–	–	–	18	140	158
Share-based payments	59	(3)	–	(3)	21	8	82
Financial instruments	–	–	–	–	18	7	25
Other items	(57)	(1)	–	7	23	–	(28)
Rolled over capital gains	(24)	–	–	–	5	–	(19)
Capital losses carried forward	24	–	–	–	(5)	–	19
Unremitted overseas dividends	(27)	–	–	–	26	–	(1)
Trading losses carried forward	16	(1)	–	(1)	1	–	15
	1,308	(37)	–	6	12	(227)	1,062

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2007 £m	2006 £m
Deductible temporary differences	22	28
Capital losses carried forward	59	60
Trading and other losses carried forward	140	130
	221	218

These assets have not been recognised as the precise incidence of future profits in the relevant countries and legal entities cannot be sufficiently accurately predicted at this time.

The aggregate temporary differences associated with investments in subsidiaries, branches, associates and joint ventures for which deferred tax liabilities have not been recognised is £847m (2006 £500m).