Advance Corporation Tax (ACT)	Post ACT
• Advance Corporation Tax (ACT) was a system of taxation in the UK that required companies to pay tax on dividends before they were paid out to shareholders. • The ACT system was introduced in the UK in 1973 and was designed to prevent companies from distributing their profits in the form of dividends to avoid paying corporation tax. • Under the ACT system, companies were required to pay tax on distributed profits at a rate of 30%, which was then credited against their corporation tax liability for that year.	• After the abolition of ACT, the tax credit system was introduced, which allowed shareholders to claim a credit for the tax paid by the company on their dividends. • The tax credit system was also abolished in 2016, and replaced with the dividend tax allowance. • Companies in the UK are now subject to corporation tax on their profits, which are taxed at a rate of 25% (as of 1 April 2023).

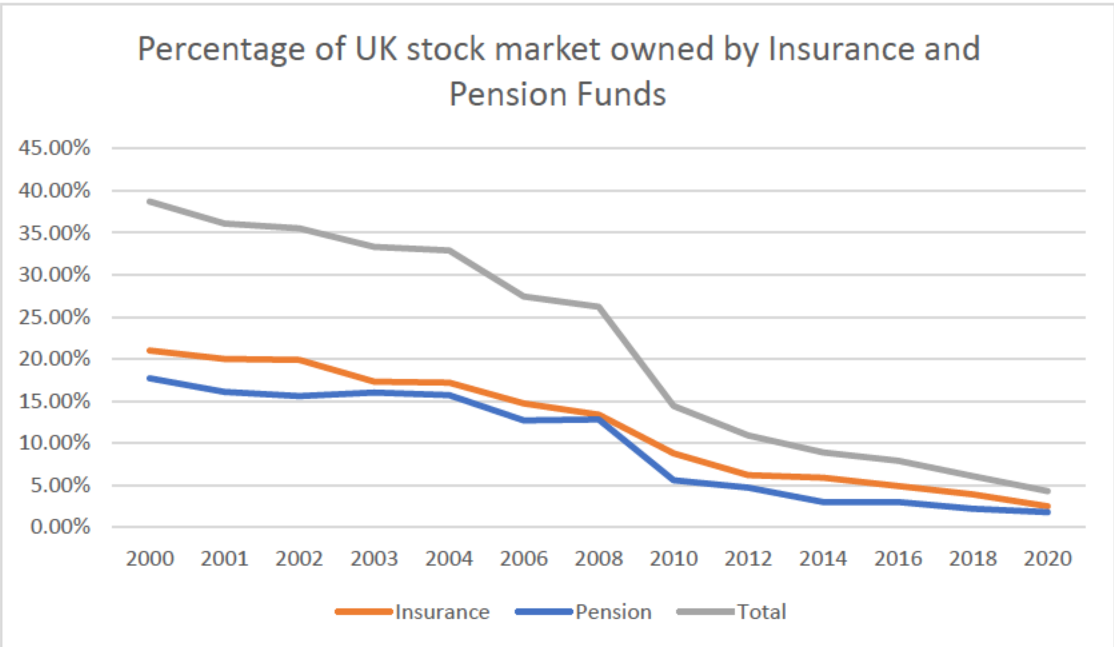
Similarities to Australian franking credit system	Difference to Australian franking credit system
• Like the franking credit system currently, the ACT aimed to prevent double taxation of corporate income in the UK. • Both systems (ACT while active) provide a tax credit to shareholders to reduce the tax liability on their dividend income, representing the tax already paid by the company. The credit is then used to offset the shareholder tax liability.	• The ACT imposed a tax on distributed profits, which could be avoided by paying dividends out of tax-exempt reserves. As a result, the ACT system did not incentivize companies to pay tax on profits, or distribute profits to investors, but rather retain earnings. The franking credit system gives tax credit for tax already paid by the company. This means that companies cannot avoid paying the tax credit and the more tax a company pays on its profits, the greater the tax credit it can pass on to its shareholders. This encourages companies to distribute profits via dividends rather than retaining them and serves as one of the reasons why Australia's investable economy is well-regarded for its higher dividend payout ratios than overseas counterparts.

The following figures show percentage of UK equities owned by UK pension funds and insurance companies since 1990, based on data from the Office for National Statistics:

Percentage of UK stock market owned by Insurance and Pension Funds

Year	Insurance	Pension	Total
2000	21.0%	17.7%	38.7%
2001	20.0%	16.1%	36.1%
2002	19.9%	15.6%	35.5%
2003	17.3%	16.0%	33.3%
2004	17.2%	15.7%	32.9%
2006	14.7%	12.7%	27.4%
2008	13.4%	12.8%	26.2%
2010	8.8%	5.6%	14.4%
2012	6.2%	4.7%	10.9%
2014	5.9%	3.0%	8.9%
2016	4.9%	3.0%	7.9%
2018	3.9%	2.2%	6.1%
2020	2.5%	1.8%	4.3%

Source: Office for National Statistics (ONS)



https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2013-09-25#uk-stock-market

https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2020