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International Tax

United Kingdom Tax Alert

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The UK Chancellor of the Exchequer gave his first budget of the new Conservative government on 8 July 2015. This summary focuses on the measures announced that likely are most relevant to foreign-owned multinational groups. (For more detailed coverage and comments on the budget, visit Deloitte's dedicated website at www.ukbudget.com.)

The economic security of the UK was at the heart of this budget, with a continuing focus on the elimination of the deficit by 2019/20. The Chancellor highlighted the strength of the economic performance of the UK over the last two years, and announced a number of tax measures to ensure that the UK remains at the forefront of global growth.

As widely expected, the Chancellor used this budget as an opportunity to spell out how this government intends to achieve tax increases of GBP 5 billion and savings of GBP 12 billion in welfare payments that he previously had indicated would be necessary to eradicate the deficit within the target timeframe. Public spending cuts will be outlined in the autumn spending review.

Business tax

Corporation tax rate: The headline rate of corporation tax would be further reduced from the current rate of 20% to 19%, effective from 1 April 2017, and to 18% effective from 1 April 2020. The rate reductions will be included as part of Finance Bill 2015, but it is unclear when the Finance Bill will be substantively enacted for IFRS purposes (and enacted for US GAAP purposes).

Corporation tax payments: A new quarterly installment regime would apply to companies with taxable profits greater than GBP 20 million (with this threshold divided by the number of companies, where there is a group). Companies within this new regime would be required to pay tax in the third, sixth, ninth and 12th months of their accounting periods. The new payment dates would apply for accounting periods beginning on or after 1 April 2017.

Capital allowances: The annual investment allowance had been scheduled to reduce to GBP 25,000 per annum from 1 January 2016. The Chancellor would increase the available relief to GBP 200,000 from 1 January 2016, and the relief would remain at that level going forward.

Reform of the corporate debt/loan relationship provisions: The previously announced reform of the corporate debt/loan relationship provisions would apply for accounting periods starting on or after 1 January 2016. However, two measures would apply from the date of Royal Assent: (1) a tightening of certain anti-avoidance provisions; and (2) new rules that provide for relief for credits that arise on the release of debts of financially distressed companies.

Amortization of goodwill: Tax relief for the amortization of purchased goodwill and certain customer-related intangibles would be restricted, such that relief would be available only when the asset is sold to a third party. This measure would apply to accounting periods beginning on or after 8 July 2015, but only in respect of acquisitions made on or after that date. This provision effectively would remove a key distinction between a transaction that is structured as an asset deal and one that is structured as a share purchase.

Controlled foreign companies (CFCs): The CFC rules would be tightened, effective from 8 July 2015, to that ensure that a UK company would not be able to offset losses against a CFC charge. Under the current rules, it is possible to offset losses and expenses against the CFC charge on a just and reasonable basis.

Consortium relief: The availability of consortium relief historically has been dependent upon the tax residence of the "link company." The Chancellor proposes to remove all requirements relating to location of the link company, thereby making the relief more widely available. This measure would be effective for accounting periods beginning on or after 10 December 2014 (when the measure previously was announced).

Other measures

Several measures are proposed in relation to banks:

- As previously announced, banks would be denied deductions in respect of compensation payments made as a consequence of historic misconduct;
- Banking companies and building societies would be subject to a new 8% surcharge on their taxable profits for accounting periods beginning on or after 1 January 2016; and
- The bank levy would drop from 0.21% to 0.18% from 1 January 2016, with further annual reductions to 0.1% by 2021.

The Chancellor introduced a "tax lock" as a mechanism to provide for a ceiling for the main threshold rates for the income tax, the standard and reduced rates of VAT and the employer and employee National Insurance Contribution rates, such that they could not rise above the 2015/16 levels for the term of this Parliament. The tax lock also would ensure that items that are subject to the zero and reduced rates of VAT cannot be removed.

Anti-avoidance

The Chancellor announced a broadening of the powers of the UK tax authorities (HMRC), along with additional funding to tackle perceived tax evasion and abuse:

- HMRC would receive additional funding to investigate the most serious and complex tax crimes;
- Additional funding would be provided to deal with noncompliance by small

and medium-sized businesses, as well as public bodies and wealthy individuals;

- HMRC would have the capacity to recover debts in excess of GBP 1,000 directly from the bank accounts of taxpayers that have the means to pay but choose not to (as announced in the first 2015 budget);
- HMRC would be granted additional powers to access data through online intermediaries and electronic payment providers to investigate the "hidden" economy; and
- The government would consult on the possibility of introducing a penalty mechanism under the existing general anti-avoidance rule (GAAR), as well as new measures to strengthen the GAAR.

Compliance

The government would consult on measures to increase compliance and transparency for the tax strategies of large businesses. This would include a "special measures" regime for groups that consistently adopt tax strategies that HMRC considers aggressive, and a voluntary Code of Practice setting out the standards of behavior HMRC expects of large businesses in their dealings with HMRC.

Personal tax

A significant change in the taxation of individuals would be that, from 6 April 2017, it is proposed that "nondomicile" status be abolished for individuals who have been tax resident in the UK for 15 out of 20 tax years. Such individuals would be deemed to be UK domiciled from the start of the following tax year. A technical consultation on this matter will be issued by HMRC later in 2015.
