International Tax
United Kingdom Highlights 2017

Investment basics:

Currency – Pound Sterling (GBP)

Foreign exchange control – No

Accounting principles/financial statements – UK GAAP/IAS. Financial statements must be filed annually.

Principal business entities – These are the public and private limited liability company, limited liability partnership, limited partnership, partnership, real estate investment trust (REIT) and branch of a foreign corporation.

Corporate taxation:

Residence – A company is UK resident if it is incorporated in the UK or its place of central management and control is in the UK.

Basis – A UK resident company is subject to corporation tax on worldwide profits and gains (see "Taxable income," below), with credit given for overseas taxes paid. Foreign profits and losses (including those from certain capital assets) arising from a permanent establishment (PE) of a UK resident company may be excluded by making an irrevocable election. The effect of the election may be deferred where the PE has incurred a loss. Anti-diversion rules based on the CFC rules (see "Controlled foreign companies," below) may restrict the profits that can be excluded from the charge to UK tax by virtue of the election.

A nonresident company is subject to tax only in respect of UK-source profits, which include the income of a UK PE of the nonresident, certain income and gains from UK real estate, certain UK-source interest income and royalties and gains on assets used for the purposes of a PE's trade.

Taxable income – For a UK resident company, corporation tax is imposed on trading income, several baskets of nontrading income and capital gains. Normal business expenses may be deducted in computing taxable income, provided these are not capital expenditure. No deduction is available for the depreciation or amortization of land, buildings or other tangible fixed assets. Instead, tax relief is available for qualifying capital expenditure on plant and machinery (including certain integral features in buildings) at an annual writing-down allowance of 8%/18% on a reducing-balance basis, depending on the type of asset. Full relief is available for the first GBP 200,000 of expenditure (excluding automobiles) incurred per annum per business/group of companies.

There is a limit on deductions that can be taken for financing costs where UK companies are members of a large group (as defined). These "debt cap" rules broadly apply where the aggregate tax deductions for net financing costs of UK group companies exceed the worldwide group's gross accounting financing costs.

Taxation of dividends – A dividend exemption applies to most dividends and distributions unless received by a bank, insurance company or other financial trader. Dividends received by a non-small UK company on most ordinary shares and many dividends on nonordinary shares from another company (UK or foreign) are exempt from UK corporation tax, with no minimum ownership period or minimum ownership level. The exemption also can apply to small companies receiving dividends and distributions from UK companies or foreign companies resident in a jurisdiction that has concluded a tax treaty with the UK which includes a nondiscrimination provision. (A small company is a "micro or small enterprise," as defined by the EU).

Capital gains – Capital gains form part of a company's taxable profits. Gains or losses on the disposal of substantial shareholdings in both UK and foreign companies can be exempt. The main conditions, broadly, require the selling company to have continuously owned at least 10% of the shares of the company being sold for at least 12 of the 24 months before disposal and the selling company/company being sold both must be trading or members of a trading group (without, to a substantial extent, any nontrading activities) for at least 12 months before disposal (24 months in some cases) and immediately after the disposal. When an election has been made to exclude the profits of PEs (see "Basis," above), the exclusion also may apply to gains and losses of certain capital assets of the PE. A nonresident company generally is not subject to tax on its capital gains unless the asset is held through a UK PE or, in certain cases, where UK land/property is owned.

The annual tax on enveloped dwellings (ATED)-related capital gains applies to both UK resident and nonresident companies and certain other vehicles disposing of UK residential property valued at more than GBP 500,000. Exemptions from this charge are available in various circumstances.

All gains on the disposal of UK residential property held by nonresident individuals, trustees, partners, some funds and narrowly-held companies are taxed.

Losses – Trading losses generally can offset total profits of the year (including capital gains), with carryback of the excess to the preceding year permitted. Trading losses may be carried forward indefinitely unless there is a change of ownership of the company and a major change in the nature and conduct of the trade within three years, but can be offset only against trading income. Capital losses may be offset only against capital gains and only may be carried forward.

Rate – The main rate of corporation tax is 20%, reducing to 19% as from 1 April 2017. The main rate does not apply to "ring fence" profits from oil rights and extraction.

A 25% rate applies as from 1 April 2015 where multinational companies use artificial arrangements to divert profits overseas to avoid UK tax.

A 28% rate applies to gains that arise on disposal of UK residential property where the gain is ATED-related (see "Capital gains," above).

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A UK resident company is subject to corporation tax on its worldwide profits (including capital gains), with credit given for most overseas taxes paid. As noted above (see "Basis," above), a UK company may elect to exempt the profits and losses of foreign PEs from UK corporation tax, provided certain conditions are satisfied. Where such profits are excluded from UK taxation, no credit is available.

Participation exemption – Most dividends, including foreign dividends, are exempt (see "Taxation of dividends," above). In addition, capital gains on the disposal of substantial (i.e. 10% or more) shareholdings in certain companies are not subject to corporation tax (see "Capital gains," above).

Holding company regime – See "Participation exemption," above.

Incentives – An enhanced tax deduction of 230% is available for certain R&D expenditure for small or medium-sized companies. Large companies may claim an "above the line" R&D credit at a rate of 11%.

A patent box regime allows companies to elect to apply a preferential rate of corporation tax to all profits attributable to qualifying patents. As a consequence of the OECD's initiative on base erosion and profit shifting (BEPS), the current regime was closed to new entrants as from July 2016 and a new regime was introduced.

There also are creative industry tax reliefs of up to an additional 100% deduction for qualifying expenditure on film production, animation, video gaming, high end television broadcasts (including children's television programs), orchestral concerts and theatrical productions.

Withholding tax:

Dividends – There typically is no withholding tax on dividends paid by UK companies under domestic law, although 20% withholding tax generally applies to distributions paid by a REIT from its tax-exempt rental profits (subject to relief under a tax treaty).

Interest – Interest paid to a nonresident is subject to 20% withholding tax, unless the rate is reduced under a tax treaty or the interest is exempt under the EU interest and royalties directive. A reduction of the withholding tax rate under a tax treaty is not automatic; advance clearance must be granted by the UK tax authorities.

Royalties – Royalties paid to a nonresident are subject to 20% withholding tax, unless the rate is reduced under a tax treaty or the royalties are exempt under the EU interest and royalties directive. Advance clearance is not required to apply a reduced treaty rate.

Technical service fees – No

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – The national nondomestic rate is payable by occupiers of business premises. Local authorities collect the tax by charging a uniform business rate, which is deductible in computing income subject to corporation tax. Council tax applies to the occupation of domestic property.

Social security – Employers are required to make earnings-related social security contributions, together with employee payroll deductions (see "Other taxes on individuals," below).

Stamp duty – Stamp duty at 0.5% applies on the transfer of UK shares and is payable by the transferee.

Stamp duty land tax (SDLT) is charged on transfers of UK real property. Land and buildings transaction tax (LBTT) is charged instead of SDLT on Scottish property.

For residential property, SDLT rates are between 0% and 12% (increased to 15% as from 1 April 2016 for certain property), depending on the value of the property. The rates for nonresidential property are 0% to 5%. A 15% rate applies to purchases of residential property valued at more than GBP 500,000 by companies and certain other vehicles, though relief from the 15% rate is available for some businesses.

In certain circumstances, transfers within a tax group may be free from stamp duty/SDLT.

Transfer tax – See "Stamp duty," above.

Other – The ATED is an annual tax charge that applies where companies and certain other entities own UK residential property valued at more than GBP 500,000, regardless of the residence of the entity owning the property. The amount of ATED payable depends on the property value band in which the property is classified. Relief from ATED is available where, broadly, the property is used for business purposes and is not occupied by a person connected with the company or other entity that owns the property.

Shipping companies may elect to pay tonnage tax in lieu of the normal corporation tax.

Anti-avoidance rules:

Transfer pricing – Comprehensive transfer pricing provisions apply to transactions with both domestic and foreign companies. The UK transfer pricing rules follow OECD principles. This includes a requirement to prepare documentation to demonstrate compliance with the arm's length standard. Advance pricing agreements are possible in certain situations.

Thin capitalization – The arm's length principle applies. There are no safe harbor provisions. Advance thin capitalization agreements are available. (See "Taxable income," above, for debt cap rules.)

Controlled foreign companies – CFC provisions are applicable where, broadly, a UK company has a direct or indirect interest of at least 25% in a nonresident company that is controlled by UK residents. The regime operates on an income stream basis. There is a "gateway" test and a number of provisions that may apply to exempt a company from the rules. Where the CFC rules do apply, the relevant profits of the CFC are computed as though it were UK resident and its UK shareholder is subject to tax accordingly. In addition, an overseas finance company can be fully or partially exempt from a CFC charge on profits derived from certain overseas group financing arrangements. The partial exemption works by taxing 25% of the finance company profits at the main corporate tax rate (resulting in an effective rate of 5% based on a main rate of 20%).

Disclosure requirements – Certain tax arrangements that result in a UK tax advantage and fall within prescribed hallmarks must be disclosed to the UK tax authorities by, for example, a promoter and the user must note the use of such arrangements on the tax return. Separately, certain transactions valued at more than GBP 100 million must be reported to the UK tax authorities within six months of the transaction; these include, for example, the issue of shares or debentures by, or the transfer or permitting the transfer of shares or debentures of, a foreign subsidiary of a UK company. There is a list of excluded transactions that do not need to be reported.

Other – There are many specific anti-avoidance rules.

A general anti-abuse rule (GAAR) applies across a wide range of taxes, including corporation tax, income tax, capital gains tax and stamp duty land tax. The legislation gives the UK tax authorities power to potentially apply the GAAR to counteract tax advantages arising from tax arrangements that are abusive.

Compliance for corporations:

Tax year – The tax year is the shorter of 12 months or the period for which the accounts are prepared.

Consolidated returns – All companies file separate tax returns. However, losses may be "group relieved" between UK group companies (broadly, where one is a 75% subsidiary of another or both are 75% subsidiaries of the same corporate parent in terms of share ownership, rights to income and rights on a winding up, taking account of direct and indirect holdings). There are other group rules that apply to capital gains allowing, for example, the intragroup transfer of assets at no gain/no loss for tax purposes or the transfer of gains/losses between group members.

Filing requirements – The UK operates a self-assessment regime. Large companies pay tax in quarterly installments starting in month seven of their financial year. The tax return is due to be filed within 12 months of the period end. Electronic filing is mandatory for all company tax returns.

Penalties – Companies are liable to a fixed penalty of GBP 100 for failure to file a tax return by the due date, plus an additional GBP 100 if the return is not submitted within three months of the due date. Further penalties may apply to returns filed at least six months late. Tax-geared penalties can be sought for matters such as tax returns that are carelessly or deliberately incorrect. Interest is paid on late paid tax.

Rulings – UK tax legislation includes a number of anti-avoidance provisions for which advance statutory clearance may be sought. Also, under a nonstatutory clearance procedure, the UK tax authorities' view of the tax consequences of specific transactions can be sought, on a named basis, with full disclosure, where there is both commercial significance and material uncertainty.

Personal taxation:

Basis – Individuals who are resident and domiciled in the UK are subject to tax on their worldwide income and gains. Different treatment may apply where a person is UK resident but not UK domiciled.

Residence – A statutory residence test (SRT) applies that is based on a combination of physical presence and connection factors with the UK and other jurisdictions.

Domicile is a concept distinct from residence. An individual's domicile status may be determined by the domicile of his/her parents or can be acquired by choice. UK resident but non-UK domiciled taxpayers can enjoy favorable tax treatment in respect of income and assets outside the UK.

Filing status – Individuals file tax returns separately, irrespective of marital status.

Taxable income – Individuals who are UK resident under the SRT and domiciled in the UK are subject to UK tax on their worldwide income. Residents who are not domiciled in the UK may make a claim for the remittance basis of taxation to apply to overseas income, in exchange for an additional tax liability of GBP 30,000 per annum for taxpayers who have been UK resident for seven out of the previous nine tax years, and rising to GBP 60,000 once resident for 12 out of the previous 14 tax years. A charge of GBP 90,000 applies for individuals who have been UK resident for 17 of the previous 20 tax years. The remittance basis also may apply without the requirement to make a claim, if (broadly) the unremitted overseas income and overseas capital gains is less than GBP 2,000 or if certain other conditions are fulfilled.

Capital gains – Individuals who are domiciled and resident in the UK are subject to capital gains tax on all chargeable assets, regardless of where they are situated. Similar to the rules for overseas income, an individual who is not domiciled in the UK may make a claim for the remittance basis of taxation to apply to any capital gains on non-UK assets (see "Taxable income," above). An annual exemption of GBP 11,100 is available to reduce capital gains, except in tax years where a claim for the remittance basis is made. Where individuals who leave the UK to become nonresident realize gains in a tax year after their departure, such gains are not chargeable to UK capital gains tax, unless the individuals are absent from the UK for five years or less and they acquired the asset before they left.

All gains on the disposal of UK residential property held by nonresident individuals, trustees, partners, some funds and narrowly-held companies are taxed.

Deductions and allowances – Individuals are given a personal allowance deduction from total pre-tax income (GBP 11,000 for 2016/17). The personal allowance for income tax is gradually reduced to nil for all individuals with "adjusted net income" above GBP 100,000.

Rates – Income tax is charged at progressive rates. For 2016/17, the rates for non-savings income are as follows:

Income up to GBP 32,000	20%
Income between GBP 32,001 – GBP 150,000	40%
Income over GBP 150,000	45%

The basic rate band will increase to GBP 33,500 in 2017/18.

As from 6 April 2016, a new annual dividend tax allowance of GBP 5,000 was introduced. The new rates of tax on dividend income exceeding the allowance are between 7.5% – 38.1%.

As from 6 April 2016, a personal savings allowance was introduced against "savings income" (e.g. interest income). The allowance is GBP 1,000, GBP 500 and nil, respectively, depending on the income tax rate band that the taxpayer is in (see table above). Thus, a basic rate taxpayer receives GBP 1,000, a higher rate taxpayer receives GBP 500 and an additional rate taxpayer receives no allowance.

The rate of capital gains tax is determined by the total of capital gains and income. Capital gains tax is payable at a rate of 20% where an individual is liable to pay income tax at the higher or additional rate or the dividend upper or additional rate. For 2016/17, if taxable income is less than GBP 32,001, the rate of capital gains tax is 10%, except to the extent that the gains, when added to income, would exceed the GBP 32,000 limit. In that case, the excess is taxed at 20%. An 8% surcharge applies for gains on residential property and carried interest.

Entrepreneurs' relief reduces the rate of capital gains tax to 10% for certain business assets, subject to a lifetime limit of GBP 10 million of gains per individual. No tax is payable on gains up to the annual exempt amount of GBP 11,100.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty at 0.5% is imposed on the transfer of UK shares. Stamp duty land tax is charged on transfers of UK real property (residential and nonresidential). See "Other taxes on corporations," above.

Land and buildings transaction tax (LBTT) is charged instead of SDLT on Scottish property.

Capital acquisitions tax – No

Real property tax – The national nondomestic rate is payable by individual occupiers of business premises. Local authorities collect the tax by charging a uniform business rate, which is deductible in computing taxable income. Council tax applies to the occupation of domestic property.

Inheritance/estate tax – Inheritance tax is charged on property passing on death, certain gifts made within seven years of death and some lifetime transfers (e.g. to most trusts). Where due, inheritance tax is payable on assets in excess of GBP 325,000 at a rate of 40% (20% for certain lifetime transfers).

As from April 2017, a family home allowance will be introduced, provided the property is left to descendants. This will be added to the existing GBP 325,000 threshold, meaning the total tax-free allowance for a surviving spouse/civil partner will be GBP 1,000,000 by 2020/21. The allowance gradually will be withdrawn for estates worth more than GBP 2 million.

Transfers between spouses and civil partners, during life or upon death, generally are exempt from inheritance tax unless only the donor spouse has a UK domicile.

For non-UK domiciled individuals, only UK property is subject to inheritance tax, although long-term residence (17 out of the last 20 tax years) can result in deemed UK domicile (for inheritance tax purposes only).

Net wealth/net worth tax – No

Social security – National Insurance Contributions (NIC) are payable by employers, employees and self-employed individuals. For example, for 2016/17, weekly paid employees pay NIC at a rate of 12% on weekly income between GBP 155 and GBP 827 and 2% on income exceeding this amount. For employers, NIC is payable at a rate of 13.8% on all income in excess of GBP 156 per week for 2016/17. For 2016/17, self-employed individuals pay NIC at a rate of 9% on annual income between GBP 8,060 and GBP 43,000 and 2% on the excess, together with a fixed charge of GBP 2.80 per week.

Compliance for individuals:

Tax year – The tax year is 6 April to the following 5 April.

Filing and payment – Tax on employment income is withheld by the employer under the Pay As You Earn (PAYE) system and remitted to the tax authorities. Tax on income not subject to PAYE and capital gains tax is self-assessed. If an individual is required to file a tax return, it must be filed by 31 October (or 31 January, if filing online) after the tax year. Payment of tax is due by 31 January after the tax year. Payments on account of tax may be required on 31 January in that tax year and 31 July in the following tax year.

Penalties – Individuals are liable to a penalty of GBP 100 for failure to file a tax return by the due date. The penalties escalate if the return is filed more than three months after the due date. Tax-geared penalties also can be sought for late payment of tax and tax returns that are carelessly or deliberately incorrect. Interest is paid on tax paid late.

Value added tax:

Taxable transactions – VAT applies to most sales of goods, the provision of services and imports.

Rates – The standard VAT rate is 20%, with a reduced rate of 5% for certain items. There also are some specific zero-rated reliefs and exemptions.

Registration – Registration is compulsory for businesses whose taxable supplies exceed GBP 83,000 (for 2016/17) in a given year or where a business expects that its taxable supplies will exceed this threshold within the next 30 days. Voluntary registration is possible for businesses making taxable supplies below this threshold. Deregistration is possible if taxable supplies fall below GBP 81,000 (for 2016/17). If a business does not have a place of business in the UK, the registration threshold does not apply. The registration date will be the earlier of the date the business makes taxable supplies in the UK or the date the business expects it will make taxable supplies in the next 30 days.

Filing and payment – VAT returns generally are due on a quarterly basis (taxable persons are allocated one of three VAT return periods). A taxable person also may be allowed to complete returns on a monthly basis.

A surcharge may be imposed for failure to file the VAT return by the due date or failure to pay the VAT due.

Source of tax law: Income and Corporation Taxes Act 1988, Taxation of Chargeable Gains Act 1992, VAT Act 1994, Income Tax (Earnings and Pensions) Act 2003, Income Tax (Trading and Other Income) Act 2005, Income Tax Act 2007, Corporation Tax Act 2009,Corporation Tax Act 2010, Taxation (International and Other Provisions) Act 2010, Inheritance Tax Act 1984 and annual Finance Acts

Tax treaties: The UK has concluded approximately 125 tax treaties.

Tax authorities: HM Revenue & Customs

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