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Global Tax Update

United Kingdom

Deloitte Tohmatsu Tax Co.

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Summer Budget 2015 announced

On 8 July, the Chancellor of the Exchequer, George Osborne, gave his first Budget of the new Conservative government. This summary focuses on those measures announced that are likely most relevant to Japanese owned multinational groups. Please visit Deloitte's dedicated website at www.ukbudget.com for more detailed coverage and comment on the Budget.

The economic security of the UK was at the heart of this Budget with a continuing focus on the elimination of the deficit by 2018/19. 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 also used this Budget as an opportunity to spell out how this government intends to achieve tax increases of £5bn and savings of £12bn in welfare payments that he had previously indicated would be necessary to eradicate the deficit within the target timeframe. Public spending cuts will be highlighted in the 2015 autumn Spending Review.

(1) Business tax

1) Corporation tax rate

Further reductions in the headline rate of corporation tax from the current rate of 20% to 19%, effective from 1 April 2017, and 18% effective from 1 April 2020.

This announcement comes not long after the Chancellor announced the reduction of the corporation tax rate to 20% from April 2015 in Budget 2014. At that time, there was a lot of concern amongst Japanese groups with UK operations about the potential impact of the Japanese anti-tax haven ('JCFC') rules, given that the 'trigger rate' for coming within the rules was '20% or less'. However, this trigger rate was revised to 'less than 20%' from April 2015 in order to accommodate the 20% rate in the UK. If the current JCFC rules remain unchanged, it will be necessary for Japanese multinationals with UK businesses to consider again the potential impact in Japan of the further UK corporate tax rate reductions that have been announced.

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. This is likely to be some time in September / October 2015.

2) Corporation tax payments

There will be a new quarterly instalment regime for companies with taxable profits greater than £20m (with this threshold divided by the number of companies where there is a group). Companies within this new regime will be required to pay tax in the 3rd, 6th, 9th and 12th month of their accounting period. The new payment dates will apply for accounting periods beginning on or after 1 April 2017.

3) Capital allowances

The Annual Investment Allowance had been scheduled to reduce to £25,000 per annum from 1 January 2016. The Chancellor has, however, increased the available relief to £200,000 from 1 January 2016 and the relief will then remain at that level going forward.

4) Reform of the corporate debt / loan relationship provisions

The previously announced reform of these provisions will apply for accounting periods starting on or after 1 January 2016. There are, however, two measures that will apply from Royal Assent. There will, firstly, be a tightening of certain anti-avoidance provisions and, secondly, new rules which provide for relief for credits that arise on the release of debts of financially distressed companies.

5) Amortisation of goodwill

Tax relief for the amortisation of purchased goodwill and certain customer-related intangibles is to be restricted such that relief is only available when the asset is sold to a third party. This measure will 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 removes a key distinction between a transaction that is structured as an asset deal compared to one that is structured as a share purchase.

6) Controlled Foreign Companies

A tightening of CFC provisions to ensure that a UK company is no longer able to offset losses against a CFC charge with effect from 8 July 2015. At present, it is possible to offset losses and expenses against that CFC charge.

7) Consortium Relief

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

8) Other measures

There were several measures announced in relation to banking:

- Banks will be denied deductions in respect of compensation payments made as a consequence of historic misconduct (as previously announced);
- Banking companies and building societies will 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 will reduce from 0.21% to 0.18% from 1 January 2016 with a further annual reductions to 0.1%.

9) The Tax Lock

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

(2) Anti-avoidance

The Chancellor announced a widening of HMRC powers together with additional funding to tackle perceived tax evasion and abuse:

- HMRC will receive additional funding to investigate the most serious and complex tax crime;
- Additional funding will also be provided to deal with non-compliance by small and medium sized businesses as well as public bodies and wealthy individuals;
- HMRC will have the capacity to recover debts in excess of £1,000 directly from the bank account of tax payers who have the means to pay but choose not to as announced in the first 2015 Budget;
- HMRC will be given additional powers to access data through on-line intermediaries and electronic payment providers in order to investigate the 'hidden' economy; and
- The government will 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.

(3) Compliance

The government will also 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 consider aggressive, and a voluntary Code of Practice setting out the standards of behaviour HMRC expects of large businesses in their dealings with HMRC. This may be of particular interest to Japanese groups with large businesses as the proposed measures include increased reporting requirements that involves publishing the group's tax policy, setting out the group's approach to tax planning and its relationship with HMRC.

(4) Personal tax

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

The government will publish a discussion document on how to improve the existing intermediaries legislation, known as the IR35 provisions.

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