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International Tax

United Kingdom Tax Alert

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Autumn statement 2015 announced

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The economy, the deficit and public spending plans for the next five years were the focus of the UK Chancellor's autumn statement announced on 25 November 2015.

A key policy announcement during the 2015 general election campaign was the government's intention to raise GBP 5 billion by reducing tax avoidance, evasion and tax planning. The Chancellor announced additional funding for the UK tax authorities (HM Revenue & Customs or HMRC) and several anti-avoidance measures. However, the latter are targeted at specific circumstances and the announcements are not expected to impact the majority of multinational groups.

For detailed coverage and comment on the Autumn Statement, visit Deloitte's dedicated website at **www.ukbudget.com**

Business tax

Corporation tax rate: The Chancellor reaffirmed the government's commitment to competitive tax rates for business and made reference to the 18% rate of corporation tax that will take effect from 1 April 2020. Finance (No. 2) Act 2015 received Royal Assent on 18 November 2015 and, as a result, reductions in the UK corporation tax rate to 19% with effect from 1 April 2017, and 18% with effect from 1 April 2020, have been enacted for purposes of US GAAP, UK GAAP and IFRS.

Devolution of corporate tax rate for Northern Ireland: The Chancellor gave further details of the government's intention to devolve powers relating to corporation tax to the Northern Ireland Assembly, subject to certain conditions.

The Northern Ireland Assembly has indicated that it wishes to implement a new Northern Ireland corporation tax rate of 12.5% from April 2018. This will be substantially lower than the UK corporation tax rate and will increase the competitiveness of Northern Ireland when compared to the Republic of Ireland.

The UK government already has consulted on the practical implications of implementing a lower rate of corporation tax for genuine economic activity in Northern Ireland, including appropriate anti-avoidance legislation. Multinationals should review the proposed regime to understand how this could impact them from April 2018.

Base erosion and profit shifting (BEPS): The Chancellor announced that finance bill 2016 will introduce legislation with effect from 1 January 2017 that will implement rules designed to address hybrid mismatches in line with the BEPS recommendations announced in October 2015. There were no further announcements in the autumn statement with regard to BEPS. The government previously had released a consultation document with respect to action 4 of the BEPS project (tax deductibility of corporate interest expense); responses to this consultation should be provided by 14 January 2016, and further details as to the UK's approach are expected in early 2016.

Corporation tax on restitution payments: This measure applies an increased rate of corporation tax of 45% to the interest element of restitution payments arising where companies are successful in litigation with HMRC.

Enterprise zones and business rates

The Chancellor announced the establishment or extension of 26 enterprise zones across the UK with effect from 1 April 2016. This measure provides for discounts on business rates (property tax) payable by companies located in enterprise zones, up to GBP 275,000 over five years. In addition, companies located in 10 specific zones will be able to claim 100% enhanced tax depreciation against their taxable profits.

The Chancellor also announced that the government will consult on the delegation of powers to local authorities relating to business rates. This is likely to result in increased competition between local authorities to attract inward business investment.

Anti-avoidance measures

Intangible fixed assets acquired by partnerships: New rules will be introduced to clarify the way the intangible fixed assets regime is intended to apply to partnerships. Going forward, transfers of intangible fixed assets to partnerships that have corporate partners will be treated no differently than transfers of intangible fixed assets to companies. These changes will apply to transactions involving intangible fixed assets that take place on or after 25 November 2015 and to any accounting debits or credits arising on or after that date that relate to transactions that took place before 25 November. Therefore, groups currently holding or intending to hold intangibles through partnerships should review their structures to determine whether they are affected by this change.

Company distributions: The tax treatment of corporate distributions will be amended to prevent a tax advantage arising in certain situations where a person or company receives a capital return on shares where otherwise they would have received an income return. New rules will be introduced from April 2016, including a targeted anti-avoidance rule.

Capital allowances and leasing: Changes will be introduced to prevent businesses carrying out certain transactions that are considered to involve tax avoidance with respect to capital allowances and leasing. First, companies will be prevented from artificially reducing the disposal value of plant and machinery for capital allowances purposes where tax avoidance was a main purpose of the reduced value. Second, any payments received by companies for agreeing to take over payments under a lease will be treated as forming part of their taxable income. These measures will have effect for transactions that take place on or after 25 November 2015.

General anti-abuse rule (GAAR) penalties: The Chancellor announced that the GAAR will be strengthened to introduce a penalty of 60% on any tax due where the GAAR is deemed to apply, along with small amendments to enable the GAAR to tackle marketed avoidance schemes more effectively. These measures are due to take effect during 2016.

Taxation of corporate debt and derivative contracts: Legislation will be introduced in finance bill 2016 to update the treatment of corporate debt and derivative contracts to ensure they interact correctly with new UK accounting standards in certain specific circumstances.

Compliance

Making tax digital: The government will invest GBP 1.3 billion to make HMRC one of the most digitally advanced tax administrations in the world. Most businesses will be required to keep track of their tax affairs digitally and integrate electronic recordkeeping with their online tax reporting to reduce errors and increase compliance. Businesses will need to update HMRC about their tax affairs on a quarterly basis as a result of this change. These changes will apply to the reporting of corporation tax, income tax, national insurance contributions and VAT. The introduction of this new regime will be staggered, with the changes applying to corporation tax from April 2020. Plans will be published shortly, with a consultation expected in 2016.

Large business tax compliance: In the 2015 summer budget, the government announced measures to improve large business tax compliance, with a consultation opened shortly thereafter. Legislation will be included in finance bill 2016 to promote tax transparency. More details will be available on 9 December 2015.