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, income and certain gains from UK real estate, certain UK-source interest income 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) per annum per business/group of companies incurred as from 1 January 2016 (GBP 500,000 for the period 1 April 2014 - 31 December 2015).

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 residential property is owned.

The annual tax on enveloped dwellings (ATED)-related capital gains tax applies to both UK resident and nonresident companies and certain other vehicles disposing of UK residential property valued at more than GBP 1 million (GBP 500,000 as from 1 April 2016). 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 as from 6 April 2015.

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% as from 1 April 2015 (reduced from 21%). 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 as from 1 April 2015 for small or medium-sized companies; the deduction is 130% for large companies. Alternatively, large companies may claim an “above the line” R&D credit at a rate of 11%. The above the line credit will become mandatory as from 1 April 2016.

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 will be closed to new entrants as from July 2016 and a new regime will be 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) and theatrical productions. As from 1 April 2016, tax relief at 25% will be available to orchestras.
Withholding tax

Dividends
There typically is no withholding tax on dividends paid by UK companies under domestic law, although a 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% (increasing 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 4%. 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 1 million (GBP 500,000 as from 1 April 2016), 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. 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 (as from 1 April 2017, the first quarterly installment will be due in month three of the 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.

New rules are expected to be introduced as from 6 April 2017 that restrict non-domiciled status for tax purposes, including a “deemed domicile” rule for income tax, capital gains tax and inheritance tax purposes after 15 years of residence, and individuals born in the UK and UK domiciled at birth will be UK domiciled for tax purposes whenever they are resident in 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 (increased from GBP 50,000 as from 6 April 2015) once resident for 12 out of the previous 14 tax years. As from 6 April 2015, a charge of GBP 90,000 applies for 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 less than five years 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 as from 6 April 2015.

Deductions and allowances
Individuals are given a personal allowance deduction from total pre-tax income (GBP 10,600 for 2015/16; GBP 11,000 for 2016/17). A higher allowance is available to individuals born before 6 April 1938, depending on income levels. As from 2016/17, there will be a single personal allowance regardless of age. The basic 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 2015/16, the rates are as follows:

<table>
<thead>
<tr>
<th>Income range</th>
<th>Rate (effective rate on dividends)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income up to GBP 31,785</td>
<td>20% (effective rate on dividends of 0%)</td>
</tr>
<tr>
<td>Income between GBP 31,786 — GBP 150,000</td>
<td>40% (effective rate on dividends of 25%)</td>
</tr>
<tr>
<td>Income over GBP 150,000</td>
<td>45% (effective rate on dividends of 30.6%)</td>
</tr>
</tbody>
</table>

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 is available to reduce capital gains (GBP 11,100 for 2015/16), 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 less than five years and they acquired the asset before they left.
As from 6 April 2016, a new annual dividend tax allowance of GBP 5,000 will be introduced. The new rates of tax on dividend income exceeding the allowance will be between 7.5% - 38.1%.

Currently, dividends from UK companies and many non-UK companies attract a nonpayable tax credit. (The credit is not available where the individual’s holding in a non-UK company is 10% or more and the company is located in a jurisdiction that has not concluded an appropriate tax treaty with the UK.) No credit will be available as from 2016/17.

As from 6 April 2016, a personal savings allowance will be introduced against “savings income” (e.g. interest income). The allowance will be 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 28% where an individual is liable to pay income tax at the higher or additional rate or the dividend upper or additional rate. For 2015/16, if taxable income is less than GBP 31,786, the rate of capital gains tax is 18%, except to the extent that the gains, when added to income, would exceed the GBP 31,785 limit. In that case, the excess is taxed at 28%.

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 (GBP 11,100 for 2015/16).

Other taxes on individuals

Capital duty
No

Stamp duty
Stamp duty at 0.5% is imposed on the transfer of UK shares. Stamp duty on transfers of UK real property (residential and nonresidential) is charged at a rate of 0.5%. 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 (2015/16 and 2016/17) 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, reducing to 15 years as from 6 April 2017) 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 2015/16, weekly paid employees pay NIC at a rate of 12% on weekly income between GBP 155 and GBP 815 and 2% on the excess, together with a fixed charge of GBP 2.75 per week for 2014/15 (GBP 2.80 for 2015/16).
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 82,000 (for 2015/16) 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 80,000 (for 2015/16). 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.


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

Tax authorities: HM Revenue & Customs