International Tax

United Kingdom Highlights

In Plain English

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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 foreigncorporation.

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 granted 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 controlled foreign company (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 - related assets, 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% (6% from 1 April 2019) or 18% on a reducing-balance basis, depending on the type of asset. Full relief is available for the first GBP 1 million of qualifying expenditure (excluding expenditure on cars) incurred per annum per business/ group of companies. For construction works commencing after 29 October 2018, structures and building tax allowances are available on a straight-line basis at a rate of 2% per annum. There is a limit on deductions that can be taken for financing costs. These "interest restriction" rules broadly apply where the aggregate tax deductions for net financing costs of UK group companies exceed either 30% of UK tax EBITDA (earnings before interest, tax, depreciation and amortization) or, if the taxpayer so elects, the ratio of group net interest expense compared to accounting EBITDA (capped at 100%). Interest deductions also are subject to further "debt cap" limits broadly based on the net interest expense of the group. There is a de minimis exemption from the interest restriction rules, under which the first GBP 2 million of interest expense is allowable. Where certain conditions are satisfied, restricted interest can be carried forward and deducted in future periods if additional capacity arises. Unused interest capacity can be carried forward for five years.

Taxation of dividends – A dividend exemption applies to most dividends and distributions unless received by a bank, an insurance company or other financial trader. Dividends received by a UK company (other than a small 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 shareholding requirement. 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 that includes a nondiscrimination provision.

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 months in the six years before disposal, and the company being sold must be trading or the holding company of a trading group (without, to a substantial extent, any nontrading activities) for at least 12 months before the disposal (longer in some cases). In certain circumstances, the company being sold also must be either trading or the holding company of a trading group immediately after the disposal. There is a broader exemption for certain "qualifying institutional investors."

A nonresident company generally is not subject to tax on its capital gains unless the asset is held through a UK PE or where UK land/property is disposed of (see below). Where 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.

From April 2019, gains from the disposal of UK property and certain UK property-related investment assets by nonresidents are subject to UK tax. For pre-April 2019 disposals, the scope of the charge is restricted to disposals of UK residential property only, and to narrower categories of nonresident person.

Losses – Trading losses generally can offset total profits of the year (including capital gains) and any excess may be carried back to the preceding year. Trading losses arising before 1 April 2017 may be carried forward indefinitely and offset against future trading profits only. Trading losses arising after 1 April 2017 generally can be carried forward indefinitely and offset against any profits, or group relieved.

In both cases, carried forward losses are restricted to 50% of profits above a groupwide GBP 5 million limit per year. If there is a change of ownership of the company and a major change in the nature and conduct of the trade within specified time limits, trading losses may be lost.

Similar reliefs and restrictions apply to nontrading losses.

Capital losses may be offset only against capital gains and only may be carried forward.

Rate – The main rate of corporation tax is 19%, reducing to 17% as from 1 April 2020. The main rate does not apply to "ring fence" profits from oil rights and extraction activities.

A diverted profits tax, at a rate of 25%, applies where multinational companies use artificial arrangements to divert profits overseas to avoid UK tax.

For disposals prior to 6 April 2019, a 28% rate can apply to gains that arise on disposal of UK residential property where that property is subject to the Annual Tax on Enveloped Dwellings (ATED) (see "Other taxes on corporations," below). Exemptions from the ATED-related capital gains charge are available in various circumstances.

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. A UK company may elect to exempt the profits and losses of foreign PEs from UK corporation tax, provided certain conditions are satisfied (see "Basis," above). No credit is available where such profits are excluded from UK taxation.

Participation exemption – Most dividends, including foreign dividends, are exempt (see "Taxation of dividends," above). In addition, capital gains on the disposal of substantial (generally 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 12%.

A patent box regime allows companies to elect to apply a preferential rate of corporation tax of 10% to all profits attributable to qualifying patents.

There 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. The continuing application of the directive after 29 March 2019 is dependent upon the outcome of ongoing negotiations in connection with the UK's withdrawal from the EU.

A reduction of the withholding tax rate under a tax treaty or the directive is not automatic; advance clearance must be granted by the UK tax authorities.

Royalties – Royalties paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty or the royalties are exempt under the EU interest and royalties directive. The continuing application of the directive after 29 March 2019 is dependent upon the outcome of ongoing negotiations in connection with the UK's withdrawal from the EU.

Advance clearance is not required to apply a reduced rate of withholding tax under a tax treaty or the directive.

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 (National Insurance Contributions, NIC) together with employee payroll deductions (see "Other taxes on individuals," below).

Employers also are required to pay the apprenticeship levy. The levy is set at a rate of 0.5% of an employer's annual payroll. Employers receive an annual allowance of GBP 15,000 to offset against payment of the levy.

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 real property in England and Northern Ireland. Land and buildings transaction tax (LBTT) and land transaction tax (LTT) are charged instead of SDLT on Scottish and Welsh property, respectively.

For residential property, the SDLT rates are between 0% and 12% (increased to 15% 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, although 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 owning entity. 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 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. The rules include 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 also "Taxable income," above, for additional interest restriction rules.)

Controlled foreign companies – CFC provisions are applicable where, broadly, a UK company together with its associates has a direct or indirect interest of at least 25% in a nonresident company that is controlled by UK residents (or associates of 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 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 4.75% based on a main rate of 19%).

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, e.g. a promoter, and the user must note the use of such arrangements on the tax return.

Certain international arrangements implemented from 25 June 2018 also may need to be disclosed under EU mandatory disclosure rules, with the first disclosures commencing in 2020.

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 issuance 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.

The UK has implemented country-by-country reporting requirements under the OECD BEPS project that apply to groups with total consolidated revenue of EUR 750 million in the previous year. Under the UK rules, a report must be filed with the UK tax authorities within 12 months of the end of the group's fiscal year.

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 apply the GAAR to counteract tax advantages arising from tax arrangements that are abusive.

Compliance for corporations:

Tax year – A corporation tax return is prepared in respect of an accounting period, which is typically the period for which the accounts are prepared (or 12 months if shorter).

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 both 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. The tax return must be filed within 12 months of the period end. Electronic filing is mandatory for all company tax returns. "Large companies" (broadly those with annual profits exceeding GBP 1.5 million) pay tax in quarterly installments starting in month seven of their accounting period. For accounting periods commencing on or after 1 April 2019, "very large companies" with taxable profits exceeding GBP 20 million will pay tax in quarterly installments starting in month three of the accounting period.

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 charged 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 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. Individuals who have been resident in at least 15 of the preceding 20 tax years are deemed to be UK domiciled for all tax purposes. Individuals who were born in the UK and have UK domicile at birth and are UK resident will also be deemed UK domiciled for all tax purposes (subject to a short grace period for inheritance tax purposes) even if they have been resident overseas and acquired a domicile of choice overseas in the interim.

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

Taxable income – Individuals who are UK resident under the statutory residence test and domiciled in the UK are subject to UK tax on their worldwide income. Residents who are not domiciled or deemed 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, rising to GBP 60,000 once resident for 12 out of the previous 14 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 are 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 or deemed 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 (GBP 11,700 for 2018/19) 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 normally 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.

From 6 April 2019, gains from the disposal of UK property and certain UK property-related investment assets held by nonresidents are taxed. Prior to April 2019, tax on nonresidents typically applies to gains on UK residential property only.

Deductions and allowances – Individuals are given a personal allowance deduction from total pre-tax income (GBP 11,850 for 2018/19). 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 2018/19, the rates for non-savings income are as follows: 20% (basic rate) on income up to GBP 34,500; 40% (higher rate) on income between GBP 34,500 and GBP 150,000; and 45% (additional rate) on income over GBP 150,000.

Scottish rates of income tax apply instead to the non- savings income of Scottish residents. Scottish residents are UK resident individuals with a close connection to Scotland, typically based on the location of their only or main home. For 2018/19 there are five Scottish non-savings income tax rates and bands ranging from the starter rate of 19% to a 46% top rate that applies to taxable non-savings income in excess of GBP 150,000.

For 2018/19, the first GBP 2,000 of dividend income is taxable at 0% (the "dividend allowance"). Dividend income exceeding the allowance is taxed at 7.5%, 32.5% or 38.1%.

The "personal savings allowance" provides a 0% tax rate on "savings income". The allowance is GBP 1,000 for basic rate taxpayers, GBP 500 for higher rate taxpayers and nil for additional rate taxpayers.

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 2018/19, if taxable income is less than GBP 34,500, the rate of capital gains tax is 10%, except to the extent that the gains, when added to income, would exceed the GBP 34,500 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 (GBP 11,700 for 2018/19).

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.)

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).

A family home allowance is available for residential property left to descendants. This is added to the GBP 325,000 threshold, meaning the total tax-free allowance for a surviving spouse/civil partner will be GBP 1 million by 2020/21 if no other chargeable gifts or bequests have been made. The allowance gradually is reduced 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.

Net wealth/net worth tax – No

Social security – NIC are payable by employers, employees and self-employed individuals. For 2018/19, weekly paid employees pay NIC at a rate of 12% on weekly income between GBP 162 and GBP 892 and 2% on income exceeding this amount; employers pay NIC at a rate of 13.8% on all income in excess of GBP 162 per week; and self-employed individuals pay NIC at a rate of 9% on annual income between GBP 8,424 and GBP 46,350 and 2% on the excess, together with a fixed charge of GBP 2.95 per week.

Compliance for individuals:

Tax year – The tax year is 6 April to the following 5 April (i.e. the 2018/19 tax year runs from 6 April 2018 to 5 April 2019).

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 online by 31 January after the tax year, or the previous 31 October, if opting to file a hardcopy return. Payment of tax is due by 31 January after the tax year. Payments on account of tax may be required on 31

January during the 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 charged 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 85,000 for 2018/19 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 83,000 for 2018/19. 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, Taxes Management Act 1970, and annual Finance Acts

Tax treaties: The UK has concluded approximately 130 tax treaties. The UK has signed the OECD MLI and deposited its instrument of ratification with the OECD on 29 June 2018. The MLI entered into force for the UK on 1 October 2018. The date on which modifications enter into effect for specific UK tax treaties depends on the date on which the relevant treaty partner deposits its instrument of ratification.

Tax Authorities: HM Revenue & Customs, Revenue Scotland, Welsh Revenue Authority