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United Kingdom

Last Reviewed - 28 June 2019

Overview

The United Kingdom (UK) is located off the north-western coast of continental Europe. The capital of the United Kingdom is London, and the official language is English.

The United Kingdom has historically played a leading role in developing parliamentary democracy and in advancing literature and science. Today, the United Kingdom is a modern and prosperous European nation. As one of five permanent members of the United Nations (UN) Security Council, a founding member of the North Atlantic Treaty Organisation (NATO), and a member of the Commonwealth, the United Kingdom pursues a global approach to foreign policy. The United Kingdom is also currently a member of the European Union (EU), although it chose to remain outside the Economic and Monetary Union, and so retained the pound sterling (GBP) as its currency rather than adopting the euro. A public referendum concerning the United Kingdom's continuing membership in the European Union was held on 23 June 2016. The result of the referendum was to leave the European Union (the so-called 'Brexit'), although the timing and arrangements for that remain uncertain. In order to leave the European Union, the United Kingdom invoked Article 50 of the Treaty on the Functioning of the European Union (TFEU) in March 2017, and this triggered a two-year exit procedure. This has since been extended to 31 October 2019. The implications will depend to a substantial extent on the terms on which exit is agreed and, therefore, remain unclear at this stage. Consequently, a number of the comments included in the UK tax summaries may no longer apply or will change as a consequence of the United Kingdom leaving the European Union.

The United Kingdom, a leading trading power and financial centre, is one of the quintet of trillion dollar economies of Western Europe. Services, particularly banking, insurance, and business services, account by far for the largest proportion of gross domestic product (GDP). Specialist engineering, aerospace, biotechnology, pharmaceuticals, and information technology are lead sectors, and the United Kingdom has relative strengths in the new digital technology sectors that have emerged over the past decade or so (AI, fintech, digital media, etc.), while the manufacturing industry continues to decline in importance. Agriculture is intensive, highly mechanised, and efficient by European standards, producing about 60% of food needs with less than 2% of the labour force. The United Kingdom has significant but declining natural gas and oil resources and is a net importer of energy.

PwC in the United Kingdom offers assurance, tax, and advisory services at multiple locations. PwC's tax consultancy helps businesses and individuals understand the impact of taxation on business decisions.

Corporate - Significant developments

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Extensive and far reaching reforms to the United Kingdom's (UK's) corporation tax system have been made in recent years. The reforms have a stated aim of "creating a tax system that is easy to understand, simple to engage with, and hard to evade, [and] successfully supports investment in business, as well as those who work hard and save" (Financial

Secretary to the Treasury, December 2015). The reforms are also intended to maintain the UK's competitive position. The main areas of reform have included:

- Reductions in the rate of corporation tax.
- Redefining the corporate tax base, including aspects of the Organisation for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) project.
- Policy and practice concerning tax evasion and unacceptable tax avoidance.
- Administration and collection, including plans for increased use of digital systems.

Because the UK legislative process can lag behind the announcement of proposals, certain changes are already law, others are very likely, or practically certain, to become law, whilst others are issues announced for wider consultation and future enactment into law.

Typically, most of the reforms to tax rules are announced in November/December each year, with reforms expected to become law in February or March of the following year. Any reforms of significance, and proposals for important reforms, included in those processes, are discussed below.

In a referendum on 23 June 2016, voters in the United Kingdom chose to leave the European Union (EU) (so-called 'Brexit'). The United Kingdom invoked Article 50 of the Treaty on the Functioning of the European Union (TFEU) in March 2017, and this triggered a two-year exit procedure. This has since been extended to 31 October 2019. The implications will depend to a substantial extent on the terms on which exit is agreed and, therefore, remain unclear at this stage. The information included in this tax summary assumes, for now, the continuance of the UK's membership in the European Union. Comments on the impact of leaving the European Union would be entirely speculative.

Changes that have taken effect in the past year

Reforms that took effect in the past year include:

- The United Kingdom has ratified its agreement to the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (the 'Multilateral Instrument' or 'MLI') and deposited that instrument of ratification with the OECD. Consequently, the MLI entered into force in the United Kingdom on 1 October 2018 and will have a fundamental impact on how taxpayers access double tax treaties (DTTs) to which it applies. It began to apply (for example, in relation to withholding tax [WHT]) from 1 January 2019 to the UK's double tax agreements (DTAs) with those territories that have also ratified before 1 October 2018, where those are covered tax agreements. The precise dates on which the MLI will begin to have effect for other purposes, or in relation to other DTAs, will depend upon when other treaty partners submit their instruments of ratification with the OECD and what options and reservations they have submitted.
- Very large companies (broadly with profits exceeding 20 million pound sterling [GBP] in an accounting period) must pay corporation tax by instalments four months earlier for accounting periods commencing on or after 1 April 2019. Corporation tax is due in months three, six, nine, and 12.
- The amount of qualifying investment in plant and machinery that benefits from a 100% allowance went up from GBP 200,000 to GBP 1 million where the expenditure is incurred between 1 January 2019 and 31 December 2020.
- The rate of capital allowance on special rate expenditure (e.g. integral features) is reduced from 8% to 6% from 1 April 2019.
- Tax relief is available for certain new goodwill, customer relationships, and customer information created or acquired as part of the acquisition of a business on or after 1 April 2019 that also includes the acquisition of new patents or copyrights (or licences over new patents or copyrights).
- Building on previous proposals for a 'royalty WHT', a new 'Offshore Receipts in Respect of Intangible Property' tax has effect from 6 April 2019 (with a targeted anti-avoidance rule, which is applicable to certain arrangements put in place from 29 October 2018). *An overview of the proposals is set out in the Other taxes section*.
- Gains on non-resident direct disposals and certain indirect disposals of UK property have been brought within the scope of UK tax. This applies to gains accrued on or after 1 April 2019. There are targeted exemptions for institutional investors, such as pension funds.

- New rules took effect in April 2019 to prevent companies and individuals from moving profits offshore (tax avoidance involving profit fragmentation).
- A Structures and Buildings Allowance (SBA) was included within the Finance Act, applicable to qualifying spend from 29 October 2019; however, the legislation is still draft.
- Gains accruing to non-UK resident investors on or after 6 April 2019 on direct disposals and certain indirect disposals of UK property have been brought within the scope of UK tax.
- In June 2016, the European Union adopted an anti-tax-avoidance Directive (ATAD), which sets out minimum standards for rules to address key international tax and BEPS-related issues: (i) deductibility of interest, (ii) exit taxation, (iii) a general anti-abuse rule (GAAR), (iv) controlled foreign company (CFC) rules, and (v) a framework to tackle hybrid mismatches. Member states had until 31 December 2018 to implement these provisions to come into effect from 1 January 2019 (with one additional year for exit charges and the potential for some countries to delay the interest deduction restrictions). The United Kingdom already has rules covering each of these areas but has introduced limited amendments to the CFC (including a tightening of the Finance Company Partial Exemption [FCPE] regime, see comment below) and exit charge rules to ensure they are compliant with this minimum standard.
- In order to make the regime ATAD compliant, the government has tightened the FCPE regime (which offers an exemption for certain intra-group financing profits) so that the reduced rate of tax will no longer be available in relation to profits that are attributable to UK significant people functions (SPFs).
- From 1 January 2019, the definition of 'permanent establishment' (PE) has been tightened where the non-resident has artificially fragmented their business operations to avoid coming within the charge to corporation tax. *See the description of Permanent establishment (PE) in the Corporate residence section*.
- In January 2019, Her Majesty's Revenue and Customs (HMRC) launched a new initiative, the Profit Diversion Compliance Facility, which is aimed at multinationals using arrangements targeted by the Diverted Profits Tax (DPT) that are not currently under a DPT or transfer pricing enquiry. *See the description of the Diverted Profits Tax (DPT) in the Taxes on corporate income section*.

Changes enacted but not yet in force

Changes enacted but not yet in force include:

- A reduced rate of corporation tax for businesses based in Northern Ireland may be introduced. This is subject to joint approval by the Northern Ireland government and the UK Treasury. The commencement date has not yet been finally determined.
- From April 2020, income that non-resident companies receive from UK property will be chargeable to corporation tax.

Consultations and proposals - ongoing

The most significant proposals, which include announced proposals and those in draft legislation, and those subject to consultations include:

Measures focused on domestic matters

- The rate of corporation tax is proposed to reduce to 17% from April 2020.
- First year allowances and cash tax credits in respect of energy efficient and environmentally beneficial technologies and products will, under current proposals, not be available from 1 April 2020. However, the availability of the first year allowance for expenditure on electrical car charging points is proposed to be extended until April 2023.
- A range of specific and narrow anti-avoidance rules.
- Further reforms regarding collection of taxes, application of penalties, and related issues focused on tax evasion.
- Plans to move all tax reporting, compliance, and payments onto a digital platform by 2020.
- Relief for carried forward capital losses will be brought into line with relief for carried forward income losses from 1 April 2020. From that date, capital losses carried forward will only be able to be offset in a later accounting period against 50% of any capital gains arising in excess of GBP 5 million, with a single

GBP 5 million 'deductions allowance' per group against which carried forward losses (both income and/or capital) can be set.
- When a company becomes resident in the United Kingdom on or after 1 January 2020, or a company that is not resident in the United Kingdom begins to hold an asset for the purposes of a trade carried on by the company in the United Kingdom through a permanent establishment on or after 1 January 2020, the asset will be deemed to have been acquired by the company at market value if the company has been subject to an EU exit charge in relation to the asset.

Measures focused on international matters

- In October 2016, the European Commission (EC) published four draft directives as part of an EU corporate tax reform package. The proposals include: a common corporate tax base (CCTB) to harmonise the corporate tax base across the European Union from 1 January 2019; a consolidation of the results of entities in a corporate group in the European Union under a single filing and apportionment of the aggregate profits to individual member states via a common consolidated corporate tax base (CCCTB) from 1 January 2021; measures to address hybrid mismatches in relation to non-EU countries from 1 January 2019; and extending existing double taxation dispute resolution mechanisms in the European Union by 31 December 2017. It remains to be seen whether these proposals will be adopted, and, if so, whether there will be amendments to the content or timetable, and how this will interact with the UK's negotiations for leaving the European Union.
- From April 2020, a new digital services tax of 2% will apply to the revenues of certain digital businesses to reflect the value they derive from the participation of UK users, pending an appropriate international solution. The tax will apply to annual 'UK' revenues above GBP 25 million from activities relating to search engines, social media platforms, and online marketplaces (of businesses with in-scope annual global revenues of more than GBP 500 million). Loss-makers will be exempt, and businesses with very low profit margins will be subject to a reduced effective rate.

Corporate - Taxes on corporate income

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Resident companies are taxable in the United Kingdom on their worldwide profits (subject to an opt-out for non-UK PEs), while non-resident companies are subject to UK corporation tax on the trading profits attributable to a UK PE, the trading profits attributable to a trade of dealing in or developing UK land (irrespective of whether there is a UK PE), and on the direct and certain indirect disposals of UK property, plus UK income tax on any other UK-source income and on gains on direct or indirect disposals of UK immovable property. In practice, for many companies, the application of a wide range of tax treaties, together with the dividend exemption, makes the UK corporation tax system more like a territorial system.

General corporation tax rates

The normal rate of corporation tax is 19% for the year beginning 1 April 2019. It is proposed that this rate will fall to 17% for the year beginning 1 April 2020.

Where the taxable profits can be attributed to the exploitation of patents, a lower effective rate of tax applies. The rate is 10%. Profits can include a significant part of the trading profit from the sales of a product that includes a patent, not just income from patent royalties.

Special corporation tax regimes

Apart from the four specific exceptions noted below, there are no special regimes for particular types or sizes of business activity; in general, all companies in all sectors are subject to the same corporation tax rates and rules. However, certain treatments and reliefs do vary according to size, including transfer pricing, research and development (R&D) credits, and some targeted anti-avoidance rules.

For large companies, there are some additional compliance and reporting requirements. Some elements of HMRC's organisational structure and approach to avoidance and compliance are arranged by size of business (e.g. Large

Business Strategy).

Oil and gas company regime

Profits that arise from oil or gas extraction, or oil or gas rights, in the United Kingdom and the UK Continental Shelf ('ring-fence profits') are subject to tax in the United Kingdom in accordance with rates applicable in 2006, i.e. a full rate of 30% and a small profits rate of 19%. Such activities also attract 100% capital allowances on most capital expenditure. A supplementary tax charge of 10% applies to 'adjusted' ring fence profits in addition to normal corporation tax.

Petroleum revenue tax is now set at 0% but is retained for technical and historic reasons in relation to certain old oil fields.

Life insurance company regime

Life insurance businesses are also taxed under a special regime, which effectively includes different corporation tax rates as well as special rules for quantifying profits.

Tonnage Tax regime

Companies that are liable to corporation tax and operate qualifying ships that are strategically and commercially managed in the United Kingdom can choose to apply Tonnage Tax in the place of corporation tax. Tonnage Tax is an alternative method of calculating corporation tax profits by reference to the net tonnage of operated ships. The Tonnage Tax profit replaces the tax-adjusted profit/loss on a shipping business and certain related activities, as well as the chargeable gains/losses made on Tonnage Tax assets. Any other profits are taxable under the normal corporation tax regime.

Banking sector

A supplementary tax is applicable to companies in the banking sector at 8% on profits in excess of GBP 25 million. Also, loss utilisation is restricted; carried forward trading losses can be set against only 25% of profits in a period.

Income tax for non-resident companies

A non-resident company is subject to UK corporation tax only on the trading profits of a UK PE or the trading profits attributable to a trade of dealing in or developing UK land (irrespective of whether there is a UK PE) and, from 6 April 2019, on the direct disposal and certain indirect disposals of UK property. Any other UK-source income received by a non-resident company is subject to UK income tax at the basic rate, currently 20%, without any allowances (subject to any relief offered by a DTT, if applicable). This charge most commonly arises in relation to UK rental income earned by a non-resident landlord (NRL). The United Kingdom therefore operates an NRL scheme that requires the NRL's letting agent or tenants to withhold the appropriate tax at source unless they have been notified that the NRL has applied for and been given permission to receive gross rents.

With effect from April 2019, non-resident companies are liable to UK tax on the direct disposal and certain indirect disposals of UK property; and, with effect from April 2020, income and gains that non-resident companies receive from UK property will be chargeable to corporation tax.

Diverted Profits Tax (DPT)

DPT is separate from other corporate taxes. It is levied at 25% (or 55% in the case of UK ring fence operations, i.e. broadly oil extraction operations) on diverted profits (as defined) and may apply in two circumstances:

- where groups create a tax benefit by using transactions or entities that lack economic substance (as defined), and/or
- where foreign companies have structured their UK activities to avoid a UK PE.

Companies are required to notify HMRC if they are potentially within the scope of DPT within three months of the end of the accounting period to which it relates (extended to six months for the first year). The legislation is complex and subjective in places, and has the potential to apply more widely than might be expected.

In January 2019, HMRC launched a new initiative, the Profit Diversion Compliance Facility, which is aimed at multinationals using arrangements targeted by DPT who are not currently under a DPT or transfer pricing enquiry.

The new Facility is designed to encourage businesses potentially impacted to review their tax policies, change them as appropriate, and use the Facility to submit a report with a proposal to pay any additional tax, interest, or penalties due. This enables the business to bring their tax affairs up to date efficiently and without intervention from HMRC.

Local income taxes

There are no local or provincial taxes on income, although legislative powers are in place to introduce a reduced rate of corporation tax in Northern Ireland. It is not clear when the reduced rate will be introduced or at what rate.

Corporate - Corporate residence

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UK incorporated companies are generally treated as UK resident. However, companies resident in the United Kingdom under domestic law, but treated as solely resident in a different country under that country's DTT with the United Kingdom, are not treated as UK resident for the purposes of UK domestic tax law.

Additionally, subject to the above exception, companies incorporated overseas are also treated as UK resident if their central management and control is situated in the United Kingdom. This means if the place of the highest form of control and direction over a company's affairs, as opposed to decisions on the day-to-day running of the business, is in the United Kingdom.

Permanent establishment (PE)

For non-resident companies, the liability to corporation tax depends on the existence of any kind of PE through which a trade is carried on (except where the trading profits are attributable to a trade of dealing in or developing UK land, when a PE is not needed). The meaning of PE for UK tax purposes is set out in statute; it is largely based on the OECD Model Tax Convention definition, but is not identical in all respects. Subject to the terms of the relevant DTT, a non-resident company will have a PE in the United Kingdom if:

- it has a fixed place of business in the United Kingdom through which the business of the company is wholly or partly carried on, or
- an agent acting on behalf of the company has and habitually exercises authority to do business on behalf of the company in the United Kingdom.

A fixed place of business includes (but is not limited to) a place of management; a branch; an office; a factory; a workshop; an installation or structure for the exploration of natural resources; a mine, oil or gas well, quarry, or other place of extraction of natural resources; or a building, construction, or installation project. However, a company is not regarded as having a UK PE if the activities for which the fixed place of business is maintained or which the agent carries on are only of a preparatory or auxiliary nature (also defined in the statute). From 1 January 2019, this will not be the case where the non-resident has artificially fragmented their business operations to avoid coming within the charge to corporation tax.

The OECD, under Action 7 of its BEPS Action Plan, has recommended a widening of the scope of the PE definition in Article 5 of the OECD Model Tax Convention. It is intended that the amended definition will be incorporated into bilateral double taxation conventions via a multilateral instrument (MLI). The United Kingdom is only adopting limited elements of the PE articles in the MLI.

From April 2019, gains that arise to non-UK companies on the direct disposal and certain indirect disposals of UK property are chargeable to UK corporation tax. From April 2020, it is proposed that income that non-resident companies receive from UK property will be chargeable to corporation tax.

Special rules exist to explain how the PE's profits should be evaluated for UK tax purposes (*see the Branch income section for more information*).

Corporate - Other taxes

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Value-added tax (VAT)

The standard VAT rate of 20% applies to most goods and services, apart from domestic fuel and power and certain other reduced-rate supplies, which are subject to VAT at 5%.

Certain small traders (supplies less than GBP 150,000 *per annum*) with a limited range of expenses may adopt a special flat-rate scheme, which computes VAT at a sector-specific flat rate.

Most exports, most food, most public transport, books and publications, and certain other essential goods and services are zero-rated. Some supplies are exempt, the main categories being the grant of certain interests in land, insurance, financial services, betting and gaming, education, certain sports services, cultural services, and health and welfare. Zero-rating is preferable to exemption because the VAT on costs incurred in making a zero-rated supply can be recovered while that incurred in making an exempt supply cannot.

VAT is chargeable on the supply of most goods and services made in the United Kingdom by 'taxable persons' in the course of business, when their taxable turnover exceeds the registration thresholds. Taxable persons include individuals, companies, partnerships, clubs, associations, or charities.

Taxable persons who are not normally resident in the United Kingdom, do not have a business establishment in the United Kingdom, and, in the case of companies, are not incorporated in the United Kingdom, but who make taxable supplies, sales to unregistered persons in the United Kingdom, or acquisitions of goods in the United Kingdom above the relevant limits, may be required to register and account for VAT in the United Kingdom.

If the value of taxable supplies is over a specified limit, registration for VAT is compulsory unless the taxable supplies made are wholly or mainly zero-rated, in which case it is possible to apply for exemption from registration. A zero VAT registration threshold applies for businesses not established in the United Kingdom.

The rules applying to VAT and territoriality are different to those applying to direct tax in that they derive from the principles of the place of supply in EU law, as enshrined in EC VAT Directives. Having determined that a supply of goods or services has taken place, the second condition to be determined, if the transaction is to fall within the scope of UK VAT, is whether the supply takes place within the United Kingdom. The place of supply rules are different for goods and for services. A person or business belonging outside the United Kingdom, with no place of business in the United Kingdom, may, nevertheless, be liable to UK VAT registration where the place of supply of those goods or services is in the United Kingdom.

For goods, the basic rule is that a supply of goods is taxable in the territory where those goods are physically located at the time of supply. Hence, if goods are supplied in the United Kingdom by a non-established taxable person, there will still be a liability for VAT purposes, and the person must register for VAT in the United Kingdom if the taxable supplies exceed the current UK VAT registration thresholds. A zero VAT registration threshold applies for businesses not established in the United Kingdom.

For services, the basic rule is that services are treated as made where the customer 'belongs' or is established for VAT purposes, and the customer is responsible for accounting for the VAT due via the reverse-charge procedure. However, this is subject to a number of special rules and exceptions. Determining where a business is established for VAT purposes is based on EU law criteria.

For business-to-consumer (B2C) supplies, the basic rule is that services are treated as made where the supplier 'belongs' or is established for VAT purposes. B2C supplies of telecommunications, broadcasting, and electronic services are taxed where the customer is located or is normally resident.

VAT returns and payments

VAT returns must be completed at pre-set intervals (usually every three months). Larger companies may be required to file monthly returns or make monthly payments on account. All businesses are required to file VAT returns online and

make electronic payments. Smaller enterprises can apply for annual returns. VAT returns are usually required to be filed 30 days after the end of the period.

With effect from 1 April 2019, businesses with taxable turnover above the UK VAT registration threshold are required to keep and preserve digital records and provide VAT returns using compatible software. This is done via an 'application programming interface' (API), which enables taxpayers to communicate electronically with HMRC.

Annual accounting is available for taxable persons with annual turnover (taxable supplies, excluding VAT) not exceeding GBP 1,350,000.

Cash accounting is available for taxable persons with annual turnover (taxable supplies, excluding VAT) not exceeding GBP 1,350,000.

In addition, a flat rate scheme operates for small businesses and is intended to simplify VAT accounting procedures.

Customs and excise duties

Many goods imported into the United Kingdom from outside the European Union are subject to customs duties. The rates of duty are provided by the EU's Common Customs Tariff and vary widely.

Excise duties are chargeable on most hydrocarbon oil products, alcoholic drinks, and tobacco products imported into or produced in the United Kingdom. Examples include the following:

Products	Excise duty (GBP)
Road fuels	0.5795 per litre
Cigarettes	228.29 per thousand (plus 16.5% of the retail price) or 293.95 per thousand if greater
Tobacco (hand rolling)	234.65 per kg
Wines (5.5% to 15%)	2.98 per litre
Spirits	28.74 per litre of pure alcohol included

Soft drinks industry levy (SDIL)

The government has introduced legislation with effect from April 2018 to encourage the reformulation of drinks that are high in added sugar by levying a unit charge on UK producers and importers of such drinks. There is an exemption for smaller producers. For drinks that contain at least 5 grams (but less than 8 grams) of sugar per 100 millilitres of prepared drink, the SDIL will be charged at the rate of GBP 0.18 per litre of prepared drink; where the drink contains at least 8 grams of sugar per 100 millilitres, the SDIL will be charged at the rate of GBP 0.24 per litre of prepared drink.

Stamp taxes

Stamp duty is charged at 0.5% on instruments effecting sales of shares. Agreements to sell shares usually attract stamp duty reserve tax (SDRT) at 0.5%. The liability to SDRT may be cancelled by paying the stamp duty due on a stock transfer form (or other transfer instrument) executed in pursuance of the agreement. Stamp duty is not usually charged on an issue of shares. Issues or transfers of shares to clearance services or depositary receipt systems may attract SDRT at 1.5% (stamp duty at 1.5% may be payable on instruments effecting transfers of shares to such services or systems). Transfers of bearer shares also attract stamp duty at 1.5%.

Acquisitions of non-residential or mixed land and buildings in England, Wales, and Northern Ireland are charged stamp duty land tax (SDLT) at rates of up to 5%. Acquisitions of residential property by companies and similar non-natural persons and by individuals acquiring second homes are charged at rates of up to 15% (whereas acquisitions by individuals who do not own any other properties or who are replacing their main residence are capped at 12%). Grants of new commercial leases are charged SDLT at 1% of the net present value of the rents payable in excess of GBP 150,000 up to GBP 5 million and 2% of the net present value in excess of GBP 5 million. SDLT is also payable at up to 5% on any

premium paid. Grants of residential leases are charged at 1% of the net present value of the rents payable in excess of GBP 125,000 plus up to 15% on any premium paid.

Land and buildings in Scotland are subject to Scottish land and building transactions tax (LBTT) in place of SDLT. Rates are graduated up to 12%, which applies to a transaction value for residential properties in excess of GBP 750,000 (or up to 16% where the additional 4% for second homes or buy-to-lets applies), and up to 5% for non-residential properties.

Land and buildings in Wales are subject to Welsh Land Transactions Tax in place of SDLT. Rates are graduated up to 12%, which applies to a transaction value for residential properties in excess of GBP 1.5 million (or up to 15% where the additional 3% for second homes or buy-to-lets applies), and up to 6% for non-residential properties.

Annual tax on enveloped dwellings (ATED) and related capital gains tax charge

An annual tax on enveloped dwellings is charged on the acquisition and holding of high-value residential properties (property over GBP 500,000) through a company or other 'non-natural' person. Until April 2018, this was based on the 1 April 2012 value, in bands starting at GBP 500,000 and increasing to GBP 20 million. From April 2018, it is based on the 2017 value. The charge on a property worth GBP 20 million or more cannot exceed GBP 232,350 *per annum* from April 2019. The minimum charge is GBP 3,650 from April 2019 for a property valued at GBP 500,000.

In addition, a disposal of such a property or an interest in such a property by a company or other non-natural person will be subject to UK tax on any gains. UK companies will be subject to the UK corporation tax regime.

For non-UK companies, the ATED gains regime has been abolished from 6 April 2019. The historic non-resident capital gains tax (NRCGT) regime, which charged capital gains tax at 28% on any gains accruing after 5 April 2013 (subject to relief for most property used for commercial, charitable, or public use), has been consolidated into the broader regime, which taxes all UK property gains realised by non-residents.

Payroll taxes

Other than employers’ national insurance contributions (NICs) (*see below*), there are no other payroll taxes, the burden of which falls on the employer. Employers are, however, responsible for deducting the employees’ income tax liability at source, through the pay-as-you-earn (PAYE) system. The employer may also be required to deduct other amounts from pay (e.g. court orders).

Employers' national insurance contributions (NICs)

Employers are obligated to pay NICs based on a percentage of each employee's earnings. For the year ending 5 April 2020, the rate is 13.8% on all earnings above GBP 166 per week. Businesses are exempt from the first GBP 3,000 *per annum* (maximum) of this liability.

Apprenticeship levy

Employers are required to pay 0.5% of their total payroll in excess of GBP 3 million to create a fund to support apprenticeships.

Pension protection fund levy

All defined benefit pension schemes pay a levy, based on pension fund liabilities and the financial risk of the employing company. This levy funds a compensation fund for pensioners and employees of failed schemes.

Bank levy

A bank levy takes the form of an annual tax on certain liabilities of most UK-based banks and building societies. The tax is levied at the following annualised rates (for 2019):

- 0.15% of a bank's short-term relevant liabilities.
- 0.075% of long-term equity and liabilities.

Staged reductions down to 0.10% and 0.05% by 2021 are proposed.

The levy is not charged on the first GBP 20 billion of chargeable liabilities and is not deductible for corporation tax purposes.

Bank profits are also subject to an 8% supplementary corporation tax charge on profits above GBP 25 million.

Insurance premium tax (IPT)

IPT at the standard rate of 12% applies to premiums for most general insurance, such as for buildings and contents and motor insurance, where the insured risk is in the United Kingdom. Life assurance and other long-term insurance remain exempt, though there are anti-avoidance rules surrounding long-term medical care policies. As an anti-avoidance measure, a higher rate of 20% applies to insurance sold by suppliers of specified goods or services, e.g. mechanical breakdown insurance, travel insurance (irrespective of supplier), insurance sold with TV and car hire, and 'non-financial' guaranteed asset protection (GAP) insurance sold through suppliers of motor vehicles or persons connected with them. Further anti-avoidance rules affect administration or similar fees connected with contracts of insurance, charged under separate contracts by brokers and other intermediaries.

Airport passenger duty

Individuals leaving the United Kingdom by air are obligated to pay a duty, which, in practice, is invariably included in the cost of the air ticket. Typically, such taxes are borne by employers in respect of employee’s business travel. Further, significantly higher rates apply for travel in certain 'executive jets'.

Environmental taxes

There are several environmental taxes, including the following.

Landfill tax

The landfill tax is a tax on waste disposal in landfill sites. The standard rate increased to GBP 91.35 per tonne from 1 April 2019. The reduced rate for inert waste is GBP 2.90 per tonne.

Climate change levy

The climate change levy is a tax on energy used in the United Kingdom, such as electricity, gas, coal, etc., and is charged at rates that depend on the nature of the fuel used. There are reduced rates and exclusions from the charge, e.g. supplies to domestic or charitable users, renewable source energy, and energy-intensive sectors committing to specific emissions/energy-saving measures.

Aggregates levy

The aggregates levy is a tax on the extraction or importation of sand, gravel, and crushed rock for commercial exploitation in the United Kingdom. The rate of tax is GBP 2.00 per tonne.

Carbon Reduction Commitment

The Carbon Reduction Commitment is a mandatory scheme for large businesses with financial, reputational, and behavioural drivers aimed at improving energy efficiency.

Plastics tax

The government will introduce a tax on the production and import of plastic packaging from April 2022, following a call for evidence on tackling the plastic problem. Subject to consultation in the next few months, this tax will apply to plastic packaging that does not contain at least 30% recycled plastic.

Local municipal taxes

Local taxes are not based on income, but rather are levied on the occupiers of business property by reference to a deemed annual rental (or 'rateable') value for the property concerned. These taxes (known as 'business rates') are administered by regional local government authorities rather than central government. The amounts paid are deductible for corporation tax purposes, provided they meet all the usual requirements for deductibility.

Offshore Receipts in Respect of Intangible Property tax

Building on previous proposals for a 'royalty WHT', legislation has been introduced to Parliament setting out a new 'Offshore Receipts in Respect of Intangible Property' tax, which is proposed to have effect from 6 April 2019 (with a targeted anti-avoidance rule that will be applicable to certain arrangements put in place from 29 October 2018).

In overview, there will be an income tax charge on the gross amount of capital and revenue receipts in respect of the enjoyment or exercise of rights that constitute intangible property (broadly defined) where the enjoyment or exercise of those rights enables, facilitates, or promotes UK sales of goods, services, or other property, the recipient of the income is not resident in the UK and not resident in a territory with which the UK has a DTT with a non-discrimination provision, and none of the exemptions (limited UK sales, high tax, and substance in territory) apply.

This wording would appear sufficiently broad to catch receipts paid under almost any licence but not outright sales of intellectual property (IP) or pre-existing licences.

The draft legislation includes the following exemptions:

- Exclusion of companies for which the associated UK sales of goods, services, or other property in the tax year are less than GBP 10 million.
- Exclusion of companies where the tax levied in the country of residence on the relevant income is at least half of the UK tax (but note that UK tax is on gross receipts, so this test may be hard to meet).
- Exclusion of companies when the creation, development, and maintenance activities, and the activities undertaken for the purpose of generating receipts for the company in question, have always been undertaken in the company's territory of residence and the IP has not been acquired or derived from a related party.

The provisions, as drafted, do not provide clear cut protection against economic double taxation where there are licence/sub licence flows through more than one entity that does not benefit from a treaty with a non-discrimination provision.

Corporate - Branch income

Last Reviewed - 28 June 2019

Tax rates on the profits of UK PEs of non-resident corporations are the same as for domestic corporations.

There are specific rules setting out how the PE's profits should be evaluated for UK tax purposes, which broadly seek to treat the business as if it were a standalone company. Financing arrangements between the PE and head office must be disregarded, and there are special rules for banks to stop under-performing loans being allocated to the UK PE in a way that is considered unacceptable and similar potential manipulations. However, a deduction is given for a proportion of head office costs.

Tax is not generally withheld on transfers of profits from a UK PE to the head office.

Corporate - Income determination

Last Reviewed - 28 June 2019

A UK resident company is taxed on its worldwide total profits.

Total profits are the aggregate of (i) the company's net income from each source and (ii) the company's net chargeable gains arising from the sale of capital assets.

The main sources of income are (i) profits of a trade, (ii) profits of a property business, (iii) non-trading profits (or losses) from loan relationships, mainly interest receivable or payable, (iv) non-trading gains (or losses) on most intangible fixed assets, and (v) non-exempt dividends or other company distributions. The amount of income for sources (i) to (iv) is

measured based on the company's accounts, with specific adjustments. Taxable income from non-exempt dividends and calculating chargeable gains or income from other sources is based on actual amounts.

The rules for measuring the gross income are different for each category, and there are subtle differences in the rules about tax deductions and how gains are calculated. Because of this continuing reliance on taxing companies on a 'source-by-source' basis, it is difficult to explain the rules about income determination and deductions as two wholly separate topics.

Basic rules for accounts-based sources

The main source of profits is often from trading. A company's trading profits are based on its worldwide profit before tax in its accounts. Adjustments are made for non-trading receipts (such as dividends from other companies and income from property) and non-deductible expenditure (such as capital expenditure). Depreciation for tax purposes (known as capital allowances) is calculated and substituted for the depreciation charged in the accounts. A number of other statutory adjustments are made; three important ones are that pension contributions, deferred pay, and benefits in kind are broadly deductible only when paid, that a deduction is available for the notional cost of certain share awards to employees, and that, where certain acquired intangibles are not depreciated in the accounts, a flat-rate deduction can usually be claimed. There are many other adjustments.

Similar principles apply in relation to the calculation of profits of a property business.

Financial profits from a company's trading and non-trading loan relationships and related matters are usually based on the accounts, and the distinction between 'capital' and 'revenue' receipts and deductions is not relevant. Instead, all credits and debits in the accounts are aggregated in order to find the net profit or deficit. Certain statutory adjustments have to be made, which include an interest capping limitation.

For traders, any profit or loss on loan relationships, and/or on intangibles, is generally included within the trading profits. If the company doesn't have a trade, then loan relationships and intangibles are treated as a separate source of income or loss.

Income losses

Where a loss arises in respect of a particular source of income, there are detailed rules regarding the possible offset of the loss. Carryback and sideways reliefs are often allowed within limits; carryforward is generally allowed and carried forward losses do not time expire, although from April 2017 the maximum carried forward loss offset is broadly limited to GBP 5 million plus 50% of the current year profits in excess of that amount. Losses can also be utilised by other group companies (*see the Group taxation section*).

More specifically, dealing with the main sorts of income losses,

- trading losses may be set off against any other source of profit or gains in the same year, may be carried back one year (three years on the cessation of the trade) against any other source of profit or gain, or may be carried forward without time limit against profits of the same trade only (for trading losses accruing up to 1 April 2017) or against total profits (for trading losses accruing on or after 1 April 2017)
- property losses may also be set off against any other source of profit or gains in the same year, or may be carried forward without time limit against profits of any sort; they cannot, however, be carried back, and
- non-trading deficits (NTDs) (i.e. interest and financing losses) can again be set off against any other source of profit or gains in the same year, may be carried back one year against non-trading credits (i.e. interest and financing profits), or may be carried forward without time limit against non-trading profits (for NTDs accruing up to 1 April 2017) or against total profits (for NTDs accruing on or after 1 April 2017).

Non-trading companies may deduct non-capital management expenses incurred in managing their investments from their total profits. Any excess management expenses can be carried forward without limit to set against profits in future years.

While income losses can generally be offset against capital gains of the same accounting period, capital losses are never available for offset against any type of income.

There are complex anti-avoidance rules that restrict the utilisation of all types of losses where there is a change in ownership of the company. Specific rules can also deny or limit loss relief or deductions arising from brought forward losses or potential losses where certain conditions are met.

Inventory valuation

In general, the book and tax methods of inventory valuation will conform. In practice, inventories are normally valued for tax purposes at the lower of cost or net realisable value. A first in first out (FIFO) basis of determining cost where items cannot be identified is acceptable, but not the base-stock or the last in first out (LIFO) method.

Capital gains

Gains on capital assets are taxed at the normal corporation tax rates. The chargeable gain (or allowable loss) arising on the disposal of a capital asset is calculated by deducting from gross proceeds the costs of acquisition and subsequent improvements, plus the incidental costs of sale and indexation allowance up to December 2017. Indexation allowance compensates for the increase in costs based on the percentage rise (if any) in the UK retail prices index to the earlier of date of disposal or December 2017. Indexation allowance is, however, limited; it cannot create or increase a capital loss, it can only reduce or eliminate a chargeable gain. Generally, these calculations must be done in sterling, so any foreign exchange gains and losses will be taxed (or relieved) on disposal.

Special rules apply to assets held at 31 March 1982.

Most acquisitions and disposals between UK group companies are treated as made on a no gain no loss basis (i.e. at base cost plus indexation). Otherwise, acquisitions from, or disposals to, affiliates are treated as made at fair market value, as are other acquisitions or disposals not at arm's length.

Capital losses are allowed only as an offset to capital gains. An excess of capital losses over capital gains in a company's accounting period may be carried forward without time limitation but may not be carried back. Relief for carried forward capital losses will be brought into line with relief for carried forward income losses from 1 April 2020. From that date, capital losses carried forward will only be able to be offset in a later accounting period against 50% of any capital gains arising in excess of GBP 5 million, with a single GBP 5 million ‘deductions allowance’ per group against which carried forward losses (both income and/or capital) can be set.

Gains or losses arising on a particular asset can be allocated to another group member. So, the capital losses of one company can sometimes be set against the gains of a fellow group member in the same or subsequent period.

There is a good deal of anti-avoidance legislation concerning the computation of chargeable gains, notably to stop losses being created or gains avoided where assets are depreciated by intra-group transactions, or where losses are 'bought in' from third parties.

Gains realised on certain types of assets can be deferred where all or most of the proceeds are reinvested in other assets of those types within a specified period (generally three years). The 'rolled-over' gain then crystallises as and when the latter assets are sold. At present, the main asset categories qualifying for roll-over are land and buildings used for a trade.

Most disposals of shareholdings of 10% or more are exempt from tax. The main exceptions will be those of non-trading subsidiaries or subgroups, or of companies acquired within the previous year. Note that gains on goodwill and other intangibles acquired after March 2002 are taxed as income, not as capital gains.

Capital gains on disposal of UK immovable property by non-UK residents

Prior to April 2019, only direct disposals of UK residential property were subject to UK tax for non-UK residents. However, from April 2019, UK tax is charged on capital gains made by non-residents on direct and certain indirect disposals of all types of UK immovable property.

The indirect disposal rules apply where a person makes a disposal of an entity in which it has at least a 25% interest (or any interest in certain collective investment vehicles) where that entity derives 75% or more of its gross asset value from UK land.

The 25% ownership test looks for situations where the person holds at the date of disposal, or has held within two years prior to disposal, a 25% or more interest in the property-rich company. This holding may be direct, through a series of other entities, or via connected persons.

The 75% 'property richness' test will look at the gross assets of the entity being disposed of. Where a number of entities are disposed of in one arrangement, their assets will be aggregated to establish whether the 75% test is met.

There is a trading exemption, so that disposals of interests in property-rich entities where the property is used in a trade are excluded from the charge. This is likely to apply where, for example, a non-UK resident disposes of shares in a retailer that owns a significant value of shops.

All non-UK resident companies are charged to corporation tax rather than capital gains tax on their gains. The provisions relating to annual tax on enveloped dwellings (ATED)-related capital gains tax on UK residential property have been abolished.

Existing reliefs and exemptions available for capital gains continue to be available to non-UK residents, with modifications where necessary. Those who are exempt from capital gains for reasons other than being non-UK resident continue to be exempt (e.g. overseas pension schemes and certain charities).

Losses arising to non-UK residents under the new rules are available. However, from April 2020, the offset by companies of carried forward capital losses will be limited to 50% only of the capital gains arising in a later accounting period.

There are options to calculate the gain or loss on a disposal using the original acquisition cost of the asset or using the value of the asset at commencement of the rules in April 2019.

Special rules apply to collective investment vehicles.

Trading in and developing UK land

Trading profits earned by a non-resident owner were historically only subject to UK tax if the owner carried on a trade through a PE in the United Kingdom, subject to corporation tax, or exercised a trade in the United Kingdom, subject to income tax.

Finance Act 2016 extended the corporate tax regime to all trading profits attributable to a trade of dealing in or developing UK land (irrespective of whether there is a UK PE). The changes made by Finance Act 2016 relating to trading in UK land fall into four categories:

1. Extending UK corporation tax to non-UK resident companies that carry on a trade of dealing in UK land or developing UK land (whether or not the trade is carried on through a PE in the United Kingdom). The intention is to tax all non-UK traders in UK land on the whole of their profit wherever it arises.
2. Replacing existing 'transactions in land' provisions. The rules are designed to ensure that profits from activities that are fundamentally trading in nature are taxed as income rather than capital gains, and apply to both direct disposals of land and also indirect disposals (i.e. disposals of shares or other assets that derive at least 50% of their value from land).

   The ‘direct disposals’ provisions provide a statutory definition of trading in land (very broadly, where one of the main purposes of acquiring or developing land is to realise a profit or gain).

   The ‘indirect disposals’ provisions will apply when the person making the disposal is party to an arrangement concerning the development of the land.

3. Introducing a new 'anti-fragmentation' rule that may increase the profits charged to UK tax by the value of any 'contribution' to the development made by an associated person that is not subject to UK tax.
4. Introducing anti-avoidance provisions to counteract arrangements that are intended to avoid any of the rules mentioned above.

Dividend income

Most foreign and UK dividends received by UK companies are exempt from corporation tax; however, one of several criteria has to be met, but these are widely drawn (one test, for example, is that the recipient controls the payer). For non-exempt, foreign-source dividends, double tax relief (DTR) will be available on a dividend-by-dividend basis. It is unusual for companies to be taxed on UK dividends because of the breadth of the exemption; however, where they are taxed, there is no concept of DTR for UK dividends.

Royalty income

Royalty income received by corporates will normally be taxed in the same way as other forms of income. To the extent it arises from a trade, it is taxed as trading profits. Royalties from IP not comprising a trade will be taxed as income from intangible fixed assets.

Realised and unrealised exchange gains/losses

Unrealised exchange gains and losses tend to arise on debts and derivatives; they are then taxed or allowed, together with realised amounts, on an accounts basis in the same way as other debits and credits arising out of loan relationships. Where gains or losses arise on other payables or receivables, to a trader or property investor, they will again generally be taxed or allowed on an accounts basis. For a trader, the taxable or allowable amount will become simply part of the trading profit or loss; for other companies, it will become a separate source of taxable profit (a 'non-trading credit') or loss (a 'non-trading deficit').

Where unrealised differences arise on other capital assets, they will not generally be taxable or allowable at that stage; instead, the exchange difference becomes part of the computation and is effectively taxed or allowed when the asset is disposed of and any difference is realised.

Partnership income

In broad terms, if companies participate in UK partnerships (whether general partnerships, limited partnerships, or limited liability partnerships [LLPs]), they will be taxed on a flow through basis. This will, in very broad terms, mean that UK corporate partners will be taxed on trading, property, or financing income as it arises in the partnership accounts, and on non-exempt dividends on a receipts basis. There are specific anti-avoidance provisions in respect of LLPs with both corporate and individual partners.

When considering overseas entities, the UK authorities will not be bound by how the entity is classified in its country of origin. Case law has determined a number of matters that should be considered when establishing whether a non-UK entity should be taxed in the United Kingdom as if it were a company or a partnership. HMRC also maintains a public list of non-UK entities and the decisions it has previously made regarding their classification. However, if the parties have flexibility regarding the constitution of such entities, then their classification may be viewed differently, either by HMRC or the courts. This area is complex; consequently, specialist advice should be sought.

Foreign income

In principle, the United Kingdom taxes on a worldwide basis, although non-UK PE profits can be exempted from UK taxation by election. The election applies to all accounting periods starting after the election is made and to all the PEs of the company (so it cannot be made on a PE-by-PE basis). The election is irrevocable and has the effect of exempting all profits of the PE, including gains, subject to certain adjustments. Equally, relief for PE losses will be denied. Profits will be measured by reference to DTTs, or, in absence, OECD principles. The adjustments required include:

- Gains attributable to a foreign branch of a close company are not exempt.
- Profits attributable to a foreign branch of a small company are not exempt if the PE is in a territory other than a 'full treaty territory' (broadly, a territory that has a DTT with the United Kingdom that has an exchange of information article).
- If the branch concerned has previously been in a loss making position, loss transitional rules may prevent the exemption being available immediately.
- To the extent the branch profits are considered to have been artificially diverted from the United Kingdom, the anti-diversion rule will stop them qualifying for the exemption (akin to the CFC rules that apply to profits of subsidiaries).

Where no election is made, profits from non-UK PEs are computed and taxed in the normal way for UK tax resident companies. However, UK tax will generally be reduced by credit for local direct taxes paid, either under a treaty or via the UK's unilateral relief rules (*see Foreign tax credit in the Tax credits and incentives section for more information*).

Corporate - Deductions

Last Reviewed - 28 June 2019

As noted in the Income determination section, the UK tax system requires taxable profits to be calculated by aggregating (i) the company's net income from each source and (ii) the company's net chargeable gains arising from the sale of capital assets. This approach gives rise to a particularly complicated regime so far as deductions are concerned. Expenses are usually allocated to the source of income (or occasionally by reference to income generally) or to the particular gain to which they relate. The rules governing their deductibility differ according to whether the expense relates to a capital gain or to income, and, indeed, according to the particular source of income concerned. For example, there is a considerable difference in the manner in which tax relief is given for expenses incurred by companies trading in property as compared to those that invest in property. The regime also has a large number of specific rules dealing with particular types of deductions that take priority over the more general rules for each type of income.

We have therefore set out the general rule for trading expenses, being the most common category, and, following that analysis, considered some specific common exceptions.

General rules for trading expenses

A trading company is generally permitted to deduct expenses that are incurred wholly and exclusively for the purposes of the company's trade, provided those costs are not capital in nature and are charged to the profit and loss account. There is a significant amount of case law surrounding whether expenses have been incurred wholly and exclusively for the purposes of a company's trade and whether they are capital or not.

Relief is generally given in the period the expenses are accrued in the accounts, subject to some specific exceptions. In particular, contributions to a registered pension scheme are only allowed on a 'paid' basis, with some further provisions under which some contributions may be spread over a number of years; and if bonuses and other staff costs are paid out more than nine months after the end of the accounting period in which they are accrued, they are only allowed on a paid basis.

The general rule is made subject to a range of specific statutory provisions, some of which allow deductions and others of which limit them; some of the more important of these are discussed below, but there are many others. One example is that the costs of business entertainment cannot generally be deducted.

Depreciation and amortisation

Depreciation of fixed assets (other than certain assets within the intangible fixed asset regime, see below) is not allowable as a deduction from any source of income. However, traders, and most non-traders, are instead allowed specified rates of annual deduction in respect of specified classes of assets, together referred to as 'capital allowances', that are deducted in calculating trading income for traders and (broadly) against income derived from the use of the fixed assets for non-traders.

Capital allowances for machinery and equipment can be disclaimed in whole or in part, thereby deferring allowances.

In the period of expenditure, capital allowances are available, generally at 18% of the cost of machinery and equipment acquired for use in a trade or property rental business; thereafter, capital allowances are taken generally at 18% *per annum* on the reducing-balance basis. With some exceptions, the rate of capital allowances for machinery and equipment with an expected useful life when new of at least 25 years is 6% (8% prior to 1 April 2019). This 6% writing down allowance on ‘special rate expenditure’ also applies to expenditure on certain integral features in buildings (e.g. heating and ventilation), thermal insulation, and expenditure incurred after 1 April 2018 on cars with carbon dioxide emissions that exceed 110 grams per kilometre driven.

All businesses, regardless of size, can claim an annual investment allowance of 100% on the first GBP 1 million per year of most qualifying expenditure. This is restricted to a single allowance for groups of companies or associated businesses. To stimulate business investment, the Finance (No.3) Bill 2018 increased the annual investment allowance to GBP 1 million (from GBP 200,000) for a two year period from 1 January 2019.

Capital allowances are given on cars at rates dependent on emission levels.

Enhanced allowances, typically at a rate of 100%, are available for expenditure on certain energy saving plant and other specific categories. The products and technologies supported by this regime are reviewed and updated regularly. It is

proposed that certain of these enhanced allowances will not be available from 1 January 2020.

No capital allowance is normally allowed on buildings, apart from certain machinery and equipment embodied in the fabric of the buildings. In some buildings (e.g. hotels, retail, offices), such deductions may be significant. A new structures and buildings allowance was introduced in the Finance (No.3) Bill 2018 to address this gap in the current capital allowance system and should result in many UK taxpayers obtaining tax relief on expenditure that was previously ineligible for capital allowances. The draft legislation provides for a 2% straight line allowance *per annum* for eligible construction expenditure on non-residential buildings where a contract is entered into and works commence on or after 29 October 2018.

Capital allowances may also be available in respect of the cost of the acquisition of mineral assets and extraction, generally at the rates of 10% and 25%.

Excess capital allowances are generally recaptured on disposal. The recapture is calculated on a 'pool' basis for most machinery and equipment, in which case there is no recapture unless the sale proceeds exceeds the total tax written down value of the pooled assets.

Where assets are leased, capital allowances are generally available to the lessor rather than the lessee. The rate of capital allowance of most plant or machinery leased to non-residents is generally restricted to 10%, but in some cases to nil.

Intangible fixed assets

A special regime applies to intangible assets, such as patent rights, know-how, and trademarks, and goodwill. Royalties are generally deductible on an accounts basis, and, except in relation to 'grandfathered' assets owned by the group on 31 March 2002, the accounts' amortisation of intangible assets is also deductible (with an option to take a flat 4% deduction even if not amortised in the accounts). Traders will take the deductions in computing trading income; non-traders will create a 'non-trading loss on intangible fixed assets' that can be relieved as a loss against any profits of the year or carried forward indefinitely.

With effect for acquisition of goodwill and customer-related intangibles on or after 8 July 2015, amortisation, impairment, and certain other charges are not deductible for tax. Subsequent profits and losses on disposals of such goodwill remain taxable/deductible. However, from April 2019, there is relief for the cost of certain goodwill and customer-related intangibles when acquiring businesses with eligible IP.

Income costs relating to R&D are normally deductible in any event, but there is a special incentive connected with R&D that generally allows additional tax relief (*see the Tax credits and incentives section for more information*).

Management expenses

Holding companies and companies with investment business can deduct expenses if they are expenses of managing the company's investment business and are not capital in nature. Such costs would typically include audit fees, directors' costs, rent, local rates, and office costs. These costs can be set against any sources of profit the company may have, including gains and financing income.

If the company has inadequate income, excess expenses can be surrendered as group relief or carried forward to set against future income, with no time limit.

Many of the specific rules on the deduction of trading expenses also apply to management expenses. Many rules giving traders specific deductions for certain costs also apply, but this is not always the case.

Employee share schemes

The actual and deemed costs of an employing company for the deemed cost of providing shares or options to employees is usually deductible, depending on the nature of the share plan and the accounting. This will generally allow a deduction to a subsidiary company whose employees receive shares or options in the parent company.

Funding costs

Funding costs (primarily fees and interest) are broadly deductible on an accounts basis, even if capital in nature, but subject to thin capitalisation constraints (with no explicit safe harbours) and subject to the interest restriction rules from

April 2017 (*see below*). This extends to foreign exchange deductions relating to debts owed and receivable.

Traders will generally take the deductions in computing trading income (which is also accounts based). Deductions relating to loans not used for trading purposes will give rise to 'non-trading deficits' that, if not group relieved, can be offset against profits of that year generally, carried back one year (against that year's funding profits), or carried forward indefinitely against non-trading profits (where the deficit arose before 1 April 2017) or against total profits (where the deficit arose on or after 1 April 2017).

There are complex and specific rules dealing with financial instruments, derivatives, cross-border transactions, etc.

From 1 April 2017, there is a fixed ratio limiting corporation tax deductions for net interest expense to the higher of 30% of UK earnings before interest, taxes, depreciation, and amortisation (UK EBITDA) and the group ratio (for highly geared groups). In addition, the net interest deduction of the UK group cannot exceed the net interest shown in the worldwide group's consolidated financial statements. These new rules replace the previous worldwide interest cap rules and will often operate to reduce the amount of tax deductions achieved by UK taxpayers.

Bad debts, provisions, and reserves

Provisions for future costs can be deducted for tax purposes if they:

- are in respect of allowable revenue expenditure
- are made in accordance with acceptable accounting practice
- do not conflict with any statutory rule governing the timing of relief (e.g. in relation to payment of staff costs), and
- are estimated with sufficient accuracy.

This rule extends to bad debts on trading account. Generally, however, bad debts are dealt with under the 'loan relationships' rules for financing costs and financing income. The rules there, however, are broadly the same; if the bad debt can be identified specifically enough to allow a bad debt provision that satisfies UK accounting standards, it should be deductible.

Charitable donations

Most donations to charities by companies are deductible.

Fines, penalties, and bribes

Any payments that constitute a criminal offence (e.g. a bribe) are not deductible for tax. Fines and penalties imposed for breaking the law are also not deductible, although a deduction is usually available for legal costs incurred in defending such an action. Usually, there is no deduction for civil penalties, interest, and similar surcharges (e.g. relating to VAT). Fines for regulatory breaches are not allowed for tax, but the costs of compensating customers, etc. are usually deductible.

Damages that are compensatory rather than punitive (e.g. damages for defamation payable by a newspaper company) are often deductible, as are payments for breach of contract. Payments to employees for wrongful dismissal, etc. are usually deductible.

Taxes

Local municipal taxes (business rates) may be deducted from taxable income.

Net operating and capital losses

See Income losses in the Income determination section for a description of the treatment of income losses and capital losses.

Payments to foreign affiliates

There are no special rules for payments to foreign affiliates, so their tax treatment follows the basic rules for deductions set out above. The transfer pricing rules will impose an arm's-length price.

Corporate - Group taxation

Last Reviewed - 28 June 2019

Each individual corporate group member is required to submit their own tax return on a stand-alone basis, with the exception of the election available with respect to VAT (*discussed below*). However, there are a variety of ways in which one's relationship with fellow group members is recognised in the UK tax system for the purposes of corporation tax, VAT, SDLT, and stamp duty.

Corporation tax

The corporation tax system includes a number of measures that advantage UK members of qualifying groups, all of which are subject to anti-avoidance measures.

Operating taxable profits and losses arising in the same period can usually be offset between UK resident 75% affiliates within a worldwide group (known as 'group relief'). This extends to offsetting the UK profits attributed to a UK PE of a non-UK resident group member, subject to additional requirements. There are some restrictions, primarily where one of the two companies is not an economic 75% subsidiary of the group or is subject to arrangements under which it might leave the group. Losses arising on or after 1 April 2017 that cannot be used by the company or group relieved in the year are carried forward and can, subject to restrictions, be surrendered as group relief in a later year.

Intra-group transfers of capital assets between UK companies, including UK PEs, are normally tax-free, though the definition of group for these purposes is slightly different than the definition of group relief for losses. This treatment is also extended to intra-group transfers of loan relationships, derivatives, and intangibles. There is generally a 'degrouping' charge if the transferee company leaves the group within six years.

There is no automatic offset of capital gains and losses where these arise in different group companies, but it is normally possible for offset to be arranged either by actual transfer of the asset prior to disposal or by election.

A UK resident group company is potentially able to claim group relief for income losses of a non-UK resident subsidiary that is resident in the European Economic Area (EEA) or has incurred the relevant losses in a PE within the EEA, provided that all possibilities of non-UK relief for the losses have been exhausted and future relief is unavailable.

In addition, the corporation tax system also has a number of measures that seek to prohibit groups unfairly manipulating the tax system by shifting profits between group members (either internationally or within the United Kingdom) in a way that is considered unacceptable.

The net interest deduction of a UK group cannot exceed the net interest shown in the worldwide group's consolidated financial statements. *This is discussed under Funding costs in the Deductions section.*

VAT

Group companies can, subject to certain requirements, elect to account for VAT as if they were one taxable person; where this is done, no VAT is charged on intra-group supplies of goods or services. The registration is made in the name of the representative member, who is responsible for completing and rendering the single return on behalf of the group. All the companies are jointly and severally liable for any VAT debts. VAT grouping is subject to detailed anti-avoidance provisions.

Stamp duty and SDLT

Transfers of shares or real estate within worldwide 75% groups are generally exempt from stamp duty or SDLT, respectively. For SDLT, the relief can be retrospectively withdrawn in certain circumstances, primarily where the transferee leaves the group within three years of the transfer.

Transfer pricing and thin capitalisation

The United Kingdom has widely drafted transfer pricing rules that are intended to apply to almost any kind of transaction made or imposed between related parties that gives rise to:

- a provision that differs from one that would have been made between third parties and

- a UK tax advantage (potential or actual) to one or more of the parties.

These rules apply to UK-to-UK transactions as well as cross-border transactions.

The regime therefore applies not only to the provision of products and services but also to finance arrangements, including both the rate of return charged and the amount of loan principal (or equivalent) made available. It is therefore the mechanism by which the UK's revenue authorities address the issue of thin capitalisation. Currently, unlike many other territories, the United Kingdom does not operate any 'safe harbours' of any kind in relation to the amount of debt or interest (or equivalents) it considers demonstrates that a UK company or group is not thinly capitalised. However, a new UK interest deductibility rule has been introduced, effective from April 2017. *This is discussed under Funding costs in the Deductions section*.

Parties are considered related for the purpose of transfer pricing rules where either one controls the other or both are under common control. Control here is not confined to situations in which one party is the majority shareholder in the other. Effectively, control exists where one party has the power to ensure that the affairs of another party are conducted in accordance with the first party's wishes. The concept is also subject to two important extensions:

- The rules apply to many joint venture companies where two parties each have an interest of at least 40%.
- There are attribution rules to trace control relationships through a number of levels in determining whether parties are controlled for the purposes of the transfer pricing rules.

In addition, the regime restricts interest deductions to an arm's-length basis where a financier and persons who collectively control a company or a partnership have 'acted together' in relation to the financing arrangements of that company or partnership. The financier (usually a bank) can then be taken as controlling the company or partnership, and the loan becomes subject to transfer pricing limitations.

There are a number of exemptions that essentially exclude small or medium-sized enterprises (SMEs) and dormant companies from the regime.

The effect of the rules is to require an arm's-length provision to be substituted for the actual one, thereby increasing the party's UK tax liability and cancelling out the UK tax advantage that would otherwise have arisen.

Where both parties to the transaction are UK taxpayers, the disadvantaged party will generally be entitled to claim a compensating adjustment (except where the transaction falls within the transfer pricing regime because of the 'acting together' provisions), but only after the UK adjustment has been made. The legislation also provides that parties may make balancing payments to each other in such circumstances, of any amount up to the transfer pricing adjustment, which will neither be taxable for the recipient nor tax deductible for the payer.

Where the disadvantaged party is outside the UK tax net, they can pursue a claim for relief under the relevant DTT if it provides a mechanism for such relief; where the adjustment in the United Kingdom is to reduce a deduction for an amount paid under deduction of UK tax, the compensating adjustment rules should allow the overseas party to reclaim any WHT paid on the disallowed amount, subject to time limits and other criteria.

UK taxpayers are required to self-assess their compliance with this arm's-length principle. Companies and partnerships must therefore identify and make transfer pricing adjustments when submitting their tax returns. This is the case even where the disadvantaged party would be entitled to claim a compensating adjustment equal to the transfer pricing adjustment. An important implication of this approach is the potential for interest and penalties if the adjustment made is subsequently held to be wrong.

Country-by-country (CbC) reporting

CbC reporting is required for all multinational enterprises (MNEs) with annual consolidated group revenue over 750 million euros (EUR) (or equivalent). It requires the preparation of a summary report setting out the jurisdictions in which the group has operations and, for each jurisdiction, the aggregate revenue, profit, income tax, plus additional data, such as number of employees, accumulated earnings, assets, etc. This report has to be filed with HMRC where the MNE's ultimate parent is in the United Kingdom, or, in some circumstances, where the MNE operates in the United Kingdom, alongside the tax return for the period in question. HMRC then makes the report available to other jurisdictions on request.

Controlled foreign companies (CFCs)

Under the CFC regime, a UK resident company may be taxed on a proportion of the profits of certain UK-controlled, non-resident companies in which the resident company has an interest. The overall intention is to tax profits that have been artificially diverted from the United Kingdom.

Broadly, profits of a non-UK resident CFC will be taxed, using normal corporation tax rates and rules, on the persons controlling the CFC if (i) the profits pass through the CFC 'gateway' and (ii) are not exempt.

The 'gateways' are a series of tests that identify profits that are, broadly, artificially diverted from the United Kingdom. For example, where profits are attributable to UK significant people functions (SPFs), those profits will be taxed in the United Kingdom unless one of four conditions are satisfied (the first of which is that obtaining a tax advantage is not the main purpose or one of the main purposes of the arrangement). A range of other tests may capture other profits.

Various exemptions exist for certain types of companies, those coming into the regime for the first time, CFCs with low profits or low margins, CFCs in excluded territories, or others with corporation tax rates similar or above UK rates.

There is a special exemption for intra-group financing profits that can result in an exemption of between 75% and 100% of the financing profits on qualifying loans. In order to make the regime ATAD compliant, the government has tightened these rules so that (from 1 January 2019) the reduced rate of tax will no longer be available in relation to profits that are attributable to UK SPFs. This exemption has been the subject of an in-depth investigation by the European Commission into whether it constitutes fiscal state aid. The European Commission has found the exemption, prior to 1 January 2019, to be partially justified. However, it has specifically stated that the rules applicable after that date no longer give rise to any state aid concerns.

Corporate - Tax credits and incentives

Last Reviewed - 28 June 2019

Foreign tax credit

The United Kingdom has an extensive network of DTTs. Unilateral relief is generally available, in any event, to credit overseas tax paid on non-UK source profits against the UK tax on the same profits; while the relevant treaty might sometimes extend that relief, their main function for UK companies is to limit overseas WHTs that would otherwise be payable on passive income.

The United Kingdom has a complex regime allowing 'underlying' tax relief in respect of foreign dividends, so that tax suffered at lower levels can be relieved (at least in part) where dividends flow to the United Kingdom via a chain of companies. This exemption is of limited application because most foreign dividends are exempt from tax.

Enhanced capital allowances

A variety of tax incentives are given in the form of enhanced tax depreciation allowances (known as capital allowances, *see Depreciation and amortisation in the Deductions section*). Some of these incentives are given by reference to the expenditure concerned and others by reference to the size of the company incurring that expenditure.

For example, a full write-off can be claimed in the year of expenditure on a range of 'green' products and technologies. The list of items supported in this way is reviewed annually. It includes designated energy saving equipment, designated environmentally beneficial plant and machinery, and cars with low emissions. It is proposed that many of these enhanced allowances will not be available from 1 April 2020.

Annual investment allowance

All businesses, regardless of size, can claim an annual investment allowance of 100% on the first GBP 1 million (from 1 January 2019, previously GBP 200,000) tranche *per annum* of capital expenditure incurred on most qualifying expenditure. This is restricted to a single allowance for groups of companies or associated businesses. The increased annual investment allowance is available for a two year period from 1 January 2019.

Research and development (R&D) incentives

SMEs, as defined, are entitled to a deduction equal to 230% of the qualifying expenditure on R&D in the year in which it is incurred, which can be surrendered for a cash payment (at a rate of GBP 33.35 for each GBP 100 of qualifying R&D spend) by companies that are trading at a loss or have not yet started to trade. To counter perceived abuse of the R&D regime, the government is planning to introduce legislation in Finance Bill 2020 to restrict the amount of this cash payment that a loss making SME can receive in a tax year to three times the company’s total PAYE and NIC tax liability.

Large companies are granted an R&D 'above the line' tax credit of 12% (increased from 11% from 1 January 2018) of their qualifying expenditure.

Patent box

Where the taxable profits can be attributed to the exploitation of patents, a lower effective rate of corporation tax applies. For 2018/19, the rate is 10%. Profits can include a significant part of the trading profit from the sales of a product that includes a patent, not just income from patent royalties. This scheme closed to new entrants from June 2016 (but will continue until 2021 for existing taxpayers), when a new arrangement was introduced. The new scheme retains several of the features of the earlier scheme, but focuses more on UK-based activities and meets revised OECD principles.

Other incentives

A deduction equal to 150% of the qualifying expenditure on the remediation of contaminated or derelict land is given in the year incurred, which can be surrendered for a cash payment (at a rate of GBP 24 for each GBP 100 of qualifying land remediation spend) by companies that are trading at a loss.

There are special tax reliefs available for certain expenditure on UK film production, high-end television, animation, video games, theatres, orchestras, and museum and gallery exhibitions.

There are no tax holidays and no foreign investment incentives in the United Kingdom.

Corporate - Withholding taxes

Last Reviewed - 28 June 2019

Under UK domestic law, a company may have a duty to withhold tax in relation to the payment of either interest or royalties (or other sums paid for the use of a patent). The circumstances in which such a liability arises are discussed below.

There is no requirement to deduct WHT from dividends. Therefore, dividends may always be paid gross, regardless of the terms of the applicable DTT.

Please note, however, that this is not an exhaustive list of all the deductions that might be required to be made in respect of UK tax from payments made to or by companies. In particular, non-resident companies that are subject to UK income tax on UK-source rental profits (*see the Taxes on corporate income section for more information*) will find their letting agent or tenants are obligated to withhold the appropriate tax at source (currently 20% without any allowances) from their rental payments unless the recipient has first applied and been given permission to receive gross rents under the Non Resident Landlord scheme. Two other important examples are the UK's deduction at source regime for entertainers and sportsmen, and the scheme under which payments to unregistered subcontractors working on big building projects may need to have tax deducted at source.

Interest WHT

As a general rule, UK domestic law requires companies making payments of interest to withhold tax at 20%. However, there are a number of exceptions to this general rule. The key exclusions are:

- Payments of interest by UK resident companies if the beneficial owner of the interest is also a UK resident company, or a UK PE, provided the interest concerned will be taxed in the United Kingdom as part of the PE's trading profits.

- Payments of interest on a quoted Eurobond.
- Payments of interest that qualify for exemption under the EU Interest and Royalties Directive.
- Payments of interest paid to or by a UK bank (or a UK PE of a foreign bank).
- Payments of 'short' interest. This is, broadly speaking, interest on loans that will not be in place for more than a year. However, the definition can be contentious, and detailed advice should be taken on this if intending to utilise this exemption.
- Payments of interest that do not 'arise' in the United Kingdom. Whether a payment constitutes UK-source interest is a complex issue, and specialist advice needs to be taken if seeking to use this exception.
- Payments of interest on private placement debts (widely defined) of UK companies.

If none of the exceptions apply, a payment of interest must be made after the deduction of WHT unless (or until) HMRC has given authorisation that the payment may be made gross (or with a reduced rate of WHT) because of the applicability of treaty relief for the recipient.

Royalties WHT

UK domestic law requires companies making payments of patent, copyright, design, model, plan, secret formula, trade mark, and know how royalties that arise in the United Kingdom to deduct WHT at 20%. In addition, there is also the possibility that other royalties that arise in the United Kingdom may also be subject to the same rate of WHT if they constitute 'qualifying annual payments', so specialist advice will be needed to clarify this. However, certain types of royalties, such as film royalties and equipment royalties, will generally not be subject to UK WHT.

Unlike the rule regarding interest, a company may make a royalty payment gross of WHT (or subject to a reduced rate of WHT under a treaty) without prior clearance having been given by HMRC if they reasonably believe at the time the payment is made that the payee is entitled to relief under the treaty. However, if that belief is later found to be incorrect, HMRC may direct that the payment must be made net of WHT, with the WHT paid to HMRC, and the payer may be subject to interest and penalties in respect of the WHT that should have been withheld (even if their belief was reasonable).

From September 2016 (and earlier for cases involving avoidance), a wider class of royalties, including trademarks and brand names, have been subject to deduction of income tax at source.

Double taxation treaties (DTTs)

The tables below set out the rates of WHT applicable to the most common payments of dividends, interest, and royalties under UK domestic law where such a liability arises and the reduced rates that may be available under an applicable DTT. Please refer to specific treaties to ensure the values are up-to-date and ensure you have considered the potential impact of the Multilateral Instrument (MLI). The MLI came into force in the United Kingdom on 1 October 2018. The MLI will have a fundamental impact on how taxpayers access any DTT that both contracting states have opted to be covered by the MLI, subject to the options and reservations both have made in relation to a range of matters (including the date on which it will take effect for particular taxes).

Dividends

There is no requirement to deduct WHT from dividends. Therefore, dividends may always be paid gross, regardless of the terms of the applicable DTT.

Interest

WHT applies only to 'annual interest' (i.e. excluding interest on certain short-term loans). Banks and similar financial institutions are also normally able to pay annual interest to non-UK residents free of WHT. In addition, most of the UK treaties provide for a zero-rate of withholding on interest paid to governmental and quasi-governmental lenders. Such exemptions are not separately indicated in the tables below.

Resident recipients

Resident recipient	WHT (%)

Resident recipient	WHT (%)	
	Interest	Royalties
Corporations	0/20 (1)	0/20 (1)
Individuals	20	20

Note

1. Payments to any UK resident company can be made free of WHT if the recipient is chargeable to tax on the interest or royalty.

Non-resident recipients

Non-resident recipient corporations and individuals	WHT (%)	
	Interest	Royalties
Non-treaty territories	20	20
Treaty territories:		
Albania	6	0
Algeria	7	10
Antigua and Barbuda	20	0
Argentina	12	3/5/10/15 (1)
Armenia	5	5
Australia	0/10 (2)	5
Austria	0	0
Azerbaijan	10	5/10 (4)
Bahrain	0/20 (7)	0
Bangladesh	7.5/10 (2)	10
Barbados	0	0
Belarus	5	5
Belgium	0/10 (5)	0
Belize	20	0
Bolivia	15	15
Bosnia-Herzegovina	10	10
Botswana	10	10

Non-resident recipient corporations and individuals	WHT (%)	
	Interest	Royalties
British Virgin Islands	20	20
Brunei	20	0
Bulgaria	0/5 (7)	5
Canada	0/10 (7)	0/10 (4, 6)
Cayman Islands	20	20
Channel Islands:		
Guernsey (includes Alderney and Hern)	0/20 (7)	0/20 (7)
Jersey	0/20 (7)	0/20 (7)
Chile	4/5/10 (2)	2/10 (6)
China (excludes Hong Kong)	10	6/10/20 (4, 8)
Colombia (not yet in force)	10	10
Croatia	0/5 (7)	5
Cyprus	0	0
Czech Republic	0	0/10 (11)
Denmark	0	0
Egypt	15	15
Estonia	0/10 (2)	0
Ethiopia	5	7.5
Falkland Islands	0	0
Faroes	0	0
Fiji	10	0/15 (4)
Finland	0	0
France	0	0
Gambia	15	12.5
Georgia	0	0
Germany	0	0
Ghana	12.5	12.5
Greece	0	0

Non-resident recipient corporations and individuals	WHT (%)	
	Interest	Royalties
Grenada	20	0
Guyana	15	10
Hong Kong	0	3
Hungary	0	0
Iceland	0	0/5 (11)
India	10/15 (2)	10/15 (6)
Indonesia	10	10/15/20 (7, 8)
Ireland, Republic of	0	0
Isle of Man	0/20 (7)	0/20 (7)
Israel (new treaty not yet in force; interest rate will be 5% on a loan from a bank, 10% otherwise, and royalty rate will be 0%)	15	0/15 (11)
Italy	0/10 (6)	8
Ivory Coast (Côte d’Ivoire)	15	10
Jamaica	12.5	10
Japan	0/10 (10)	0
Jordan	10	10
Kazakhstan	10	10
Kenya	15	15
Kiribati	20	0
South Korea (Republic of Korea)	10	2/10 (8)
Kosovo	0	0
Kuwait	0	10
Kyrgyzstan (not yet in force)	5	5
Latvia	10	5/10 (8)
Lesotho	10	7.5
Libya	0	0
Liechtenstein	0	0
Lithuania	0/10 (7)	5/10 (8)

Non-resident recipient corporations and individuals	WHT (%)	
	Interest	Royalties
Luxembourg	0	5
Macedonia	0/10 (5)	0
Malawi	0/20 (3)	0/20 (3)
Malaysia	10	8
Malta	10	10
Mauritius	20	15
Mexico	5/10/15 (7)	10
Moldova	5	5
Mongolia	7/10 (2)	5
Montenegro	10	10
Montserrat	20	0
Morocco	10	10
Myanmar	20	0
Namibia	20	0/5 (4)
Netherlands	0	0
New Zealand	10	10
Nigeria	12.5	12.5
Norway	0	0
Oman	0	8
Pakistan	15	12.5
Panama	0/5/20 (7)	5
Papua New Guinea	10	10
Philippines	10/15 (7)	15/20 (9)
Poland	0/5 (2)	5
Portugal	10	5
Qatar	0/20 (7)	5
Romania	10	10/15 (4)
Russian Federation	0	0

Non-resident recipient corporations and individuals	WHT (%)	
	Interest	Royalties
St. Kitts and Nevis (St. Christopher and Nevis)	20	0
Saudi Arabia	0	5/8 (8)
Senegal	10	6/10 (8)
Serbia	10	10
Sierra Leone	20	0
Singapore	0/5 (2)	8
Slovak Republic	0	0/10 (4)
Slovenia	0/5 (7)	5
Solomon Islands	20	0
South Africa	0	0
Spain	0	0
Sri Lanka	10	0/10 (9)
Sudan	15	10
Swaziland	20	0
Sweden	0	0
Switzerland	0	0
Taiwan	10	10
Tajikistan	10	7
Thailand	20	5/15 (9)
Trinidad and Tobago	10	0/10 (9)
Tunisia	10/12 (2)	15
Turkey (excludes North Cyprus)	15	10
Turkmenistan	10	10
Tuvalu	20	0
Uganda	15	15
Ukraine (changes to treaty not yet in force; rates will be 5% for interest and royalties.)	0	0
United Arab Emirates	0/20 (7)	0

Non-resident recipient corporations and individuals	WHT (%)	
	Interest	Royalties
United States	0/15 (11)	0
Uruguay	10	10
Uzbekistan	5	5
Venezuela	5	5/7 (7)
Vietnam	10	10
Zambia	10	5
Zimbabwe	10	10

Notes

UK domestic law generally charges WHT on patent, copyright, and design royalties, although there can be definitional uncertainties. Many treaties allow reduced rates for a wider range of royalties. These are mentioned in this table, even though there may be no UK WHT applied under domestic law.

1. 3% for news; 5% for copyright; 10% industrial; 15% other royalties.
2. Lower rate for loans from banks and financial institutions.
3. Higher rate applies if recipient controls more than 50% of payer.
4. Lower rate applies to copyright royalties.
5. 0% on loans between businesses.
6. Lower rate applies to industrial, commercial royalties.
7. Specific additional conditions apply for lower rate.
8. Lower rate applies for equipment royalties.
9. Lower rate applies to films, TV, and radio.
10. Higher rate applies to certain profit related interest.
11. Specific conditions apply for higher rate.

Corporate - Tax administration

Last Reviewed - 28 June 2019

Taxable period

Companies are assessed by reference to accounting periods. Normally, the accounting period is the period for which the company makes up its accounts. However, an accounting period for corporation tax purposes cannot exceed 12 months, so companies preparing statutory accounts for longer than 12 months need to prepare more than one corporation tax return.

Tax returns

Companies must file their statutory accounts and tax return within one year from the end of the accounting period; the return must include a self-assessment of the tax payable, eliminating the need for assessment by HMRC (though HMRC retains assessing powers for certain cases where it is not satisfied with the return, or where the company fails to make a return).

Electronic filing requirements

Returns must be filed online, and such returns must be filed in a specified format that is machine readable by the tax authorities. The accompanying accounts must also be in iXBRL format.

Payment of tax

For smaller companies, corporation tax is payable nine months and one day after the end of the accounting period to which it relates (i.e. before the return must be filed). For larger companies and groups, a system of quarterly payments on account (based on estimated profits) is in place, with the first payment being due in the seventh month of the accounting period concerned. A company will generally be considered large for this purpose in any accounting period in which it has taxable profits in excess of GBP 1.5 million (that limit being reduced by reference to the number of companies under common control, where relevant).

For accounting periods beginning on or after 1 April 2019, the largest companies with profits over GBP 20 million will have earlier quarterly payments dates, with tax due in the third, sixth, ninth, and 12th months of the period concerned.

Penalties

The UK tax system can impose numerous penalties for failing to adhere to the self-assessment system. These include penalties for late filing of returns, failing to maintain appropriate records, submitting an incorrect return, making errors in certain documents sent to HMRC, unreasonably failing to report errors in assessments by HMRC, and failing to respond to a formal notice of information requested from the tax authorities within the specified time limit.

Other filing requirements

Large companies (those with turnover greater than GBP 200 million or balance sheet assets over GBP 2 billion) are required to notify HMRC of the identity of their senior accounting officer, who must certify annually that the accounting systems are adequate for the purposes of accurate tax reporting. Penalties are chargeable on the officer and the company for careless or deliberate failure to meet these obligations.

Certain tax planning and structuring transactions and arrangements must be disclosed to HMRC either before or on implementation of the transaction under the Disclosure of Tax Avoidance Schemes (DOTAS) regime or the Disclosure of Avoidance Schemes for VAT and Other Indirect Taxes (DASVOIT) regime. These schemes cover most taxes and are reporting systems only, with responsibility placed on taxpayers, advisors, or promoters to report. HMRC are not required to respond to the reporting, and this is not an advance clearance or approval process. It is a reporting mechanism only, and, on occasions, new legislation has been introduced to block specific arrangements reported.

Tax audit process

The UK corporation tax process is one of self-assessment. Following filing of the tax return, HMRC has a period of (usually) 12 months in which to raise formal enquiries. These can range from simple information requests to detailed technical challenges over treatments adopted in the tax return.

These enquiries are often settled between the taxpayer company and HMRC by exchange of information and correspondence. Where agreement cannot be reached, arbitration or litigation may be necessary.

HMRC has certain powers to demand information and, in some circumstances, to enter premises to obtain documents, etc. These powers are rarely used, and there are no routine visits by HRMC officials to taxpayer premises.

General anti-abuse rule (GAAR)

The GAAR applies to income tax, corporation tax, capital gains tax, petroleum revenue tax, diverted profits tax, apprenticeship levy, inheritance tax (IHT), SDLT, and ATED, but not VAT. It is targeted at changing behaviour of taxpayers who enter what might be considered to be abusive tax avoidance arrangements. The process includes a quasi-judicial review of the arrangements, the outcome of which must be used as evidence in any related tax litigation.

The government has stressed that the GAAR is only intended to apply to abusive tax avoidance arrangements, which are measured by reference to various indicators, some of which are subjective.

Statute of limitations

For companies that are members of medium or large groups, there is generally a period of one year after the statutory filing dates for the tax authorities to start an enquiry into any aspect of the return. For other companies, enquiries can be

started up to 12 months after the date of actual filing. These periods are extended for returns submitted after the filing deadline, that are amended by the taxpayer, or where an issue is subsequently discovered that was not sufficiently disclosed within the standard period. Longer periods apply in the event of inadequate disclosure or deliberate misfiling.

Corporate - Other issues

Last Reviewed - 28 June 2019

Adoption of International Financial Reporting Standards (IFRS)

IFRS is mandatory for the consolidated financial statements of listed UK companies.

Otherwise, UK companies have a choice of either using full IFRS or UK Generally Accepted Accounting Principles (GAAP) - FRS 102 - for their consolidated and non-consolidated (solus) accounts. UK companies that are subsidiaries also have an option to prepare solus accounts under either IFRS or FRS 102 methodologies with reduced disclosures. There are also additional accounting options available for small companies and micro entities. However, the options available to a company are subject to the requirements of the UK Company Law framework for consistency of GAAP within a group.

Intergovernmental agreements (IGAs) and cooperation

The United Kingdom has a wide range of international agreements, alongside DTTs, for the exchange of information about taxpayers. In addition, the United Kingdom seeks to take a participative role within the OECD with regard to the development of international tax principles.

Implementation of the Foreign Account Tax Compliance Act (FATCA)

The FATCA legislation was enacted by the United States (US) to reduce tax evasion by US citizens and entities. FATCA requires financial institutions outside the United States to identify and report US persons holding financial accounts with them. On 12 September 2012, the United Kingdom and the United States signed an IGA to implement FATCA in the United Kingdom (The UK-US Agreement to Improve International Tax Compliance and to Implement FATCA). The US IGA was brought into force by The International Tax Compliance (United States of America) Regulations (as amended). UK-based financial institutions must comply with FATCA requirements starting from June 2014 or may face non-compliance consequences, including penalties and withholding on US-source income.

Implementation of the Common Reporting Standard (CRS)

On 21 July 2014, the OECD released the Standard for Automatic Exchange of Financial Account Information in Tax Matters, including the Commentary on the CRS. CRS seeks to establish the automatic exchange of tax information as the new global standard. The automatic exchange of information involves the systematic and periodic transmission of extensive taxpayer information from the country in which a taxpayer's financial accounts are located to that taxpayer's country of residence.

In 2015, the EU Directive on Administrative Cooperation (DAC) incorporated the OECD CRS rules and was implemented by members of the European Union. In March 2015, the United Kingdom published The International Tax Compliance Regulations (as amended), enacting the CRS into United Kingdom law effective from 1 January 2016. Similar to FATCA, UK-based financial institutions must comply with the CRS or face non-compliance consequences, including penalties.

UK tax legislation

Announcements of proposed new legislation generally occur at least once a year. The main announcement is made on Budget Day (generally in October), when tax rates are set for the coming year. Other announcements can be made at other times and, subject to becoming approved and adopted law, can apply from a specified date. The new legislation is then included in an annual Finance Act, which is expected to be finalised in February or March. Much of the legislation introduced in recent years has been due to challenges under the EC treaty, or as a result of the tax planning being notified under the UK's tax avoidance disclosure regulations. In the year of a general election, there may be additional Budget Days and Finance Acts.

Individual - Significant developments

Last Reviewed - 28 June 2019

There continues to be a wide range of taxation reforms impacting individuals. A summary of these measures is set out below. Recent reforms have focused on residential property and real estate, pensions, income tax, domicile and residence, and anti-avoidance.

Most of the reforms to tax rules are typically announced in November/December and March each year before becoming law in the Finance Act, usually in the following July.

In a referendum on 23 June 2016, voters in the United Kingdom (UK) chose to leave the European Union (EU) (so-called ‘Brexit’). The United Kingdom invoked Article 50 of the Treaty on the Functioning of the European Union (TFEU) in March 2017, and this triggered a two year exit procedure, although this has now been delayed until 31 October 2019. The implications will depend to a substantial extent on the terms on which exit is agreed and, therefore, remain unclear at this stage. The information included below assumes, for now, the continuance of the UK’s membership in the European Union.

Non-doms

From 6 April 2017, where a non-UK domiciled individual ('non-dom') has been resident in the United Kingdom for more than 15 of the last 20 tax years, they will be deemed domiciled in the United Kingdom for all taxes. This means they will no longer be able to claim the remittance basis from this point onwards. Individuals who have previously claimed non-dom status will, therefore, pay tax on their worldwide income and gains, as well as be subject to UK inheritance tax (IHT) on their worldwide assets, in the same way as UK domiciled individuals. It also means a child who lived with non-domiciled parents in the United Kingdom can be deemed domiciled by adulthood.

Individuals born in the United Kingdom with a UK domicile of origin who have acquired a domicile of choice elsewhere, but who return to the United Kingdom (‘formerly domiciled residents’), have a two-year grace period on resuming UK residence before their worldwide assets become subject to IHT, but they will be subject to income and capital gains tax (CGT) on the arising basis for any tax year they are UK resident.

Any trusts set up by formerly domiciled residents whilst they were non-UK domiciled are now within the scope of UK IHT. In addition, formerly domiciled residents will not be able to benefit from the trust protections, asset rebasing, or cleansing relief for mixed fund bank accounts, as set out below.

Her Majesty’s Revenue and Customs (HMRC) are increasingly enquiring into a claim to be non-UK domiciled especially where the individual has been resident in the United Kingdom for many years and/or cannot demonstrate the circumstances in which they will leave the United Kingdom. The individual must be able to provide strong evidence to demonstrate their intention to leave the United Kingdom to remain non-UK domiciled.

Trust protections

The gains and non-UK source income of a protected trust will not be attributed to the non-dom settlor unless the settlor (or in some cases the spouse or minor child of the settlor) receives a distribution or benefit from the trust. A protected trust is broadly a non-UK resident trust where no property or value is added once the settlor becomes deemed domiciled. To benefit from trust protections, the individual, even though deemed domiciled, must remain non-UK domiciled under general law. If the settlor adds value/property to the trust once deemed domiciled or becomes UK domiciled under general law, all the trust income and gains will be taxed on them on the arising basis.

The rules (transfer of assets abroad), which attributed the income of both the trust and its underlying companies to the settlor where they could benefit from the trust, have been amended to introduce the concept of ‘protected foreign source income’, which arises to a protected trust as outlined above. Protected foreign source income is not attributed to the settlor; it is added to the general pool of trust income that is available to match to distributions/benefits to either the settlor or other beneficiaries.

CGT rebasing

Individuals who became deemed domiciled from 6 April 2017 under the 15/20 year test will be able to rebase their directly held foreign assets to their market value as at 5 April 2017, subject to various conditions being met.

Cleansing of overseas mixed fund bank accounts

Non-doms who are taxed on the remittance basis had a two year period until 5 April 2019 during which they could ‘tidy up’ their mixed funds held in overseas bank accounts.

This enabled them to rearrange their offshore bank accounts and separate mixed funds into their constituent parts (in respect of the elements that can be identified), and then remit from those accounts as they wish.

IHT and UK residential property owned by non-resident companies and other non-UK resident structures

Previously, non-doms, or excluded property trusts, that owned UK residential property through non-UK companies were not subject to IHT on the value of the property, as the relevant asset for IHT purposes was the non-UK situs shares.

From 6 April 2017, ‘closely’ held non-UK companies (broadly ones owned by five or fewer shareholders) or partnerships holding UK residential property have been brought within the charge to UK IHT.

Most loans provided by individuals, trusts, closely held companies, or partnerships for the acquisition, maintenance, or enhancement of UK residential property have also been brought within the charge to IHT in the hands of the lender, as well as security provided for such loans.

This means that IHT will be chargeable in a number of additional circumstances, for example, where the individual dies whilst owning such a company's shares, where such a company's shares are gifted into or out of a trust, and on the ten-year anniversary of the trust if the trustees own shares in a non-UK resident company that in turn owns a UK property.

Inheritance tax (IHT) on family homes

Measures designed to remove all or some of the value of the family home from the IHT net, where the residence is left to children or grandchildren on death, have been introduced in the form of an additional 'main residence' nil rate band (NRB), effective from April 2017. This additional NRB was initially at a maximum rate of 100,000 pound sterling (GBP) per person in 2017/18, increasing by GBP 25,000 each year to a maximum GBP 175,000 from 2020/21, at which point spouses/civil partners will each have a total NRB of GBP 500,000, when the main residence NRB is combined with the existing IHT NRB of GBP 325,000. Post 2020/21, the amount will be increased in line with the consumer price index (CPI). This additional element of the NRB starts to be reduced where the net value of the estate is over GBP 2 million and is reduced to nil for estates worth more than GBP 2.35 million.

The current NRB of GBP 325,000 is frozen until 2020/21.

Any part of the NRB, including the main residence NRB, that is not used on the death of the first spouse/civil partner can be carried forward (if a claim is made) and used on the second death, provided the second death occurs post 6 April 2017. This is the case even if the first spouse/civil partner has died prior to 6 April 2017.

The requirement to correct (RTC) and failure to correct (FTC)

The requirement to correct was designed to compel taxpayers to review their offshore interests and correct any UK tax errors by 30 September 2018. An error could include, for example, an individual who has been taxed as a non-UK domiciled individual for many years and HMRC successfully argue the individual had a domicile of choice in the United Kingdom and the remittance basis was not available so additional tax is due.

After 30 September 2018, taxpayers (including non-UK resident trustees and non-resident landlords) that have ‘failed to correct’ will be subject to a range of significant penalties in respect of any errors that come to light.

Taxpayers should review their offshore tax affairs now to ensure they are compliant, as these measures will apply even where there was no intention not to comply

Penalties

Where a taxpayer fails to correct an error within the statutory window, the new regime post September 2018 will impose the following penalties:

- A penalty of between 100% and 200% of the tax. The penalty will apply regardless of the reason for the error.
- Potential asset-based penalty of up to 10% of the value of the relevant asset where the tax at stake is over GBP 25,000 in any tax year.
- Potential 'naming and shaming' where over GBP 25,000 of tax per investigation is involved.
- A potential additional penalty of 50% of the amount of the standard penalty if HMRC could show that assets or funds had been moved to attempt to avoid the RTC.
- The RTC and FTC apply to any tax error arising from offshore financial interests; it is not limited to those who have deliberately failed to pay the right amount of tax. The regime applies to anyone who has UK tax liabilities, which would include non-UK resident trustees and non-resident landlords.

Trust register

As at 26 June 2017, the 4th anti-money laundering directive (4MLD) was enacted into UK law by the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017.

Contained within these regulations are requirements:

- for trustees to maintain accurate and up-to-date records, in writing, of all of the beneficial owners (and potential beneficial owners) of a relevant trust, and
- for HMRC to maintain a register of beneficial owners (and potential beneficial owners) of taxable relevant trusts.

This will be done using the Trust Registration Service (TRS). The first of these requirements is for internal trust record-keeping purposes, but the records can be requested by law enforcement agencies at any time and should be provided if the trustee enters into a ‘relevant transaction’ (broadly any transaction with a third party where the third party undertakes customer due diligence measures).

The regulations are widely drafted and apply to many trusts, including employment related trusts such as employee benefit trusts (EBTs). The first requirement under these regulations (to maintain records) applies to any UK express trust. The second requirement (for HMRC to maintain a register) applies to a UK express trust that has a relevant tax liability.

Both requirements also apply to any non-UK express trust that either receives income from a source in the United Kingdom on which it pays a relevant tax or has UK assets on which it is liable to pay a relevant UK tax. The application of these rules to non-UK trusts is not straightforward, and if this might apply to you it is recommended advice be taken to confirm filing requirements.

Anti-avoidance regarding trading in and developing UK land

Since 5 July 2016, gains arising on the sale of land is now much more likely to be treated as trading income than as capital gains.

Here is an abbreviated list of some of the groups that could be affected:

- Profits realised by property investors following a change of intention. For example, getting planning permission on land may mean that clients fall into trading rather than investment tax treatment on disposal in respect of part of the profit.
- Sales of shares in UK or offshore companies holding property for trading or investment may be taxed as trading income rather than capital gains where the main purpose was to realise a gain on the sale.
- Many UK tax resident companies fund the development of land with loans affiliates. Interest on these loans may now be disallowed. UK resident Joint Venture (JV) companies will often be affected.
- Overseas companies trading in or developing UK land did not always previously have taxable UK permanent establishments (PEs). These companies will now be taxed when they make disposals. Group relief will not be allowed to reduce this charge.

The sale of property or property rich shares is more likely to be treated as investment rather than trading. Where capital gains treatment does not apply indexation allowance, substantial shareholder exemption and entrepreneurs' relief will not be available.

These rules are very wide and complex. Professional advice should be sought if there is a possibility these rules could apply.

Gains on disposal of UK Property by non-UK residents

Prior to April 2019, only direct disposals of UK residential property were subject to UK tax for non-UK residents. However, from April 2019, UK tax is charged on capital gains made by non-residents on direct and certain indirect disposals of all types of UK immovable property.

The indirect disposal rules apply where a person makes a disposal of an entity in which it has at least a 25% interest (or any interest in certain collective investment vehicles) where that entity derives 75% or more of its gross asset value from UK land.

The 25% ownership test looks for situations where the person holds at the date of disposal, or has held within two years prior to disposal, a 25% or more interest in the property-rich company. This holding may be directly, or through a series of other entities, or via connected persons.

The 75% 'property richness' test will look at the gross assets of the entity being disposed of. Where a number of entities are disposed of in one arrangement, their assets will be aggregated to establish whether the 75% test is met.

There is a trading exemption, so that disposals of interests in property-rich entities where the property is used in a trade are excluded from the charge. This is likely to apply where, for example, a non-UK resident disposes of shares in a retailer that owns a significant value of shops.

All non-UK resident companies are charged to corporation tax rather than CGT on their gains. The provisions relating to annual tax on enveloped dwellings (ATED)-related CGT on UK residential property have been abolished.

Existing reliefs and exemptions available for capital gains continue to be available to non-UK residents, with modifications where necessary. Those who are exempt from capital gains for reasons other than being non-UK resident continue to be exempt (e.g. overseas pension schemes and certain charities).

Losses arising to non-UK residents under the new rules are available. However, from April 2020, the offset by companies of carried forward capital losses will be limited to 50% of the capital gains arising in a later accounting period.

There are options to calculate the gain or loss on a disposal using the original acquisition cost of the asset or using the value of the asset at commencement of the rules in April 2019.

Special rules apply to collective investment vehicles.

Termination payments

Changes have been made to the income tax treatment of termination payments, which took effect from 6 April 2018. This included making all payments in lieu of notice (PILONs) subject to income tax and employer/employee national insurance contributions (NICs). Pay that would have been received during a notice period is now subject to income tax and NICs.

In addition, employees who are UK resident in the tax year their employment is terminated will generally not be eligible for foreign service relief on their termination payment. The UK statutory residence test is used to determine whether employees are UK resident in the tax year they receive their termination payment. These changes apply to terminations of employment occurring on or after 6 April 2018.

Employer NIC will also be charged on termination payments in excess of GBP 30,000 from 6 April 2020 (this change has been delayed from 6 April 2019).

Off-payroll working in the private sector

The government has announced it will be extending the current off-payroll working rules in the public sector to the private sector, although small private sector businesses will be excluded from the reforms. The changes are due to be implemented from 6 April 2020.

The changes relate to the taxation of off-payroll workers (i.e. contractors) who fall under the 'IR35' rules. These rules apply to any contractor who works for an end-user business via an intermediary such as their own personal service company (PSC). The IR35 rules currently operate differently depending on whether the engaging business is a public or

private sector organisation, and the government has opted largely to align the rules with those currently in place for the public sector.

Under the reforms, all businesses subject to the new rules will now be required to undertake an employment status assessment in respect of any of their contractors operating through a PSC, whether they work directly with the business or via an agency. Where the result of that assessment shows that the arrangement is in substance one of employment, then pay-as-you-earn (PAYE) and NIC withholding will need to be operated. The responsibility for this rests with whichever entity is paying the PSC, be that the business itself or an agency.

Globally mobile employees

The government has announced its intention to make the terms of the UK's short-term business visitor (STBV) annual payment scheme more generous. From 6 April 2020, it will be possible to include employees with 60 or fewer UK workdays in a tax year under these arrangements, up from 30 UK workdays currently. In addition, the existing reporting and tax payment deadlines will be extended from 19 and 22 April to 31 May to align them to the well-established annual Appendix 4 'STBV reporting' that many UK employers undertake.

Changes to entrepreneurs' relief (ER)

ER applies to an individual's gain in respect of a disposal of certain assets, and provides a 10% rate of CGT on the first GBP 10 million of applicable lifetime gains, rather than the main CGT rate (normally 20%). It is often relevant to employees owning shares, as it applies, subject to meeting the qualifying conditions, to shares acquired on exercise of Enterprise Management Incentive (EMI) options as well as to shareholdings in a 'personal company' (which, in summary, before the changes, was a company in which an employee or director owned at least 5% of the share capital and votes). The changes include:

- The one year time limit prior to a disposal throughout which the relevant conditions must be satisfied has been extended to two years for disposals from 6 April 2019.
- With immediate effect from 29 October 2018, two further tests have been added to the definition of personal company, which require a 5% interest in distributable profits and net assets of the company, as well as nominal share capital and votes.

The changes affecting 5% shareholdings are not relevant to shares acquired on the exercise of EMI options, as the 5% tests do not apply, but the change of holding period from one year to two years does apply in all circumstances.

Employment status

The government is to publish a discussion paper as part of the response to a recent government commissioned review of employment practices in the modern economy, exploring the case and options for longer-term reform to make the employment status tests for both employment rights and tax clearer. The government has stated that it recognises that this is an important and complex issue, and so will work with stakeholders to ensure that any potential changes are considered carefully.

Higher rate threshold

The 40% higher rate threshold is GBP 50,001 in 2018/19.

Personal allowance

The personal allowance is GBP 12,500 in 2018/19.

Savings rate

Since 6 April 2015, the starting rate for savings income is 0% (previously 10%), and the maximum amount of savings income that can qualify for this rate is GBP 5,000.

Pensions

Since April 2016, those earning more than GBP 150,000 have a reduced annual pension contribution allowance, effectively restricting their tax relief on pension contributions. The size of the annual allowance is being gradually reduced

from GBP 40,000 to GBP 10,000 for those earning GBP 150,000 a year or more. The lifetime allowance for 2019/20 is GBP 1,055,000.

Tax avoidance and evasion

The Treasury has committed to increased spending across HMRC, allowing it to focus on tackling tax evasion, avoidance, and non-compliance. In particular, spending will allow HMRC to create specialist personal tax units to enquire into individual's domicile status and target serious non-compliance by trusts, pension schemes, and non-doms, as well as a more general extension of the customer relationship model for individuals with wealth between GBP 10 million and GBP 20 million.

Individual - Taxes on personal income

Last Reviewed - 28 June 2019

If an individual is resident and domiciled in the United Kingdom, they will be taxed on their worldwide income and capital gains.

If an individual is not UK resident, they will usually be taxed on their UK-source income, but will not generally be taxed on capital gains, other than UK residential property or carried interest, even if the asset is located in the United Kingdom. Gains in respect of UK residential property owned by non-residents are subject to UK CGT at 28%. The tax charge has been extended to all UK property disposed of by non-UK residents and also shares in 'property-rich' non-UK companies from April 2019.

In addition, where the asset is used for business purposes in the United Kingdom through a UK branch or agency, any gains are also subject to UK CGT. There are also special rules for income and capital gains tax where a person has become non-UK resident but returns to the United Kingdom within, broadly, five years.

If an individual is resident but not domiciled (and not deemed domiciled) in the United Kingdom, they can elect for the remittance basis of taxation, in which case their non-UK investment income and capital gains are only taxed if they are remitted to the United Kingdom. This is an area of the UK tax regime that has been considerably modified over the last few years and is covered in more detail below.

Personal income tax rates

Income tax is charged at graduated rates, with higher rates of income tax applying to higher bands of income. Tax is charged on total income (from all earned and investment sources) less certain deductions and allowances. The main allowance is the personal allowance, which is GBP 11,850 in 2018/19, rising to GBP 12,500 in 2019/20. Most individuals can claim a personal allowance, unless they are claiming the remittance basis (*see below*) or their income is over GBP 100,000. The net amount after allowances is usually referred to as an individual's taxable income. The graduated rates of income tax vary slightly depending on whether the income is from earnings or investments.

Income tax bands and rates are as follows:

Tax rate band	Income 2018/19 (GBP)	Income 2019/20 (GBP)
Starting rate for savings: 0% *	0 to 5,000	0 to 5,000
Basic rate: 20%	0 to 34,500	0 to 37,500
Higher rate: 40%	34,501 to 150,000	37,501 to 150,000
Additional rate: 45%	Over 150,000	Over 150,000

* The 0% starting rate is for savings income only. If non-savings income (which takes up the first ‘slice’ of income) is above this limit, then the 0% starting rate will not apply.

Note that dividends are always treated as the top slice of income and will be taxed at an individual's highest marginal tax rate (*see Dividend income in the Income determination section for rates specifically applicable to dividends*). ‘Savings income’ is the next slice down, and other income (such as earnings) will be the lowest slice. The most common form of ‘savings income’ is interest, but certain other forms of income are also included.

A dividend allowance applies to the first GBP 2,000 of an individual’s dividend income in 2019/20. The allowance operates as a 0% tax rate.

The dividend allowance does not reduce total income for tax purposes. Dividend income that is within the ‘allowance’ still counts towards an individual’s basic and higher rate limits.

The remittance basis of taxation

The rules relating to non-doms have changed from 6 April 2017, with further changes introduced from 6 April 2018 as *stated in the Significant developments section*, which contains a summary of the changes.

Domicile status is important because individuals who are domiciled outside the United Kingdom can elect to pay tax on overseas investment income, capital gains, and certain offshore earnings only to the extent that these are remitted to the United Kingdom. This is called the 'remittance basis' of taxation. Overseas income and gains not remitted to the United Kingdom will not be subject to UK tax (advice needs to be taken if overseas funds are used as collateral for loans brought to the United Kingdom or in connection with UK residential property).

UK resident individuals eligible for the remittance basis of taxation include the following:

1. Those who are UK resident but not domiciled (or deemed domiciled) in the United Kingdom, who pay (if necessary) the remittance basis charge annual payment (*see below*).
2. Non-UK domiciled individuals who have unremitted non-UK income and gains on non-UK assets that are less than GBP 2,000. The remittance basis applies automatically and no claim is required.
3. Non-UK domiciled individuals who have been UK resident for not more than six out of the preceding nine years, or are under 18 years of age, or those who have no UK sources of income and gains and do not remit any foreign income or gains. The remittance basis applies automatically.

If this election is made (category 1 above), the individual will give up any entitlement to the tax-free personal allowance (*see the Deductions section*) and CGT annual exemption (*see the Other taxes section*). In addition, an individual who wishes to claim the remittance basis of taxation but has been resident in the United Kingdom in at least seven out of the previous nine years and is over 18 years of age will have to pay an additional tax charge of GBP 30,000 each tax year to enable them to use the remittance basis of taxation. This is referred to as the remittance basis charge (RBC).

The RBC is GBP 60,000 for those non-domiciled individuals who have been resident in the United Kingdom for 12 out of the past 14 years.

Eligible individuals in categories 2 and 3 above will be taxed on the remittance basis but will not lose their allowances and will not have to pay the RBC.

There are statutory rules for determining how a transfer from a 'mixed' fund (i.e. an account comprising of a mixture of capital/foreign income/gains and/or from different tax years) is treated.

A tax charge may also arise if assets that were purchased with foreign income and gains are brought to the United Kingdom. There are specific exemptions for personal effects and assets costing less than GBP 1,000 and for assets brought into the United Kingdom for repair, for less than 275 days, or for public display.

Business investment relief is available for UK resident, non-UK domiciled individuals. It provides an opportunity for non-UK domiciled individuals to make non-taxable remittances to fund enterprise in the United Kingdom. Unlimited investment in trading and commercial property companies via shares, securities, or loans are permitted under the rules. This makes the United Kingdom a favourable place for non-doms to both start and to continue to build business interests, although restricted to a corporate environment. Care is needed before any money is remitted for this purpose, as there are strict rules to adhere to in order to be eligible for the relief.

Alternative minimum tax

There is no alternative minimum tax in the United Kingdom.

Taxation of children

Children are taxable in their own right unless their income derives from gifts from a parent, and then any amount in excess of GBP 100 is taxed on the parent. A child tax credit (CTC) (if the parents are eligible) is normally payable to the main carer and is gradually withdrawn based on a formula according to the recipient's (and their partner's) level of income. CTCs are non-taxable and are neither related to nor deducted from the claimant's income tax liability. CTCs are not 'tax credits' in the conventional sense, but social security benefits.

Local income taxes

There are no local taxes on income in the United Kingdom.

Individual - Residence

Last Reviewed - 28 June 2019

The statutory residence test (SRT) for individuals has been effective since 6 April 2013.

An individual will be resident in the United Kingdom for a tax year if they meet the 'automatic residence test' or the 'sufficient tie test'. If they meet neither test, they will be non-UK resident. The automatic residence test is met if they meet at least one of the 'automatic UK tests' and none of the 'automatic overseas tests'. Each of those tests and the underlying elements are defined to some extent, and HMRC have produced extensive guidance.

There are four 'automatic UK tests':

- Spending at least 183 days in the United Kingdom in the year. An individual will be present if they were in the United Kingdom at the end of the day unless they were only in the United Kingdom for either exceptional circumstances or they were between arrival and departure. These exceptions are subject to an additional 'deeming rule' that looks at the individual's presence in the United Kingdom, their ties to the United Kingdom, and their UK residency position in the prior three tax years. Where the deeming rule applies, any of these days in excess of 30 days will be treated as days in the United Kingdom for the 183 count.
- The individual's only home is in the United Kingdom for at least 91 days in the year.
- Working full-time in the United Kingdom for a period of 365 days, and, during that period, there are no significant breaks from UK work and all or part of that period falls within the year; where full time work is on average 35 hours or more per week over the period.
- Dying in a tax year when you were previously automatically resident for the previous three tax years and where the individual had a home in the United Kingdom.

There are four 'automatic overseas tests':

- If the individual was UK resident in one or more of the three prior tax years and they spent less than 16 days in the United Kingdom in the year in question.
- If the individual was not UK resident in any of the three prior tax years and they spent less than 46 days in the United Kingdom in the year in question.
- If the individual works full-time overseas in the year in question, they spend less than 31 days working in the United Kingdom, and they spend less than 91 days in the United Kingdom; where a UK workday is a day on which an individual works more than three hours in the United Kingdom.
- Dying in a tax year when the individual was not UK resident in any of the two prior tax years and they spent less than 46 days in the United Kingdom in the year in question.

The 'sufficient ties' test is met if the individual does not meet either the automatic UK tests or the automatic overseas test but has 'sufficient UK ties' in a year. The ties are effectively connections with the United Kingdom involving family, accommodation, work, 90-days, or if the United Kingdom is the country in which an individual spends most of their time.

If an individual has been UK resident for one or more of the preceding three tax years, they have to consider all of those ties; otherwise they can ignore the country tie. The more days an individual spends in the United Kingdom, the fewer UK ties are needed for them to pass the sufficient ties test, ranging from one tie if they spend more than 120 days in the United Kingdom to four ties if they spend fewer than 46 days in the United Kingdom.

The principle of ‘ordinary residence’ was abolished in April 2013.

Determining domicile

If an individual is domiciled outside the United Kingdom, this has a significant impact on their UK tax status. An individual’s domicile is usually the country or state in which they have their permanent home and typically follow that of their father. As an example, a person whose family came from France and continues to have ties to France is likely to be considered as domiciled in France, even if they have lived in the United Kingdom for a number of years, provided they can demonstrate to HMRC when and in what circumstances they will return to France. The individual must have strong evidence to be able to demonstrate they do not intend to reside in the United Kingdom permanently or HMRC are likely to content they have a domicile of choice in the United Kingdom.

Domicile is an area that HMRC are looking into very closely and are raising enquiries into claims for non-UK domicile status.

The United Kingdom now has the concept of deemed domiciled for all UK taxes as of 6 April 2017 once an individual has been UK resident for 15 out of the previous 20 tax years.

The taxation of UK resident but non-doms is set out in the Taxes on personal income section and under Capital gains tax in the Other taxes section.

Individual - Other taxes

Last Reviewed - 28 June 2019

National insurance contributions (NICs)

Social security payments are termed 'national insurance contributions' (NICs) in the United Kingdom. These are payable by employers, employees, and those that have their own trades (the self-employed).

The main rate of NIC applies to employees’ salaries (excluding benefits in kind) up to GBP 962 per week for 2019/20 (the 'upper earnings limit') (GBP 892 in 2018/19). No contributions are payable on the first GBP 166 per week (GBP 162 in 2018/19); thereafter, between GBP 166.01 and GBP 962 per week, contributions amount to 12%. Earnings above the upper earnings limit attract a 2% charge.

Employers pay NIC on their employees’ salary at 13.8%. Employer NIC at 13.8% also applies to benefits in kind provided to employees (such as accommodation) as well as salary.

Employers are not required to pay Class 1 secondary NIC on earnings paid up to the upper earnings limit to any employee under the age of 21. This also applies to employers of apprentices under the age of 25.

The employer (secondary) NIC threshold and the employee (primary) NIC threshold are aligned. Both employees and employers start paying NIC on weekly earnings above GBP 166.

All individuals who are self-employed pay contributions at 9% on earnings between GBP 8,632 and GBP 50,000 *per annum*. Profits above the upper limit attract a 2% contribution. Self-employed individuals also pay a flat-rate, Class 2 contribution of GBP 3 in 2019/20 (2.95 in 2018/19) per week.

Relief against income tax is not generally available for NIC.

Child benefit is a non-contributory social security benefit which is generally payable for children or qualifying young people for whom an individual is responsible. Child benefit is no longer available for wealthier families.

Capital gains tax (CGT)

There is an annual exempt amount for capital gains that are not taxable. This is GBP 12,000 for the 2019/20 tax year (GBP 11,700 in 2018/19), after which gains falling into the basic rate band up to GBP 37,500 in 2019/20 (GBP 34,500 in 2018/19) are taxable at a rate of 10%. Most gains above the higher rate threshold are taxed at a rate of 20%. The CGT exemption is lost if a non-UK domiciled individual claims to be taxed on the remittance basis.

Chargeable gains on UK residential property and carried interest are subject to CGT rates of 28% (higher rate) and 18% (basic rate). These rates apply to disposals made on or after 6 April 2016.

Chargeable gains on UK residential property and carried interest are subject to CGT rates of 28% (higher rate) and 18% (basic rate). These rates apply to disposals made on or after 6 April 2016.

Gains and losses are calculated by reference to the cost of the asset plus allowable costs of subsequent improvements (although there are special rules in the event that the asset was acquired before 31 March 1982). Deductions in computing a gain or loss will include the cost of acquisition (including the purchase price, incidental costs of purchase, and any capital enhancements) and incidental costs of disposal (including legal fees, costs of advertising, etc).

There are a number of additional CGT exemptions available, depending on the type of transaction or the nature of the asset disposed of. For example, relief may be available on the disposal of an individual's main home (i.e. their principal private residence [PPR]). It may also be possible to defer gains on gifts of certain types of assets.

In relation to shares, there are special rules for identifying shares disposed of from other shares of the same class held by the taxpayer. There are also special provisions that effectively prevent sale and short-term repurchasing of shares ('bed and breakfasting').

For trustees and personal representatives of deceased persons, the normal rate of income tax is a flat 20%/7.5% for dividends. For most trustees, however, the annual exemption is half that of individuals.

Taxation of gains on UK resident and UK domiciled individuals

An individual who is resident and domiciled in the United Kingdom will pay CGT on their worldwide taxable gains.

Taxation of gains on UK resident, non-UK domiciled individuals

The rules relating to non-domiciled individuals changed from 6 April 2017. *Please see the Significant developments section for a summary of the changes*.

Domicile status is important because individuals who are domiciled outside the United Kingdom (and not deemed domiciled) can elect for the remittance basis of taxation, which means tax is only due on overseas investment income, capital gains, and certain offshore earnings to the extent that these are remitted to the United Kingdom. Overseas income and gains not remitted to the United Kingdom are not subject to UK tax.

Gains realised on UK assets owned by an individual who is a UK resident but not domiciled in the United Kingdom will be taxable as they arise (even if the non-UK domiciled taxpayer receives the sale proceeds offshore). However, if the individual has made a claim for the remittance basis of taxation, gains on non-UK assets will only be taxable if the proceeds are remitted to the United Kingdom (*see The remittance basis of taxation in the Taxes on personal income section for more information*).

If a taxpayer claims the remittance basis of taxation, the taxpayer will give up any entitlement to the tax free capital gains annual exemption. In addition, if an individual has been resident in the United Kingdom in at least seven out of the previous nine years, the individual will have to pay GBP 30,000 a year in order to claim the remittance basis. This charge is GBP 60,000 for those non-domiciled individuals that have been resident in the United Kingdom for 12 out of the past 14 years. The choice of claiming or not claiming the remittance basis can be made annually, so that a taxpayer can calculate each year whether claiming the remittance basis will cost more or less than being taxed on the arising basis on worldwide income and gains.

Taxation of gains on non-UK resident individuals

If an individual is not resident in the United Kingdom, they will not be subject to UK tax on most gains even when the asset is situated in the United Kingdom (unless the gains arise on UK trading assets). The exception to this rule is UK residential property owned by non-residents. Since 6 April 2015, non-resident individuals and trustees who dispose of UK

residential property crystallising a capital gain are subject to UK CGT on that gain in the year of disposal. Even if no gain arises, the disposal must still be reported to the UK tax authorities.

From April 2019, gains on all UK property disposed of by non-residents and shares in property-rich, non-resident companies will all be subject to tax. The ATED CGT charge will be abolished from April 2019, when these new provisions are introduced.

General information on the taxation of gains

Where the taxpayer has invested in assets that are denominated in a foreign (i.e. not sterling) currency, care is needed over foreign exchange gains realised on the disposal of the asset. There is an exemption for gains on foreign currency acquired by the holder for personal expenditure outside the United Kingdom, but it does not extend to foreign currency held for any other purpose.

An individual who leaves the United Kingdom for a period of non-residence of less than five full tax years and who was resident in at least four of the seven tax years prior to the departure will be taxed on a disposal while non-UK resident of any assets that were acquired before ceasing to be UK resident. The assets are treated as if they were disposed of in the year of return to the United Kingdom. Care is therefore needed when individuals come to and leave the United Kingdom.

Artwork and other chattels

There are no specific rules for artwork, and the taxation of income or capital gains will be applied under general principles.

The term 'chattel' means 'tangible movable property' and includes assets such as paintings and antiques. Assets such as buildings, land, leases, or shares are not chattels. A ‘wasting’ chattel is a chattel with a predictable useful life not exceeding 50 years, such as machinery (including antique clocks and watches). Wasting chattels are not taxable when sold. A non-wasting chattel is tangible movable property that will last for more than 50 years (e.g. paintings, antiques, jewellery). If a non-wasting chattel is disposed of for GBP 6,000 or less, any capital gain is exempt from CGT. If it is disposed of for more than GBP 6,000 (or is part of a set), further rules apply to calculate the tax due.

Consumption taxes

Value-added tax (VAT)

The standard rate of VAT is 20%.

See the Other taxes section in the Corporate summary for information on VAT returns and payments.

Net wealth/worth taxes

Tax is not charged on an individual's wealth each year in the United Kingdom.

Inheritance, estate, and gift taxes

Inheritance tax (IHT) is payable on a taxpayer’s death on the value of assets (not covered by any reliefs or exemptions) that are above the available nil rate band (NRB). The NRB has been GBP 325,000 since 6 April 2009. IHT is also payable during life on certain 'chargeable lifetime transfers', the most common of which is transfers into most types of trusts. Where an individual makes a lifetime transfer that isn’t immediately chargeable, it may become chargeable if the donor dies within seven years of making the gift. This is referred to as a 'potentially exempt transfer' (PET).

Non-UK domiciled individuals are only charged to IHT on chargeable lifetime transfers of UK assets or assets situated in the United Kingdom on their death, including UK residential property, even if owned via a non-UK company. Foreign situated property owned by a non-UK domiciled individual (and non-deemed domiciled) is called 'excluded property' for IHT purposes and will not form part of the non-UK domiciled individual’s UK estate.

Once a non-UK domiciled individual has been resident in the United Kingdom for 15 out of the previous 20 years, they will become 'deemed domiciled' in the United Kingdom for all taxes and will be liable to IHT on their entire worldwide assets unless this is overridden by an applicable tax treaty.

The rules relating to non-domiciled individuals changed from 6 April 2017. *Please see the Significant developments section for a summary of the changes*.

Usually, spouses and civil partners have unlimited spouse exemption in respect of assets passing between them during lifetime and on death, so no IHT arises on such gifts. However, the spouse exemption is limited to GBP 325,000 in respect of gifts from a UK-domiciled individual to their non-UK domiciled spouse or civil partner. There is no limit in respect of assets passing from a non-UK domiciled spouse/civil partner to a UK-domiciled spouse/civil partner or where both spouses/civil partners have the same domicile.

Individuals who are domiciled outside the United Kingdom who have a UK-domiciled spouse or civil partner can elect to be treated as domiciled in the United Kingdom for the purposes of IHT.

Property taxes

Local authorities are financed partly by the imposition of council tax, which is a property-based tax levied on the occupier of a domestic dwelling at a flat rate per dwelling. Unoccupied dwellings are also taxed on the property's owner. The remainder of local authority finance comes from the imposition of the uniform business rate on business property and from central government grants.

Taxation of UK residential property

Further changes in relation to the IHT treatment of UK residential property held by non-UK structures owned by non-domiciled individuals were introduced in April 2017. *Please see the Significant developments section for a summary of the changes*.

A number of measures have been introduced in recent years to discourage the acquisition and holding of high-value residential property (property valued at over GBP 2 million) by non-natural persons (NNPs), broadly companies and other non-transparent entities.

The purchase of residential property worth more than GBP 500,000 by NNPs is liable to stamp duty land tax (SDLT) at a rate of 15%.

In addition, there is an Annual Tax on Enveloped Dwellings (ATED) and, until April 2019, an extension to the CGT regime in respect of disposals of such properties. From April 2019, the gains rules have been replaced by the new regime, which taxes non-residents on gains on direct and certain disposals of UK immovable property generally.

An NNP is defined as a company, partnerships with a corporate partner, and collective investment vehicles. The definitions of an NNP are aligned, as far as possible, so that the same definition applies in respect of the annual ATED charge, SDLT, and the historic ATED CGT extension.

Both UK resident and non-UK resident NNPs are within the scope of all aspects of these rules.

Trustees are not NNPs under any of these measures.

More recently, there have also been a number of measures to discourage the holding of residential property as an investment.

A restriction on interest relief for buy-to-let landlords who are higher and additional rate taxpayers is being phased in over the four years from April 2017. From April 2020, there will be no higher (40%) or additional rate (45%) relief for mortgage interest, and, instead, landlords will be able to make a claim to reduce their income tax liability by an amount up to 20% of the finance costs.

On the acquisition of a buy-to-let residential property or second home, the purchaser has to pay 3% more in SDLT at each price banding (*see Stamp taxes below*).

Annual tax on enveloped dwellings (ATED)

The chargeable period runs from 1 April to 31 March.

- The ATED is levied on and paid by the NNP.
- The relevant valuation date to determine whether the value is greater than GBP 500,000 is 1 April 2012, and this value forms the basis of calculating the ATED for five years from 1 April 2013.
- ATED was originally based on property values at 1 April 2012, but a new valuation was required at 1 April 2017, to be used from 2018.

- The return and payment must be submitted to HMRC by 30 April at the start of each year.
- If a property comes within the ATED part way through the year, then a return will be required within 30 days if the NNP has acquired a chargeable interest in a dwelling, or within 90 days if because of another reason, for example the completion of conversion work.
- The return requires details of the chargeable person, the address of the property, the Land Registry title, and the self-valuation of the relevant property, among other things.
- Where residential property is part of a larger mixed use property, only the value of the residential parts will be relevant for these purposes. There are also provisions to aggregate the value of connected party interests and to combine values where properties are linked.

The amount of the annual charge on properties valued above GBP 500,000 owned by NNPs is as follows:

Property value (GBP)	Annual charge (2019/20) (GBP)
500,001 to 1 million	3,650
1,000,001 to 2 million	7,400
2,000,001 to 5 million	24,800
5,000,001 to 10 million	57,900
10,000,001 to 20 million	116,100
More than 20 million	232,350

The ATED charges increases in line with CPI each year and is pro-rated where the property is not held for the whole period. However, the property value bands are not to be indexed linked. ATED is also pro-rated when a property comes in and out of one of the reliefs during the charging period.

Luxury and excise taxes

There are no luxury and excise taxes applicable to individuals in the United Kingdom.

Stamp taxes

Acquisitions of land and buildings are charged to SDLT at graduated rates of up to 12% (or 5% for non-residential or mixed property).

With respect to residential property, no stamp duty is payable on the first GBP 125,000. Then the purchaser pays 2% on the portion up to GBP 250,000, and 5% on the portion up to GBP 925,000. Between that point and GBP 1.5 million, it's 10%, then 12% on anything over GBP 1.5 million.

The SDLT rates for residential property in England and Northern Ireland are set out in the table below.

Purchase price of property (GBP)	Stamp duty (%) paid on the part of the property price within each tax band
0 to 125,000	0
125,001 to 250,000	2
250,001 to 925,000	5
925,001 to 1,500,000	10
More than 1,500,001	12

The UK government introduced various pieces of legislation to disincentivise the acquisition and holding of residential property through a company or other NNP as opposed to the individual acquiring that property directly. If a company or other NNP acquires high-value residential property, the rate of SDLT is 15%, subject to relief if the property is used commercially.

Since April 2016, on the acquisition of a buy-to-let residential property or second home, the purchaser has to pay 3% more in stamp duty at each price banding. On a home worth GBP 250,000, this increases the SDLT liability by GBP 7,500 to a total of GBP 10,000.

Land and buildings in Scotland are subject to Scottish land and building transactions tax (LBTT) in place of SDLT. Rates are graduated up to 12%, which applies to a transaction value for residential properties in excess of GBP 750,000 (or up to 16% where the additional 4% for second homes or buy-to-lets applies), and up to 5% for non-residential properties.

Land and buildings in Wales are subject to Welsh Land Transactions Tax in place of SDLT. Rates are graduated up to 12%, which applies to a transaction value for residential properties in excess of GBP 1.5 million (or up to 15% where the additional 3% for second homes or buy-to-lets applies), and up to 6% for non-residential properties.

Air passenger duty

Individuals leaving the United Kingdom by air are obligated to pay a duty, which in practice is invariably included in the cost of the air ticket. Rates of duty are based on a system of geographical banding and class of travel.

Individual - Income determination

Last Reviewed - 28 June 2019

Employment income

All employees and office holders (including directors) are taxed as employees. General earnings include all salary, bonuses, commissions, overseas allowances, housing allowances, and most other items that could be seen as deriving from the employment. There are specific rules for taxing items that are not provided in cash, such as living accommodation and cars.

Since 6 April 2017, the tax and employer NIC advantages of salary sacrifice (and cash alternative) arrangements have been removed so that the salary sacrificed is subject to (broadly) the same tax as cash income. There are exemptions, including arrangements relating to registered pension schemes, childcare vouchers, Cycle to Work, and ultra-low emission cars. Arrangements in place before 6 April 2017 were generally protected until April 2018, and arrangements for cars, accommodation, and school fees are protected until April 2021.

Overseas workday relief (OWR) / Special Mixed Fund (SMF) Rules

Provided certain conditions are met, non-domiciled employees coming to work in the United Kingdom, and who are claiming the remittance basis, are entitled to OWR for three tax years (i.e. the year of arrival and the two following tax years).

The SMF Rules provide a simplified process for identifying remittances by those claiming OWR. If the SMF Rules do not apply, then strict legislative rules need to be followed on a transaction-by-transaction basis.

To benefit from the SMF Rules, the individual must have their employment income either partially or fully paid into a 'qualifying account'. Only one qualifying account may be held at any one time. An account must be nominated in writing. A number of conditions have to be met in order for the account to be a qualifying account, including that it must be an overseas account and have a balance of no more than GBP 10 on the day that the first deposit of 'qualifying earnings' from the employment is paid into the account.

Where the conditions set out in the SMF Rules are met, then the individual does not have to apply the normal mixed fund rules to each transaction from their qualifying account to determine what has been remitted to the United Kingdom. Instead, they may treat all the remittances made from that account during the year as if they were a single remittance made at the end of the tax year.

Equity compensation

The value of shares given to a director or employee or obtained under a share option plan, as a reward for services, is, in principle, taxable to the employee/director. In practice, the tax treatment and timing of any tax charge will depend on whether shares are received under a tax favoured or non-tax favoured share plan and/or whether there are special features, such as restrictions or conversion rights, affecting the value of the shares.

Business income

If an individual carries on a trade in their own name (i.e. a sole trader), not using a company or partnership to trade through, they are said to be self-employed.

Each year a sole trader will prepare a set of accounts. In computing this accounting profit, the sole trader could have deducted expenditure that HMRC does not allow for taxation purposes. Consequently, a number of adjustments are required to arrive at the trader's taxable profit.

To calculate a trader's taxable profits, it's necessary to start with the profit per the accounts. Certain expenditure that is disallowable for tax purposes is then added back. Receipts in the accounts that are not taxable as trading income are then deducted. Finally, capital allowances must be deducted, which are HMRC's equivalent of depreciation. This gives the 'tax adjusted profit', which is acceptable to HMRC.

Taxable profit is then taxed at income tax rates in the tax year in which the accounting year ends. Specialist advice should be sought for further detail.

For more detail on allowable deductions, see Business deductions in the Deductions section.

Certain smaller unincorporated businesses (self-employed individuals and partnerships) have the option of calculating their trading profit on a simple cash receipts and payments basis, which is essentially a charge to tax on cashflow.

The option is available to eligible businesses with receipts of up to GBP 150,000, and they must leave the scheme when receipts reach GBP 300,000.

All expenses must be incurred wholly and exclusively for business purposes and exclude the costs of entertaining, the purchase of property, and investments. The measures come alongside the introduction of simplified expenses for vehicles, use of home for business purposes, and use of premises for home and business. These measures are optional, and the taxpayer can claim a proportion.

This regime has some restrictions, in particular losses can only be carried forward to set against future trade. Certain trades are excluded from the regime. Those running more than one business are only eligible if all receipts from all businesses fall below the threshold. Interest relief is limited to GBP 500. On the whole, this regime makes the administrative burden of starting a business much more straightforward; expenses are taxed on the basis of cashflow, leaving individuals free to concentrate on growing their business and not having to worry about paying tax on earnings before payment.

Capital gains

Capital gains are subject to CGT. *See Capital gains tax in the Other taxes section for more information*.

Dividend income

Currently, the rates for dividend income differ, with a 7.5% basic dividend rate, 32.5% higher dividend rate, and 38.1% additional dividend rate. These dividend rates are not applicable for income taxable on the remittance basis for non-UK domiciled individuals.

On 5 April 2016, a new dividend allowance came into force, which applies to the first GBP 5,000 of an individual's dividend income. This was reduced to GBP 2,000 from 6 April 2018. The allowance operates as a 0% tax rate inserted into the Income Tax Act 2007 (ITA 2007).

The new dividend allowance is not a tax-free allowance, like the main personal allowance, it is a nil rate band (NRB) and does not reduce total income for tax purposes. Dividend income within the 'allowance' still counts towards an individual's basic and higher rate limits.

Interest income

There is a starting rate of 0% applicable on savings income (subject to an overall income limit of GBP 5,000), and the most common form of 'savings income' is interest.

Rental income

The taxation of income arising from property will depend on the location of the property and the residence and domicile status of the individual. If the individual is UK resident and UK domiciled, property income will be taxable in the tax year it arises (in a similar way to investment income). If the individual is UK resident but not domiciled in the UK, income from overseas properties will only be taxable in the United Kingdom if the income is remitted to the United Kingdom. If the overseas property is disposed of, UK CGT will only be due if the proceeds are remitted to the United Kingdom.

A person's 'UK property business' consists of every business that generates income from land in the United Kingdom and any other transaction that an individual enters into for that purpose. An 'overseas property business' is similarly defined, but by reference to land outside the United Kingdom.

The profits (or losses) of a property business (UK and overseas) are computed on an accruals basis in the same way as those of a trade. Fundamentally, profits or losses must be computed in accordance with generally accepted accounting practice (GAAP), capital receipts and expenditure must be excluded, and, in general, expenditure is only deductible if incurred wholly and exclusively for the purposes of the business. Although property income is computed similarly to trading income, it retains its nature as investment income as opposed to earnings and does not count as relevant earnings for pension contribution purposes.

From 6 April 2017, the amount of tax relief available on mortgage interest in respect of residential let properties is being tapered down to 20% by 2020, halving the relief for higher-rate taxpayers. Since April 2016, the current 10% 'wear and tear allowance' has been be replaced with a relief based on the cost actually incurred in replacing furnishings.

Intellectual property

Royalties and other income from 'intellectual property' are chargeable to income tax. The full amount of such income arising in the tax year is chargeable less expenses incurred wholly and exclusively for the purpose of generating income.

Relevant foreign income (RFI)

RFI is a general collective term for income that arises from various sources outside the United Kingdom (e.g. profits from a foreign property business, foreign dividends, and foreign interest, but does not include relevant foreign earnings).

The most common types of RFI, which arise from a source outside the United Kingdom, include:

- Trade profits (the profits of a trade, profession, or vocation carried on wholly outside the United Kingdom).
- Profits of a property business where the property is overseas.
- Interest, such as interest paid on a foreign bank account.
- Dividends from non-UK resident companies, excluding dividends of a capital nature.
- Purchased life annuity payments (i.e. annuity payments made under a foreign purchased life annuity); tax is charged on the full amount of payments.
- Profits from deeply discounted securities.
- Proceeds from the sale of foreign dividend coupons.
- Royalties and other income from intellectual property.
- Profits from a business that involves films or sound recordings; classed as a 'non-trade business'.

Any taxpayer who wishes to claim the remittance basis of taxation should ensure they segregate the various sources of funds to ensure they can clearly demonstrate the derivation of any funds brought into the United Kingdom. Advice should be taken on how to set up bank accounts prior to UK residence commencing. Assets purchased with overseas income and gains may give rise to a tax charge if the assets are brought to the United Kingdom, subject to various exceptions (*see The remittance basis of taxation in the Taxes on personal income section for more information*).

Non-resident investment income

Tax on UK investment income received by someone not resident in the United Kingdom is often reduced or eliminated by a tax treaty. Even where no treaty relief is available, the UK tax liability of a non-resident on certain 'excluded income' cannot exceed the tax (if any) withheld or deducted at source or treated as deducted at source. 'Excluded income' includes dividends from UK companies, interest income, and certain social security benefits.

Exempt income

Very little income is exempt from UK tax; however, some examples of exempt income include:

- the first GBP 1,000 of interest from savings
- lottery and betting winnings
- gifts
- income from individual savings accounts (ISAs), and
- the first GBP 30,000 of some redundancy payments.

Individual savings accounts (ISAs)

The overall annual subscription limit is GBP 20,000 for the 2019/20 tax year. The full amount is permitted to be held in cash, stock and shares, or any combination of the two. The Junior ISA limit is GBP 4,368.

Individual - Deductions

Last Reviewed - 28 June 2019

Employment expenses

Necessary business expenses (which are very narrowly defined) can be deducted from employment income and are not taxable if paid for or reimbursed by the employer. Travel to and from work is regarded as a private rather than a business expense and is not deductible. However, individuals assigned away from their permanent places of work for periods of up to 24 months may claim relief for the travel and subsistence costs associated with attendance at the temporary workplace. Reimbursement for business entertainment and for qualifying removal and relocation expenses of up to GBP 8,000 are not normally taxable, provided certain conditions are met.

Personal deductions

Charitable contributions

Basic rate tax relief is available for gifts to UK/EU charities under approved payroll deduction schemes and by way of outright money gifts and charitable payments made under deeds of covenant or under the gift aid scheme. Higher-rate taxpayers can again claim higher rate tax relief through their tax returns under the UK self-assessment regime.

The IHT rate applied to death estates where the deceased leaves 10% or more of their estate to charity is reduced to 36% (normally 40%).

There is also a tax relief to encourage gifts of ‘pre-eminent works of art’ to the nation. The rules grant up to 30% relief on income tax or CGT to donors who give away major works of art or historical objects to the nation. The total value of tax reductions in this scheme, combined with the existing ‘acceptance-in-lieu’ scheme, which allows IHT to be paid using works of art, is GBP 30 million a year.

Expenses that do not qualify for tax relief

No tax relief against income is available for the following:

- Alimony.
- Medical expenses.
- Social security contributions.
- Council tax.
- Other UK taxes.
- Most insurance premiums.

- Mortgage interest payments (some relief for commercially let properties).
- Fines and penalties (except for fines, such as parking penalties, incurred in the course of a trade).
- Contingent liabilities.

Planning for retirement

Any UK resident individual who is under 75 can participate in a registered pension scheme.

There is no limit to how much individuals and employers can contribute to pension schemes. However, the annual allowance imposes a limit on the level of contributions that may be made tax efficiently.

Employers' contributions do not create a taxable benefit in kind on employees (*but see the description of the annual allowance below*), and individuals can get tax relief on their own contributions to pension schemes up to their full level of UK taxable employment earnings (including self-employment earnings), although a claw back will operate to the extent that the annual allowance is exceeded.

There are two different methods of giving tax relief for employee contributions. For most schemes run by employers for their employees, the employer deducts the employee's contribution from gross pay, at source, before calculating the withholding tax (WHT) on wages under PAYE. In respect of all personal pension schemes, the individual's contribution is paid from after-tax earnings and, if the individual pays UK income tax, is paid to the scheme administrator after the deduction of basic rate UK income tax of 20%. The scheme administrator claims back this basic rate tax (i.e. claims 20 for every 80 paid in by the individual) and pays this into the pension scheme. If the individual is a higher-rate or additional rate taxpayer, the extra tax-relief between higher/additional rate tax and the basic rate tax already reclaimed by the scheme administrator can be claimed by the individual through one's self-assessment tax return after the end of the tax year. The amount of tax relief due is identical whichever method is used.

Tax relief at the basic rate is given at source. Higher and additional rate taxpayers can claim further relief through their tax returns under the UK self-assessment regime.

In addition to the consideration of the extent of any employment income, contribution tax relief is also restricted by the annual allowance, which is currently GBP 40,000 annually. Since April 2016, those earning more than GBP 150,000 have a reduced annual pension contribution allowance, effectively restricting their tax relief on pension contributions. The size of the annual allowance is being gradually reduced from GBP 40,000 to GBP 10,000 for those earning GBP 150,000 a year or more.

It is also possible to carry forward unused annual allowance from the previous three tax years (where individuals were members of a pension scheme in those earlier years). Limits are also imposed for contributions made to, and the increasing value of, final salary schemes. Individuals who exceed the annual allowance may face an annual allowance tax charge. Where this charge is over GBP 2,000, they will in most cases be able to elect for their pension scheme to pay their charge in return for an actuarial reduction to their benefits within the scheme.

There is also a lifetime allowance of GBP 1 million, which was increased to GBP 1,030,000 from April 2018. The lifetime allowance governs the amount of pension savings that can be accumulated by an individual tax efficiently in their lifetime. Any excess will be subject to a lifetime allowance tax charge. For 2019/20, the lifetime allowance will be GBP 1,055,000.

Defined contribution (DC) pensions (e.g. personal pensions)

Since April 2015, new rules in relation to DC pension schemes have been in force. The new rules affect those over 55 who have a DC pension scheme, such as a personal pension. A DC scheme is one in which the pension you receive depends on the amount of money you, and/or your employer, have saved in the scheme.

Since April 2015, from the age of 55, whatever the size of a person's DC pension pot, they can take it as they wish, subject to their marginal rate of income tax in that year.

The first 25% of any money withdrawn from the pot, up to the lifetime allowance, is tax-free, and the rest is taxed as the top slice of income in the tax year of withdrawal.

Everyone with a DC pension is eligible for free and impartial guidance on the range of options available to them at retirement.

Pensions: Death before 75

If the individual dies before they reach the age of 75, they will be able to give their remaining DC pension to anyone completely tax free. However, any funds that had not previously been tested against the deceased's lifetime allowance will usually be subject to a lifetime allowance test, and excess funds may be subject to a lifetime allowance charge.

The person receiving the pension will pay no tax on the money withdrawn from that pension, whether it is taken as a simple lump sum, or accessed through drawdown.

Pensions: Death after age 75

Anyone who dies with a drawdown arrangement or with uncrystallised pension funds at or over the age of 75 is able to nominate a beneficiary to pass their pension to.

The nominated beneficiary is able to access the pension funds flexibly, at any age, and pay tax at their marginal rate of income tax.

There are no restrictions on how much of the pension fund the beneficiary can withdraw at any one time. If the fund pays out a lump-sum benefit on death and the deceased was over age 75, then the lump sum will be subject to tax. If paid to a beneficiary who is not a natural person (e.g. payment is made to a trust or to a company), the lump-sum payment will be subject to a tax charge of 45%. If paid to an natural person, the lump sum will be taxed at the individual's marginal rate of income tax.

Foreign pensions

At 5 April 2017, the tax treatment of foreign pensions was aligned, bringing foreign pensions and lump sums fully into tax for UK residents, in the same way UK pensions are taxed. This means that from 6 April 2017, 100% of foreign pension income is to be subject to UK income tax, abolishing the ‘90% rule’ (or 10% deduction). A number of other changes to specialist foreign pensions and situations have also come into force.

Personal allowances

Most UK resident individuals under the age of 65 are entitled to a tax free personal allowance, which is GBP 12,500 for 2019/20, and will increase each year in line with the Consumer Price Index. The basic personal allowance is subject to limits based on income levels. Where an individual’s gross income exceeds GBP 100,000, the amount of the personal allowance will be reduced by GBP 1 for every GBP 2 earned above adjusted net income of GBP 100,000. Adjusted net income is total income less certain deductions, such as trading losses, pension contributions, and gift aid, but before deduction for contributions to trade unions or police organisations.

Married couples and those in civil partnerships are entitled to a married couple’s allowance where either member of the couple was born before 6 April 1935. The allowance is GBP 8,915 in 2019/20, but relief is limited to 10% of the allowance and is therefore of limited benefit. The couple may elect to divide the married couple’s allowance between them equally or to allocate it wholly to either one.

Individuals who claim the remittance basis of taxation do not qualify for a personal allowance (*see The remittance basis of taxation in the Taxes on personal income section for more information*).

Marriage allowance

Since April 2015, an individual who is not liable to income tax or not liable above the basic rate for a tax year is entitled to transfer GBP 1,250 in 2019/20 (i.e. 10%) of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is also not a higher rate income taxpayer.

Business deductions

A wider range of expenses can be claimed by self-employed individuals as long as they are 'wholly and exclusively for the purposes of the trade'. Expenses incurred when entertaining clients or potential clients are not tax deductible. Capital items will not get an immediate deduction in the year they are purchased, but certain items may qualify for deductions spread over a number of years under the capital allowances regime. Depreciation recorded in the accounts is not tax deductible. Bad debts incurred in the course of business are allowable for tax purposes. Loans to employees that have been written off are specifically not allowable.

The accruals and prepayment basis of calculating expenses for accounting purposes (i.e. preparation of the business profit and loss account) is generally accepted for tax purposes. Exceptions include accrued emoluments to employees, which must be paid within nine months of the year end. In addition, pension contributions are only tax deductible on a paid basis. The rules for accounting for contingent liabilities and provisions have been tightened up by Financial Reporting Standard 12. Consequently, a tax deduction is only allowable for provision for which there is a present obligation as a result of a past event which will probably be incurred in the future and can be reliably estimated. Specifically, this means that a tax deduction for future repairs is not permitted except where an asset is held under an operating lease. A tax deduction cannot be taken for future operating losses, and future restructuring costs are only permitted where at the balance sheet date the business has a detailed formal plan for the restructuring and expectations have been raised that changes will take place (e.g. by informing all employees).

Losses

Losses may be sustained by individuals carrying on a trade, profession, or vocation. These trading losses are generally computed according to the same rules that apply in computing taxable profits. The main ways of obtaining relief for trading losses are by setting losses off against general income of the same tax year (subject to various conditions being met) or preceding year or by carrying the losses forward against subsequent profits of the same trade. There are also special rules for using losses in the first and last years of a business and against capital gains. Relief can also be claimed against income for losses on shares in unlisted trading companies.

Cap on income tax reliefs

Income tax reliefs not subject to a specific restriction are capped. The cap is GBP 50,000 or 25% of an individual's income, whichever is greater.

Charitable donations are excluded from the cap to make sure that there is no impact on charities.

The reliefs affected by the cap include income loss reliefs that can be claimed sideways against general income, and qualifying loan interest relief.

The cap is (i) not extended to those reliefs that are already subject to their own cap and (ii) only applied to those reliefs that are used to reduce the amount of general income liable to tax. Reliefs that do not meet both these criteria are not affected by the cap.

The legislation states that share loss relief on enterprise investment scheme (EIS) shares and seed EIS shares is not capped.

Buy-to-let mortgages are subject to specific restrictions under which relief for the costs of financing residential properties is being phased out. By 2020, landlords will be able to make a claim to reduce their income tax liability by an amount up to 20% of the finance costs.

Impact

- Losses on unincorporated property development businesses that have previously been available to offset against other income are subject to the cap. These changes may mean incorporating the business is an attractive prospect although there may be other reasons not to do so.
- Pension contributions are already capped and so are not affected by this measure.

Transactions with related parties

Transactions between connected persons, or made not at arm's length, are generally regarded as made for a consideration equal to open market value (subject to special treatment for transfers between spouses or civil partners living together). Where an asset is disposed of to a connected person (other than the individual's spouse or civil partner) and a capital loss arises, the loss may not be set against general gains but only against a later gain on a transaction with the same connected person. There are specific rules for disposals on different occasions within a period of six years to one or more connected persons.

Individual - Foreign tax relief and tax treaties

Last Reviewed - 28 June 2019

Foreign tax relief

UK residents are usually able to claim a credit for foreign taxes suffered on overseas income or gains that are taxable in the United Kingdom. This is either under an applicable tax treaty or UK unilateral relief. In some circumstances, the taxpayer can elect for the foreign tax to be deducted from the taxable amount in the United Kingdom as an alternative to having a credit for the foreign tax suffered.

The rules relating to non-doms changed from 6 April 2017. *Please see the Significant developments section for a summary of the changes*.

Currently, non-UK domiciled taxpayers who claim the remittance basis of taxation but who have been resident in the United Kingdom in at least seven out of the previous nine tax years have to pay GBP 30,000 per tax year in order to claim the remittance basis. The remittance basis charge increases to GBP 60,000 for non-domiciled individuals who have been in the United Kingdom for at least 12 of the previous 14 tax years.

The remittance basis is not available once the individual has been UK resident for 15 years.

The remittance basis charge is in addition to the tax liability arising on the income and gains remitted to the United Kingdom. As the GBP 30,000/60,000 is a tax (on either income or capital depending on the funds nominated), it should be accepted as income tax or CGT by other jurisdictions for the purposes of tax treaties. In respect of United States (US) citizens, the US Internal Revenue Service (IRS) has confirmed that the remittance basis charge is a creditable foreign tax.

Nominating income or gains in relation to the GBP 30,000/60,000 remittance basis charge is a complex specialist area, and further advice should be sought where necessary.

UK/Swiss agreement

HMRC has an agreement with the Swiss tax authorities. The agreement allows close co-operation between the United Kingdom and Switzerland, and there is a significant exchange of information between the two countries. The agreement provides a historic levy on Swiss funds held by UK resident individuals of up to 34% of the balance in an account as of 31 December 2010 or 31 December 2012. UK residents with Swiss accounts may also be subject to WHT of up to 48% on their accounts. With respect to inheritance tax, Swiss paying agents are obligated to withhold 40% tax or make a disclosure when a relevant person dies, along with other measures.

All UK residents with Swiss bank accounts (both UK domiciled and non-UK domiciled) should obtain professional advice.

Tax treaties

The United Kingdom has one of the largest networks of tax treaties, with more than 100 countries. These conventions aim to eliminate double taxation of income or gains arising in one territory and paid to residents of another territory. They work by dividing the tax rights each country claims by its domestic laws over the same income and gains. Most treaties are based on the Organisation for Economic Co-operation and Development (OECD) Model Taxation Convention.

The OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) (the 'Multilateral Instrument' or 'MLI') entered into force in the United Kingdom on 1 October 2018 and will have a fundamental impact on how taxpayers access double tax treaties (DTTs) to which it applies. It began to apply (e.g. in relation to WHT) from 1 January 2019 to the UK’s DTTs with those territories that have also ratified before 1 October 2018, where those are covered tax agreements. The precise dates on which the MLI will begin to have effect for other purposes, or in relation to other DTTs, will depend upon when other treaty partners submit their instruments of ratification with the OECD and what options and reservations they have submitted.

Tax information exchange agreements (TIEAs)

TIEAs have been entered into to promote international co-operation in tax matters through exchange of information.

The United Kingdom has entered into reciprocal agreements relating to the EU Directive on taxation of savings income in the form of interest payments with a number of countries. The United Kingdom has also entered into a number of non-

reciprocal agreements relating to the EU Directive on taxation of savings income in the form of interest payments.

The United Kingdom has made a number of bilateral agreements for cooperation in tax matters through exchange of information.

Social security agreements

The United Kingdom has treaties with many countries with regard to social security. Individuals coming from countries with which the United Kingdom does not have a reciprocal arrangement may alternatively qualify for a 52-week exemption from UK social security if assigned to the United Kingdom by an overseas employer.

Individual - Other tax credits and incentives

Last Reviewed - 28 June 2019

Investing in business

There are four commonly utilised reliefs.

Entrepreneurs' relief (ER)

ER may be available in respect of disposals of businesses, certain business assets, and shares held by employees or directors holding more than 5% of the company. The relief can also be claimed by individuals and trustees of certain types of settlements. The relief has a lifetime allowance, which is GBP 10 million. Eligible gains up to the lifetime allowance will be taxed at a 10% CGT rate.

Investors' relief (IR)

IR allows investors to enjoy a lower rate of tax of 10% on lifetime gains of up to GBP 10 million on investments into shares in non-listed trading companies, which are issued after 16 March 2016 and held for at least three years before a disposal. This relief is in addition to ER. Although IR has some similarities to ER, the relief is restricted to external investors only and is more akin to EIS relief discussed below, although with fewer restrictions over the type of company that can qualify and how investments are structured.

Enterprise investment scheme (EIS)

Investments in companies that qualify under the EIS can benefit from income tax, CGT, and IHT reliefs.

EIS income tax relief

Investments of up to GBP 1 million into a qualifying EIS company will get 30% income tax relief, provided that the investor or any of their associates are not 'connected' with the company. This broadly means the investor and one's family cannot hold more than 30% of the shares or be an employee of the company.

EIS disposal relief

If the investment qualified for income tax relief and this has not been withdrawn, then provided the shares are held for three years there is no CGT due on the gain on the EIS shares.

EIS reinvestment relief

Gains on the disposal of any asset can be deferred if the proceeds of the sale of the asset are reinvested into qualifying EIS shares. To qualify for EIS reinvestment relief, the individual must be UK resident but can be connected with the company (unlike the position with EIS income tax relief where broadly they cannot). The deferred gain comes back into charge in a number of situations, including if the individual becomes non-UK resident or if the EIS shares are sold or cease to qualify as EIS shares.

Inheritance tax (IHT) business property relief (BPR)

EIS shares that have been held for two years may qualify for complete IHT relief under the BPR provisions, subject to all the conditions being met.

Venture capital trusts (VCTs)

VCTs are listed vehicles that, in essence, invest in a number of underlying EIS type companies (thus investors sometime choose VCTs over EIS companies as a way of diversifying their portfolio). Income tax relief is again given at 30% of the investment made, and gains made on the investment are tax free. In addition, dividends from ordinary shares in VCTs are income tax free.

EIS and VCT investments are subject to a 'disqualifying purpose' test, which is designed to exclude companies set up for the purpose of accessing the tax reliefs.

Specifically, there is an exclusion on the use of VCT and EIS funds for the acquisition of shares in another company. This exclusion is designed to help achieve continuing EU state aid approval, which prohibits state aid from funding buyouts.

There is a cap on income tax reliefs that are not already subject to a specific cap (such as pension contributions and EIS). The reliefs are limited to GBP 50,000 or 25% of an individual's income, whichever is higher.

In addition, many of the reliefs, such as those available to obtain relief on monies borrowed to invest in a business, may limit economic growth and investment. *See above for more information*.

Individual - Tax administration

Last Reviewed - 28 June 2019

Taxable period

The tax year commences on 6 April and ends on the following 5 April in the United Kingdom.

Tax returns

The United Kingdom has a self-assessment (SA) tax system. As part of this system, the majority of UK taxpayers settle their tax liability entirely through tax withheld at source on earnings and savings and do not need to make any further declarations. However, around a third of taxpayers need to complete a tax return, which will be issued by HMRC each year. Married couples and those in civil partnerships are independently taxed and responsible for their own affairs, and each files his or her own return.

Tax returns must be filed, and all outstanding tax paid, by 31 January following the end of the tax year. This filing deadline is brought forward to the 31 October after the end of the tax year for individuals who would like HMRC to calculate their tax due for them (although the tax is still due on 31 January). The UK SA system is moving towards being fully online, and paper returns are now only accepted in limited circumstances.

HMRC have recently issued a consultation document on the simplification of the personal tax system, with ideas such as online tax accounts and pre-filled returns.

Payment of tax

Income tax is normally withheld at source from salaries under the PAYE system. Savings income from most other UK sources is received after basic rate tax has been deducted. Under the self-assessment regime, any tax not collected through withholding is paid by payments on account and the final balancing payment due on 31 January after the end of the tax year. All CGT is due by 31 January following the year the gain arose.

Individuals who do not pay at least 80% of their tax liability at source are required to make tax payments on account for the year, based on the level of income in the previous tax year. Payments on account are due in two instalments, on 31 January during the tax year and on 31 July following the tax year. Any outstanding tax due is payable by the filing deadline of 31 January after the end of the tax year.

Employers are required to notify HMRC of total pay, benefits, and expenses paid or reimbursed, and the employee then makes a claim for allowable business expenses.

Penalties

Automatic penalties are charged where returns are filed late, and interest is chargeable where tax is paid late. There is a penalty regime specifically intended to reduce the UK tax lost through offshore transactions and structures. The highest penalty is up to 200% of the undeclared tax.

Tax audit process

HMRC is able to enquire into an individual's tax return and anything (including any claim or election) contained in it. The Inspector must give notice that shows intention to enquire into a tax return within 12 months of the return being filed (as long as the return has not been filed late). If the return has been delivered to HMRC after the filing date, an enquiry must be made by the ‘quarter day’ next following the first anniversary of the delivery date. 'Quarter days' are 31 January, 30 April, 31 July, and 31 October.

Where HMRC considers tax to have been lost by a taxpayer's fraudulent or negligent conduct, it will seek to recover that tax and, in such cases, the normal time limits for enquiries are extended (*see Statute of limitations below for more information on normal time limits*).

Statute of limitations

The normal time limit for making assessments is four years following the end of the tax year. This is termed a 'discovery' assessment. The time limit for making an assessment on a person in a case involving a loss of income tax brought about 'carelessly' by that person is six years following the end of the tax year. This is the position unless it is in respect of an 'offshore matter' or an 'offshore transfer', under which HMRC will have at least 12 years to enquire. The time limit for making an assessment on a person in a case involving a loss of income tax brought about deliberately by that person is 20 years following the end of the tax year.

Topics of focus by the UK tax authorities

The UK tax authorities have a 'spotlight' system that highlights the characteristics of tax planning that they ask taxpayers to be wary of and warn that they are likely to look into if implemented. Some of the characteristics include:

- artificial or contrived arrangements are involved
- it seems very complex given what you want to do
- there are guaranteed returns with apparently no risk
- there are secrecy or confidentiality agreements
- taxation of income is delayed or tax deductions accelerated
- offshore companies or trusts are involved for no sound commercial reason
- a tax haven or banking secrecy country is involved without any sound commercial reason
- tax exempt entities, such as pension funds, are involved inappropriately
- it involves money going in a circle back to where it started, and
- the scheme promoter lends the funding needed.

In addition, the tax authorities have identified specific tax planning schemes that are likely to be challenged.

Anti-avoidance

The United Kingdom has a large number of targeted anti-avoidance rules, such as those dealing with 'disguised remuneration', 'personal service companies', and 'enveloped dwellings'. It has also introduced a general anti-abuse rule (GAAR).

General anti-abuse rule (GAAR)

The government published legislation in respect to the GAAR in the 2013 Finance Act.

It applies to income tax, corporation tax, CGT, petroleum revenue tax, IHT, SDLT, and ATED, but not VAT. The GAAR applies to arrangements entered into on or after 17 July 2013. The GAAR was also extended to cover NIC as of 13 March 2014, Diverted Profits Tax (DPT) from 1 April 2015, and the apprenticeship levy with effect from 15 September 2016.

The government has stressed that the GAAR is only intended to apply to abusive tax avoidance arrangements. The indicators of abuse do not specifically include arrangements that contain non-arm's-length terms (as this was considered impractical for many *bona fide* transactions that were not centred around avoiding tax). However, the legislation is broadly

drafted and includes the subjective ‘double reasonableness test’, under which arrangements are regarded as abusive if carrying them out “cannot reasonably be regarded as a reasonable course of action in relation to the relevant tax provisions".

Another addition is an indicator that arrangements might not be regarded as abusive if they accord with established practice at the time they were entered into; HMRC is aware of that practice and has not challenged it. It isn't immediately clear how taxpayers will demonstrate this in practice, but this will develop.

Disclosure of Tax Avoidance Schemes (DOTAS)

The DOTAS regime is designed to tackle attempts to avoid tax and introduced the concept of 'notifiable arrangements'. The term 'arrangements' is widely defined and includes any scheme, transaction, or series of transactions. Promoters and users of schemes that, in summary, contain defined 'hallmarks' of tax avoidance and provide a tax advantage are required to notify HMRC of the arrangement.

Accelerated tax payment

There is legislation to extend accelerated payment of tax to users of arrangements disclosed under the DOTAS rules, and to taxpayers involved in planning held to contravene the GAAR, so that the tax amount in dispute is held by HMRC until the dispute is resolved. Legislation also requires taxpayers who have used arrangements that are defeated in another party's litigation to pay the disputed amount to HMRC on demand.

Personal tax offshore anti-avoidance legislation

The United Kingdom has anti-avoidance rules that are broadly designed to attribute the income of a 'person' abroad (e.g. a non-UK company or trust) to either an individual who transferred the funds to the person abroad and has the power to enjoy the income of the overseas person (e.g. they hold shares) or an individual who received a benefit from the person abroad. These rules are referred to as the 'Transfer of Assets Abroad'.

The requirement to correct (RTC) and failure to correct (FTC)

The requirement to correct was designed to compel taxpayers to review their offshore interests and correct any UK tax errors by 30 September 2018.

After 30 September 2018, taxpayers (including non-UK resident trustees and non-resident landlords) that have ‘failed to correct’ will be subject to a range of significant penalties.

See the Significant developments section for more details on RTC.

Individual - Sample personal income tax calculation

Last Reviewed - 28 June 2019

Tax computation for 2019/20 for a single individual (employee).

Tax computation	GBP	GBP
Earned income:		
Salary	160,000	
Benefits	15,000	
Total earned income		175,000
Less - Personal deductions		

Tax computation	GBP	GBP
Personal allowance (where available) *	12,500	
Less: Phase out where income exceeds GBP 100,000	(12,500)	0
Taxable net income		175,000
Tax due:		
GBP 0 to 37,500 @ 20%	7,500	
GBP 37,501 to 150,000 @ 40%	45,000	
Over GBP 150,000 @ 45%	11,250	
Total tax due		63,750

* The personal allowance is not available to any taxpayer claiming the remittance basis.

Individual - Other issues

Last Reviewed - 28 June 2019

Business entities

The principal forms of doing business in the United Kingdom are as follows:

Unincorporated businesses

'Sole traders' are self-employed individuals who are carrying on a trade. Whether a person is trading in comparison to making investments is not set out in the legislation and is the subject of considerable case law in the United Kingdom. There are 'badges of trade' that provide guidance to determine whether they should be taxed as running a trading business or simply making investments. As noted in the section on income tax, a sole trader is charged to income tax on their chargeable trading income along with their other sources of income.

Partnerships

A partnership exists if more than one person is carrying on a business with a view to making a profit. There is, however, no statutory definition of a partnership, and HMRC will look at the substance of the arrangement rather than the legal form. For tax purposes, a partnership is transparent and not an entity that is separate and distinct from the partners (*but see limited liability partner below*). Taxable profits are computed for the partnership and then allocated to the individual partners in accordance with the profit sharing ratio.

There are a number of different types of partner. Common examples are (i) full partner: also referred to as an 'equity partner' where the individual shares fully in the profits and losses of the partnership and takes an active role in running the partnership; (ii) salaried partner: a person who is held out to be a partner but is actually on a fixed salary rather than having the advantage/risk of a share in all the profits and losses; (iii) sleeping partner: a partner who takes no active role in the partnership but shares in the profits/losses; (iv) limited liability partner: a type of partner introduced in 2000 where the partnership itself is a separate legal entity and the partner's exposure to losses is limited.

Companies

A company is a separate legal entity from the people who control it or work for it. A business run by an individual or partners (above) can be incorporated into a company at any time, and a completely different tax regime will apply (*see the Corporate summary for more information*).

Treatment of trusts

Trusts under English law have evolved over several centuries. They can be divided into 'express' trusts, which are expressly created by deed or will, and 'implied' trusts, which are imposed by law or equity. Express trusts are used by individuals for a wide range of purposes, including the control of the use and destination of property, provision for those incapable of holding property for themselves, provision of benefits to employees, and charitable and educational trusts. The tax treatment of trusts has undergone significant changes, and there remain few tax reasons to transferring property into trust for UK resident and domiciled individuals. They, however, continue to be used by UK resident individuals as a means to provide for children/grandchildren whilst retaining an element of control over the assets.

UK legislation provides a favourable regime for non-UK domiciled individuals setting up non-UK trusts with their overseas assets in that tax is broadly only due when payments/benefits are received from the trust. Capital payments, including benefits from non-UK resident trusts, are broadly matched to trust income and gains if the beneficiary is UK resident. The rules in connection with non-UK domiciled individuals and trusts were changed from 6 April 2017. The rules are very complex and specialist advice should be sought in this area.

Work permits

Unless an individual is a national of the European Economic Area (EEA) (excluding Bulgaria and Romania), they may require immigration permission before they can begin an assignment in the United Kingdom. The United Kingdom system contains five ‘tiers’ under which overseas nationals may obtain immigration permission to come to work in the United Kingdom. The most common category for assignees is Tier 2.

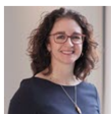
Under Tier 2, a sponsoring company in possession of a sponsorship licence will issue a ‘certificate of sponsorship’ to an assignee, and the assignee will then apply for entry clearance (a visa) to come to the United Kingdom to work for that company. In order to qualify under Tier 2 (intra-company transfer), which will mean that the UK company will not be required to show that it has searched for a suitably qualified worker for the role that the company wishes the assignee to undertake in the United Kingdom, the assignee must already have been working for the company for 12 months in another location. Entry clearance must be obtained before the commencement of one’s assignment from a British Embassy/Consulate in the assignee's country of residence. An individual will be refused entry to the United Kingdom if they do not have the appropriate documentation before travelling.

In recent years there have been major changes to the UK immigration system, including the imposition of certain restrictions to the Tier 2 (intra-company transfer) category and a quota on the Tier 2 (general) category, the category for individuals who have not worked for the company previously overseas or who have worked for it outside the United Kingdom for less than 12 months.

Expatriate issues

Complex statutory rules come into play whenever a mixed fund (i.e. an account containing more than one type of income or gains and/or in respect of more than one tax year) is used. Before becoming UK resident, an individual should consider establishing separate bank accounts outside the United Kingdom to segregate existing pre-assignment capital. In addition, an individual might establish different bank accounts for offshore investment income and earnings that arise after the individual has become UK resident, as this will help to identify the source of funds remitted to the United Kingdom and will help to minimise UK tax liability. As the mixed fund law is extremely complex, we recommend that specialist advice be sought in this area as early as possible.

United Kingdom contacts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