

Taxation and Investment in United Kingdom 2015

Reach, relevance and reliability



Contents

1.0 Investment climate

- 1.1 Business environment
- 1.2 Currency
- 1.3 Banking and financing
- 1.4 Foreign investment
- 1.5 Tax incentives
- 1.6 Exchange controls

2.0 Setting up a business

- 2.1 Principal forms of business entity
- 2.2 Regulation of business
- 2.3 Accounting, filing and auditing requirements

3.0 Business taxation

- 3.1 Overview
- 3.2 Residence
- 3.3 Taxable income and rates
- 3.4 Capital gains taxation
- 3.5 Double taxation relief
- 3.6 Anti-avoidance rules
- 3.7 Administration
- 3.8 Other taxes on business

4.0 Withholding taxes

- 4.1 Dividends
- 4.2 Interest
- 4.3 Royalties
- 4.4 Branch remittance tax
- 4.5 Wage tax/social security contributions

5.0 Indirect taxes

- 5.1 Value added tax
- 5.2 Capital tax
- 5.3 Real estate tax
- 5.4 Transfer tax
- 5.5 Stamp duty
- 5.6 Customs and excise duties
- 5.7 Environmental taxes
- 5.8 Other taxes

6.0 Taxes on individuals

- 6.1 Residence
- 6.2 Taxable income and rates
- 6.3 Inheritance and gift tax
- 6.4 Net wealth tax
- 6.5 Real property tax
- 6.6 Social security contributions
- 6.7 Other taxes
- 6.8 Compliance

7.0 Deloitte International Tax Source

8.0 Office locations

1.0 Investment climate

1.1 Business environment

The UK consists of Great Britain (England, Wales and Scotland) and Northern Ireland. It is a constitutional monarchy and parliamentary democracy. The monarch is head of state. Executive power lies with Her Majesty's government. The UK legislature, Parliament, has two chambers, an elected House of Commons and a non-elected House of Lords. The prime minister (who heads and in practice appoints the government) usually is the leader of the political party holding the most seats in the House of Commons. The UK is a centralized state and not a federation. However, many legislative and spending powers are devolved to the Scottish Parliament, the Welsh Assembly and the Northern Ireland Assembly.

The result of a referendum held in Scotland on 18 September 2014 to determine whether Scotland should become an independent country was that Scotland should remain within the UK.

For historical reasons, the UK does not have a single unified legal system. There is one system for England and Wales, another for Scotland and a third for Northern Ireland. The legal system in England and Wales differs significantly from that of Scotland. The law in Northern Ireland is largely similar to that of England and Wales, although it has many parliamentary acts of its own. Much modern legislation, for instance, tax legislation, applies throughout the UK.

In most cases, the Supreme Court sits above the courts of all three jurisdictions as the final court of appeal. It is the final court of appeal for all UK civil cases and for criminal cases from England, Wales and Northern Ireland, applying Scottish law where appropriate. By convention, the 12 Supreme Court Justices include two Scottish Justices and there currently is one Supreme Court Justice from Northern Ireland.

All UK courts must give effect to directly applicable EU law and interpret UK law consistently with EU law. The UK courts must refer any question of EU law, where the answer is not clear and it is necessary for the UK Court to make a decision, to the Court of Justice of the European Union (CJEU) in Luxembourg.

UK courts also must give effect to the rights contained in the European Convention on Human Rights. Individuals who contend that their Convention rights have not been respected by a decision of a UK court, against which they have no domestic recourse, may bring a claim against the UK before the European Court of Human Rights.

The UK is a member of the EU, but it does not participate in the European Monetary Union. It also is a member of the OECD, the World Trade Organization (WTO) and European Economic Area (EEA, i.e. the 28 EU member states, plus Iceland, Liechtenstein and Norway).

As an EU member state, the UK is required to comply with EU law, not only in the domestic courts, as outlined above, but also with EU directives and regulations, which it follows with respect to trade treaties, import regulations, customs duties, agricultural agreements, import quotas, rules of origin and other trade regulations. Trade also is governed by the rules of the WTO.

Companies operating in the UK have access to a tariff-free market of consumers through the country's membership of the EU and free trade with Iceland, Liechtenstein, Norway and Switzerland through other agreements.

The UK is one of the world's larger economies. It is the seventh largest manufacturer in the world by output but the contribution of the manufacturing sector to UK GDP has declined.

London is one of the world's leading financial centers and regularly vies with New York for top position.

Price controls

The UK is a liberal market economy in which prices are determined by supply and demand. The government regulates prices in certain industries (e.g. energy, branded pharmaceuticals and certain forms of transport).

Intellectual property

Patents, trademarks, copyrights and design rights are legally recognized in the UK.

Intellectual property rights may be enforced through a civil suit (brought by the patent or trademark holder or by a licensor or licensee against an alleged infringer). Damages for patent and trademark infringement may be awarded based on the loss suffered by the owner of the intellectual property. Copyright damages are assessed on essentially the same basis.

The Trade Marks Act 1994, as amended, sets out the UK legislation protecting trademarks in line with EU provisions. Under the Madrid Protocol, trademarks registered in a participating country are afforded the same protection in all participating countries. This avoids multiple applications and fees. The World Intellectual Property Organization (WIPO) administers the application system, although applications may be made in the UK.

The Community Trademark offers uniform trademark protection in all EU member states through a single application. The Community application is an alternative to, and complementary to, national procedures and the Madrid Protocol. Community Trademarks are valid for 10 years and renewable indefinitely. An applicant may file for a Community Trademark at the British Patent Office or the EU trademark office, officially known as the Office for Harmonization in the Internal Market (Trade Marks and Designs), in Alicante, Spain. The Office for Harmonization in the Internal Market also offers an e-filing service.

UK legislation has been passed to implement the EU directive on copyright and related rights. The directive adjusts and complements the existing legal framework on copyright to take into account the electronic environment, covering such areas as electronic copies and online transmission.

1.2 Currency

The currency in the UK is the pound sterling (GBP). The UK is not part of the Eurozone.

1.3 Banking and financing

Banks fall into four main categories: commercial banks of British origin (including banks often known as “high street banks”), commercial banks of foreign origin, investment banks and retail banks (represented by former mutual building societies that have turned into commercial enterprises).

The Treasury is responsible for the overall structure of regulation. The Bank of England is responsible for assessing the robustness of financial markets and overseeing the financial system's infrastructure. The Financial Conduct Authority (FCA) regulates the financial services industry in the UK, focusing on retail and wholesale financial markets. It is operationally independent of the government and funded entirely by the firms it regulates but is accountable to the Treasury. The Prudential Regulation Authority (PRA) is responsible for the regulation and supervision of deposit-takers, insurers and investment banks. It is a subsidiary of the Bank of England.

European Economic Area (EEA) banks can operate in the UK on the basis of the EU's “single passport” system; registration in their home country automatically entitles them to operate in the UK, although they must notify the PRA of their presence. Such banks remain subject to home country control. Financial institutions located in the offshore centers of the Channel Islands and the Isle of Man are not considered part of the UK banking sector.

London is the main financial center, although Edinburgh, the capital of Scotland, remains an important financial center for investment management firms and life assurance companies.

1.4 Foreign investment

The UK is the largest single base for non-EU companies setting up operations in Europe and it is the largest reported repository in Europe for investment from the US.

Although the government has some power to block foreign acquisitions and compel divestments, it generally does not exercise any discriminatory controls over foreign takeovers. The main regulatory obstacles for direct investors, especially those planning acquisitions, stem from the EU. For the most part, these reflect the European Commission's responsibility for cross-border mergers

that could lead to monopolies. The Commission also has other concerns, such as practices that interfere with intra-EU trade.

The procedure for establishing a company in the UK is identical for UK and foreign investors. No approval mechanisms exist for foreign investment; foreigners may freely establish or purchase enterprises in the UK, with few exceptions, and acquire land or buildings. There are no restrictions on the free flow of capital.

Foreign ownership is limited in only a few strategic privatized companies.

Certain service activities (such as radio and land-based television broadcasting) are subject to licensing. The Communications Act 2003 liberalized media ownership rules and made possible non-EEA ownership of British television and radio businesses, subject to the usual competition considerations.

1.5 Tax incentives

The UK offers a number of incentives for UK businesses:

- Tax incentives for R&D expenditure are available to both large companies and small and medium-sized entities (SMEs). For large companies, the incentive can take the form of an enhanced deduction from taxable income, at a rate of 130% of qualifying R&D expenditure. An above-the-line R&D tax credit equal to 11% of qualifying expenditure also is available as an alternative for large companies. The credit regime currently is optional but will fully replace the existing large company scheme from 2016. The credit, up to the PAYE/NIC (Pay as You Earn/National Insurance Contribution) liabilities of the company's R&D staff, will be repayable to companies with no corporation tax liabilities.

If the company is an SME, the tax deduction from 1 April 2015 is 230% (previously 225%) of the qualifying expenditure. Non-taxpaying SMEs can claim a cash refund (see section 3.3 for further details).

- A patent box regime is being phased in from 1 April 2013 that ultimately will allow companies to elect to apply an effective 10% rate of corporation tax to all profits attributable to qualifying patents and certain other innovations, whether paid separately as royalties or embedded in the sales price of products. The relief is being phased in over five years, with the effective 10% rate applicable for financial years from 1 April 2017. The patent box regime will close to new entrants by 30 June 2016 and will be abolished by 2021. A new type of patent box regime will follow that will align benefits more closely to research and development (R&D) activity.
- There are a number of tax incentives available to the creative industries, including:
 - Film tax relief.
 - Animated production tax relief.
 - High-end television tax relief.
 - Video game development tax relief.
 - Theatre tax relief.
 - Orchestra tax relief (expected to be introduced in April 2016).
- Twenty-four enterprise zones have been set up to encourage new business activity in economically declining areas of England. Specific measures include a five-year holiday from business rates up to GBP 275,000 for businesses moving to one of the new zones, a simplification of planning approaches and potential public funding for super-fast broadband. In addition, companies investing in new plant or machinery (between 1 April 2012 and 31 March 2017, proposed to be extended to 31 March 2020) for use in certain limited enterprise zones will be eligible in certain situations to claim 100% enhanced capital allowances. However, not all sectors can benefit (e.g. companies in difficulties, the steel industry and the shipbuilding industry etc. cannot benefit). A further seven Enterprise Zones are located in Wales, with four Enterprise Areas in Scotland. Coleraine in Northern Ireland was designated as a new enterprise zone in the 2014 budget.

- Expenditure on certain energy efficient assets qualifies for a 100% tax deduction in the year of acquisition.
- The Annual Investment Allowance (AIA) provides for a full tax deduction for the first GBP 25,000 of expenditure per business or group of companies each year. This amount increased to GBP 250,000 from 1 January 2013 to 31 March 2014 and GBP 500,000 from 1 April 2014 to 31 December 2015, and will revert back to GBP 25,000 from 1 January 2016 (see section 3.3 for further details).

1.6 Exchange controls

There are no exchange controls in the UK. No currency considerations affect the remittance of profits, dividends, interest and royalties, or of licensing, management, design and technical and patent fees. Nevertheless, the UK's tax authorities, Her Majesty's Revenue & Customs (HMRC), may challenge the level of transfers if they suspect corporate tax avoidance or evasion. In addition, banks monitor transactions for suspected money laundering and the law requires them to have a Money Laundering Reporting Officer. Banks must adequately identify customers when they open accounts and when they conduct a transaction exceeding EUR 15,000 (or the equivalent in any currency)

2.0 Setting up a business

2.1 Principal forms of business entity

Business organizations in the UK usually take one of four forms: public limited company, private limited company, partnership (including limited liability partnership) or registered UK establishment (the UK equivalent of a branch or representative office). Public limited companies may invite the public to subscribe for shares or bonds, but private limited companies may not. Public companies may choose to be quoted on the stock exchange or to be unlisted. A listing on an exchange in the EU entitles a company to be listed on any other EU exchange. Other organizational forms exist (such as limited partnerships), but are not widely used.

The main advantage of a limited company is that it affords its members limited liability; however, other options may suit individual circumstances.

The most popular choice for foreign investors usually is to set up a private limited liability company either as a separate company or as a subsidiary of a foreign-owned holding company. Alternatively, they may choose to register UK establishments. Particular tax considerations can influence the choice. For example, operating as a subsidiary in the UK may mean that the profits of the subsidiary are subject only to UK corporation tax; operating as a UK establishment of a non-UK company may mean that these profits (or losses) also may be taxable (or deductible) where the company resides.

The *Societas Europaea* or SE company form is available. The SE is designed to enable companies to operate across the EEA with a single legal structure, to facilitate mergers and create flexibility for companies wanting to move their head office from one EEA state to another. Companies from two or more EEA member states are permitted to merge to form an SE or create an SE holding company. A company may convert to SE status without liquidating. One advantage of an SE is that it is possible to move headquarters to another EEA member state.

Businesses (and in some cases individuals) can establish as a European Economic Interest Grouping (EEIG). Companies (even non-EEA companies if the vehicle is a subsidiary in an EU country) that want to start working with a UK company, but do not want to commit to a formal joint venture, may set up an EEIG. The grouping functions much like a partnership, in that profits or losses are taxable only in the hands of its members. At least two of the members involved must be from different EEA member states.

There are few SEs and EEIGs in the UK.

Formalities for setting up a company

Every company must be registered with Companies House. The registration application (Form IN01) must be submitted with a memorandum of association and the articles of association, which detail, among other things, the rights of the shareholders, borrowing powers and the duties of directors. Under the Companies Act 2006, a company is deemed to have unlimited capacity but if specific objects are stated in the articles of association, these will be treated as a limitation on the company's capacity. If the company's activities diverge from these specific objects, a transaction may be determined to be outside the company's powers. The registration procedure normally takes eight to 10 days from submission of the documents to Companies House, although a same day incorporation service is available. Certain types of company can be incorporated online using the Web Incorporation Service, where the process usually is completed within 48 hours, with a same-day service offered.

Public companies must include the words "public limited company" (or the abbreviation "plc") as an integral part of the company name, to be used on all official documents, general stationery and nameplates. Private limited companies use the word "Limited" (or the abbreviation "Ltd").

HMRC generally uses the information it receives from Companies House to set up a record of the company on its system and allocates a company a corporation tax reference number. HMRC will then send the company a form to complete. Registration for corporation tax purposes also can be undertaken online when incorporating the company via the Web Incorporation Service. The company must inform HMRC within three months of commencing business activities. The

company may need to register separately for other taxes, such as payroll withholding taxes and VAT.

Forms of entity

Requirements for public and private limited companies

Capital: *Public:* Companies must have nominal share capital of at least GBP 50,000 (or the prescribed equivalent in Euro), 25% of which must be paid up on each share, together with the whole of any share premium. Capital may be supplied in non-cash forms (e.g. machinery, patents or know-how), but noncash contributions must be independently valued. *Private:* There is no minimum share capital requirement for private limited companies (nor any requirement for capital to be paid up) and noncash contributions do not need to be independently valued. The power of directors to issue shares of a private company with only one class of share is deemed to be unlimited, unless there is a restriction on such power in the articles of association. Both private and public companies may redenominate their shares into other currencies.

Founders, shareholders: *Both:* Private and public companies may be incorporated or continue in existence with a single shareholder. No nationality or residence requirements apply. *Public:* Public companies must hold an annual general meeting in every calendar year. Public companies may not pass written resolutions in lieu of a meeting. *Private:* Private companies are not required to hold annual general meetings and may pass resolutions in writing in lieu of a meeting.

Management: *Public:* There must be a board with at least two directors, but there are no nationality or residence requirements. A director may be chairman. Any changes to the board must be reported to Companies House within 14 days. Every public company must have a company secretary, who also may be a director. There are some qualification requirements. *Private:* Same requirements, except that the minimum number of directors is one, and there is no requirement to have a company secretary (unless required by the articles of association).

Types of share: *Public:* Ordinary, preference and cumulative preference shares, and straight and convertible bonds are the common forms in which corporate securities are issued. Multiple classes of ordinary share with differing voting rights or no voting rights are prevalent in many large companies, particularly those in which families with minority equity holdings control public firms. A company must maintain a register of its shareholders. *Private:* It is a criminal offence for private companies to offer their shares or debentures to the public. *Both:* Both public and private companies can issue warrants entitling the bearer to the shares specified in the warrant.

Taxes and fees: *Both:* Fees for registering a company are low, currently ranging from GBP 15 for web incorporation to GBP 100 for same-day paper incorporation.

Control: *Both:* A majority of shareholders (more than 50%) is required for ordinary resolutions (unless the articles of association stipulate a higher majority); for changing articles, 75% is required. If a bid is made for the entire equity of a company (and the bidder obtains 90% of equity), the bidder can compel the remaining shareholders to sell. If the bidder owned shares before the bid, compulsory acquisition can take place only if the bidder acquires 90% of the shares that were not previously held.

UK establishment

A foreign company doing business in the UK must register with Companies House. Within a month of establishing its presence, a foreign limited liability company must file various particulars and documents that can be viewed by the public, such as the names and addresses in the UK of persons authorized to accept legal notices served by the authorities; the name of the company, its legal form, its country of registration, company number, details of its directors and secretary; and the address of the UK establishment, when it was opened and its business. Additional disclosures are required for non-EU companies. Slightly less disclosure is required from unlimited liability companies. In all cases, the UK establishment must file copies of its constitution (translated into English). At every place of business, and on every letter and invoice, the UK establishment must provide details of the company of which it is a UK establishment, such as its registered name, the country of incorporation and whether its members have limited liability.

If a foreign limited liability company registers a UK establishment and the company is required under the law of the country in which it is incorporated to prepare, have audited and disclose financial statements, or the company is incorporated in the EEA and is required to prepare and

disclose accounts but is exempt from audit, the company must file for public inspection in Great Britain all accounting documents that are disclosed under that foreign law. If the foreign company is not required to prepare such accounts, it must prepare accounts as though it were a UK company (with various modifications) and these must be filed for public inspection. Similar rules apply in Northern Ireland.

2.2 Regulation of business

Mergers and acquisitions

Legislation governing mergers is contained in the Enterprise Act 2002 with other relevant provisions in the Companies (Cross-Border Mergers) Regulations 2007. Decisions on most mergers are taken by the Competition & Markets Authority (CMA), which replaced the Office of Fair Trading (OFT) and the Competition Commission from April 2014. Mergers generally will be considered by the UK competition authorities if the annual UK turnover of the enterprise being taken over exceeds GBP 70 million, or the merger creates a 25% or more share in a market for goods or services in the UK or a substantial part of the UK.

The CMA investigates mergers and, with the exception of public interest cases, decides whether or not they should be taken to phase 2 further investigations. The test is whether the CMA believes a merger has resulted or may be expected to result in a substantial lessening of competition. In making decisions, the CMA will either:

- Take it to phase 2 for further investigation;
- Clear the merger; or
- Clear it subject to undertakings in lieu of a phase 2 investigation.

Where a merger is taken to phase 2, the CMA has to determine whether it has resulted in a substantial lessening of competition and to take the action it considers reasonable and practicable to address any adverse effects arising from the merger.

Mergers with a Community dimension fall within the competence of the European Commission and need to be reported under Council Regulation (EC) No. 139/2004. The EU has jurisdiction over mergers in two situations:

1. Where the combined aggregate worldwide turnover of all of the undertakings concerned is more than EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state; and
2. Where the aggregate global turnover of the companies concerned exceeds EUR 2.5 billion for all businesses involved, aggregate global turnover in each of at least three member states is more than EUR 100 million, aggregate turnover in each of these three member states of at least two undertakings is more than EUR 25 million and aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 100 million, unless each achieves more than two-thirds of its aggregate EU-wide turnover within one and the same state.

If a merger normally would not fall under the jurisdiction of the European Commission, the affected companies may ask the Commission to review it if they would otherwise be obliged to notify three or more member states. The Commission proceeds as a “one-stop shop” only if none of the relevant member states objects within 15 days.

The European Commission has 25 business days following notification either to open proceedings or to approve a merger that comes within its remit. It has 35 working days if undertakings are offered or a referral request is received. If the Commission opts to open a procedure, it has another 90 business days to conduct an in-depth inquiry. This may be extended by 20 business days if requested by the notifying parties or by the Commission with the agreement of the notifying parties.

Monopolies and restraint of trade

Most prominent UK monopolies and near-monopolies are public utilities. Competition is restricted in gas and electricity, although they now are privately owned. Most of the telecommunications market is open to competition.

Monopolies and abuses of market power are regulated under civil law by the Chapter II prohibition in the Competition Act 1998 (Chapter II), the UK equivalent of article 102 of the Treaty on the Functioning of the European Union (TFEU). Chapter II provides that any conduct on the part of one or more undertakings that amounts to the abuse of a dominant position in a market is prohibited if it may affect trade within the UK (or any part of the UK).

The CMA is principally responsible for enforcing Chapter II, in addition to article 102. A finding of an adverse effect on competition may be remedied via an undertaking or an order. Those affected by the decision may request a review from the Competition Appeal Tribunal, an independent body.

2.3 Accounting, filing and auditing requirements

Public limited companies must file annual accounts, together with many additional details, with Companies House, where they are publicly available. Unless the company is an SME, the accounts will include a profit and loss account, a balance sheet signed by a director, an auditors' report signed by an outside auditor, a directors' report signed by a director or the company secretary and notes to the accounts. No public company, regardless of its size, can qualify as an SME for these purposes.

Private limited companies are subject to the same requirements, except for special provisions applicable to SMEs. Small companies (those meeting two of the three following requirements: annual turnover of no more than GBP 6.5 million, balance sheet total not more than GBP 3.26 million and a workforce of no more than 50 employees) may submit a shortened balance sheet and notes, and a special auditors' report (unless claiming an audit exemption – see below). Medium-sized companies (those meeting two of the three following requirements: turnover of no more than GBP 25.9 million, balance sheet total of no more than GBP 12.9 million and 250 employees or less) may submit as a minimum an abbreviated profit and loss account, a full balance sheet, special auditors' report, directors' report and notes to the accounts. Shareholders, however, must continue to receive a full set of accounts. Subject to meeting certain additional criteria, small companies may be exempt from the requirement to have their accounts audited.

For periods beginning on or after 1 January 2015, UK businesses must follow either EU-adopted International Financial Reporting Standards (IFRS) or the Financial Reporting Standards (FRSs) developed by the UK Accounting Council – FRS 100, 101 and 102, with comparatives required as from 1 January 2014. Quoted groups, however, are required to apply IFRS when reporting to their shareholders. Prior to 1 January 2015, UK businesses that were not quoted could use either IFRS or the equivalent UK standards at that time, which were known as UK Generally Accepted Accounting Practice (UK GAAP).

Small companies may elect to apply simplified accounting standards known as Financial Reporting Standards for Smaller Entities (FRSSE) and obtain an audit exemption. Application of FRSSE is not permitted for certain types of company, including: listed companies or their subsidiaries; banks, insurance companies and other companies involved in financial services; or those that were not classified as small in their previous financial year. The rules also allow subsidiaries to claim an exemption from mandatory audit provided their parent companies, which must be established under the law of an EEA member state, guarantee their liabilities.

A new EU Accounting Directive will apply for accounting periods commencing on or after 1 January 2016. Significant changes to be introduced by the UK implementing legislation include amendments to the size criteria for small, medium-sized and large companies and to the UK small companies reporting regime.

3.0 Business taxation

3.1 Overview

UK corporate entities and foreign corporate entities trading in the UK are liable for corporation tax on their income and capital gains. Other taxes affecting companies doing business in the UK could include withholding tax, value added tax (VAT), stamp duty, stamp duty land tax and national insurance contributions (NICs). A bank levy is imposed in respect of certain equity and liabilities on the balance sheets of banks. Shipping companies may elect to be subject to a tonnage tax, and special tax laws relate to oil companies operating in British territorial waters. A new diverted profits tax, introduced from 1 April 2015, applies in certain situations to profits of multinationals deemed to have been artificially diverted from the UK. There is no tax on corporate capital, no branch remittance tax and no excess profits or alternative minimum tax.

The UK offers a participation exemption for dividends and certain capital gains. It has group relief, transfer pricing, thin capitalization and controlled foreign company rules. The UK also has an extensive network of tax treaties that aim to eliminate double taxation.

The UK has implemented the EU parent-subsidiary, interest and royalties, and merger directives, as well as the EU savings directive, the latter of which requires the exchange of information between tax administrations when interest payments are made in one EU member state to an individual resident in another member state.

Tax laws are enacted by parliament, generally in an annual Finance Act that amends and supplements core legislation.

HMRC is responsible for the administration and collection of direct and indirect tax. Businesses must register with HMRC for corporate income tax, income tax that is deducted from employees' wages under the Pay As you Earn (PAYE) regime, NIC and VAT purposes (the latter if turnover exceeds a certain threshold).

UK Quick Tax Facts for Companies	
Corporate income tax rate	20% (from 1 April 2015, previously 21%)
Petroleum revenue tax	50%/35% (for chargeable periods ending after 31 December 2015)
Branch tax rate	20% (from 1 April 2015, previously 21%)
Capital gains tax rate	0%/20% (from 1 April 2015, previously 21%)
Basis	Worldwide, subject to election for branch exemption
Participation exemption	Yes
Loss relief	
– Carryforward	Indefinite
– Carryback	One year
Double taxation relief	Yes
Tax consolidation	No, but loss relief is available and assets can be transferred intragroup without crystalizing a gain or loss
Transfer pricing rules	Yes
Thin capitalization/interest restriction rules	Yes
Controlled foreign company rules	Yes

Tax year	Shorter of 12 months or period for which accounts are prepared
Advance payment of tax	Yes
Return due date	12 months from end of accounting period
Withholding tax	
– Dividends	0%
– Interest	0%/20%
– Royalties	0%/20%
– Branch remittance tax	0%
Capital tax	No
Stamp duty	0.5%
Stamp duty reserve tax	0.5%
Stamp duty land tax	Up to 15%
Land and buildings transaction tax (Scotland)	Up to 12%
Real estate tax	Varies
Payroll tax	No
Social security contributions (NIC)	13.8%
VAT	20% (standard rate)/5%, 0% (reduced rates)

3.2 Residence

A company is UK tax resident if it is incorporated in the UK or, if not incorporated in the UK, if its place of central management and control is in the UK. In practice, this often means determining whether the directors exercise central management and control and, if so, where they exercise that control. Where a company would be resident in the UK but also would be resident under another country's tax law, its residence status may be resolved by a tax treaty (if any) between the two countries.

3.3 Taxable income and rates

The main tax rate on corporate profits is 20% from 1 April 2015 (reduced from 21%). UK-resident companies with profits up to GBP 300,000 (reduced pro rata by the number of "associated" companies and pro rated for accounting periods not 12 months in length) are taxed at a 20% rate (the "small profits rate"). Marginal relief applies to company profits between GBP 300,000 and GBP 1.5 million (again pro rated by the number of associated companies and for accounting periods not 12 months in length), which are taxed on a sliding scale at a rate between the main rate and the small profits rate. The small profits rate is not available to certain closely held investment companies or to nonresident companies (in respect of a UK permanent establishment (PE)), unless the company is resident in a territory that has concluded with the UK a tax treaty containing a nondiscrimination clause.

A UK-resident company is subject to corporation tax based on its worldwide profits, income and chargeable gains with credit given for most overseas taxes paid. Foreign profits (and losses) (including those from certain capital assets) arising from all (but not some) PEs of a UK resident company may be excluded, by an irrevocable election, from the company's taxable profits for all accounting periods following that in which the election is made. Where such profits are excluded from UK taxation, no credit is available for overseas tax paid. If no election is made, the profits of a foreign branch of a UK-resident company are subject to corporation tax regardless of whether they are repatriated to the UK. If the foreign profits cannot be remitted to the UK because of foreign law,

government action or an inability to obtain a currency that could be transferred to the UK, a deferral of corporation tax may be claimed.

A nonresident company is subject to corporation tax in respect of the profits of its PE in the UK and chargeable gains on assets used or held by the PE. If a non-UK resident company carries on an investment activity in respect of UK sources of income, it will be subject to income tax (generally 20%). In addition, tax will be payable in all cases where a company realizes a gain on disposal of UK residential property (i.e. regardless of residence). The rate of tax is 28% where the annual tax on enveloped dwellings has been paid or 20% where it has not (see section 3.4 below).

Real Estate Investment Trusts (REITs), i.e. UK-resident companies listed on a recognized stock exchange that elect to be treated as such, are not subject to tax on income or gains arising from their property rental business but are required to distribute substantially all of their profits. Certain other requirements, for example, in relation to interest cover, also must be met. A REIT is required to deduct tax at 20% from certain dividends.

As noted above, shipping companies may elect to be subject to a tonnage tax, under which profits from shipping activities subject to corporation tax are based on the tonnage of the ships operated by the company concerned rather than on the actual profits.

Taxable income defined

Corporation tax is assessed on a company's total worldwide profits (subject to an election being made in respect of overseas PEs), comprising its income and chargeable gains, less certain expenses and allowable deductions. Income is computed in accordance with the rules for the various sources of income with the results aggregated to give total income. The various sources of income are:

- Trading income;
- Property income;
- Profits arising from loan relationships;
- Profits arising from derivative contracts;
- Gains on intangible fixed assets;
- Profits arising from disposals of know-how and sales of patent rights;
- Company distributions
- Miscellaneous income; and
- Chargeable gains.

Capital gains (referred to as "chargeable gains" for corporation tax purposes) are computed separately from income, but are included within the total profits chargeable to corporation tax (see section 3.4 below). An exemption applies in the case of a disposal of certain shares (the "substantial shareholding exemption").

Dividends received on nonredeemable ordinary shares by a non-small UK company from another company (UK or foreign) and most dividends on nonordinary shares generally will be exempt from UK corporation tax, with no minimum ownership period or minimum ownership level requirements. The exemption is subject, however, to Targeted Anti-Avoidance Rules (TAARs) that apply to tax-motivated schemes with certain characteristics. Dividends received by small companies are exempt from tax if received from a UK-resident company or a company resident in a foreign jurisdiction that has concluded a tax treaty with the UK and the treaty contains a nondiscrimination clause.

Deductions

Companies generally may deduct from gross income all expenditure incurred that is not capital in nature and that is wholly and exclusively laid out for the purposes of the trade. In most cases, expenses are deductible on an accruals basis, but there are exceptions (e.g. pension contributions, etc.). Direct UK taxes are not deductible in arriving at taxable income. Other taxes, such as local taxes and license fees necessarily incurred in the course of earning profits, are usually deductible.

An R&D tax credit for large companies takes the form of a deduction, at a rate of 130% of R&D expenditure from a company's taxable income. An above-the-line R&D tax credit equal to 11% of qualifying expenditure is available as an alternative for large companies. From 1 April 2013 to 31 March 2015, the tax credit was 10%. The credit regime currently is optional and runs alongside the enhanced deduction. It will fully replace the existing large company scheme from 2016. The credit, up to the PAYE/NIC liabilities of the company's R&D staff, is repayable to companies with no corporation tax liabilities. If the company is a SME, the tax deduction is 230% of the expenditure (225% before 1 April 2015). The definition of SME for R&D purposes is based on the EU definition, but the limits are higher. If the company does not have sufficient profits to absorb the deduction, it can be surrendered for a cash refund up to 14.5% of the eligible expenditure depending on the level of current year losses. The 14.5% rate applies for expenditure incurred on or after 1 April 2014. Different rates apply to earlier periods.

A patent box regime is being phased in from 1 April 2013 that ultimately will allow companies to elect to apply an effective 10% rate of corporation tax to all profits attributable to qualifying patents and certain other innovations, whether paid separately as royalties or embedded in the sales price of products. The relief is being phased in over five years, with the effective 10% rate applicable for financial years from 1 April 2017. The patent box regime will close to new entrants by 30 June 2016 and will be abolished by 2021. A new type of patent box regime will follow that will align benefits more closely to research and development activity.

Interest is deductible, subject to the debt cap rules that apply to companies that are members of "large groups" (as defined) and certain other anti-avoidance rules.

Depreciation

Other than for certain intangible fixed assets, tax relief is not given for accounting depreciation. Instead, capital allowances are given at a statutory rate for expenditure on certain assets. For example, capital allowances are given on the acquisition of plant and machinery. Generally, all such expenditure in a tax year is placed in a single pool (main pool), and at the end of the year a claim for a writing-down allowance of an amount equal to 18% of the pool is taken out and allowed as a tax-deductible expense. The net amount in the pool is then carried forward to the following year and the process repeated each year. Disposals of assets that previously had gone into the pool are taken out when the asset is sold (limited to original cost). If there is a deficit in the pool at the end of a tax year, a balancing charge arises that is included in taxable income.

A 100% annual investment allowance (AIA) applies for investments of up to GBP 25,000 in plant and machinery. There is only one allowance per UK group. This amount is increased to GBP 250,000 from 1 January 2013 to 31 March 2014, and to GBP 500,000 from 1 April 2014 to 31 December 2015 and is scheduled to revert to GBP 25,000 from 1 January 2016. Some environmentally friendly plant and machinery, and certain capitalized R&D expenditure, can qualify for a 100% first-year allowance.

Assets for which a short-life election has been made do not go into the main pool but into separate asset pools for each asset. When such an asset is sold, the balance in the pool will give rise to either a balancing allowance (tax deduction) or a balancing charge (taxable income). The election must be made within two years of the end of the period in which the expenditure is incurred.

Plant and machinery expected to have a useful economic life of at least 25 years, and certain assets classified by statute as "integral features" (including electrical systems, cold water systems, space or water heating systems, ventilation, air cooling systems, lifts and escalators and external solar shading) are included in a single special rate pool. This pool qualifies for a reduced writing down allowance of 8% per year.

The capital allowances treatment of cars depends upon their CO₂ emission levels. Allowances of 100% are available for the year ended 31 March 2016 for cars with emissions not exceeding 75g/km (95g/km for the year ended 31 March 2015). Cars with emissions between 76g/km and 130g/km are included within the main capital allowances pool and receive the 18% writing down allowance. Cars with emissions exceeding 130g/km are allocated to the special rate pool and receive the reduced writing down allowance of 8%.

Intangible fixed assets acquired or created after 31 March 2002 are taxed or relieved broadly in line with the debits and credits in the entity (not group) accounts.

Where a lease is considered a “long funding lease,” capital allowances will be given to the economic owner of the asset rather than the legal owner. A long funding lease is a lease that is treated as a finance lease under generally accepted accounting principles; a lease where the present value of the minimum lease rentals is 80% or more of the fair value of the asset; or a lease having a minimum term of more than 65% of the expected remaining useful economic life of the asset. Leases of less than five years generally should not be considered long funding leases.

Losses

Losses arising in a trade in a tax year may, if the company elects, be set off in their entirety against a company's total profits (including chargeable gains) for the same tax year. If losses remain, the company may elect for the remainder to be carried back (broadly) one year and set off against total profits. Any losses not used in these ways may be carried forward and set against trading profits of future tax years without limit (unless there is a change of ownership of the company and a major change in the nature and conduct of the trade within three years).

All or part of the losses attributable to nontrading loan relationships (including foreign exchange differences) and derivative contracts arising in a tax year may be set off against any other profits of the same tax year and/or carried back (broadly) one year against similar income. Any losses not used may be carried forward indefinitely and set off against nontrading profits of future tax years.

All or any part of losses attributable to nontrading intangible fixed assets can be set against any other profits of the same tax year. Any losses not used may be carried forward to the next period and treated as a nontrading debit for that period.

From 1 April 2015, the amount of banks' annual profit that can be offset by carried forward losses has been restricted to 50%.

Group relief

A UK resident company can transfer losses and set them off against current profits of another UK resident company if both companies are members of the same group for purposes of the group relief rules. Two companies are members of the same group if (very broadly) one company (parent) owns at least 75% of the share capital of the other (subsidiary) or another company (parent) owns at least 75% of the share capital of both companies (subsidiaries); indirect holdings are permissible. The parent also must be entitled to at least 75% of profits available for distribution and at least 75% of the assets available on a winding up of the subsidiary or subsidiaries.

If the claimant company and the surrendering company are both members of the same group, the claimant can claim all or part of the surrendering company's current year trading losses, nontrading loan relationship losses and losses attributable to nontrading intangible fixed assets (among others) against its total profits for the corresponding tax year. Losses brought forward cannot be surrendered.

In addition, a UK PE of a nonresident company can surrender or claim group relief if certain conditions are satisfied.

A qualifying nonresident subsidiary that is resident in the EEA or elsewhere, but carrying on a trade in the EEA through a PE, may in certain situations surrender group relief where all prior, current and future period loss relief options have been exhausted overseas. There are a number of other conditions that need to be satisfied.

A limited form of group relief is available between members of a consortium and a consortium company.

3.4 Capital gains taxation

Capital gains generally form part of a company's taxable income. However, there is an exemption from tax for companies on the disposal of substantial shareholdings in both UK and foreign companies, the main conditions being that the selling company must have owned 10% of the shares of the company being sold for at least 12 months before disposal, and that before and after the disposal, both the selling company/group and the company being sold are trading and do not have significant nontrading activities. UK domestic law taxes the capital gains of a non-UK resident company if the asset being disposed of is held through a UK PE.

Capital gains are taxed at the same rate as other profits. There is an exception from this in certain cases where a company or certain other entities dispose of UK residential property. A 28% capital gains tax charge has applied since 6 April 2013 on companies and certain other vehicles (regardless of residence) which dispose of UK residential property valued at more than GBP 1 million (reduced from GBP 2 million from 1 April 2015 and to be reduced further to GBP 500,000 from 1 April 2016) where the Annual Tax on Enveloped Dwellings (ATED) has been payable at some point in the period the property has been owned (see section 5.6). Broadly, any gains realized by UK resident companies that are not subject to the 28% capital gains tax rate are subject to UK corporation tax. From 6 April 2015, non-UK resident companies that realize a non-ATED gain on the disposal of UK residential property are subject to 20% capital gains tax.

The code for taxing capital gains generally does not extend to the self-contained codes that apply to intangible fixed assets, including goodwill (broadly, unless the asset was owned at 31 March 2002), loan relationships (including foreign exchange gains and losses) or to derivative contracts. Accordingly, capital gains taxation normally is most relevant to disposals of shares (subject to the possible application of the substantial shareholding exemption) and land.

Capital losses may be offset only against capital gains of the same tax year or carried forward to offset future chargeable gains.

Transfers between group members of a capital gains group are treated as being made on a no gain/no loss basis. An election to transfer chargeable gains/losses between group members also can be made. Broadly, a capital gains group exists where there is at least 75% direct control of ordinary share capital at each level and the principal company is beneficially entitled to at least 50% of any profits available for distribution and 50% of any assets on a winding up of the subsidiary or subsidiaries.

3.5 Double taxation relief

Unilateral relief

Unilateral relief for double taxation is given by the credit method, whereby foreign tax paid is deducted from the UK tax payable on the same income. Credit relief is given on a strict source-by-source and item-by-item basis, and relief is only given for foreign taxes that correspond to UK corporation tax (or income tax). It is possible for a UK company to elect for no foreign tax credit to be granted, and instead deduct the overseas tax suffered when calculating profits chargeable to corporation tax.

Tax treaties

The UK has an extensive tax treaty network, with most treaties following the OECD model treaty (although some of the older treaties predate the latest OECD version and hence contain different provisions). The UK's treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other and protect companies resident in one country from discriminatory taxation in the other. The treaties generally contain OECD-compliant exchange of information provisions.

Advance clearance is required from HMRC before a reduced rate of withholding can be applied to interest payments under a tax treaty. HMRC has introduced a tax treaty passport scheme to speed up the treaty approval process. This involves the corporate lender registering with HMRC to be approved as a "treaty passport holder" (see 4.2 below for the treaty passport scheme).

UK Tax Treaty Network			
Albania	Fiji	Lesotho	Russia
Antigua & Barbuda	Finland	Libya	Saudi Arabia
Argentina	France	Liechtenstein	Serbia
Armenia	Gambia	Lithuania	Sierra Leone
Australia	Georgia	Luxembourg	Singapore
Austria	Germany	Macedonia	Slovakia

Azerbaijan	Ghana	Malawi	Slovenia
Bahrain	Greece	Malaysia	Solomon Islands
Bangladesh	Grenada	Malta	South Africa
Barbados	Guernsey	Mauritius	Spain
Belarus	Guyana	Mexico	Sri Lanka
Belgium	Hong Kong	Moldova	St. Kitts & Nevis
Belize	Hungary	Mongolia	Sudan
Bolivia	Iceland	Montenegro	Swaziland
Bosnia-Herzegovina	India	Montserrat	Sweden
Botswana	Indonesia	Morocco	Switzerland
British Virgin Islands	Ireland	Myanmar	Taiwan
Brunei	Isle of Man	Namibia	Thailand
Bulgaria	Israel	Netherlands	Trinidad & Tobago
Canada	Italy	New Zealand	Tunisia
Cayman Islands	Ivory Coast	Nigeria	Turkey
Chile	Jamaica	Norway	Turkmenistan
China	Japan	Oman	Tuvalu
Croatia	Jersey	Pakistan	Uganda
Cyprus	Jordan	Panama	Ukraine
Czech Republic	Kazakhstan	Papua New Guinea	United States
Denmark	Kenya	Philippines	Uzbekistan
Egypt	Kiribati	Poland	Venezuela
Estonia	Korea (ROK)	Portugal	Vietnam
Ethiopia	Kuwait	Qatar	Zambia
Falkland Islands	Latvia	Romania	Zimbabwe
Faroe Islands			

3.6 Anti-avoidance rules

Transfer pricing

It is a company's responsibility under the self-assessment system to ensure that, for tax purposes, transactions with related parties reflect arm's length prices. The UK embraces internationally accepted standards (i.e. OECD standards) for establishing prices. Companies are expected to have and retain adequate documentation to enable them to deliver a complete and correct tax return. Records should be retained for six years from the end of the relevant accounting period or, if later, the date on which an enquiry for that period is completed. Failure to compile and retain transfer pricing documentation for the relevant period may result in a penalty. There is no requirement to file the documentation with income or corporation tax returns.

Parties are deemed related for UK transfer pricing purposes when one party directly or indirectly participates in the management, control or capital of the other, or when the same person or persons directly or indirectly participate in the management, control or capital of both parties. Control could be through the holding of shares or as a result of powers conferred by documents regulating the entity. There generally is a 51% test of control, but it can go down as low as 40%. Persons "acting together" to exert control in relation to financing arrangements are also deemed related.

The 2010 OECD transfer pricing guidelines, which have been incorporated into UK law, do not impose a distinct hierarchy of transfer pricing methods, because the choice of one method over another is based “on the most appropriate method to the circumstances of the case.” Nevertheless, certain comparisons need to be undertaken, in particular with regard to the availability and reliability of the data. Moreover, the OECD guidelines state that taxpayers retain the freedom to apply other, nonspecified methods, provided the derived result satisfies the arm’s length principle.

Compensating adjustments are available to a UK counterparty to a transfer pricing adjustment made by another UK group company and balancing payments can be made between the companies to restore their cash position.

SMEs are exempt from the transfer pricing rules (if their transactions are with UK-related businesses, or related businesses in countries with which the UK has a tax treaty with a nondiscrimination article). For these purposes, a company is small if, broadly, it and other group companies have no more than 50 employees and annual turnover and/or balance sheet totals are less than EUR 10 million. The corresponding limits for a company to be medium-sized are 250 employees with annual turnover of EUR 50 million and/or balance sheet total of EUR 43 million.

Thin capitalization and worldwide debt cap

Anti-avoidance measures to address excessive debt are included as part of the transfer pricing rules. When considering whether the interest on a loan from a foreign parent, for example, is deductible, the arm’s length principle must be followed. The ability of a borrower to support the loan generally is looked at on a stand-alone basis (ignoring the status of the group of which it is a part and any guarantees made to support the borrower’s loan), except that assets that it owns (including subsidiaries) can be taken into account. However, where an arm’s length adjustment is made in respect of interest, a UK guarantor may be able to claim a compensating adjustment. There are no safe harbor provisions.

There are rules restricting the tax deductions available for finance expenses of worldwide groups (the “worldwide debt cap” or “debt cap” rules). The principle of the debt cap is to restrict tax relief for UK interest deductions where debt owed by UK members of a worldwide group exceeds external debt owed by the group as a whole. Its main targets are upstream loans in UK headed groups and non-UK headed groups with highly leveraged UK sub-groups. The rules apply to all large groups with UK members. Very broadly, a comparison is made between the gross accounting finance expense of the worldwide IAS accounting group (“available amount”) and the aggregate of the net tax deductions in respect of certain financing transactions (e.g. interest) for UK resident companies/UK PEs of non-UK resident companies that form part of the accounting group (“tested expense amount”). Where the tested expense amount exceeds the available amount, the excess is disallowed. The debt cap rules also allow for a corresponding adjustment to exempt the financing income of UK group companies where there has been a disallowance.

Controlled foreign companies

The controlled foreign company (CFC) regime was completely overhauled for accounting periods of CFCs beginning on or after 1 January 2013. The current regime aims to better reflect the way that business functions in a global economy and is intended to charge UK tax only on foreign profits artificially diverted from the UK. Broadly speaking, a CFC is a company that is not resident in the UK but is controlled by UK residents.

There is a “gateway test” and various exemptions that could apply to the CFC at an entity level or to a particular source of its income. If after applying the exemptions, there is any income that is not taken out of account, it is apportioned to those UK members that have at least a 25% direct or indirect interest in the CFC.

Capital gains are exempt.

A full or partial exemption is available for finance companies. Under the partial exemption, only 25% of the profits derived from certain overseas group financing arrangements are apportioned to the UK and charged to tax at the main UK corporate tax rate. This results in an effective tax rate of 5% from 1 April 2015.

Diverted profits tax

Diverted profits tax (DPT) applies at the rate of 25% from 1 April 2015 to profits of multinationals that have been artificially diverted from the UK to encourage companies to adjust their corporate tax position to reflect the expected outcomes from the G20/OECD base erosion and profit shifting (BEPS) project. DPT is distinct from corporation tax and the UK considers it falls outside the scope of existing double tax treaties. DPT will apply at the rate of 55% to oil and gas companies operating inside the ring fence.

DPT applies in two distinct situations:

1. Where a group has a UK company (or UK PE of an overseas company) and there is a tax mismatch as a result of transactions with an entity that lack economic substance. Broadly speaking, there is a tax mismatch where the overseas tax is less than 80% of the UK tax that would have applied (with an exclusion where the overseas tax rate is low because of losses); and/or
2. Where a foreign company has artificially avoided having a taxable presence (PE) in the UK. There is a requirement that there is activity (people) in the UK.

There is an exemption from DPT for SMEs. For avoidance of UK PE cases, there are further exemptions where either: (i) total UK sales made by the group that are not within corporation tax are less than GBP 10 million per annum; or (ii) UK expenses of the group are less than GBP 1 million per annum.

Loan relationships (financing arrangements) and their associated derivatives are excluded from the scope of DPT.

There are two stages to the calculation of DPT. HMRC will make an initial estimated charge and then as a second stage, calculate DPT based on facts and circumstances. The method of calculation depends on the situation in which the charge arises. In situation 1. above HMRC will calculate DPT by reference to the alternative provision that it is “just and reasonable” to assume would be substituted for the actual provision. In some cases the actual provision will be the one used to calculate DPT, where the matter relates to expenses that still would be deductible in the UK under the relevant alternative provision (and the DPT calculation therefore is solely in relation to the pricing). In situation 2, a notional PE profit is calculated as if the foreign company had an actual PE in the UK through which it carries on a trade. The calculation of DPT will include credit for any UK corporation tax, any overseas tax (that is similar to corporation tax) paid on the same profits by either the overseas company or another group company, withholding tax paid and CFC charges paid in relation to the UK or any overseas CFC regime.

A company generally must notify HMRC that it is potentially within the scope of DPT within three months of the end of the accounting period. HMRC must issue its initial notice of the DPT charge within two years of the end of the accounting period (or four years if there has been no notification).

General anti-abuse rule

A general anti-abuse rule (GAAR) applies for arrangements entered into on or after 17 July 2013. The GAAR applies across a wide range of taxes, including corporation tax, income tax, capital gains tax and stamp duty land tax. The legislation gives the UK tax authorities power to potentially apply the GAAR to counteract tax advantages arising from “abusive” arrangements.

The GAAR does not replace the large body of specific anti-avoidance rules that exists to target potential or perceived manipulation of the tax legislation. The UK courts also have developed through case law the general principle known as the “*Ramsay* principle.” This requires that a statutory provision is given a purposive construction to determine the nature of the transaction to which it was intended to apply and then to decide whether the actual transaction answers to the statutory provision.

3.7 Administration

Tax year

The corporate tax year begins on 1 April. A company’s financial year normally is 12 months’ long and companies may prepare their accounts to any date. A company’s corporation tax accounting

period is usually the 12-month period for which it prepares its accounts but special rules apply where the accounts cover a period of more than 12 months. For company accounting periods that straddle the start of the tax year, the taxable income is time-apportioned and taxed in accordance with the rates prevailing in the two tax years that the accounting year overlaps.

Filing and payment

Companies are required to self-assess their corporation tax liability. Large companies (i.e. those with annual taxable profits exceeding GBP 1.5 million per annum, reduced pro rata by the number of associated companies, must make corporate tax payments in four equal quarterly installments (in the 7th, 10th, 13th and 16th months following the beginning of the accounting period), based on the expected tax liability for the year. Other companies pay tax in a single sum, nine months after the end of the company's financial year.

The due date for filing a corporate tax return is within 12 months of the end of the accounting period. Electronic filing is mandatory.

Withholding taxes are payable quarterly if the accounting year ends on a quarter-end date (31 March, 30 June, 30 September and 31 December); otherwise, payment is made five times a year.

Companies are liable to a fixed penalty of GBP 100 for failure to file a tax return by the due date, plus an additional GBP 100 if the return is not submitted within three months of the due date. These penalties are increased to up to GBP 1,000 if the company's tax return is late for three or more accounting periods. Further penalties may apply to returns filed at least six months late. Tax-gear penalties can be sought for matters such as tax returns that are carelessly or deliberately incorrect, although such penalties can be reduced depending on the taxpayer's behavior (e.g. voluntary disclosure, etc.).

Interest, and potentially penalties, is payable to HMRC for underpayment and late payment of corporation tax. Interest and penalties also are likely to be imposed on companies for late payment of employees' income tax withholding, which is payable monthly, along with NIC.

Companies, partnerships with one or more corporate member and certain collective investment schemes that own UK residential property valued at more than GBP 1 million (reduced from GBP 2 million with effect from 1 April 2015 and to be reduced further to GBP 500,000 from 1 April 2016) must separately file ATED returns each year. In general, returns are due by 30 April annually and/or within 30 days of acquisition of a new residential property (90 days where residential property is newly constructed or newly converted from existing dwellings). Tax is due on the date for filing the return. For 2015 only, returns must be filed by 1 October 2015 where ATED relief is being claimed or where the property is valued between GBP 1,000,001 and GBP 2 million for ATED purposes and, if tax is payable, it is due by 31 October 2015. The October filing and tax payment deadlines are applicable only where they result in a later filing and tax payment deadline than otherwise would be the case.

If ATED has applied at any point in the property ownership period, a capital gains summary must be filed by the 31 January following the tax year of disposal (6 April – 5 April).

Nonresidents that dispose of a UK residential property must file a nonresident capital gains tax return within 30 days of disposal.

Consolidated returns

The UK does not tax groups of companies on the basis of a consolidated tax return. However, relief for losses between companies in a group is given by a system of group relief; one company surrenders its loss and another company claims the loss (see section 3.3 above).

Statute of limitations

The standard rule for large companies is that, if a return is filed on time, the tax authorities have two years from the end of the accounting period to launch an inquiry into the return. After two years, or after the closure of an inquiry, the tax authorities can assess additional tax only if the disclosure was inadequate or there was careless or deliberate error. The normal statute of limitations is four years in most cases of inadequate disclosure by a company. A six-year time limit applies if a company has acted "carelessly" and a 20-year time limit applies, for example, for failure to notify chargeability to tax.

Tax authorities

HMRC is responsible for the administration and collection of both direct and indirect taxes in the UK. The majority of taxes now are subject to a self-assessment regime, under which it is the taxpayer's responsibility to calculate the amount of tax due and ensure payment is made. HMRC can challenge and amend such self-assessments, as well as impose penalties on taxpayers for noncompliance and charge interest on late payment of tax.

Rulings

A number of anti-avoidance provisions contain specific statutory clearance procedures allowing taxpayers to gain certainty on whether that legislation will apply before entering into a transaction. HMRC also provide a nonstatutory clearance service that provides confirmation of their view on the application of tax law to a specific transaction or event provided the request is submitted on a named basis, with full disclosure, and there is both commercial significance (for queries which relate to tax legislation that is older than four Finance Acts) and material uncertainty. In most circumstances, such clearances also can be relied upon as HMRC's view of the tax consequences of a transaction. Both pre- and post-transaction clearances can be given, and HMRC aims to provide clearance within 28 days of receipt.

3.8 Other taxes on business

Petroleum revenue tax

Petroleum revenue tax on North Sea oil and gas is the most important industry-specific tax. It is charged on the profits from individual oil fields developed before 1993. The rate is 50% (35% for chargeable periods ending after 31 December 2015). Oil companies also are subject to a supplementary charge to corporation tax of 32% in respect of North Sea oil and gas profits. Legislation has been introduced to reduce the rate of the supplementary charge from 32% to 20% with retroactive effect from 1 January 2015.

From 1 April 2015, an investment allowance for North Sea oil and gas replaces the offshore field allowances and simplify the regime.

Bank levy

The bank levy, introduced in 2011, is a permanent tax in respect of certain equity and liabilities on banks' balance sheets. The rates of the levy from 1 April 2015 are 0.21% for short-term chargeable liabilities (previously 0.156%) and 0.105% (previously 0.078%) for long-term chargeable equity and liabilities. The levy is not charged on the first GBP 20 billion of chargeable liabilities.

4.0 Withholding taxes

4.1 Dividends

The UK normally does not impose withholding tax on dividends. However, a real estate investment trust (REIT) is required to deduct tax at 20% from certain dividends.

4.2 Interest

A 20% withholding tax generally is imposed on interest payments to non-UK residents, unless the rate is reduced under an applicable tax treaty. This is not an automatic reduction and clearance must be granted by the UK tax authorities. HMRC has introduced a tax treaty passport scheme to speed up the treaty approval process. This involves the corporate lender registering with HMRC to be approved as a “treaty passport holder.” If the lender is on the list, the borrower only has to complete a notification form 30 days before making the first interest payment on the loan. HMRC then will issue a direction allowing interest to be paid at the relevant reduced treaty rate.

Interest payments to qualifying EU companies may be exempt if they satisfy the conditions for application of the EU interest and royalties directive as implemented in UK law. Again, this is not an automatic reduction and clearance must be granted by HMRC. The directive exempts from withholding taxes payments of interest and royalties between companies in different EU member states, in limited circumstances. One of the key requirements is that, where a UK company is paying interest or royalties to a company in another EU member state, one of the companies must have a direct interest in at least 25% of the capital or voting rights of the other, or a third company must have a direct interest in at least 25% of the capital or voting rights of both companies. Therefore, payments between companies in the same group, where there is not a direct interest, are not included. With regard to its application to UK companies making payments of interest and royalties, the directive will often not have any practical effect, since many tax treaties with EU member states already provide for an exemption from withholding tax where certain conditions are satisfied. Withholding tax also can arise in certain domestic situations.

4.3 Royalties

A 20% withholding tax generally is imposed on royalty payments to nonresidents, unless the rate is reduced under a tax treaty. Royalty payments to qualifying EU companies may be exempt if they satisfy the conditions for the EU interest and royalties directive as implemented in UK law (see 4.2 above). Reduced royalty withholding rates can be applied by self-assessment (i.e. no advance clearance is required).

4.4 Branch remittance tax

None.

4.5 Wage tax/social security contributions

The UK does not impose a payroll tax. However, employers in the UK are required to make social security contributions on behalf of their employees under the NIC scheme. These contributions are tax deductible for corporation tax purposes. Employees also pay NIC. For employers, NIC generally is payable at a rate of 13.8% on all income in excess of GBP 8,112 (from 6 April 2015).

5.0 Indirect taxes

5.1 Value added tax

VAT is the largest single source of indirect tax revenue in the UK. VAT is chargeable by a taxable person on most supplies of goods and services made in the UK in the course of a business. It also is chargeable on the importation of goods from countries outside the EU and some services.

VAT is levied on the value added at each stage of the production and distribution chain, as well as on imports. Businesses act as VAT collectors, paying to HMRC the tax paid by their customers and receiving a credit for the tax they pay to suppliers. Thus, VAT is offset at each stage until the goods or services reach the final consumer or an exempt business.

The standard rate of VAT is 20%, with a reduced rate of 5%. Some supplies are zero-rated and others are exempt.

Zero-rated supplies are treated as a taxable supply, so related input VAT (the VAT on costs) can be recovered by the business. Zero-rating applies to many foods (but excluding catering), most water and sewerage services, books and newspapers, certain transactions in relation to land and property (e.g. new homes, and to certain buildings used for charitable and some residential purposes), public transport (but not taxis), certain health and welfare services, charities and certain clothing and footwear such as children's clothes and protective clothing.

For exempt activities, however, no tax is chargeable on sales, and no VAT is recoverable on related purchases (subject to *de minimis* limits). Exempt activities include most financial services, rent (but landlords can sometimes "opt to tax"), education and healthcare services.

Both incorporated and unincorporated businesses must register for VAT if taxable turnover exceeds GBP 82,000 (from 1 April 2015) in any 12-month period, or if the business expects to turn over GBP 82,000 in the next 30 days. Voluntary registration is possible for businesses making taxable supplies below this threshold. Deregistration is possible if taxable supplies fall below GBP 80,000 (from 1 April 2015). If a business does not have a place of business in the UK, the registration threshold does not apply. The registration date for such businesses will be the earlier of the date the business makes taxable supplies in the UK or the date that the business expects it will make taxable supplies in the next 30 days.

Businesses with supplies of GBP 600,000 or more are required to disclose their use of specified VAT avoidance schemes. In addition to disclosing the use of any of the specified schemes, businesses with supplies of GBP 10 million or more must disclose the use of schemes that have the hallmarks of avoidance.

For goods imported from outside the EU, VAT is payable at the time and place of entry to the UK. Payment can be made on the 15th day of the following month if there is a deferment account, but a financial guarantee is required to operate such an account. The Simplified Import VAT Accounting Scheme allows authorized traders to apply to reduce the level of financial guarantee required for VAT purposes. There is no VAT on the temporary import of certain goods if the same goods are subsequently re-exported within a specified time.

There is a different mechanism for levying VAT on goods from EU member states. For supplies of goods from a VAT-registered business in another member state to a VAT-registered business in the UK, the UK business that acquires the goods must account for VAT. For supplies of goods from a VAT-registered business in another member state to a UK consumer, the supplier must account for VAT in that member state, until such time as the value of supplies exceeds the "distance sales" threshold of GBP 70,000, when the supplier must register and account for UK VAT. Suppliers must submit to their national fiscal administration a list of the total sales of goods and some services to VAT registered buyers in other EU member states on a quarterly or monthly basis.

The UK allows group registration for VAT purposes for companies under "common control." The main benefit of VAT grouping is that the majority of transactions between group members are disregarded for VAT purposes. This is particularly helpful where UK group companies would otherwise suffer input VAT restrictions because they make exempt supplies. All supplies made by the group to non-group members are treated as made by one member of the group nominated as

the “representative member.” All members of a group remain jointly and severally liable for the VAT liabilities of the group.

5.2 Capital tax

The UK does not levy capital duty.

5.3 Real estate tax

Companies must pay a municipal property tax, called rates, collected from the owners (or sometimes the tenants, depending on arrangements in a lease) of all business property. Rates are based on the annual rental value of the property as assessed by the Valuation Office Agency, an executive agency of HMRC. A multiplier set by central government is applied to this annual rental value. Rate relief schemes are available from local authorities and relief also is available for small businesses. The rates are a deductible business expense for corporate tax purposes. The local authority collects the rates.

5.4 Transfer tax

See under “Stamp duty.”

5.5 Stamp duty

Stamp duty is levied on documents of transfers of UK shares at the rate of 0.5%.

Stamp Duty Reserve Tax (SDRT)

SDRT is charged at 0.5% on an unconditional agreement (whether oral or in writing) to transfer UK shares for consideration in money or money's worth. This charge can be cancelled by payment of stamp duty on completion of the agreement by means of a written transfer instrument (usually a stock transfer form). A special higher rate charge of 1.5% may apply where UK shares are transferred or issued into a depositary receipt system in return for American Depositary Receipts or into a clearance service.

Stamp Duty Land Tax (SDLT)

SDLT is charged on transfers of real property in England, Wales and Northern Ireland. Freehold transfers and assignments of leases are charged to SDLT on the consideration payable for the transfer or assignment at the applicable rate band based on consideration paid. The mechanism for charging SDLT differs for residential and commercial property. From 4 December 2014, a progressive system of SDLT has applied for most acquisitions of residential property only, with rates ranging from 0% where the consideration does not exceed GBP 125,000 to a top rate of 12% on the part of any consideration in excess of GBP 1.5 million. Where a company, partnership with one or more corporate member or certain collective investment schemes acquire residential property for more than GBP 500,000, a 15% rate applies to the total amount of consideration. Relief from the 15% rate is available for certain businesses. Where relief is available, the standard rates that apply to residential property purchases apply instead. For nonresidential property, SDLT applies at rates of up to 4% on the total amount of the consideration, depending upon the rate band in which that consideration falls.

SDLT also is levied on grants of leases. Rent is charged to SDLT at 1% of the net present value of the rent payable over the term of the lease, discounted at the rate of 3.5%. Premiums are treated in the same way as freehold transfers at the applicable rates.

From 1 April 2015, the Scottish government's Land and Buildings Transaction Tax (LBTT) replaces SDLT in Scotland. LBTT is charged at progressive rates of up to 12% on residential property and 4.5% on other property.

Annual Tax on Enveloped Dwellings (ATED)

In addition to the 15% SDLT charge, the ATED of up to GBP 218,200 per year (for the year from 1 April 2015 to 31 March 2016; up to GBP 143,750 for the year 1 April 2014 to 31 March 2015) applies where residential property worth more than GBP 1 million (GBP 2 million before 1 April 2015) is owned by companies, partnerships with one or more corporate member and certain collective investment schemes. Relief from ATED is available for certain businesses, but must be

claimed annually. In general, the date on which the property is valued for ATED purposes is 1 April 2012, or on acquisition if this is later.

5.6 Customs and excise duties

Customs is regulated by EU legislation and customs duty is an EU-wide tax levied on the importation of goods into the EU. The EU operates a common customs tariff that, in effect, means the same amount of customs duty will be levied on imports irrespective of where in the EU the importation is made.

There are three pillars to the regulations: classification, origin and valuation.

Traders are required by law to ensure that they are fully compliant with the customs legislation or otherwise risk penalties and the loss of any duty-relief authorizations that they may be operating.

The customs classification of imported products determines the rate of customs duty that will be applied, which can range from a zero rate up to 85%. Incorrect classification can mean paying too much (or too little) duty and can result in penalties and additional costs.

The customs origin of imported products also can affect the customs duty payable, as the EU offers certain countries reduced customs duty rates where the goods originate under the terms of specific agreements. Declaring the incorrect origin of goods could again result in paying too little (or too much) duty and also could give rise to penalties and additional duties.

Determining the correct customs value of goods is one of the most complex responsibilities that traders face. Customs duty normally is a percentage rate applied to the CIF value (i.e. the cost of the goods, the insurance premium (amount, if any, paid to insure goods during the international movement) and the freight costs (the transport charges of the international movement) of the imported consignment). Customs legislation allows for certain cost elements to be removed from, or added to, the cost of the goods.

Unlike import VAT, customs duty normally is not recoverable and represents a bottom-line cost to the importer that needs to be considered before importation.

There are numerous duty-relief measures available for importers to suspend or delay the point at which duties become payable.

Excise duty is a tax levied on certain products at specific national rates. Products that are liable for excise duties include alcohol, tobacco and mineral oils (such as petrol). VAT normally is charged on the excise duty-inclusive price.

In principle, excise duty is due when the appropriate goods are released for consumption in the UK. An EU regulation on the holding and movement of excise products allows for companies that trade in excise goods to be approved for the receipt, storage and dispatch of products under excise duty and VAT suspension. A similar concession is provided to those involved in the production of such products, such as oil refineries, breweries and distilleries.

Excise duty also is levied on the importation of goods from both EU and non-EU countries unless deposited in an approved excise warehouse facility.

There is growing emphasis on traders to ensure that their supply chain is secure by becoming approved under the Authorized Economic Operator scheme where in exchange for secure processes and supply chains, importers and exporters can receive numerous trade incentives such as guarantee waivers and priority customs clearance at port.

5.7 Environmental taxes

An annual duty is levied on licenses for motor vehicles and is linked to carbon dioxide emissions (for private cars) or based on weight (for commercial vehicles).

A climate change levy is charged on taxable commodities (electricity, natural gas, coke, coal, etc.) on the downstream use of those commodities by the industrial, commercial, agricultural, local administration and other non-domestic sectors. The rate of the levy varies by type of commodity and is charged per kilowatt hour or kilogram as appropriate. A lower rate of climate change levy is also applied to certain fossil fuels (coal and gas etc.) when used as feed stock to generate electricity.

An aggregates levy of GBP 2 per ton of taxable material is charged on the commercial exploitation or importation of taxable rock, sand and gravel into the UK or its territorial waters.

Landfill tax is levied on landfill site operators based on the quantity of waste disposed of at the site. The rate of landfill tax is GBP 2.60 per ton of lower rated, mostly “inert” waste such as rocks and soil and GBP 82.60 per ton of standard rated waste, from 1 April 2015. In practice, the tax is ultimately likely to be borne by the waste generator. From 1 April 2016, the rates will increase with the retail price index, subject to rounding.

5.8 Other taxes

The standard rate of tax on general insurance premiums is 6%. There is a selective higher rate of 20% on some policies, such as mechanical breakdown and travel insurance.

6.0 Taxes on individuals

The UK imposes three direct taxes on individuals: income tax, capital gains tax and inheritance tax. There is no wealth tax.

UK Tax Facts for Individuals	
Income tax rates	Up to 45%
Capital gains tax rates	18%/28%
Basis	Worldwide
Double taxation relief	Yes
Tax year	6 April – 5 April
Return due date	31 October or 31 January
Withholding tax	
– Dividends	0%
– Interest	20%
– Royalties	20%
Net wealth tax	No
Social security (NIC)	Varies
Inheritance tax	0%-40%
Real estate tax	Varies depending on value of property
Stamp duty	0.5%
Stamp duty land tax	Up to 12%
Land and buildings transaction tax (Scotland)	Up to 12%
VAT	20% (standard rate)/5%, 0% (reduced rates)

6.1 Residence

The UK tax treatment of individuals depends on whether a person is resident and/or domiciled in the UK.

A statutory residence test (SRT) has applied since 6 April 2013 that is based on a combination of physical presence and connection factors with the UK and other jurisdictions. Individuals are automatically non-UK resident if they work full-time abroad or spend fewer than 16 or 46 days in the UK in the tax year (the 46-day limit applies to individuals who have been UK resident at some point in the previous three tax years). If none of these tests are met, an individual automatically is UK resident if he/she spends 183 days or more in the UK in a given tax year, has their only home in the UK or works full-time in the UK.

If an individual is neither automatically non-UK resident nor automatically UK resident, the individual nonetheless is resident if he/she has sufficient UK ties (as defined) in relation to the aggregate days of presence in the UK (at midnight) in the year. The more UK ties, the fewer the days of presence in the year that will be needed to make the individual UK resident. The ties relate to the tax residence of family members, availability of accommodation, work, presence in previous tax years and whether or not more time has been spent in the UK in the tax year in question than in any other single jurisdiction.

In certain defined circumstances, an individual who arrives or leaves part way through the year and who is resident for the entire year, may split the year and tax generally is not then charged on

income and gains relating to the overseas part. Split year treatment may be available where an individual starts, or is married/in a civil partnership with someone who has started, to work full-time abroad or in the UK, or has started or ceased to have their home in the UK. Detailed requirements apply.

Domicile is a distinct concept from residence and also is taken into account when determining an individual's liability to UK tax on particular sources of income and capital gains. An individual's domicile status normally is determined by his/her parents' domicile and does not readily change, but a foreigner coming to the UK permanently may acquire a UK domicile of choice.

6.2 Taxable income and rates

Individuals who are resident and domiciled in the UK are subject to UK income tax and capital gains tax on worldwide income and gains, whether or not received in the UK, subject to the provisions of an applicable tax treaty.

Individuals who are resident in the UK but domiciled abroad also are subject to UK income tax and capital gains tax on worldwide income and gains but may choose to pay tax on their foreign income and capital gains on a "remittance basis" (i.e. only when the income or gains are brought into/remitted to the UK). Longer term UK residents usually must pay an annual charge if they wish to be taxed under the remittance basis of taxation. For individuals who have been UK tax resident for seven out of the previous nine years, the annual charge is GBP 30,000; the charge is GBP 60,000 (GBP 50,000 prior to 6 April 2015) where individuals have been UK resident for 12 of the previous 14 years. A new charge of GBP 90,000 applies from 6 April 2015 for individuals who have been UK resident for 17 out of the last 20 years. Individuals who claim the remittance basis lose their entitlement to a personal allowance for income tax purposes and their capital gains tax annual exemption, regardless of how long they have been UK resident.

The remittance basis applies automatically in some cases, such as where unremitted overseas income and gains are less than GBP 2,000. Individuals who are automatically taxable on the remittance basis retain their income tax personal allowance and capital gains tax annual exemption.

Nonresident individuals are taxable on UK-source income, subject to the provisions of an applicable tax treaty. From 6 April 2015, nonresident individuals are charged to capital gains tax on gains arising on disposals of UK residential property. Relief from capital gains tax may be available if the property in question is the individual's only or main residence.

Taxable income

Taxable income includes income from employment (including fringe benefits unless the individual earns less than GBP 8,500 per year), income from trading, savings and investment income, income from UK or foreign property businesses and miscellaneous income. The GBP 8,500 threshold is to be abolished from 6 April 2016. Earned and unearned (investment) income, whether from domestic or foreign sources, are combined to arrive at taxable income.

Income from employment usually is assessable in the year in which it is received. Dividends and other unearned income are assessed on the year's receipts. The timing of the taxation of income from self-employment will depend on the year-end of the business. Husbands and wives are normally taxed independently on all income.

Expatriate allowances must be included in taxable income, although an exemption is available for certain subsistence expenses where the employee intends to be in the UK for two years or less.

Employer-paid healthcare also is a taxable benefit.

Share-incentive, pension and certain savings schemes may confer tax advantages. The tax deductibility of private pension contributions is limited to the greater of 100% of annual salary, or GBP 3,600. However, tax relief is recovered via an annual allowance charge to the extent contributions exceed a fixed limit. For annual pensions' input periods ending in 2015/16, the limit is GBP 40,000.

Deductions and reliefs

Employees may deduct expenses incurred wholly, exclusively and necessarily in the performance of their duties, such as for travel (but not travel to their normal place of work) and protective

clothing. Allowable deductions have been tightened in recent years. Neither NIC nor medical insurance premiums are tax deductible.

UK residents are entitled to personal allowances. The personal allowance deductible in calculating taxable income in 2015/16 is GBP 10,600 (GBP 10,000 for 2014/15). Special allowances exist for persons born before 6 April 1938 and for the blind. A new marriage allowance is introduced from 2015/16 which allows individuals who are married or in a civil partnership where neither spouse or civil partner is a higher or additional rate income taxpayer (i.e. taxable income of FBP 42,385 or less), to transfer up to GBP 1,050 of their personal allowance to their spouse or civil partner.

The basic personal allowance for income tax gradually is reduced to nil for individuals with "adjusted net income" above GBP 100,000.

Rates

Employment, trading and investment income (other than dividends) are taxable at marginal rates of up to 45%. The marginal rates of personal tax for the 2015/16 fiscal year are 20% ("basic rate") on the first GBP 31,785 of taxable income, 40% ("higher rate") on taxable income between GBP 31,786 and GBP 150,000 and 45% ("additional rate") on income exceeding GBP 150,000. The corresponding rates and thresholds for the 2014/15 fiscal year were 20% on the first GBP 31,865 of taxable income, 40% on taxable income between GBP 31,866 and GBP 150,000 and 45% on income exceeding GBP 150,000. A 0% (2014/15: 10%) starting rate applies to the first GBP 5,000 (2014/15: GBP 2,880) of savings income. For many taxpayers, this is not relevant as the starting rate does not apply if their taxable nonsavings income exceeds the starting rate limit.

Dividend income is taxable at 10% if it is within the first GBP 31,785 for 2015/16 (GBP 31,865 for 2014/15) of taxable income, 32.5% if it is in the taxable income band of GBP 31,786 to GBP 150,000 for 2015/16 (GBP 31,866 to GBP 150,000 for 2014/15) and 37.5% thereafter. Dividends from UK companies and some foreign companies carry a nonrefundable tax credit of 10%. This eliminates the tax liability for basic rate taxpayers and reduces the effective rate to 25% for higher rate taxpayers and 30.6% for additional rate taxpayers.

Capital gains tax is payable at a rate of 28%, unless taxable income is less than the income tax higher rate threshold, in which case any gains within the remaining basic rate band are subject to 18% capital gains tax. Entrepreneurs' relief reduces the effective rate of tax to 10% for gains on disposal of certain business assets, subject to a lifetime limit of GBP 10 million of gains per individual. No tax is payable on gains up to the annual exempt amount, which is GBP 11,100 for 2015/16 (GBP 11,000 for 2014/15). Various assets are not subject to capital gains tax: for example, gains on the sale of a principal residence, most life-insurance policies, national savings certificates, personal belongings (chattels) worth GBP 6,000 or less and sterling denominated bonds (in most circumstances). When the gains are reinvested, capital gains tax may be deferred for business assets, subject to restrictions on the classes of asset into which funds are reinvested. Deferral for nonbusiness investments is much more restricted and is likely to be available only in respect of transfers into or out of a trust.

Different rates of income tax may apply in Scotland from 6 April 2016. Under the Scotland Act 2012, the UK income tax rate will not apply in Scotland. Instead, the UK element of income tax will be 10% lower than for the rest of the UK. The Scottish parliament then will set its element of income tax which could be 10%, or higher or lower. The Scottish rate will apply to all the income tax rates – the basic rate, the higher rate and the additional rate will all go up or down by the same percentage, relative to the UK rate. Savings income will be charged at the UK rate.

6.3 Inheritance and gift tax

Inheritance tax (IHT) generally applies only upon death and is charged on the value of the estate and gifts made within the previous seven years, subject to a reduction for gifts made between four and seven years before death. IHT is payable on assets worth in excess of GBP 325,000 at a rate of 40%. Where individuals leave 10% or more of their net estate to charity, a reduced 36% rate of IHT may apply to the remainder of the estate. In most cases, IHT is not due at the time of a lifetime gift provided it is a "potentially exempt transfer," which generally means an outright gift to another individual, although, as above, IHT does become payable if the donor dies within seven years of the gift. IHT may be payable on lifetime gifts which are made to persons other than individuals (e.g. most gifts into trust).

For individuals domiciled in the UK, IHT applies to worldwide assets. Where an individual subject to IHT does not have a UK domicile, IHT broadly applies only to UK situs assets. In certain cases individuals who are non-UK domiciled may be deemed to be UK domiciled for IHT purposes, in which case their worldwide estate is within the scope of UK IHT. This includes individuals who have been UK resident in 17 of the 20 tax years ending with the date property is gifted/death.

Although there are reliefs, for example, for certain business property, there is no exemption for a private residence. Lifetime transfers or transfers on death to the individual's spouse or civil partner generally are exempt from IHT, but if the donor spouse or civil partner is UK domiciled and the donee spouse or civil partner is non-UK domiciled, the exemption is limited to the nil-rate band that applies at the date of the transfer and the cumulative total of all transfers to a spouse or civil partner are taken into account when applying the restriction. It is, however, possible for the recipient spouse or civil partner to elect to be UK domiciled for IHT purposes, in which case the exemption is unlimited, but the recipient spouse/civil partner's worldwide estate would be within the scope of UK IHT.

6.4 Net wealth tax

The UK does not levy a net wealth tax.

6.5 Real property tax

Council tax is payable on the occupation of domestic property. The amount of tax payable is determined based on the value of the property on 1 April 1991 in England and Scotland and 1 April 2003 in Wales, or what the value of the property would have been at that time if the property was built or significantly changed since then. A 25% discount is available where a property is occupied by a single adult. Councils also have the power to grant discounts for furnished second homes or holiday homes, and empty and unfurnished homes. They also may charge additional council tax on properties left unfurnished and unoccupied for two years or more.

Stamp Duty Land Tax or Land and Buildings Transaction Tax are payable on the purchase of property, see section 5.5.

6.6 Social security contributions

NICs are payable by employers, employees and self-employed individuals. For 2015/16, monthly paid employees pay NIC at a rate of 12% on monthly income between GBP 486 and GBP 3,532 and 2% on income exceeding this amount (see 4.5 above for the employer contribution). For 2015/16, self-employed individuals pay NIC at a rate of 9% on annual income between GBP 8,060 and GBP 42,385 and 2% on the excess, together with a fixed charge of GBP 2.80 per week.

6.7 Other taxes

No local or other income taxes are charged in the UK.

6.8 Compliance

The tax year in the UK runs from 6 April in one year to 5 April the next (e.g. the 2015/16 tax year is 6 April 2015 to 5 April 2016).

Tax on employment income is withheld by the employer under the Pay As You Earn (PAYE) system and remitted to the tax authorities. Income not subject to PAYE and capital gains tax is self-assessed. If an individual is required to file a tax return, it must be filed by 31 October after the tax year (or 31 January if filing online). Payment of tax is due by 31 January after the tax year. Payments on account may be required on 31 January in that tax year and 31 July of the following tax year.

Non-UK residents who dispose of UK residential property must file a non-resident capital gains tax return within 30 days of disposal.

7.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database (also accessible through mobile devices) that places up-to-date worldwide tax rates and other crucial tax information within easy reach.

Connect to the source and discover:

A database that allows users to view and compare tax information for 65 jurisdictions that includes –

- Corporate income tax rates;
- Historical corporate rates;
- Domestic withholding tax rates;
- In-force and pending tax treaty withholding rates on dividends, interest and royalties;
- Indirect tax rates (VAT/GST/sales tax); and
- Information on holding company and transfer pricing regimes.

Guides and Highlights – Deloitte's Taxation and Investment Guides analyze the investment climate, operating conditions and tax systems of most major trading jurisdictions, while the companion Highlights series concisely summarizes the tax regimes of over 150 jurisdictions.

Tax publications – Global tax alerts and newsletters provide regular and timely updates and analysis on significant cross-border tax legislative, regulatory and judicial issues.

Tax resources – Our suite of tax resources includes annotated, ready-to-print versions of holding company and transfer pricing matrices; a summary of controlled foreign company regimes for the DITS countries; an R&D incentive matrix; monthly treaty updates; and expanded coverage of VAT/GST/Sales Tax rates.

Webcasts – Live interactive webcasts and Dbriefs by Deloitte professionals provide valuable insights into important tax developments affecting your business.

DITS is free, easy to use and readily available!

<http://www.dits.deloitte.com>

8.0 Office locations

To find out how our professionals can help you in your part of the world, please contact us at the office listed below or through the “contact us” button at <http://www.deloitte.com/tax>, or visit the Deloitte United Kingdom site at http://www.deloitte.com/view/en_GB/uk/index.htm

London

2 New Street Square
London EC4A 3BZ
United Kingdom
Tel: +44 20 7936 3000

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see <http://www.deloitte.com/about> for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 210,000 professionals are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2015. For information, contact Deloitte Touche Tohmatsu Limited.