

# United Kingdom Country Profile

EU Tax Centre

June 2017

## Key tax factors for efficient cross-border business and investment involving United Kingdom

**EU Member State** Yes

**Double Tax Treaties** With:

Albania	Cyprus	Italy	Morocco	South Africa
Algeria	Czech Rep.	Ivory Coast	Myanmar (Burma)	Spain
Antigua & Barbuda	Denmark	Jamaica	Namibia	Sri Lanka
Argentina	Egypt	Japan	Netherlands	St Kitts and Nevis
Armenia	Estonia	Jersey	New Zealand	Sudan
Australia	Ethiopia	Jordan	Nigeria	Swaziland
Austria	Falkland Islands	Kazakhstan	Norway	Sweden
Azerbaijan	Faroe Islands	Kenya	Oman	Switzerland
Bahrain	Fiji	Kiribati	Pakistan	Taiwan
Bangladesh	Finland	Rep. of Korea	Panama	Tajikistan
Barbados	France	Kosovo	Papua New Guinea	Thailand
Belarus	Gambia	Kuwait	Philippines	Trinidad & Tobago
Belgium	Georgia	Latvia	Poland	Tunisia
Belize	Germany	Lesotho	Portugal	Turkey
Bolivia	Ghana	Libya	Qatar	Turkmenistan
Bosnia & Herzegovina <sup>(a)</sup>	Greece	Liechtenstein	Romania	Tuvalu
Botswana	Grenada	Lithuania	Russia	UAE
Brunei	Guernsey	Luxembourg	Saudi Arabia	Uganda
Bulgaria	Guyana	Macedonia	Senegal	Ukraine
BVI <sup>(b)</sup>	Hungary	Malawi	Serbia <sup>(a)</sup>	Uruguay
Canada	Hong Kong	Malaysia	Sierra Leone	US
Cayman Islands <sup>(b)</sup>	Iceland	Malta	Singapore	Uzbekistan
Chile	India	Mauritius	Slovakia	Venezuela
China	Indonesia	Mexico	Slovenia	Vietnam
Croatia	Rep. of Ireland	Moldova	Solomon Islands	Zambia
	Isle of Man	Mongolia		Zimbabwe
	Israel	Montenegro <sup>(a)</sup>		
		Montserrat		

Notes: (a) Treaty signed with Former Yugoslavia continues to apply.  
(b) Applies to individuals only.

<b>Forms of doing business</b>	Private companies limited by shares, public companies.
<b>Legal entity capital requirements</b>	For a private company, there is no maximum or minimum share capital. For a private company limited by shares, only one share is required for incorporation. Public companies are required to have a minimum paid-up share capital of GBP 50,000.
<b>Residence and tax system</b>	A company is usually regarded as a UK tax resident if it has been incorporated in the UK or if its place of central management and control is in the UK. A company will not be regarded as UK resident, however, if it would be treated as non-UK resident for the purposes of a double tax treaty. Resident companies are chargeable to corporation tax on their worldwide profits.
<b>Compliance requirements for CIT purposes</b>	Corporation tax return to be filed within 12 months of the end of the accounting period.
<b>Tax rate</b>	The standard UK corporate tax rate is 19 percent from April 1, 2017 (20 percent for the tax years beginning April 1, 2015 and April 1, 2016). It has also been announced that the rate will reduce to 17 percent from April 1, 2020.
<b>Withholding tax rates</b>	<p><b>On dividends paid to non-resident companies</b></p> <p>No</p> <p><b>On interest paid to non-resident companies</b></p> <p>Generally, 20 percent on 'yearly' interest payments. Various exemptions including, in particular: interest paid by banks in the ordinary course of their business; interest payable on quoted Eurobonds (broadly, interest-bearing securities listed on a recognized stock exchange) and interest paid on a qualifying private placement. Interest payments to an EU company are exempt if it is 'associated' with the paying company. Companies are associated for these purposes if one directly holds more than 25 percent of the capital or voting rights in the other, or if a third EU company directly holds more than 25 percent of the capital or voting power in both companies. If no exemption is available, tax treaties may provide for a reduced rate of withholding tax.</p> <p><b>On patent royalties and certain copyright royalties paid to non-resident companies</b></p> <p>Generally, 20 percent. Payments to an EU company are exempt if it is "associated" with the paying company. Companies are associated for these purposes if one directly holds more than 25 percent of the capital or voting rights in the other, or if a third EU company directly holds more than 25 percent of the</p>



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#### On fees for technical services

No

#### On other payments

Payments determined to be "Qualifying Annual Payments" may be subject to withholding tax.

#### Branch withholding taxes

No

### Holding rules

#### Dividend received from resident/non-resident subsidiaries

Broadly, distributions (except for capital distributions) paid on or after July 1, 2009, by a UK or overseas company are exempt. There are complicated rules as to what type of distribution is exempt (with 5 exemptions and 8 anti-avoidance provisions). Where a distribution is not exempt, it is taxed with credit given for eligible foreign taxes. It is possible to elect to opt out of the exemption mechanism so that the distribution is taxed with credit.

#### Capital gains obtained from resident/non-resident subsidiaries

Capital gains realized on the disposal of shares are taxed, unless the 'substantial shareholding exemption' applies. This exemption applies if the following conditions are satisfied:

- Participation requirement: 10 percent of ordinary share capital and entitled to at least 10 percent of the profits available for distribution and assets on a winding up;
- Minimum holding period: 12 months (during the two-year period prior to disposal);
- Disposing company: Stand-alone trading company or member of trading group (this condition no longer applies from April 1, 2017);
- Company disposed of: Trading company or holding company of a trading group.

### Tax losses

Trading losses may usually be offset against the company's total profits for the year in which they arise, its total profits for the preceding year or carried forward for offset against the first available future profits of the same trade.

From April 1, 2017 the offset of losses carried forward is restricted to 50 percent of profits. There is a GBP 5million allowance (per tax group) before the 50 percent restriction applies. Carried forward losses have also become eligible for surrender as group relief (see 'Tax consolidation rules' below) from that date with offset again restricted to 50 percent of profits. Losses carried forward do not expire unless the trade concerned ceases, but their use may be restricted as a



result of a change in the company's ownership. Different rules apply to other categories of tax losses.

**Tax consolidation rules/Group relief rules**

Group relief for trading and certain other losses between resident group companies/branches. Losses in EU subsidiaries may be used in the UK in certain restrictive circumstances.

**Registration duties**

No

**Transfer duties**

**On the transfer of shares**

Between 0.5 percent and 1.5 percent on the amount or value of the consideration given for the shares transferred (or in certain cases the value of the shares transferred) subject to exemptions including where the amount or value of the consideration for the sale is GBP 1,000 or less.

**On the transfer of land and buildings**

Between 0 percent and 15 percent (on 'slices' of the amount or value of the consideration given or in certain cases the value of the interest transferred) for acquisitions of UK residential property. 15 percent (on all of the amount or value of the consideration given or in certain cases the value of the interest transferred) for acquisitions of residential property in England, Wales and Northern Ireland over GBP 500,000 by companies subject to exceptions. Between 0 percent and 5 percent (on 'slices' of the amount or value of the consideration given or in certain cases the value of the interest transferred) for acquisitions of non-residential property, mixed-use property or six or more residential properties in England, Wales and Northern Ireland. Between 0 percent and 4.5 percent (on 'slices' of the amount or value of the consideration given or in certain cases the value of the interest transferred) for acquisitions of non-residential property, mixed-use property or six or more residential properties in Scotland. Between 0 percent and 2 percent of the net present value of the rent for acquisitions of new leases in England, Wales and Northern Ireland. Between 0 percent and 1 percent of the net present value of the rent for acquisitions of new leases in Scotland.

**Stamp duties**

0.5 percent on the transfer of loan capital and certain other securities on the amount or value of the consideration given for the loan capital or securities transferred.

**Real estate taxes**

An annual charge between GBP 3,500 and GBP 220,350 (index-linked for future years) for corporate entities owning single interests in UK residential property over GBP 500,000 subject to exceptions.

**Controlled Foreign Company rules**

A new CFC regime has been introduced for accounting periods of CFCs beginning on or after January 1, 2013. The new regime is designed to focus on the artificial diversion of profits from the UK. To the extent that the profits of a CFC fall within certain 'gateway' provisions and none of the entity exemptions



apply, those profits (i.e. profits computed broadly following UK tax principles, but excluding capital gains) are apportioned to its shareholders. However, only UK companies which have an interest of 25 percent or more in the CFC (including interests held by connected or associated persons) are subject to UK corporation tax on the profits apportioned to them. The new regime also includes a favorable finance company exemption, which will normally result in 75 percent of the profits from overseas intra-group financing being exempt (producing an effective UK tax rate on such profits of 5.25 percent from 2014), although full exemption will be available in certain circumstances.

## Transfer pricing rules

### General transfer pricing rules

The arm's length principle applies to related companies (including UK-UK payments).

### Documentation requirement

Although not essential on a standalone basis (i.e. the taxpayer will not be penalized for mere failure to produce a study), a transfer pricing study will meet the statutory requirements to prepare and retain documentation to support the entries on a taxpayer's tax return. It will also eliminate or substantially reduce exposure to penalties, and shift the burden of proof to the tax authority.

## Thin capitalization rules

Interest deductions for thinly capitalized entities may be restricted under the UK's transfer pricing legislation or under rules which can recharacterize excessive interest payments as distributions in certain situations. Interest deductions may also be restricted by the worldwide debt cap.

From April 1, 2017, new rules cap deductions for net interest expense to the higher of:

- 30% of taxable earnings before interest, taxes, depreciation and amortization (EBITDA) in the UK (the Fixed Ratio Rule); or
- a proportionate share of the worldwide group's net interest expense, equal to UK taxable EBITDA multiplied by the ratio of worldwide net interest expense to worldwide EBITDA (the Group Ratio Rule).

The existing Debt Cap has been repealed, but to prevent groups with little third party interest claiming excessive deductions under the Fixed Ratio Rule, a Modified Debt Cap has been included in the rules to limit deductions to the net interest expense of the worldwide group.

## General Anti-Avoidance rules (GAAR)

A general anti-abuse rule came into effect on July 17, 2013.

## Specific Anti-Avoidance rules/Anti

The UK generally relies on the incorporation of provisions to prevent treaty shopping into its double tax treaties rather than on any domestic provisions.



## **Treaty Shopping Provisions**

Tax arbitrage anti-avoidance rules may apply where structures involving hybrid instruments or hybrid entities are used to generate a UK tax advantage.

Interest deductions may also be restricted by the worldwide debt cap rules. A new Diverted profits tax was introduced from April 1, 2015 which is targeted at arrangements designed to either (a) avoid creating a taxable presence in the UK (via a permanent establishment) or (b) create tax mismatches between UK companies and non-UK companies (with a lower tax rate than the UK) and where such arrangements do not meet defined economic substance tests.

## **Advance Ruling system**

Advance pricing agreements/clearance can be obtained that certain anti-avoidance rules (e.g. certain aspects of CFC rules) will not apply to certain transactions. Clarification of Her Majesty's Revenue and Customs ("HMRC") interpretation of new legislation and certain other matters including the application of double tax treaties can be obtained although informal rulings are no longer available.

## **IP / R&D incentives**

The UK provides an enhanced deduction (up to 225 percent for small or medium-sized enterprises and up to 130 percent for other companies) for qualifying research and development expenditure. In 2013 a new "above-the-line" R&D tax credit of 10% was introduced with transitional arrangements applying until 2016. A "patent box" regime allows certain income from qualifying patents to be taxed in the UK at a reduced rate of 10 percent.

## **Other incentives**

Specific film tax credits available.

## **VAT**

The standard rate is 20 percent, and the reduced rate is 5 percent.

## **Other relevant points of attention**

Tax advisors, and in certain cases taxpayers, are required to register within strict time limits with HMRC schemes or arrangements that have as their main or one of their main aims the avoidance of UK tax.

Source: UK tax law and HMRC interpretations, updated 2017.



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