United Kingdom country profile

EU Tax Centre

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

EU Member State Yes.

Double Tax Treaties With the following countries, territories and jurisdictions:

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

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

Most important forms of doing business

Private companies limited by shares, public companies.

Legal entity capital requirements

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.

Residence and tax system

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.

Compliance requirements for CIT purposes

Corporation tax return to be filed within 12 months of the end of the accounting period.

Corporate income tax rate

The standard UK corporate tax rate is 19 percent from April 1, 2017.

Withholding tax rates

On dividends paid to non-resident companies

20 percent withholding tax on Property Income Dividends (PIDs) for Real Estate Investment Trusts (REITs) and Property Authorized Investment Funds (PAIFs).

On interest paid to non-resident companies

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.

On patent royalties and certain copyright royalties paid to non-resident companies

Generally, 20 percent on patent royalties and royalties for the use, or right to use, intellectual property (IP) where the usual place of abode of the owner of the IP is outside the UK. 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.

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 section K) 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. The legislation also makes provision for a 1.5 percent charge on the issue of shares or securities in UK-incorporated companies in certain circumstances. However, that charge is not applied in practice, as HMRC accept that it contravenes EU law; and in 2017 HMRC confirmed that they will not reimpose the charge once the UK has left the EU.

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 market 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.

From April 1, 2018, the tax bands and tax rates for transactions in Welsh land and buildings will change. The rates for residential property transactions will continue to be between 0 percent and 15 percent (on 'slices' of the amount or value of the consideration given or in certain cases the market value of the interest transferred). However, there will be no flat 15 percent rate on acquisitions of residential property by corporate entities, as currently. The rates of tax for non-residential and mixed property transactions will be between 0 percent and 6 percent, again on 'slices' of the amount or value of the consideration given or in certain cases the market value of the interest transferred.

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 subject to exceptions.

Real estate taxes

An annual charge between GBP 3,600 and GBP 226,950 (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. However, it should be noted that the European Commission is currently undertaking a State Aid review of the finance company exemption element of these rules.

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 re-characterize 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 percent of taxable earnings before interest, taxes, depreciation and amortization (EBITDA) in the UK (the Fixed Ratio Rule);
- 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 Treaty Shopping Provisions/Anti-Hybrid rules

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

Anti-avoidance rules may apply where structures involving hybrid instruments or hybrid entities are used to create mismatches, such as enabling more than one tax deduction to be claimed for the same amount or for a tax deduction to arise where there is no corresponding taxable receipt.

Interest deductions may also be restricted by the worldwide debt cap rules or Modified Debt Cap. 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

Small or medium-sized enterprises - The UK provides an enhanced deduction of 230 percent for qualifying research and development expenditure. This can be surrendered for a cash credit where loss-making.

Large enterprises can claim an "above-the-line" R&D tax credit of 13 percent (was 11 percent until January 1, 2018). This can be offset against tax due, or received as a cash credit if not tax-paying.

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

Enhanced deductions (180 percent) and cash credits (20-25 percent) are available for Creative Sector activities including film production, animation, high-end and children's television programs, orchestral and theatrical productions, and museum or gallery exhibitions. These are available to commercial and charitable entities, even where profits are exempt from tax.

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.

Mandatory Disclosure Rules Updates

For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's MDR Updates page.

COVID-19 Resources

An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated KPMG page.

Sourrce: UK tax law and HMRC interpretations, updated 2020.

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