United Kingdom Country Profile

EU Tax Centre

July 2015

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

EU Member State Yes

Double Tax Treaties With:

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

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

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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	The tax year runs from April 1 to March 31. Corporation tax return to be filed within 12 months of the end of the accounting period.
Tax rate	The standard UK corporate tax rate is 21 percent for the tax year beginning April 1, 2014. It will reduce to 20 percent from April 1, 2015. Companies with taxable profits less than GBP 1,500,000 pay a lower effective rate of tax, which reduces to 20 percent for companies with profits of up to GBP 300,000. The thresholds at which the different rates apply are proportionally reduced where there is more than one company in a group.
Withholding tax rates	On dividends paid to non-resident companies No 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). 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 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. 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 company directly holds more than 25 percent of the capital or voting power in both companies. If no exemption is available, tax

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treaties may provide for a reduced rate of withholding tax.

On fees for technical services

No

On other payments

No

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;
- 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. 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

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Transfer duties

On the transfer of shares

0.5 percent on the value of the consideration given for shares transferred.

On the transfer of land and buildings

Up to 7 percent for residential property and up to 4 percent for non-residential or mixed-use property. A 15 percent rate applies to interests in residential dwellings costing more than GBP 2 million purchased by certain non-natural persons.

Stamp duties

None other than transfer duties discussed above.

Real estate taxes

In 2013 an annual charge ("TED") was introduced for non-natural entities on high value residential property over GBP 2 million. The annual charge is between GBP 15,000 and GBP 140,000, depending on the value of the property.

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.

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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	The UK generally relies on the incorporation of provisions to prevent treaty shopping into its double tax treaties rather than on any domestic 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.
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.
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 2015.

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