United Kingdom Country Profile

EU Tax Centre

July 2016

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

EU Member State Yes

Double Tax Treaties With:

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

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

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.
Tax rate	The standard UK corporate tax rate is 20 percent for the tax year beginning April 1, 2015. It will reduce to 19 percent from April 1, 2017. It has also been announced that the rate will reduce to 17 percent from April 1, 2020.
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 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

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 218,200 (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.
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. 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.
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 2016.

Contact us

Chris Murphy

KPMG in the UK

T +44 20 73111804

E chris.murphy@kpmg.co.uk

Sam Keeble-Carter

KPMG in the UK

T +44 117 9054727

E sam.keeblecarter@kpmg.co.uk

Sean Randall

KPMG in the UK

T +44 20 76944318

E sean.randall@kpmg.co.uk

www.kpmg.com