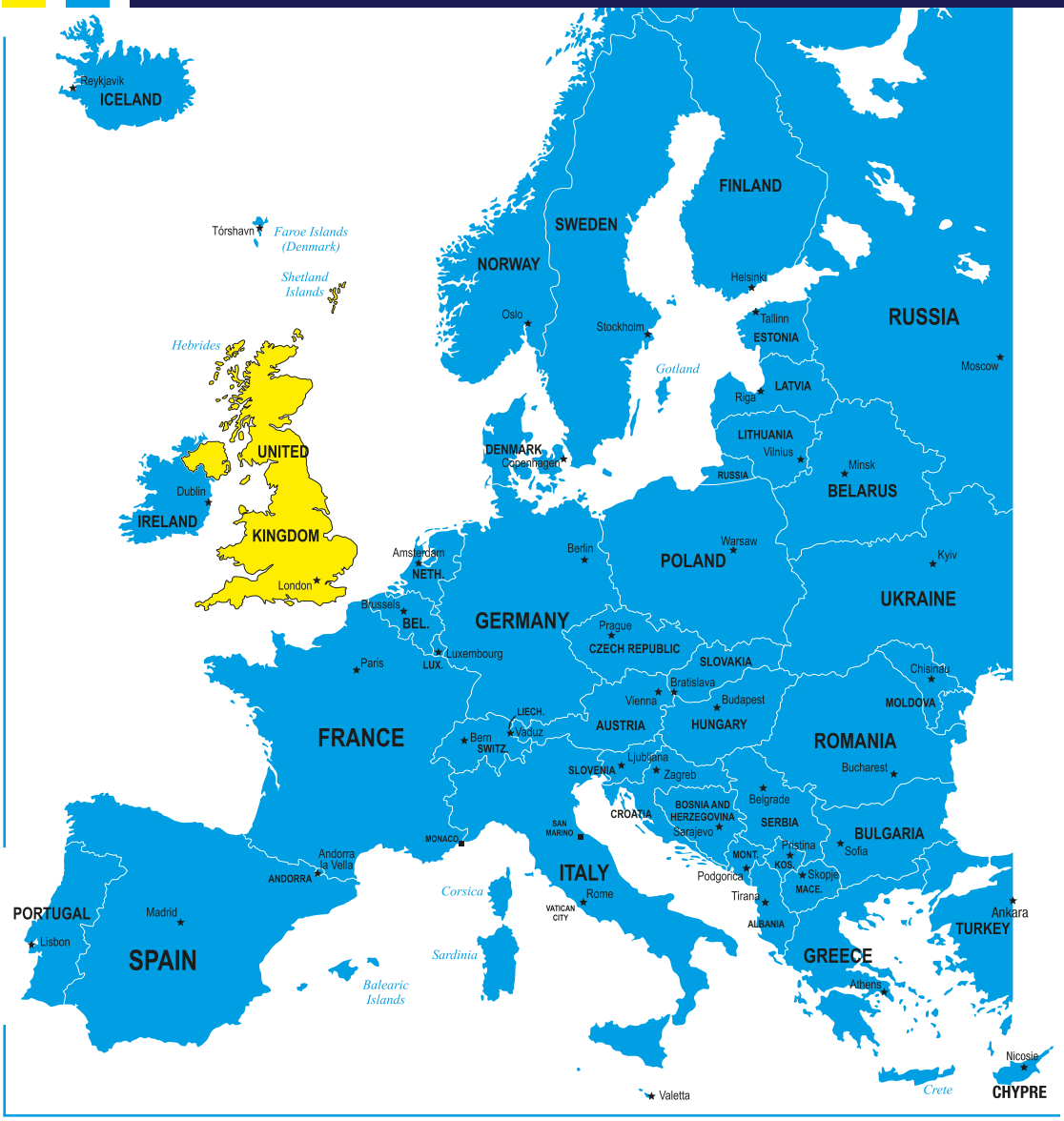
United Kingdom



Capital city:
London

Language:
English

GDP/capita 2015:
USD 43 876

Telephone code:
+44

Superficy:
248 528 km^2

Political system:
Constitutional monarchy

Currency:
Pound sterling

National day:
June 14th

Population:
64’767 M.

ISO Code:
GBR

United Kingdom

1. Corporate taxation

1.1 Taxes on entities

Legal entities are subject to Corporation Tax on their profits and chargeable capital gains in the UK. There is no capital duty or net worth tax but branch profits are also subjected to corporation tax. A company may also be liable to Value Added Tax on business supplies and to various other taxes and levies on some purchases and supplies as well as taxes on the occupation of property payable to local authorities in the UK. All UK resident limited and public limited companies are within the scope of UK Corporation Tax and so are unincorporated associations.

1.2 Residence and non-residence

Resident entities include companies and other incorporated entities and also unincorporated associations. These are liable to Corporation Tax on their worldwide income subject to relief for taxes suffered overseas under the provisions of a relevant Double Taxation Treaty or UK Unilateral Relief where eligible. A company is UK resident if it is incorporated under UK law or if its central management and control at board level is carried out within the UK.

Non-resident entities are liable to UK Corporation Tax on certain UK source income. The most important sources are income profits and gains from a permanent establishment in the UK and income from UK real estate.

1.3 Tax year and filing

The corporate tax year in the UK is the fiscal year from 1 April to 31 March but all companies may file a return based on their own financial year.

Generally a corporate tax return must be filed no later than 12 months after the company's 12 months financial accounting period or shorter financial year end date. No corporation tax return period can exceed 12 months but a shorter period is permitted when a company changes its annual accounting year end date. No tax assessments are issued to collect payment and the UK's Corporation Tax system operates under a fully "self-assessed" payment and collection regime by which the corporate entity must pay its tax according to certain defined due

dates and deadlines without demand from the tax authorities.

Large companies, as defined in tax law, must pay their liabilities in four equal instalments every year whilst smaller entities must pay their liability no later than nine months after the end of their accounting year or period end date.

1.4 Types of income

The taxable corporate profit is based on the entity's accounting profit subject to certain statutory adjustments. In addition there are limited deductions for certain charitable donations. Profits for Corporation Tax purposes include capital gains.

Expenses relating "wholly and exclusively" to the carrying on of the company's business are generally deductible against turnover, although the deduction of expenses which have "duality of purpose" may be restricted.

There are some expenses which are prohibited by statute: specifically no deduction is permitted for any type of depreciation except in narrowly defined circumstances for the amortisation of purchased goodwill, (purchased before 8 July 2015), and other intangible assets and on certain finance leased assets. Capital Allowances for specified types of assets are provided as a statutory deduction as an alternative to accounting depreciation.

There are specific rules limiting the deduction of interest and similar charges and there are very specific anti-avoidance provisions for "thin capitalisation of companies" i.e. where there is deemed to be excessive borrowing to finance a company and there are also very extensive transfer pricing regulations dealing with cross border transactions and inter-company dealing between related parties.

A provision can be made for bad and doubtful debts but only on a specific basis.

There is generally no relief for the purchase of investments or property in the UK against Corporation Tax.

1.5 Group income and grouping arrangements

A UK resident company can form a tax "group" with other companies that qualify as 75% owned subsidiaries. The grouping can commence at any time during the year. There are extensive conditions attached about share ownership.

When a group of companies exists this permits the exchange of tax losses and other defined expenses and charges among qualifying companies. Also companies in a qualifying group can exchange property and similar assets without in-

curring a tax charge provided certain strict conditions are met.

Group companies can also dispose of shareholdings in qualifying subsidaires, (broadly trading subsidiaries), without incurring a chargeable gains corporate tax liability provided they hold 10% or more of the share capital of the trading subsidiary for a period of at least 12 months ending on the date of the sale.

1.6 Capital gains

Corporate capital gains arise on asset disposals and certain other defined events. Corporate gains are aggregated with corporate income and subjected to the same rate of Corporation Tax.

Capital losses are computed in the same manner as gains and can then be deducted against capital gains arising in the same financial accounting period or carried forward against future capital gains indefinitely.

1.7 Losses

Trading losses may be used against total profits and capital gains arising in the same corporation tax accounting period. Trading losses may also be carried back one year against total profits and capital gains and carried forward indefinitely against profits arising from the same trade. Anti-avoidance provisions can prevent the use of losses when there is a major change in the nature or conduct of a company's trade or where there is a change of ownership of the company in defined circumstances. The rules on carried forward trade losses are to change significantly from 1 April 2017 with increased flexibilty to be permitted for carried forward losses arising after that date to be set off against other forms of company income and also to be available for surrender as group relief subject to certian restrictions and new conditions.

Capital losses may be used against total income profits and capital gains arising in the same corporation tax accounting period and can be carried forward but only against future capital gains indefinitely.

1.8 Exemptions

Capital gains arising on the disposal by a company of a "substantial" shareholding in another trading company are generally exempt from corporation tax provided certain conditions are met throughout a continuous twelve month period beginning not more than two years before the date of the disposal of the shareholding. The exemption applies provided the company in which the shares are held is a trading company and the investing company has at least 10% of the subsidiary company. The investing company must be a trading company as well

or there must be a trading group in existence both before and immediately after the disposal, although this condition may be relaxed if the disposing company is liquidated within a reasonable e time after the date of the disposal. Various other conditions can apply.

1.9 Rates

UK corporate income tax is levied at a national level.

From 1 April 2015 all UK companies pay the same 20% rate of corporation tax. Up until that date companies with profits in excess of GBP 1,5 million pay 21%, companies with profits below GBP 300.000 pay 20% and between these thresholds there is a marginal rate in force of 21.25%. The rate of corporate taxes in the UK is set to fall to 17% from 1 April 2020, (19% from 1/4/17 and 18% from 1/4/18).

1.10 Double tax relief

A credit is given for withholding taxes on dividends, interest and royalties.

Foreign source income is not generally exempt from tax in the UK but relief will normally be available under the terms of a relevant Double Taxation Treaty of which the UK has a large number and even if there is no relevant treaty Unilateral Relief can usually be claimed for taxes suffered outside the UK.

Dividends received by a UK company from an overseas company are not generally taxable on UK companies since 1 April 2009, unless the overseas company is located in a fiscal jurisdiction which the UK Tax Authorities regard as having a defined “unacceptably lower“ rate of corporation or equivalent local taxation.

2. Personal income taxation

2.1 Taxes on income

Income Tax in the UK is chargeable on all “earnings” of an individual who is within the scope of the tax charge. Income Tax is chargeable on Employment income, Self-employment income, Income from Rental Property, Savings and Investment Income, and other miscellaneous sources of earnings.

Income Tax on employment income is generally paid under a “Pay as You Earn” system of Withholding Tax whereas all taxes on the other forms of income are payable under a system of “self-assessment” requiring the submission of an annual tax return declaration.

There are also social security contributions, (known as National Insurance), which are mainly paid by employers and employees and the self-employed.

2.2 Residence and non-residence

Residence in the United Kingdom is determined according to a set of statutory rules introduced as from 5 April 2013. The United Kingdom comprises England, Scotland, Wales and Northern Ireland. The Isle of Man and the Channel Islands are not in the United Kingdom for taxation purposes. The rules are complex and specialist advice should be sought in "this" area.

The automatic residence test considers four factors:

- time spent in the United Kingdom;
- whether the individual has a home in the UK;
- whether the individual works full time in the UK;
- whether the individual has been resident in the years prior to death.

However, if certain other tests indicate that the individual may not be resident, one considers the sufficient ties test which include family, accommodation, work, time spent in the UK.

Domicile

An individual who is tax resident in the UK is broadly taxable in the UK on their worldwide income and capital gains, subject to relief under Double Tax treaties for foreign taxes suffered elsewhere.

However, an individual who is "foreign domiciled", (this means broadly someone of foreign nationality or foreign origin), and who is tax resident in the UK can elect to be taxed only on income or capital gains from overseas that they remit to the UK, i.e. that they actually bring into the UK.

A non-domiciled individual who has been resident in the UK for more than seven UK tax years must pay an extra charge of GBP 30,000 to be able to use the remittance basis as described above. This charge increases to GBP 50,000 after twelve years and to GBP 90,000 after 17 years of UK residence.

Anyone who chooses to be taxed in the UK on this remittance basis cannot claim UK personal income tax or capital gains tax allowances.

From 6th April 2017 any individual who is not of UK domicile but who has been resident in the UK for 15 out of the prevoius 20 UK tax years wil be deemed domiciled in the Uk and will thereafter have to submit a UK tax return declaring

their worldwide income and chargeable capital gains subject to any avaialble relief for taxes paid abroad under a relevant double tax treaty or under the UK's unilateral relief provisions as mentioned earlier.

Tax Charges on Non-residents

A person not resident in the UK is normally only charged to UK Income Tax on income arising from a source in the UK.

Generally, a person not resident in the UK is not subject to UK Capital Gains Tax, however, a non-resident may be subject to UK Capital Gains Tax if he has previously been resident in the UK and resumes residence after an absence of less than five UK tax years. Additionally someone who is non-UK tax resident will also be liable to UK capital gains tax on any disposals of residential property in the UK under new rules introduced to the UK tax code from 6 April 2015.

2.3 Tax year and filing

The tax year is from 6 April to 5 April.

In general a tax return must be filed by an individual by 31 January following the end of the tax year to 5 April although later filing dates can be authorised by HM Revenue and Customs in strictly defined circumstances.

Employees subject to the Pay as You Earn regime for withholding taxes on their employment income are not generally required to file an annual tax return.

Individuals whose income is all taxed at sources, generally pensioners and those with investment income may also not be required to file a tax return unless their tax affairs are identified as complex.

The tax return system for individuals is one of "self-assessment". A notice to file is issued annually by HM Revenue & Customs on April 6 for the tax year just ending and the return must then be filed on time. If it is not filed on time then penalties for late submission apply and these become progressively larger the later the return is filed.

2.4 Types of income

Income is separated into the following categories:

- employment;
- self-employment;
- savings and investments, including dividends and property rental income;

- pensions.

Employment income includes all wages, salaries and directors fees and these sources are generally also subject to the Paye as You Earn regime for deducting income tax at source.

Benefits in kind are taxable on employees subject to certain statutory exemptions and thresholds. There are deductions for pension contributions to an approved fund up to certain annual and lifetime allowance limits. Travel expenses for genuine business travel are tax free but otherwise the reimbursement of personal expenses and benefits is taxable in full.

Self-employment income is subject to Income Tax on the commercial profits of the business carried on by the individual. Partnership profits are subject to Income Tax on each partner on their share of profits.

Income from savings and investment covers interest on deposits, company dividends and rental income profits and is generally subjected to the same rates of Income Tax as employment and self-employment income.
Note however that From 6 April 2016, most UK taxpayers will have a new Personal Savings Allowance . This means that up to £1,000 of income from savings (e.g. any credit interest earned) will be tax-free for basic rate (20%) taxpayers, and up to £500 of savings income will be tax-free for higher rate, (40%) taxpayers.

There are no local income taxes in the UK but local authorities levy “Council Tax” on householders on a sliding scale based on the value of residential property.

2.5 Capital Gains

Capital gains are taxed on disposals and also on gifts to “connected persons”, (broadly family relatives) of all forms of real property owned and disposed of by UK residents. From 5 April 2016, the rate applicable is 18% or 28% for “non-business” disposals, (excluding residential property) depending upon the level of the individual’s income in the year of the disposal except that disposals of residential property are taxed at either 18% or 28%. Gains are treated as the top slice of the individual’s income to ascertain the applicable rate.

Gains of disposals of a business may be eligible for Entrepreneurs Relief and may then be taxed at only 10% on lifetime gains up to GBP 10 million and at 20% thereafter.

2.6 Losses

Trading losses arising from the operation of a business can be relieved against other general income in the year of the loss and the preceding year and can also be carried forward against profits arising from the same trade indefinitely. In certain defined circumstances trading losses can also be claimed against capital gains arising in the same year of the trading loss.

2.7 Exemptions

There are no exemptions in respect of personal income taxation.

2.8 Allowances and rates

A basic tax deduction is allowed as a personal allowance against an individual's income for each tax year. A part year resident is entitled to the full personal allowance. There are certain extra deductions for carrying on a business.

2.9 Social security

Social Security Contributions, (known as National Insurance in the UK), are payable at 12% on "earned income" by individuals between 16 and 65. There are different rates for employees and the self-employed. The contributions are payable once a certain income threshold is exceeded and at a reduced level of 2% above an upper threshold.

Additionally employers also have to make 13.8% contributions in relation to their employees' income above a lower threshold.

2.10 Expatriates

Employers may be able to use certain PAYE relaxations for non-residents coming to work for them from overseas provided they are only "short term" residents and meet certain very specific conditions.

Individuals leaving the UK to work full time overseas may qualify for complete exemption from UK income tax provided they meet certain conditions.

2.11 Options

Disposals of Options are generally taxed under the Capital Gains Tax regime as summarised above. However there are very specific and complex rules relating to Employee Share Schemes and Employee Share options schemes.

2.12 Partnerships

Partnerships are generally treated as transparent entities in the UK and income and capital gains are therefore taxed directly in the individual partners' hands and not on the partnership itself although partnerships are required to file tax returns annually disclosing the income and gains arising to each individual partner.

There are anti-avoidance rules to constrain the claiming of loss relief by limited partners in defined circumstances.

2.13 Pensions

Pension contributions are generally not subject to tax. When the pension is paid it is taxed as earned income. Pension contributions are also generally tax deductible against an individual's earned income up to certain annual and lifetime funding limits. Excessive contributions annually and during an individual's lifetime can carry punitive income tax charges in defined circumstances.

3. Inheritance and gift tax

3.1 Introduction

Gifts and inheritances are subject to tax in the UK in defined circumstances and above certain thresholds.

UK "domiciled" individuals are liable to Inheritance Tax at on their death on their worldwide assets and wealth subject to a de-minimis lifetime threshold currently set at GBP 325,000.

Non-UK domiciled individuals only pay inheritance tax on their UK assets and wealth.

Lifetime gifts from one individual to another do not suffer Inheritance Tax provided the donor survives seven years from the date of the gift. If death occurs earlier then the value of the gift is treated as part of the individual's death estate and tax will be due subject to a sliding scale of relief according to how long the individual survived after the date of the gift.

3.2 Rates

The rate of Inheritance Tax on death is 40% above the lifetime threshold of GBP 325,000. An additional allowance of £100,000, rising to £175,000 is available as a deduction against the value of the deceased's private residence on death or where the residence has been sold before death and the proceeds are left to «direct descendants».

There is no Inheritance Tax between spouses.
Lifetime transfers to companies or trusts will be immediately chargeable to inheritance tax if they exceed the available lifetime threshold and these are taxed at 20%.

The main exemptions for inheritance tax are:

- between spouses - complete exemption unless the recipient spouse is non-domiciled when the exemption is GBP 325,000 and the excess only leaves the donor's estate if they survive seven years form the date of the gift;
- for qualifying business property: 100%;
- for qualifying owner-occupied agricultural property: 100%;
- for qualifying rented agricultural property: 50%;
- annual exemption GBP 3,000;
- gifts on marriage GBP 5,000;
- annual small gifts GBP 250.

4. Wealth Tax

There is no wealth tax.

5. Value Added Tax

5.1 Rates

The normal rate of VAT is 20% on goods and services. A zero rate applies to food, books and certain other necessities, and a reduced rate to certain other supplies such a fuel for residential use.

6. Other taxes

Other important taxes include:

- Stamp Duty Land Tax on purchases of residential and other property between 1% and 7% depending on purchase price.
- "Council Tax", which is a local tax based on the value of the property, which is determined each year.

There are no provincial and local taxes on income. Note however that differential rates of income tax and corporation tax may apply in future as the result of the introduction of devolved taxing powers which have been introduced with effect from April 2016 for Scotland and possibly also for Wales and Northern Ireland at a future date yet to be determinded.

There was a notional withholding tax of 10% on dividends up until 5 April 2016 bit therafter this has ceased. Interest and royalties are not generally subject to withholding taxes unless paid to an individual by a company or to an overseas lender.

7. Foreign income

Income earned overseas is generally taxable for UK resident individuals subject to relief under double taxation treaties for equivalent taxes paid overseas where relevant or UK unilateral relief if there is no applicable treaty.

Individuals who are resident in the UK but not "domiciled" there can claim the benefit of the "remittance basis" as described in 2.2. above.

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