TAXES IN EUROPE

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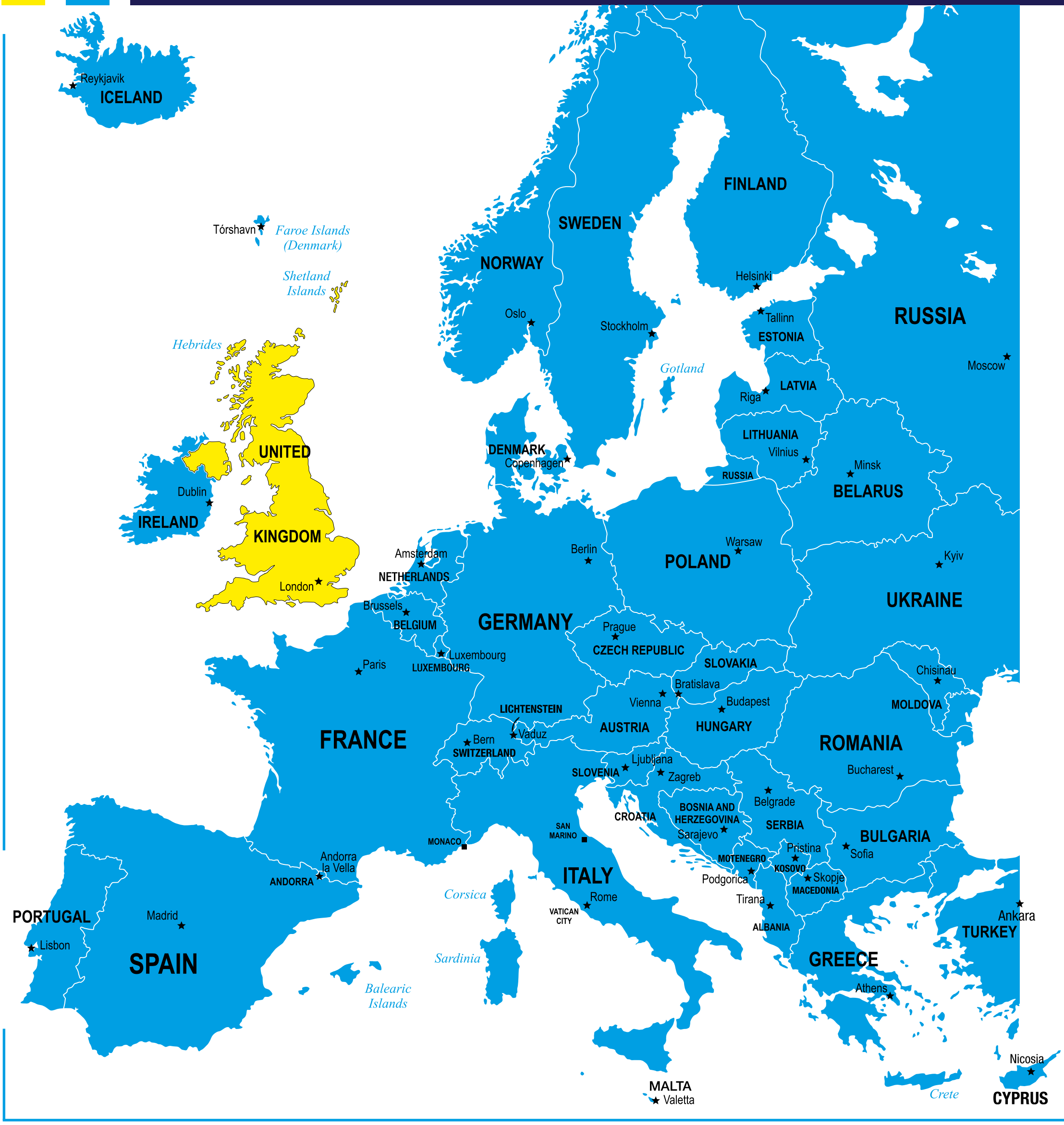
United Kingdom



Capital city:
London

Language:
English

GDP/capita 2023:
USD 54,930

Telephone code:
+44

Area:
246,690 km^2

Political system:
Constitutional monarchy

Currency:
Pound sterling

National day:
14 June

Population:
67,850,038

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. Branch profits are also subjected to corporation tax but can be excluded from the charge by election. 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, but partnerships and Limited Liability Partnerships are generally excluded.

1.2 Residence and non-residence

Resident entities, including companies and other incorporated entities and also unincorporated associations, 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, UK real estate or UK property development activities.

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. The dates for the payment of quarterly instalments will vary depending on the level of a company's profits and the size of any group it is a member of.

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 accounting depreciation except in narrowly defined circumstances for the amortization of purchased goodwill and other intangible assets and on certain finance leases. 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 capitalization 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

There are no provisions for UK corporate groups to be taxed on a consolidated basis. However, companies within a "group" with other companies that qualify as 75% owned subsidiaries can exchange tax losses and other defined expenses and charges among the qualifying companies. Also, companies in a qualifying group can exchange capital assets (those potentially liable to the corporation tax charge on capital gains on disposal) without incurring a tax charge provided certain strict conditions are met.

Group companies can also dispose of shareholdings in qualifying subsidiaries, (broadly trading subsidiaries), without incurring a corporate tax liability on chargeable gains provided they hold 10% or more of the share capital of the trading subsidiary for a continuous 12-month period starting not more than six years before the date of disposal.

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 against total profits and capital gains and carried forward indefinitely.
Trading losses may normally be carried back for one year. However, the carry back period has been temporarily extended to three years for losses arising in periods ending between 1 April 2020 and 31 March 2022 to help businesses suffering from the Coronavirus pandemic.
Other types of losses (e.g. from rental businesses or investment businesses) have similar rules for carry forward.

The rules on carried forward trade losses changed 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 certain restrictions and new conditions.

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.

Capital losses may be used against total capital gains arising in the same corporation tax accounting period and can be carried forward but only against future capital gains indefinitely. Capital losses cannot be set of against profits other than capital gains.
The use of brought forward losses by a company or group is restricted where the company, or group, has taxable profits in excess of GBP 5,000,000. The first

GBP 5,000,000 of profits in any year can be fully covered by brought forward losses. Only half of the profits in excess of GBP 5,000,000 however, can be relieved by brought forward losses.

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 12-month period starting not more than six years before the date of disposal. 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 time after the date of the disposal. Various other conditions can apply.

Dividend income received by a UK company will usually be exempt from corporation tax. This applies to dividends received from non-UK companies as well as other UK companies. However, if the paying 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, the dividend may be taxable.

1.9 Rates

UK corporate income tax is levied at a national level.

Currently all UK companies pay the same 19% rate of corporation tax. The main rate of corporation tax is set to increase to 25% on 1 April 2023. The 19% rate will remain for companies with small profits with a sliding scale of rates for companies with profits in an intermediate range.

The Northern Ireland Assembly has devolved powers to apply a different corporation tax rate to profits arising in Northern Ireland, however this power has not yet been used.

1.10 Double tax relief

A credit is given for withholding taxes on dividends (where taxable), 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. 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 subject to anti avoidance provisions.

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 Income tax on the other forms of income 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 6 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 respect of this Statutory Residence Test.

Under the Statutory Residence Test, 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 and 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 Double Taxation and Unilateral relief 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 on non-UK income and gains only to the extent that that income and gains is remitted or deemed to be remitted to the UK, i.e. broadly 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 60,000 after 12 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 6 April 2017 any individual who is not of UK domicile but who has been resident in the UK for 15 out of the previous 20 UK tax years will be deemed domiciled in the UK and will no longer be eligible for their non-UK income and gains to be taxed on the remittance basis. Thereafter they will have to submit a UK tax return declaring their worldwide income and chargeable capital gains subject to any available 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 on gains during his non-residence 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. The non-resident capital gains tax charge is extended to all UK land disposals by non-resident individuals after 5 April 2019 (although the property can be rebased at that date).

2.3 Tax year and filing

The tax year runs from 6 April to 5 April and individuals, trustees and executors must file a tax return if notified to do so by HM Revenue and Customs. There is an obligation to notify HM Revenue and Customs of new sources of income and gains to allow the issue of a Notice to complete a tax return.

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 authorized 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 source, 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, 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 categories, the most common of which are:

- 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 Pay 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, apart from dividend income, generally subjected to the same rates of Income Tax as employment and self-employment income. Dividend income is subject to special rates of taxation.

From 6 April 2016, most UK taxpayers will have a new Personal Savings Allowance This means that up to GBP 1,000 of income from savings (e.g. any credit interest earned) will be tax-free for basic rate (20%) taxpayers, and up to GBP 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 tax is charged on disposals, including also gifts to "connected persons", (broadly family relatives) of all forms of real property owned and disposed of by UK residents. From 5 April 2017, the rate applicable is 10% or 20% 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 always taxed at either 18% or 28%. Gains are treated as the top slice of the individual's income to ascertain the applicable rate.

Gains on the disposal of a business or shares in a business may be eligible for Business Asset Disposal Relief and may then be taxed at only 10% on lifetime gains up to GBP 1,000,000 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 income deduction is usually allowed as a personal allowance against an individual's income for each tax year. Where that income exceeds GBP 100,000 the allowance is abated. A part year resident is entitled to the full personal allowance if they qualify for one. There are certain extra deductions for carrying on a business.

Individuals are entitled to a Capital gains tax exemption/allowance on the first GBP 12,300 of gains in each tax year.

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.
National Insurance rates will rise in April 2022 by 1.25%. Although the rates will fall back to their current levels in April 2023, a new Health and Social Care Levy will be introduced at a rate of 1.25% from that date.

Additionally, employers also have to make 13.8% contributions in relation to all 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 and could lead to an income tax charge in certain circumstances.

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, 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 GBP 175,000 can in specific circumstances be 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 generally 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 restricted to 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%;
- for regular gifts out of excess income: 100%.
- 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 as fuel for residential use. The construction industry is subject to all three rates of VAT.

5.2 Distance selling to an individual located in United Kingdom by a company located in the European Union.

Distance selling occurs when a business supplies and delivers goods from one EU country supplies and delivers goods to a customer in another EU country who is not registered for VAT. You are distance selling into the UK if:

- you are outside the UK;
- you sell goods that are located in another EU member state to cus-

tomers in the UK or Isle of Man who are not VAT registered;
- you deliver the goods or arrange for their delivery.

Customers who are not VAT registered include:

- private individuals;
- some small businesses;
- businesses that cannot register for VAT because their activities are exempt;
- public bodies;
- charities.

Distance selling only involves goods, not services. It only takes place when a business sells and delivers goods located in one EU member state to someone in another EU member state who is not, and does not have to be registered for VAT.

If you distance sell into the UK and Isle of Man you have to register for UK VAT if the value of your distance sales exceeds GBP 70,000 in a year. If you distance sell excise goods like alcohol and tobacco you'll have to register for UK VAT and Excise Duty no matter how much your sales are worth. Sales you make to customers who are VAT registered do not count as distance sales.

If you're outside the EU any sales of goods you make from a non-EU member state to the UK are not distance sales.

Online marketplaces

Separate rules apply to overseas businesses to sell goods in the UK, where those goods are in the UK at the point of sale or sold to a UK customer and then imported in the UK by the seller.

If you use an online marketplace to sell such goods in the UK you must register for VAT by submitting a VAT1 "Application for Registration".

Threshold for distance selling

The distance selling threshold is GBP 70,000. If the annual value of your distance sales into the UK and the Isle of Man is less than the distance selling threshold you charge VAT at the rate that applies in your own country. You account for the VAT in your own country, too.

If the value of your distance sales to the UK goes over the Distance Selling threshold, you have to register for UK VAT. You then charge VAT on your VAT taxable sales at the UK rate instead of using your own country's rate and account for the UK VAT here in the UK.

You can apply to register for UK VAT as a distance seller voluntarily, even if you do not exceed the threshold.

Sales to the UK from outside the EU

If you are outside the EU and you sell goods to customers in the UK then this is not classed as distance selling for VAT purposes. The Channel Islands are not part of the EU.

Your UK customers should be aware that they may have to pay VAT on the goods when they arrive in the UK. They may also have to pay duty.

6. Other taxes

Other important taxes include:

- Tax on purchases of residential and other property between 1% and 17% depending on purchase price and location of the property (this tax is different in different parts of the UK: Stamp Duty Land Tax in England and Northern Ireland; Land and Buildings Transaction Tax in Scotland and Land Transaction Tax in Wales).

- Annual Tax on Enveloped Dwellings. An annual charge in respect of residential properties owned by companies, based on the value of the property. There are several exemptions, e.g. for property developers or landlords.

- “Council Tax”, which is a local tax based on the value of residential property, which is determined each year.

There are no provincial and local taxes on income. Note however that Scotland applies different rates of income tax from the rest of the UK. As noted above, Scotland and Wales have their own systems of land transaction taxes separate from the system applying in England and Northern Ireland.

In future there may be greater divergence in taxation in the constituent parts of the UK as the result of the devolved taxing powers which have been introduced for Scotland, Wales and Northern Ireland.

UK companies are not required to withhold tax from payment of dividends. Payments of interest and royalties are subject to withholding taxes at 20% when paid overseas (although relief may be available under an appropriate Double Tax Treaty) or to an individual. Payments of interest and royalties between UK companies are generally not subject to withholding taxes.

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.

This chapter has been written and approved in advance of the UK's 3 March 2021 Spring Budget and is correct at 20 February 2021.

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