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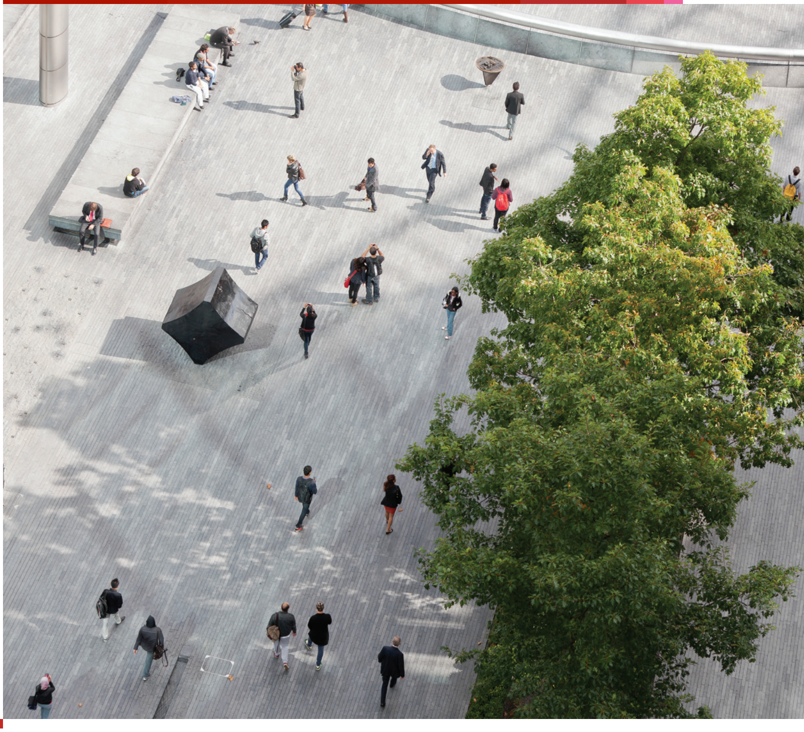

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All information in this book, unless otherwise stated, is up to date as of 1 June 2014.

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1. United Kingdom

United Kingdom

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Significant developments

Extensive and far reaching reforms to the United Kingdom's (UK's) corporate tax system have been made in the past year, continuing the reform programme since 2010. The reforms have a stated aim of improving the international tax competitiveness of the UK economy by reforming four main areas:

- Rate of corporation tax.
- The corporate tax base.
- Policy making.
- Administration and collection.

Because the UK legislative process can lag behind the announcement of proposals, certain changes are already law, others are very likely, or practically certain, to become law, whilst others are issues announced for wider consultation and future enactment into law.

Most of the reforms to tax rules are announced in December and March before becoming law in the Finance Act in the following July each year. For example, the Finance Act 2013 became substantively enacted on 2 July 2013 and fully enacted on 17 July 2013. Reforms to be included in Finance Act 2014 were announced at the Budget of 19 March 2014 with full enactment expected in late July.

Changes that have taken effect in the past year

The introduction of the package of complex and far reaching reforms, particularly of the taxation of foreign profits, impacts UK inbound, outbound, and purely domestic businesses. Many businesses are reviewing their business structures in response to the reform.

The elements of the reform package that took effect in the past year include:

- The main rate of corporation tax was reduced to 21% as of 1 April 2014. There are proposals for reductions down to 20% with effect from 1 April 2015 (*see below*).
- Increase in, and extension of, the annual investment allowance (capital allowance) from 250,000 pound sterling (GBP) to GBP 500,000 from 1 April 2014 until 31 December 2015.
- Measures to tackle tax avoidance, including use of high-risk tax avoidance schemes and the introduction of what is intended to be a moderate and narrowly focused general anti-abuse rule (GAAR). The rules commenced on 17 July 2013.
- Reforms to the taxation of individual and corporate partners in limited liability partnerships (LLPs). These changes impact a range of businesses, including investment fund activities and professional services.

Changes enacted but not yet in force

There are no significant changes enacted but not in force, but a number of important proposed reforms for 2014 and beyond are described elsewhere.

Consultations and proposals – ongoing
There are a number of announced proposals for future reform, or on which consultations are currently in progress or proposed, most significantly:

- Further reduction in the main rate of corporation tax to 20% as of April 2015.
- Continued review of UK priorities for the G20/Organisation for Economic Co-operation and Development (OECD) project for countering base erosion and profits sharing (BEPS).
- A modernisation of the loan relationship and derivatives rules.
- Review of the taxation of partnerships.
- Legislation will be introduced to accelerate the payment of tax, and withhold repayments, for users of certain tax avoidance schemes, including arrangements held to contravene GAAR, so that tax in dispute is paid until the dispute is resolved. Also, taxpayers who have used arrangements that are defeated in another party's litigation will be required to pay over the tax at stake.

The European Union (EU) is presently working towards a common consolidated corporate tax base (CCCTB) (and/or a common corporate tax base [CCTB]) to harmonise the corporate tax base (but generally not corporate tax rates, although Germany and France intend to adopt a common rate) across the European Union. It is not clear whether the United Kingdom will adopt any final proposal, nor when it will take effect.

Taxes on corporate income

Resident companies are taxable in the United Kingdom on their worldwide profits (subject to an opt out for non-UK branches), while non-resident companies are subject to UK corporate tax only on the trading profits attributable to a UK permanent establishment (PE) plus UK income tax.

General corporation tax rates
The normal rate of corporation tax is 21% for the year ending 31 March 2015. The rate for the year ending 31 March 2014 was 23%. This main rate applies to companies with profits in excess of GBP 1.5 million. It is proposed that this rate will fall to 20% from 1 April 2015.

For UK resident companies with tax-adjusted profits below GBP 300,000, a lower rate is generally applicable. This small profits rate is 20%. For companies with tax-adjusted profits between GBP 300,000 and GBP 1.5 million, there is a sliding scale of tax rates. For corporate entities with associated companies, both profit limits are divided by the number of active companies worldwide. From 1 April 2015, this rate will be unified with the main rate of corporation tax into a single rate of 20% for all profits.

Where the taxable profits can be attributed to the exploitation of patents, a lower effective rate of tax applies. For 2014/15, the rate is 13.3%, reducing to 10% from 1 April 2017. Profits can include a significant part of the trading profit from the sales of a product that includes a patent, not just income from patent royalties.

Special corporation tax regimes
With three specific exceptions, there are no special regimes for particular types of business activity; in general, all companies in all sectors are subject to the same corporate tax rates. In general, there is no special regime for smaller companies.

Oil and gas company regime
Profits that arise from oil or gas extraction, or oil or gas rights, in the United Kingdom and the UK Continental Shelf ('ring-fence profits') are subject to tax in the United

Kingdom in accordance with rates applicable in 2006, i.e. a full rate of 30% and a small profits rate of 19%. Such activities also attract 100% capital allowances on most capital expenditure. A supplementary tax charge of 32% applies to 'adjusted' ring fence profits in addition to normal corporation tax.

Life insurance company regime

Life insurance businesses are also taxed under a special regime, which effectively includes different corporate tax rates as well as special rules for quantifying profits.

Tonnage Tax regime

Companies that are liable to corporation tax and operate qualifying ships that are strategically and commercially managed in the United Kingdom can choose to apply Tonnage Tax in the place of corporation tax. Tonnage Tax is an alternative method of calculating corporation tax profits by reference to the net tonnage of operated ships. The tonnage tax profit replaces the tax-adjusted profit/loss on a shipping business and certain related activities, as well as the chargeable gains/losses made on tonnage tax assets. Any other profits are taxable under the normal corporate tax regime.

Petroleum revenue tax (PRT)

A tax of 50% is levied on profits accruing from oil and gas extracted in the United Kingdom and in the UK territorial sea and continental shelf in respect of fields given development consent before 16 March 1993. PRT has effectively been abolished, together with associated relief and allowances, for fields that received development consent after 15 March 1993. PRT paid is deductible in computing corporation tax on the company's total profits.

Income tax for non-resident companies

A non-resident company is subject to UK corporation tax only on the trading profits of a UK PE. Any other UK-source income received by a non-resident company is subject to UK income tax at the basic rate, currently 20%, without any allowances (subject to any relief offered by a double tax treaty [DTT], if applicable). This charge most commonly arises in relation to UK rental income earned by a non-resident landlord (NRL). The United Kingdom therefore operates an NRL scheme that requires the NRL's letting agent or tenants to withhold the appropriate tax at source unless they have been notified that the NRL has applied for and been given permission to receive gross rents.

Local income taxes

There are no local or provincial taxes on income.

Corporate residence

UK incorporated companies are generally treated as UK resident. However, companies resident in the United Kingdom under domestic law, but treated as solely resident in a different country under that country's DTT with the United Kingdom, are not treated as UK resident for the purposes of UK domestic tax law.

Additionally, subject to the above exception, companies incorporated overseas are also treated as UK resident if their central management and control is situated in the United Kingdom. This means if the place of the highest form of control and direction over a company's affairs, as opposed to decisions on the day-to-day running of the business, is in the United Kingdom.

Permanent establishment (PE)

For non-resident companies, the liability to corporation tax depends on the existence of any kind of PE through which a trade is carried on. The meaning of PE for UK tax purposes is set out in statute; it is largely based on the OECD Model Tax Convention definition, but is not identical in all respects. Subject to the terms of the relevant DTT, a non-resident company will have a PE in the United Kingdom if it either:

- has a fixed place of business in the United Kingdom through which the business of the company is wholly or partly carried on, or
- an agent acting on behalf of the company has and habitually exercises authority to do business on behalf of the company in the United Kingdom.

A fixed place of business includes (but is not limited to) a place of management; a branch; an office; a factory; a workshop; an installation or structure for the exploration of natural resources; a mine, oil or gas well, quarry, or other place of extraction of natural resources; or a building, construction, or installation project. However, a company is not regarded as having a UK PE if the activities for which the fixed place of business is maintained or which the agent carries on are only of a preparatory or auxiliary nature (also defined in the statute).

Special rules exist to explain how the PE's profits should be evaluated for UK tax purposes (*see the Branch income section for more information*).

Other taxes

Value-added tax (VAT)

The standard VAT rate of 20% applies to most goods and services, apart from domestic fuel and power and certain other reduced-rate supplies, which are subject to VAT at 5%.

Most exports, most food, most public transport, books and publications, and certain other essential goods and services are zero-rated. Some supplies are exempt, the main categories being the grant of certain interests in land, insurance, financial services, betting and gaming, education, certain sports services, cultural services, and health and welfare. Zero-rating is preferable to exemption because the VAT on costs incurred in making a zero-rated supply can be recovered while that incurred in making an exempt supply cannot.

VAT is chargeable on the supply of most goods and services made in the United Kingdom by 'taxable persons' in the course of business, when their taxable turnover exceeds the registration thresholds. Taxable persons include individuals, companies, partnerships, clubs, associations, or charities.

Taxable persons who are not normally resident in the United Kingdom, do not have a business establishment in the United Kingdom, and, in the case of companies, are not incorporated in the United Kingdom, but who make taxable supplies, sales to unregistered persons in the United Kingdom, or acquisitions of goods in the United Kingdom above the relevant limits, may be required to register and account for VAT in the United Kingdom.

If the value of taxable supplies is over a specified limit, registration for VAT is compulsory unless the taxable supplies made are wholly or mainly zero-rated, in which case it is possible to apply for exemption from registration. A zero VAT registration threshold applies for businesses not established in the United Kingdom.

The rules applying to VAT and territoriality are different to those applying to direct tax in that they derive from the principles of the place of supply in EU law, as enshrined in European Commission (EC) VAT Directives. Having determined that a supply of goods or services has taken place, the second condition to be determined, if the transaction is to fall within the scope of UK VAT, is whether the supply takes place within the United Kingdom. The place of supply rules are different for goods and for services. A person or business belonging outside the United Kingdom, with no place of business in the United Kingdom, may, nevertheless, be liable to UK VAT registration where the place of supply of those goods or services is in the United Kingdom.

For goods, the basic rule is that a supply of goods is taxable in the territory where those goods are physically located at the time of supply. Hence, if goods are supplied in the United Kingdom by a non-established taxable person, there will still be a liability for VAT purposes, and the person must register for VAT in the United Kingdom if the taxable supplies exceed the current UK VAT registration thresholds. A zero VAT registration threshold applies for businesses not established in the United Kingdom.

For services, the basic rule is that services are treated as made where the customer 'belongs' or is established for VAT purposes, and the customer is responsible for accounting for the VAT due via the reverse charge procedure. However, this is subject to a number of special rules and exceptions. Determining where a business is established for VAT purposes is based on EU law criteria.

For business to consumer (B2C) supplies, the basic rule is that services are treated as made where the supplier 'belongs' or is established for VAT purposes. Effective 1 January 2015, B2C supplies of telecommunications, broadcasting, and electronic services will change from being taxed where the supplier belongs to being taxable where the customer is located or is normally resident.

VAT returns and payments

VAT returns must be completed at preset intervals (usually every three months). Larger companies may be required to file monthly returns or make monthly payments on account. All businesses are required to file VAT returns online and make electronic payments. Smaller enterprises can apply for annual returns. VAT returns are usually required to be filed 30 days after the end of the period.

Annual accounting is available for taxable persons with annual turnover (taxable supplies, excluding VAT) not exceeding GBP 1,350,000.

Cash accounting is available for taxable persons with annual turnover (taxable supplies, excluding VAT) not exceeding GBP 1,350,000.

In addition, a flat rate scheme operates for small businesses and is intended to simplify VAT accounting procedures.

Customs and excise duties

Many goods imported into the United Kingdom from outside the European Union are subject to customs duties. The rates of duty are provided by the EU's Common Customs Tariff and vary widely.

Excise duties are chargeable on most hydrocarbon oil products, alcoholic drinks, and tobacco products imported into or produced in the United Kingdom. Examples include the following:

Products	Excise duty (GBP)
Road fuels	0.5795 per litre
Cigarettes	184 per thousand (plus 16.5% of the retail price)
Tobacco (hand rolling)	180 per kg
Wines (5.5% to 15%)	2.73 per litre
Spirits	28.22 per litre of pure alcohol included

Stamp taxes

Stamp duty is charged at 0.5% on instruments effecting sales of shares. Agreements to sell shares usually attract stamp duty reserve tax (SDRT) at 0.5%. The liability to SDRT may be cancelled by paying the stamp duty due on a stock transfer form (or other transfer instrument) executed in pursuance of the agreement. Stamp duty is not usually charged on an issue of shares, but is charged at a higher rate of 1.5% on an issue of shares in bearer form. Issues or transfers of shares to clearance services or depositary receipt systems may attract SDRT at 1.5% (stamp duty at 1.5% may be payable on instruments effecting transfers of shares to such services or systems).

Acquisitions of non-residential or mixed land and buildings are charged stamp duty land tax (SDLT) at graduated rates of up to 4%. Acquisitions of residential property by companies and similar non-natural persons are charged at graduated rates of up to 15% (whereas acquisitions by individuals are capped at 7%). Grants of new leases are charged SDLT at 1% of the net present value of the rents payable in excess of GBP 150,000 (or GBP 125,000 for residential property) plus up to 4% (or, for residential property, up to 15%) on any premium paid. Reliefs from the 15% SDLT rate for commercially used properties were introduced in late July 2013.

Annual tax on enveloped dwellings (ATED) and related capital gains tax charge

An annual tax on enveloped dwellings is charged on the acquisition and holding of high-value residential properties (property over GBP 2 million) through a company or other 'non-natural' person. A company or other non-natural person holding high-value property will pay ATED from 1 April 2013. Broadly, this will be 0.3% to 0.75% of the 1 April 2012 value, based on bands starting at GBP 2 million and increasing to GBP 20 million. The charge on a property worth GBP 20 million or more cannot exceed GBP 143,750 per annum. Budget 2014 announced a reduction in the threshold from GBP 2 million to GBP 500,000 to be introduced over two years. From 1 April 2015, a new band will be introduced for properties with a value in excess of GBP 1 million to GBP 2 million, with an annual charge of GBP 7,000.

In addition, a disposal of such a property or an interest in such a property by a company or other non-natural person will be subject to capital gains tax at 28% on any gains accruing after 5 April 2013. Relief will be available from ATED and the capital gains tax extension for most property used for commercial, charitable, or public use. From 1 April 2015, properties valued in excess of GBP 1 million will also be subject to capital gains tax in a similar way.

Bank levy

A bank levy takes the form of an annual tax on certain liabilities of most UK-based banks and building societies. The tax is levied at the following annualised rates:

- From 1 January 2013: 0.13% of a bank's short-term relevant liabilities and 0.065% of long-term equity and liabilities.
- From 1 January 2014: 0.156% of a bank's short-term relevant liabilities and 0.078% of long-term equity and liabilities.

The levy is not charged on the first GBP 20 billion of chargeable liabilities and is not deductible for corporation tax purposes.

Insurance premium tax (IPT)

IPT at the standard rate of 6% applies to premiums for most general insurance, such as for buildings and contents and motor insurance, where the insured risk is in the United Kingdom. Life assurance and other long term insurance remain exempt, though there are anti-avoidance rules surrounding long-term medical care policies. As an anti-avoidance measure, a higher rate of 20% applies to insurance sold by suppliers of specified goods or services, e.g. mechanical breakdown insurance, travel insurance (irrespective of supplier), insurance sold with TV and car hire, and 'non-financial' guaranteed asset protection (GAP) insurance sold through suppliers of motor vehicles or persons connected with them. Further anti-avoidance rules affect administration or similar fees connected with contracts of insurance, charged under separate contracts by brokers and other intermediaries.

Airport passenger duty

Individuals leaving the United Kingdom by air are obligated to pay a duty, which in practice is invariably included in the cost of the air ticket. Rates of duty are based on a system of geographical banding and class of travel, ranging from a reduced rate of GBP 13 for short haul destinations in the lowest class of travel to GBP 194 for long haul destinations in higher classes of travel. Certain exemptions and lower rates apply for some geographically outlying areas of the United Kingdom. Significantly higher rates apply for travel in certain 'executive jets'. The scope of air passenger duty includes smaller aircraft, including private jets, with an authorised take-off weight of 5.7 tonnes or more.

Environmental taxes

There are several environmental taxes, including the following.

Landfill tax

The landfill tax is a tax on waste disposal in landfill sites. The standard rate increased to GBP 80 per tonne from 1 April 2014. The reduced rate for inert waste is GBP 2.50 per tonne.

Climate change levy

The climate change levy is a tax on energy used in the United Kingdom, such as electricity, gas, coal, etc., and is charged at rates that depend on the nature of the fuel used. There are reduced rates and exclusions from the charge, e.g. supplies to domestic or charitable users, renewable source energy, and energy-intensive sectors committing to specific emissions/energy-saving measures.

Aggregates levy

The aggregates levy is a tax on the extraction or importation of sand, gravel, and crushed rock for commercial exploitation in the United Kingdom. The rate of tax is GBP 2.00 per tonne.

Carbon Reduction Commitment

The Carbon Reduction Commitment is a mandatory scheme for large businesses with financial, reputational, and behavioural drivers aimed at improving energy efficiency.

Employers' national insurance contributions (NICs)

Employers are obligated to pay NICs based on a percentage of each employee's earnings. For the year ending 5 April 2014, the rate is 13.8% on all earnings above GBP 153 per week. There is some reduction for employees 'contracted out' of the state pension scheme into a private scheme. From 1 April 2014, businesses are exempt from the first GBP 2,000 pa (maximum) of this liability.

Pension protection fund levy

All defined benefit pension schemes pay a levy, based on pension fund liabilities and the financial risk of the employing company. This levy funds a compensation fund for pensioners and employees of failed schemes.

Local municipal taxes

Local taxes are not based on income, but rather are levied on the occupiers of business property by reference to a deemed annual rental (or 'rateable') value for the property concerned. These taxes (known as 'rates') are administered by regional local government authorities rather than central government. The amounts paid are deductible for corporation tax purposes, provided they meet all the usual requirements for deductibility.

Branch income

Tax rates on the profits of PEs are the same as for domestic corporations, except that the small profits rate is not available to non-UK resident corporations unless under the terms of a DTT.

There are specific rules setting out how the PE's profits should be evaluated for UK tax purposes, which broadly seek to treat the business as if it were a standalone company. Financing arrangements between the branch and head office must be disregarded, and there are special rules for banks to stop under-performing loans being allocated to the UK branch in a way that is considered unacceptable and similar potential manipulations. However, a deduction is given for a proportion of head office costs.

No tax is withheld on transfers of profits to the head office.

Taxable income determination

A UK resident company is taxed on its worldwide total profits.

Total profits are the aggregate of (i) the company's net income from each source and (ii) the company's net chargeable gains arising from the sale of capital assets.

The main sources of income are (i) profits of a trade, (ii) profits of a property business, (iii) non-trading profits (or losses) from loan relationships, mainly interest receivable or payable, (iv) non-trading gains (or losses) on intangible fixed assets, and (v) non-exempt dividends or other company distributions. The amount of income for sources (i) to (iv) is measured based on the company's accounts, with specific adjustments. Taxable income from non-exempt dividends and calculating chargeable gains or income from other sources is based on actual amounts.

The rules for measuring the gross income are different for each category, and there are subtle differences in the rules about tax deductions and how gains are calculated. Because of this continuing reliance on taxing companies on a 'source-by-source' basis, it is difficult to explain the rules about income determination and deductions as two wholly separate topics.

Basic rules for accounts-based sources

The main source of profits is often from trading. A company's trading profits are based on its worldwide profit before tax in its accounts. Adjustments are made for non-trading receipts (such as dividends from other companies and income from property) and non-deductible expenditure (such as capital expenditure). Depreciation for tax purposes (known as capital allowances) is calculated and substituted for the depreciation charged in the accounts. A number of other statutory adjustments are made; three important ones are that pension contributions, deferred pay, and benefits in kind are broadly deductible only when paid, that a deduction is available for the notional cost of certain share awards to employees, and that, where acquired intangibles are not depreciated in the accounts, a 4% flat-rate deduction can usually be claimed. There are many other adjustments.

Similar principles apply in relation to the calculation of profits of a property business.

Financial profits from a company's trading and non-trading loan relationships and related matters are usually based on the accounts, and the distinction between 'capital' and 'revenue' receipts and deductions is not relevant. Instead, all credits and debits in the accounts are aggregated in order to find the net profit or deficit. Certain statutory adjustments have to be made, which include an interest capping limitation ('debt cap').

For traders, any profit or loss on loan relationships, and/or on intangibles, is not generally included within the trading profits; they are treated as a separate source of profits. If the company doesn't have a trade, then loan relationships and intangibles are treated as a separate source of income or loss.

Income losses

Where a loss arises in respect of a particular source of income, there are detailed rules regarding the possible offset of the loss. Carryback and sideways reliefs are often allowed within limits; carryforward is generally allowed and carried forward losses do not time expire. Losses can also be utilised by other group companies (*see the Group taxation section*).

More specifically, dealing with the main sorts of income losses,

- trading losses may be set off against any other source of profit or gains in the same year, may be carried back one year (three years on the cessation of the trade) against any other source of profit or gain, or may be carried forward without time limit against profits of the same trade only
- property losses may also be set off against any other source of profit or gains in the same year, or may be carried forward without time limit against profits of any sort; they cannot, however, be carried back, and
- non-trading deficits (i.e. interest and financing losses) can again be set off against any other source of profit or gains in the same year, may be carried back one year against non-trading credits (i.e. interest and financing profits), or may be carried forward without time limit against non-trading profits.

Non-trading companies may deduct non-capital management expenses incurred in managing their investments from their total profits. Any excess management expenses can be carried forward without limit to set against profits in future years.

While income losses can generally be offset against capital gains of the same accounting period, capital losses are never available for offset against any type of income.

There are complex anti-avoidance rules that restrict the utilisation of all types of losses where there is a change in ownership of the company.

Inventory valuation

In general, the book and tax methods of inventory valuation will conform. In practice, inventories are normally valued for tax purposes at the lower of cost or net realisable value. A first in first out (FIFO) basis of determining cost where items cannot be identified is acceptable, but not the base-stock or the last in first out (LIFO) method.

Capital gains

Gains on capital assets are taxed at the normal corporation tax rates. The chargeable gain (or allowable loss) arising on the disposal of a capital asset is calculated by deducting from gross proceeds the costs of acquisition and subsequent improvements, plus the incidental costs of sale and indexation allowance. Indexation allowance compensates for the increase in costs based on the percentage rise (if any) in the UK retail prices index to the date of disposal. Indexation allowance is, however, limited; it cannot create or increase a capital loss, it can only reduce or eliminate a chargeable gain.

Generally, these calculations must be done in sterling, so any foreign exchange gains and losses will be taxed (or relieved) on disposal.

Special rules apply to assets held at 31 March 1982.

Most acquisitions and disposals between UK group companies are treated as made on a no gain no loss basis (i.e. at base cost plus indexation). Otherwise, acquisitions from, or disposals to, affiliates are treated as made at fair market value, as are other acquisitions or disposals not at arm's length.

Capital losses are allowed only as an offset to capital gains. An excess of capital losses over capital gains in a company's accounting period may be carried forward without limitation but may not be carried back. There is no ability to surrender capital losses to fellow group members, but gains or losses arising on a particular asset can be allocated to another group member. So, the capital losses of one company can sometimes be set against the gains of a fellow group member in the same or subsequent period.

There is a good deal of anti-avoidance legislation concerning the computation of chargeable gains, notably to stop losses being created or gains avoided where assets are depreciated by intra-group transactions, or where losses are 'bought in' from third parties.

Gains realised on certain types of assets can be deferred where all or most of the proceeds are reinvested in other assets of those types within a specified period (generally three years). The 'rolled-over' gain then crystallises as and when the latter assets are sold. At present, the main asset categories qualifying for roll-over are land and buildings used for a trade.

Most disposals by trading groups of shareholdings of 10% or more are exempt from tax. The main exceptions will be those of non-trading subsidiaries or subgroups, or of companies acquired within the previous year. Note that gains on goodwill and other intangibles acquired after March 2002 are taxed as income, not as capital gains.

Dividend income

Most foreign and UK dividends received by UK companies are exempt from corporation tax; however, one of several criteria has to be met, but these are widely drawn (one test, for example, is that the recipient controls the payer). For non-exempt foreign source dividends, double tax relief (DTR) will be available on a dividend-by-dividend basis. It is unusual for companies to be taxed on UK dividends because of the breadth of the exemption; however, where they are taxed, there is no concept of DTR for UK dividends.

Realised and unrealised exchange gains/losses

Unrealised exchange gains and losses tend to arise on debts and derivatives; they are then taxed or allowed, together with realised amounts, on an accounts basis in the same way as other debits and credits arising out of loan relationships. Where gains or losses arise on other payables or receivables, to a trader or property investor, they will again generally be taxed or allowed on an accounts basis. For a trader, the taxable or allowable amount will become simply part of the trading profit or loss; for other companies, it will become a separate source of taxable profit (a 'non-trading credit') or loss (a 'non-trading deficit').

Where unrealised differences arise on other capital assets, they will not generally be taxable or allowable at that stage; instead, the exchange difference becomes part of the computation and is effectively taxed or allowed when the asset is disposed of and any difference is realised.

Partnership income
In broad terms, if companies participate in UK partnerships (whether general partnerships, limited partnerships, or LLPs), they will be taxed on a flow through basis. This will, in very broad terms, mean that UK corporate partners will be taxed on trading, property, or financing income as it arises in the partnership accounts, and on non-exempt dividends on a receipts basis. There are specific anti-avoidance provisions in place from 2014 in respect of LLPs with corporate partners.

When considering overseas entities, the UK authorities will not be bound by how the entity is classified in its country of origin. Case law has determined a number of matters that should be considered when establishing whether a non-UK entity should be taxed in the UK as if it were a company or a partnership. Her Majesty's Revenue and Customs (HMRC) also maintains a public list of non-UK entities and the decisions it has previously made regarding their classification. However, if the parties have flexibility regarding the constitution of such entities, then their classification may be viewed differently, either by HMRC or the courts. This area is complex; consequently, specialist advice should be sought.

Foreign income
In principle, the United Kingdom taxes on a worldwide basis, although non-UK branch profits can be exempted from UK taxation by election. The election applies to all accounting periods starting after the election is made and to all the branches of the company (so it cannot be made on a PE by PE basis). The election is irrevocable and has the effect of exempting all profits of the branch, including gains (other than for close companies). Equally, relief for branch losses will be denied. Profits will be measured by reference to DTTs, or, in absence, OECD principles. Certain businesses may not elect to exempt profits (e.g. life insurance, shipping and aircraft operations, and most investment activity).

Where no election is made, profits from non-UK branches are computed and taxed in the normal way for UK tax resident companies. However, UK tax will generally be reduced by credit for local direct taxes paid, either under a treaty or via the UK's unilateral relief rules (*see Foreign tax credit in the Tax credits and incentives section for more information*).

General rules for deductions
As noted in the income section, the UK tax system requires taxable profits to be calculated by aggregating (i) the company's net income from each source and (ii) the company's net chargeable gains arising from the sale of capital assets. This approach gives rise to a particularly complicated regime so far as deductions are concerned. Expenses are usually allocated to the source of income (or occasionally by reference to income generally) or to the particular gain to which they relate. The rules governing their deductibility differ according to whether the expense relates to a capital gain or to income, and, indeed, according to the particular source of income concerned. For example, there is a considerable difference in the manner in which tax relief is given for expenses incurred by companies trading in property as compared to those that invest in property. The regime also has a large number of specific rules dealing with particular types of deductions that take priority over the more general rules for each type of income.

We have therefore set out the general rule for trading expenses, being the most common category, and, following that analysis, considered some specific common exceptions.

General rules for trading expenses
A trading company is generally permitted to deduct expenses that are incurred wholly and exclusively for the purposes of the company's trade, provided those costs are not capital in nature and are charged to the profit and loss account. There is a significant

amount of case law surrounding whether expenses have been incurred wholly and exclusively for the purposes of a company's trade and whether they are capital or not.

Relief is generally given in the period the expenses are accrued in the accounts, subject to some specific exceptions. In particular, contributions to a registered pension scheme are only allowed on a 'paid' basis, with some further provisions under which some contributions may be spread over a number of years; and if bonuses and other staff costs are paid out more than nine months after the end of the accounting period in which they are accrued, they are only allowed on a paid basis.

The general rule is made subject to a raft of specific statutory provisions, some of which allow deductions and others of which limit them; some of the more important of these are discussed below, but there are many others. One example is that the costs of business entertainment cannot generally be deducted.

Depreciation and amortisation

Depreciation of fixed assets (other than of goodwill and other assets within the intangible fixed asset regime, *see below*) is not allowable as a deduction from any source of income. However, traders, and most non-traders, are instead allowed specified rates of annual deduction in respect of specified classes of assets, together referred to as 'capital allowances', that are deducted in calculating trading income for traders and (broadly) against income derived from the use of the fixed assets for non-traders.

Capital allowances for machinery and equipment can be disclaimed in whole or in part, thereby deferring allowances.

In the period of expenditure, capital allowances are available, generally at 18% of the cost of machinery and equipment acquired for use in a trade or property rental business; thereafter, capital allowances are taken generally at 18% per annum on the reducing-balance basis. With some exceptions, the rate of capital allowances for machinery and equipment with an expected useful life when new of at least 25 years is 8%. This 8% rate also applies to certain integral features in buildings and thermal insulation.

All businesses, regardless of size, can claim an annual investment allowance of 100% on the first GBP 500,000 per year of most qualifying expenditure (from 1 April 2014 to 31 December 2015, previously GBP 250,000 and 25,000). This is restricted to a single allowance for groups of companies or associated businesses.

Capital allowances are given on cars at rates dependent on emission levels.

Enhanced allowances, typically at a rate of 100%, are available for expenditure on certain energy saving plant and other specific categories. The products and technologies supported by this regime are reviewed and updated regularly.

No capital allowance is normally allowed on buildings, apart from certain machinery and equipment embodied in the fabric of the buildings.

Capital allowances may also be available in respect of the cost of the acquisition of mineral assets and extraction, generally at the rates of 10% and 25%.

Excess capital allowances are generally recaptured on disposal. The recapture is calculated on a 'pool' basis for most machinery and equipment, in which case there is no recapture unless the sale proceeds exceeds the total tax written down value of the pooled assets.

Where assets are leased, capital allowances are generally available to the lessor rather than the lessee. The rate of capital allowance of most plant or machinery leased to non-residents is generally restricted to 8%, but in some cases to nil.

Intangible fixed assets
A special regime applies to intangible assets, such as patent rights, know-how, and trademarks, and including goodwill. Royalties are generally deductible on an accounts basis, and, except in relation to 'grandfathered' assets owned by the group on 31 March 2002, the accounts' amortisation of intangible assets is also deductible (with an option to take a flat 4% deduction even if not amortised in the accounts). Traders will take the deductions in computing trading income; non-traders will create a 'non-trading loss on intangible fixed assets' that can be relieved as a loss against any profits of the year, carried back one year, or carried forward indefinitely.

Income costs relating to research and development (R&D) are normally deductible in any event, but there is a special incentive connected with R&D that generally allows an additional deduction (*see the Tax credits and incentives section for more information*).

Management expenses
Holding companies and companies with investment business can deduct expenses if they are expenses of managing the company's investment business and are not capital in nature. Such costs would typically include audit fees, directors' costs, rent, local rates, and office costs. These costs can be set against any sources of profit the company may have, including gains and financing income.

If the company has inadequate income, excess expenses can be surrendered as group relief or carried forward to set against future income, with no time limit.

Many of the specific rules on the deduction of trading expenses also apply to management expenses. Many rules giving traders specific deductions for certain costs also apply, but this is not always the case.

Employee share schemes
The actual and deemed costs of an employing company for the deemed cost of providing shares or options to employees is usually deductible, depending on the nature of the share plan and the accounting. This will generally allow a deduction to a subsidiary company whose employees receive shares or options in the parent company.

Funding costs
Funding costs (primarily fees and interest) are broadly deductible on an accounts basis, even if capital in nature, but subject to thin capitalisation constraints (with no explicit safe harbours) and a worldwide interest cap based on the group's external debt levels. This extends to foreign exchange deductions relating to debts owed and receivable.

Traders will generally take the deductions in computing trading income (which is also accounts based). Deductions relating to loans not used for trading purposes will give rise to 'non-trading deficits' that, if not group relieved, can be offset against profits of that year generally, carried back one year (against that year's funding profits), or carried forward indefinitely against non-trading profits.

There are complex and specific rules dealing with financial instruments, derivatives, etc.

Bad debts, provisions, and reserves
Provisions for future costs can be deducted for tax purposes if they:

- are in respect of allowable revenue expenditure
- are made in accordance with acceptable accounting practice

- do not conflict with any statutory rule governing the timing of relief (e.g. in relation to payment of staff costs), and
- are estimated with sufficient accuracy.

This rule extends to bad debts on trading account. Generally, however, bad debts are dealt with under the 'loan relationships' rules for financing costs and financing income. The rules there, however, are broadly the same; if the bad debt can be identified specifically enough to allow a bad debt provision that satisfies UK accounting standards, it should be deductible.

Charitable donations
Most donations to charities by companies are deductible.

Fines, penalties, and bribes
Any payments that constitute a criminal offence (e.g. a bribe) are not deductible for tax. Fines and penalties imposed for breaking the law are also not deductible, although a deduction is usually available for legal costs incurred in defending such an action. Usually, there is no deduction for civil penalties, interest, and similar surcharges (e.g. relating to VAT). Fines for regulatory breaches are not allowed for tax, but the costs of compensating customers, etc. are usually deductible.

Damages that are compensatory rather than punitive (e.g. damages for defamation payable by a newspaper company) are often deductible, as are payments for breach of contract. Payments to employees for wrongful dismissal, etc. are usually deductible.

Taxes
Local municipal taxes (business rates) may be deducted from taxable income.

Net operating and capital losses
See Income losses above for a description of the treatment of income losses and capital losses.

Payments to foreign affiliates
There are no special rules for payments to foreign affiliates, so their tax treatment follows the basic rules for deductions set out above. The transfer pricing rules will impose an arm's-length price.

Group taxation

Each individual corporate group member is required to submit their own tax return on a stand-alone basis, with the exception of the election available with respect to VAT (*discussed below*). However, there are a variety of ways in which one's relationship with fellow group members is recognised in the UK tax system for the purposes of corporation tax, VAT, SDLT, and stamp duty.

Corporation tax
The corporation tax system includes a number of measures that advantage UK members of qualifying groups, all of which are subject to anti-avoidance measures.

Operating taxable profits and losses arising in the same period can usually be offset between UK resident 75% affiliates within a worldwide group. This extends to offsetting the UK profits attributed to a UK PE of a non-UK resident group member. There are some restrictions, primarily where one of the two companies is not an economic 75% subsidiary of the group or is subject to arrangements under which it might leave the group.

Intra-group transfers of capital assets between UK companies, including UK PEs, are normally tax-free, though the definition of group for these purposes is slightly different than the definition of group relief for losses. This treatment is also extended to intra-group transfers of loan relationships, derivatives, and intangibles. There is generally a 'degrouping' charge if the transferee company leaves the group within six years.

There is no automatic offset of capital gains and losses where these arise in different group companies, but it is normally possible for offset to be arranged either by actual transfer of the asset prior to disposal or by election.

A UK resident group company is potentially able to claim group relief for income losses of a non-UK subsidiary that is resident in the European Economic Area (EEA) or has incurred the relevant losses in a PE within the EEA, provided that all possibilities of non-UK relief for the losses have been exhausted and future relief is unavailable.

In addition, the corporation tax system also has a number of measures that seek to prohibit groups unfairly manipulating the tax system by shifting profits between group members (either internationally or within the United Kingdom) in a way that is considered unacceptable.

A debt cap limits the aggregated UK tax deductions group members may claim for finance costs to the level of a group's external finance expense.

VAT

Group companies can, subject to certain requirements, elect to account for VAT as if they were one taxable person; where this is done, no VAT is charged on intra-group supplies of goods or services. The registration is made in the name of the representative member, who is responsible for completing and rendering the single return on behalf of the group. All the companies are jointly and severally liable for any VAT debts. VAT grouping is subject to detailed anti-avoidance provisions.

Stamp duty and SDLT

Transfers of shares or real estate within worldwide 75% groups are generally exempt from stamp duty or SDLT, respectively. For SDLT, the relief can be retrospectively withdrawn in certain circumstances, primarily where the transferee leaves the group within three years of the transfer.

Transfer pricing and thin capitalisation

The United Kingdom has widely drafted transfer pricing rules that are intended to apply to almost any kind of transaction made or imposed between related parties that gives rise to:

- a provision that differs from one that would have been made between third parties and
- a UK tax advantage (potential or actual) to one or more of the parties.

These rules apply to UK-to-UK transactions as well as cross-border transactions.

The regime therefore applies not only to the provision of products and services but also to finance arrangements, including both the rate of return charged and the amount of loan principle (or equivalent) made available. It is therefore the mechanism by which the UK's revenue authorities address the issue of thin capitalisation. Unlike many other territories, the United Kingdom does not operate any 'safe harbours' of any kind in relation to the amount of debt or interest (or equivalents) it considers demonstrates that a UK company or group is not thinly capitalised. Note that the United Kingdom also has a debt cap regime that limits the amount of finance expense for which a UK tax deduction will be available by reference to the worldwide group's external finance expense.

Parties are considered related for this purpose where either one controls the other or both are under common control. Control here is not confined to situations in which one party is the majority shareholder in the other. Effectively, control exists where one party has the power to ensure that the affairs of another party are conducted in accordance with the first party's wishes. The concept is also subject to two important extensions:

- The rules apply to many joint venture companies where two parties each have an interest of at least 40%.
- There are attribution rules to trace control relationships through a number of levels in determining whether parties are controlled for the purposes of the transfer pricing rules.

In addition, the regime restricts interest deductions to an arm's-length basis where a financier and persons who collectively control a company or a partnership have 'acted together' in relation to the financing arrangements of that company or partnership. The financier (usually a bank) can then be taken as controlling the company or partnership, and the loan becomes subject to transfer pricing limitations.

There are a number of exemptions that essentially exclude small or medium-sized enterprises (SMEs) and dormant companies from the regime.

The effect of the rules is to require an arm's-length provision to be substituted for the actual one, thereby increasing the party's UK tax liability and cancelling out the UK tax advantage that would otherwise have arisen.

Where both parties to the transaction are UK taxpayers, the disadvantaged party will generally be entitled to claim a compensating adjustment (except where the transaction falls within the transfer pricing regime because of the 'acting together' provisions), but only after the UK adjustment has been made. The legislation also provides that parties may make balancing payments to each other in such circumstances, of any amount up to the transfer pricing adjustment, which will neither be taxable for the recipient nor tax deductible for the payer.

Where the disadvantaged party is outside the UK tax net, they can pursue a claim for relief under the relevant DTT if it provides a mechanism for such relief; where the adjustment in the United Kingdom is to reduce a deduction for an amount paid under deduction of UK tax, the compensating adjustment rules should allow the overseas party to reclaim any withholding tax (WHT) paid on the disallowed amount.

UK taxpayers are required to self-assess their compliance with this arm's-length principle. Companies and partnerships must therefore identify and make transfer pricing adjustments when submitting their tax returns. This is the case even where the disadvantaged party would be entitled to claim a compensating adjustment equal to the transfer pricing adjustment. An important implication of this approach is the potential for interest and penalties if the adjustment made is subsequently held to be wrong.

Controlled foreign companies (CFCs)

Under the CFC regime, a UK resident company may be taxed on a proportion of the profits of certain UK-controlled non-resident companies in which the resident company has an interest. The overall intention is to tax profits that have been artificially diverted from the United Kingdom.

Broadly, profits of a non-UK resident CFC will be taxed, using normal corporation tax rates and rules, on the persons controlling the CFC if (i) the profits pass through the CFC 'gateway' and (ii) are not exempt.

The 'gateway' is a series of tests that identify profits that are, broadly, artificially diverted from the United Kingdom. One of the most important tests is 'main purpose'. For example, where profits arise in the CFC under any arrangements a main purpose of which is to achieve a UK tax or duty advantage, those profits will be taxed in the United Kingdom. A range of other tests may capture other profits.

Various exemptions exist for companies coming into the regime for the first time, CFCs with low profits or low margins, and CFCs in excluded territories, usually those territories with corporation tax rates similar or above UK rates.

There is a special exemption for intra-group financing profits that can result in an effective rate of UK tax on such profits of 0% to 5% when the main rate of corporation tax falls to 20% in 2015.

Tax credits and incentives

Foreign tax credit

The United Kingdom has an extensive network of DTTs. Unilateral relief is generally available, in any event, to credit overseas tax paid on non-UK source profits against the UK tax on the same profits; while the relevant treaty might sometimes extend that relief, their main function for UK companies is to limit overseas WHTs that would otherwise be payable on passive income.

The United Kingdom has a complex regime allowing 'underlying' tax relief in respect of foreign dividends, so that tax suffered at lower levels can be relieved (at least in part) where dividends flow to the United Kingdom via a chain of companies. This exemption is of limited application because most foreign dividends are exempt from tax.

Enhanced capital allowances

A variety of tax incentives are given in the form of enhanced tax depreciation allowances (known as capital allowances, *see Depreciation and amortisation in the Taxable income determination section*). Some of these incentives are given by reference to the expenditure concerned and others by reference to the size of the company incurring that expenditure.

For example, a full write-off can be claimed in the year of expenditure on a range of 'green' products and technologies. The list of items supported in this way is reviewed annually. It includes designated energy saving equipment, designated environmentally beneficial plant and machinery, and cars with low emissions.

Annual investment allowance

All businesses, regardless of size, can claim an annual investment allowance of 100% on the first GBP 500,000 (GBP 250,000 between 1 January 2013 and 31 March 2014) tranche per annum of capital expenditure incurred on or before 31 December 2015 of most qualifying expenditure. This is restricted to a single allowance for groups of companies or associated businesses.

Research and development (R&D) incentives

A deduction currently equal to 130% of the qualifying expenditure on R&D can also be claimed by large companies. For small and medium companies, as defined, a deduction equal to 225% of the qualifying expenditure on R&D is given in the year in which it is incurred, which can be surrendered for a cash payment (at a rate of GBP 24.75 for each GBP 100 of qualifying R&D spend) by companies that are trading at a loss or have not yet started to trade.

Since April 2013, large companies have been able, by election, to claim a 10% 'above the line' tax credit instead of the enhanced 130% deduction. This will be mandatory from 1 April 2016.

Patent box
Where the taxable profits can be attributed to the exploitation of patents, a lower effective rate of corporation tax applies. For 2014/15, the rate is 13.3%, reducing to 10% from 1 April 2017. Profits can include a significant part of the trading profit from the sales of a product that includes a patent, not just income from patent royalties.

Other incentives
A deduction equal to 150% of the qualifying expenditure on the remediation of contaminated or derelict land is given in the year incurred, which can be surrendered for a cash payment (at a rate of GBP 24 for each GBP 100 of qualifying land remediation spend) by companies that are trading at a loss.

There are special tax reliefs available for certain expenditure on UK film production, high-end television, animation, video games, and proposals for additional deductions and tax credits for certain theatre sector activities.

There are no tax holidays and no foreign investment incentives in the United Kingdom.

Withholding taxes

Under UK domestic law, a company may have a duty to withhold tax in relation to the payment of either interest or royalties (or other sums paid for the use of a patent). The circumstances in which such a liability arises are discussed below.

There is no requirement to deduct WHT from dividends. Therefore, dividends may always be paid gross, regardless of the terms of the applicable DTT.

Please note, however, that this is not an exhaustive list of all the deductions that might be required to be made in respect of UK tax from payments made to or by companies. In particular, non-resident companies that are subject to UK income tax on UK-source rental profits (*see the Taxes on corporate income section for more information*) will find their letting agent or tenants are obligated to withhold the appropriate tax at source (currently 20% without any allowances) from their rental payments unless the recipient has first applied and been given permission to receive gross rents under the Non-Resident Landlord Scheme. Two other important examples are the UK's deduction at source regime for entertainers and sportsmen, and the scheme under which payments to unregistered subcontractors working on big building projects may need to have tax deducted at source.

Interest WHT
As a general rule, UK domestic law requires companies making payments of interest to withhold tax at 20%. However, there are a number of exceptions to this general rule. The key exclusions are:

- Payments of interest by UK resident companies if the beneficial owner of the interest is also a UK resident company, or a UK PE, provided the interest concerned will be taxed in the United Kingdom as part of the PE's trading profits.
- Payments of interest on a quoted Eurobond.
- Payments of interest that qualify for exemption under the EU Interest and Royalties Directive.
- Payments of interest paid to or by a UK bank (or a UK branch of a foreign bank).

- Payments of 'short' interest. This is, broadly speaking, interest on loans that will not be in place for more than a year. However, the definition can be contentious, and detailed advice should be taken on this if intending to utilise this exemption.
- Payments of interest that do not 'arise' in the United Kingdom. Whether a payment constitutes UK-source interest is a complex issue, and specialist advice needs to be taken if seeking to use this exception.

If none of these exceptions apply, a payment of interest must be made after the deduction of WHT unless (or until) HMRC has given authorisation that the payment may be made gross (or with a reduced rate of WHT) because of the applicability of treaty relief for the recipient.

Royalties WHT

UK domestic law requires companies making payments of patent, copyright, and design royalties that arise in the United Kingdom to deduct WHT at 20%. In addition, there is also the possibility that other royalties that arise in the United Kingdom may also be subject to the same rate of WHT if they constitute 'qualifying annual payments', so specialist advice will be needed to clarify this. However, certain types of royalties, such as film royalties and equipment royalties, will generally not be subject to UK WHT.

Unlike the rule regarding interest, a company may make a royalty payment gross of WHT (or subject to a reduced rate of WHT under a treaty) without prior clearance having been given by HMRC if they reasonably believe at the time the payment is made that the payee is entitled to relief under the treaty. However, if that belief is later found to be incorrect, HMRC may direct that the payment must be made net of WHT, with the WHT paid to HMRC, and the payer may be subject to interest and penalties in respect of the WHT that should have been withheld (even if their belief was reasonable).

Double taxation treaties (DTTs)

The table below sets out the rates of WHT applicable to payments of dividends, interest, and royalties under UK domestic law where such a liability arises and the reduced rates that may be available under an applicable DTT.

Recipient	Dividends (%) (1)	Interest (%) (2)	Royalties (%) (3)
Resident corporations		0/20 (4)	0/20 (4)
Resident individuals		20	20
Non-resident corporations and individuals:			
Non-treaty		20	20
Treaty (5):			
Albania (41)		6	0
Antigua and Barbuda		20	0
Argentina		12 (6, 7)	15 (8)
Armenia (43)		5	5
Australia (39)		10 (6)	5
Austria	*	0	0 (35)
Azerbaijan (12)		10 (6)	10 (10)
Bahrain		0	0
Bangladesh		10 (6, 11)	10
Barbados	*	0	0 (36)
Belarus (12)		0	0
Belgium	*	10 (46)	0
Belize	*	20	0
Bolivia		15 (7)	15
Bosnia-Herzegovina (13)		10	10

Recipient	Dividends (%) (1)	Interest (%) (2)	Royalties (%) (3)
Botswana	*	10 (6, 33)	10 (33)
British Virgin Islands		20	20
Brunei	*	20	0
Bulgaria		0	0
Burma (Myanmar)		20	0
Canada		10 (6, 7)	10 (32)
Cayman Islands		20	20
Channel Islands:			
Guernsey		20	20
Jersey		20	20
Chile		10	10
China (47)		10	10
Croatia (39)	*	10	10 (15)
Cyprus	*	10	0 (37)
Czech Republic (14)		0	10 (15)
Denmark		0	0
Egypt		15 (6)	15
Estonia (12)		10 (6)	10 (19)
Ethiopia		5	7.5
Falkland Islands		0	0
Faroes		0	0
Fiji	*	10 (7)	15 (13)
Finland		0 (7)	0
France		0	0
Gambia	*	15 (6)	12.5
Georgia (12)		0	0
Germany		0	0
Ghana		12.5 (6)	12.5
Greece		0	0
Grenada		20	0
Guyana		15 (6, 7)	10
Hong Kong		0 (42)	3
Hungary (44)		0	0
Iceland	*	0	0
India	* (9)	15 (6, 7, 16)	15 (17)
Indonesia	*	10 (30)	15 (29)
Ireland, Republic of		0	0
Isle of Man		20	20
Israel (39)		15	0/15 (18)
Italy	*	10 (6, 7)	8
Ivory Coast (Côte d'Ivoire)		15 (6)	10
Jamaica	*	12.5 (7)	10
Japan		0/10 (6)	0
Jordan		10 (6)	10
Kazakhstan (12)		10 (6, 7)	10
Kenya	*	15 (30)	15
Kiribati	*	20	0
South Korea (Republic of Korea)		10 (6, 7)	10 (31)
Kuwait		0	10
Latvia (12)		10 (30)	10 (19)

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Recipient	Dividends (%) (1)	Interest (%) (2)	Royalties (%) (3)
Lesotho		10 (7, 30)	10
Libya		0	0
Liechtenstein		0 (45)	0
Lithuania (12)		10 (6)	10 (22)
Luxembourg	*	0	5
Macedonia (13)	*	10	0
Malawi	*	0	0 (19)
Malaysia		10 (30)	8
Malta	*	10 (6)	10
Mauritius	*	20 (6)	15
Mexico		15 (7, 20)	10
Moldova (12)	*	5 (6)	5
Mongolia		10 (7, 21)	5
Montenegro (13)		10	10
Montserrat		20	0
Morocco		10 (6)	10
Namibia		20	0
Netherlands		0	0
New Zealand (39)		10 (6)	10
Nigeria		12.5 (30)	12.5
Norway (41)		0	0
Oman		0	8
Pakistan		15 (6)	12.5
Panama		5	5
Papua New Guinea		10 (6)	10
Philippines	*	15 (6, 22)	15/25 (23)
Poland		5 (6)	5
Portugal		10	5
Qatar		0	5
Romania	*	10	15 (24)
Russian Federation (12)		0	0
St. Kitts and Nevis (St. Christopher and Nevis)		20	0
Saudi Arabia		0	8 (19)
Serbia (13)		10	10
Sierra Leone		20	0
Singapore		0/5 (6)	8
Slovak Republic (14)		0	10 (15)
Slovenia (13)	*	5 (6)	5
Solomon Islands	*	20	0
South Africa		0	0
Spain	*	12 (7)	10
Sri Lanka		10 (6)	10 (27)
Sudan	*	15	10
Swaziland		20	0
Sweden	*	0	0
Switzerland	*	0	0
Taiwan		10 (6)	10
Tajikistan (12)		0	0
Thailand (39)	*	20 (6, 25)	15 (26)
Trinidad and Tobago	*	10 (6)	10 (38)

Recipient	Dividends (%) (1)	Interest (%) (2)	Royalties (%) (3)
Tunisia		12 (29)	15
Turkey		15 (6)	10
Turkmenistan (12)		0	0
Tuvalu	*	20	0
Uganda		15 (30)	15
Ukraine (12)		0	0
United States		0 (40)	0
Uzbekistan (12)		5 (6, 7, 28)	5 (28)
USSR (former) (12)		N/A	N/A
Venezuela		5 (6)	7 (34)
Vietnam		10 (6)	10
Yugoslavia (former) (13)		N/A	N/A
Zambia	*	10	10
Zimbabwe	*	10 (6)	10

Notes

1. A tax credit is available to UK resident individual shareholders on dividends received, as described above. Some DTTs allow a half or full tax credit (less, normally, a 5% to 15% notional WHT) also to non-resident individuals and usually to corporate portfolio investors. Treaties that allow a payable credit are indicated by an asterisk (*). However, since 6 April 1999, the credit has been reduced from one quarter to one ninth, which has the result that the tax credit indicated by the asterisk is now, in effect, useless, since it is wholly eliminated by the (usually 15%) WHT allowed by the treaty.
2. WHT applies only to ‘annual interest’ (i.e. excluding interest on certain short-term loans). Banks and similar financial institutions are also normally able to pay annual interest to non-UK residents free of WHT. In addition, most of the UK treaties provide for a zero-rate of withholding on interest paid to governmental and quasi-governmental lenders. Such exemptions are not separately indicated in the table below.
3. Some types of royalties are not subject to UK WHT, including film royalties and equipment royalties. Treaty provisions specifically relating to these are therefore not mentioned here.
4. From 6 April 2001, payments to any UK resident company (not just banks, as before) can be made free of WHT if the recipient is chargeable to tax on the interest or royalty. Discussions continue as to whether this provision will be extended to recipients who are exempt from UK tax on the interest or royalty.
5. Where a reduced rate of withholding is allowed by any treaty, whether on interest or royalties, it is usual for this reduced rate to be stated not to apply to amounts that are in excess of a normal commercial rate of interest/royalty, or where the interest/royalty is effectively connected to a PE in the United Kingdom of the recipient or where the debt/licence was created primarily to obtain the advantage of the treaty; such general limitations are not specifically indicated in the table below.
6. Zero-rate on certain loans.
7. Treaty rate not applicable to certain loans held by tax-exempt holders and resold within three months of acquisition.
8. Lower rates, primarily of 3% on use of news, 5% on copyright royalties other than films and TV, and 10% on certain intellectual property, will in practice apply in almost all cases.
9. No repayable tax credit for companies.
10. A 5% rate on literary/artistic copyright royalties.
11. A 7.5% rate on interest paid to banks and other financial institutions.
12. The United Kingdom announced that the old UK/USSR treaty ceased to apply to certain former Soviet Republics on 5 April 2002 (such that from that date there was no treaty in force with any of those countries), while it continued to apply to others until new treaties were concluded. Treaties have subsequently been signed with a number of these states such that the old UK/USSR treaty currently only continues to apply to Tajikistan, Turkmenistan, and Belarus (the last of which concluded a new treaty with the United Kingdom in 1995 that is not yet in force). The only remaining states without a treaty in force with the United Kingdom post 5 April 2002 are Armenia and Kyrgyzstan. Moldova signed a new treaty with the United Kingdom on 8 November 2007 that took effect in the United Kingdom from 6 April 2009.
13. The United Kingdom’s treaty with the former Yugoslavia is regarded as still in force between the United Kingdom and Croatia, Montenegro, Serbia, and Bosnia-Herzegovina. Macedonia signed a new treaty with the United Kingdom on 8 November 2006, which took effect for UK WHT purposes on 1 January 2008. A new treaty with Slovenia was signed on 13 November 2007 and came into effect in the United Kingdom in April 2009.
14. The independent states of the Czech Republic and the Slovak Republic have confirmed that they will honour the treaty between the United Kingdom and the former Czechoslovakia.
15. The 10% rate applies to royalties for use of industrial, commercial, or scientific equipment or experience as well as royalties in respect of patent, trademarks, and know-how. Zero-rate on all other royalties.
16. A rate of 10% on certain bank loans.
17. A rate of 10% in certain cases.

18. A rate of 15% on film and TV royalties.
19. A rate of 5% on royalties for use of industrial, commercial, or scientific equipment.
20. Zero-rate on government and local authority loans. The rate is 5% where the beneficial owner is a bank or insurance company or the interest is derived from bonds and securities that are regularly and substantially traded on a recognised securities market. The rate is 10% where the beneficial owner is not a bank or insurance company but the interest is paid by a bank or by the purchaser of machinery and equipment to a person who sold that equipment on credit.
21. A rate of 7% on interest paid to banks.
22. A rate of 10% on interest on bonds issued to the public.
23. A rate of 15% on royalties on films, TV, and radio broadcasting.
24. A rate of 10% on copyright royalties.
25. A rate of 10% on interest paid to banks and other financial institutions.
26. A rate of 5% on literary/artistic/scientific copyright royalties.
27. Full relief for copyright royalties.
28. Lower rate may be substituted to match any lower rate agreed in a treaty between Uzbekistan and a third OECD country.
29. A rate of 10% for royalties on industrial, commercial, or scientific equipment.
30. Zero-rate on certain government loans.
31. A rate of 2% for royalties on industrial, commercial, or scientific equipment.
32. Zero-rate on literary/artistic copyright royalties, patent royalties, and royalties for use of industrial, commercial, or scientific know-how and computer software.
33. The new treaty effective for UK income tax (and therefore WHT) from 6 April 2007 reduced WHT on both interest and royalties to the rates shown in the table. Prior to this, the rate of WHT on interest and royalties was 15% in both cases (subject, in the case of interest, to note 7).
34. A rate of 5% on royalties for the use of a patent, etc. concerning industrial, commercial, or scientific experience.
35. A rate of 10% can be withheld if the recipient of the royalties controls more than 50% of the voting power of the payer.
36. A rate of 15% can be withheld on royalties in respect of cinematograph or television films.
37. A rate of 5% can be withheld on royalties in respect of cinematograph or television films.
38. Full relief is available for literary, artistic, or scientific copyright (excluding royalties on cinematograph films and films or tapes for TV or radio broadcasting). No relief is available for amounts paid in respect of the extraction or removal of natural resources.
39. HMRC continues discussions on new or revised treaties with Australia, Croatia, Israel, New Zealand, and Thailand.
40. Relief may be restricted to 15% in certain circumstances.
41. New tax treaties/protocols have been signed but have not yet entered into force. These agreements will enter into force once both countries have completed the required Parliamentary procedures and exchange of diplomatic notes and will take effect on the dates set out therein.
42. Provided one of several conditions is specified, one of which is that the recipient is quoted, another being that HMRC accepts that the interest is not paid in connection with tax avoidance (broadly).
43. In force February 2012, with varying implementation dates.
44. Effective January 2012.
45. Effective from 1 February 2013.
46. Wider exemptions for certain loans.
47. Effective from 13 December 2013.

Tax administration

Taxable period

Companies are assessed by reference to accounting periods. Normally, the accounting period is the period for which the company makes up its accounts. However, an accounting period for corporation tax purposes cannot exceed 12 months, so companies preparing statutory accounts for longer than 12 months need to prepare more than one corporation tax return.

Tax returns

Companies must file their statutory accounts and tax return within one year from the end of the accounting period; the return must include a self-assessment of the tax payable, eliminating the need for assessment by HMRC (though HMRC retains assessing powers for certain cases where it is not satisfied with the return, or where the company fails to make a return).

Electronic filing requirements

Returns for accounting periods ending after 31 March 2010 must be filed online, and such returns must be filed in a specified format that is machine readable by the tax authorities. The accompanying accounts must also be in iXBRL format.

Payment of tax
For smaller companies, corporation tax is payable nine months after the end of the accounting period to which it relates (i.e. before the return must be filed). For larger companies and groups, a system of quarterly payments on account (based on estimated profits) is in place, with the first payment being due in the seventh month of the accounting period concerned. A company will generally be considered large for this purpose in any accounting period in which it has taxable profits in excess of GBP 1.5 million (that limit being reduced by reference to the number of companies under common control, where relevant).

Penalties
The UK tax system can impose numerous penalties for failing to adhere to the self-assessment system. These include penalties for late filing of returns, failing to maintain appropriate records, submitting an incorrect return, making errors in certain documents sent to HMRC, unreasonably failing to report errors in assessments by HMRC, and failing to respond to a notice of enquiry from the tax authorities within the specified time limit.

Other filing requirements
Large companies (those with turnover greater than GBP 200 million or balance sheet assets over GBP 2 billion) are required to notify HMRC of the identity of their senior accounting officer, who must certify annually that the accounting systems are adequate for the purposes of accurate tax reporting. Penalties are chargeable on the officer and the company for careless or deliberate failure to meet these obligations.

Certain tax planning and structuring transactions and arrangements must be disclosed to HMRC either before or on implementation of the transaction under the Disclosure of Tax Avoidance Schemes (DOTAS) regime. This scheme covers most taxes and is a reporting system only, with responsibility placed on taxpayers and advisors to report. HMRC are not required to respond to the reporting, and this is not an advance clearance or approval process. It is a reporting mechanism only, and, on occasions, new legislation has been introduced to block specific arrangements reported.

Tax audit process
The UK corporate tax process is one of self-assessment. Following filing of the tax return, HMRC has a period of (usually) 12 months in which to raise formal enquiries. These can range from simple information requests to detailed technical challenges over treatments adopted in the tax return.

These enquiries are often settled between the taxpayer company and HMRC by exchange of information and correspondence. Where agreement cannot be reached, litigation may be necessary.

HMRC has certain powers to demand information and, in some circumstances, to enter premises to obtain documents, etc. These powers are rarely used, and there are no routine visits by HRMC officials to taxpayer premises.

Statute of limitations
For companies that are members of medium or large groups, there is generally a period of one year after the statutory filing dates for the tax authorities to start an enquiry into any aspect of the return. For other companies, enquiries can be started up to 12 months after the date of actual filing. These periods are extended for returns submitted after the filing deadline, that are amended by the taxpayer, or where an issue is subsequently discovered that was not sufficiently disclosed within the standard period.

Other issues

Adoption of International Financial Reporting Standards (IFRS)

IFRS is mandatory for the consolidated financial statements of listed UK companies.

All companies continue to have the choice of adopting IFRS or remaining on UK Generally Accepted Accounting Principles (GAAP) for their non-consolidated (solus) accounts. Many groups therefore continue to apply UK GAAP in their solus accounts.

The Financial Reporting Council (FRC) has confirmed that it intends to abolish UK GAAP in its current form for all periods beginning on or after 1 January 2015. From that time, UK companies will have a choice of either using full IFRS or a new UK GAAP standard (FRS 102) for their accounts. UK companies that are subsidiaries will also have an additional option to prepare accounts under either IFRS or FRS 102 methodologies with reduced disclosures. Early adoption is permitted. In addition, the Financial Reporting Standard for Smaller Entities (FRSSE) will be an option for small companies or small groups as defined by the Companies Act 2006. However, the options available to a company are subject to the requirements of the UK Company Law framework for consistency of GAAP within a group.

Intergovernmental agreements (IGAs) and cooperation

The United Kingdom has a wide range of international agreements, alongside DTTs, for the exchange of information about taxpayers. In addition, the United Kingdom seeks to take a participative role in the EU and within the OECD with regard to the development of international tax principles.

The United Kingdom has agreed to implement the United States (US) Foreign Account Tax Compliance Act (FATCA) arrangements with effect from June 2014. The FATCA legislation is being introduced by the US authorities to prevent tax evasion by US citizens who use offshore accounts, and UK-based financial institutions must comply with its requirements or face suffering WHTs on interest or dividends from US corporations.

UK tax legislation

Announcements of proposed new legislation generally occur at least once a year. The main announcement is made on Budget Day (generally in March), when tax rates are set for the coming year. Other announcements can be made at other times and, subject to becoming approved and adopted law, can apply from a specified date. The new legislation is then included in an annual Finance Act, which is normally finalised in July. Much of the legislation introduced in recent years has been due to challenges under the EC treaty, or as a result of the tax planning being notified under the UK's tax avoidance disclosure regulations. In years of a general election (such as 2010), there may be additional Budget Days and Finance Acts.

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