United Kingdom

Tax highlights

New York | London | Lugano | Milan | Sofia | Plovdiv | Dubai | Hong Kong | Shanghai

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Table of Contents

Introduction

The United Kingdom has always been one of the most attractive destinations for undertaking a business activity with international visibility.

It also offers a high standard living for persons who intend to live their permanently.

The United Kingdom, officially the United Kingdom of Great Britain and Northern Ireland, is a unitary state, currently composed of four constituent nations (*Home Nations*): England, Scotland, Wales and Northern Ireland.

It is governed by a parliamentary system and the capital and seat of government is London.

Often it is improperly called Great Britain or England, when in reality the term Great Britain refers to a geographical territory (the major island) and with the term England it indicates only one of the four nations that make up the Kingdom.

In general, for tax purposes the United Kingdom includes Great Britain, Northern Ireland, England, Wales and Scotland.

While Guernsey, Jersey, the Isle of Man and Gibraltar are territories under the control of the Crown, they are not part of the United Kingdom for tax purposes.

1. The tax system: general aspects

The United Kingdom tax system is based on a double track or level of taxation:

- A first level managed by the HMRC (*HM Revenue and Customs*, equivalent to the Inland Revenue) related to national tax;
- A second level managed by the local authorities and which concerns local taxes (comparable to the taxes imposed by our Regions or Municipalities).

In the United Kingdom as well as in Italy we also have a dual type of tax:

- Direct Taxes
  - Taxation of legal persons - corporate income taxes:
    - Resident companies
    - Non-resident companies
  - Taxation of natural persons - taxes on income from employment:
    - Resident natural persons
    - Non residents natural persons
- Indirect Taxes
  - Value added tax (VAT) *Value-Added Tax*)
  - Other taxes:
    - Registration tax (*Stamp Duty*)
    - Local tax (*Council Tax*)
    - Tax on succession and donations

2. Direct taxes

2.1. Taxation of legal persons

Corporate income taxes

a. Resident company

For the 2016 financial year (that is from 1 April 2016 to 31 March 2017), the 2016 Budget Law provided for a rate of **20%**.

For the 2017 financial year (that is from 1 April 2017 to 31 March 2018), the 2017 Budget Law provided for a rate of **19%**.

A further reduction is expected in 2020 to **17%**.

Tax base

Worldwide.

Dividends

Exemption for dividends received by resident companies, while dividends from foreign subsidiaries exemption only if there is a bilateral treaty with the country of residence of the foreign subsidiary

Capital Gains

Included in corporate income; intra-group profits on the sale of shares are exempt; possible deferral for the *core business assets*; *Participation Exemption* envisaged.

Tax advantages against double taxation

Yes, tax credit abroad or deductions.

Tax losses resulting from the financial statements

Tax losses resulting from the financial statements can be carried forward for an indefinite period of time, in the absence of changes in the corporate structure or in the activity carried out.

It is also possible to report the losses of the tax year in the previous financial year in order to reduce the tax burden.

b. Non-resident companies

If the foreign structure has a permanent establishment in the United Kingdom, a rate of **20%** applies as for resident companies. The latter will be reduced in the coming years, up to a threshold of **17%** in 2020.

***Capital Gains* on the sale of participations in resident companies**

Exempt.

***Capital Gains* on the sale of real estate**

Exempt.

Withholdings at the source

- Branch profits (*branch*): none
- Dividends: **0%**
- Interest: **20%**, exempt for EU parent companies
- Royalties: **20%**, exempt for EU parent companies

Tax concessions on participations

Dividends entering, no; outgoing dividends, no.

Special treatments planned for groups

Yes.

Incentives

Yes, for R&D and innovative young enterprises.

Tax evasion rules

- General rules
- *Transfer Pricing*
- *Thin Capitalization*
- *Controlled Foreign Company legislation*

2.2. Taxation of natural persons

Employee income tax

a. Resident natural persons

Income in GBP	Rate
0 – 11,500	**0%**
11,501 – 45,000	**20%**
45,001 – 150,000	**40%**
≥ 150,001	**45%**

Capital Gains

Generally **20%** for all categories except for gains from real estate/property sales; expected rates of **10%** for entrepreneurs who have **5%** of participations and are involved for a year or more in a company as employees or directors.

***Capital Gains* from real estate sale**

18% on amounts up to GBP 31,865 and **28%** for larger amounts.

Elimination of double taxation

Yes, tax credit abroad based on the double taxation treaty.

b. Non residents natural persons

Income in GBP	Rate
0 – 11,500	**0%**
11,501 – 45,000	**20%**
45,001 – 150,000	**40%**
≥ 150,001	**45%**

Only income received in the United Kingdom is taxed. For foreign income, the principle of cash basis applied.

***Capital Gains* on the sale of participations in resident companies**

Exempt if not held for commercial purposes.

Withholdings at the source

- Employee income: progressive rates
- Dividends: none
- Interests: 20%
- Royalties: 20%
- Other compensation for services: none

The aforementioned withholding taxes can be reduced using the bilateral treaties signed by the United Kingdom with other countries.

3. Indirect taxes

Value added tax (VAT)

The value tax is applied to goods and services sold within the national territory by taxable persons considered (VAT taxable persons) or:

- Individuals
- Associations
- Non-Corporate Organizations (*Association*, *Trust* or *Charity*)
- Company *Limited*

The rates applied for VAT are

- VAT (standard): **20%**
- VAT (reduced): **0%**, **5%**

There is no registration requirement for transactions below GBP 85,000 (a limit of GBP 83,000 was foreseen for 2016).

3.1. Other indirect taxes

Register Tax (*Stamp Duty*)

There are three distinct forms of stamp duty on property transfers:

- Registration tax
- Registration tax on purchase (*Stamp Duty Reserve Tax* - SDRT)
- Registration Tax for Country (*Stamp Duty Land Tax* - SDLT)

Registration Tax and SDRT derive from the purchase of shares: the registration tax is applied to paper transactions, while the SDRT applies to paper transactions, such as electronic transfers.

The normal rate of registration tax and SDRT is **0.5%**, a rate of **1.5%** applies to the transfer of shares in a system of certificates of deposit or in a settlement service.

While the SDLT applies to interest transfers in the United Kingdom. The rate is calculated as a percentage of the transfer fee and varies depending on whether the transfer is residential or non-residential.

Local tax (*Council Tax*)

There are no local income taxes. A municipal tax is perceived on the value of the taxpayer's home.

The *Council Tax*, for example, applies to all national properties, including: homes, bungalows, apartments, houses, mobile homes and houseboats, owned, rented and vacant.

Tax on succession and donations

Succession tax is payable on the value of inherited assets in the event of death and on certain transfers between living persons, but only if the value of the assets exceeds a certain level.

4. International bilateral agreements

The United Kingdom has signed bilateral treaties against double taxation with various countries to prevent a taxable person from being taxed in two countries for the same source of income in the same period.

Below is a list of the countries covered by these agreements with the United Kingdom:

Albania
Algeria
Antigua and Barbuda
Argentina
Armenia
Australia
Austria
Azerbaijan
Bahamas
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Belize
Bolivia
Bosnia and Herzegovina
Botswana
British Virgin Islands
Brunei
Bulgaria
Canada
Chile
China
Croatia
Cyprus
Czech Republic
Denmark
Egypt
Estonia
Ethiopia
Falkland Islands
Faroe Islands
Fiji
Finland
France
Gambia
Georgia
Germany
Ghana
Greece
Grenada
Guyana
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Kiribati
Korea
Kosovo
Kuwait
Latvia
Lesotho
Libya
Lichtenstein
Lithuania
Luxembourg
Macedonia
Malawi
Malaysia
Malta
Mauritius
Mexico
Moldova
Mongolia
Montenegro

Montserrat
Morocco
Myanmar
Namibia
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Panama
Papua New Guinea
Philippines
Poland
Portugal
Qatar
Romania
Russia
Saint Kitts and Nevis
Salomon Islands
San Marino
Saudi Arabia
Senegal
Serbia
Sierra Leone
Singapore
Slovakia
Slovenia
South Africa
Spain
Sri Lanka
Sudan
Swaziland
Sweden
Switzerland
Taiwan
Tajikistan
Thailand
Trinidad and Tobago
Tunisia
Turkey
Turkmenistan
Tuvalu
Uganda
Ukraine
United Arab Emirates
United States
Uruguay
Uzbekistan
Venezuela
Vietnam
Zambia
Zimbabwe

5. Our services

Accounting services

Using an approach based on business processes, the environment in which the enterprise operates and the main risk areas and through periodic visits to the company, Diacron verifies the correctness of the work of the accounting department of the company from a civil law, tax, currency and administration point of view. In addition, Diacron offers its customers the management of accounting, administrative and corporate tax areas.

Tax Services

Diacron offers consultancy services in the field of national and international taxation, assisting its customers who have to deal with different jurisdictions, guiding them in identifying the most appropriate routes and choices.

Corporate services

Diacron assists its customers right from the initial stages of the internalization and corporate reorganization projects. Through the use of well-established law firms, it assists the customer in the process of setting up the company and with regard to the related obligations required.

6. Strengths

Global presence, local focus

7	Partner
8	Countries
9	Offices
40+	Books published
45	Conferences (since 2011)
90	Employees
200+	Press quotes
800+	Worldwide clients

Why Diacron?

- Team of professionals with in-depth knowledge of tax systems and international corporate regulations
- International tax systems integration
- Staff who speak English and local language in all locations
- Consolidated collaboration with local partners
- Strategic and global presence

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