UK Taxation for Inward Investors

A guide for overseas businesses to UK taxation

Contents

1. Introduction

This guide is an introduction to the liability to direct taxes (Income Tax, Corporation Tax and Capital Gains Tax), indirect taxes (VAT and Stamp Duty Land Tax), choice of trading entity, employee taxes and compliance issues in relation to tax administration, accounting and employment regulations. For a more detailed guide to various business structures etc., please refer to our *Doing Business in the UK* guide.

Overseas companies setting up business in or trading with the UK; i.e. England and Wales, Scotland and Northern Ireland, should be aware that these three regions are separate legal jurisdictions and, whilst the laws relating to company incorporation and taxes in each of the jurisdictions are broadly similar, differences nevertheless do arise in both substantive and procedural law. The Isle of Man and the Channel Islands, while associated with the UK for defence and foreign policy matters, are separate jurisdictions, and each has its own legal system. This guide has been written specifically to deal with the position in England and Wales.

The UK has left the EU and this does have a significant impact on UK-EU cross border transactions in relation to regulations and movement of people which is outside the scope of this guide.

Thank you to Viraj Mehta of Bourner Bullock, Chartered Accountants, who have provided invaluable input to this guide. For further information, please visit http://www.bournerbullock.co.uk/.

This document is a general guide only. It is intended merely to highlight issues and not to be comprehensive. It does not aim to provide legal advice and should not be relied upon for this purpose.

The information is relevant for the financial year starting 1 April 2023.

For further information and advice, please contact:

Steen Rosenfalck
Partner

T +44 (0)7736 634 727
E steen.rosenfalck@ebl-mr.com
I ebl-mr.com

2. General information

The UK tax regime follows the Self-Assessment system of taxation, which means that the taxpayer is responsible for completing the tax return in the prescribed form, filing it by the filing date and paying all taxes by the required date. Failure to comply will result in automatic filing penalties together with interest and penalties for late payment of tax.

The tax compliance system is on the whole administered electronically.

UK tax legislation is complex, having evolved over centuries and incorporating European Union law. There can be several different taxes, which may affect a single transaction, as well as complex anti-avoidance legislation to consider and the annual changes in tax thresholds and tax law due to the enactment of a new Finance Act every year in March.

The information provided below is generic and cannot be relied upon as advice as circumstances are likely to differ. Professional advice should be obtained to suit your specific circumstances. We recommend that you speak to us in the first instance should you wish to invest in the UK.

In addition to the tax and accounting regulatory issues, there are also practical matters to consider. Such decisions will have regulatory and compliance consequences in the UK and possibly also in the country from where you are originating. These include:

- How you are going to fund the business activities?
- Are you seeking to establish a trading presence in the UK and employ people?
- Are you going to acquire property in the UK?
- Are you going to become UK resident?
- Are you looking to relocate and work here?
- How will the transactions be accounted for?
- How are you going to extract profits from the UK?
- What are your compliance obligations in the UK and in the country where you are resident?

Information
Useful Information can be obtained on the following websites:

H M Revenue & Customs (HMRC):	http://www.hmrc.gov.uk/
Companies House:	http://www.companieshouse.gov.uk/
UK Government website:	https://www.gov.uk/

Abbreviations used

Double Tax Agreement (DTA)

European Economic Area (EEA)

European Union (EU)

Capital Gains Tax (CGT)

Generally Accepted Accounting Practice (GAAP)

Inheritance tax (IHT)

International Financial Reporting Standard (IAS)

Instalment payments (IPs)

Limited Liability Partnership (LLP)

Making Tax Digital (MTD)

National Insurance Contributions (NICs)

Pay As You Earn (PAYE)

Stamp Duty Land Tax (SDLT)

Value Added Tax (VAT)

Withholding tax (WHT)

3. Taxation of businesses trading in the UK

Businesses, which trade ‘with’ the UK, are not subject to direct UK tax. Businesses that trade “in” the UK are subject to direct taxes as follows:

Trading vehicles	Applicable tax
Sole trader and partnerships	Income tax
Company or branch	Corporation tax
LLP	Income tax/Corporation tax

You should therefore determine whether you are going to trade ‘with’ the UK or are going to trade ‘in’ the UK and, if you need a presence in the UK, how this should be structured.

Where there is an international tax element, there are general principles to follow, including (but not exhaustive):

- In the UK, profits are taxed on a worldwide basis.
- The profits may also be taxed where the owner of these profits is also resident.
- Where there is double taxation then the applicable DTA may resolve which jurisdiction has taxing rights and provide relief for double taxation.
- DTAs may also provide for agreed reduced rates of withholding tax.
- European directives may also provide for relief against withholding tax on the transfer of income between European countries.
- Transactions between connected parties may be subject to anti-avoidance provisions.

4. Business structures

There are different trading vehicles from which to operate from including a branch, private or public limited company, unlimited companies and the limited liability partnership.

Which vehicle is most appropriate for you will depend on a mixture of commercial, accounting and tax factors and include the tax regime in the country of residence of the parent company; the availability of tax treaties between the UK and the countries of residence of other group companies with which the UK will be transacting.

The following table compares the key aspects of the two most commonly used UK trading forms: The UK company and a branch:

UK company	**UK branch of an overseas company**
Separate legal personality.	No separate legal personality. Legally part of the overseas company.
Required to file annual financial statements with the Registrar of Companies for public inspection. Financial statements may require a UK audit. Copies to be filed with HMRC for tax purposes.	Branch financial statements of the local trade are required to be filed for tax purposes. A UK audit is not required. Certified Financial statements of the overseas company of which it is part must be filed with the Registrar of Companies for public inspection together with a certified copy translated into English.
Subject to UK corporation tax on worldwide profits.	Subject to UK corporation tax on the activities carried on in the UK branch.
Profits are not subject to tax in the hands of an overseas parent company until distributed by way of dividend. The UK does not impose a withholding tax on the distribution of dividends. Relief may be available to the parent company for UK tax suffered on the profits out of which the dividends are paid.	The worldwide profits of the overseas company (including the UK branch profits) are subject to tax in the hands of the overseas company. Relief should be available to the overseas company for UK tax suffered on the branch profits.
Deductions against UK taxable profits should be available for payments of interest and royalty at arm's length made by the subsidiary to an overseas parent company.	Interest and royalty payments made by the branch to the overseas company would not be deductible against the UK taxable profits of the branch.
Tax losses can be carried forward and offset against future profits of the company or be offset against taxable profits of other UK companies within the same group.	Tax losses can be carried forward and offset against future profits of the branch or to be offset against taxable profits of other UK companies within the same group. Subject to local tax law, branch losses may be available for offset against the profits of the overseas company but this may effect loss relief available in the UK.
Exit can be achieved by an overseas company disposing of the shares in the subsidiary. No UK capital gains tax should arise.	As a branch does not have a separate legal personality, it cannot be disposed of. Instead, exit would be achieved by disposing of each of the individual branch assets. UK capital gains tax may arise on the disposal of such assets.

UK company	**UK branch of an overseas company**
Closure requires either a formal winding up procedure involving the appointment of a liquidator or a striking-off.	Closure is automatic on the cessation of trade. No formal procedure is required save for de-registration at Companies House.
UK stamp duty may arise on the transfer of shares in the UK subsidiary. Stamp duty or stamp duty land tax may arise on the sale of individual company assets. This is paid by the purchaser.	No UK stamp duty is payable on the contribution of capital to a UK branch. Stamp duty or stamp duty land tax may arise on the sale of individual branch assets.
Transfer pricing rules will apply to all transactions between related parties unless the group is small or medium size.	Transfer pricing rules will apply to all transactions between related parties. Profits are attributable to the branch as if it were a separate company.
Goods and services supplied may be subject to UK VAT, including supplies between the subsidiary and parent company, subject to domestic regulations.	Goods and services supplied between branch and parent are ignored for UK VAT purposes. UK VAT may apply subject to domestic regulations.

5. Company residence

In general, a company is treated as resident in the UK for tax purposes if:

- it is incorporated in the UK, or
- the central management and control of its business is exercised in the UK.

The definition of central management and control in the UK is determined by case law and is not defined in statute. HMRC recognises that a company's central management and control is a question of fact, which refers to the highest level of control and the place where the strategic management of the entity is exercised. There have been some well-publicised cases in recent years where HMRC have challenged the residence of entities on the grounds that central management and control is in the UK.

Dual residence

It is possible that a company may be regarded as resident in its country of incorporation but also resident in the country in which its management and control is exercised. In this instance, you must look at the availability of a "tie-breaker" clause in the DTA between the two countries to determine where the company will be deemed to be tax resident.

Tax authorities in many EU countries will deem a company to be tax resident in the place where "effective" management and control is exercised, a definition not recognised in the UK. There is less emphasis specifically on the actions of shareholders and directors and a greater focus on where the management of the company's business takes place. For practical purposes, the key points above apply to both definitions.

There are practical factors that should be considered when seeking to ensure that a company is regarded as a UK resident company under UK domestic tax law or resident outside the UK.

The UK has negotiated DTAs, which provide for relief from double tax in terms of domestic law as well as in accordance with treaties that are in force.

6. Tax on corporations

The UK corporate tax system is based on a single rate applied to all chargeable profits. The rate of corporation tax is between 19% and 25% from 1 April 2023 onwards.

Following the Budget in March 2021, and Finance Bill 2022, the corporation tax rate will increase to 25% from 1 April 2023 for companies with profits over £50,000. Companies with taxable profits of not more than £50,000 will continue to have a rate of 19% and where taxable profits fall between £50,000 and £250,000, the rate will be taxed at 25% less marginal relief. In order to compute the correct level of corporation tax to apply, the number of companies associated with the UK entity need to be taken into consideration, excluding dormant and passive holding companies.

Calculation of profits chargeable to corporation tax
The profit before tax figure in the financial statement forms the basis of the corporation tax computation, provided they are prepared in accordance with UK GAAP or IAS. These profits are adjusted for expenses and allowances either not allowed as a deduction for tax purposes or not reported in the financial statements. Non-deductible expenses include specific items such as entertainment of customers and general expenses not directly applied for the generation of trading profits including the costs of incorporation of a company and associated legal fees.

Loss relief
Trading losses incurred by a company can be relieved in several ways: against profits in the accounting period (for post April 2017 losses) or profits arising on the same trade (for pre-April 2017 losses); carried back against profits of the trade in the previous 12 months; carried forward and offset against the future profits; or group relieved. There are conditions to be met and claims for relief must be made within relevant time limits.

Relief for carried forward losses
Following recent changes to the rules governing carried forward corporate losses, there is greater flexibility in the use of carried forward losses, which can be relieved against the total taxable profits of a company as well the profits of qualifying UK group members.

Loss relief is subject to a restriction for companies with profits exceed £5m. These companies are only able to use their carried-forward losses against 50% of profits after deduction of the £5m annual allowance. Where the company is a member of a group, the £5m allowance is shared amongst companies in the group.

Capital Gains Tax (CGT)
Companies are not subject to capital gains tax. Gains are taxed at the corporation tax rate. A gain is calculated by the total gain in the year less any allowable losses in the period less any allowable losses brought forward. A capital loss in a year can be used against other current year capital gains. Any unrelieved capital losses are carried forward and set against chargeable gains in the future.

Group Relief
If a company or organisation has a qualifying group relationship with another qualifying entity that is subject to UK corporation tax, then they can choose to surrender certain losses against the profits of other members of the group.

The type of losses that can be surrendered and claimed as group relief are:

- trading losses;
- excess capital allowances;
- excess charges;
- non-trade deficits on loan relationships;
- schedule A (property) losses;
- excess management expenses; and
- non-trade losses on intangible assets.

There is a relaxation in the types of carried forward losses post 1 April 2017 that can be surrendered as group relief, subject to the 50% restriction and £5 allowance.

Similarly, where a company or organisation is in a group relationship in the UK, capital losses on the disposal of assets can also be surrendered and assets can be transferred within a group without incurring a CGT charge.

There are conditions to be met and claims for relief must be made within the relevant time limits.

Capital allowances
Depreciation is not an allowable deduction for tax purposes. Instead, an annual writing down allowance is given for the purchase of qualifying items, such as plant and machinery, at a rate determined by HMRC each year. The annual allowance ranges from 6% to 100% subject to the type of asset acquired and the date of purchase. There are conditions to be met and claims for allowances must be made within the relevant time limits.

~~In addition to the allowances above, for expenditure incurred between 1 April 2021 and 31 March 2023, there is a new 'super-deduction' claim available to incorporated businesses providing allowances of 130% on qualifying main rate plant and machinery investments. The super-deduction will allow companies to cut their tax bill by up to 25p for every £1 they invest. There is also a 50% first year allowance for special rate (including long life) assets. This super-deduction capital allowance relief can be clawed back.~~

Reliefs
There are a number of reliefs available to companies to encourage certain types of activities including research and development allowances; the patent box regime; film tax credits, theatre tax credits, tax credits for the creative industry and enhanced allowances for investing in green technology.

In addition, under the Substantial Shareholders Exemption, UK companies can be exempt from CGT when they dispose of shares in trading companies provided certain conditions are met.

Research and Development (R&D) tax reliefs
R&D tax relief is available to companies within the charge to corporation tax subject to certain conditions being met. The way you claim tax relief depends on the size of the company and there are two schemes: the small and medium enterprise (SME) scheme and the large company scheme.

The SME scheme provides an enhanced tax deduction for qualifying R&D expenditure. The tax relief available on R&D costs is 186%, i.e. for every £100 of qualifying expenditure a tax deduction is given for £186.

The scheme also provides for a payable tax credit to be paid to loss-making SME companies.

For accounting periods beginning on or after 1 April 2021, the amount that a loss-making SME can receive in R&D tax credit repayments is capped at £20,000 plus three times the company's total PAYE and NICs liability (not just PAYE & NIC associated with its R&D). The PAYE and NIC of connected persons doing subcontracted R&D for, or providing workers to, the company will also be taken into account.

A company is exempt from the cap if:

- its employees are creating, preparing to create or managing Intellectual Property (IP) and
- it does not spend more than 15% of its qualifying R&D expenditure on subcontracting R&D to, or the provision of externally provided workers (EPWs) by, connected persons.

From 1 April 2023 onwards, large companies can claim the R&D Expenditure Credit if certain conditions are met. The enhanced credit is 20% of qualifying expenditure incurred and will be set against the company's corporation tax liability.

There are onerous reporting requirements to HMRC.

Creative industry tax reliefs
Creative industry tax reliefs are a group of 8 Corporation Tax reliefs, listed below, that allow qualifying

companies to claim a larger deduction, or in some circumstances claim a payable tax credit when calculating their taxable profits.

The company can claim an additional deduction when computing their taxable profits. Where the company makes a loss, the company may be able to surrender the loss and convert some or all of it into a payable tax credit.

- Film Tax Relief (FTR)
- Animation Tax Relief (ATR)
- High-end Television Tax Relief (HTR)
- Children's Television Tax Relief (CTR)
- Video Games Tax Relief (VGTR)
- Theatre Tax Relief (TTR)
- Orchestra Tax Relief (OTR)
- Museums and Galleries Exhibition Tax Relief (MGETR)

There are different conditions to be met for each relief. For some of the reliefs, the production must pass a cultural test, certifying that the production in British. A certain percentage of production costs must also relate to activities in the UK.

Patent Box
The Patent Box is designed to encourage companies to keep and commercialise intellectual property in the UK. It allows companies to apply a lower rate of Corporation Tax to profits earned from its patented inventions.

The Patent Box enables companies to elect to apply a lower rate of Corporation Tax of 10% to profits earned from its patented inventions. The relief takes the form of a deduction in the calculation of trading profits for the relevant accounting period of an amount equal to the company's relevant intellectual property profits ('RIPP'). The legislation sets out very detailed and formulaic rules for calculating the RIPP.

Anti-avoidance
The UK has complex anti-avoidance rules and has implemented the OECD Base Erosion and Profits measures into domestic legislation. There is a General Anti-Abuse Rule to deter taxpayers from entering into abusive arrangements, and to deter would-be promoters from promoting such arrangements; as well as Targeted Anti-Avoidance Rules which affect specific legislation. Legislation has been introduced to impose a tax where profits have been artificially shifted overseas. Rules have also been introduced to disclose beneficial owners of companies on a public register in certain circumstances and to improve the exchange of information and standardise the reporting of certain information between tax authorities. The UK is a signatory to the Common Reporting Standard.

Withholding tax (WHT)

Dividends
The UK does not impose WHT on the distribution of dividends by companies or a branch remittance tax. Dividends no longer carry a notional tax credit.

Interest
There is WHT on the payment of 'yearly' interest in certain circumstances. There is no obligation to withhold tax from payments of interest between companies where the company making the payment has reasonable belief that the recipient company is within the charge to UK corporation tax.

WHT is charged on the payment of royalties (UK source patents and certain copyrights) arising in the UK.

The rate of WHT on yearly interest and royalties is currently 20%, subject to a reduced rate of WHT in accordance with the relevant DTA concluded with the UK.

It must be noted that reliance for tax relief is placed on the DTA's which the UK has concluded. Application needs to be made to HMRC to claim reduced rates of withholding tax where applicable.

7. Tax on limited liability partnerships

LLPs are an alternative structure to limited companies that give the benefits of limited liability but allow its members the flexibility of organising their internal structure as a traditional partnership. The LLP is a separate legal entity and, while the LLP itself will be liable for the full extent of its assets, the liability of the members will be limited.

The administration of an LLP is similar to that of limited companies under the Companies Act. There is a requirement to file statutory accounts, file an annual return and notify any changes to Companies House. The same filing penalties apply as to limited companies.

LLPs are treated as being tax transparent in that its activities are treated as being carried on by the members themselves and not by the LLP itself. The taxation of an LLP depends on who its members are. Where the partners are individual members then each member is subject to income tax on their share of taxable profits of the LLP. A corporate partner is subject to corporation tax on its share of profits.

Tax returns of an LLP need to be submitted by 31 January following the end of the 5 April tax year. A corporate partner will include their share of the LLP profits (or losses) which are shown in the partnership return on their own corporation tax return and their share of taxable profits would be subject to corporation tax. An individual would show their share of profits or losses on their Self-Assessment personal tax return and their share of taxable profits would be subject to income tax. The filing deadline and late penalty regime would depend on whether a corporation tax return or Self-Assessment personal tax return has to be filed.

There are restrictions for claiming certain types of capital allowances if an LLP includes a corporate member. Likewise, there is a restriction on the amount of losses that can be claimed by the member. There is also anti-avoidance legislation that may seek to tax the profit share of an individual partner as employment income in certain circumstances.

New annual reporting requirements are proposed to be implemented which proposes to align the reporting of trading income with other forms of income (called Making Tax Digital). The changes will apply to the sole traders, rental income, general partnerships and Limited Liability Partnerships (LLPs). For businesses that do not draw up their accounts to 31 March or 5 April, introducing the tax year basis for trading income will bring the payment of tax closer to the time that profits are earned.

The reform will take effect for the 2024 to 2025 tax year with a transition year in the 2023 to 2024 tax year.

8. Value Added Tax (VAT)

Introduction

VAT is a complex tax and it is recommended that expert advice should be sought when providing the supply of any goods or services into or out of the UK as there can be unintended consequences. It is an important consideration when acquiring a business, assets, property, making a supply of goods or services and purchasing goods or services.

Although an EU tax, the UK continues to levy VAT. The principles underpinning the rules relating to domestic and non-EU transactions broadly remain the same although the UK is now a third-party country. This means that there are onerous administrative VAT rules and procedures for transactions between UK and EU member states and specific advice should be sought. There are separate rules for transactions between the UK mainland and Northern Ireland.

For transactions between the EU and UK, advice should be taken on the movement of goods, provision of services and on-line sales. In addition to VAT implications, import duty should also be considered. VAT is a tax that is charged on most goods and services that VAT registered businesses provide in the UK. It is also charged on goods (together with import duties) which are imported from countries outside the UK and brought into the UK.

When VAT registered businesses buy goods or services they can generally reclaim the VAT they have paid.

There are three main rates of VAT depending on the goods or services the business supplies, as follows:

- Standard rate: 20 per cent.
- Reduced rate: 5 per cent.
- Zero rate: 0 per cent.

The supply of certain goods and services can also be:

- Exempt from VAT, or
- Outside the scope UK VAT system altogether.

The basic principle is that VAT is charged at each stage of the supply of goods and/or services by the relevant VAT registered business. This charge to tax is known as output tax. If the business is registered for VAT, all VAT incurred on acquisitions (known as input tax) used for business purposes can be recovered from HMRC. Thus, the broad effect is that the business should not be affected and the VAT charge is ultimately borne by the non-VAT registered final consumer. The VAT registered business acts as the collector of the VAT on behalf of HMRC.

A business would need to register if its VAT taxable turnover is more than £85,000 in a 12-month period; or if goods received are worth more that £85,000 or the business expects to go over the £85,000 threshold in the next 30 days.

However, if this is not the case, a business may still be able to register voluntarily for VAT.

Consequences of VAT registration

Once registered for VAT in the UK, there are a number of duties required to be performed:

- Account for the correct rate of VAT on the supply of goods or services depending on whether standard rated, reduced rate, zero rated or exempt supplies are made.
- Issue valid VAT invoices.
- Submit quarterly/monthly VAT returns to HMRC.
- Make payments to HMRC on a timely basis if their output tax exceeds input tax.
- Keep key accounting records for a minimum of 6 years such as invoices, documentation in relation to import/export, etc.

VAT registered businesses with a taxable turnover above the VAT threshold are required to use the

Making Tax Digital (MTD) service to keep records digitally and use software to submit their VAT returns.

There are special schemes that some businesses can use to help them work out and pay their VAT. There are also special schemes that a business must use if they are making certain types of supplies, such as a mixture of standard and exempt supplies or supplying second hand goods or claiming input VAT on the receipt of capital goods with a value exceeding £250,000.

There are also specific rules for applying and accounting for VAT on the supply and receipt of goods or services from both within and outside the UK.

VAT Returns

VAT registered companies in the UK are required to file UK VAT returns either quarterly or monthly. VAT returns reflect all the sales and purchases and VAT incurred/charged in the VAT return period.

VAT returns must be submitted electronically and payments must be made electronically. The VAT return must normally be filed no later than 1 calendar month and 7 days after the end of the VAT return period. The electronic VAT payments must also reach HMRC’s bank account within the same deadline.

Failure to submit VAT returns and/or make payments to HMRC on time will give rise to filing penalties and interest being imposed by HMRC.

Group registration

Connected companies can be eligible to be treated as members of a VAT group provided that they:

- Have an establishment in the UK;
- are under common control (as defined by the Companies Act 2006 s.1159); and
- satisfy certain HMRC conditions.

There are several consequences to being part of a VAT group, such as:

- Any business carried on by a member of the group is treated as though carried on by the representative member.
- A VAT group must have a “representative member” which must account for the group’s output tax and input tax. However, all members of the group are jointly and severally liable for any tax due from the representative member.
- A VAT group also eases administration since only one VAT return needs to be completed.
- Any supply of goods or services by a member of the group to another member of the group is disregarded for VAT purposes, which makes it administratively easier and provides cash flow savings.

The broad effect of VAT grouping, therefore, is to merge the separate legal identities of companies into one entity for VAT purposes. As a result, intra-group supplies are ignored altogether for VAT. This treatment eliminates VAT costs where one client makes taxable supplies to another client who is either partly exempt or non-registered.

9. Tax on individuals

Basis of taxation
UK tax residents who are UK domiciled are taxed on their worldwide income and capital gains.

Non-UK resident individuals are only taxable in the UK on their UK sourced income, subject to the provisions of an applicable double tax treaty, and capital gains tax on the disposal of UK land and residential property.

The definition of residence is enshrined in law and it is determined by the Statutory Residency test (SRT). Very broadly, for the purposes of income and capital gains tax, you would meet the automatic UK residence test if any of the following apply to you:

- You spend 183 days or more in the UK in the tax year.
- Your only or main home is in the UK.
- You work full-time in the UK for 365 days or more.

There are two further tests that you have to consider as well: to see if you meet the automatic overseas test, (which if you do, then you would not be considered UK resident); and if you meet neither the automatic overseas or resident tests, there is the sufficient ties test to determine how many days you can stay in the UK without becoming UK tax resident. The more ties you have in the UK, then the fewer number of days you can spend in the UK before becoming UK tax resident.

The SRT affects persons arriving and leaving the UK and is more complex as each person needs to review their personal circumstances to determine whether they are UK tax resident or not.

UK tax residents who are not domiciled/deemed domiciled in the UK can elect to be taxed on their UK source income and capital gains only and on any overseas income and capital gains that they directly or indirectly remit into the UK.

Electing to be taxed in such a way has the benefit of exempting non-UK source income or gains provided that such income or gains are not directly or indirectly remitted to the UK. The rules determining what constitutes a direct or indirect remittance are very wide in scope so advice should always be sought before coming to the UK and when bringing funds into the UK.

This basis of taxation is called the Remittance Basis and electing to be taxed this way has the following implications:

- Loss of the personal allowances and capital gains tax annual exemption.
- The payment of the remittance basis charge if you elect for the remittance basis to apply and were resident in the UK for 7 out of the previous 9 tax years at the start of the tax year in question. The charge is £30,000 per annum for each year that the remittance basis is elected. The remittance basis charge increases to £60,000 if you continue to elect for this basis of taxation to apply and were resident for 12 out of the previous 14 tax years prior to the tax year in question.
- UK resident non-domiciled individuals with un-remitted income and/or gains arising outside the UK of less than £2,000 in total in a tax year do not have to pay tax or the remittance basis charge as long as the income or gains are not remitted to the UK. This continues to apply if you become deemed domicile in the UK and you have a domicile of origin overseas.

Those who are resident in the UK for 15 of the prior 20 years are to be treated as deemed UK domiciled for the purposes of income tax, capital gains tax and inheritance tax. The means that they will be subject to IHT on their worldwide assets and cannot claim the remittance basis.

Individuals who are considering becoming resident in the UK are recommended to take pre-arrival tax advice.

Domicile
The concept of domicile is different from citizenship. Within the jurisdiction of the UK, it is regarded as

being the equivalent of a person's permanent home. Broadly speaking therefore, a person is domiciled in that country in which they make their permanent home.

A person may acquire one of the following three kinds of domicile:

- Domicile of origin - the domicile of the father at birth (or mother if the parents were not married at birth).
- Domicile of choice - which an individual may acquire by taking up residence in another country with the intention of permanently residing there. Individuals who are not UK domiciled by origin could inadvertently acquire a UK domicile of choice through their actions and should review their position on a regular basis.
- Domicile of dependency - determined by the domicile of the person on whom the affected person is dependent and applies to children and mentally incapacitated persons.

At the outset, it must be understood that there is a presumption of the continuance of an existing domicile. The burden of proving a change lies upon those who allege a change has occurred and if the evidence is conflicting, the court could decide in favour of the existing domicile.

As noted above, individuals who are resident in the UK for 15 years or more will be deemed to be UK domiciled and subject to IHT on their worldwide basis. It is recommended that tax advice is sought.

Individuals who were born in the UK, with a domicile of origin in the UK, will become UK domiciled as soon as they resume residence in the UK, irrespective of how many years they may have lived abroad.

Tax returns and the payment of tax
Generally, UK resident individuals and non-resident individuals with UK source income or gains are required to file a personal tax return under the Self-Assessment system. However not everyone is required to complete a tax return. In general, you would be required to do so if you are in receipt of untaxed income and capital gains (above certain limits), you have earnings of £100,000 or more, self-employed, a partner in a partnership or LLP, a trustee or in receipt of non-UK source income or gains.

Employment income, interest and dividends are normally taxable in the tax year that they are received. Business income (after deduction of allowable expenses and allowances) is taxable in the accounting period that ends in the tax year in question and rental income (after deduction of allowable expenses and allowances) is taxable in the tax year they relate to.

Independent basis
A tax year spans 6 April to 5 April the following year. Self-Assessment personal tax returns are required to be filed for each tax year ending 5 April. Paper tax returns must be filed by 31 October after the end of the relevant tax year and tax returns submitted electronically must be filed by 31 January following the end of the relevant tax year.

A personal tax return must include a declaration by the person making the return that the return is to the best of their knowledge complete and correct.

Income tax and capital gains tax is payable by reference to the personal tax return and must be paid by 31 January following the end of the tax year. Payments of income tax may be required in advance for the following tax year on 31 January and 31 July.

There are strict penalties for the late filing of a personal tax return: there is an automatic fixed penalty of £100 if the personal tax return is not filed by 31 January following the end of the relevant tax year. Where a tax return is filed after three months, there are further penalties of £10 a day for up to the next 90 days in addition to the fixed penalty. If the return is more than 6 months late then there is an additional penalty of the higher of £300 or 5% of the tax due. For tax returns that are filed twelve months or more after the due date, there is a further additional penalty of the higher of £300 or 5% of the tax due.

In addition, there are surcharges and interest if the tax due is paid late. If the tax is paid beyond 28 February following the end of the tax year then there is a 5% penalty of the tax due in addition to interest. If the tax is outstanding for six months or more then there is a further 5% penalty plus interest and a further 5% penalty plus interest if it is outstanding for 12 months or more.

UK personal tax rates for 2022/23:

Income band	Tax rate
Basic rate income tax between £12,570 - £50,270	20% (7.75% on dividend income)
Higher rate income tax between £50,271 - £125,140	40% (33.75% on dividend income)
Additional rate income tax over £125,140	45% (39.35% on dividend income)

UK residents are entitled to a personal (tax-free) allowance, which is deductible in computing the taxable income for the year. The tax-free allowance is £12,570. This allowance is gradually reduced to nil for individuals who receive income in excess of £100,000.

There is a 'starting rate' of tax for savings income of 0%, available to those whose total income is less than the Personal Allowance plus £5,000. Where a taxpayer's taxable non-savings income exceeds the starting rate limit, then the starting rate limit will not be available for savings income. Even so, £1,000 of savings income for basic rate taxpayers and £500 for higher rate taxpayers may be tax-free.

Additionally, the first £2,000 of dividends are tax free. UK residents will pay tax on any dividends received over the £2,000 allowance. In 2023/24, the dividend allowance is £1,000 and from 2024/25 it will be £500.

Individuals can also benefit from the £1,000 tax-free allowances for property and trading income.

Social security costs are detailed in section 9 below and apply to employers, employees and self-employed people including partners of a partnership or LLP

Scottish Income Tax

Scotland Act 2016 provides the Scottish Parliament with the power to set income tax rates and bands in relation to non-savings and non-dividend income only that will apply to taxpayers living in Scotland. Responsibility for taxing income from savings and dividends will remain with the UK government. While the Scottish Parliament has the power to set the Scottish income tax rates and bands, HMRC will continue to be responsible for its collection and management.

Welsh Income Tax

Each year the Welsh Government will decide the rates of Income Tax paid by Welsh taxpayers. Responsibility for taxing income from savings and dividends will remain with the UK government.

Capital Gains Tax (CGT)

Generally, CGT is chargeable on UK tax residents. The UK government has also expanded the scope of this tax to all individual non-residents who own residential and non-residential property in the UK. They will be subject to capital gains tax if they dispose of their UK land and residential property subject to certain conditions and reliefs.

The gains and losses on the disposal of assets in a tax year are added up and the total net gains are subject to CGT to the extent that they exceed the annual exemption limit of £12,300. In 2023/24, the capital gains tax annual exemption is £6,000 and from 2024/25 it will be £3,000. Capital losses are carried forward for relief against future capital gains.

CGT is payable at the rate of 10% if the gain (in addition to the total income tax for the tax year) does not exceed the basic rate income tax band. Gains exceeding the basic rate tax band are subject to tax at 20%. These rates do not apply on the gain from the disposal of residential properties which will be taxed at the rate of 18% (on basic rate taxpayers) and 28% (on higher and additional rate taxpayers).

There is also a reduced rate of CGT of 10% on the disposal of shares in a trading company or on the material disposal of business assets (previously called Entrepreneurs' Relief); as well as a 10% rate on the disposal of newly issued shares in unlisted companies, provided certain conditions are met.

The disposal of assets is disclosed on the self-assessment tax return as noted above. The capital gains tax is payable by 31 January following the end of the tax year. UK residents who make disposals of

residential property on or after 6 April 2020, will have to pay any CGT due and submit a return within 30 days of completion. From 26 October 2021, the NRGCT return and the related tax are due to HMRC within 60 days of completion.
Non-UK tax residents are also subject to CGT on the disposal of UK land. There is a requirement to inform HM Revenue and Customs and pay the CGT within 30 days of transferring ownership. Specifically, NRCGT will be calculated on UK residential property gains/losses accruing since 5 April 2015; and all other gains/losses on disposals of UK land and assets that derive 75% or more of their value from UK land accruing since 5 April 2019.

There are reliefs available to defer or reduce the capital gains on the disposal of assets.

Inheritance tax (IHT)
IHT generally applies to transfers of capital and gifts made by individuals during their lifetime within the previous seven years and on the value of the estate on death.

Individuals domiciled in the UK (see above) are liable to IHT on all chargeable transfers of property wherever situated (i.e. whether in the UK or elsewhere). Individuals who are not domiciled in the UK are only liable on chargeable transfers of property situated within the UK with certain exceptions. This rule is subject, however, to an election that may be made for the spouse or civil partner of a UK domiciled taxpayer to be treated for IHT purposes as if they were UK domiciled.

IHT also has a concept of 'deemed domicile' whereby a person will be treated as domiciled in the UK (and therefore subject to IHT) at any time if:

- They were resident in the UK in not less than 15 of the 20 tax years ending with the tax year in which the relevant time falls, or
- They were formerly domiciled resident: They were born in the UK with a UK domicile of origin and has acquired another domicile of choice, are UK resident and have been resident in the UK in at least 1 of the 2 previous tax years.
- They were domiciled in the UK within the last 4 tax years of leaving the UK.

IHT is charged on the value transferred by a chargeable transfer. A chargeable transfer is any transfer of value made by an individual that is not an exempt transfer or a transfer that is potentially exempt, provided that the donor survives for seven years.

IHT is payable on the assets in your estate with a value in excess of £325,000 (called the nil-band rate) and is taxed at the rate of 40%. The nil band rate will be extended where the deceased estate includes residential property which has been their residence at some point and is left to one or more of their direct descendants on death.

There are various reliefs available for the transfer of 'gifts' made during a person's lifetime as well as for acquiring certain qualifying business, agricultural property and woodland property as well as for gifts of works of art and gifts to the nation. In addition, any unused nil rate band can be passed on to the surviving spouse or civil partner.

Anyone who is non-resident and owns a residential property in the UK will also be subject to IHT rules on the UK residential property.

Transfers between spouses and civil partners are generally exempt.

Net Wealth Tax and Gift Tax
The UK currently does not levy a net wealth or gift tax.

10. Employment taxes

Employment (payroll and social security) taxes apply to persons who are contracted to work for you, be it in an office, domestic staff or a nanny. It is important to determine whether a person is employed and therefore subject to payroll taxes or self-employed and required to pay their own taxes under the self-assessment personal tax system.

There are strict employer filing and tax payment requirements. Employers have to submit the payroll information to HMRC on or before the day that employees are paid. There are onerous penalties for late submission and payment of tax.

There are filing and tax payment deadlines for reporting employee benefits.

Regular PAYE withholding and social security costs
A regular UK payroll is operated typically on either a weekly or a monthly basis. UK income tax withholding (PAYE) and social security costs called National Insurance Contributions (NICs) are withheld against 100% of earnings.

The NIC bands for employment income are:

- Employers currently pay 'Secondary' NIC at 13.80% on earnings above £9,100 per annum. In addition, they pay the same level of NIC on the provision of certain benefits to employees.
- Employees currently pay 'Primary' NIC at 12% on earnings between £12,570 and £50,270 per annum and 2% on earnings in excess of £50,270.
- Self-employed individuals currently pay Class 4 NIC of 9% on profits between £12,570 and £50,270 per annum and 2% on earnings in excess of £50,270. They also have to pay Class 2 NIC of £3.45 per week if their profits in the year exceed £6,725.

Modified PAYE Scheme

Introduction
An alternative to the strict withholding system in the UK is a plan known as a "Modified PAYE Scheme". The UK authorities have issued guidelines as to when it can be used. It is designed specifically for employers seconding employees to the UK, but stay on their home country payroll, if they have a tax-equalized agreement.

What is tax equalisation?
Tax equalisation is a process whereby an expatriate is assigned from their home country to a foreign country (in this case the UK) and is placed in the same position as he, or she, would have been had they remained in their home country; i.e. the employee is neither better off nor worse off as a result of the assignment.

The operation of a modified payroll must not be applied prior to HMRC's agreement.

How does the scheme work?
A best estimate of salary, bonuses and benefits in kind is made at the beginning of the year in respect of your expatriate staff. Relief can be taken for any days worked outside the UK where the expatriate has the appropriate residence status. In addition, relief can also be taken throughout the year for employee contributions into a correspondingly approved foreign pension scheme. During the year, adjustments need to be made where there are new arrivals and departures.

PAYE is calculated on the basis of these estimates and paid over in the usual manner each month, although quarterly payment schemes are available if the tax liability is less than £1,500 per month in total.

Before the end of the tax year, usually between December and March, a review will be carried out to take account of any material changes and in particular, to ensure that any calendar year-end bonuses are accounted for. After the end of the tax year, any additional tax found due is calculated on the Self-Assessment tax return and paid by 31 January following the end of the tax year.

Short Term Business Visitors (STBV) Agreement
It may be possible to relax strict PAYE requirements for relocated employees on short-term business visits to the UK. If you have staff who are considered resident in a country with which the UK has a Double Taxation Agreement, it is likely that they will qualify for Treaty Relief under the Dependent Personal Services/Income from Employment Article (usually Article 15).

Provided that the relocated staff remain employed in their country of residence and is:

- Coming to work in the UK for a UK company or the UK branch of an overseas company and remain employed by an overseas company;
- expected to stay in the UK for fewer than 183 days in any twelve-month period; and
- it can be shown that for specifically named employees the UK company or branch will not in fact ultimately bear the remuneration specified.

It is possible to apply for a STBV Agreement with HMRC and therefore not have a UK PAYE withholding requirement. Therefore, there is no requirement to operate a UK payroll or file self-assessment tax returns with HMRC.

An agreement must be applied for and authorised with HMRC before a company can operate under this Agreement, and the company must fulfil certain reporting requirements as specified in the agreement.

These arrangements will not apply where the expense of the remuneration is passed on to another UK company or branch and not recharged overseas. It is possible to apply for a dispensation from HMRC in certain circumstances where remuneration is either delivered or borne by the UK company or branch.

Social security options
If an individual or his/her employer has overseas connections, the national insurance (NI) position can be quite complicated. Liability to UK national insurance contributions (NICs) generally depends on the individual being present, resident or ordinarily resident in the UK.

The normal rule is that work carried out in the UK is liable to UK NICs. The contract of employment may be made under foreign law and the employer may be located abroad, but these factors on their own do not override the basic rule. The nationality of the worker is only relevant under certain EC regulations or reciprocal agreements.

If an individual comes to the UK to start a new job, he/she is subject to NIC rules immediately. If, however, the job relates to a secondment, the individual may be allowed to contribute to the home country's social security system for the first 52 weeks of their assignment.

It should also be noted that the worker's home country may not have the same rules as the UK. Whilst a worker may only start to pay NICs after 52 weeks, there may be a liability under their home country's social security system for a different length of time.

Secondary (employer's) NICs generally follow the primary (worker's) NICs, i.e. if the worker is liable to pay UK contributions so is the employer, provided the employer has a tax presence in the UK, such as a place of business (see below) in the UK. The secondary contributor is also responsible for collection and payment of the primary contributions. In the very rare case where there is no liability to secondary contributions, the worker may be required to make direct payment of the primary contributions.

For the situations when cross-border issues arise, the world is divided into three groups:

1. The European Economic Area (EEA) (The EU member states plus Iceland, Norway, Liechtenstein and Switzerland).
2. Non-EEA countries with which the UK has a reciprocal agreement or double contributions convention.
3. Countries not in the first two groups.

Cross-border Social Security

From 1 January 2021, cross-border working between the UK and EU Member States will be governed by the EU-UK Trade and Cooperation agreement, which includes a protocol on Social Security Coordination (the Protocol).

The rules are nationality blind and therefore also apply to non-UK and non-EU nationals in cross-border situations involving both the UK and an EU state.

The agreement largely replicates the current EU social security coordination regulations. Therefore, individuals will be subject to the social security legislation of one country only and the scenario of compulsory payment of social security contributions on earnings in more than one country will not arise.

Contributions will generally be payable in the country where activities are undertaken, with special provisions for multi-state and detached workers.

There are special rules for posting between the UK and the EFTA countries (Norway, Switzerland, Iceland and Liechtenstein) which started post 31 December 2020:

- **Norway**: employees remain within home country legislation for temporary postings of up to 3 years (must apply within 4 months of the start of the posting).
- **Switzerland**: employees remain within home country legislation for temporary postings of up to 2 years.
- **Iceland**: individuals remain within home country legislation for temporary postings of up to 1 year if they are employed and a non-UK and non-EEA national (can be extended by a further year with agreement before the end of the first year).
- **Liechtenstein**: there are no special rules and there is the possibility of double contributions. Postings from the UK will need to continue paying UK National Insurance contributions for the first 52 weeks.

Workers posted between the UK and the EU States, Norway, Switzerland, Iceland and Liechtenstein prior to 1 January 2021 should be protected by old EU social security coordination regulations, i.e. social security will remain payable in the home country and not the host country.

Employers should continue to apply to the home country social security office for A1 certificates on behalf of the employee going to work in the EU or the UK.

Non-EEA countries with which the UK has a reciprocal agreement or double contributions convention

For this category of worker, liability for a temporary posting generally stays with the "home" country if the UK stay is expected to last less than a certain period, often two years but in some cases five years. Note that this test is based on the expectation at the outset, whereas the change of jurisdiction at 52 weeks mentioned earlier is not linked to how long the posting is likely to last.

Countries not in the first two groups

If such workers come from countries not in categories 1 and 2 above, it is the UK rules that determine their liability. Usually, they will not be liable to UK NICs for the first 52 weeks if:

- They are not ordinarily resident or ordinarily employed in the UK (this term is slightly different for NI purposes from the usual direct tax meaning);
- the employer's place of business is outside the UK, (regardless of whether they also have a UK place of business); and
- the individual's presence in the UK is temporary.

Otherwise, there is a liability to NICs from the first day.

There are detailed rules for returning home for holidays, paid or unpaid, sick leave and other temporary presence in the UK or absences abroad.

Workplace pension
A new law has been introduced which means that every employer must automatically enrol workers (called auto-enrolment) into a workplace pension scheme if they:

- are aged between 22 and State Pension age
- earn more than £10,000 a year
- work in the UK

The employer has the responsibility of enrolling their eligible workforce into a workplace pension scheme. A percentage of the employee’s pay is put into a pension scheme automatically every payday. In most cases, the employer will also add money into the pension scheme.

The Pensions Regulator can compel employers to comply with their auto-enrolment duties and can impose daily penalties for non-compliance.

11. Assignment planning opportunities

Detached Duty Relief
Where an employee is posted to the UK for a limited duration of less than 24 months and it is an extension of their current duties, then travel expenses, accommodation expenses and daily subsistence costs could be claimed free of income tax and NIC.

Overseas Workday Relief
Where an individual is not domiciled in the UK, claims the remittance basis of taxation as a UK resident, and their duties of employment are carried out wholly or partly outside the UK' the earnings which relate to duties performed outside the UK, known as foreign earnings, will not be taxable in the UK unless remitted to the UK. Therefore, the foreign earnings must be paid into a bank account outside the UK.

This relief applies if the employee was not resident in the UK for three consecutive tax years prior to becoming UK resident and the following two tax years.

Corresponding approval for Foreign Pension Plans
While on assignment to the UK, individuals typically remain in their home country benefit programs. To ensure that individual's contributions made to their foreign pension plan are tax deductible and any employer contributions are not considered taxable income it is necessary to seek approval for the plan from HMRC.

Employment of foreign nationals in the UK

Freedom of movement between the UK and EU has ended and the UK has introduced an immigration system that treats all applicants equally, regardless of where they come from.

Anyone you want to recruit from outside the UK, excluding Irish citizens, needs to meet certain requirements and apply for permission first.

The requirements are different for each visa.

12. Employment Related Securities

Generally, securities or interest in securities will be treated as employment-related securities and subject to income tax (in the absence of an exemption) if they are acquired by reason of employment.

There are a number of tax-advantaged share plans which offer tax and NIC advantages, provided various conditions are satisfied:

- Share Incentive Plans (SIPs)
- Save As You Earn (SAYE) Share Option Schemes
- Company Share Option Plans (CSOPs)
- Enterprise Management Incentives (EMI)

With a non-tax advantaged plan, there will be an income tax charge, to the extent that the market value of the shares at the date of exercise exceeds the option exercise price.

If the securities are not a readily convertible asset (RCAs), then income tax is accountable by the individual through self-assessment. If the securities are RCAs, they are subject to Class 1 NIC and income tax through the payroll.

The schemes must be registered with HMRC. This is done using HMRC's Employment-Related Securities (ERS) online service by 6 July following the tax year in which the first award of shares was made, or first share option granted, although an EMI scheme must be registered before an option grant can be notified to HMRC. In order for an EMI option to qualify for the advantageous tax treatment, the employer must notify HMRC within 92 days that the option has been granted.

There are qualifying conditions which need to be satisfied both by the employer and the employee for a tax advantaged scheme to be valid. Tax advice should be obtained.

13. Property taxes

The taxation of property depends on several factors: whether the property is residential, commercial, owned by a company or individuals and whether the owners are UK or non-UK resident.

Stamp Duty Land Tax (SDLT)

SDLT is generally payable on the purchase or transfer of property or land in the UK where the amount given is above a certain threshold. Most UK land and property transactions must be notified to HMRC on a Stamp Duty Land Tax return within a certain time limit - even if no tax is due.

SDLT is charged on the total amount of what is known as 'the chargeable consideration'. The chargeable consideration includes everything of economic value given in exchange for the property - so as well as a payment of money, it can include a release from a debt, the transfer of an existing mortgage, or the provision of other services.

Various rules apply for working out how much, if any, SDLT is payable. SDLT on residential property is a progressive tax and is charged on the increasing portions of the chargeable consideration above £250,000. Non-residential is taxed on the slab system, meaning that the tax rate applicable depends on the total chargeable consideration. The charge is on the consideration inclusive of VAT if applicable.

There are also some types of transactions that are exempt from SDLT, or where reliefs can reduce the amount payable.

The current SDLT threshold are:.

- £250,000 for residential properties
- £150,000 for non-residential land and properties

Residential land or property SDLT rates and thresholds

Purchase price/lease premium or transfer value	SDLT rate
Up to £250,000	0%
Sum over £250,000 to £925,000	5%
Sum over £925,001 to £1.5 million	10%
Sum over £1.5 million	12%

Net present value of rent – residential	SDLT rate
£0 - £250,000	0%
Sum over £250,000	1% of the value that exceeds £250,000

Non-residential property includes:

- Commercial property such as shops or offices.
- Agricultural land.
- Forests.
- Any other land or property, which is not used as a dwelling.
- Six or more residential properties bought in a single transaction.

Non-residential land or property SDLT rates and thresholds

Purchase price/lease premium or transfer value (non-residential or mixed use)	SDLT rate
Consideration up to £150,000	0%
Consideration between £150,001 to £250,000	2%
Consideration over £250,001	5%

SDLT on rent for new leasehold properties (non-residential or mixed use):

Net present value of rent - non-residential	SDLT rate
£0 - £150,000	Zero
£150,001 - £5,000,000	1%
Over £5,000,000	2%

Land and Buildings Transaction Tax (LBTT)

The LBTT applies to property purchases in Scotland in place of SDLT.

The rates are:

Non-residential and mixed use property	Rate
£0 - £150,000	Zero
£150,001 - £250,000	1%
Over £250,000	5%

Residential property	Rate
£0 - £145,000	Zero
£145,001 - £250,000	2%
£250,001 - £325,000	5%
£325,001 - £750,000	10%
Over £750,000	12%

Compliance

Unless a transaction is exempt from SDLT or meets certain specific criteria, the purchaser is responsible for notifying HMRC of the purchase or transfer by completing a Land Transaction Return - commonly referred to as the SDLT Return - and for making sure that SDLT is paid on time.

When HMRC receives a valid return, it will issue a Stamp Duty Land Tax Certificate. The transfer of the property cannot be registered at the land registry without this certificate. Transactions, which need to be notified, must be received by HMRC within 14 days of the 'effective date' of the transaction (for most land and property purchases this is the completion date). If the transaction value is above the payment threshold, you also need to send payment within this time limit.

If the return and payment are not received within 30 days, the purchaser will incur a penalty charge and will also be charged interest on the overdue payment.

VAT on property
The grant, assignment or surrender of an interest in, right over or licence to occupy land is normally exempt from VAT. There are exceptions to this general exemption on the supply of non-residential property/land. Legislation is complex and professional advice should be sought regarding the implications of VAT whenever you are involved in any transaction involving land or property.

Income and corporate tax
UK companies involved in the sale or lease of property are subject to corporation tax on the gains, trading profits or rental profits arising.

Non-resident landlord companies that own UK property are subject to corporation tax on net rental profits. In computing the rental profits, in general, the costs incurred wholly and exclusively for the purposes of renting the property can be deducted as can all finance costs associated with acquiring the property for the purposes of renting, capital allowances on the acquisition of assets used in the rental of commercial property, and capital allowances on the letting of residential property.

Expenditure on furnishings and fittings will be tax deductible on a like-for-like replacement basis. Non-resident landlord companies are subject to corporation tax rules and file an annual corporation tax return.

From 1 August 2022, all overseas entities, partnerships and incorporations with their own legal personality, which own UK land, are required to disclose the details of the beneficial owner(s) on an overseas property register. Relevant ownership details are filed at Companies House and is available to the public to see. There is an annual confirmation process to verify or update details of ownership.
Resident and non-resident individuals are subject to income tax at the basic, higher or highest rate depending on which band their total UK source income, including rental profits, fall. In computing the net rental profits, the costs incurred wholly and exclusively for renting the property can be deducted excluding finance costs. Either capital allowances on the use of plant and machinery used in the letting of residential property can also be claimed; or expenditure on furnishings and fittings will be tax deductible on a like-for-like replacement basis.

The tax relief on finance costs are not deducted against the rental profits and instead a tax credit of 20% of the finance cost is given to the tax payer to the extent of the income tax on the taxable rental profits.

Losses on properties can only be relieved against rental profits arising on other properties in the tax year in question, or carried forward for relief against future rental profits.

Non-resident landlords (corporate and individual) are subject to a special anti-avoidance regime to ensure that rental income is declared to HMRC and that the income tax is paid where applicable. This is called the Non Resident Landlord Scheme (NRLS).

If a landlord usually lives outside the UK, then unless the tenant or letting agent has been notified by HMRC that they must pay rental income with no tax deducted, they must deduct and account for income tax at 20% on rental income received less allowable expenses paid. The tenants or letting agent must deduct and account for the income tax on rental income paid direct to the overseas landlord on a quarterly basis and also make an annual return.

However, the non-resident landlord can apply to HMRC for approval to receive the income of their rental business with no tax deducted by the letting agent or tenant. Once approval is granted by HMRC, they will inform the tenant or letting agent that the landlord has joined the NRLS and that they must not deduct tax on the rental income owed to the landlord.

Joining the NRLS reduces the administrative burden of collecting and accounting for the income tax on rental profits and ensures that the non-resident landlord receives the rental income that they are due.

Non-resident landlords are still required to complete an annual self-assessment tax return in which they must declare their rental income and expenses and pay any income tax due by 31 January following the end of the 5 April tax year. The same administration procedures, filing penalties and interest apply as for individuals completing personal tax returns.

CGT and IHT
As noted above, all non-resident landlords are subject to capital gains tax arising on the disposal of residential property. Non-residential landlords of commercial property will be subject to Corporation Tax on the gains arising on the disposal of such property from 6 April 2019.

The sale of residential property must be notified to HMRC within 60 days of completion and any capital gains on the disposal must be paid at the same time.

A non-resident company needs to register and submit a Corporation Tax return to report disposal of UK residential property or land within the normal filing rules for a company.

There will also be a UK tax charge where a non-UK resident realises a gain on disposal of a 25% interest in an entity which derives directly or indirectly 75% or more of its gross asset value from UK property.

UK situated property may be subject to IHT on all non-residents, including individuals, trusts and structures, should there be an occasion for a charge to arise.

Annual Tax on Enveloped Dwellings (ATED)
This tax applies to non-natural persons (broadly non-resident companies, a partnership in which a company is a member and collective investment schemes).

Currently, where a non-natural person owns a UK residential property valued in excess of £500,000 at 1 April 2016, or at acquisition date if acquired later, they are required to pay an annual tax unless an exemption applies.

The annual tax is for the chargeable period 1 April to the following 31 March. An ATED return must be filed and the tax paid by 30 April following the end of the tax period. Failure to do so would lead to filing penalties and interest on the tax paid late. The ATED is administered on the self-assessment basis and so it is the responsibility of the owner of the property to ensure that they comply with the rules.

The ATED is calculated using the following banding system based on the value of the single dwelling in question for 2023/24:

Value of property	Annual chargeable amount[1]
£500,000 to £1,000,000	£ 4,150
£1,000,000 to £2,000,000	£ 8,450
£2,000,001 to £5,000,000	£ 28,650
£5,000,001 to £10,000,000	£ 67,050
£10,000,001 to £20,000,000	£ 134,550
£20,000,001 and over	£ 269,450

A dwelling might obtain relief from the annual tax, although the ATED return would still need to be completed, if it is:

- Let to a third party on a commercial basis and is not, at any time, occupied (or available for occupation) by anyone connected with the owner.

[1] The annual chargeable amount increases every year by the consumer price index.

- Open to the public for at least 28 days per annum. If part of a property is occupied as a dwelling in connection with running the property as a commercial business open to the public, the whole property is treated as one dwelling and any relief will apply to the whole property.
- Part of a property trading business and is not, at any time, occupied (or available for occupation) by anyone connected with the owner.
- Part of a property developer's trade where the dwelling is acquired or held with the intention to develop and sell on and is not, at any time, occupied (or available for occupation) by anyone connected with the owner.
- For the use of employees of the company, for the company's commercial business and where the employee does not have an interest (directly or indirectly) in the company of more than ten per cent. The employee's duties must not include services for any present or future occupation of the property by someone connected with the company. The relief is also available where a partner in a partnership does not have an interest of more than ten per cent in the partnership.
- A farmhouse, if it is occupied by a qualifying farm worker who farms the associated farmland, a former long-serving farm worker or their surviving spouse or civil partner.
- A dwelling acquired by a financial institution in the course of lending.
- Owned by a provider of social housing.

Non-natural persons acquiring a UK residential property have to pay SDLT at 15% where the value is in excess of £500,000 unless they are acquiring the property either for trading or development purposes or for letting to unconnected persons.

On disposals made up to 5 April 2019, the CGT charge applies to non-natural persons that dispose of properties that have been subject to ATED on gains arising from the effective date of either: 6 April 2013, 6 April 2015 or 6 April 2016, depending on which date ATED applies. The portion of the gain that arises from the effective date is subject to capital gains tax at 28%.

On disposals made from 6 April 2019, ATED-related CGT will no longer apply. Any gain made by the company from this date will be liable to Corporation Tax and must be declared on the company's Corporation Tax Return.

14. Tax compliance

Tax returns and the payment of tax

UK resident companies and UK branches of foreign companies are required to file a UK corporation tax return.

An non-resident company disposing UK residential property or land needs to register for Corporation Tax within 3 months of disposal.

Corporation tax returns are required to be filed for each period for which financial statements are prepared. They are due to be filed 12 months from the end of the period of account. Automatic penalties are applied for late filling. Branches of an overseas company receive a one-month extension to this deadline to allow for the filing of the overseas parent company financial statements.

A corporation tax return must include a declaration by the person making the return that the return is to the best of their knowledge complete and correct.

Corporation tax is payable by reference to a corporation tax return and not a period of account. For "small" companies (see below) tax is normally payable 9 months and 1 day from the end of a return period.

There are strict penalties for the late filing of corporation tax returns. There is an automatic flat-rate penalty of £100. HMRC will charge a further £100 penalty if the tax return is more than three months late. If the date of submission is more than six months after the deadline, HMRC will estimate your company's tax liability and add a penalty of 10% to the unpaid tax, and at 12 months late, a further penalty of 10% of unpaid tax is levied. If the tax return is late for three or more accounting periods in a row, the initial flat-rate penalty increases to £500 with a further £500 charged if the return is more than three months late.

'Large' companies are required to pay their corporation tax liabilities by instalment. Instalment payments (IPs) normally result in an acceleration of tax payments on average ten months earlier than for "small" companies.

'Very large' companies are required to pay their instalment payments four months earlier than 'large' companies.

IPs are based on the anticipated liability for the year in question, not the liability of the previous year. They only apply to companies that are "large". Where a company is not large, it will continue to be liable to pay corporation tax 9 months and 1 day after the end of the relevant accounting period.

A company will be "large" for the purposes of IPs if it has taxable profits over £1,500,000 and 'very large' if it has taxable profits over £20 million (reduced pro rata for periods shorter than 12 months). This limit is also reduced if there are worldwide associated trading companies at any time during the accounting period. For example, a member of a group of ten non-dormant companies will have to pay in instalments if its taxable profits exceed £150,000 in a 12-month accounting period.

In some circumstances, individual members of bigger groups could be required to pay tax by instalment even though their tax liabilities are expected to be small. To assist with administration, instalment payments do not apply where a company's tax liability does not exceed £10,000. Again, this amount is proportionately reduced where the accounting period is less than 12 months.

A company is not required to make instalment payments for an accounting period if the taxable profits for the period do not exceed £10,000,000 and it was not large in the previous 12 months. This £10,000,000 threshold is also reduced where there are associated companies.

The four instalments are payable at the following times after the commencement of the accounting period:

'Large' company

If your year end is:	[31 December 201X]
Your corporation tax payment dates are:	
Six months and 13 days	[14 July 201X]
Nine months and 13 days	[14 October 201X]
12 months and 13 days (14 days after the year-end)	[14 January 201Y]
15 months and 13 days (three months and 14 days after the year-end)	[14 April 201Y]

'Very large' company

If your year end is:	[31 December 201X]
Your corporation tax payment dates are:	
Two months and 13 days	[14 March 201X]
Five months and 13 days	[14 June 201X]
Eight months and 13 days	[14 September 201X]
11 months and 13 days	[14 December 201X]

There are special rules for periods shorter than a year.

A company is required to estimate its tax liability for the current accounting period and make instalment payments based on that estimate. If the estimate changes, the company will need to recalculate its instalment payments based on the revised figures to ensure interest and penalties do not arise for underpayment of tax.

For a 12-month accounting period, each payment should be one quarter of the anticipated corporation tax liability for the year.

15. Financing

Financing creates a number of tax issues. Setting up a business centre in the UK is likely to require external funding either from independent institutions or parent companies. Some key areas are highlighted below:

Transfer pricing
Intra-group interest payments must be arm's length in order to secure a tax deduction for those payments.

Restriction on intra group interest
Corporation tax deductions for net interest expense are limited to 30% of a group's EBITDA. The restriction will apply to all groups with UK interest costs of more than £2 million.

However, the 30% ratio will be increased where the worldwide group's interest/EBITDA ratio is higher. The new rules generally replace the worldwide debt cap that restricts the amount of interest that can be deducted by a UK group to the amount of third-party interest incurred.

Withholding tax
The UK requires that interest payments made to an overseas entity on long-term loans are made with deduction of basic rate tax.

This requirement is overruled where the UK has entered into a double taxation agreement with the recipient country and that agreement contains an interest provision which reduces or eliminates the UK's taxing right. The reduced rates may be applied by way of relief at source or by repayment of tax deducted but the recipient must apply for this relief. It is not automatic.

Where the relief is applied at source, authorisation will be issued to the payer, the UK entity, once the recipient's application has been agreed.

Until clearance is given, it must be assumed that the treaty will not apply. If interest is paid gross without clearance, then an assessment may be made of the payer that failed to withhold tax to recover lost tax, interest and penalties.

There are also exemptions for withholding tax on interest on short-term debts of less than one year.

Loan relationships for unallowable purposes
Regardless of whether a non-resident recipient of UK interest suffers UK withholding tax, it does not guarantee deductibility for the payer if the loan is for an unallowable purpose.

An unallowable purpose is a purpose which is not amongst the business or other commercial purposes of the business and includes, for instance, where the UK branch of a company resident outside the UK was paying interest on a loan which was being used to fund activities of the company unconnected with the UK branch or where the loan has been put in place, the sole or main purpose of which is the avoidance of UK tax.

Inter-company loan accounts
Inter-company loan accounts are subject to the same restrictions as third-party loans with regard to transfer pricing and the deductibility of interest.

Additional issues arise where inter-company debts are written off by the lender. A debt provided to fund a branch, subsidiary, or indeed a parent, is generally tax neutral for tax purposes in that neither the lender nor recipient is subject to tax or entitled to a deduction where the fund debt is written off.

Where an inter-company debt has arisen through trading transactions, the write off of the debt is not an allowable deduction in computing the profits of the lender but may be a taxable receipt in the hands of the recipient of the loan. This is likely to be relevant for foreign direct investment in the United Kingdom as it will be the UK entity that will be in receipt of goods and services from the parent and likely to have outstanding trading balances.

It is important to note that this provision should only apply if the debt is formally waived by the lender and the provision of a bad debt in the lender accounts should not trigger a charge.

Interest and Royalties Directive (IRD)

Businesses trading within the EU used to be subject to the IRD. Under the IRD, no withholding tax is generally applied to interest and royalty payments between residents of the EU and will apply to most companies under common control, subject to HMRC approval. The directive includes Switzerland. Since 1 January 2021, EU Directive does not apply and subject to a negotiated agreement, reliance is placed on existing DTA's.

16. Audit and accounting

Companies and Limited Liability Partnerships
A UK company or LLP must prepare annual financial statements prepared in accordance with UK GAAP or IFRS and filed with Companies House. Filed accounts are available for public inspection.

The deadline for filing the financial statements is 9 months after the year-end for a limited company ('Ltd') and 6 months for a public limited company ('PLC').

Most small private limited companies do not require a statutory audit unless their Articles of Association say that it must or enough shareholders ask for one. In certain cases, a small private company may be required to undertake a statutory audit due to external requirements such as part of a loan financing arrangement.

Companies are exempt from requiring an audit if they meet two out of three of the following small company criteria:

- Annual turnover not exceeding £10.2m.
- Gross assets not exceeding £5.1m.
- Less than 50 employees on average.

For companies which are part of a group, the audit exemption criteria apply to the worldwide group and not just the UK subsidiary or LLP. A company must have an audit if at any time in the financial year it has been:

- A public company (unless it's dormant).
- A subsidiary company (unless it qualifies for an exception).
- An authorised insurance company or carrying out insurance market activity.
- Involved in banking or issuing e-money.
- A Markets in Financial Instruments Directive (MiFID) investment firm or an Undertakings for Collective Investment in Transferable Securities (UCITS) management company.
- A corporate body and its shares have been traded on a regulated market in a European state.

The requirements above also apply to LLPs.

A company or LLP is not subject to an audit if throughout a financial year it was a dormant undertaking.

There are strict penalties for late filing of accounts.

How late accounts are delivered	Penalty for private company	Penalty for public company
Not more than 1 month	£150	£750
Between 1 and 3 months	£375	£1,500
Between 3 and 6 months	£750	£3,000
More than 6 months	£1,500	£7,500

Branch
The branch is not required to prepare financial statements other than for the purposes of drafting a company tax return. However, the non-resident parent company must file a copy of its audited accounts in the UK (with a certified translation where necessary).

If the parent company does not prepare published accounts, it must instead prepare and deliver financial statements to Companies House as if it were a company registered in the UK. These must relate to the parent company and not solely to the place of business or branch.

Filed accounts are available for public inspection in the UK.

Compliance
Companies, LLPs and branches are required to file an annual return with Companies House, confirming

changes to members, share capital and similar statutory information. There is a requirement to pay a small fee at the same time as filing the annual return. Like financial statements, annual returns are available for public inspection.

These returns are independent from the filing of financial statements and tax returns and are required every 12 months from the date of incorporation or registration.

Such entities will also require on-going bookkeeping services, which may include the completion of VAT returns and management financial statements.