Doing business in the UK

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CHARTERED ACCOUNTANTS

Disclaimer

Contents **Page**

1. Introduction

Description of the UK

The United Kingdom of Great Britain and Northern Ireland comprises England, Scotland and Wales (Great Britain) and Northern Ireland, which forms the north-eastern most part of Ireland. A number of outlying islands, principally off the coast of Scotland are also part of the UK. The crown dependencies of the Isle of Man, Guernsey, Jersey and the other Channel Islands are not part of the UK.

The UK is the world's fifth largest economy and was the first major industrialised country. It continues to exert considerable economic, cultural, scientific and political influence internationally.

History

Once an outlying part of the Roman Empire, England emerged as a unified kingdom in the tenth century with the Scottish kingdom emerging earlier in the ninth century. The principality of Wales was absorbed politically into England from the fourteenth century. The crowns of England and Scotland were united in 1603 under King James VI of Scotland who succeeded Elizabeth I as King James I of England. Political union occurred in 1707 when the UK was established under the Act of Union. A further Act of Union in 1810 saw Ireland become part of the UK. The greater part of Ireland left the union in 1922 to become the Irish Free State and, subsequently, the Republic of Ireland.

During the eighteenth and nineteenth centuries the UK emerged as a major maritime and imperial power reaching the apogee of its global dominance in the nineteenth century. This overseas expansion saw the English language and British legal and financial practices become widespread across the globe.

Constitution

The UK is a constitutional monarchy with a bicameral Parliament consisting of an elected House of Commons and an appointed House of Lords. The present Head of State is Queen Elizabeth II who ascended the throne in 1952.

Scotland has had its own elected Parliament since 1999 and Wales and Northern Ireland have had elected assemblies since 1999 and 1998 respectively. All three enjoy certain devolved powers with Scotland, in particular, having devolved powers in the areas of education, housing and health and some aspects of taxation. Reserved matters remain the responsibility of the UK Parliament and include defence, foreign policy, immigration, trade and industry, energy and the constitution. In the 2014 independence referendum Scotland voted against seceding from the UK.

The main political parties are the centre-right Conservative Party and the centre-left Labour Party, the Liberal Democrats and the Scottish National Party. Since the end of World War II, the Conservative and Labour parties have formed successive governments; from 2005 to 2010 the Conservatives governed in coalition with the Liberal Democrats. Since 2010 the Conservative Party has been the governing party but it lost its overall majority in the General Election in June 2017. The Scottish National Party form the government in the Scottish Parliament and the Labour Party is the main party in the Welsh Assembly. The executive parties in the Northern Ireland Assembly include the Democratic Unionist Party and Sinn Fein.

The UK has been a member of the European Union (EU) and its predecessor the EEC since 1973. It voted to leave in a referendum held in June 2016 and is due to exit the EU on 29 March 2019. The nature of the UK's future relationship with the EU will emerge over the course of negotiations. The UK has been a permanent member of the United Nations Security Council since its first session in 1946. It is also a member of NATO, the World Trade Organisation, the OECD, G7, G8 and G20. The UK is a member of the Commonwealth of which the Queen is the titular Head.

The Queen is also the Head of the Church of England but there is complete freedom of worship in the UK with most other Christian denominations and religions being present.

Currency

The currency is the pound sterling consisting of 100 pence. The UK did not adopt the euro unlike most other members of the EU. A limited number of retail outlets may, at their discretion, accept the euro but it is not legal tender in the UK. Scottish banks and banks in Northern Ireland issue their own sterling bank notes.

Population

The population of the UK is just over 65 million. Freedom of movement within the EU saw an increase in the number of residents from other EU states.

Geography

Great Britain and Ireland lie off the north-west coast of Europe. The UK's only land border is between Northern Ireland and the Republic of Ireland. The UK is otherwise surrounded by the Atlantic Ocean to the west and north, the English Channel to the south and the North Sea to the east. The UK has a temperate climate with distinct seasons during the year and plentiful rainfall. Temperatures seldom drop below -11 degrees Celsius or rise above 35 degrees Celsius.

Time zone

The standard time zone is Greenwich Mean Time ('GMT'), which is in use from the last Sunday in October to the last Sunday in March. British Summer Time ('BST'), which is an hour ahead of GMT, is in use for the rest of the year. The UK shares GMT with Ireland, Portugal and Iceland but is otherwise one hour behind most other EU states.

Infrastructure

The UK has an extensive rail and road network, including a high-speed rail link from London through the Channel tunnel to France. Heathrow Airport is a major international airport hub. Future projects include a high speed rail link from London to Birmingham– and possible increased airport capacity for London. The UK has the largest port industry in Europe with total tonnage of just under 500 million tonnes a year. Ferries operate between the UK and mainland Europe and Ireland. The UK has moved away from a predominantly coal based energy supply to gas and, to a lesser extent, nuclear energy. Renewable energy targets are increasing and receive government incentives, with particular emphasis on onshore and offshore wind farms and solar energy. North Sea oil and gas production has peaked and the UK is now a net importer of oil.

There is extensive mobile telephone and broadband coverage.

Regions

London is the largest economic centre in the UK with a population of 8.5 million. Other major population centres include Birmingham, Manchester, Leeds, Glasgow, Newcastle and Liverpool. Major education centres include Oxford and Cambridge, with their universities included in the top five worldwide, London and Edinburgh. The move towards a knowledge based economy has reduced the importance of geography (for example, the proximity to natural resources) for businesses. However, some areas do show a concentration of particular types of business, with the car industry being based in Birmingham, Sunderland and Swindon; chemicals in Manchester and the North West; pharmaceuticals in the South East and IT in London and along the M4 corridor.

Economic sectors

The UK has moved away from being a manufacturing based economy towards knowledge and other services. In terms of employment and value the main economic sectors are financial services, business services, transport, storage and distribution, health and social care, real estate, construction and education. The main manufacturing sectors are food and beverages, machinery and chemicals. Agriculture is a comparatively small part of the economy but plays a significant role in rural areas.

Business hours

Business hours are usually between 9am and 5pm. Most businesses close at the weekend. Most retail premises remain open throughout the week but with reduced opening hours on Sundays. Banks and most businesses (other than retailers) are closed on Bank (public) holidays. An increasing amount of business is transacted online, which provides access to retail and banking services 24 hours a day.

Imports and exports

The UK is currently part of the EU single market and the European Commission has responsibility for the EU's commercial policy. With limited exceptions on health and security grounds, the UK is unable to introduce national import controls. An import licence is not needed to import the majority of goods into the UK or the EU. However, some goods need import licences issued by the Import Licencing Branch as a result of controls imposed at UK, EU or UN level. The future policy after the UK leaves the EU will emerge over the course of negotiations with the EU and the UK's other trading partners. In the meantime, many businesses are making plans to deal with the consequences of leaving the single market.

Import duties, trade agreements and exchange controls

VAT is payable on goods sent from non-EU countries if their value exceeds certain limits. Customs Duty – usually 2.5% – is payable on goods sent from outside the EU above a certain value. Excise duty is payable on alcohol and tobacco.

Trade preference agreements allow goods to be imported or exported at a lower or nil rate of customs duty. Such agreements are principally, but not exclusively, designed to enable developing countries to have greater access to the UK and EU as export markets. The UK and other EU members have also entered into Free Trade Agreements and Economic Partnership Agreements with other countries. How these will be affected by the UK's departure from the EU remains to be seen.

The UK has not imposed any foreign currency exchange controls since 1979.

2. Banking, finance, IP and consumer protection

Banking and finance

Businesses in the UK are typically financed by debt or equity or a mixture of the two.

Government schemes are available to help companies raise equity finance by offering tax relief to investors. These include the Seed Enterprise Investment Scheme, the Enterprise Investment Scheme and Venture Capital Trust Scheme, which are aimed at small businesses and provide income tax and capital gains tax relief and exemptions to individual investors. Investors' Relief provides a reduced rate of capital gains tax for individual investors.

The UK has a large banking and finance sector that can provide loan finance to businesses. There are a growing number of peer to peer lending businesses.

Other forms of business finance include 'debt factoring', where an invoice financer manages a business's sales ledger by buying their debts, and 'invoice discounting' where the invoice financer lends money to a business against its unpaid invoices.

Grants and subsidies and export support

The UK offers a large number of grants and subsidies to businesses at both national and local level. Support covers grants for training and apprenticeships and innovation, loans and loan guarantees, and advice on business start-ups and growth.

The Apprenticeship Levy, introduced in April 2017, requires employers with payrolls in excess of £3m to contribute 0.5% of their payroll bill to a fund that will be used to finance apprenticeship training. Employers are able to use funds from the levy to pay for qualifying training for their employees.

UK Export Finance is a government agency that provides trade finance and insurance solutions to support UK based exporters. Its services include export insurance, bond support and bond insurance, export working capital and letter of credit guarantee schemes.

There are in addition a number of tax credits available for certain activities, which are considered in section 5.

IP registration

The Intellectual Property Office is the official government agency responsible for IP rights including patents, designs, trademarks and copyrights. Copyright for written works, sound and music recordings and films usually lasts for 70 years after the author's death (or date of first publication for sound and music recordings).

Trademarks last for 10 years but can be renewed.

A patent can last for 20 years. A UK patent can also be filed through the European Patent Office and World Intellectual Property Organisation.

Design right automatically protects a design for 10 years after it is sold or 15 years after it is created, whichever is earliest. Registered designs can be protected for up to 25 years.

Consumer protection

The UK has a large number of organisations to provide consumer protection and an extensive ombudsmen service that exist to deal with complaints from ordinary citizens and consumers about public bodies and services in the public sector. Other bodies promoting regulatory enforcements include the Financial Conduct Authority and the Competition and Markets Authority.

The CMA was formed to promote competition for the benefit of consumers both within and outside the UK. The FCA is responsible for the authorisation and supervision of firms and individuals providing financial services to consumers and is tasked with maintaining the integrity of the UK's financial markets. It operates independently of government and is financed by fees charged to members of the financial services industry. The FCA is responsible for supervising banks, mutual societies (e.g. insurance companies and building societies) and financial advisers.

The Prudential Regulation Authority is a part of the Bank of England and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA has statutory objectives to promote the safety and soundness of such firms and, specifically for insurers, to contribute to securing the appropriate degree of protection for policyholders.

3. Employment regulations and welfare

Employment rights

UK employees have extensive rights under employment law. Employment tribunals enable individuals to make a claim for financial compensation against an employer, potential employer or a trade union for unlawful treatment including unfair dismissal, discrimination and unlawful deductions from pay.

The UK has a national living wage of £7.83 per hour (rate effective from 1 April 2018) for individuals aged 25 and over. A lower national minimum wage applies to individuals under 25 with separate rates for those who are 21 to 25, 18 to 20, under 18 and for apprentices aged 16 to 18 and those aged 19 or over in their first year of apprenticeship.

Employees have a statutory right to paid holiday and to paid maternity and paternity leave and to compensation if unfairly dismissed.

Almost 6 million employees in the UK are members of a trade union. Union membership is mainly concentrated in the public sector and manufacturing industries. There is no automatic right for unions or employees to be represented on a company's board of directors and it is unusual for them to be so.

Every employer must automatically enrol employees into a workplace pension if they are aged between 22 and state pension age, earn more than £10,000 a year and work in the UK.

Visa requirements

Citizens of all EU member states have freedom of movement to the UK and can be employed in the UK. The future of this freedom of movement after the UK leaves the EU is uncertain.

There are various types of visa available to other non-EU individuals, details of which can be found at www.gov.uk/browse/visas-immigration/work-visas

Visas include the following:

- Tier 1 (Entrepreneur) visa available to individuals who want to set up or run a business in the UK and have access to at least £50,000 of investment funds. These visas are usually required to be supported by a detailed business plan
- Tier 1 (Exceptional talent) visa for individuals who have been endorsed as an internationally recognised leader or emerging leader in science, the humanities, engineering, medicine, digital technology or the arts
- Tier 1 (General) visa available to skilled workers
- Tier 1 (Graduate Entrepreneur) visa for graduates who have been officially endorsed as having a genuine and credible business idea by UK Trade and Investment (UKTI) as part of the elite global graduate entrepreneur programme (Sirius) or by a UK higher education institution if it is an authorised endorsing body
- Tier 1 (Investor) visa for individuals who can invest £2 million or more in UK government bonds
- Tier 2 (General) visa for individuals who have been offered a skilled job in the UK and have a certificate of sponsorship from a licensed sponsor
- Other visas are available for temporary workers, sports people and workers who are seconded to work in the UK by their employers

Employers have a duty to check that their employees have a right to work in the UK and may be fined up to £20,000 for each illegal worker they employ and may face an unlimited fine and up to 5 years imprisonment for knowingly employing illegal workers.

4. Forms of business

The forms of doing business in the UK are: companies, partnerships, sole trades and joint ventures. A limited number of businesses operate through trusts.

Companies

A company is a separate legal entity distinct from its members. Companies are incorporated under the Companies Act and their activities are governed by their Memorandum and Articles of Association. Shareholders enjoy limited liability. Limited companies can either be public (which may be listed on the Stock Exchange) or private companies.

Companies limited by guarantee do not have a share capital but their members guarantee to pay up a stated (usually nominal) amount in the event of a winding-up. Companies limited by guarantee are usually used for charities and not-for-profit organisations. Unlimited companies have unlimited liability for their members in the event of a winding-up and are comparatively rare.

A company is run by its board of directors. There is no requirement for directors to also be shareholders or for directors to be resident in the UK. Some companies have a company secretary but the requirement for a private company to do so has been abolished. A company must have a registered office address in the UK where documents may be served. Directors and other company officers are subject to the duties imposed on them by the Companies Act and may face civil and criminal penalties for a breach of those duties. Foreign companies can operate branches in the UK but must register the branch with Companies House.

A company can have a single shareholder, and a single director.

UK establishment of an overseas company

An overseas company which carries on business in the UK must register the UK establishment under the Companies Act 2006. It must supply details of the directors and company secretary, details of the UK establishment and the names and addresses of any permanent representatives of the company in the UK. The registration must include a certified copy of the constitutional documents, translated into English, and a copy of the latest filed accounts.

Community interest companies (CIC)

A CIC is a special type of limited company which exists to benefit the community rather than private shareholders. A CIC must prepare a community interest statement and create an ‘asset lock’, which is a legal promise stating that the company’s assets will only be used for its social objectives and setting limits on the money it can pay to shareholders. A CIC must be approved by the CIC regulator.

Mutuals

Co-operatives and Industrial and Provident societies are mutual organisations owned by, and run for, the benefit of their members.

Sole trades

Sole traders are individuals operating businesses in their own right. Such a business is not a separate legal entity and a sole trader does not have limited liability. A sole trader is taxed on the profits of a business as they arise.

Partnerships

The main types of partnership are general partnerships, limited partnerships and limited liability partnerships (LLPs). A general partnership has no separate legal personality distinct from its members. A limited partnership formed in Scotland has a separate legal personality. An LLP has a separate legal personality and some of the characteristics and filing responsibilities of a company. All partnerships are transparent for tax purposes.

A partnership is normally governed by a partnership agreement or deed but will also be subject to the 1890 Partnership Act or the 1907 Limited Partnership Act and, in the case of LLPs, to the Limited Liability Partnerships Act 2000 or, in the case of LLPs registered in Northern Ireland, the 2002 LLP Act. Partnerships registered in Scotland are subject to Scottish partnership law and (unlike an English limited partnership) have separate legal personality.

Legislation took effect from 6 April 2017 to allow “private fund limited partnerships” (PFLP), which offer more flexibility for collective investment schemes meeting certain conditions.

Charities

Charities are registered and regulated by the Charity Commission (English and Welsh charities) or the Scottish Charity Regulator or Charity Commission for Northern Ireland and must be established for the public benefit. They enjoy certain exemptions from tax provided their income is applied for their charitable purposes. Many large charities conduct non-exempt trading activities through wholly-owned trading subsidiaries in order to generate funds for their charitable purposes.

Setting up a company in the UK

Setting up a company in the UK is straightforward and can be accomplished within a matter of days. A company can be formed online. The following incorporation documents are required to be filed at Companies House:

- Memorandum and Articles of Association
- Form INO1 which includes details about the company and the directors

The Memorandum and Articles of Association will set out the name of the company, the registered office and the rules and regulations that will govern the activities of the company, the shareholders and the directors.

A Confirmation Statement must be filed every year, within 12 months of the company being formed, or within 12 months of the previous Statement. It includes the company’s name, registered number, its activities and a list of directors, the number of shares that have been issued and paid-up and details of shareholders who own the shares.

The Confirmation Statement is available to public inspection.

Accounting reference date

Companies must make up their accounts to their accounting reference date or seven days either side of this date. For new companies the accounting reference date is initially set as the last day in the month one year after incorporation but a company can apply to change this.

The accounting period can be shortened as often as the company wants. The accounting period can only be lengthened once every five years up to a maximum period of 18 months. The period can be extended more than once within the five year period only if:

- The company is in administration
- The Secretary of State has approved it, or
- It is to align the accounting reference date with a parent company in the UK or another EU member

Company sizes

When preparing the accounts there are three sizes to consider; small, medium or large. Within small there is a subset called a micro-entity, which is applicable to very small companies.

In order to qualify as a particular size, a company must meet two of the three conditions in the following table (limits are those that apply for accounting periods beginning on or after 1 January 2016):

Size	Turnover	Balance sheet total	Average no. of employees
Micro	£632k	£316K	10
Small	≤£10.2m	≤£5.1m	≤50
Medium	≤£36m	≤£18m	≤250
Large	>£36m	>£18m	>250

For a company to be considered small or medium the conditions noted above must be met in the current period and prior period although it continues to be treated as small or medium in the first period it breaches the conditions.

A company cannot be small or medium in size if it is, or was at any time during the financial year:

- A public company,
- A member of an ineligible group, or
- An authorised insurance company or banking company, an e-money user or a MifID investment firm

A group is ineligible if any of its members are:

- A public company
- A body corporate (other than a company) whose shares are admitted to trading on a regulated market in an EEA state
- A person (other than a small company) that is carrying on a regulated activity
- A small company that is an authorised insurance company, a banking company, an e-money issuer or a MiFID investment firm
- A person that carries on insurance activity

Audit exemption

For accounting periods commencing on or after 1 January 2016, a company does not require an audit if it is "small" ie it meets two of the following conditions in the current financial year:

- Annual turnover is equal or less than £10.2m
- The balance sheet total is equal or less than £5.1m
- The average number of employees is not greater than 50

If the company is part of a group, the above thresholds must be reviewed based on the group's worldwide results. Therefore there are occasions when a UK company is small but needs an audit because the worldwide group exceeds the thresholds.

A company will not be exempt if the company or the group of which it is a member is public, an authorised insurance company, a banking company, an e-money issuer or a MiFID investment firm.

An audit exemption can still apply to a UK company that is in a large worldwide group, if before the date on which the financial statements are due, the following documents are delivered to Companies House:

- A written notice that all members of the subsidiary company agree to the exemption in respect of the relevant financial year.
- A statement from the parent undertaking that it guarantees the subsidiary.
- A copy of the parent undertaking's consolidated accounts including a copy of the auditor's report and the annual report on their accounts. These accounts will then be on public record.

For the above to be applied the subsidiary must be included in the parent company's consolidated accounts in the financial year that the documents are being filed. The parent company must disclose in its accounts that the subsidiary is exempt from audit.

Filing of accounts

A UK company is required to prepare and submit accounts to Companies House, where they are on public record and can be accessed online.

There is no requirement to prepare separate accounts for the UK branch if an overseas parent company is required to prepare, audit and publicly disclose accounts under the relevant overseas law. In this case, the overseas parent company accounts must be submitted to Companies House in the UK within three months of the deadline for disclosure in the overseas jurisdiction. The fact that an ultimate parent company of the group (and not the parent company of the branch itself) might publicly disclose accounts is not sufficient to gain exemption from this requirement.

If the overseas parent company is not required to prepare, audit and disclose accounts, it must still submit accounts to Companies House. These accounts could be accounts which are prepared under overseas GAAP but they must include certain information as set out in UK law. Further information is available in the Companies House guidance on Overseas Companies, which is available at:

https://www.gov.uk/government/publications/overseas-companies-in-the-uk-registration-filing-and-disclosure-obligations

For UK tax purposes, it will be necessary to file with HMRC the profit and loss account and balance sheet of the UK branch separately from the overseas parent company's accounts. It is not necessary to prepare formal accounts for this, although the figures do need to be calculated under UK GAAP or IFRS.

It is the responsibility of the directors of the company to prepare and deliver the financial statements to Companies House. They are also responsible for the filing of:

- The annual return Confirmation Statement , which includes the identity of persons with significant control
- Notification of any change to the company's registered office
- Notification of any change in the company's officers or in their personal details
- Allotment of shares, and
- Registration of charges

The financial statements for private companies need to be filed within nine months of the financial year end. For public companies this is reduced to six months.

The first set of financial statements after incorporation must be delivered:

- Within 21 months for private companies
- Within 18 months for public companies

Penalties will be incurred if the financial statements are filed late.
The following financial statements can be filed online:

- Dormant company accounts
- Micro-entity accounts prepared under FRS 105
- Small audit exempt abridged accounts

All other financial statements have to be hand delivered or posted.
There is currently no provision on the Companies House website for electronically filing accounts prepared under FRS102.

The documents noted above are filed at Companies House in Cardiff (for companies registered in England and Wales), in Edinburgh (for companies registered in Scotland) and Belfast (for companies registered in Northern Ireland).

Register of people with significant control (PSC register)

All UK companies, including wholly owned subsidiaries, dormant companies, companies limited by guarantee, unlimited companies and charitable companies, are required to create and maintain a register of those people who have control over them which is known as the PSC register.

This information has to be delivered annually to Companies House in the form of a Confirmation Statement and any changes notified to Companies House as and when made.

5. Tax

Overview

For UK corporation tax purposes, an overseas company operating in the UK may have:

- A subsidiary
- A permanent establishment, or
- No presence

This will in turn determine the UK corporation tax liability of the overseas company. A UK resident subsidiary will be subject to corporation tax on its worldwide income, whereas an overseas company with a permanent establishment in the UK will only be subject to corporation tax on the profits attributable to the permanent establishment.

Where it does not have a tax presence, an overseas company will not have a UK corporation tax liability. However, in some cases a legal entity will be preferable even where there would otherwise be no tax presence.

Other taxes (such as VAT and PAYE) may not follow the same rules, and even where there is no permanent establishment for corporation tax purposes, VAT or PAYE registrations may be required.

If an overseas company is a member of a partnership, it will only be subject to UK tax if the partnership's activities constitute a permanent establishment in the UK.

Permanent establishment (PE)

A company which is not resident in the UK will be subject to UK corporation tax if it carries on a trade in the UK through a UK permanent establishment. Where it does so, it will be subject to UK corporation tax on all profits that are attributable to the UK PE. An exception to this rule applies in the case of profits from trading in and developing UK land, which will be subject to corporation tax regardless of where the company is resident or where the trade is carried on and irrespective of whether the trade is carried on through a PE in the UK or elsewhere.

The definition of a PE under UK domestic law broadly follows the OECD Model Tax Convention and there are typically only small differences with the UK's double tax agreements (DTAs), for example in relation to construction sites or preparatory and auxiliary activities. A company should first of all consider whether a PE exists under UK domestic law, and only if a PE does exist consider whether the relevant double tax agreement provides relief.

An overseas company will have a PE if:

- There is a fixed place of business through which its business is carried on, or
- A dependent agent in the UK does business on its behalf

A fixed place of business specifically includes:

- A place of management
- A branch
- An office
- A factory
- A workshop
- An installation or structure for the exploration of natural resources
- A mine, an oil or gas well, a quarry or any other place of extraction of natural resources
- A building site or construction or installation project

However, this list is not exhaustive and a PE will exist when there is any fixed place of business.

A company which only carries on “preparatory and auxiliary” activities in the UK will not have a PE in the UK.

The Diverted Profits Tax (DPT) can apply if a group has artificial arrangements to avoid a PE.

Subsidiary v branch

The tax position will often determine whether a company operates in the UK via a subsidiary or a branch. There are a number of fundamental differences in the taxation of a branch compared to a subsidiary, and these are summarised in the table below.

In some cases a subsidiary will be beneficial even where there would otherwise be no tax presence. For example, if the UK tax rate is lower than the parent company tax rate, this would ensure that profits are recognised at the (lower) UK tax rate rather than the overseas tax rate (subject to any anti-avoidance rules).

Subsidiary	**Branch**
Separate legal personality.	No separate legal personality. Legally part of the overseas company.
Required to file annual financial statements with Companies House where they will be publicly available. Financial statements may require a UK audit.	Unless financial statements are published already, required to file financial statements of the overseas company with Companies House where they will be publicly available. A UK audit is not required.
Accounts must be filed with HMRC for tax purposes.	Branch financial statements of the UK trade must be filed for tax purposes.
Subject to UK corporation tax on worldwide profits.	Subject to UK corporation tax on the activities carried on in the UK and associated UK source income.

Depending on overseas tax rules, profits may not be subject to tax in the hands of an overseas parent company until distributed by way of dividend.	Depending on overseas tax rules, the UK branch profits may be subject to tax in the hands of the overseas company as they arise.
Relief may be available to the parent company for UK tax suffered on the profits out of which the dividends are paid.	Relief may be available to the overseas company for UK tax suffered on the branch profits.
A UK tax deduction should be available for arm's length interest and royalty payments from the subsidiary to the overseas parent company.	No UK tax deduction for interest and royalty payments from the branch to the overseas parent company unless able to do so under the terms of a DTA.
Tax losses can be carried forward and set 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 set against future profits of the branch.
	Tax losses may be offset against taxable profits of other UK companies within the same group, subject to anti-avoidance rules, if the losses are available for offset against the profits of the overseas company.
Exit can be achieved by overseas company disposing of the shares in the subsidiary. No UK tax should arise.	Exit can only be achieved by disposing of each of the individual branch assets. UK tax would arise on the disposal of such assets.
Closure requires a formal winding up procedure or striking off or the appointment of a liquidator.	Closure is automatic on the cessation of trade. No formal procedure is required.
UK stamp duty may arise on the transfer of shares in the UK subsidiary.	No UK stamp duty is payable on the transfer of a UK branch.
Stamp duty or stamp duty land taxes may arise on the sale of individual company assets.	Stamp duty or stamp duty land taxes may arise on the sale of individual branch assets.
Transfer pricing rules will apply to all transactions with related parties unless the group is small or medium sized.	Transfer pricing rules will apply to all transactions with related parties.
	Profits of the branch are calculated as if it were a separate company.
All goods and services supplied may be subject to UK VAT, subject to the registration limit or voluntary registration, including supplies between the subsidiary and parent company.	Goods and services supplied between branch and parent are ignored for UK VAT purposes. UK VAT may apply to external sales subject to the registration limit or voluntary registration.

If a branch is established, it can be converted to a subsidiary without any UK tax arising—and indeed a subsidiary can be converted to a branch on a similar basis.

Transfer pricing

UK transfer pricing rules require an adjustment of profits where a transaction between connected parties is not undertaken at arm's length and has created a potential UK tax advantage. For tax purposes, UK subsidiaries must recognise transactions with other group companies on an arm's length basis. A transfer pricing adjustment does not affect a subsidiary's statutory accounts.

In determining the arm's length price, the UK transfer pricing rules specifically follow the OECD Transfer Pricing Guidelines and the recommendations from the OECD BEPS project.

There is an exemption from the UK transfer pricing rules for small or medium groups. However, HMRC can issue a notice requiring medium companies to apply the rules.

Small groups have:

- Fewer than 50 employees, and
- Either a turnover of less than €10 million or gross assets of less than €10 million

Medium groups are not small, but have:

- Fewer than 250 employees, and
- Either a turnover less of than €50 million or gross assets of less than €43 million

The consolidated worldwide group and any linked or partner companies (for example joint ventures) are taken into account in determining whether the exemption is available.

A UK permanent establishment should recognise profits equal to the profit it would have expected to make had it been:

- A company separate from the non-resident company,
- Engaging in the same or similar activities,
- Under the same or similar conditions, and
- As if it had been dealing with an independent company.

Financing

Depending on the activities of the UK subsidiary, it may require funding from its parent company. A manufacturing subsidiary may require significant funding for capital investment and working capital, whereas a sales or distribution subsidiary may only require short-term funding to cover costs.

Such funding can take the form of either equity or debt.

Equity is typically harder to repay than debt (even redeemable shares require reserves before they can be repaid), and dividends paid are not deductible for UK tax purposes. Unlike interest, however, dividends paid by a UK subsidiary are never subject to withholding tax.

The concept of a capital contribution is not recognised under UK law. HMRC consider that capital contributions will be recognised as either a non-taxable gift or (if repayable) as a loan. In exceptional circumstances a capital contribution may be taxable in the UK subsidiary.

There are a number of provisions in UK law which can restrict the deductibility of interest in a UK subsidiary:

- Transfer pricing and thin capitalisation
- Loans taken out for non-commercial purposes
- Anti-arbitrage rules where hybrid instruments or entities are involved
- Interest accrued but not paid on a loan from an overseas company that may be deductible only when paid

New corporate interest restriction rules took effect from 1 April 2017 under which corporation tax deductions for net interest expense are limited to 30% of a group's tax-EBITDA. The restriction applies to all groups with UK interest costs of more than £2 million. Instead of using the fixed ratio, an election can be made to use the group ratio arrived at using the external net group interest expense of the worldwide group (including any specified interest-like amounts) and group EBITDA, as per the consolidated financial statements. Groups can elect to use a group ratio in place of the fixed ratio. The rules generally replace the worldwide debt cap that restricted the amount of interest that can be deducted by a UK group to the amount of third-party interest incurred. Exemptions are available for companies engaged in certain public infrastructure works.

The currency of any inter-company loans is an important point which is often overlooked. Foreign exchange gains made on loan relationships are subject to tax (and foreign exchange losses are deductible), even if not realised.

Filings

Unlike individual income tax and capital gains tax, which is based on the tax year (6 April to 5 April), corporation tax is imposed for a 'financial year' that runs from 1 April to 31 March. However, the tax basis period for a company is its accounting period. Where the accounting period exceeds 12 months a company will be required to file one tax return for the first 12 months and another tax return for the remainder of the period.

The returns must be filed within 12 months of the end of the accounting period, or within 3 months of receipt of a notice to file a tax return, if later. Companies may amend their return within 12 months from the statutory filing date and HMRC has a further 12 months to enquire into the return. HMRC's enquiry period is extended in cases of insufficient disclosure or fraud or negligence.

Publication of tax strategy

From 1 January 2017, very large groups have been required to publish their UK tax strategy on their website.

Payment of tax

Most companies are required to pay their corporation tax nine months and one day from the end of the accounting period. A quarterly instalment payment regime applies to large companies who must estimate their overall corporation tax liability and make instalment payments on the fourteenth day of the seventh, tenth, thirteenth and sixteenth months following the beginning of their accounting period.

A large company for these purposes is a company with profits of more than £1.5 million. This threshold is divided by the number of related 51% group companies.

For accounting periods starting on or after 1 April 2019 earlier payment dates will be introduced for companies with annual profits of £20 million or more.

Calculation of taxable profits

Resident companies are chargeable to corporation tax on their worldwide profits, including revenue profits and capital gains. The computation of annual profits and losses is based on commercial accounts, as adjusted for tax purposes with income and expenses accounted for on an accruals basis. Dividends received from UK resident companies and, subject to certain anti-avoidance restrictions, most non-UK resident companies are exempt from corporation tax.

Expenses are generally deductible in computing trading profits, provided they are of a revenue nature and are incurred wholly and exclusively for the purposes of the trade and are not disallowed by specific tax law (eg entertaining, fines and gifts).

Interest is usually deductible either as a trading expense where it is incurred for the purposes of a company's trade or as a non-trade loan relationship debit (where it is incurred in respect of an investment or other non-trading purpose). Relief for interest may be restricted under transfer pricing ricing rules, including those relating to thin capitalisation and the corporate interest restriction rules that took effect from April 2017. The cost of intellectual property and other intangible assets acquired from unconnected parties is tax deductible based on the amount of amortisation charged in the company's accounts in accordance with accounting principles. Any profit or loss on the disposal is based on the proceeds received less the tax-written down amount and taxed or relieved as a revenue profit or loss. An irrevocable election can be made to claim a 4% straight-line writing down allowance in place of the amount of amortisation.

Qualifying pre-trading expenditure incurred in the seven years before the commencement of trading is treated as deductible on the commencement of trading.

General bad debt provisions and contingency reserves are not tax-deductible and certain expenses (such as pension contributions) are only allowed on a paid rather than an accruals basis. Accrued employee remuneration has to be paid within nine months of the period of accrual to qualify for tax relief in that period.

Dividends are not tax deductible.

In the calculation of the taxable profits of a PE a tax deduction will be given for expenditure incurred, including administrative expenses, on the same basis as for a UK resident company. However, no deduction is available in respect of royalties, interest or other finance costs which are paid by the PE to its parent company.

Trading losses

Trading losses may be offset against a company's other profits in the year of loss and/or the preceding year or carried forward. With effect from 1 April 2017, for companies or groups with profits of more than £5 million losses can only be offset against 50% of the profits above £5 million, with any remaining losses carried forward.

The requirement that losses can only be offset against the same profit source has been relaxed for all losses (other than capital losses) incurred after 1 April 2017 but losses incurred before then will be subject to the historic 'streaming' restriction.

Terminal losses may be carried back for 3 years and set off against profits of any description.

The use of losses may be restricted where there is a change in ownership followed or preceded by a major change in the nature of conduct of the company's trade.

Losses (including trading losses, rental losses and excess management expenses) of a year may be surrendered between companies in the same 75% tax group provided the claimant company has sufficient profits to absorb the loss. Both the claimant and surrendering companies have to be within the charge to UK corporation tax but there is no requirement for their parent company to be UK resident. A 75% tax group exists where one company is a 75% subsidiary of the other both are 75% subsidiaries of a third company.

Where group relief cannot be claimed because the shareholding is below the necessary 75%, consortium relief may be available. The amount of consortium relief which may be claimed against profits depends on the percentage of the consortium company owned by the consortium member for the period concerned. The company owned by the consortium may be either a claimant or surrenderer of the relief and relief may be claimed or surrendered by either a consortium member or a company which has a group relationship with a consortium company in a country within the EEA.

Capital losses

Capital losses are automatically set off against capital gains of the same period. Unrelieved losses may be carried forward to be set off against capital gains of subsequent years. Capital losses cannot be carried back.

Capital losses cannot be surrendered to other group companies but companies in a 75% tax group can enter into a joint election for a capital gain or loss to be allocated to another group company, which may be beneficial where that company has losses available to shelter the gain or gains against which the loss may be used.

Tax rates

The rate of corporation tax with effect from 1 April 2017 is 19%. The rate is due to fall to 17% from 1 April 2020.

Withholding taxes

Dividends

There is no withholding tax on dividends regardless of the nature or the tax residence of the recipient. Dividends no longer carry a notional tax credit.

Interest

Tax is generally withheld on payments of interest at the rate of 20%. Interest on quoted Eurobonds may be paid without deduction of tax.

Under the UK law implementing the EU Interest and Royalties Directive (2003/49), outbound interest and royalty payments are exempt from withholding tax, provided the beneficial owner is an associated company of another EU Member State or permanent establishment of such a company situated in another Member State. A company is an "associated company" of another company if (a) it has a direct minimum holding of at least 25% of the capital or voting power in the other company; or (b) a third company has such a holding in both the borrower and lender companies. No minimum holding period is required. How this will be affected by the UK's departure from the EU is unknown.

The UK has an extensive network of DTAs many of which allow for a reduced or zero rate of withholding. The recipient of the interest must make an application to HMRC for the treaty rate to apply and the payer can only apply the treaty rate after it has received authorisation from HMRC.

Royalties

Tax must be withheld at the rate of 20% on payments of patent royalties and copyright royalties, except in the case of copyrights on films. The definition of royalties for withholding tax purposes includes payments for the use of intangible assets such as trademarks and brand names made to persons overseas.

From 1 April 2019, the government has announced that the scope of the withholding tax will be extended to cover royalties and other annual payments connected with sales to UK customers, even if the payments do not arise in the UK.

Royalties paid in accordance with the EU Interest and Royalties Directive are exempt from withholding tax. Many of the UK's DTA allow for a reduced or zero rate of withholding and companies are permitted to self-assess their obligation to withhold tax under the terms of the relevant DTA without seeking prior clearance from HMRC but will be required to account for any tax not withheld if it turns out that the recipient is not entitled to the treaty benefits.

Employment taxes

Income received by an individual as salary and wages is subject to income tax as earnings received from an office or employment. Employers must deduct income tax (and employee national insurance contributions) from employees' wages and salaries under the Pay-as-you-earn (PAYE) system and remit the deductions to HMRC. Directors' salaries are taxed in the same way.

Benefits in kind provided to employees, such as living accommodation, company cars, private medical, gym membership are treated as taxable on the employee.

In general, employees acquiring shares in their employer company under a beneficial scheme are subject to income tax on the difference between the market value and the issue price. However, there are several different statutory schemes under which a charge to income (and capital gains) tax may be deferred or avoided altogether. These include Approved Share Incentive Plans, Save as You Earn schemes and Enterprise Management Incentives.

A deduction from taxable income is allowed for expenses that employees incur wholly, exclusively and necessarily in the performance of the duties of their employment but this will not normally include the costs of ordinary commuting. Certain removal expenses reimbursed to an employee by an employer are exempt. The statutory exemption regime covers payments and benefits received in connection with a change in the employee's sole or main residence resulting from the employee becoming employed by a new employer, an alteration in the duties of an existing employment or an alteration in the place where existing duties are performed.

Social security

National Insurance Contributions (NICs) are paid by both employers and employees. The amount of contributions is fixed by reference to an employee's earnings. Employee contributions are deducted from employee salaries by the employer and paid to HMRC, together with the employer contributions, on a monthly basis. The current rate of employer contribution is 13.8%.

Employer NICs are deductible in computing the employer's taxable profits.

UK-based host employers of seconded employees continuing to be employed by a non-resident employer where the employer does not have a business presence in the UK are obliged to pay the contributions of the non-resident employer.

Other UK taxes

Oil taxes

Companies engaged in oil and gas exploration and production in the UK and on the UK continental shelf may be subject to Ring Fence Corporation Tax (RFCT). The main rate of RFCT is 30%. There are ring-fencing provisions to prevent losses from a company's other activities being set-off against its profits from oil and gas production.

The National Non-Domestic Rate (NNDR) or business rates

The national non-domestic rate is payable by every occupier of business premises. Local authorities collect the tax by charging a Uniform Business Rate (UBR), which is set by central government. The rateable values of properties are reassessed every five years and are based on market rents.

Business rates are a deductible expense in computing taxable profits.

Bank levy

The bank levy applies to UK banks, banking groups and building societies, as well as UK banks and banking sub-groups within non-banking groups. Also liable are foreign banking groups operating in the UK through permanent establishments and subsidiaries.

The levy is based on the bank's total chargeable equity and liabilities.

VAT

VAT is an EU based tax and it is as yet unclear how it will be affected by the UK's departure from the EU. However, it is very unlikely that it will be repealed, and we expect few changes (at least initially) to be made.

VAT applies to the supply of goods and services. A taxable person is a person who is registered, or required to be registered, for VAT purposes. The registration threshold is £85,000 and will remain at that level for at least two years from April 2018. The de-registration threshold is £83,000.

A person who makes or intends to make taxable supplies may apply for VAT registration in advance and input tax incurred on the acquisition of goods before registration is deductible, provided the goods are on hand when registration takes place. Input tax on the receipt of services within 6 months of registration is also deductible.

VAT is charged in respect of taxable supplies within the UK, the acquisition of goods from other EU Member States, and the importation of goods from outside the European Union.

The standard rate of VAT is 20%. A reduced rate of 5% applies to supplies of fuel and power used in homes and by charities, certain residential building works and to the provision of advice promoting the welfare of old or disabled people.

Exports and supplies to other EU member states are zero rated. Most foodstuffs, books, newspapers and children's clothing and certain construction activities are also zero rated.

Exempt supplies include banking and insurance services, the letting of land and buildings (with an option to be taxed at the standard rate, for commercial letting), and education and medical services.

Businesses making taxable supplies are able to deduct the input tax that they incur from the output VAT that they charge to their customers and remit the net amount to HMRC. Where input Vat exceeds output VAT businesses may claim a refund from HMRC. Businesses making exempt supplies will not be able to recover all of their input VAT, which will therefore be cost to the business.

Non-resident persons making supplies in the UK must register for VAT, regardless of their level of turnover. This affects traders who are not established in the UK but are temporarily present and making supplies here.

UK real estate held by non –resident persons

Rental income

A non-resident company which receives rental income from UK real estate is subject to UK tax on the net rental income (ie after deduction of expenses) even if it has no other presence in the UK. The charge to tax is currently income tax at 20% but from 1 April 2020 such companies will be charged to corporation tax.

Other non-resident persons (such as trusts or individuals) are also subject to tax on rental income, but at rates up to 45%. Subject to the Annual Tax on Enveloped Dwellings (see below), overseas investors will usually hold property which generates rental income through a company.

Capital gains

The gain arising on the sale of residential property is subject to non-resident capital gains tax (NRCGT) at a rate of 20% for non-resident companies and 28% for any other non-resident person. The gain can be calculated by reference to the market value of the property at 1 April 2015 or the original cost.

Where ATED CGT could also apply (see below), this takes priority over the NRCGT.

The government has announced that the position will change from April 2019. From this date, all disposals of UK property by non-residents will become subject to CGT, as will disposals of indirect interests in such property (for example, the sale of shares in a 'property-rich' company). Gains on commercial property and indirect interests in all types of property will be rebased to April 2019, so that only the element of gain accruing from that date is taxable. Tax will be due at the same rate as an equivalent disposal by a UK resident (so, for example, a non-resident company disposing of a commercial property in June 2020 will pay tax on any gain at 17%).

The government is consulting on the detail of the changes, and, as part of this exercise, is also looking at whether the ATED-related CGT rules can be simplified.

The profit on sale of property as part of a trade (for example by a property developer) will continue to be subject to income tax or corporation tax in the same way as other trading profits.

Annual Tax on Enveloped Dwellings (‘ATED’)

ATED is an annual charge on UK residential properties valued at over £0.5m million that are owned by non-natural persons, eg companies, collective investment schemes, and partnerships with company members. The taxable amount is based on the valuation band into which the property falls. The bands were originally from £2 million to £5 million, £5 million to £10 million, £10 million to £20 million and above £20 million. The £2 million threshold was reduced to £1 million from 1 April 2015 and to £0.5 million from 1 April 2016.

The ATED charges for 2018/19 are as follows:

- £500,001 to £1m - £3,600
- £1,000,001 to £2m - £7,250
- £2,000,001 to £5m - £24,250
- £5,000,001 to £10m - £56,550
- £10,000,001 to £20m - £113,400
- Over £20m - £226,950

Relief from the charges are available to property rental businesses, property developers and property traders but must be claimed.

Where a property is within the scope of ATED, any capital gains are subject to UK tax at 28%. The gain can be calculated by reference to the market value of the property at 1 April 2013 (or 5 April 2015 and 5 April 2016 for properties worth more than £1m and £500,000 respectively) or the original cost. ATED-related CGT takes priority over corporation tax or NRCGT, but any gain not subject to ATED-related CGT may be subject to corporation tax or NRCGT as appropriate.

Anti-avoidance

General anti-abuse rule (GAAR)

The GAAR empowers HMRC to counteract tax advantages where they arise from abusive schemes. The operation of the GAAR is overseen by an independent GAAR Advisory Panel whose opinion HMRC must seek in respect of what HMRC considers to be abusive arrangements. The GAAR covers most forms of tax and national insurance.

Disclosure of tax avoidance schemes

Under the disclosure of tax avoidance schemes (DOTAS) rules, ‘promoters’ of prescribed tax avoidance schemes (and, in certain prescribed circumstances, the users of such schemes) must notify HMRC about the scheme. The DOTAS rules apply to schemes relating to income tax, capital gains tax, inheritance tax, corporation tax, ATED, SDLT, national insurance contributions, and VAT.

Diverted Profits Tax (DPT)

The diverted profits tax seeks to counter aggressive tax planning used by multinational enterprises to divert profits from the UK. The tax is 25 per cent of diverted profits relating to UK activities.

The DPT applies in two situations:

1. Where a person is carrying on activities in the UK in connection with the supply of goods and services by a non-UK resident company to UK customers and those activities are arranged in such a way as to avoid the creation of a permanent establishment in the UK. The DPT does not apply where all the companies involved in the arrangements are small and medium-sized enterprises (SMEs) or where sales by the foreign company (and any company connected with it) to UK customers are less than £10 million in the year concerned; and

2. Where entities (other than SMEs) with an existing UK taxable presence enter into arrangements that lack economic substance and are designed to exploit tax differentials.

Controlled foreign companies

The profits of a controlled foreign company (CFC) may be apportioned to a UK resident company that has an interest of at least 25 per cent in the CFC. If profits are apportioned, a corresponding amount of creditable tax may also be apportioned and allowed as a relief against the UK tax charge.

Certain companies are excluded from being CFCs under specific exemptions which include the temporary exempt period exemption (providing for a temporary period of exemption for a non-resident company coming under the control of a UK resident company); the excluded territories exemption (for companies that are resident and carrying on business in certain specified territories); the low profits exemption (where a CFC's profits do not exceed £50,000 for the accounting period in question or where the CFC's profits do not exceed £500,000 and out of those profits, the amount representing non-trading income does not exceed £50,000); the low profit margin exemption (where the CFC's accounting profits do not exceed 10% of its relevant operating expenditure); and the tax exemption (where the CFC pays an amount of domestic tax – on its chargeable profits – that equates to at least 75% of the corresponding UK tax).

Where one of the above exemptions does not apply, the CFC charge applies to such of the CFC's profits as pass through the 'CFC charge gateway'. The gateways include where the CFC has profits attributable to UK activities; where the CFC's profits include trading finance profits; where the CFC's profits include profits from captive insurance business; and where the CFC's profits include non-trading finance profits. Where certain conditions are met, it is possible for companies with non-trading finance profits to elect for full or partial exemption from the CFC charge; such companies will typically be finance companies that provide intra-group lending to non-resident connected companies.

Stamp duties and transfer taxes

Stamp Duty and SDRT

Stamp Duty and Stamp Duty Reserve Tax (SDRT) are payable on the purchase of shares. The standard rate of duty is 0.5%. Stamp duty applies to paper transactions, while SDRT applies to paperless transactions, eg electronic transfers. The duty is payable by the purchaser of the shares. Relief from duty may be claimed in respect of certain transactions, including transactions within groups of companies.

SDLT

Stamp Duty Land Tax (SDLT) applies to transfers of interests in land in England. The charge is a percentage of the consideration for the transfer and different rates apply to transfers of residential and non-residential land.

The rates are as follows:

Non-residential and mixed-use property -£	Rate %
Up to 150,000	0
150,001 to 250,000	2
Over 250,000	5

Residential property - £	Rate (%)
Up to 125,000	0
125,001 to 250,000	2
250,001 to 925,000	5
925,001 to 1,500,000	10
Over 1,500,000	12

The rates are applied to the portion of the purchase price which falls within each tax band as set out above.

An additional 3% rate (taking the rate from 3% to 15% in place of 0% to 12%) applies to the purchase of additional residential properties, such as holiday homes and buy-to-let properties, and to all purchases of residential properties by “non-natural persons” (which includes companies).

A flat 15% rate of SDLT applies to the purchase of residential properties by non-natural persons where the consideration is more than £500,000. Relief is available for certain transactions, including property rental businesses and property developers, and in these cases the normal SDLT rates apply.

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 %
Up to 150,000	0
150,001 to 350,000	3
Over 350,000	4.5

Residential property - £	Rate (%)
Up to 145,000	0
145,001 to 250,000	2
250,001 to 325,000	5
325,001 to 750,000	10
Over 750,000	12

The rates are applied to the portion of the purchase price which falls within each tax band as set out above.

As with SDLT, an additional 3% LBTT applies to the purchase of investment properties and second homes.

Land Transaction Tax (LTT)

SDLT ceased to apply in Wales from April 2018 when it was replaced by the LTT administered and collected by the Welsh Revenue Authority.

The rates of LTT are:

Non-residential and mixed-use property - £	Rate (%)
Up to 150,000	0
150,001 to 250,000	1
250,001 to 1,000,000	5
Over 1,000,000	6

Residential property - £	Rate (%)
Up to 180,000	0
180,001 – 250,000	3.5
250,001 – 400,000	5
400,001 – 750,000	7.5
750,001 – 1,500,000	10
Over 1,500,000	12

6. Business tax incentives

Research and Development (R&D) tax reliefs

R&D tax relief is available to companies within the charge to corporation tax. There are two schemes depending on a company's size: the small and medium enterprise (SME) scheme and the Research & Development Expenditure Credit (RDEC). The SME scheme provides an enhanced tax deduction for qualifying R&D expenditure. The tax relief available on R&D costs is 230%, ie for every £100 of qualifying expenditure a tax deduction is given for £230. The scheme also provides for a payable tax credit of up to 14.5% to be paid to loss-making SME companies. An SME for these purposes is a company with fewer than 500 employees and either an annual turnover not exceeding €100m or a balance sheet not exceeding €86m. SMEs carrying out work subcontracted to them cannot claim relief under the SME scheme but may do so under the RDEC.

The RDEC replaced the large company scheme in April 2016 and provides an 'above the line' credit calculated at 11% of a company's qualifying R&D expenditure. The credit is taxable.

R&D reliefs can only be claimed where an R&D project seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of a scientific or technological uncertainty. Guidelines on qualifying projects are provided by HM Revenue & Customs. Claims for R&D tax reliefs are made as part of a company's annual tax return.

Patent Box

The Patent Box regime came into effect from 1 April 2013. The original regime is only available for patents that were filed or acquired from a third-party before 1 July 2016 but eligible companies will be able to take advantage of the regime for those patents until 30 June 2021.

A new regime took effect from 1 July 2016 that will only provide a reduced rate to the extent that development of the patent has been undertaken in the UK (the 'modified nexus approach').

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.

7. Creative industry tax reliefs

The UK government has a suite of tax reliefs that cover eight creative industries. These reliefs entitle qualifying companies to receive a tax credit from the government based on their spend in the relevant industry. The qualifying criteria and calculation of the tax credit vary by industry and are set out below.

Film Tax Relief (FTR)

FTR applies to film production companies that are engaged in the making of a British film that is intended for theatrical release and of which at least 10% of qualifying expenditure is incurred on goods or services used or consumed in the UK.

In order for a company to qualify as a film production company it must be responsible for pre-production, principal photography, post production and delivery of the film on completion. It must directly negotiate, contract and pay for rights, goods and services relating to the film and must either be incorporated in the UK or must have a UK permanent establishment which falls within the charge of UK corporation tax.

The film must be certified as British by passing the Cultural Test for Film or by being a qualifying film under a relevant co-production treaty. The UK currently has bi-lateral co-production treaties with Australia, Brazil, Canada, China, France, India, Israel, Jamaica, Morocco, New Zealand, the Occupied Palestinian Territories and South Africa. A co-production may also qualify under the European Convention on Cinematographic Co-production which covers co-productions with 43 European countries.

The FTR allows film production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit equal to 25% of core expenditure that is used or consumed in the UK, up to a cap of 80% of total core expenditure.

Both the additional deduction and the payable credit are calculated on the basis of UK qualifying expenditure (that is expenditure on pre-production, principal photography and post-production) up to a maximum of 80% of the total qualifying expenditure. There is no minimum or maximum spend requirement to be eligible for FTR and there is no cap on the total value of FTR.

High-end Television Tax Relief (HTR)

HTR applies to television production companies that are engaged in the making of a British programme that is intended for broadcast and on which at least 10% of qualifying expenditure is incurred on goods or services used or consumed in the UK.

In order for a company to qualify as a television production company it must be responsible for pre-production, principal photography, post production and delivery of the programme on completion. It must directly negotiate, contract and pay for rights, goods and services relating to the programme and must either be incorporated in the UK or must have a UK permanent establishment which falls within the charge of UK corporation tax.

The programme must be certified as British by passing the Cultural Test for High-End Television or by being a qualifying programme under a relevant co-production treaty. The UK currently has bi-lateral co-production treaties that cover television productions with Australia, Brazil, Canada, China (new), Israel, New Zealand, the Occupied Palestinian Territories and South Africa.

Additionally, in order for a programme to qualify it must be a drama, comedy or documentary, there must be a minimum spend of £1 million per 1 hour of programme time and the programme must have a minimum slot length of 30 minutes. The minimum slot length is measured at the time that programmes are commissioned so that, for example, the commission of six episodes of 30 minutes each (three hours in total) would qualify. The programme cannot be an advertisement or promotional programme, a news, current affairs or discussion programme, a quiz or game show, panel show, variety show or similar programme, consist of, or include, elements of competition or contest, broadcast live events (including theatrical and artistic performances) or be produced for training purposes.

The HTR allows television production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit equal to 25% of core expenditure that is used or consumed in the UK, up to a cap of 80% of total core expenditure.

Both the additional deduction and the payable credit are calculated on the basis of UK qualifying expenditure (that is expenditure on pre-production, principal photography and post-production) up to a maximum of 80% of the total qualifying expenditure. There is no maximum spend limit to be eligible for HTR and there is no cap on the total value of HTR.

Animation Tax Relief (ATR)

ATR applies to television production companies that are engaged in the making of a British animation programme that is intended for broadcast, on which at least 51% of total core expenditure is on animation and where at least 10% of qualifying expenditure is incurred on goods or services used or consumed in the UK.

In order for a company to qualify as an animation production company it must be responsible for pre-production, principal photography, post production and delivery of the animation programme on completion. It must directly negotiate, contract and pay for rights, goods and services relating to the animation programme and must either be incorporated in the UK or must have a UK permanent establishment which falls within the charge of UK corporation tax.

The animation programme must be certified as British by passing the Cultural Test for Animation or by being a qualifying animation programme under a relevant co-production treaty. The UK currently has bi-lateral co-production treaties that cover animation productions with Australia, Brazil, Canada, China (new), Israel, New Zealand, the Occupied Palestinian Territories and South Africa .

The programme cannot be an advertisement or promotional programme, a news, current affairs or discussion programme, a quiz or game show, panel show, variety show or similar programme, consist of, or include, elements of competition or contest, broadcast live events (including theatrical and artistic performances) or be produced for training purposes.

The ATR allows animation production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit equal to 25% of core expenditure that is used or consumed in the UK, up to a cap of 80% of total core expenditure.

Both the additional deduction and the payable credit are calculated on the basis of UK qualifying expenditure (that is expenditure on pre-production, principal photography and post-production) up to a maximum of 80% of the total qualifying expenditure. There is no minimum maximum spend limit to be eligible for ATR and there is no cap on the total value of ATR.

Children's Television Tax Relief (CTR)

CTR is an extension of the HTR and ATR but is specifically for the producers of children's television programmes. CTR applies to television production companies that are engaged in the making of a British programme that is intended for broadcast, where the primary audience is expected to be under 15 years of age and where at least 10% of qualifying expenditure is incurred on goods or services used or consumed in the UK.

In order for a company to qualify as a television production company it must be responsible for pre-production, principal photography, post production and delivery of the television programme on completion. It must directly negotiate, contract and pay for rights, goods and services relating to the animation programme and must either be incorporated in the UK or must have a UK permanent establishment which falls within the charge of UK corporation tax.

The programme must be certified as British by passing the Cultural Test for Children's Television or by being a qualifying programme under a relevant co-production treaty. The UK currently has bi-lateral co-production treaties that cover children's television productions with Australia, Brazil, Canada, China (new), Israel, New Zealand, the Occupied Palestinian Territories and South Africa.

The programme cannot be an advertisement or promotional programme, a news, current affairs or discussion programme, a panel show, variety show or similar programme, broadcast live events (including theatrical and artistic performances) or be produced for training purposes. Quizzes, game shows, and other programmes including an element of competition or contest, may qualify if the prize does not exceed £1,000.

The CTR allows television production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit equal to 25% of core expenditure that is used or consumed in the UK, up to a cap of 80% of total core expenditure.

Both the additional deduction and the payable credit are calculated on the basis of UK qualifying expenditure (that is expenditure on pre-production, principal photography and post-production) up to a maximum of 80% of the total qualifying expenditure. There is no minimum or maximum spend limit to be eligible for CTR and there is no cap on the total value of CTR.

Video Games Tax Relief (VGTR)

VGTR applies to video games production companies that are engaged in the making of a British video game that is intended for supply and where at least 25% of qualifying expenditure is incurred on goods or services that are provided from within the European Economic Area (EEA).

In order for a company to qualify as a video game production company it must be responsible for designing, producing and testing the video game and it must be actively involved in planning, designing and decision making during the design producing and testing of the video game. It must directly negotiate, contract and pay for rights, goods and services relating to the video game programme and must either be incorporated in the UK or must have a UK permanent establishment which falls within the charge of UK corporation tax.

The video game must be certified as British by passing the Cultural Test for Video Games.

The VGTR allows video games production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit equal to 25% of core expenditure that is supplied from within the EEA, up to a cap of 80% of total core expenditure.

Both the additional deduction and the payable credit are calculated on the basis of EEA qualifying expenditure up to a maximum of 80% of the total qualifying expenditure. There is no minimum or maximum spend limit to be eligible for VGTR and there is no cap on the total value of VGTR.

Some video games development companies may be carrying on research and development and or may have claimed Research and Development (R&D) tax relief in the past. Where small or medium-sized enterprise R&D tax relief is claimed on a project, that project can't claim for any other state aid reliefs (including VGTR and grants). This means that if a video games development company chooses to claim VGTR, any research and development area within a project wouldn't qualify for R&D tax relief under the small and medium-sized enterprise scheme.

For large companies who carry out research and development and claim under the large scheme, the rules are different. This is because R&D tax relief claimed under the large scheme isn't state aid, and therefore the areas of research and development within a project may be eligible for R&D tax relief.

Theatre Tax Relief (TTR)

TTR applies to theatre production companies that are engaged in the making of a theatre production that is intended to be played before a live audience or paying members of the general public and where at least 25% of qualifying expenditure is incurred on goods or services supplied from within the EEA

In order for a company to qualify as a theatre production company it must be responsible for producing, running and closing the theatre production. It must be actively engaged in decision-making during the production, running and closing phases and make an effective creative, technical and artistic contribution to the production. It must also directly negotiate, contract and pay for rights, goods and services relating to the theatre production and must either be incorporated in the UK or must have a UK permanent establishment which falls within the charge of UK corporation tax.

There is no cultural test qualification for theatre productions.

The TTR allows theatre production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit. There are two rates of payable credit: 25% for touring productions and 20% for others. A touring production is defined as a production that will present live performances in 6 or more separate premises or in at least two premises where the number of performances will be at least 14.

Both the additional deduction and the payable credit are calculated on the basis of EEA qualifying expenditure (that is expenditure on production and closing phases but not running) up to a maximum of 80% of the total qualifying expenditure. There is no minimum or maximum spend limit to be eligible for TTR and there is no cap on the total value of TTR.

Orchestra Tax Relief (OTR)

OTR applies to orchestra production companies that are engaged in putting on an orchestral concert that is intended to play before the paying public or for educational purposes and where at least 25% of the qualifying expenditure is incurred on goods or services supplied from within the EEA.

In order for a company to qualify as an orchestra production company it must be responsible for putting on the orchestral concert from start to finish. It must be actively engaged in decision making and make an effective creative, technical and artistic contribution to the concert. It must also employ or engage the performers, directly negotiate contracts and pay for rights, goods and services.

An orchestral concert is one which is performed by instrumentalists in an orchestra, ensemble, group or band and must consist of a minimum of 12 instrumentalists, all or the majority of the instruments must not be electronically amplified and instrumentalists must be the primary focus of the concert.

There is no cultural test qualification for theatre productions.

The OTR allows theatre production companies to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit equal to 25% of core expenditure that is supplied from within the EEA, up to a cap of 80% of total core expenditure.

Both the additional deduction and the payable credit are calculated on the basis of EEA qualifying expenditure (that expenditure incurred in producing the concert or series up to performance and travel to and from a venue that is not the usual venue of the company) up to a maximum of 80% of the total qualifying expenditure. There is no minimum or maximum spend limit to be eligible for OTR and there is no cap on the total value of OTR.

Museum and Galleries Tax Relief (MGTR)

MGTR applies to qualifying charitable companies which maintain a museum or gallery, are a company wholly owned by a charity, are a local authority which maintains a museum or gallery and where at least 25% of the qualifying expenditure is incurred on goods or services supplied from within the EEA.

In order for a charitable company to qualify as a qualifying charitable company it must be responsible for production at a venue, be actively involved with the decision making and directly negotiate for, contract for and pay for rights, goods and services.

A qualifying exhibition is a curated public display of objects or works which are considered to be of scientific, historic, artistic or cultural interest. A single object can also constitute an exhibition.

Certain exhibition are excluded where they are organised in connection with a competition, where the sale of displayed objects or works is the purpose, which include a live performance by any person except where this is an incidental part, where anything displayed is for sale or where anything displayed is alive.

There is no cultural test qualification for museum and gallery exhibitions.

Unlike other reliefs there may be a primary and secondary production company for MGTR. The primary production company is one which is responsible for the exhibition at a single venue, or at least the first venue if the exhibition is touring, and which makes an effective creative, technical and artistic contribution to the exhibition. A secondary production company is responsible for a touring exhibition at a subsequent venue, but isn't the primary production company. There may be more than one secondary production company for an exhibition

The MGTR allows the production company to claim an additional deduction in computing taxable profits and where the additional deduction results in a loss, to surrender losses for a payable tax credit. Eligible companies will be able to claim a tax credit. There are two rates of payable credit: 25% for touring exhibitions and 20% for others. A touring exhibition is defined as an expedition where the exhibition is held at more than one venue, where at least 25% of the objects or works displayed at the first venue are displayed at every subsequent venue and where no more than 6 months shall elapse between reinstallation at one venue and installation at the next venue.

For both the primary and secondary production company the additional deduction and the payable credit are calculated on the basis of EEA qualifying expenditure (that expenditure incurred in producing the concert or series up to performance and travel to and from a venue that is not the usual venue of the company) up to a maximum of 80% of the total qualifying expenditure. There is a £500,000 limit on core qualifying expenditure for MGTR, a £100k maximum credit for touring productions and a £80,000 maximum credit for non-touring productions.

Capital allowances

Tax relief is not normally available for depreciation provided in a business's accounts. Instead, capital allowances give businesses tax relief on capital expenditure on plant and machinery (including office and computer equipment and motor vehicles). Capital allowances must be claimed in a tax return. They are available in respect of qualifying capital expenditure that is incurred for the purposes of a trade, profession or property business. The main rates of allowance are:

- 18% for most plant and machinery
- 8% for assets in the 'special rate pool' which includes long-life assets and certain integral features within buildings (such as electrical and heating systems) and cars with CO2 emissions above 130g/km (110g/km from April 2018).

Certain expenditure on mineral extraction qualifies for allowances of 10% on mineral assets and 25% on other expenditure and allowances of 4% are available on the costs of dredging harbours and waterways.

Enhanced first-year capital allowances of 100% are available for expenditure on certain energy and water efficient technologies and plant and machinery used for qualifying research and development. 100% capital allowances are also available to businesses in some enterprise zones and for the renovation of business premises in certain designated areas.

An Annual Investment Allowance (AIA) provides a 100% tax deduction for expenditure on most plant and machinery, up to a specified amount, which is currently £200,000 per annum.

Expenditure on plant and machinery is generally pooled for the purposes of claiming capital allowances, although certain assets, eg ships, make single asset pools. Capital allowances are then calculated on the reducing-balance basis.

When assets are disposed of the disposal proceeds are deducted from the relevant pool of expenditure. A balancing charge could arise where the proceeds exceed the tax-written down value and this has the effect of clawing-back allowances previously claimed. The amount of the balancing charge is added to the taxpayer's taxable profits.

A balancing allowance might arise if the proceeds are less than the tax-written down value. A balancing allowance is deducted from taxable profits. For the general pool and the special rate pool, there is no balancing charge until the trade is discontinued.

The capital gains tax position of the taxpayer is not affected by the treatment of an asset for capital allowances purposes but writing-down allowances may reduce an allowable capital loss.

Enterprise zones

Enterprise zones have been used a number of times to boost economic activity. The current zones were established in April 2012. Businesses based in an EZ can access a number of benefits including up to 100% business rate discount, simplified local authority planning, superfast broadband and 100% capital allowances for large investments in plant and machinery.

Tonnage tax

This is a special beneficial regime for shipping companies under which the profits from the operation of qualifying ships and connected qualifying activities are exempt from corporation tax. Companies are instead taxed on a deemed tonnage tax profit, computed by reference to the net tonnage of ships operated by the company. The regime is subject to ring fencing provisions and imposes certain training obligations on companies in the regime.

Personal tax

Individuals resident in the UK are subject to income tax. Income tax is deducted from salaries by employers under the pay-as-you-earn ('PAYE') system. Pension providers also deduct tax under PAYE from pensions paid to individuals.

Self-employment income and rental income is assessed to tax by way of an annual self-assessment tax return. Higher and additional rate taxpayers are also required to file a self-assessment tax return to account for any higher or additional rate tax due on their income.

Employers are required to provide HMRC with details of benefits in kind provided to employees – such as car benefits and private medical insurance. Employees are subject to tax on the provision of most benefits in kind, although there are exemptions from tax for certain benefits such as employer pension contributions and life assurance.

Share incentives

A number of incentive schemes are available to encourage share ownership by employees. Approved share option schemes provide employees with certain income tax and capital gains tax advantages.

The grant of options to acquire shares under an unapproved share option scheme is not subject to tax but an income tax charge will arise on exercise of the options. The charge is levied on the difference between the market value of the shares at exercise and the option exercise price. Any gain on the disposal of the shares will be subject to CGT.

8. Useful information websites

UK Government services and information	www.gov.uk
Companies House	www.companieshouse.gov.uk
Institute of Chartered Accountants in England and Wales	www.icaew.com
The Law Society (for England and Wales	www.lawsociety.org.uk
HM Revenue & Customs	www.hmrc.gov.uk
Chartered Institute of Taxation	www.tax.org.uk
Bank of England	www.bankofengland.co.uk
Financial Conduct Authority	www.fca.org.uk
London Stock Exchange	www.londonstockexchange.com
British Chamber of Commerce	www.britishchambers.org.uk
Department for International Trade	https://www.gov.uk/government/organisations/department-for-international-trade

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