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INVESTING IN THE UK

A brief overview of some of the tax rules

Investing in the UK

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This booklet has been produced for the general information of our clients. It is based upon our understanding of the legislation on 1 April 2014 and is intended to give a brief overview of the issues. It is not intended to cover exhaustively the subjects it addresses but rather to answer some of the important, broad questions that may arise for the reader.

When specific issues arise in practice, it will be necessary to refer to the laws, regulations and interpretations of the UK tax law. Since the law and regulations are continuing to change, it is advisable to obtain appropriate professional advice. No responsibility can be accepted for the use made of this booklet.

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- Transfer pricing
- Tax advice on profit extraction
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- Tax compliance for business and individuals
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Corporation tax

There is only one major tax on a company's profits, which is currently levied at a maximum rate of 21% (from 1 April 2014). Rules are fixed in advance and announced in the Budget each year.

Registration for UK corporation tax

Within three months of commencing trade or becoming active, a UK company or establishment is required to notify Her Majesty's Revenue & Customs (HMRC) that it falls within the charge to UK corporation tax. Failure to notify can result in a penalty.

The charge to corporation tax

A company (including the subsidiary of an overseas company) that is resident in the UK for tax purposes is liable to pay corporation tax on its worldwide profits and chargeable gains.

UK permanent establishments of non-UK resident companies are liable to UK corporation tax generally on:

- Trading income arising directly or indirectly through the UK establishment;
- Income from property or rights used by or held by or for the UK establishment;
- Chargeable gains accruing on the disposal of assets situated in the UK and used for the purposes of the establishment.

Corporation tax is assessed on total taxable profits (after certain statutory tax adjustments) and chargeable gains in respect of each accounting period. The rate of corporation tax is set for the financial year ending on 31 March. If the rate is changed, the profits of an accounting period that straddles the date of change are apportioned and charged at the appropriate rates.

Corporation tax rates

The rates of corporation tax applicable in the financial year 2014 (1 April 2014 to 31 March 2015) and financial year 2013 (1 April 2013 to 31 March 2014) are as follows:

Taxable Profits	Rates of corporation tax financial year 2013 (%)	Rates of corporation tax financial year 2014 (%)
Small profits rate (taxable profits up to £300,000)	20	20
Upper marginal rate (taxable profits between £300,000 - £1.5m)	23.75	21.25
Upper marginal rate (taxable profits between £300,000 - £1.5m)	20	21

Where there are active associated companies (i.e. companies under common control), including overseas companies (but not dormant companies), the limits (above) are reduced, in effect spreading the limit across all the active companies.

Capital allowances

Capital allowances allow the cost of capital assets to be written off against the taxable profits of a business. They take the place of commercial depreciation charged in the accounts, which must be added back to the net profit or loss figure in the accounts. The Annual Investment Allowance gives a 100% writing down allowance on the first £500,000 spent on general plant and machinery in a period. This is time apportioned where an accounting period is less than 12 months. After this initial allowance, the main rate of capital allowances for general spending on plant and machinery is 18% a year on the reducing balance basis. Although there are some specific exceptions, most assets qualifying as plant and machinery are pooled together and the value of the pool is written down accordingly.

Certain energy and water efficient equipment and new zero-emission goods vehicles qualify for a 100% enhanced capital allowance.

The capital allowances regime for cars is based on CO_2 emissions as with CO_2 emissions over 130g/km are written down at 8% per annum on a reducing balance basis. Cars with CO_2 emissions between 95g/km and 130g/km will form part of the general plant and machinery pool and others will attract an 18% allowance. At present, new cars with CO_2 emissions up to 95g/km will attract 100% allowance (this allowance is due to expire in 2015).

The main capital allowance rates for plant and machinery are summarised as follows:

	2014 - 2015
Writing down allowance	18%
Long life assets/integral features and thermal insulation	8%
Energy and water-efficient plant and machinery and new zero-emission goods vehicles	100%
100% Annual Investment Allowance (AIA) on expenditure up to (available to all businesses for general plant and machinery and integral features but not cars)	£500,000

Capital allowances for cars are dependent on the CO_2 emissions of the car:

- For new cars with CO_2 emissions up to 95g/km a 100% allowance is available (This allowance is due to expire in 2015);
- For cars with CO_2 emissions between 95 and 130g/km the annual allowance is 18%; and
- For cars with CO_2 emissions over 130g/km the annual allowance is 8%, calculated in a special pool.

Dividends

Dividends and other distributions of an income nature, whether received from UK or overseas companies, are within the charge to UK corporation tax unless they are exempt. Distributions received by small companies (fewer than 50 employees and either turnover of less than €10 million or balance sheet total of less than €10million will generally be exempt where the payor is resident in the UK or a territory which the UK has a double taxation treaty that includes a non-discrimination provision.

In respect of companies that are not small, dividends will be exempt if they fall within one of five exempt classes and are not caught by the targeted anti-avoidance rules. The exempt classes include dividends received from a company controlled by the payee, dividends in respect of non-redeemable ordinary shares and dividends received from portfolio companies (i.e. ones in which the payee owns less than 10% of the issued share capital). However, the specifics of the exempt classes are complex and specialist help should be sought.

Relief for trading losses

Trading losses may be utilised in four principal ways by UK resident companies:

- Against other income or chargeable gains arising in the same accounting period;
- Against profits of any description in the previous accounting period;
- Against trading income from the same trade arising in subsequent accounting periods; or
- As group relief in the same accounting period to qualifying companies.

Chargeable gains

UK resident companies pay corporation tax on their chargeable gains at the relevant corporation tax rate. UK establishments of foreign companies are also liable to corporation tax on chargeable gains arising on the disposal of any assets that are situated in the UK and used for the purposes of the UK establishment or its trade.

The chargeable gain is calculated as the difference between the net proceeds of sale of a chargeable asset and its purchase price together with any allowable expenditure (such as the incidental costs of acquisition) incurred on that asset. The resulting gain is then reduced by an `Indexation Allowance' to ensure that the proportion of any gain produced by inflation is not taxed.

There is an exemption for capital gains and losses on substantial (more than 10%) shareholdings in trading companies disposed of by corporate shareholders. This is commonly referred to as the `Substantial Shareholdings Exemption'. A non-UK company disposing of shares in a UK company will not generally be subject to UK taxation, unless it has a permanent establishment in the UK.

Taxation of foreign branches

Broadly, UK companies are subject to UK corporation tax on the profits of their foreign branches (with credit for overseas tax paid). A UK company may elect for exemption from UK tax on the results of overseas branches. The exemption will apply from the first accounting period starting after the election is made. The election cannot be revoked once that first accounting period has commenced.

Transfer pricing

The UK's transfer pricing legislation is widely drafted and covers almost every kind of intra-group transaction.

UK taxpayers are required to prepare and file tax returns on the basis of revenues and costs calculated using arm's length prices on transactions with related parties. The arm's length principle to be applied in evaluating prices is that set out in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

Evidence to support the taxpayer's filing position should exist at the time when the tax return is filed.

Exemptions

A company which is part of a small enterprise (less than 50 employees and either balance sheet total assets of less than €l0 million or turnover less than €l0 million) is exempt from the transfer pricing rules unless it has transactions with a resident of a non-qualifying territory - broadly a tax haven.

Companies which are part of a medium-sized enterprise (less than 250 employees and either balance sheet total assets of less than €43 million or turnover of less than €50 million) are similarly exempt unless HMRC issues a "direction" that the transfer pricing rules should apply in the specified circumstances. The issue of a direction is likely to require HMRC to undertake a transfer pricing audit and establish a prima facie case that transactions are not at arm's length, so partially shifting the initial burden of proof which ordinarily lies with the company.

Related parties

The legislation applies to transactions where one party controls the other, or both parties are under common control.

A person or company controls another company if the first company has the power to ensure that the affairs of the second company are conducted in accordance with its wishes. Control may be exercised either through share ownership, voting rights or power over the companies granted by some other corporate document.

Content of documentation

There are no specific regulations governing the documents that a taxpayer is required to prepare in order to support its transfer pricing. The documentation required falls under the general rule for Corporation Tax Self Assessment that requires taxpayers to “keep and preserve the records needed to make and deliver the correct and complete return”.

HMRC has published general guidance on record keeping and in the absence of other more specific regulations, this guidance is likely to be persuasive.

Penalty regime

There is no separate penalty regime for transfer pricing. Penalties may apply for filing an incorrect tax return (or, if an error or mistake later becomes known, failing to report this in a timely fashion).

Penalties may be up to a maximum of the underpaid tax, although the level of the penalty will depend on whether the error or mistake arose from carelessness, by a deliberate (but not concealed) act, or through deliberate and concealed actions on the part of the taxpayer.

Tax geared penalties are applied where adjustments are made which could give rise to additional tax payable. However, in this context, it is the amount of the adjustment itself which is used as the basis for the calculation of the penalty, and a penalty cannot be avoided solely as a result of, for example, having sufficient losses available to prevent additional tax becoming payable. Penalties can also be applied for a failure to provide information or documents under a formal notice.

To avoid a suggestion of carelessness, taxpayers should have set a reasonable transfer pricing policy and must in practice apply it. The policy must be capable of being documented to show that the taxpayer had grounds for considering its arrangements and prices to be in accordance with the arm’s length principle.

Thin capitalisation

The UK transfer pricing legislation includes provisions that cover loans made to a UK company by a related party or where the UK company has been able to borrow more than an arm’s length amount from a third party on the strength of a related party guarantee.

The measure for determining whether the amount of the loan or the interest rate is excessive is the arm’s length principle (i.e. whether a third party would have loaned the UK company that amount of money or at that interest rate)

There is no formal safe harbour debt to equity ratio or acceptable interest cover (profit before interest and tax to total interest payable). Each case is examined individually and the acceptability of a ratio could well be influenced by the averages for the particular industry sector. Factors that HMRC would consider are those that it believes a third party lender would consider. An acceptable ratio is, therefore, often a matter of negotiation.

Research & development (R&D) tax credits

The UK has an internationally competitive R&D tax credit system. There are different regimes tailored to large companies (i.e. more than 500 employees and either more than €100m turnover or a balance sheet of more than €86m) and small and medium sized enterprises (i.e. not large).

For large companies, a deduction equal to 130% of the qualifying expenditure on R&D can be claimed. This regime was further enhanced by the introduction of the “above the line” (ATL) tax credit for large companies, which allows companies to offset the benefit of the tax credit against the R&D cost in the accounts – creating an immediate cost reduction. This ATL tax credit regime works alongside the existing R&D enhanced deduction system, giving businesses the choice of which regime to claim under. However, if a company makes a claim under the new provisions, it will not be able to claim under the old provisions for future periods. From 1 April 2016 the only form of large company R&D tax relief available will be relief under the ATL regime.

For small and medium sized enterprises, a deduction equal to 225% of the qualifying expenditure on R&D is given in the year in which it is incurred. Loss making companies can exchange tax losses attributable to R&D relief for a payable cash credit.

Patent Box

A new Patent Box regime came into effect on 1 April 2013 which has been introduced with a view to encouraging companies to locate high-value jobs and activity associated with the development, manufacture and exploitation of patents in the UK. It presents companies that are holding patents granted by the UK Intellectual Property Office or the European Patent Office, and using them in their business, the opportunity to apply a reduced 10% corporation tax rate to profits attributable to those patents.

Repatriation of profits and financing

A UK company can repatriate profits to the home territory of its parent company in a number of ways, the most common being via dividend. Other options depending on the intra- group activities may include management charges, interest on loans, etc. The main impact is withholding taxes and transfer pricing. In the case of a dividend, the UK does not impose a withholding tax charge. This is the case whether or not the parent company or individual shareholder is in a treaty country or otherwise. The same is true for management charges and technical fees.

The deductibility of costs for intra-group supplies, services and finance costs may be subject to the UK transfer pricing rules depending on the size of the group, in which case the company or UK establishment needs to be comfortable that an arm's length standard has been applied. A UK company also needs to be able to demonstrate that it is adequately capitalised to support a deduction for intra-group interest payable.

There is a debt cap that limits the tax deduction for financing costs to the extent that the UK company's net finance expense exceeds the worldwide group's gross external finance expense. The legislation is extremely complex and specialist advice should be sought.

Corporation tax administration

Companies have to `self assess' their tax position in a similar way to individuals. The times at which corporation tax is payable depend on the size of the company or group paying the tax.

For companies whose annual profits are less than £1.5m or whose annual tax liability is less than £10,000, tax must be paid within nine months of the end of an accounting period. These thresholds are based on a 12-month accounting period and the limits are pro-rated for accounting periods of less than 12 months. If the final amount due has not been determined, an estimated amount must be paid.

For companies whose taxable profits are estimated to be £1.5m or more in a 12-month period, and whose annual corporation tax liability exceeds £10,000, corporation tax must be paid on account by quarterly instalments, beginning six months and 13 days from the start of the accounting period.

The above thresholds are adjusted for the number of active associated companies within the worldwide group and for accounting periods of less than 12 months. Where deadlines are not met, interest is automatically charged and financial penalties may be imposed.

Value added tax (VAT)

The system of VAT in the UK is essentially the same as that used in the rest of the EU. There remain, however, some significant and confusing differences of detail between different member states of the EU.

VAT is charged on the supply of goods and services in the UK made by a taxable person in the course of furtherance of a business, unless the supplies are an exempt supply. A UK taxable person is anyone registered or liable to be registered for UK VAT.

VAT is effectively a tax on consumer expenditure. So, in theory, the final burden of the tax should not fall on business activity. This objective is achieved by an arrangement known as the input/output system. When a business buys goods or services, it pays VAT to the supplier (input tax). When the business sells goods or services, whether to another business or to a final consumer, it is required to charge VAT (output tax) unless the supplies are specifically relieved from the VAT charge. If the business makes only taxable supplies, it must periodically total the input tax it incurs and deduct this from the output tax charged, paying the balance to HMRC. The result of this is that the final consumers bear the cost of VAT on the final price of the goods or services they purchase.

There are three rates of VAT on taxable supplies in the UK:

- Standard rate 20%;
- Zero rate; and
- A reduced rate that applies to limited goods and services.

Unlike some EU member states, the UK has a fairly high VAT turnover registration limit (currently £81,000). This means that a large number of small turnover businesses are not within the VAT system.

A taxable person is liable to register for VAT if the combined value of their taxable supplies in the UK exceeded the registration limit in the preceding 12 months, or there are reasonable grounds for believing that the value of taxable supplies to be made in the next 30 days alone will exceed the registration limit. A business may also de-register if the anticipated value of the taxable supplies in the next 12 months is less than the de-registration limit (currently £79,000).

The VAT registration threshold of £81,000 does not apply to non-UK established businesses making taxable supplies in the UK.

A UK VAT registration is mandatory regardless of the level of income received and UK VAT will need to be accounted for at the relevant rate.

It is highly likely that a company seeking to set up in the UK will wish to register for VAT or be required to do so. The registration process requires the non-resident company to complete a registration form verifying the basis under which it will become a taxable person, provide statistical information, etc. The registration should be processed in three weeks. However, during busy periods HMRC can take up to 12 weeks.

The standard VAT reporting requirement for a company/ branch after registration is to submit returns to HMRC every three months. If a business wants to recover its input VAT more quickly, it may request permission to submit monthly VAT returns. There are other returns that will need to be rendered if a UK based business trades with customers/suppliers located outside the UK.

Personal taxation

UK residence/domicile position

In the UK, an individual is assessed for income tax and capital gains tax for the financial year starting on 6 April in one year and ending on 5 April in the following year. The UK operates a system of independent taxation. In determining an individual's liability to UK tax, it is necessary to consider their residence and domicile status.

Statutory Residence Test

The Statutory Residence Test (SRT) rules are complex and the detail in this summary has not been tailored to individual circumstances and is intended for general guidance only. Therefore specific advice should be sought for individual cases.

The new SRT rules consist of three parts as set out below:

- Automatic non-residence test;
- Automatic residence test; and
- Sufficient ties test.

If the "automatic non-residence test" is satisfied then the individual will be classified as non-UK resident in a particular tax year.

If the 'automatic residence test' is satisfied then the individual will be classified as UK resident in a particular tax year.

Otherwise if an individual does not satisfy either the 'automatic non-residence test' or the 'automatic residence test' then the 'sufficient ties test' will need to be considered.

Automatic non-residence test

An individual will be treated as non UK tax resident if any of the following tests is met:

- Spends fewer than 16 days in the UK;
- Spends fewer than 46 days in the UK and not resident in the last three years; or
- Works full time abroad for a full tax year with no significant breaks, and spends less than 91 days in the UK in the tax year, and less than 31 days where work in the UK is for more than 3 hours and the person is not an international transportation worker.

Automatic residence test

An individual will be treated as UK tax resident if any of the following tests is met:

- Present for 183 days or more in a tax year in the UK;
- Have a home in the UK available for more than 90 days and visits that home for 30 days in the tax year and either:
- The individual has no home overseas; or
- The individual has an overseas home but does not use it for at least 30days in the tax year.
- Works full time in the UK for 365 days or more without a significant break and in any one tax year more than 75% of these work days are in the UK.

Sufficient ties test

If neither the "automatic non-residence test" nor the "automatic residence test" is met, the "sufficient ties test" must be considered.

The connecting factors (or ties to the UK) are:

- Family.
- Accommodation.
- Work.
- 90 days spent in the UK in either the year preceding the current tax year and/ or the year before that one.
- Whether the individual spends more time in the UK than elsewhere.

Once the number of ties has been established for an individual, then depending on whether the individual is an "Arriver" (i.e. the individual has not been resident in the UK in any of the previous three tax years) or a "Leaver" (i.e. the individual has been resident in the UK for one or more of the previous three tax years), the following table can then be used to work out whether the individual is UK tax resident in a particular year.

The table below shows the maximum number of days an "Arriver" or "Leaver" could spend in the UK without becoming UK resident:

Number of ties to the UK	Arriver	Leaver
Zero	Up to 182 days	Up to 182 days
1	Up to 182 days	Up to 120 days
2	Up to 120 days	Up to 90 days
3	Up to 90 days	Up to 45 days
4 or more	Up to 45 days	Up to 15 days

Domicile

Domicile is a general law concept and is distinct from nationality and residence. In very broad terms, an individual is regarded as domiciled in the country they consider their `home country' (often the country where they have their long-term permanent home).

UK tax position

If an individual is UK resident but non-UK domiciled, they can be taxed in the UK either on the `remittance basis' or on the `arising basis' whilst they are UK residents.

Remittance basis

If an individual is assessed on the remittance basis, they will be subject to UK tax on:

- UK source income and the proceeds from gains on assets situated in the UK; and
- on non-UK source income and proceeds from gains on assets situated outside the UK only to the extent that the income or gains are remitted to the UK.

The remittance rules are fairly complex, but in simple terms income or gains are remitted to the UK when the funds are transferred into the UK.

An election must be made in order for the remittance basis to apply. This election must be made on an annual basis on the individual's UK tax return.

Arising basis

If no election is made for the remittance basis to apply, the individual will be assessed on all worldwide income and gains as they arise.

An individual can decide each year (after the end of the relevant tax year) whether to be assessed on the remittance basis or the arising basis.

Remittance basis charge (RBC)

Non-UK domiciled individuals who are long term residents of the UK have to pay the remittance basis charge (RBC) if they wish to be taxed on the remittance basis. RBC is payable in addition to the individual's tax liability on UK source income as gains, and non-UK income and gains remitted to the UK.

The RBC is £50,000 for individuals who have been resident in the UK for at least 12 years of the last 14 tax years and £30,000 for those resident for at least 7 out of the previous 9 tax years.

The remittance basis only applies automatically to individuals who are not domiciled in the UK in respect of a tax year in which:

- The individual's unremitted foreign income and gains are less than £2,000;
- The individual either has no UK income or gains, or has no UK income and gains other than taxed investment income not exceeding £100 and does not remit any foreign income or gains to the UK, and either has been a UK resident for not more than 6 out of the previous 9 years, or is under the age of 18 throughout the year.

Meaning of remittance

As mentioned previously, if the appropriate election is made, a UK resident but non-domiciled individual is only assessable on non-UK source income and gains on assets situated outside the UK if they are remitted to the UK. Non-UK income and gains can be remitted to the UK if they are brought to or received in or used in the UK by or for `relevant persons'. Broadly, a relevant person is the individual, spouse/civil partner/co-habitee, children/grandchildren (if under 18), a close company in which any of the aforementioned is a participator and a trust which was set up to benefit any of the above persons.

The following gives some examples of instances which may trigger a UK tax charge where overseas income or capital gains are remitted (or treated as being remitted) to the UK

- Transferring cash, bank balances, cheques, promissory notes or any other form of money to the UK.
- Receiving payment in the UK.
- Repaying outside the UK, interest or capital on a UK loan.
- Repaying outside the UK, foreign loans that have been remitted to the UK.
- Using overseas credit cards in the UK, if the settlement is made using foreign income or gains.
- Where assets purchased abroad are brought to the UK.

Remittance for business investment

From April 2012 the tax charge on remittances of foreign income or capital gains to the UK for the purpose of commercial investment in UK business was removed (subject to certain restrictions). Funds can be brought into the UK without triggering the remittance charge if:

- The funds are invested within 45 days of being brought into the UK into shares, securities or loans to either;
  - A private limited trading company that is either trading at the time or intends to start trading within two years; or
  - A stakeholder company, a private limited company which exists wholly to make investments in eligible trading companies, and either does or will hold such investments within two years; or
  - A holding company, a member of an eligible trading group (all private limited companies, and all or substantially all of what the group does is commercial trading or that will become so within two years) which has at least one 51% subsidiary that is an eligible trading company.
- Having made the investment certain events can trigger a charge (though there is a grace period to allow funds either to be reinvested in a qualifying asset or taken out of the UK) including:
  - The company losing qualifying status;
  - Part or all of the interest in the company being disposed of;
  - A relevant person extracting value from the company other than in its course of business;
  - The company failing to commence qualifying activities within two years from the investment being made.

Potentially this can be a very useful relief allowing non UK domiciliaries based in the UK to use their non UK funds to start up or invest in a UK business without triggering a remittance tax charge.

Income tax

If an individual is resident in the UK they will be taxed on their worldwide income and capital gains. If an individual is not UK resident they will usually be taxed on their UK source income, but will not generally be taxed on capital gains, even if the asset is located in the UK. The exception to this is where the asset is used for business purposes in the UK through a UK branch or agency. There are also special rules for income and capital gains tax where a person has become non-UK resident but returns to the UK within broadly five years.

If an individual is resident but not domiciled in the UK then, providing that an election has been made for the remittance basis (explained above) to apply, their non-UK investment income and capital gains are generally only taxed if they are remitted to the UK. This is an area of the UK tax regime that has been considerably modified over the last few years.

For the 2014/15 tax year, the starting rate of income tax is 20% for the first taxable slice of income up to £31,865, 40% between £31,866 and £150,000 and 45% over £150,000.

Capital gains tax

Individuals who are resident and ordinarily resident in the UK are liable to capital gains tax on:

- Worldwide gains - if domiciled in the UK;
- Gains on UK situated assets, and gains on foreign assets only if remitted to the UK - if domiciled outside of the UK and they elect for the remittance basis to apply.

For the 2014/15 tax year, basic rate taxpayers are subject to tax on capital gains at 18% and higher rate taxpayers at a rate of 28%.

Entrepreneurs’ relief

Entrepreneurs’ Relief is available for individuals who make a material disposal of a business asset; namely:

- Shares or securities of an individual’s `personal’ company;
- The whole or part of a business, including partnership interests;
- Assets used for the purpose of the business at the time the business ceased;
- Trust business assets; or
- Assets owned by individuals and used in a business in which they were a partner or by their ‘personal’ company.

There are qualifying conditions attached to each category, for example in the case of a personal company the requirements are that for at least 12 months prior to the disposal:

- The individual must hold at least 5% of the ordinary share capital and 5% of the voting rights exercisable by virtue of that holding;
- The company must be a trading company or holding company of a trading group; and
- The individual must be an officer or employee of the company or a company within the group.

The rate of tax on gains qualifying for Entrepreneurs' Relief is 10%. The maximum amount of gains which qualify for Entrepreneurs' Relief during an individual's lifetime is currently £10m.

UK personal allowance / capital gains tax (CGT) exemption

Generally, individuals who are resident in the UK are entitled to an annual personal allowance (£10,000 for 2014/15) and a capital gains tax (CGT) exemption (£11,000 for 2014/15). This means that an individual can receive £10,000 of income and £11,000 of capital gains tax free.

However, individuals who are resident in the UK but non-UK domiciled, and elect for the remittance basis to apply are not entitled to the personal allowance or the capital gains tax exemption.

Recommendations before arriving in the UK

If an individual wishes to claim the remittance basis of taxation, there are a number of practical steps which should be taken before arrival in the UK. This includes the following, although further specific advice should be taken prior to becoming UK resident.

- Any income and gains which arise before an individual becomes UK resident will be regarded as 'clean' capital, and these funds can be brought to the UK at any time without triggering a UK tax liability. It is therefore important that individuals structure their UK and non-UK bank accounts correctly, prior to becoming UK resident to keep `clean capital' segregated from non-UK income and gains that would be taxed if remitted to the UK, in order to be able to remit funds without triggering a UK tax liability.
- Trust structures are widely used in the UK for wealth management purposes and tax planning. Trusts can be used for a number of reasons including protection of assets, anonymity of ownership of assets, flexibility in passing assets to future generations and efficient tax planning. It may be worth considering whether a trust structure is appropriate before an individual becomes UK resident.

Inheritance tax (IHT)

The UK does not impose wealth tax. However, non-UK domiciled individuals may be subject to inheritance tax (IHT) if they own any assets located in the UK.

A person's IHT liability depends on their domicile position rather than their residence position. A UK domiciled individual is subject to IHT on their worldwide assets, wherever they are situated. A person who is non-UK domiciled (and not deemed domiciled), is only subject to UK IHT in respect of assets situated in the UK; any assets located outside the UK are outside the scope of UK IHT. For IHT purposes, a person is broadly regarded as deemed domiciled if they have been resident in the UK for more than 17 out of the past 20 years. They remain non-UK domiciled for income tax and capital gains tax purposes.

Individuals are generally subject to UK IHT on their worldwide assets if they die whilst domiciled in the UK, or in the case of chargeable lifetime gifts (e.g. on the transfer of assets to a trust) if they are domiciled in the UK at the time of making the gift. No IHT is charged on gifts transferred from one individual to another, provided that the person making the gift outlives the gift by 7 years.

IHT is charged at 40%. Various exemptions are available.

Payroll taxes

All UK employers must operate a 'Pay As You Earn' (PAYE) payroll system. Over each UK tax year, an employer must account to HMRC for the full amount of any tax and National Insurance contributions that it must deduct from payments made to employees. UK employers are required to operate the system without exception and to keep appropriate records and complete the necessary filings. They must also account for Employers' Social Security.

Depending on the nature of their presence in the UK, non-UK employers may not be obliged to operate the UK PAYE system for their UK based employees. In such a case the UK employees remain liable for UK income tax and the employee element of National Insurance contributions, as well as the obligation to account for these liabilities. In such a case the non-UK employer may therefore have lower employment costs than a UK employer as the employer's element of National Insurance contributions is saved (currently employer's National Insurance contributions are calculated as 13.8% of salary).

Countries with double taxation agreements with the UK

The UK has an extensive network of double taxation treaties with other jurisdictions, covering over 100 countries, which seek to prevent a taxpayer from being taxed in more than one jurisdiction upon the same profits or gains, including:

Albania	Fiji	Libya	Serbia
Antigua and Barbuda	Finland	Liechtenstein	Sierra Leone
Argentina	France	Lithuania	Singapore
Armenia	Gambia	Luxembourg	Slovak Republic
Australia	Georgia	Macedonia	Slovenia
Austria	Germany	Malawi	Solomon Islands
Azerbaijan	Ghana	Malaysia	South Africa
Bahrain	Greece	Malta	Spain
Bangladesh	Grenada	Mauritius	Sri Lanka
Barbados	Guernsey	Mexico	Sudan
Belarus	Guyana	Moldova	Swaziland
Belgium	Hong Kong	Mongolia	Sweden
Belize	Hungary	Montenegro	Switzerland
Bolivia	Iceland	Montserrat	Taiwan
Bosnia-Herzegovina	India	Morocco	Tajikistan
Botswana	Indonesia	Namibia	Thailand
Brunei	Ireland	Netherlands	Trinidad & Tobago
Bulgaria	Isle of Man	New Zealand	Tunisia
Burma	Israel	Nigeria	Turkey
Canada	Italy	Norway	Turkmenistan
Cayman	Ivory Coast	Oman	Tuvalu
Chile	Jamaica	Pakistan	Uganda
China	Japan	Panama	Ukraine
Croatia	Jersey	Papua New Guinea	United States
Cyprus	Jordan	Philippines	Uzbekistan
Czech Republic	Kazakhstan	Poland	Venezuela
Denmark	Kenya	Portugal	Vietnam
Egypt	Kiribati	Qatar	Zambia
Estonia	Korea	Romania	Zimbabwe
Ethiopia	Kuwait	Russian Federation	
Falkland Islands	Latvia	St Kitts	
Faroes	Lesotho	Saudi Arabia	

Further information

This guide is intended to give a brief overview of just some of the tax questions that people may have when investing in the UK. It is always advisable to seek professional advice before any action is taken. Haines Watts can provide further advice on any of these matters or areas such as:

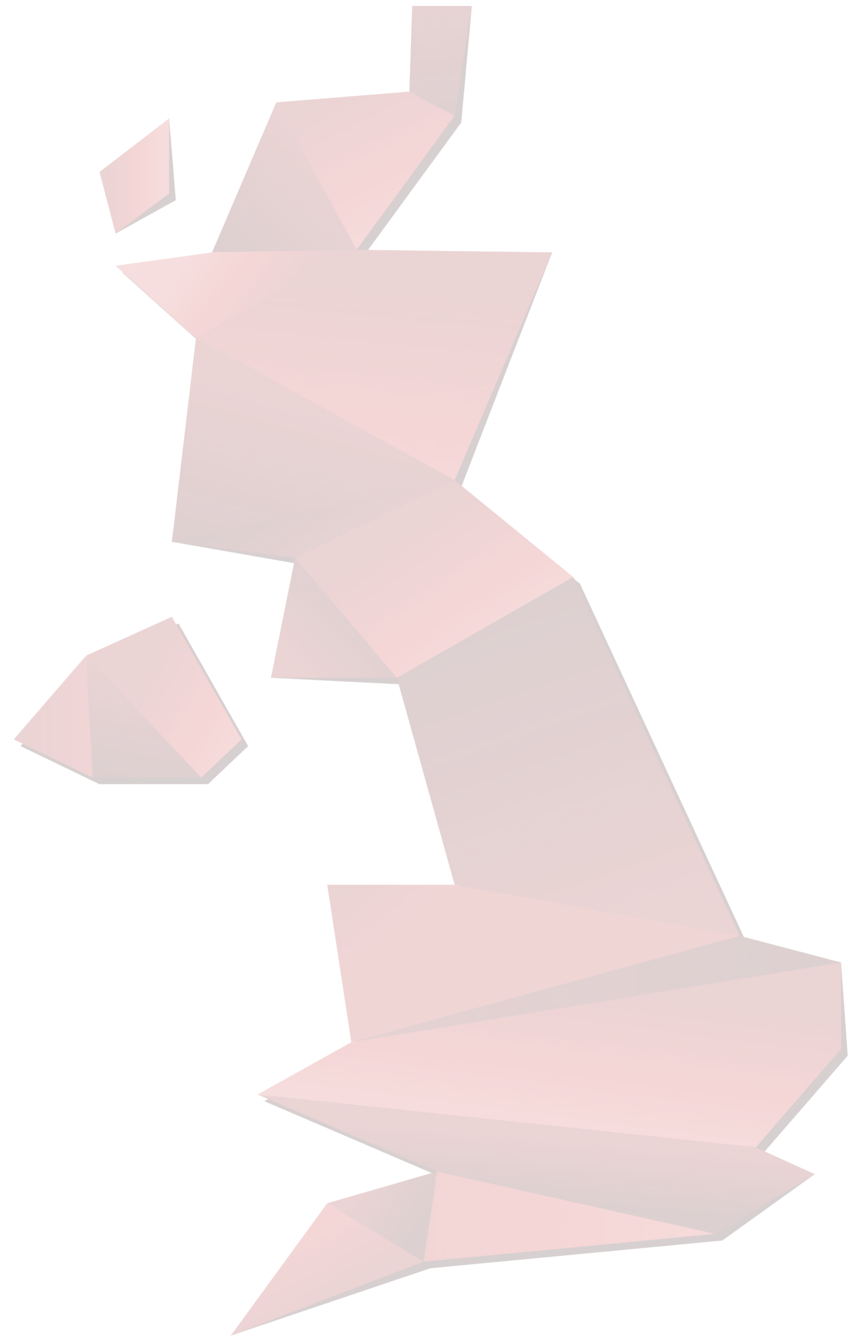
- The UK as a holding company jurisdiction.
- EU Corporation Tax provisions adopted by UK including merger, demerger, migration.
- Foreign currency regulations relevant to foreign parents.
- International entity arbitrage.
- National Insurance Contributions provisions for non UK employers transferring employees to the UK.

The Haines Watts Group consists of all firms in which Haines Watts Limited is a partner, member or shareholder, or with whom they have signed a participation agreement, or firms controlled by such firms. Generally, “HW”, “Haines Watts” and “Haines Watts Group” refer to the network of member organisations, each of which is a separate and independent legal entity. Member organisations are not members of one legal partnership and are only liable for their own acts and omissions, and not those of each other.

The majority of these firms are not authorised under the Financial Services and Markets Act 2000, but because they are licensed by the Institute of Chartered Accountants in England and Wales, are able to offer a limited range of investment services to clients if they are incidental and / or complementary to, or arise out of, the other professional services they have been engaged to provide.

It is Haines Watts Group policy to refer most investment business, excluding corporate finance work, to Financial Advisers, authorised and regulated by the Financial Conduct Authority. The Financial Adviser.

This guide is designed for the general information of readers. The information represents Haines Watts Group’s present understanding of current and proposed legislation and HM Revenue and Customs practice. Whilst every effort has been made to ensure accuracy, information contained in this briefing may not be comprehensive and recipients should not act upon it without seeking professional advice from their usual adviser.



Services

- Audit and accounts
- Tax planning
- VAT
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- Financial services
- General business services
- Asset finance
- Expense control
- Controls and assurance
- Technology
- Recruitment services
- Forensic accounting
- International services
- Not for profit

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