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Contributing Editors:
Oliver Currall & Steve Quinn
Sidley Austin LLP

Global Legal Group

Q&A Chapters

United Kingdom

Oliver Currall

Steve Quinn

Pranith Mehta

Sidley Austin LLP

1 Tax Treaties and Residence

1.1 How many income tax treaties are currently in force in your jurisdiction?

The United Kingdom ("**UK**") has one of the most extensive tax treaty networks in the world, with around 130 comprehensive income tax treaties currently in force.

The UK continues to agree tax treaties with new counterparts (e.g. a new treaty with Brazil was agreed late in 2022 (but has not yet entered into force) and to renegotiate certain existing treaties (e.g. with Turkey, where negotiations are now under way; and with Luxembourg, whose revised tax treaty will come into force during 2024).

The UK has also entered into several tax information exchange agreements with jurisdictions with which it does not currently have a full income tax treaty.

1.2 Do they generally follow the OECD Model Convention or another model?

The tax treaties agreed by the UK generally follow the OECD Model Convention in place at the time of the relevant treaty (with some variation from one treaty to the next). The UK's treaty with the United States is a notable exception.

As part of the OECD's Base Erosion and Profit Shifting ("**BEPS**") project, changes were made to the definition of "permanent establishment" ("**PE**") in Article 5 of the OECD Model Convention. The UK will not, however, apply the changes extending the definition to "commissionaire" (and similar) arrangements to its existing tax treaties through the MLI (see question 1.3).

1.3 Has your jurisdiction signed the tax treaty MLI and deposited its instrument of ratification with the OECD?

The UK has signed the MLI and deposited its instrument of ratification with the OECD on 29 June 2018. It has also notified most of its tax treaties to the OECD so that (subject to the relevant treaty partner's agreement) the relevant modifications to the UK's treaties can be made. A large number of important tax treaties have now been amended by the MLI, and His Majesty's Revenue & Customs ("**HMRC**") has published synthesised versions of several of these on its website (for ease of reference).

1.4 Do they generally incorporate anti-abuse rules?

In general, UK tax treaties do not contain limitation on benefits articles and instead include anti-avoidance provisions in specific treaty articles (where relevant). For example, the dividends, interest or royalties articles may provide that the UK will not give up its taxing rights if the main purpose, or one of the main purposes, of the relevant arrangement is to take advantage of the provisions of the treaty article.

These specific anti-avoidance provisions have been recently supplemented (or replaced) in many of the UK's tax treaties by the inclusion (predominantly through the MLI) of a "principal purpose test" (the "**PPT**"). The PPT will deny a relevant treaty benefit where it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in those circumstances would be in accordance with the object and purpose of the relevant provisions of the treaty.

1.5 Are treaties overridden by any rules of domestic law (whether existing when the treaty takes effect or introduced subsequently)?

The UK's General Anti-Abuse Rule (the "**GAAR**") (see question 9.1 below) can, in principle, apply if there are abusive arrangements seeking to exploit particular provisions in a tax treaty or in how the treaty interacts with UK domestic tax law.

In certain circumstances (e.g. for withholding tax on UK interest payments) the applicable tax treaty will only be given effect if a specific claim for relief is approved by HMRC.

Even where a tax treaty notionally allocates taxing rights to the UK, UK tax will only be charged to the extent the UK domestic tax law provides for this.

1.6 What is the test in domestic law for determining the residence of a company? Has the application of the test been modified in response to COVID-19?

There are two alternative tests for corporate tax residence in the UK.

The first is the incorporation test: a company that is incorporated in the UK will automatically be resident in the UK under domestic rules (unless it is treated as "treaty non-resident" (see below) and subject to provisions that disapply this test for certain companies incorporated before 15 March 1988).

The second test relates to "central management and control" ("**CMC**"): a company incorporated outside the UK will nonetheless be resident under UK rules if its CMC is exercised from the UK. The test of CMC is based on case law and focuses on board-level strategic control rather than day-to-day management, although its application will always be a question of fact determined by reference to the particular circumstances of the company in question.

Both the UK residence tests are subject to the tiebreaker provision of any applicable tax treaty, if the non-UK jurisdiction asserts tax residence under its domestic law. If the tax treaty allocates tax residence of a relevant company to the non-UK country, the company will then be treated as non-UK resident for domestic UK tax purposes ("treaty non-resident").

The treaties that the UK has renegotiated in the past few years generally do not contain the standard OECD Model tiebreaker based on the company's "place of effective management" ("**POEM**"). As a result, the tax treaty status of a company that is managed in the UK but incorporated, for example, in the Netherlands, will be uncertain pending agreement between the two revenue authorities under the "mutual agreement procedure" ("**MAP**"). The UK intends to propose similar provisions in its future bilateral negotiations and has replaced POEM with MAP through the MLI in a number of instances where its treaty counterpart has also agreed to do so.

The disruption to international travel caused by the COVID-19 pandemic did lead to concerns around the UK corporate residence test (in particular that the CMC of a non-UK incorporated company might have been at risk of shifting to the UK if UK-based directors could not travel outside the UK for board meetings or were otherwise required to take key strategic decisions whilst in the UK). HMRC's view has, however, remained that the existing UK law and guidance relating to company tax residence already provide sufficient flexibility to deal with any changes necessitated by the COVID-19 pandemic. The authors are not aware of an increase in HMRC challenges related to corporate tax residence for the periods in question, although the window of enquiry for these periods generally remains open.

1.7 Is your jurisdiction's tax authority expected to revisit the status of dual resident companies in cases where the MLI changes the treaty "tiebreaker"?

HMRC has confirmed that it does not generally intend to revisit any pre-MLI determinations of the treaty residence position for companies resident in both the UK and a contracting state with which the UK has a tax treaty whose residence tiebreaker was amended by the MLI, provided that:

- all the material facts remain the same; and
- the arrangements are not within the PPT incorporated by the MLI.

If either of these two conditions is not satisfied, HMRC will review the prior determination and may seek a new one. This approach to grandfathering residence status cannot, however, be applied unilaterally and is subject to agreement with the competent authority of the other contracting state.

2 Transaction Taxes

2.1 Are there any documentary taxes in your jurisdiction?

The UK levies stamp duty on any instrument that transfers stock or marketable securities (or an interest in a partnership holding stock or securities), generally at a rate of 0.5% of the consideration for the transfer (but some transfers of securities between connected parties may be subject to a market value rule).

The territorial scope of stamp duty is unusually broad and applies to instruments executed in the UK, as well as to those executed outside the UK that relate to UK property or to "*any matter or thing done or to be done*" anywhere in the UK. Stamp duty is technically chargeable on this basis, regardless of whether the relevant securities are issued by a UK company. In practice, stamp duty is not usually collected on transfers of non-UK securities because the tax is not mandatorily assessable (it is sometimes referred to as a "voluntary" tax).

Documents transferring UK shares are required to be stamped because they cannot otherwise legally be used to register the transfer in the UK share register to perfect legal title. By convention, the purchaser typically bears the cost of UK stamp duty, although in transactions involving parties originating in the United States, it is sometimes agreed that the stamp duty cost will be shared.

Documents transferring non-UK shares are typically left unstamped. An unstamped document cannot be adduced in its original form in a UK court, but it is rare that this is a material consideration for documents transferring non-UK shares. The parties to such a transfer may sometimes agree to execute and maintain relevant documents outside the UK.

Transfers of debt securities issued by UK companies are typically exempt from UK stamp taxes pursuant to the "loan capital exemption", although this will not generally apply to convertible or profit-related debt, or to debt that carries an excessive rate of interest or a right to repayment exceeding the original principal.

Prior to the COVID-19 pandemic, stamping required original documents to be sent to HMRC for physical stamping. Since 2020, the process is now administered electronically via email submission and typically takes 15 to 20 working days to complete.

Please see question 2.6 below for details of the closely related stamp duty reserve tax ("**SDRT**"), and also of the stamp duty land tax ("**SDLT**") or the equivalent of each in Scotland and Wales that applies to land transactions in the UK.

In April 2023, HMRC published a consultation on the modernisation of stamp taxes on share transfers, which considered (amongst other matters) whether a single tax on securities should replace the current parallel rules for stamp duty and SDRT, whether the geographical scope of such stamp taxes should be restricted more closely to the UK, and certain potential changes to the current approach to the loan capital exemption and the calculation and treatment of different types of consideration for stamp tax purposes. The consultation closed in June 2023 and HMRC is (at the time of writing, in November 2023) still considering responses received.

2.2 Do you have Value-Added Tax (VAT), or a similar tax? If so, at what rate or rates? Please note any rate reduction in response to COVID-19.

The UK has applied VAT rules since becoming a member of the

European Economic Community in 1973. Since 1 January 2021, UK VAT law has been amended to reflect the fact that the UK is no longer an EU Member State, but otherwise the UK VAT rules have remained largely the same as previously carried into UK domestic law from the EU Directives.

There are three rates of UK VAT:

- the standard rate of VAT is 20% and applies to any supply of goods or services that is not exempt, zero rated or subject to the reduced rate of VAT;
- the reduced rate of VAT is 5% (e.g. for domestic fuel); and
- there is a zero rate of VAT that covers, for example, books (including some electronic publications), children's wear and most foodstuffs.

Whilst the UK VAT rules did not change much upon the UK's exit from the EU, transactions in both goods and services between the UK and EU Member States have been affected significantly: notably, supplies from the UK to EU Member States are generally treated as being made "outside the scope" of UK VAT (without UK VAT being charged); and supplies from EU Member States are generally reverse charged to UK VAT upon receipt.

It is likely that, over the coming years, the UK VAT rules will progressively diverge from EU VAT rules as the UK seeks to tailor its domestic VAT regime to its own economic and fiscal objectives.

2.3 Is VAT (or any similar tax) charged on all transactions or are there any relevant exclusions?

There are a number of transactions that are exempt from VAT, in particular:

- most supplies relating to UK land (unless the land has been "opted to tax");
- insurance services; and
- banking and other financial services, including related intermediary services.

In addition, most cross-border services supplied from the UK to businesses outside the UK will fall outside the scope of UK VAT.

2.4 Is it always fully recoverable by all businesses? If not, what are the relevant restrictions?

The recovery of VAT incurred by a UK business upon supplies received ("**input VAT**") depends on the tax status of the business and the nature of any onward supplies that are to be made to its own customers. Input VAT recovery in the UK (in line with EU VAT) requires there to be a sufficiently direct and immediate link between the supplies in relation to which the input VAT was incurred and any onward taxable supplies to be made by the business in question.

Input VAT is only recoverable by a taxable person, being a person who is, or is required to be, registered for VAT.

Input VAT on supplies wholly used by a taxable person to make their own exempt or non-business supplies is generally not recoverable at all (this can be a particular issue for UK banking businesses, which typically supply a high proportion of financial services that are exempt from UK VAT). Where a taxable person makes both taxable and exempt supplies and incurs expenditure that is not directly attributable to either category of supply (for example, general overheads), the associated input VAT must be apportioned between the supplies.

Supplies made by a UK business person "outside the scope" of UK VAT (for example, supplies made outside the UK) may be treated as taxable supplies for input VAT recovery purposes, depending on the underlying nature of the supply.

2.5 Does your jurisdiction permit VAT grouping? If so, how does this apply where a company in one jurisdiction has an establishment in another?

The UK currently permits VAT grouping on a "whole establishment" basis. Under the UK's VAT grouping rules, where a foreign company is eligible to join a UK VAT group registration and does so, all of that company's activities are then subsumed within the UK VAT group registration, rather than solely the activities of that company's UK branch.

The UK recently consulted on whether to move to "establishment only" grouping in line with much of the EU, but decided in June 2021 not to proceed with any changes at present (also see question 4.4 below).

2.6 Are there any other noteworthy transaction taxes or indirect taxes that are payable by companies?

Stamp Duty Land Tax

SDLT is a tax on transactions involving certain interests in UK real property (including freehold and certain leasehold transactions) and is payable by the purchaser. The top rate of SDLT on commercial property transactions and on mixed residential and commercial transactions is 5% and applies to the extent that the consideration exceeds £250,000. For transactions involving residential property, the rate can in some cases be as much as 17%.

The SDLT charge on the rental element of a new non-residential lease is 1% on the portion of the net present value of the rent over £150,000, determined in accordance with a statutory formula, rising to 2% on the portion of the net present value above £5 million.

SDLT has been replaced in Scotland with the Land and Buildings Transaction Tax and in Wales with the Land Transaction Tax, both of which have a similar scope to SDLT.

Stamp Duty Reserve Tax

SDRT is charged on agreements to transfer "chargeable securities" for money or money's worth (including transfers through non-documentary systems such as CREST). Subject to some exceptions, "chargeable securities" are (principally) stocks or shares issued by a company incorporated in the UK, and units under a UK unit trust scheme. The loan capital exemption for UK debt securities (see question 2.1 above) also applies for SDRT purposes.

SDRT is generally imposed at the rate of 0.5% of the consideration (save for some transfers of securities between connected parties that may be subject to a market value rule). However, the SDRT rate is 1.5% if UK shares or securities are transferred to a depositary receipt issuer or a clearance service and the transfer does not form an integral part of the raising of new capital. This 1.5% charge had historically also applied to issuances and transfers of UK shares or securities to certain depositary receipt systems or clearance services as part of a raising of new capital, but HMRC had not generally sought to impose the charge in these circumstances in recent years after acknowledging case law decisions that the relevant UK legislation was incompatible with an EU Capital Duties Directive (the "**CDD**"). The CDD was retained as part of UK law following Brexit, but there was for some time uncertainty around whether the CDD would be repealed by the Retained EU Law (Revocation and Reform) Act 2023. Legislation has since been published for the Finance Act 2024 to ensure that the 1.5% charge continues not to apply in the context of the raising of new capital (maintaining consistency with the current practical position); the new rules are intended to be effective from 1 January 2024.

SDRT liability is imposed on the purchaser and is directly enforceable. Where UK shares are transferred on a documented basis (for example, pursuant to a UK stock transfer form), the stamp duty charge arising on the relevant document normally "franks" any SDRT charge so that only one 0.5% charge to UK stamp taxes arises.

2.7 Are there any other indirect taxes of which we should be aware?

Customs duties are generally payable on goods imported from outside the EU and since 1 January 2021 apply also to imports from the EU.

Other notable indirect taxes are listed below:

- excise duties are levied on particular classes of goods (e.g. alcohol and tobacco);
- insurance premium tax is charged on the receipt of a premium by an insurer under a taxable insurance contract;
- environmental taxes including landfill tax, an aggregates levy, and a climate change levy; and
- a new tax on plastic packaging, which was introduced from 1 April 2022.

3 Cross-border Payments

3.1 Is any withholding tax imposed on dividends paid by a locally resident company to a non-resident?

In most cases, no withholding tax is imposed on dividends paid by a UK resident company. Dividends deriving from the tax-exempt business of a UK Real Estate Investment Trust ("**REIT**") are, however, subject to withholding tax at the rate of 20% if paid to non-resident shareholders (or to certain categories of UK resident shareholder); this may be reduced to 15%, or in a few cases less, by an applicable tax treaty.

3.2 Would there be any withholding tax on royalties paid by a local company to a non-resident?

In the absence of an applicable tax treaty, the rate of withholding tax on most royalties is 20%. There is no withholding tax on film and video royalties.

The Finance Act 2019 introduced a new income tax charge on offshore receipts in respect of intangible property, including royalty payments, received in low-tax or no-tax jurisdictions in connection with sales to UK customers. It was announced in the Autumn Statement 2023 that these rules will be repealed with effect from 31 December 2024 to reflect the introduction of a new undertaxed profits rule as part of the implementation of the OECD Pillar Two rules (see question 10.1).

3.3 Would there be any withholding tax on interest paid by a local company to a non-resident?

UK withholding tax applies to payments of "yearly" interest by a company where that interest has a "UK source", unless an exemption or relief applies. The default withholding tax rate (including on payments to a non-resident) is 20%.

It is notable that non-UK persons may, in some circumstances, need to operate UK withholding where interest payments they make have a "UK source", for example in the case of debts secured against UK real estate assets or where interest is paid (in practice) largely out of underlying UK revenues.

Where the beneficial owner of an interest payment is tax resident in a state that has a tax treaty with the UK that reduces or eliminates withholding on interest, then an application for relief can be made to HMRC for a refund of any tax withheld and for future payments to be made at the reduced treaty rate or without withholding. There can be significant delays with obtaining a direction from HMRC that such relief is available. Treaty-based claims can be made to HMRC both with respect to individual interest arrangements (under the "certified claim" process) and pursuant to the UK's "treaty passport" scheme (for multiple loans from the same lender). The process and timing to obtain a "treaty passport" is not generally very different to that involved in making a "certified claim".

Treaty relief has been supplemented since 1 January 2016 by rules for "qualifying private placements" (the "**QPP Regime**"). Certain factual conditions need to be satisfied for the QPP Regime to apply – these include a minimum £10 million size for the placement, a lack of connection between debtor and lender and that the debtor is resident in a state with which the UK has a tax treaty containing a non-discrimination article (even if that treaty does not itself provide for full exemption from UK interest withholding). An appropriate certificate must be provided by or on behalf of the lender, and the borrower making the UK interest payment is then entitled to make payment without withholding without any separate application to HMRC. The QPP Regime is particularly useful where the lender is in a jurisdiction whose tax treaty with the UK does not entirely eliminate withholding tax on interest (because the QPP Regime provides full exemption in any event), or where there is only a short period prior to an upcoming interest payment within which to obtain treaty clearance. The QPP Regime can also, in some circumstances, be more flexible than a regular treaty claim in accommodating a mix of lenders or parties lending through a partnership structure, where not all of the ultimate financing parties are in the same treaty jurisdiction.

In addition, there is no UK withholding tax where interest is paid on debt that is listed on a recognised stock exchange (such as the Official List of the London Stock Exchange, or the International Stock Exchange of the Channel Islands) or on debt traded on a multilateral trading facility operated by a recognised stock exchange in the UK, Gibraltar or an European Economic Area ("**EEA**") territory. This "Quoted Eurobond" exemption may be relied upon in circumstances where members of the lender group may not be resident in a treaty jurisdiction for the purposes of either direct tax treaty claims or the QPP Regime.

The UK has implemented a "Qualifying Asset Holding Company" regime (the "**QAHC Regime**"). Detail of the QAHC Regime is outside the scope of this chapter, but it is notable that a company that has elected into the QAHC Regime will be able to make interest payments on most of its debt securities (including profit-participating debt, which will commonly be used to fund such companies) with the benefit of a full domestic exemption from UK interest withholding. The QAHC Regime should enable UK tax resident companies that meet the relevant eligibility criteria to hold a range of underlying assets (including UK and non-UK equity and debt securities) and to realise and return proceeds to their ultimate investors with minimal UK tax drag.

3.4 Would relief for interest so paid be restricted by reference to "thin capitalisation" rules?

The "thin capitalisation" principle forms part of the wider UK transfer pricing regime, which applies to domestic and cross-border transactions (see also question 3.9 below in this regard).

A borrower is considered according to its own financial circumstances when determining the amount that it could have borrowed from an independent lender. The assets and income of the borrower's direct and indirect subsidiaries can be taken into account to the extent that an independent lender would recognise them, but the assets and income of other group companies are to be disregarded.

3.5 If so, is there a "safe harbour" by reference to which tax relief is assured?

There are no statutory "safe harbour" rules in the UK. Historically, HMRC adopted a view that a company would not generally be regarded as thinly capitalised where the level of debt to equity did not exceed a ratio of 1:1 and the ratio of income (EBIT or earnings before interest and tax) to interest was at least 3:1.

HMRC's current guidance moves away from this to apply the arm's length standard on a case-by-case basis and sets out broad principles that should be considered; and the ratio cited most often is debt to earnings before interest, tax, depreciation and amortisation ("**EBITDA**").

3.6 Would any such rules extend to debt advanced by a third party but guaranteed by a parent company?

A company may be thinly capitalised because of a special relationship between the borrower and the lender or because of a guarantee given by a person connected with the borrower. A "guarantee" for this purpose need not be in writing and includes any case in which the lender has a reasonable expectation that it will be paid by, or out of the assets of, another connected company.

3.7 Are there any other restrictions on tax relief for interest payments by a local company to a non-resident?

In addition to the UK's transfer pricing regime, there are a number of additional rules restricting tax relief for interest payments. These include:

- Restrictions on payments that have equity features and therefore constitute a distribution for UK tax purposes (including, for example, certain results-dependent interest and interest that is above a reasonable commercial return on the capital lent) – but this rule is not applicable to companies electing into the QAHC Regime, which will typically issue profit-participating debt and secure accruals basis deductions.
- Restrictions on payments that as a result of a hybrid element of the transaction, are tax deductible in multiple jurisdictions or tax deductible for the paying company but not taxable for the non-resident recipient (the UK also operates some stringent "imported mismatch" rules to counteract hybrid features affecting other jurisdictions).
- Disallowance of deductions for debt entered into where one of the main purposes of that debt is not within the business or commercial purposes of the UK company; this "unallowable purpose" test has been the subject of high-profile litigation in the UK in recent months, and the rationale for any borrowing by UK companies (especially on related party borrowing) should be carefully substantiated at all stages of a transaction.
- Certain restrictions on deductions for "late paid" interest to connected parties, which can be especially restrictive in the context of shareholder funding – companies electing into the QAHC Regime will not be subject to this rule and should benefit from accruals basis deductions.
- Caps on deductibility where the local company's net tax interest expense exceeds either:
  - a fixed ratio of 30% of a group's UK "tax EBITDA" (so excluding, for example, non-taxable dividends); or
  - a group ratio based on the net interest to EBITDA ratio for the worldwide group (subject to making an election).

In addition, as part of these rules, the group's net UK interest deductions cannot exceed the global net third-party interest expense of the group.

3.8 Is there any withholding tax on property rental payments made to non-residents?

In principle, rental payments are subject to withholding tax at the basic rate of income tax in the UK (currently 20%). However, the non-resident recipient can register as an overseas landlord under the Non-resident Landlord Scheme (the "**NRL Scheme**") to receive rental payments gross and then account for UK corporation tax itself (less deductible expenses and taking account of any available reliefs). Most non-resident commercial landlords opt for registration under this scheme.

3.9 Does your jurisdiction have transfer pricing rules?

The UK transfer pricing rules currently apply to both domestic and cross-border transactions between associated companies (although HMRC published a consultation in June 2023 that, amongst other matters, considered whether the domestic transfer pricing rules should be simplified or removed (subject to specific exemptions)). If HMRC does not accept that pricing is at arm's length, they will raise an assessment adjusting the profits or losses of the UK taxpayer accordingly.

In cross-border transactions, the double taxation caused by a transfer pricing adjustment may be mitigated by the provisions of a tax treaty.

It is possible to make an application for an advance transfer pricing agreement ("**APA**"), which has the effect that pricing (or borrowing) in accordance with its terms is accepted as arm's length.

Changes to the OECD Transfer Pricing Guidelines made in response to BEPS are automatically followed in UK domestic law.

Transfer pricing policies and arrangements, including APAs, are underpinned by a set of critical assumptions. These assumptions are likely to have been affected by the COVID-19 pandemic, the Ukraine War and the resulting economic downturn(s), which may mean that changes have to be made to policies and arrangements to reflect changes in functions or risks; and in some circumstances, APAs may need to be renegotiated. Appropriate documentation for any transfer pricing policy adjustments is important to provide evidence in the event of transfer pricing disputes.

3.10 Can companies in your jurisdiction obtain unilateral, bilateral or multilateral advance pricing agreements?

All three are possible in the UK, although strictly speaking there is no discrete mechanism for reaching multilateral agreements and multilateral APAs are in fact a series of multiple and complimentary bilateral APAs. See also question 9.4 below regarding the ICAP.

4 Tax on Business Operations: General

4.1 What is the headline rate of tax on corporate profits?

The current headline rate of corporation tax is 25%.

Since 2016, banks have paid an additional surcharge on top of the headline rate of corporation tax. The rate of the surcharge is currently 3% such that the combined rate payable by banks is 28%.

4.2 Is the tax base accounting profit subject to adjustments, or something else?

Generally, the UK taxable profits of a company follow its commercial accounts subject to adjustments as set out in UK legislation (see question 4.3 below for the principal adjustments).

4.3 If the tax base is accounting profit subject to adjustments, what are the main adjustments?

Expenditure is generally not deductible if it is not incurred wholly and exclusively for the purposes of the company's business, or where it is capital in nature.

Certain items of expenditure that are shown as reducing the profits in the commercial accounts are added back for tax purposes, and tax-specific deductions may then be allowed. For example, for most plant and machinery, capital allowances on a reducing balance basis (at various rates depending on the type of asset and the level of expenditure incurred) are substituted for accounting depreciation. The regular capital allowances rates have historically not been especially generous and typically underperform accounting depreciation. The UK introduced some (initially) temporary incentives with effect from 1 April 2023 to allow full tax expensing of certain qualifying expenditure; this initial measure is scheduled to come to an end on 31 March 2026, but as part of the Autumn Statement 2023, the UK government announced an intention to make this measure permanent. Certain other items of operating expenditure (e.g. for employee benefits such as company cars) are also subject to special deductibility rules for tax purposes, which differ from their accounting treatment.

UK tax legislation has been amended to deal with various issues arising from companies adopting International Accounting Standards for their accounts and, in certain circumstances, related adjustments are required for tax purposes. In particular, changes have been made in order to preserve the current tax treatment of leases following the introduction of International Financial Reporting Standard 16 (leasing).

The two sets of rules governing the tax treatment of corporate debt and derivative contracts each include broad anti-avoidance provisions which, if triggered, will cause the taxation of such financial instruments to deviate from their accounting treatment.

4.4 Are there any tax grouping rules? Do these allow for relief in your jurisdiction for losses of overseas subsidiaries?

The UK does not permit group companies to be generally taxed on the basis of consolidated accounts for corporation tax purposes, but the grouping rules can achieve a degree of effective consolidation. A group consists, in most cases, of a parent company and its direct or indirect subsidiaries, but the exact test for whether a group exists depends on the specific tax regime in question.

Group Relief Group

Losses (other than capital losses) can be surrendered from one UK resident group company to another UK resident group company. Losses can also be surrendered by or to a UK PE of a non-UK group company. A UK PE of an overseas company can only surrender those losses as group relief if they are not relievable (other than against profits within the charge to UK corporation tax) in the overseas country. Similarly, a UK company can surrender the losses of an overseas PE if those losses are not relievable (other than against profits within the charge to UK corporation tax) in the overseas country.

From 1 April 2013, the UK legislation permitted group relief to be given in the UK for otherwise unrelievable losses incurred by group members established in the EEA, even if they were not resident or trading in the UK. However, the applicable conditions were very restrictive, so in practice UK companies could rarely benefit, and cross-border relief has now been repealed with effect from 27 October 2021.

Capital Gains Group

There is no direct consolidation of capital gains and losses, but it is possible to make an election for a capital gain (or loss) realised by one capital gains group member to be treated as a gain (or loss) realised by another group member – this can enable gains or losses arising across the UK capital gains group to be moved around the group to offset gains or losses realised by other members of the group.

Capital assets can be transferred between UK capital gains group members on a no gain/no loss basis. This has the effect of deferring the crystallisation of any chargeable gain or allowable loss until the relevant asset is transferred outside the UK capital gains group or until the company holding the relevant asset leaves the group. When a company leaves a UK capital gains group holding an asset that it acquired intra-group in the previous six years, a de-grouping charge may arise. However, in many cases the de-grouping charge will be added to the consideration received for the sale of the shares in the transferee company and may then be exempt under the substantial shareholding exemption (see question 5.2 below for details of this regime).

Stamp Duty and SDLT Groups

Transfers between group companies are relieved from stamp duty or from SDLT where certain conditions are met. There is technically no group relief from SDRT, but an exempt intra-group transfer for stamp duty purposes can normally "frank" any associated charge to SDRT with the same practical effect.

VAT Group

Transactions between group members are disregarded for VAT purposes (although HMRC has powers to override this in certain circumstances). Broadly, two or more corporate bodies are eligible to be treated as members of a UK VAT group if each is established or has a fixed establishment in the UK and they are under common control. The Finance Act 2019 extended the eligibility criteria, from 1 November 2019, to permit non-corporate entities (such as partnerships and individuals) to join a VAT group if they have a business establishment in the UK and control a UK body corporate, subject to certain conditions.

Unlike other UK tax grouping arrangements, UK VAT groupings do operate more akin to a full tax consolidation, in the sense that the input VAT and taxable supplies incurred and made by all group members are (in effect) aggregated, reported and taxed through a single "representative member" of the VAT group.

4.5 Do tax losses survive a change of ownership?

Tax losses may survive a change of ownership but, like many other jurisdictions, the UK has rules that can deprive a company of carry-forward losses if certain circumstances arise in connection with a relevant change of control.

In particular, restrictions apply where a change of ownership is accompanied (at any point within the same five-year period) by a "major change in the nature or conduct of a trade" carried on by the company, or the change in ownership occurs at any time after the trade carried on by the company has become small or negligible. There are different restrictions for investment companies to prevent management expense buying.

Other rules can apply to restrict losses regardless of a change in ownership, including a limit (currently 50%) on the amount of losses (that arise post 1 April 2017 for income losses, and 1 April 2020 for capital losses) that can be carried forward and set off against relevant profits of the company or its group in a particular period (although this only applies to combined taxable income and capital profits in excess of £5 million (calculated on a group basis)).

4.6 Is tax imposed at a different rate upon distributed, as opposed to retained, profits?

No, it is not.

4.7 Are companies subject to any significant taxes not covered elsewhere in this chapter – e.g. tax on the occupation of property?

Business rates are payable by the occupier of business premises based on the annual rental value. The rate depends on the location of the business premises and the size of the business. Business rates are a deductible expense for corporation tax purposes.

Companies employing UK staff will generally (regardless of their UK tax residence) be subject to payroll withholding on account of their employees and will also be liable to UK employer's National Insurance Contributions on salaries and benefits provided to UK employees (at top rates of 13.8% on salaries and 14.53% on certain benefits). These charges are normally deductible for corporation tax purposes.

An annual tax on enveloped dwellings is payable by companies and certain other "non-natural persons" if they own interests in residential dwellings in the UK with a value of more than £500,000. There are reliefs available, including where the dwelling is being or will be used for genuine commercial activities.

There are special regimes for the taxation of certain types of activity or company, such as oil exploration (profits from which are taxed at 30% and are also subject to a "supplementary charge", the rate of which is currently 10%). However, from 26 May 2022, as a response to the increase in oil and gas prices attributable to the war in Ukraine, an additional temporary surcharge, the Energy Profits Levy, is levied on the "extraordinary profits" made by the oil and gas sector. The current rate of this surcharge is 35% and this will be in effect until 31 March 2028; this is on top of the existing 40% headline rate of tax and takes the combined rate of tax on profits to 75%.

Since 1 January 2023, there has also been a temporary 45% tax on returns from low-carbon UK electricity generation that will apply until 31 March 2028.

A special tax regime applies to UK REITs, which are not generally taxed on income or gains from investment property (see question 8.3 below).

Since 1 April 2022, a 4% surcharge applies to the profits of major housebuilders as a result of the introduction of a new tax, the Residential Property Developer Tax. This is expected to be in place for only 10 years and aims to raise (at least) £2 billion to help fund building safety remediation.

The diverted profits tax ("**DPT**") can also apply at a rate of 31% in circumstances where a company has entered into contrived arrangements that:

- seek to avoid creating a UK PE that would bring a foreign company into the charge to UK corporation tax; or
- use arrangements or entities that lack economic substance to exploit tax mismatches either through expenditure or the diversion of income within the group (see also question 10.1 below in relation to this tax).

5 Capital Gains

5.1 Is there a special set of rules for taxing capital gains and losses?

Corporation tax is chargeable on "profits", which includes both income and capital gains. There is, however, a separate regime for computing capital gains. This contains more exemptions, but also has the effect that capital losses can normally only be used against capital gains (not income).

5.2 Is there a participation exemption for capital gains?

The substantial shareholdings exemption ("**SSE**") allows UK companies to dispose of stakes in trading subsidiaries (or in the holding companies of trading groups) without a UK corporation tax charge, if the appliable conditions are satisfied. Broadly, the SSE requires a 10% stake in the investee company to have been held by the investing company for at least 12 months, and for the investee company to be part of a trading group. The SSE is narrower and more complex than the "simple" participation exemptions found in some other countries (such as Luxembourg or the Netherlands), and requires ongoing monitoring of the trading requirement in particular.

Some helpful simplifications have been made to the SSE in recent years to increase the attractiveness of the UK as a holding company jurisdiction – in particular, both the 10% shareholding requirement and the trading requirement can be substantially relaxed for disposals effected by certain categories of "qualifying institutional investor" (such as sovereign investors and life assurance businesses).

Capital gains realised on the disposal of assets by non-residents are not generally subject to corporation tax unless the assets were used for the purposes of a trade carried on through a UK PE, or the asset is related to UK land (see questions 6.3 and 8.1 below).

A much broader exemption for capital gains applies to UK tax resident companies electing into the QAHC Regime. Gains realised with respect to most classes of equity and debt securities will be exempt from UK corporation tax (irrespective of length of ownership or minimum shareholding, and without trading requirements), and gains realised from other assets including non-UK real estate will similarly be exempt from UK corporation tax.

5.3 Is there any special relief for reinvestment?

There is "rollover relief" for the replacement of certain categories of assets used for the purposes of a trade, where any capital gains tax charge is deferred until the disposal of the replacement asset. Rollover relief is available to the extent that the whole or part of the proceeds of disposal of such assets is, within one year before or three years after the disposal, applied in the acquisition of other such assets. It is a feature of the UK's rules that the replacement assets have to remain within the UK tax net.

5.4 Does your jurisdiction impose withholding tax on the proceeds of selling a direct or indirect interest in local assets/shares?

This occurs only in very specific circumstances; one example is on the sale of UK patent rights by a non-resident individual who is subject to UK income tax on the proceeds of the sale (or by a non-resident company that is subject to UK corporation tax, if the buyer is an individual).

6 Local Branch or Subsidiary?

6.1 What taxes (e.g. capital duty) would be imposed upon the formation of a subsidiary?

There are no taxes imposed on the formation of a subsidiary.

6.2 Is there a difference between the taxation of a local subsidiary and a local branch of a non-resident company (for example, a branch profits tax)?

A UK resident subsidiary will pay corporation tax on its worldwide income and gains, unless it makes an election for foreign branch exemption (see question 7.1 below). By contrast, a UK branch of a non-resident company is liable to corporation tax only on the items listed in question 6.3 below.

Subject to the UK land-related exceptions noted immediately below, the charge to UK corporation tax imposed on a non-resident company currently applies only where the non-resident company is trading in the UK through a PE; this means that a branch set up for investment purposes only, and not carrying on a trade, is not subject to UK corporation tax, although certain types of income arising in the UK – notably rent and interest – may be subject to income tax through withholding (currently at a rate of at 20%).

A non-resident company can also be subject to corporation tax even where it does not have a PE in the UK if it is nonetheless trading in the UK and the trade consists of "dealing in or developing" UK land. Since 6 April 2019, non-UK resident companies have been subject to corporation tax on their gains from direct and indirect disposals of interests in UK land (where certain conditions are met (see question 8.1 below)). In addition, since 6 April 2020, UK property income has come within the charge to corporation tax in the hands of non-UK resident companies.

It is also possible for a non-resident company (especially one located in a jurisdiction that does not have a comprehensive income tax treaty with the UK) to be subject to UK income tax (rather than corporation tax) as a result of trading in the UK even without a PE, although in the case of a UK branch set up for investment purposes only, this again should not be a material concern.

In June 2023, HMRC published a consultation that (along with certain transfer pricing matters, referenced in question 3.9 above) considered certain amendments to how UK domestic legislation should identify a taxable PE of a non-resident, in particular to achieve closer alignment between UK domestic rules and the OECD Model Convention and to revisit the UK approach to the "agent of independent status" exclusion. The changes considered in this consultation could, if taken forward, have a material effect on how the UK seeks to assert taxing rights in relation to PEs of non-residents; at the time of writing in November 2023, HMRC is still considering responses received.

6.3 How would the taxable profits of a local branch be determined in its jurisdiction?

If the local branch of a non-resident company is within the UK statutory definition of a PE (which is currently based on, but not quite the same as, the wording of Article 5 of the OECD Model Convention), it will be treated as though it were a distinct and separate entity dealing wholly independently with the non-resident company. It will also be treated as having the equity and loan capital that it would have if it were a distinct entity, which means that the UK's thin capitalisation rules will apply to it (see question 3.4 above).

Subject to any tax treaty provisions to the contrary, the taxable profits of a PE through which a non-resident company is trading in the UK would comprise:

- trading income arising directly or indirectly through, or from, the PE;
- income from property and rights used by, or held by or for, the PE (but not including exempt distributions); and
- capital gains accruing on the disposal of assets situated in the UK and effectively connected with the operations of the PE.

6.4 Would a branch benefit from double tax relief in its jurisdiction?

The UK domestic legislation does not give tax treaty relief against UK tax unless the person claiming credit is resident in the UK for the accounting period in question. This means that the UK branch of a non-resident company cannot claim treaty relief.

Unilateral tax credit relief may be allowed for tax paid outside the UK in respect of the income or chargeable gains of a UK branch or agency of a non-UK resident person if certain conditions are fulfilled. Tax payable in a country where the overseas company is taxable by reason of its domicile, residence or place of management is excluded from relief.

6.5 Would any withholding tax or other similar tax be imposed as the result of a remittance of profits by the branch?

No, it would not.

7 Overseas Profits

7.1 Does your jurisdiction tax profits earned in overseas branches?

As a general rule, and subject to tax treaty provisions, the UK taxes the profits earned in overseas branches of UK resident companies. A UK company can, however, elect for the profits (including capital gains) of its overseas branches to be exempt from UK taxation. The downside of such an election is that the UK company cannot then utilise the losses of the overseas branch to reduce its taxable profits. A foreign branch election is irrevocable and covers all overseas branches of the company making the election.

7.2 Is tax imposed on the receipt of dividends by a local company from a non-resident company?

The receipt of both foreign dividends and UK dividends (other than "property income distributions" from a UK REIT) is generally exempt in the hands of a UK company. Relevant dividends need to fall within one of the specific exemptions provided in the UK tax legislation, but these are broadly drafted, and most "normal" dividends should be received tax free by a UK corporate taxpayer.

7.3 Does your jurisdiction have "controlled foreign company" rules and, if so, when do these apply?

The UK's current controlled foreign company ("**CFC**") regime applies where a non-UK resident company is controlled by a UK resident person (or persons), none of the entity-level CFC exemptions apply, at least one UK "interest holder" holds an interest of at least 25% in the CFC, and relevant profits of the CFC pass through one or more of the specific "gateways" to become chargeable under the CFC regime. For the purposes of the CFC regime, an exempt foreign branch of a UK company will be treated as a "deemed" separate company and be subject to the same rules.

Control for these purposes includes legal and economic control as well as control for accounting purposes.

The entity-level exemptions include an exclusion for entities in certain whitelisted territories, as well as for entities making low levels of profits in a relevant accounting period or realising a low profit margin. There is also a specific exclusion for certain finance companies (although this is subject to an ongoing EU Commission challenge).

If none of the entity-level exemptions apply, the chargeable profits gateways seek to narrow the CFC rules to focus on the types of profits that are most easily diverted from the UK, and include captive insurance profits, trading and non-trading finance profits and profits of a CFC that is the subject of a solo consolidation waiver.

Profits that arise naturally outside the UK are not intended to be caught (but where there is a charge, UK losses cannot be used to reduce it).

A couple of aspects of the UK's CFC rules were revised to ensure that the rules were fully compliant with the EU Anti-Tax Avoidance Directive ("**ATAD**"), and those minor revisions remain in place despite the UK leaving the EU at the start of 2021.

8 Taxation of Commercial Real Estate

8.1 Are non-residents taxed on the disposal of commercial real estate in your jurisdiction?

Non-UK resident companies are subject to corporation tax on their gains from direct and indirect disposals of interests in UK land (whether commercial or residential) where certain conditions are met and subject to any applicable reliefs and exemptions.

8.2 Does your jurisdiction impose tax on the transfer of an indirect interest in commercial real estate in your jurisdiction?

Since 6 April 2019, non-resident companies are in specified circumstances subject to a charge to corporation tax on the disposal of assets (including shares) that derive at least 75% of their value from UK land where the person has a substantial indirect interest in that land.

The provisions of the SSE may assist certain categories of non-resident investor in mitigating their exposure to non-resident taxation on real estate in some structures.

8.3 Does your jurisdiction have a special tax regime for Real Estate Investment Trusts (REITs) or their equivalent?

Since 2007, the UK's REIT regime has enabled qualifying companies to elect to be treated as REITs. The current conditions for qualification include UK residence, listing (on a main or secondary stock market), diversity of ownership and a requirement that 75% of the assets and profits of the company (or group) are attributable to its property rental business.

Since 1 April 2022, it has been made slightly easier for an entity to qualify as a UK REIT. For example, the listing requirement has been removed for REITs where institutional investors hold at least 70% of the ordinary share capital of the REIT, or where the REIT is owned by a collective investment scheme and the diversity of ownership condition is satisfied.

The aim of the REIT regime is that there should be no difference from a tax perspective between a direct investment in real estate and an investment through a REIT. Accordingly, a REIT is exempt from tax on income and gains from its property rental business, but distributions of such income/gains are treated as UK property income in the hands of shareholders and are liable to 20% withholding tax (see question 3.1 above), subject to exceptions.

On 18 July 2023, the Government released a series of draft amendments to the REIT rules to modernise the regime and increase the attractiveness of this structure for real estate investment. These changes include clarifying that it is possible to trace through intermediate holding companies where an institutional investor is the ultimate beneficial owner of the shares in the REIT, and will also allow insurance businesses to have an interest of 75% or more in a group REIT. In the Autumn Statement 2023, it was confirmed that these revisions will be legislated through the Finance Act 2024.

9 Anti-avoidance and Compliance

9.1 Does your jurisdiction have a general anti-avoidance or anti-abuse rule?

The GAAR was enacted in the UK in 2013. The UK courts have not, however, yet been asked to make a determination on its application to a transaction. One reason for this is that, before invoking the GAAR, HMRC must ask an independent advisory panel (the "**GAAR Panel**") for its opinion as to whether the GAAR should apply (though it can use the GAAR Panel opinion provided in one case to counteract "equivalent arrangements" used by other taxpayers). The majority of GAAR Panel opinions to date have been in HMRC's favour.

If the GAAR applies, HMRC can counteract the relevant tax advantage by the making of "just and reasonable" adjustments. Taxpayers who enter into arrangements on or after 15 September

2016 that are counteracted by the GAAR are liable to a penalty of 60% of the counteracted tax unless they "correct" their tax position before the arrangements are referred to the GAAR Panel.

The GAAR contains two tests:

- are there arrangements that have as their main purpose (or one of the main purposes) the securing of a tax advantage?; and
- if so, are they arrangements the entering into or carrying out of which cannot reasonably be regarded as a reasonable course of action (known as the "double reasonableness" test)?

This is to be assessed "having regard to all the circumstances", including consistency with policy objectives, whether there are any contrived or abnormal steps and whether the arrangements exploit any shortcomings in the relevant provisions.

9.2 Is there a requirement to make special disclosure of avoidance schemes or transactions that meet hallmarks associated with cross-border tax planning?

The UK has mandatory disclosure rules that are designed to provide HMRC with information about potential tax avoidance schemes at an earlier stage than would otherwise have been the case. This enables HMRC to investigate the schemes and introduce legislation (often a new "targeted anti-avoidance rule") to counteract the avoidance where appropriate.

The UK views these mandatory disclosure rules as the answer to Action 12 of the BEPS project (that taxpayers be required to disclose their aggressive tax planning arrangements).

The UK initially planned to implement, in full, the EU intermediaries disclosure rules (known as "**DAC 6**"), which provide for the mandatory disclosure by intermediaries of cross-border "potentially aggressive tax planning arrangements" (Directive 2018/882/EU). The UK exited the EU before that Directive required implementation and the UK chose only to implement the DAC 6 Rules with respect to Hallmark "D". The UK's regulations implementing this aspect of DAC 6 were repealed in March 2023 and replaced with new rules implementing the OECD's mandatory disclosure rules ("**MDR**"). Broadly, the reportable transactions under the MDR are similar to those in Hallmark "D" of the DAC 6 Rules, namely arrangements that attempt to undermine or circumvent reporting obligations or that obscure the identification of beneficial owners. Such arrangements will need to be reported to HMRC.

9.3 Does your jurisdiction have rules that target not only taxpayers engaging in tax avoidance but also anyone who promotes, enables or facilitates the tax avoidance?

The Finance Act 2017 brought in new rules under which advisers and others who "enable" the implementation of "abusive tax arrangements" can be penalised if those arrangements are "defeated".

HMRC is committed to tackling what it regards as poor tax agent behaviour. HMRC has recently prepared a policy paper proposing:

- a new criminal offence that would apply to promoters of tax avoidance schemes who fail to comply with a notice requiring them to stop promoting schemes described in the notice; and
- a new power that would enable HMRC to apply to the court to disqualify directors of companies involved in promoting tax avoidance and operating against the public interest.

These measures are expected to take effect once the next Finance Bill receives Royal Assent (expected to be during the course of 2024).

The UK has also co-opted third parties in the fight against tax evasion. The Criminal Finances Act 2017 introduced two new strict liability corporate offences of failure to prevent the facilitation of UK or foreign tax evasion, both with effect from 30 September 2017. These can make an organisation liable for the actions of its employees and other persons performing services for or on behalf of the organisation (including any contractor or sub-contractor, or service provider), unless the organisation can show that it has reasonable policies and procedures in place to prevent these offences being committed.

9.4 Does your jurisdiction encourage "co-operative compliance" and, if so, does this provide procedural benefits only or result in a reduction of tax?

HMRC has encouraged co-operative compliance for a number of years; it is meant to go hand-in-hand with HMRC's risk assessment strategy and enable HMRC to concentrate resources on higher risk, less co-operative taxpayers. More recently, though, there has been a perception that HMRC has become more likely to litigate even where the taxpayer is co-operative.

HMRC has embraced the OECD International Compliance Assurance Programme ("**ICAP**"), which facilitates multilateral co-operative risk assessment for transfer pricing and PE risk. HMRC sees this as fitting well with its co-operative compliance approach.

9.5 Are there rules requiring special disclosure where a company is taking a position on a tax issue that is uncertain (open to dispute from a technical perspective)?

Since 1 April 2022, large businesses (those with a UK turnover above £200 million *per annum* and/or a UK balance sheet total over £2 billion) have been required to notify HMRC if the tax treatment of any amounts in corporation tax, VAT, PAYE and income tax returns that have filing dates on or after 1 April 2022 is "uncertain". For a company that is a member of the group, the UK turnover and UK balance sheet of all the companies in the group are aggregated for the thresholds.

Businesses only have to notify HMRC of uncertainties where there is a "tax advantage" that exceeds a £5 million threshold, applied separately to each relevant tax in each 12-month relevant period.

One of the following triggers must apply for a tax position to be regarded as uncertain:

- a provision has been recognised in the accounts in accordance with the generally accepted accounting principles ("**GAAP**") to reflect the probability that a different tax treatment will be applied; or
- the tax treatment relies on an interpretation or application of the law not in accordance with HMRC's "known" position.

10 BEPS, Tax Competition and the Digital Economy

10.1 Has your jurisdiction implemented the OECD's recommendations that came out of the BEPS project?

The UK was one of the first countries to commit formally to implementing the country-by-country template, and regulations have been in effect since March 2016. In fact, the UK pre-empted the BEPS project and introduced the DPT as an entirely new tax, with effect from 1 April 2015 (see question 4.7 above). The DPT is intended to protect the UK tax base by targeting large groups that either seek to avoid creating a UK PE that would bring a foreign company into the charge to UK corporation tax, or use arrangements or entities that lack economic substance to exploit tax mismatches either through expenditure or the diversion of income within the group. As a deterrent, the rate applicable to the "diverted" profits is 31%, which is therefore materially higher than the rate at which tax would otherwise have been payable. As a result, the DPT has led to HMRC being more aggressive with transfer pricing enquiries (knowing that companies would prefer to pay corporation tax than the DPT). In June 2023, HMRC launched a consultation on proposed amendments to the DPT, including the incorporation of the DPT within the corporation tax regime (by way of a new assessing power). The consultation closed in August 2023 and HMRC is (at the time of writing, in November 2023) considering responses received.

The UK has modified its patent box regime in response to Action 5 (Countering Harmful Tax Practices) (see question 10.4 below).

"Anti-hybrids" legislation has been in effect since 1 January 2017 (see question 10.2 below). These rules have been revised to comply fully with the ATAD. Legislation to implement Action 4 (Deductibility of Interest) (see question 3.7) was included in the Finance (No.2) Act 2017, with retroactive effect from 1 April 2017.

The UK is also a strong supporter of the second phase of the BEPS project (often referred to as "BEPS 2.0"). The UK has already adopted a digital services tax ("**DST**") but has agreed to repeal this tax in the event that Pillar One (focusing on addressing tax challenges in the digital economy) is implemented (see question 10.5 below for further details). In July 2023, the UK passed legislation implementing the income inclusion rule ("**IIR**") that forms part of the OECD Pillar Two approach. The IIR will apply in accounting periods beginning on or after 31 December 2023 and impose a top-up tax on UK parent companies within a multinational enterprise group that has a non-UK subsidiary, if the group's profits in the relevant jurisdiction are subject to tax at an effective rate of less than 15%. In line with the OECD rules on Pillar Two, exclusions exist for entities that are usually exempt from corporation tax (such as governmental entities, international organisations, non-profit organisations and pension funds). The same legislation has also implemented a qualifying domestic minimum top-up tax with effect from 31 December 2023. As part of the Autumn Statement 2023, the UK government confirmed its intention to legislate an undertaxed payments rule (the final element of the OECD Pillar Two approach, which serves as a backstop to the IIR) with such rule to come into effect for accounting periods beginning on or after 31 December 2024.

10.2 Has your jurisdiction adopted any legislation to tackle BEPS that goes beyond the OECD's recommendations?

The DPT legislation is an example of a measure not required by the OECD BEPS reports but enacted by the UK nevertheless (see question 10.1 above).

Another example is the very broad "anti-hybrids" rules implemented in the UK. Due to the absence of a motive test or a UK tax benefit test, third-party and commercially motivated transactions are potentially within scope. There have, however, been frequent amendments to the legislation so as to reduce unintended consequences of this overly broad legislation.

A third example is the UK's extension of royalty withholding tax. This effectively has extra-territorial scope in some circumstances. This was further augmented by the new income tax charge on offshore receipts in respect of intangibles (including royalties) that relate to sales to UK customers (although, as noted in question 3.2 above, this is expected to be repealed as part of the implementation of the undertaxed payments rule discussed in question 10.1 above).

There has also been a tendency for the UK to accelerate the introduction of measures. Besides its pre-emptive strike with DPT, the corporate interest restriction legislation was promptly enacted, whereas the report on BEPS Action 4 recommended that reasonable time be given to entities to restructure existing financing arrangements before interest restriction rules came into effect.

10.3 Does your jurisdiction support information obtained under Country-by-Country Reporting (CBCR) being made available to the public?

The UK has spoken out in favour of public CBCR, though the OECD has subsequently expressed concern that it would do more harm than good if only some jurisdictions require public reporting and if there is a lack of consistency in what has to be reported. The UK legislation contains a power to switch on public reporting, but this is unlikely to be used before a multilateral agreement is in place.

The EU has formally adopted a directive requiring Member States to pass legislation providing for public CBCR from 22 June 2023 (coming into effect from 22 June 2024), but it is unclear whether the UK will follow its lead or wait until this becomes more widespread.

10.4 Does your jurisdiction maintain any preferential tax regimes such as a patent box?

For a few years, the UK had a patent box regime that allowed an arm's length return on IP held in the UK to qualify for a reduced tax rate of 10% even if all the associated research and development ("**R&D**") activity was done outside the UK. In 2016, restrictions on this regime were introduced in light of BEPS Action 5. IP that was already in the patent box on 30 June 2016 continued to benefit from the old rules until 30 June 2021, while IP not already in the patent box on 30 June 2016 only qualifies to the extent it is generated by R&D activities of the UK company itself (or by R&D outsourced to third parties). IP that was acquired and IP generated by R&D outsourced to associates are no longer eligible for the patent box. Where IP has been generated from a combination of "good" and "bad" expenditure, a fraction of the patent income qualifies for the patent box and, in calculating this, there is a 30% uplift for "good" expenditure, to soften the impact of these rule changes. The UK also has R&D regimes that are in the process of being reformed to simplify and enhance the attractiveness of such reliefs (simultaneously, HMRC is seeking to crack down on R&D non-compliance).

10.5 Has your jurisdiction taken any unilateral action to tax digital activities or to expand the tax base to capture digital presence?

The UK enacted a revenue-based DST with effect from 1 April 2020 (as an interim measure until the international tax rules on a multilateral basis is in force).

The DST is imposed on the revenues of search engines, social media platforms and online marketplaces that derive value from UK users. Associated online advertising business is also in scope if operated on an online platform that facilitates the placing of online advertising and derives significant benefit from its connection with the social media platform, search engine or online marketplace.

Where a group's digital services revenues exceed the £500 million threshold for an accounting period, DST will be charged at a rate of 2% on the amount of those revenues that are attributable to UK users, known as "UK digital services revenues", in excess of the £25 million threshold. The UK is committed to disapplying the DST once an appropriate international solution is in place. From the 8 October 2021 Statement of the OECD/G20, it appears to have been agreed that unilateral measures enacted prior to 8 October 2021, such as the UK's DST, can remain in place until the multilateral convention to implement reform of the international tax rules is in force. This is expected to be from 31 December 2024 once a critical mass of jurisdictions have ratified it. Until then, the UK has struck a deal with Austria, France, Italy, Spain and the United States to transition away from the UK DST to the new global tax system, with a new DST-credit system being used for the transition.

Oliver Currall co-heads Sidley's Tax group in Europe. Oliver advises on UK and international tax planning, with a particular focus on UK and cross-border private equity and M&A transactions, fund formation work and restructuring mandates. Oliver has advised a number of major private equity sponsors on the tax aspects of their deals, as well as on the structuring of their fund, management company and executive carry and co-invest arrangements.

Oliver is a UK Chartered Tax Adviser, as well as a lawyer, and regularly works with local experts to deliver cross-border transaction and structuring tax advice.

Sidley Austin LLP
70 St Mary Axe
London EC3A 8BE
United Kingdom

Tel: +44 20 7360 3735
Email: ocurrall@sidley.com
URL: www.sidley.com

Steve Quinn has a broad range of experience in UK and international tax planning, with a particular focus on debt finance.

Steve has considerable experience in structured finance transactions (including RMBS, CMBS, ABCP conduits, covered bonds, whole-business securitisations, and CLOs), capital markets (including high-yield bonds, EMTNs and GMTNs, regulatory capital, and standalone corporate issuances), real estate, and leveraged finance. Steve advises fund sponsors, arrangers, originators, investment managers, lenders, and investors on all tax aspects of financings. He also works as creditor and debtor counsel on restructuring mandates.

Sidley Austin LLP
70 St Mary Axe
London EC3A 8BE
United Kingdom

Tel: +44 20 7360 3755
Email: steve.quinn@sidley.com
URL: www.sidley.com

Pranith Mehta advises on a broad range of advisory and transactional UK and international tax matters, with a focus on cross-border restructurings, investment fund structuring, and private equity and M&A transactions. Pranith is a South African qualified solicitor and registered tax practitioner, and also holds a UK tax qualification (ATT). Pranith has a background in banking and tax advisory, which saw him work regularly with tax experts in European and worldwide jurisdictions to deliver cross-border transaction and structuring tax advice.

Pranith is qualified in South Africa.

Sidley Austin LLP
70 St Mary Axe
London EC3A 8BE
United Kingdom

Tel: +44 20 7360 3622
Email: pkmehta@sidley.com
URL: www.sidley.com

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