

Exploring New Markets: the United Kingdom – Know How!

UK MAIN TAX ISSUES*

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Agenda

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UK tax system at a glance

- Corporation tax:
 - full rate - 28%;
 - small companies' rate - 21%.
- Withholding tax: for dividends – 0%, interest – 10%, royalties – 5%/10%.
- VAT – standard rate – 17,5%, reduced rate – 5%.
- Personal income tax – 20% (for the first taxable slice of income up to £36,000), 40% (charged on taxable income over £36,000), 42,5%(for dividends)/50%(other income) (rate will be introduced as from April 2010 and applied for individuals earning over £150,000).
- National insurance contributions – 12,8% (employer), 11% (employee).
- Local municipal taxes, excise duties, landfill tax, climate change levy aggregates levy, etc.

Corporation Tax

- Corporation tax rates:
 - Full rate of 28% is applied to all profits once they exceed £1,500,000.
 - The 21% small companies' rate is applied where profits do not exceed £300,000 (22% from 1 April 2011).
 - Profits between these thresholds are taxed at a sliding scale of tax rates.
- Companies with profits from oil extraction and oil rights in the UK and the UK Continental Shelf, are subject to higher tax rates (19%/32.75%/30%).
- Where there are associated companies (including those overseas) the limits are divided by the number of active companies worldwide.
- From 1 January 2010 a 'debt cap' was introduced. It restricted UK tax deductions for finance costs to the level of a group's external finance expense and will be applied to amounts payable in accounting periods beginning on or after January 2010.

Withholding tax (WHT) and 'debt cap'

- WHT rates:
 - 0% on dividends paid by UK companies;
 - 10% on interest paid to Lithuanian companies;
 - 10% on royalties paid to Lithuanian companies. 5% WHT rate is applied on royalties for use of industrial, commercial, or scientific equipment.
- Almost all foreign source as well as UK source dividends are exempt from taxation in UK as from 1 July 2009.

Capital gains and tax losses

Capital gains

- Gains on capital assets are taxed at the general corporation tax rates.
- Capital gains and losses arising on disposals by trading groups or stand-alone trading companies from substantial (10% ordinary share capital minimum) shareholdings and related holdings in (broadly) trading companies are exempt in most cases.
- Capital gains from sale of not less than 10% of shares held for more than 1 year are exempt from tax.

Tax losses

- Tax losses may be carried forward indefinitely, and, in general, set against any type of non-trading profits, but in contrast losses of a particular trade can be carried forward only against profits of the same trade.
- Losses can also generally be surrendered to other group companies to set against their taxable profits for the same period.

Permanent establishment (PE)

- The term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.
- Tax rates on the profits of PEs are the same as for domestic corporations, except that the small profits rate is not available to non-UK resident corporations unless under the terms of a double taxation treaty.
- No tax is withheld on transfers of profits to the head office.
- There are specific rules which broadly measure such profits as if the PE business were a stand alone company.
- Salary to employees paid through a PE is subject to UK personal income tax.
- Registration of a PE may attract VAT registration in UK.

Transfer-pricing and thin capitalisation

- Rules which adjust cross-border non-arm's length pricing between related parties apply both to UK/non-UK and to UK/UK transactions. As well as monitoring transfer pricing of goods, the rules also apply to financing ('thin capitalisation').
- A compensating adjustment is available in the other UK business, to ensure in general that the UK-to-UK rules will not cause double taxation.
- Small and medium-sized enterprises are exempt in many cases.



Value Added Tax (VAT)

- VAT rates: standard rate – 17.5%; reduced rate – 5%.
- The VAT system in the UK is essentially the same as in the rest of the EU.
- Taxable persons who are not normally resident in the UK, and do not have a business establishment in the UK and, in the case of companies, are not incorporated in the UK, but who make taxable supplies, sales to unregistered persons in the UK, or acquisitions of goods in the UK above the relevant limits, may be required to register and account for VAT here.
- A non-resident can register in its own name and does not need a fiscal representative.
- From 1 January 2010, for services the basic rule is that services are treated as made where the customer ‘belongs’ or is established for VAT purposes, and the customer is responsible for accounting for the VAT due via the reverse charge procedure.
- From 1 January 2010, a new simplified, electronic procedure for the submission and processing of refund applications is in place. From then claims are submitted electronically via a portal in the applicant's Member State.

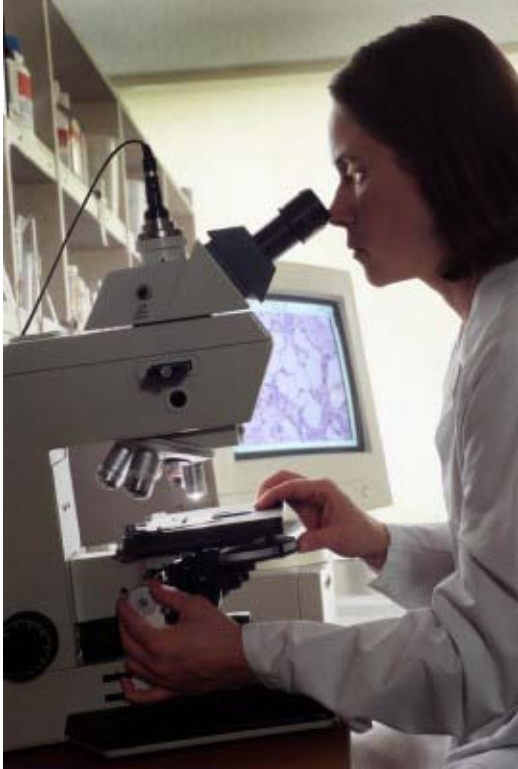
Stamp duty

- Stamp duty is charged at 0.5%/1.5% on instruments effecting sales/issuance of shares (e.g. agreements to sell shares, a stock transfer form (or other transfer instrument) executed in pursuance of the agreement, etc.).
- However, following a recent European Court of Justice ruling, the 1.5% SDRT charge is no longer collected where the clearance service or depositary receipt system is based within the EU.
- Transfers of land and buildings are charged to stamp duty land tax (at graduated rates up to 4%).
- Grants of new leases are charged to stamp duty land tax at 1% of the net present value of the rents payable in excess of £150,000 plus up to 4% on any premium paid.

Personal Taxes

- In the UK, an individual is assessed for income tax for the financial year starting on 6 April in one year and ending on 5 April in the following year.
- Tax rates:
 - The starting rate of 20% is applied for the first taxable slice of income up to £36,000.
 - The higher rate of tax is 40%, which is charged on taxable income over £36,000.
 - In April 2010 a new higher tax rate of 50% (42,5% on dividends) will be applied for individuals earning over £150,000.
- Capital gain tax (CGT) rate for individuals is 18%.
- The annual exemption for UK domiciled individuals is £10,100. A husband and wife each have a separate exemption.
- In general, gains by individuals on the disposal of a main private residence, cars, gilts and qualifying corporate bonds are exempt from CGT.

National insurance contributions (NIC)



- NIC are paid by employers and employees.
- Employers pay NIC at a rate of 12.8%, applied on all earnings above £105. The rate will increase to 13.3% from 6 April 2011.
- The NIC rate for employees is 11%. This rate will rise to 12% from 6 April 2011.
- There is some reduction for employees 'contracted out' of the state pension scheme into a private scheme.
- Lithuanian residents going on secondment to UK may remain in the Lithuanian social security system. E101 certificate is required for such case.

THANK YOU FOR YOUR ATTENTION!

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