INTRODUCTION
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GUIDE TO GOING GLOBAL SERIES

Many companies today aim to scale their businesses globally and into multiple countries simultaneously. In order to help clients meet this challenge, we have created a handy set of global guides that cover the basics companies need to know.

The Guide to Going Global series reviews business-relevant corporate, employment, intellectual property and technology, global equity and tax laws in key jurisdictions around the world.

TAX

Multinational companies continue to expand globally at an ever faster pace. Successful expansion depends, in part, on strategic and effective tax planning and compliance. This guide, brought to you by DLA Piper’s Tax group summarizes the key features of tax laws in 41 popular jurisdictions.

This guide addresses common tax questions, by jurisdiction, including:

- Taxation of resident companies and non-resident companies
- Availability of tax holidays, rulings, and favorable tax regimes
- Ability to use losses to offset income
- Anti-deferral (ie CFC) rules
- Withholding taxes
- Employment tax issues

With more than 300 tax lawyers and economists in offices throughout the Americas, Europe and Asia Pacific, DLA Piper’s global tax advisory services help multinational companies address the complex challenges of international commerce and business operations as well as manage and resolve tax audits. Our global tax group also assists clients in structuring a wide range of transactions, from private equity deals to corporate acquisitions and disposals. We provide these tax services across our global platform, while at the same time offering clients the benefits of the attorney-client and work-product privileges.

The information in this guide is an accessible, high-level summary of the tax laws in each jurisdiction. This is not a substitute for legal or tax advice. If you have specific questions or require detailed advice, we encourage you to contact one of the attorneys listed in the contributors section of this guide.

We hope that you find this guide valuable and we welcome your feedback.
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This is a general reference document and should not be relied upon as legal advice. The application and effect of any law or regulation upon a particular situation can vary depending upon the specific facts and circumstances, and so you should consult with a lawyer regarding the impact of any of these regimes in any particular instance.

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RESIDENCE AND BASIS FOR TAXATION

A company will be treated as a UK resident if it is incorporated in the UK or centrally managed and controlled (generally at the board level) in the UK.

Domestic

A UK resident company is subject to UK corporation tax on its worldwide income and gains (subject to relief for any tax paid on the same income or gains in other jurisdictions). The company may elect to leave out of account all trading profits and losses arising from branches outside the UK.

A UK resident company may be subject to the UK’s diverted profits tax where it has entered into arrangements with a related person and that person or the transactions lack economic substance, and the arrangements result in a reduction in the UK resident company’s taxable profits.

Foreign

A non-UK-resident company is not subject to UK tax except on:

- Income from a business carried on through a UK permanent establishment or from a trade of dealing in or developing UK land (irrespective of whether there is a UK permanent establishment)
- Income from intangible property that is referable to sales of goods, services or other property in the UK, where the income is receivable in a low or no tax jurisdiction (under the offshore receipts in respect of intangible property ("ORIP") rules)
- Other UK source income, but only to the extent of any withholding tax borne by that income, and
- Capital gains arising on disposals of interests in UK land and certain disposals of assets (wherever situated) that derive at least 75 percent of their value from UK land (see Capital gain)

A non-UK resident company may be subject to the UK’s diverted profits tax where either:

- It has a UK permanent establishment that has entered into arrangements with a related person and that
person or the transactions lack economic substance, and the arrangements result in a reduction in the taxable profits of the permanent establishment, or

- The company has entered into arrangements with a person who is carrying on activity in the UK and the arrangements are designed to ensure that the company does not have a permanent establishment in the UK.

A new digital services tax was introduced from April 1, 2020. It applies to businesses that provide social media platforms, internet search engines and online marketplaces, and any online advertising businesses that derive significant benefit from the foregoing businesses. Businesses are within the digital services tax when the group's worldwide revenues from in-scope digital activities are GBP500 million or more, and at least GBP25 million of these revenues are attributable to UK users.

**TAXABLE INCOME**

**Domestic**

Taxable income of a resident company is equal to all gross income and gains less applicable deductions.

**Foreign**

Taxable income of a non-resident company is equal to the gross income of the business carried on through the UK permanent establishment less any deductions applicable to that UK business.

Separate rules apply to determine the amount of taxable income under the diverted profits tax and ORIP rules. The digital services tax is calculated by reference to revenue, rather than profit.

**TAX RATES**

The standard corporation tax rate is 19 percent.

Where the diverted profits tax applies, the applicable tax rate is 25 percent, and income subject to the ORIP rules is taxed at 20 percent.

The digital services tax rate is 2 percent of group revenue derived from UK users (in excess of a de minimis revenue of GBP25 million), although there is an alternative 'safe harbour' calculation for groups with low operating margins.

**TAX COMPLIANCE**

Corporation tax returns are due within 12 months of the end of a company’s accounting period, and the tax should be paid within 9 months of the end of that accounting period. UK companies can choose the date which marks the end of their accounting period, December 31 and March 31 are common, but any date can be chosen.

Larger companies are required to make quarterly payments in respect of corporation tax. Broadly speaking:
Companies with annual profits of GBP1.5 million or more (calculated on a group basis) are required to pay corporation tax in the 7th and 10th months of the current accounting period and the 1st and 4th months after the end of the accounting period, and

Companies with annual profits of GBP20 million or more (calculated on a group basis) must pay corporation tax in the 3rd, 6th, 9th and 12th months of the current accounting period.

Separate rules apply to the payment of the diverted profits tax and the digital services tax and to tax due under the ORIP rules.

**ALTERNATIVE MINIMUM TAX**

Not applicable for this jurisdiction.

**TAX HOLIDAYS, RULINGS AND INCENTIVES**

**Tax holidays**

Not applicable for this jurisdiction.

**Tax rulings**

No broad-based rulings are available. On certain issues, taxpayers can request a private letter ruling that applies only to the specific issue.

**Tax incentives**

There are tax incentives for specific activities and behaviors, including R&D credits and enhanced deductions for expenditure on certain types of environmentally-friendly installations or for investment in economically deprived parts of the UK. The patent box regime offers a reduced effective 10 percent rate of corporation tax for income from certain IP which is developed or managed in the UK. There are capital allowances at different rates on various items of machinery and plant and a 3 percent allowance on building costs involved in constructing new commercial buildings.

**CONSOLIDATION**

Eligible corporations may enter into a "group payment arrangement," whereby one company makes itself responsible for administering the corporation tax affairs of all members of the group. However, this is an administrative arrangement only, and all UK companies are required to file separate corporation tax returns, calculate their respective liabilities separately and remain liable for their own corporation tax.

**PARTICIPATION EXEMPTION**

Almost all dividends received from foreign subsidiaries are exempt from corporation tax except where anti-avoidance legislation applies. Capital gains recognized on the sale of shares in foreign or UK subsidiaries are
exempt from tax provided that:

- The subsidiary is a trading company (ie, one whose income is substantially derived from activities other than passive investment) or the holding company of either a trading group or a trading sub-group, and
- The selling company has held at least 10 percent of the shares in the subsidiary for at least 12 months in the last 6 years.

**CAPITAL GAIN**

Capital gains realized by a company are taxed at the same rate as trading income. Capital losses may reduce capital gains but not trading income. Certain types of profits and losses – those from debt and intellectual property – are always treated as income under special regimes which reflect the accounting treatment of those types of assets.

Capital gains realized by non-resident companies are not taxed in the UK, even if they arise on the disposal of UK assets, unless:

- The asset is used for the purpose of a trade carried on by the company through a UK permanent establishment, or
- The asset comprises an interest in UK land or comprises certain assets (wherever situated) that derive at least 75 percent of their value from UK land.

**DISTRIBUTIONS**

Distributions paid by a UK company are generally treated as dividends to shareholders. UK company law forbids distributions which exceed accumulated realized profits and restricts a company's ability to repay capital, which (in relation to public companies) requires a court order.

**LOSS UTILIZATION**

Trading losses can be carried forward indefinitely and can be carried back 1 year (or in certain limited circumstances up to 3 years). Trading losses can also be surrendered between group companies (provided, in the case of losses arising prior to April 2017, that they are utilized in the year in which they arose). However the use of carried forward trading losses is limited to the first GBP5 million of taxable profit (per group) plus 50 percent of profits in excess of GBP5 million.

**TAX-FREE REORGANIZATIONS**

Many forms of group reorganization can be achieved on a tax-free basis, due to a combination of reliefs, principally an automatic deferral of corporation tax on transfers of capital assets (including shares) between 2 UK resident group companies, and relief where shares are transferred in consideration of an issue to the transferor of shares or loan notes in the transferee.
ANTI-DEFERRAL RULES

Under the UK controlled foreign company (CFC) rules, a UK resident company may be taxed on the income of its foreign subsidiary. The scope of these rules is intended to be limited to situations where UK-source income has been artificially diverted into an overseas, low tax jurisdiction, particularly tax havens.

FOREIGN TAX CREDITS

Subject to limitations, foreign tax credits are available for foreign taxes paid. In the relatively rare situations where dividends received from overseas subsidiaries are not completely exempt from UK corporation tax, the amount of tax payable on the dividend will be subject to a credit for foreign tax paid or withheld by the subsidiaries (subject to a cap to combat certain avoidance structures).

SPECIAL RULES APPLICABLE TO REAL PROPERTY

An additional annual tax charge (the annual tax on enveloped dwellings or ATED) is made on companies which own or control residential property of more than GBP500,000 in value. Various exemptions apply to companies which develop, lease or trade property or use the property for other business purposes, which should have the effect of restricting the charge to companies which are used simply to own the private homes of high net worth individuals. The amount of the charge varies from GBP3,700 to GBP236,250 according to the value band into which the property falls.

TRANSFER PRICING

Arm’s-length principles generally are applied under UK law to transactions between related entities. The UK rules generally follow OECD principles.

WITHHOLDING TAX

Dividends, royalties, interest, rents, etc

There are no withholding taxes on dividends paid by a UK company to any shareholder.

A 20 percent withholding tax applies to royalties, yearly interest, certain qualifying annual payments and rents paid by a UK letting agent or tenant to a non-resident company, subject to reduction under an applicable income tax treaty and, in the case of rents, the non-resident landlord scheme.

It is sometimes possible to structure loan arrangements so that payments equivalent to interest fall outside the definition of yearly interest (such as the use of discounted bonds). Interest payable on a loan instrument listed on a recognized stock exchange is not subject to any withholding.

Service fees
Certain payments for construction services provided in the UK are subject to a form of withholding tax at either 30 percent or 20 percent unless the party providing the service is registered for gross payment.

**CAPITAL DUTY, STAMP DUTY AND TRANSFER TAX**

No capital duty. Stamp duty is payable at 0.50 percent on transfers of shares, but there is an exemption for most transactions within groups, and for transfers of shares in companies which are listed on the London Stock Exchange’s Alternative Investment Market (AIM).

Transfers of real estate within the UK are subject to a transfer tax. However, the specific tax and the applicable rate depends upon which part of the country the real estate is situated in.

*England and Northern Ireland (SDLT)* – if the property is situated in England or Northern Ireland, rates of up to 5 percent apply on the transfer of non-residential property. Higher graduated rates apply to the transfer of residential property of up to 12 percent, where the value of the property exceeds GBP1,500,000 and a punitive 15 percent rate can apply to certain acquisitions of residential property by corporate entities. Higher rates of SDLT also apply to purchases of additional residential properties and purchases of residential properties by companies (3 percent above the normal graduated rates of SDLT). A further 2 percent surcharge on the purchase of residential properties by non-resident buyers will apply from April 1, 2021.

*Scotland (LBTT)* – if the property is situated in Scotland, rates of up to 5 percent apply for non-residential property and higher graduated rates apply to the transfer of residential property of up to 12 percent, where the value of the property exceeds GBP750,000. A further 4 percent above the normal LBTT rate applies to purchases of additional residential properties in Scotland.

*Wales (LTT)* – if the property is situated in Wales, rates of up to 6 percent apply for non-residential property and higher graduated rates apply to the transfer of residential property of up to 12 percent, where the value of the property exceeds GBP1,500,000. A further 4 percent above the normal LTT rate applies to purchases of additional residential properties in Wales.

**EMPLOYMENT TAXES**

Employers must withhold income tax (ie, pay as you earn or PAYE) and a social security tax (ie, primary national insurance contributions). Employers must also pay secondary national insurance contributions. Secondary contributions are deductible by an employer for UK corporation tax purposes, but it is not generally permitted to recover them from the employee. There are no withholding obligations at a local level in the UK.

**OTHER TAX CONSIDERATIONS**

VAT applies generally at 20 percent to supplies of goods and services taking place in the UK, subject to a reduced rate of 5 percent for specified goods and services, and exemptions and 0-rating of certain goods and services.
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