

Doing business in the UK: Tax facts at a glance

Key economic facts

UK population

The population of the UK at 30 June 2016 is estimated to be 65,648,000.

Source ONS

Growth

Predictions for growth for UK economy for 2018 is 1.4% average

Source HM Treasury June 2017

UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.2% between Quarter 4 (Oct to Dec) 2016 and Quarter 1 (Jan to Mar) 2017. UK GDP growth in Quarter 1 2017 has been revised down by 0.1 percentage points from the preliminary estimate published on 28 April 2017; mainly due to broad-based downward revisions within the services sector.

Source ONS

UK economy size

\$2.629 trillion (Nominal; 2016 USD).

Source: IMF Report for Selected Countries and Subjects

Inflation

CPI at May 2017 2.7%.

Source ONS

Labour market

For July 2017 the employment rate (the proportion of people aged from 16 to 64 who were in work) was 74.9%, the highest since comparable records began in 1971.

Source ONS

Companies - Corporation tax

With effect from April 1 2017 - 19%.

Income tax

Income tax rates 2017/18 (year ended 5 April 2018)

	Applied to income	Rate
Basic rate	Up to £33,500	20%
Higher rate	£33,501 - £150,000	40%
Additional rate	Over £150,000	45%

Capital gains tax

Exemptions	2017/18
Individuals, estates, etc	£11,300
Trusts generally	£5,650
Tax rates - individuals	
Up to basic rate limit	10%
Above basic rate limit	20%
Tax rates - trusts and estates	
	20%

Entrepreneurs' relief

Tax rate 2017/18	10%
Lifetime limit	£10,000,000

For trading businesses and companies (minimum 5% employee/director shareholding held for at least one year).

Stamp duty

Residential (on slice of property value) 2017/18

£125,000 or less	Nil
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
Over £1,500,000	12%

Commercial (on slice of property value) 2017/18

£150,000 or less	Nil
£150,001 - £250,000	2%
Over £250,000	5%

Inheritance tax 2017/18

Taxable estate and gifts

Nil rate band	£325,000
Rate of tax on excess	40%
Lifetime transfers to and from certain trusts	20%
Residence nil-rate band*	£100,000

*Subject to 50% taper for estates above £2million.

Gifts within seven years of death

Years before death	0-3	3-4	4-5	5-6	6-7
% of death rate charge	100	80	60	40	20

Value added tax 2017/18

Standard rate	20%
Reduced rate e.g on domestic fuel	5%
Registration level from 1/4/17	£85,000
Deregistration level from 1/4/17	£83,000
Flat rate scheme turnover limit	£150,000
Cash and annual accounting schemes turnover limit	£1,350,000

Pensions 2017/18

Lifetime allowance: £1,000,000

Annual allowance: £40,000

Money purchase annual allowance: £4,000

Lifetime allowance charge: 55% if excess drawn as cash, 25% if excess drawn as income

National insurance contributions 2017/18

Class 1 Employed

Employees	
First £113.00 per week	Nil
Next £44.00 per week	0%
Next £709.00 per week	12%
Above £866 per week	2%

Employers		
	Under 21	21 & over
First £113.00 per week	Nil	Nil
Next £44.00 per week	0%	0%
Next £709.00 per week	0%	13.8%
Above £866 per week	13.8%	13.8%

Ten topical tips

At Kingston Smith, we have been looking after UK subsidiaries and branches of International groups for more than 30 years. Our experience and research indicates that inward investing companies are still missing out on some of the most valuable opportunities and are overlooking certain compliance obligations when operating their business in the UK. The issues below, whilst not exhaustive, highlight some of the more significant points that are regularly ignored or inadvertently missed.

- 1. Business structures** – Many UK structures are created by foreign companies without taking proper advice at the outset, with the default choice being a UK limited liability company set up as a wholly owned subsidiary. A UK company is the right choice in many circumstances, but in others, a UK branch or limited liability partnership might be more appropriate. Structures should also be kept under review, because what was suitable at the start of the UK operations may not be the best option as time passes and the business strategy and operating environment changes.
- 2. Audit obligations** – If the group's annual turnover, gross assets or number of employees exceed certain thresholds, or the group contains a listed company, the UK entity's financial statements must be audited. However, many inward investing groups still look at their UK subsidiary's results in isolation, and continue to prepare unaudited accounts in error. International groups, therefore, need to be conscious of the varying audit obligations in the countries in which they operate.
- 3. Short term visitors to the UK** – When non-UK employees visit the UK for short periods ranging from a few days to six months, their salary, even if paid outside the UK, falls within the UK employment tax system unless the rules and reporting obligations around Short Term Business Visitors are followed. This is an area HM Revenue & Customs have publicly announced they will be focusing on in the coming tax year, as they suspect there is widespread non-compliance.
- 4. Living allowances for secondees** – For employees on temporary secondment to the UK, there are certain tax rules which allow, subject to prior agreement from HM Revenue & Customs, certain living expenses to be reimbursed to them free of tax and National Insurance. Over the years, we have seen many employers miss out on the benefits of these generous rules. Other employers misunderstand the rules and include family-related expenses or non-business expenses within their expense claims which can result in large liabilities for under-paid tax.
- 5. National Insurance exemptions for secondees** – Where individuals come to work in the UK temporarily, it is normally possible to agree a period of exemption from National Insurance for both the employer and employee, ranging from one to five years depending on the employee's home country. Failure to claim or to understand these exemptions can result in a significant and unnecessary cost to the employer, and subject them to the time consuming process of reclaiming the overpayments from HM Revenue & Customs.
- 6. Transfer pricing** – Tax authorities are devoting increasing resources to policing transfer pricing regulations. Any transaction flows between a UK company and a related non-UK entity are potentially liable to comply with UK transfer pricing. The transactions may also be subject to transfer pricing in the overseas jurisdiction. Penalties for non compliance can be severe. Transfer pricing is something that should always be considered where a business is carrying on activity in more than one country.
- 7. VAT on services received from abroad** – Where the overseas parent company is supplying services to its UK subsidiary, the invoice will not normally include UK VAT. However, under reverse charge VAT rules the recipient of the services must normally charge itself the VAT and account for this on its VAT returns. For most companies this is simply an administrative task, but if the UK business is unable to fully recover its VAT, it does give rise to an additional cost of doing business in the UK.
- 8. Share Options and similar equity incentives** – The taxation of share options and awards is complex and often misunderstood, but with care there are valuable tax planning opportunities.
- 9. Overseas directors** – Some inward investing companies tend to appoint only non-UK based individuals as directors of the UK subsidiary. This is permitted under company law, but can cause problems where claims are made under UK Tax Treaties because the UK company, if managed and controlled abroad, may not be treated as UK resident for treaty purposes. This means the company won't be able to rely on the benefits of the UK tax treaty network.
- 10. Brexit** - Brexit will, of course, have an impact on businesses setting up in the UK. It is too early as yet to comment on the potential implications, but to keep up to date with developments and comment please visit our Brexit hub at www.ks.co.uk/brexit-hub.

If you feel that you are missing out or falling foul of any of the above points, or need guidance on these topics, please feel free to contact us. We are happy to help.