

Doing business in the UK: double tax relief and withholding taxes

The UK provides relief from double taxation to prevent international businesses from being taxed twice on the same income.

Treaty agreements exist with many countries to mitigate double taxation. The double tax treaties specify which country has the right to tax certain types of income.

Unilateral relief

If there is no treaty, the UK may provide unilateral relief, allowing a foreign tax credit against your UK tax liability. Understanding the conditions means that you don't pay more tax than necessary on your international income.

Has your business breached the VAT registration threshold?

A UK-established business is required to register for Tax may need to be withheld on certain payments to non-residents. It is important to understand both the withholding requirements and the impact of relevant tax treaties – failure to do so can have significant cash flow consequences as well as (where tax is not withheld correctly) potential penalties and interest.

Key areas where withholding tax needs to be considered are:

- Interest on UK source payments (unless HMRC gives authorisation to make a gross or reduced rate payment).
- Royalty payments for the use of intellectual property (unless treaty relief applies).
- Rental income payments to non-resident landlords (unless they have received HMRC approval to be paid gross).
- Annual payments made under long-term contracts.

Dividends, except for property income distributions paid by UK real estate investment trusts, are not normally subject to withholding tax.

Practical guidance to minimise withholding tax on overseas payments

Withholding taxes can be reduced or eliminated under double tax treaties between the UK and other countries. Check the full terms and conditions of the treaty to determine the applicable rate. Misinterpreting the provisions can prove costly.

Maintain accurate records for treaty claim compliance, as incomplete documentation can lead to tax relief claims being denied.

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Don't assume that an agreement exists between the UK and the recipient's country. Check before undertaking any strategic planning.

Ensure your international business structure is compliant and tax-efficient by keeping abreast of the reduced or exempt withholding tax payment methods. One size may not fit all.

Include gross-up clauses within contracts to ensure that your international business receives the full amount after tax.

Overall considerations

Tax laws and treaties can change, so regularly review and stay informed of the tax regulations in the UK and internationally. Not keeping up to date can lead to unforeseen international tax and administrative burdens.

How can Moore Kingston Smith help?

Managing UK withholding tax and the numerous treaties can be complex, with the potential for missed tax savings and errors. For a no-obligation introductory conversation to clarify your path forwards, please contact our team.

Contact us



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