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UK UPDATE

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Background

- The UK elected a new Labour Government last year.
- The first Budget was presented in Autumn 2024.
- The Government raised significant taxes in the Autumn Budget, primarily on employers.
- There is a growing expectation that further tax rises may be announced in Autumn 2025.
- The Government has also announced various consultations and changes to existing tax rules.

Transfer Pricing

- The Government has announced that it intends to make various changes to the UK's international tax rules.
- This will include narrowing the scope of UK-UK transfer pricing rules and replacing the diverted profits tax.
- There will be a general exemption from transfer pricing between UK companies where there is no risk of tax loss.
- Taxpayers will still be able to elect to apply transfer pricing if they wish to do so.
- There will be a widening of the participation condition – thereby bringing more transactions into the scope of transfer pricing than previously.

Permanent Establishment

- The definition of “permanent establishment” and the rules dealing with the attribution of profits to a permanent establishment will be amended to bring the UK’s regime “into line with the latest international consensus”.
- We have no clarity on what this means yet and it may take several years to understand how any new definitions are interpreted by HMRC.
- HMRC have stated that the law will clarify which supporting guidance and materials can be used to determine questions around permanent establishments.
- It is expected that the legislation will more closely mirror the OECD guidance.
- It should be noted that this does not affect the UK’s DTAs.

Diverted Profits Tax

- The UK transfer pricing rules will be amended to incorporate Unassessed Transfer Pricing Profits ("UTPP").
- UTPP will aim to tax the profits that would otherwise have been caught by the Diverted Profits Tax ("DPT").
- DPT will therefore be abolished.
- We will need to wait for draft legislation to be published to understand how widely the UTPP will be applied.

Pillar II Registration

- Large multinational groups have new compliance obligations in the UK.
- Groups with at least one UK taxable entity and consolidated annual revenues of Euros 750m or more, in at least two of the last four years, are required to register with HMRC.
- The registration deadline is six months after the end of the first accounting period in which the group becomes subject to the Pillar II rules.
- Registration is done electronically by the filing entity (not by a tax agent).
- The registration requirement applies for the first accounting period beginning on or after 31 December 2023. For most groups – with a 31 December year end – the registration deadline is therefore 30 June 2025.

Pillar II Registration

- A Global Anti-Base Erosion Information Return (“GIR”) must be filed for each accounting period that the group is subject to the Pillar II rules.
- Where a GIR is filed with a non-UK tax authority which has agreed to share this with HMRC, the group must submit an Overseas Return Notification (“ORN”) in the UK.
- Both the GIR and ORN are due within 18 months of the end of the first accounting period in which the entity becomes subject to Pillar II, and within 15 months of the end of each subsequent accounting period.
- Where tax is payable under Pillar II, this must be paid by the filing deadline for the GIR or ORN as applicable.

What else has changed recently?

- UK corporation tax rate is now 25%. The Government has stated that the rate will not change again for the duration of this Parliament (2029).
- Individual capital gains tax rates have increased – the standard rate is now 24% but is 28% for disposals of residential properties.
- VAT is unchanged at 20%.
- Employer's National Insurance Contributions (social security) has increased from 13.8% to 15% and the point at which it becomes payable has been reduced.
- National Minimum Wage increased to £12.21 per hour for over 21s (6.7% increase).

What else has changed recently?

- Some good news is that full expensing relief has been made permanent.
- This means that for the majority of capital expenditure on plant and machinery, a 100% deduction is available.
- For certain types of expenditure on buildings, the rate is 50% with an annual writing down allowance of 6% for the balance.
- For expenditure that does not qualify, there remains a £1m annual investment allowance.
- For other expenditure, the Structures and Buildings Allowance is available. This gives a 3% per annum straight line deduction.
- The result of the above is that effectively 100% of capital expenditure should be tax deductible in the UK.

Relationship with EU

- A new trade agreement and associated arrangements agreed with the EU.
- Much more open engagement and friendliness.
- Intention to rebuild the relationship.
- Could the door be open for an even closer relationship?
- But will the UK public accept this?
- Rise of Reform