



UK Tax Update

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Automatic Exchange of Information Requirements (“AEOI”)



New Registration Obligations

AEOI

- UK trusts and financial institutions must register for AEOI with HMRC.
- The deadline was 31 December 2025 but a “light touch” approach is being followed for late registrations.
- The registration is to ensure compliance with the Common Reporting Standard and FATCA rules.
- It is not always obvious who must register and trusts and companies should check carefully whether they are impacted.

AEOI

- Any UK trust or company that is classified as a Reporting Financial Institution under CRS/FATCA must register.
- This will therefore include straightforward financial institutions such as banks and investment funds.
- However, it also includes those who have, for instance, discretionary managed accounts. In many instances, these trusts or companies will not consider themselves to be “financial institutions” in the normal sense of the word but they are classed as such under CRS/FATCA.

AEOI

- The registration is done online.
- A UK Government Gateway registration must be set up to complete the registration.
- Registration is required even if there are no reportable transactions.
- Late registration can incur a £1,000 penalty plus further penalties of £300 per day for continued non-compliance.

Capital Allowances (Tax Depreciation)

- Much capital expenditure on new plant and machinery qualifies for full expensing, providing a 100% deduction in the year of expenditure.
- However, not all expenditure qualifies for full expensing – such as plant and machinery that is not purchased new.
- Such expenditure qualifies instead for a writing down allowance (“WDA”) and tax relief is therefore taken over a number of years.
- The current WDA is 18% but reduced to 14% on 1 April 2026.

Capital Allowances (Tax Depreciation)

- It should also be noted that full expensing is only available to limited companies – it does not apply to partnerships or unincorporated businesses.
- For businesses that expect to incur material capital expenditure, the choice of legal entity is therefore critical.
- Non-corporates may qualify for a 40% first year allowance, but this is substantially less attractive than full expensing.

Budget Changes

- The Budget took place in November 2025 and was widely expected to be a revenue raising Budget for the Government.
- £26 billion in tax rises were announced.
- This was through a combination of higher tax rates and the freezing of tax thresholds (“fiscal drag”).
- Personal tax and National Insurance thresholds have been frozen until 2031 meaning far greater numbers of people will pay income tax and NI at higher rates due to the effects of inflation.

Budget Changes

- The Government announced that it would be restricting relief for National Insurance on pension contributions from 2029.
- Currently, an employee can request their employer to reduce their monthly salary and instead make a payment into the employee's pension. The payment is completely free of income tax and National Insurance (for both employer and employee).
- Many employers will share the NI saving with the employee.
- From April 2029, any salary sacrifice pension contributions above £2,000 per year will no longer be exempt from NI.

Budget Changes

- This means that employees will pay between 2% and 8% on the amount sacrificed and employers will pay 15%.
- Other tax increases included a 2% increase in income tax rates on dividends, interest and property income.
- Fortunately, there was no increase in corporation tax rates.
- The tax burden on UK taxpayers is now at a historic high.

Companies House ID Verification

- There are now two identification requirements for owners and/or directors of UK incorporated companies.
- First, the company must report the identities of “persons with significant control” (PSCs).
- PSCs are “natural persons” (individuals) who, broadly, own 25% or more of the company’s shares or otherwise control the company.
- Their identities can be seen on the Companies House website.
- The second requirement is that directors must undergo an Identity Verification (“IDV”) process with Companies House.
- A director must register with Companies House and provide ID documents such as a copy of their passport and proof of their home address.

Companies House ID Verification

- Once their identity has been verified, they will be issued with a personal IDV code by Companies House.
- Each year, the company must file a confirmation statement giving information about the company such as any changes in the shareholders or any new issues of shares. The directors must provide their personal IDV codes as part of the confirmation statement filing.
- When a new company is incorporated, the directors must provide their personal IDV codes in order to complete the incorporation.
- For directors of existing companies, they must provide their personal IDV codes before the earlier of the filing of the company's next confirmation statement or the end of November 2026.

Companies House ID Verification

- The process of completing the IDV application can only be done online.
- It is usually arranged by the company's UK accountants or lawyers provided they have obtained accreditation from Companies House.
- They arrange for a secure link to be emailed to the director. The link is used to upload pictures of the director's biometric passport, proof of home address and a photograph of the director.
- These are then transmitted to Companies House to be checked and, assuming they are accepted, Companies House will issue an 11-digit code by email.
- If directors do not comply, the company will be unable to complete Companies House filings and the director may have committed a criminal offence.

Corporate Interest Restriction

- Whilst this is not brand new legislation, it is often overlooked when structuring investment into UK companies.
- The basic rule is that a UK company (or group if there is more than one UK company) can claim a corporation tax deduction for interest expense for the higher of £2m or 30% of EBITDA.
- This is most often a problem where a non-UK parent company has financed its UK subsidiary with debt. It is not uncommon to find that the UK subsidiary is subject to a restricted interest deduction, but the overseas parent company is taxed on the full interest payment.
- It is therefore very important to model the effect of the corporate interest restriction to avoid this.

Corporate Interest Restriction

- For example, a UK subsidiary pays £3m of interest to its non-UK parent company.
- The UK subsidiary can claim a tax deduction of £2m – so £1m attracts no UK tax relief.
- The non-UK parent company receives £3m and pays tax in its home territory.
- As a result, the group is paying tax on £1m of interest for which there is no corresponding tax deduction.

Any questions?

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