A quick reference guide to UK tax rates, allowances and key rules for individuals, companies and other taxpayers.

The information in this book is based on taxation law, legislative proposals and current practice up to and including measures contained in Finance Act 2015 and the July Finance Bill 2015, which is expected to become Finance (No. 2) Act 2015 in late 2015. Future announced changes and proposed changes are included only where relevant.

Details apply throughout the tax year 2015/16 unless otherwise stated (with comparative figures for 2014/15). It is possible that some of the information shown will be amended by future Finance Acts.

Throughout this book HMRC is used to refer to Her Majesty's Revenue and Customs.

This document can also be found on the PwC website at:

www.pwc.co.uk/taxguide
# Table of contents

**Income tax**

Overview ................................................................. 1
Rates of tax .............................................................. 2
Main personal reliefs .................................................. 4
Scottish income tax .................................................... 4
Gifts to charities ......................................................... 6
The rent–a–room scheme ............................................ 6
Wear and tear allowance ............................................ 7
Pensions ................................................................. 7
Employment benefits – company cars and vans ............ 11
Expenses claims – mileage allowance payments .......... 13
Employment benefits – beneficial loans ...................... 14
Overseas employment income .................................... 14
Domicile and remittance ............................................ 16

**Tax incentivised employee share plans**

Overview ................................................................. 19
Key advantages of tax incentivised share plans ............. 20
Discretionary tax incentivised share plans .................... 21
All–employee plans .................................................... 21
Summary of key features and requirements ................... 22
Statutory corporation tax deductions .......................... 23
Employer compliance ............................................... 23
### National insurance contributions (NICs)
Overview .................................................................................................................. 25
Class 1 (employed) contributions ........................................................................... 26
Other classes of contributions .................................................................................. 27

### National minimum wage
.......................................................................................................................... 28

### Tax efficient investments
Overview .................................................................................................................. 31
Venture capital trusts (VCTs) ................................................................................... 32
Enterprise investment scheme (EIS) ........................................................................... 32
Seed enterprise investment scheme (SEIS) ................................................................. 33
Social investment tax relief (SITR) ........................................................................... 34
Individual savings accounts (ISAs) ........................................................................... 34
Authorised investment funds (AIFs) .......................................................................... 36
National Savings and Investments .......................................................................... 36
Child trust funds (CTFs) .......................................................................................... 37
Other investments .................................................................................................. 37

### Corporation tax
Overview .................................................................................................................. 39
Rates of tax ............................................................................................................... 40
Taxation of banks .................................................................................................... 40
Dividends ................................................................................................................ 41
Deductions from income ......................................................................................... 41
Capital gains ........................................................................................................... 42
Losses ....................................................................................................................... 42
Foreign branch profits ............................................................................................ 42
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groups of companies</td>
<td>43</td>
</tr>
<tr>
<td>Controlled foreign companies (CFCs)</td>
<td>43</td>
</tr>
<tr>
<td>Transfer pricing</td>
<td>43</td>
</tr>
<tr>
<td><strong>Diverted profits tax (DPT)</strong></td>
<td>44</td>
</tr>
<tr>
<td><strong>Annual tax on enveloped dwellings (ATED)</strong></td>
<td>47</td>
</tr>
<tr>
<td>Overview</td>
<td></td>
</tr>
<tr>
<td>Rate band</td>
<td>48</td>
</tr>
<tr>
<td>Main reliefs</td>
<td>48</td>
</tr>
<tr>
<td><strong>Capital allowances</strong></td>
<td>50</td>
</tr>
<tr>
<td>Overview</td>
<td></td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>51</td>
</tr>
<tr>
<td>Other allowances</td>
<td>52</td>
</tr>
<tr>
<td><strong>Capital gains tax (CGT)</strong></td>
<td>54</td>
</tr>
<tr>
<td>Overview</td>
<td></td>
</tr>
<tr>
<td>Rates of tax</td>
<td>55</td>
</tr>
<tr>
<td>Main exemptions</td>
<td>55</td>
</tr>
<tr>
<td>Main reliefs</td>
<td>56</td>
</tr>
<tr>
<td><strong>Inheritance tax (IHT)</strong></td>
<td>59</td>
</tr>
<tr>
<td>Overview</td>
<td></td>
</tr>
<tr>
<td>Rates of IHT</td>
<td>60</td>
</tr>
<tr>
<td>Main exemptions</td>
<td>61</td>
</tr>
<tr>
<td>Main reliefs</td>
<td>62</td>
</tr>
<tr>
<td>Trusts and IHT</td>
<td>63</td>
</tr>
<tr>
<td>Main residence nil-rate band</td>
<td>63</td>
</tr>
</tbody>
</table>
Stamp duty/stamp duty reserve tax (SDRT)
Overview........................................................................................................... 65
Rates of duty ........................................................................................................ 66
Chargeable documents and transfers ................................................................. 66
Main exemptions to consider ............................................................................ 66
Reporting, payment, etc. .................................................................................... 67

Stamp duty land tax (SDLT)
Overview............................................................................................................. 69
Rates of SDLT for residential properties ........................................................... 70
Rates of SDLT for transfers of non-residential or mixed property................. 70
Rates of SDLT on rents payable under new leases.......................................... 70
Main exemptions .............................................................................................. 71

Land and buildings transaction tax (LBTT)
Overview............................................................................................................. 73
Rates of LBTT – Residential Exemptions......................................................... 74
Rates of LBTT – Non-residential or mixed ..................................................... 74
Lease reporting ................................................................................................ 75
Payment of tax .................................................................................................. 75

Value added tax (VAT)
Overview............................................................................................................. 77
VAT rates summary .......................................................................................... 78
Registration and deregistration ...................................................................... 78
VAT groups ....................................................................................................... 79
Reduced rate supplies ..................................................................................... 80
Zero rated supplies ...................................................................................... 80
Exempt supplies ............................................................................................ 81
Recovery of VAT incurred and partial exemption ........................................ 82
The European single market ....................................................................... 83
Reverse charge .............................................................................................. 84
Disclosure ..................................................................................................... 85

**Customs duty**
Overview ........................................................................................................ 87
Key features ..................................................................................................... 88

**Excise duty**
Overview ........................................................................................................ 90
Key features ..................................................................................................... 91

**Other indirect taxes**
Overview ........................................................................................................ 93
Insurance premium tax (IPT) .......................................................................... 94
Landfill tax – England, Wales and Northern Ireland ...................................... 94
Scottish landfill tax – (SLfT) ......................................................................... 95
Aggregates levy ............................................................................................... 95
Air passenger duty (APD) ............................................................................. 96
Climate change levy (CCL) ............................................................................ 97
National non-domestic rates (NDRs)

Overview ........................................................................................................ 100
Multipliers (rate poundages) ........................................................................ 101
Rateable values and transitional phasing limits .......................................... 101
Business rate supplements .......................................................................... 101
Empty rates ................................................................................................. 102
Main reliefs, exemptions and allowances .................................................... 102
Payment of rates ............................................................................................ 103

Disclosure, filing and payment

Overview ........................................................................................................ 105
Disclosure of tax avoidance schemes (DOTAS) ........................................... 106
General anti-abuse rule (GAAR) ................................................................. 106
Self assessment ............................................................................................. 107
Filing of returns and related penalties ......................................................... 108
Due dates, interest and penalties ................................................................. 112
Penalties for lost revenues ............................................................................ 116
Overview
Income tax is payable on taxable income at rates which vary according to the amount of income and its nature. The main sources of income are profits, employment, property income, interest and dividends.

Individuals are generally entitled to a tax-free amount or allowance, but care needs to be taken in situations where the relevant allowance could be reduced or lost – for example, a claim by a non-domiciled individual for the remittance basis or anyone with an income of at least £100,000.

There is a limit on certain income tax reliefs which are not already capped, of £50,000 or 25% of adjusted income, whichever is greater. Restricted reliefs include losses and loan interest (although not gift aid) so where these have arisen, the various options should be carefully checked.

Pensions are subject to special rules. Income received from pensions and related annuities is generally chargeable to income tax, though a tax-free lump sum can often be taken at or around retirement age. Contributions made to build up such pensions attract a certain amount of tax relief if the pension scheme is registered. Significant changes applied from April 2015; these are described in the pensions section below.

For employees, non-cash benefits in kind are usually taxable and there are specific rules which apply to various types of benefit, including company cars, mileage allowances and beneficial loans. Details are provided in this guide.

For links to the latest developments see our Tax blog, but note in particular:
• the broad range of points on our pensions blog
• the developments linked from our human resources services page
For individuals who are not higher or additional rate taxpayers, the rate of tax on dividend income is 10% on the gross amount, satisfied by offsetting the dividend tax credit. For higher rate taxpayers, the rate of tax is 32.5%, reduced by the tax credit to 22.5% (so on the receipt of a dividend of £180 with a tax credit of £20, the income of £200 attracts tax of £65 – £20 = £45 or 25% of the actual dividend). For additional rate taxpayers, the rate of tax is 37.5%, reduced by the tax credit to 27.5% (or 30.56% of the actual dividend).

The starting savings rate of 0% applies to other savings income (primarily bank and building society interest) up to a limit of £5,000 (10% to limit of £2,880). The 0% rate is not available if taxable non-savings income exceeds this limit.

The rates applicable to discretionary and accumulation trusts apply after a standard rate income tax band of £1,000.

Tax is deducted at source until April 2016 at the rate of 20% from certain interest, annuities and annual payments.

### Rates of tax

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Higher rate</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>Additional rate</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Starting savings rate chargeable on investment income</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Threshold of taxable income above which higher rate applies</td>
<td>£31,785</td>
<td>£31,865</td>
</tr>
<tr>
<td>Threshold of taxable income above which additional rate applies</td>
<td>£150,000</td>
<td>£150,000</td>
</tr>
<tr>
<td>Flat rate applicable to discretionary and accumulation trusts</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td>Dividend rate applicable to discretionary and accumulation trusts</td>
<td>37.5%</td>
<td>37.5%</td>
</tr>
</tbody>
</table>
• **Child benefit** is withdrawn by way of an income tax charge which will apply to households where someone has income over £50,000 a year. Where income is between £50,000 and £60,000, the charge will apply by 1% for every £100.

• **Future changes** include:
  - increases in the threshold of taxable income above which higher rate applies to:
    - 2016/17  £32,000
    - 2017/18  £32,400
  - proposed reform of the taxation of dividends from 6 April 2016. This includes the introduction of a dividend tax allowance of £5,000, new tax rates on the excess and the abolition of the tax credit. These new rates will be 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers.
  - proposed introduction of a personal savings allowance from 6 April 2016 of £1,000 of savings income for basic rate taxpayers and £500 for higher rate taxpayers, together with abolition of the deduction of tax at source.
Scottish income tax

• From 6 April 2016, the Scottish rate of income tax (SRIT) will apply to the non-savings and non-dividend income of individuals identified by HMRC as Scottish taxpayers. This means that SRIT will apply to employment income, profits from self-employment, pension and property income (regardless of where in the UK the property is situated). HMRC will be writing to individuals that they consider may be Scottish taxpayers during 2015.

Broadly, Scottish taxpayers will be UK tax-resident individuals whose main residence is in Scotland or who spend the majority of their time residing in Scotland. The current UK tax rates (20%, 40% and 45%) will be reduced by 10% and the Scottish Parliament will set a new SRIT which will apply uniformly across each of the bandings. Announcement of the rate is expected in November/December 2015. There will be no change to the definition of taxable income, to the personal allowance, or to National Insurance Contributions, which will continue to be set by the UK Government. Scottish taxes will continue to be administered and collected by HMRC under Real Time Information ('RTI') reporting. Further devolution of powers in relation to income tax has been proposed by the UK Government but timing has yet to be confirmed.

Main personal reliefs

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance (born after 5 April 1948)</td>
<td>£10,600</td>
<td>£10,000</td>
</tr>
<tr>
<td>Registered blind person’s allowance</td>
<td>£2,290</td>
<td>£2,230</td>
</tr>
<tr>
<td><strong>Age allowances:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance (born between 6 April 1938 and 5 April 1948)</td>
<td>n/a</td>
<td>£10,500</td>
</tr>
<tr>
<td>Personal allowance (born before 6 April 1938)</td>
<td>£10,660</td>
<td>£10,660</td>
</tr>
<tr>
<td>Married couple’s¹ allowance (MCA) (at least one born before 6 April 1935)</td>
<td>£8,355</td>
<td>£8,165</td>
</tr>
<tr>
<td>Transferable marriage allowance</td>
<td>£1,060</td>
<td>n/a</td>
</tr>
</tbody>
</table>

¹ Includes same – sex couples who acquired a legal status as civil partners on or after 5 December 2005.
• For older people with income in excess of £27,700 (£27,000) age allowances are reduced by £1 for every £2 of income but are not reduced below £10,600 (£10,000) (personal allowances) or £3,220 (£3,140) (MCA), except as below.

• The personal allowance is reduced by £1 for every £2 of adjusted net income above £100,000. This means that an individual with adjusted net income above £121,200 (£120,000) will not receive any personal allowance. This reduction also applies to older taxpayers who have already been limited to the standard allowance, as above.

• Tax relief for the MCA is given at the 10% rate only.

• The transferable tax allowance enables married couples or civil partners, where neither is a higher or additional rate taxpayer, to elect to transfer up to £1,060 of their personal allowance from one to the other. Restrictions mean that the maximum tax saving per couple will be £212.

• The personal allowance will increase to £11,000 in 2016/17 and to £11,200 in 2017/18.
Gifts to charities

- Relief is available for the following:
  - Gift aid donations of cash by individuals who pay UK tax.
  - Deeds of covenant – tax relief for such payments is given under the gift aid scheme.
- Payroll giving – employees can authorise their employer to deduct charitable donations from their pay before calculating pay as you earn (PAYE), through an employer's payroll deduction scheme.
- Gifts of listed shares and securities, freehold or leasehold property – individuals can obtain income tax relief for the value of such gifts, with no capital gains tax (CGT) or inheritance tax (IHT) on the gift.
- Gifts to charities in the European Union (EU), Norway, Liechtenstein and Iceland that would qualify as charities in the UK also qualify for tax relief.
- Cash gift aid donations are regarded as made net of basic rate tax, which is reclaimable by the charity. Where applicable, the donor is granted higher rate or additional rate tax relief on the gross equivalent of the gift. So, a gift of £20 using gift aid, is worth £25 to the charity, which is able to claim £5 from HMRC; a higher rate or an additional rate taxpayer can also claim further relief of £5 or £6.25 respectively.
- There are rules to restrict the availability of gift aid relief where the donor receives a benefit above a certain level from the charity or where a substantial donor has certain transactions with the charity.

The rent–a–room scheme

- An individual letting accommodation in his/her only or main residence as furnished living accommodation is exempt on rent–a–room receipts up to a limit of £4,250 p.a. (increasing to £7,500 from April 2016). The receipts can include related goods and services.
- Receipts in excess of £4,250 p.a. are taxed in full unless the taxpayer makes an election to be taxed on the full rents under a normal rental business computation.
**Wear and tear allowance**
- From April 2016, wear and tear allowances for residential landlords will be abolished. Landlords may instead deduct the actual costs of replacing furnishings.

**Pensions**
Income received from pensions and annuities etc. is generally chargeable to income tax. Relief from income tax is available in relation to certain contributions to pension schemes, including contributions by employers. Part of an individual’s pension pot can however be taken as a tax–free lump sum at or around retirement age.

### Registered pensions schemes summary

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of tax on pensions income</td>
<td>20%/40%/45%</td>
<td>20%/40%/45%</td>
</tr>
<tr>
<td>Tax–free lump sum (as a percentage of the pension pot)</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Rate of relief for contributions</td>
<td>20%/40%/45%</td>
<td>20%/40%/45%</td>
</tr>
<tr>
<td>Lifetime allowance (subject to transitional claims)</td>
<td>£1.25m</td>
<td>£1.25m</td>
</tr>
<tr>
<td>Annual allowance</td>
<td>£40,000</td>
<td>£40,000</td>
</tr>
<tr>
<td>Equivalent to defined benefit pension</td>
<td>£62,500 p.a.</td>
<td>£62,500 p.a.</td>
</tr>
<tr>
<td>Normal minimum pension age</td>
<td>55</td>
<td>55</td>
</tr>
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1 The government consulted on increasing the normal minimum pension age to potentially fix it to be ten years below the state pension age, but it is unclear whether this change will happen.
Contributions

- **Tax relief for contributions** is given at the individual’s marginal rate of income tax but some individuals may be subject to the annual allowance charge regime (see below), which can restrict the tax relief available on contributions. From April 2016, the annual allowances will be reduced for individuals earning above £150,000 (as adjusted). The allowance will be tapered away to a minimum of £10,000 at adjusted incomes above £210,000.

- There is **no overall limit** to employer or employee contributions.

- **Employee contributions** are only deductible for income tax if they do not exceed taxable earnings. However, UK resident individuals can pay £3,600 p.a. gross (£2,880 net of basic rate tax at 20%) to a personal pension scheme net of basic rate tax, even if the individual does not have taxable earnings of this amount.

Annual allowance

- If the sum of tax–relieved contributions by the employee and contributions by the employer exceeds the annual allowance, the **excess is charged to income tax** on the employee.

- Contributions to each pension arrangement are measured in **pension input periods**. The sum of the contributions during the pension input periods ending in the relevant tax year counts towards the annual allowance limit for that year.

- During 2015/16 the pension input periods will be changed to align with tax years. Complex transitional rules will apply to impact the amount, timing and utilisation of contributions.

- For the purpose of the annual allowance test, an **accrual of defined benefit pension** is deemed to be worth 16 times the increase in the annual rate of pension payable from normal retirement age, plus the increase in any additional retirement lump sum. Note that the increase in the accrued pension at the start of the year does not count towards the annual allowance to the extent that it does not exceed an inflation factor.
• If contributions, or benefit accrual in a defined benefit scheme, exceed the annual allowance, an individual may carry forward unused annual allowance from the three previous tax years, provided that the individual was a member of a registered pension scheme in the earliest year. The earliest year is used first.

• An employee can usually ask the pension fund to pay any annual allowance charge on his or her behalf if the contribution or benefit accrual in that scheme by itself was more than the annual allowance and the charge is more than £2,000. The scheme can refuse such a request in exceptional circumstances only. Where the scheme pays, it must adjust the individual's pension benefits accordingly on a just and reasonable basis.

Benefits
• The minimum age for taking retirement benefits, except in cases of ill–health retirement, is generally 55.

• Pensions are taxable when paid at the normal rates of income tax (i.e. 20%, 40% or 45% depending on the amount of total income received).

• At the time of first drawing a pension, an individual usually has an option to take a proportion of the benefit as a pension commencement lump sum, which is not subject to income tax. This lump sum cannot exceed 25% of the fund for a defined contribution scheme (or 25% of the standard lifetime allowance if less). The same rule applies for a defined benefit scheme, calculated assuming that the pension, after commutation to provide the lump sum, is deemed to be equal to a pension pot of 20 times the annual rate of the pension. From April 2015, larger lump sums can be taken, with no limit, but the excess (over 25%) is taxable as income.

• Benefits above the lifetime allowance are subject to further taxation.
Lifetime allowance

• Every individual has a lifetime allowance (LTA) against which the capital value of pension benefits is tested when each benefit first comes into payment. In valuing benefits for this purpose, a defined benefit pension is valued at £20 for each £1 p.a. of pension (£25 for each £1 p.a. of pension already in payment on 6 April 2006).

• The lifetime allowance, presently £1.25m, will drop to £1m from April 2016.

• The capital value is tested as a percentage of the standard LTA in force in the tax year in which the benefit is tested. Any benefits from registered schemes in excess of the allowance (i.e. once 100% of the individual's LTA has been used up in this way) will be subject to a LTA charge, the rate of which depends on whether the excess is paid as a lump sum (rate 55%) or as an annuity (rate 25% and the annuity itself is then subject to income tax).

• Special rules apply for individuals who have a certificate from HMRC granting various protections from these changes.
**Employment benefits – company cars and vans**

**Company cars – cash equivalents**
The taxable benefit in kind (BIK) or cash equivalent is in most cases the following percentage of the list price:

<table>
<thead>
<tr>
<th>%</th>
<th>2015/16(^3)</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>0-50</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>7</td>
<td>–</td>
<td>0-50</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>9</td>
<td>51-75</td>
<td>–</td>
<td>0-50</td>
<td>–</td>
<td>–</td>
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<tr>
<td>11</td>
<td>–</td>
<td>51-75</td>
<td>–</td>
<td>–</td>
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<tr>
<td>13</td>
<td>76-94</td>
<td>–</td>
<td>51-75</td>
<td>0-50</td>
<td>–</td>
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<tr>
<td>14</td>
<td>95-99</td>
<td>–</td>
<td>–</td>
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<tr>
<td>15</td>
<td>100-104</td>
<td>76-94</td>
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<td>16</td>
<td>105-109</td>
<td>95-99</td>
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<td>51-75</td>
<td>0-50</td>
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<td>17</td>
<td>110-114</td>
<td>100-104</td>
<td>76-94</td>
<td>–</td>
<td>–</td>
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<td>18</td>
<td>115-119</td>
<td>105-109</td>
<td>95-99</td>
<td>–</td>
<td>–</td>
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<td>19</td>
<td>120-124</td>
<td>110-114</td>
<td>100-104</td>
<td>76-94</td>
<td>51-75</td>
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<tr>
<td>20</td>
<td>125-129</td>
<td>115-119</td>
<td>105-109</td>
<td>95-99</td>
<td>–</td>
</tr>
<tr>
<td>21</td>
<td>130-134</td>
<td>120-124</td>
<td>110-114</td>
<td>100-104</td>
<td>–</td>
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<tr>
<td>22</td>
<td>135-139</td>
<td>125-129</td>
<td>115-119</td>
<td>105-109</td>
<td>76-94</td>
</tr>
<tr>
<td>23-37(^2)</td>
<td>≥140</td>
<td>≥130</td>
<td>≥120</td>
<td>≥110</td>
<td>≥95</td>
</tr>
<tr>
<td>Maximum</td>
<td>210-214</td>
<td>200-204</td>
<td>190-194</td>
<td>180-184</td>
<td>165-169</td>
</tr>
</tbody>
</table>

\(^1\) Emissions that are not a multiple of 5g/km are rounded down to the nearest multiple of 5g/km.

\(^2\) Increasing by 1% for each 5g/km to the maximum 37%

\(^3\) Example (2015/16): Price of petrol car £20,000; CO2 emissions 147g/km; appropriate percentage 24%; taxable benefit £4,800. 2019/20 appropriate percentage 33%; taxable benefit £6,600.
• Emissions that are not a multiple of 5g/km are rounded down to the nearest multiple of 5g/km for the purposes of the relevant threshold and above.

• Pure electric cars are rated at 5% for 2015/16. They were rated at 0% until 5 April 2015.

• For diesels there is a 3% supplementary charge but the maximum charge still will not exceed 37%. The supplement is due to be abolished from April 2016, so petrol and diesel cars will be treated equally.

• Second cars are taxed in the same way as first cars.

• The list price (inclusive of VAT and delivery) is usually taken on the day before the car is first registered.

• The list price of the car must be increased by the list price of optional accessories provided with the car and by the list price of accessories costing £100 or more added to the car.

• Capital contributions of up to £5,000 made by the employee towards the cost of the car or accessories are deducted.

• Special rules apply to classic cars and vehicles for disabled employees.

Fuel for private use – cash equivalents
• The taxable benefit of fuel for private use is determined by applying the car's appropriate percentage to a fixed amount, which is £22,100 for 2015/16 (£21,700). This is due to increase in line with the retail prices index (RPI). Example (2015/16): Appropriate percentage per table above 30%; applied to £22,100; taxable fuel benefit £6,630.

Company vans – cash equivalents
• The standard taxable benefit of private use of a company van is £3,150 (£3,090). The taxable benefit of fuel for private use is £594 (£581) but nil if private use is restricted to (in essence) home-to-work journeys. This is due to increase in line with RPI.
Expenses claims – mileage allowance payments

Reimbursing for mileage in own vehicles If an employer reimburses an employee who uses his/her private vehicle for business purposes and, provided no more than the approved amounts below are paid, HMRC will accept that there’s no taxable benefit element. If the amount paid is lower than these amounts, the employee may claim a deduction against taxable income for the difference.

<table>
<thead>
<tr>
<th></th>
<th>First 10,000 business miles</th>
<th>Additional business miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cars and vans (per mile)</td>
<td>45p</td>
<td>25p</td>
</tr>
<tr>
<td>Bicycles</td>
<td>20p</td>
<td>20p</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>24p</td>
<td>24p</td>
</tr>
</tbody>
</table>

- **Records** must be kept of cumulative mileage in the tax year and the tax free rate of payment must be reduced once the total exceeds 10,000 miles.

- Employers can pay drivers a **passenger rate** of up to 5p per mile for each additional employee or volunteer making the same business trip. If this is not paid, the employee cannot claim a deduction.

Reimbursing for mileage in company cars HMRC also publishes guidelines on fuel only mileage rates for company cars, i.e. when the employee is reimbursed for buying fuel for business journeys. The advisory rates from 1 June 2015 until further notice are as follows (previous from 1 March 2015 in brackets):

<table>
<thead>
<tr>
<th></th>
<th>Petrol</th>
<th>LPG</th>
<th>Diesel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1400 cc or less</td>
<td>12p (11p)</td>
<td>8p (8p)</td>
<td>10p (9p)</td>
</tr>
<tr>
<td>1401–2000 cc</td>
<td>12p (13p)</td>
<td>9p (10p)</td>
<td>12p (11p)</td>
</tr>
<tr>
<td>2001 cc or over</td>
<td>21p (20p)</td>
<td>14p (14p)</td>
<td>14p (14p)</td>
</tr>
</tbody>
</table>

Note: Petrol hybrid or diesel hybrid cars are treated as petrol or diesel cars respectively.
**Employment benefits – beneficial loans**

- A **beneficial loan** means one which, generally speaking, bears interest at a rate below the official rate, which is kept broadly in line with typical mortgage rates.

- The cash equivalent of the loan benefit is the difference between the actual interest paid, if any, and the interest which would have been charged had the loan borne interest at the official rate. The **official rate** for 2015/16 is 3% (3.25%). The rate is generally set in advance for the whole of the tax year, subject to significant changes in interest rates. Different official rates apply to loans made in Japanese yen or Swiss francs to certain nationals of those countries.

- The charge does not apply if beneficial loans either total no more than £10,000 (ignoring loans qualifying for tax relief) or are made on the same terms and conditions as commercial loans by the lender. This was limited to £5,000 before 6 April 2014.

- **Relief** is also given to the extent that tax relief would have been available had interest at the official rate actually been paid.

**Overseas employment income**

Whether employment income is assessable in the UK is determined by reference to the residence and domicile status of the employee at the time it is earned. When income is assessable depends on the tax year in which it is paid or in some cases when remitted to the UK, regardless of residence status. Special rules apply for employment income paid before UK employment has commenced and on or after UK employment has ceased.
Taxable portion of salary attributable to duties performed:

<table>
<thead>
<tr>
<th></th>
<th>Wholly in UK</th>
<th>UK duties</th>
<th>Foreign duties</th>
<th>Wholly abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident</td>
<td>All</td>
<td>All</td>
<td>All&lt;sup&gt;1&lt;/sup&gt;</td>
<td>All&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>Resident and entitled to relief on overseas workdays</td>
<td>All</td>
<td>All</td>
<td>Remittances&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Remittances&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td>Not resident</td>
<td>All</td>
<td>All</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

1. Special rules apply to some seafarers.
2. If remittance basis applies, otherwise all taxable.
3. Where the employer is non-resident and the employee is non-UK domiciled, he or she may make a claim to be taxed on the remittance basis. Where an individual has a separate but related UK employment then if certain conditions are not met the remittance basis may be denied.

The normal UK tax position set out above may be affected, in certain cases, by double taxation agreements. Tax credit relief may be given in the UK for any foreign tax paid.
**Domicile and remittance**

Domicile is normally acquired at birth and is difficult to change; it can be thought of as the individual’s ultimate home. Reform of the domicile status is expected to be effective from April 2017.

**Automatic remittance basis**

In the following circumstances the remittance basis is given automatically to resident, non-domiciled individuals:

- where an individual’s unremitted foreign income and gains for the year (or the UK part of a split year) are less than £2,000; or

- where an individual has no UK income or gains other than up to £100 of taxed investment income, no foreign income or gains are remitted and the individual is either under 18 years of age throughout the year and/or has been resident in not more than six of the previous nine tax years.

Where the remittance basis applies automatically there is no loss of personal allowances and no charge levied on longer term residents (see below).

**Remittance basis claim**

A resident, non-domiciled individual may otherwise elect for the remittance basis to apply. Where a claim is made, the individual loses entitlement to personal allowances and the capital gains tax annual exemption.

An individual who elects for the remittance basis and is aged 18 or over in the tax year is subject to a remittance basis charge of £30,000. Longer term residents are subject to higher rates of £60,000 or £90,000. The applicable charge levied is as follows:

- Where an individual has been resident in at least 7 of the 9 preceding tax years (but not resident for 12 of the preceding 14 or 17 of the preceding 20), the remittance basis charge is £30,000.

- Where an individual has been resident in at least 12 of the 14 preceding tax years (but not resident for 17 of the preceding 20), the remittance basis charge is £60,000.

- Where an individual has been resident in at least 17 of the 20 preceding tax years, the remittance basis charge is £90,000.
**Arising basis**
The remittance basis charge may be regarded as income tax or capital gains tax for the purposes of double taxation agreements.

Non-domiciled individuals can bring funds to the UK in order to invest in qualifying trading companies and partnerships without the remitted funds being taxable. Critical among the necessary conditions are the need to acquire newly issued shares or make a loan to a qualifying company.

A resident individual who is not taxed on the remittance basis will be taxed on the arising basis of taxation, so taxable in full on worldwide income and gains.
Tax incentivised employee share plans
Overview

Tax incentivised share plans are plans which follow rules laid down by Parliament and which consequently offer beneficial tax treatment for employees and employers. This can mean that the effective tax rate is reduced, the tax point is deferred and no national insurance is due.

Previously, these plans may have been described as 'approved' schemes as approval from HMRC was required to establish arrangements. However, this approval regime has now been replaced with a requirement that companies must 'self-certify' that their plans meet the necessary conditions to receive tax advantages. See the Employer compliance section.

While tax incentivised share plans have an attractive tax treatment, tax is not the only consideration. The wealth of regulations, codes, guidelines, disclosure and best practice must all be taken into account.

For links to the latest developments see our Tax blog but note in particular:

• our report on Making executive pay work: The psychology of incentives focuses on the results of a global survey, and

• useful executive pay insights.
Key advantages of tax incentivised share plans
Each tax incentivised share plan has its own characteristics but their key advantage is that, in general, they defer the tax point until the shares are sold. In general, gains will be taxed at lower capital gains tax rates rather than suffering income tax and national insurance.

The following table illustrates the tax differences between a typical share option and a tax incentivised one (and assumes that all qualifying conditions have been met, which may include conditions relating to when the option is exercised).

<table>
<thead>
<tr>
<th>When shares are acquired:</th>
<th>Typical share option</th>
<th>Tax incentivised option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax</td>
<td>Yes – up to 45%</td>
<td>No</td>
</tr>
<tr>
<td>National Insurance</td>
<td>Yes – 13.8% employer</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>2% employee</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>When the acquired shares are subsequently sold:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gains tax</td>
</tr>
<tr>
<td>18% or 28% on growth in share value post acquisition</td>
</tr>
<tr>
<td>18% or 28% (or even 10%) on entire option gain (i.e. on growth in share value above the option exercise price)</td>
</tr>
</tbody>
</table>

Tax incentivised share plans can be either discretionary (an employing company may selectively offer participation to certain individuals) or 'all-employee' (the arrangement must be offered to all 'eligible employees').
Discretionary tax incentivised share plans

There are two different types of discretionary tax incentivised share option plans.

- **The Enterprise management incentive (EMI) plan:** This is available for small and medium size, independent, trading companies and groups with less than 250 full-time equivalent employees, and no more than £30m of gross assets.

- **Company share option plan (CSOP):** This is available for most other independent and listed companies.

Provided a number of detailed conditions are satisfied then no income tax will be due on the grant or exercise of the options. If the conditions are not met then the tax treatment will be no worse than a normal share option plan.

These plans can be used in their own right or together with existing share option plans, restricted stock unit awards and some types of performance share plans.

The EMI plan is the more attractive of the two since it currently allows up to £250,000 of shares to be granted under option (compared with £30,000 for the CSOP) and because it allows more flexibility in terms of the shares that can be used. However, the conditions for establishing an EMI plan are more restrictive than for a CSOP.

All–employee plans

There are two tax incentivised share plans that work on an all-employee basis as follows:

- **Savings related share option plan (save as you earn or SAYE):** This is a share option plan that is linked to regular employee savings.

- **Share incentive plan (SIP):** This is a very flexible share plan where employees can be given free shares without suffering any tax. Either in addition or as an alternative, employees can buy shares using their pre-tax pay. If they keep the shares within the plan for at least five years, no income tax will be due on withdrawal. In addition, no capital gains tax will arise on shares whilst they remain in the plan.

These plans are often used as a way of helping employee engagement and aligning their interests with shareholders generally. As well as being effective plans in their own right, they can be used with, say, a US–style employee stock purchase plan.
# Summary of key features and requirements

<table>
<thead>
<tr>
<th></th>
<th>Company share option plan (CSOP)</th>
<th>Enterprise management incentive (EMI)</th>
<th>Savings related share option scheme (SAYE)</th>
<th>Share incentive plan (SIP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation in plan</td>
<td>At employer's discretion provided certain conditions met</td>
<td>At employer's discretion provided certain conditions met</td>
<td>All employees (subject to minimum period of service, not exceeding five years)</td>
<td>All employees (subject to minimum period of service, not exceeding 18 months)</td>
</tr>
<tr>
<td>Benefit to each employee</td>
<td>At employer's discretion</td>
<td>At employer's discretion</td>
<td>Must be on similar terms (by reference to salary or years' service)</td>
<td>See below¹</td>
</tr>
<tr>
<td>Price to be paid</td>
<td>Not less than market value per share at grant of option</td>
<td>At employer’s discretion</td>
<td>Up to 20% discount to market value of shares at grant of option</td>
<td>See below¹</td>
</tr>
<tr>
<td>Maximum participation</td>
<td>£30,000 aggregate market value of shares at date of grant</td>
<td>£250,000 aggregate market value of shares at date of grant</td>
<td>£500 savings per month</td>
<td>See below¹</td>
</tr>
<tr>
<td>Normal exercise/holding period</td>
<td>Three to ten years to obtain tax relief</td>
<td>At employer’s discretion, but exercise on or before tenth anniversary of grant is one of the requirements for tax relief</td>
<td>Six month exercise period following three or five years</td>
<td>Five years to obtain full tax benefits</td>
</tr>
</tbody>
</table>

1 Under a SIP the employer can award free shares (which can be performance–related) up to a maximum of £3,600 p.a. tax-free. Secondly, an employee may buy partnership shares from pre–tax salary, up to a maximum of £1,800 p.a. (or 10% of pay if less). The employer may, at its discretion, match these partnership shares up to 2:1 tax–free. Finally, dividends paid out on an employee’s shares can be reinvested tax free in further shares for the employee. Any capital gains arising while the shares are held in the plan are free of CGT.
Statutory corporation tax deductions

- A statutory corporation tax deduction is available in relation to the exercise of CSOP, SAYE and EMI options if certain conditions are met. The deduction will be equal to the gain that the employee realises on exercise (even if the employee is not liable to income tax in relation to this amount).

- A statutory corporation tax deduction is also available in relation to shares awarded under a SIP.

Employer compliance

- Companies must have given electronic notice to HMRC of all existing tax incentivised plans by 6 July 2015. Failure to have done so will mean that awards and options made after 6 April 2014 will not qualify for the relevant tax advantages.

- Electronic notice must also be given in relation to all new tax incentivised plans by 6 July following the tax year in which the first award was made.

- Electronic notice must also be given of new EMI options shortly after they have been granted.

- At the end of each tax year companies must submit electronic returns to HMRC with detailed information regarding employee share award activity during that tax year. The deadline is the following 6 July and there are financial penalties for late or incorrect reporting.

- If the tax incentivised conditions are not met, the employer will normally have to operate PAYE and NIC (there are exceptions for SAYE plans and some unlisted shares).
National insurance contributions (NICs)
Overview

Employment costs, changes to government legislation, national insurance contributions (NICs) and the roll out of Real Time Information, have increased the demands on employers over the past few years.

There is an allowance of the first £2,000 of employer NICs allowance in the form of an employment allowance for businesses and charities, increasing to £3,000 from April 2016. From 6 April 2015, this was extended to employers of care and support workers where the duties of employment relate to the employer’s personal, family or household affairs.

How pay and benefits are organised can affect NICs; these need careful review. In this context, it may be helpful to read the overseas employment income, pensions and employment benefits sections of the income tax section and the approved or tax incentivised share plans section.

For links to the latest developments and opinion, see our Tax blog and our People Agenda Blog.
## Class 1 (employed) contributions
Payable monthly or quarterly by the employer at the same time as PAYE remittances.

### Employees:

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Contracted in</th>
<th>Contracted out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £112 (£111)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£112.01–£155 (£111.01–£153)</td>
<td>Nil (nil)</td>
<td>Rebate 1.4% (1.4%)</td>
</tr>
<tr>
<td>£155.01–£770 (£153.01–£770)</td>
<td>12% (12%)</td>
<td>10.6% (10.6%)</td>
</tr>
<tr>
<td>£770.01–£815 (£770.01–£805)</td>
<td>12% (12%)</td>
<td>12% (12%)</td>
</tr>
<tr>
<td>Over £815 (over £805)</td>
<td>2% (2%)</td>
<td>2% (2%)</td>
</tr>
</tbody>
</table>

### Employers:

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Contracted in</th>
<th>Contracted out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £112 (£111)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£112.01–£156 (£111.01–£153)</td>
<td>Nil (nil)</td>
<td>Rebate 3.4% (3.4%)</td>
</tr>
<tr>
<td>£156.01–£770 (£153.01–£770)</td>
<td>13.8% (13.8%)</td>
<td>10.4% (10.4%)</td>
</tr>
<tr>
<td>Over £770 (over £770)</td>
<td>13.8% (13.8%)</td>
<td>13.8% (13.8%)</td>
</tr>
</tbody>
</table>

### Salary related

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Contracted in</th>
<th>Contracted out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £112 (£111)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£112.01–£156 (£111.01–£153)</td>
<td>Nil (nil)</td>
<td>Rebate 3.4% (3.4%)</td>
</tr>
<tr>
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<td>13.8% (13.8%)</td>
<td>10.4% (10.4%)</td>
</tr>
<tr>
<td>Over £770 (over £770)</td>
<td>13.8% (13.8%)</td>
<td>13.8% (13.8%)</td>
</tr>
</tbody>
</table>

### Money purchase

<table>
<thead>
<tr>
<th>Weekly earnings</th>
<th>Contracted in</th>
<th>Contracted out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £112 (£111)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£112.01–£156 (£111.01–£153)</td>
<td>Nil (nil)</td>
<td>Rebate 3.4% (3.4%)</td>
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<td>10.4% (10.4%)</td>
</tr>
<tr>
<td>Over £770 (over £770)</td>
<td>13.8% (13.8%)</td>
<td>13.8% (13.8%)</td>
</tr>
</tbody>
</table>

### Notes:

1. Reduced employee contributions at 5.85% (5.85%) are payable on weekly earnings from £155.01 to £815 (£153.01 to £805) by married women and widows who made the reduced rate election before 12 May 1977. It has no effect for higher earnings or on employer contributions.

2. From 6 April 2015, employers with employees under the age of 21 are no longer required to pay employer Class 1 (secondary) NICs on their weekly earnings up to £815.

3. From 6 April 2016, employers with apprentices under the age of 25 will no longer be required to pay employer Class 1 (secondary) NICs on their weekly earnings up to £815.

4. For 2016/17 and 2017/18 the upper earnings limit of £815 will increase in line with the increases in the higher rate income tax threshold.
**Other classes of contributions**

- **Class 1A (employer only):** 13.8% (13.8%) based on taxable benefits which do not attract Class 1 contributions. Payable annually in arrears by 19 July following the tax year to 5 April (22 July if paying electronically).

- **Class 1B (employer only):** 13.8% (13.8%) in respect of amounts in a PAYE settlement agreement (PSA) and the income tax thereon. A PSA is a statutory arrangement under which an employer can settle employees' income tax liability on various benefits. Payable by 19 October following the tax year to 5 April (22 October if paying electronically).

- **Class 2 (flat rate for self-employed):** £2.80 (£2.75) per week. Subject to ‘small profits threshold’ of £5,965 (£5,885). Payable quarterly or by monthly direct debit.

- **Class 3 (voluntary flat rate):** £14.10 (£13.90) per week. Payable quarterly or by monthly direct debit.

- **Class 4 (self-employed):** 9% (9%) on assessable profits between £8,060 (£7,956) and £42,385 (£41,865) per annum. 2% (2%) on profits above £42,385 (£41,865). Payable with income tax.
National minimum wage
The national minimum wage hourly rate depends upon the employee's age and whether they are an apprentice. Employees must be at least school leaving age in order to be eligible to receive it.

The hourly wage rates are as follows:

<table>
<thead>
<tr>
<th>Age of worker</th>
<th>21 and over</th>
<th>18 – 20</th>
<th>Under 18</th>
<th>Apprentice rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly rate from 1 October 2014</td>
<td>£6.50</td>
<td>£5.13</td>
<td>£3.79</td>
<td>£2.73</td>
</tr>
<tr>
<td>Hourly rate from 1 October 2015</td>
<td>£6.70</td>
<td>£5.30</td>
<td>£3.87</td>
<td>£3.30</td>
</tr>
</tbody>
</table>
Tax efficient investments
Overview
A number of tax incentives have been introduced over the years for particular forms of saving or investment. Some of these are briefly summarised below.

In this context, we recommend potential investors also look at the income tax and pensions sections.

Tax relief should never be the sole reason for investing and the overall return after tax should be considered.

A company looking to raise investment funds using government-backed schemes, such as the enterprise investment scheme (EIS), the seed enterprise investment scheme (SEIS), social investment tax relief (SITR) and venture capital trusts (VCTs), should consider the limits to the amounts that can be raised in a year from such schemes and certain other EU supported sources. For EIS and VCT companies this is currently £5m in total in any 12 month period. An SEIS company is allowed to raise £150k in three years under the SEIS. A lifetime limit under the EIS, SEIS and VCT schemes is proposed and is likely to be introduced. It is proposed also that SITR companies will subject to similar limits.

The March 2015 Budget proposed changes to the EIS and VCT schemes to obtain EU State Aid approval. These have not been enacted at the time of writing, but are likely to have an impact from 6 April 2015. Given the interim situation, it is vital to take advice about the proposals before taking any action.

For links to the latest developments see our Tax blog

• There is a range of matters of particular interest to private business and private clients.
Venture capital trusts (VCTs)

- VCTs are quoted companies approved by HMRC and similar in concept to investment trusts. A VCT must subscribe for at least 70% of its investments in shares or securities in qualifying trading companies. Its income must be at least 70% derived from shares or securities.

- Income tax relief is available at 30% on new subscriptions for ordinary shares in VCTs by individuals aged 18 or over. The maximum amount qualifying for relief is £200,000 in each tax year.

- Dividends received from VCTs are exempt from income tax, provided that the shares acquired (by subscription or purchase) are within the annual limit of £200,000.

- Shares in VCTs acquired within the annual limit are also exempt from CGT on disposal at any time, but losses on disposal are not allowable as capital losses.

- The initial income tax relief may be withdrawn if various conditions are not met – these include a minimum holding period of five years.

Enterprise investment scheme (EIS)

- Income tax relief is available for new subscriptions by individuals in shares satisfying the conditions of the EIS scheme. The shares must be eligible ordinary shares in qualifying unlisted trading companies, including shares traded on the Alternative Investment Market.

- The maximum amount qualifying for relief in a single tax year is £1m.

- Income tax relief on subscription is limited to 30% of the amount subscribed.

- A capital gain on disposal of the EIS shares after the minimum holding period (see below) will be free from CGT provided that the EIS income tax relief has been retained. Capital losses may generally be relieved against either capital gains or taxable income.

- Capital gains arising from the disposal of any other capital assets can be deferred by investing the proceeds into the EIS, provided that the EIS investment is made in the period starting 12 months before the date of disposal and ending 36 months after disposal.

- EIS investments may qualify for inheritance tax (IHT) business property relief.
• If there is remaining capacity to utilise EIS income tax relief in the previous tax year, EIS income tax relief can be carried back and given against income in the earlier tax year.

• The reliefs may be withdrawn if various conditions are not met or cease to be met. Shares must be held for a minimum holding period of three years. Where the investee company is not trading at the date the shares were issued, the minimum holding period runs from the date the trade commences.

Seed enterprise investment scheme (SEIS)
• The SEIS is closely based on the EIS. It offers tax reliefs for investors in smaller companies whose qualifying trade or R&D activity has been carried on for less than two years.

• Income tax relief is available for new subscriptions by individuals in shares satisfying the conditions of the SEIS scheme.

• The maximum amount qualifying for relief in a single tax year is £100,000 per investor.

• Income tax relief on subscription is limited to 50% of the amount subscribed.

• A capital gain on disposal of the SEIS shares after three years will be free from CGT provided the SEIS income tax relief has been retained. Capital losses may generally be relieved against either capital gains or taxable income.

• Capital gains arising from the disposal of any capital assets are not treated as capital gains if proceeds equal to the amount of the gain (or part of it) are invested in shares which qualify for SEIS income tax relief. Half of the amount reinvested in the shares is treated as not being a capital gain.

• SEIS investments may qualify for IHT business property relief.

• If there is remaining capacity to utilise SEIS income tax relief in the previous tax year, SEIS income tax relief can be given against income in the earlier tax year.

• The reliefs may be withdrawn if various conditions are not met or cease to be met. Shares must be held for a minimum holding period of three years.

• An investee company may receive a maximum of £150,000 from SEIS investors.
**Social investment tax relief (SITR)**

- The SITR is also based on the EIS. It offers **tax reliefs for investors in qualifying social enterprises** to help enterprises access new sources of finance. Qualifying social enterprises must not have their shares or debt quoted on a recognised stock exchange, but may be listed on the Alternative Investment Market (AIM). They must have a defined and regulated social purpose and meet various qualifying conditions.

- Income tax relief is available for **investment** by individuals in newly issued qualifying shares or loans satisfying the conditions of the SITR scheme if made on or after 6 April 2014 and before 6 April 2019.

- The **maximum amount qualifying** for relief by an individual in a single tax year is £1m.

- Income tax **relief on new shares and loans is limited to 30%** of the amount invested.

- A capital gain on disposal of the SITR shares or loans after the minimum holding period (see below) will be **free from CGT** provided that the SITR income tax relief has been retained. Capital losses on shares may generally be relieved against either capital gains or taxable income.

- Capital gains arising on or after 6 April 2014 and before 6 April 2019 from the disposal of any other capital assets **can be deferred** by investing the proceeds into a qualifying SITR investment, provided that the SITR investment is made in the period starting 12 months before the date of disposal and ending 36 months after disposal and is eligible for income tax relief.

- If there is remaining capacity to utilise SITR income tax relief in the previous tax year, SITR income tax relief can be carried back and given against income in the earlier tax year.

- The **reliefs may be withdrawn** if various conditions are not met or cease to be met. The shares or loans must be held for a minimum holding period of three years.

**Individual savings accounts (ISAs)**

- Returns from ISAs are **exempt from tax** with no minimum holding period or minimum subscription.

- **Qualifying investments** include cash deposit accounts or building society share accounts, stocks and shares (including collective investment schemes and gilt edged stock) and certain National Savings & Investments products.
• The ISA annual allowance for the 2015/16 tax year is £15,240 (£15,000).

• The annual allowance can be invested in cash, stocks and shares or any combination of these. However, a saver may only pay into a maximum of one cash ISA and one stocks & shares ISA each year.

• Under ISA rules it is also permissible to transfer savings between cash and stocks & shares ISAs. Savings made prior to 5 April 2014 can be transferred in whole or part between cash ISAs and stocks & shares ISAs as the saver wishes (subject to the terms and conditions of the specific account). Savings made after 5 April 2014 can only be transferred as a whole, and cannot be split.

• Only UK resident individual taxpayers may invest in ISAs. Anyone becoming non–resident can continue to hold ISA investments, and continue to receive tax relief on them, but may not make further investments until UK tax resident again.

• There are age limits. Only those aged 18 and above can invest in a full ISA.

• Those aged 16 to 18 can hold a cash ISA but cannot open a stocks & shares ISA. Those aged 16 to 18 can invest up to £15,240 (£15,000) into a cash ISA for the tax year 2015/16.

• Junior ISAs, which were introduced in November 2011, are a tax favoured savings account specifically for UK resident children under the age of 18 who do not have a Child Trust Fund. There are two types of Junior ISA – a cash Junior ISA and a stocks and shares Junior ISA. They can be used to save up to £4,080 (£4,000) in the current tax year. As with ISAs, there will be no tax to pay on the income or gains a Junior ISA makes.

• Help to Buy ISAs will be introduced from 1 December 2015. First time buyers will be able to save £200 per month, and an additional one-off opening deposit of £1,000. The ISA will attract a Government bonus of up to £3,000 on maximum savings of £12,000.

• It is proposed that from April 2016, peer to peer investments can be included in an ISA.

• It is proposed that from April 2016, investors can withdraw funds from an ISA and reinvest in the same year without losing the annual entitlement to invest
Authorised investment funds (AIFs)

- AIFs (including unit trusts and open-ended investment companies (OEICs)) are exempt from CGT.

- They pay tax on income, after expenses, at a rate of corporation tax equal to the basic rate of income tax.

- AIFs can elect into a regime (provided certain conditions are met by the fund) that moves the point of taxation from the AIF to the investor so that the investor is treated as though they had invested in the underlying assets directly. This is achieved through source streaming of distributions paid by the AIF.

National Savings and Investments

- Premium Bonds offer tax–free returns in the form of a monthly prize draw. The maximum holding is £50,000 (£40,000) per person from 1 June 2015.

- Interest on Children’s Bonds is free from UK income tax and capital gains tax for both the child and the parents. The maximum investment is £3,000 per issue per child with fixed investment terms.

- Other National Savings and Investments products (apart from ISAs) are fully taxable.
**Child trust funds (CTFs)**
- CTFs have now been replaced by Junior ISAs (see above).

**Other investments**
Certain other investments also carry tax advantages, for example.

- **Real estate investment trusts** (REITs) are funds investing in property and effectively move the point of taxation from within the fund to the investor.

- Capital gains made on **gilts** do not attract a CGT charge.

- **Offshore funds** may often roll up gains and, in some cases, defer tax on the income until the investor realises part or all of their holding. However, eventual encashments could be subject to income tax as a result of the roll–up status. For some investors, CGT treatment on disposal of their investment is desirable, as opposed to the gain being taxed at income tax rates. Those offshore funds with reporting fund status (broadly, funds that elect to enter the reporting funds regime and report the income attributable to their investors to HMRC and the investor) provide this. The reported income is subject to income tax whether or not the income is distributed to investors. Gains realised on offshore funds that do not elect into the reporting fund regime are taxed at the investor's marginal income tax rate.
Overview

Continuous reform of the corporate tax landscape over the past five years has fundamentally changed the impact of tax on corporate business structures and decisions. These changes have a stated policy goal of improving the international competitiveness of the UK. The overall impact of reduced rates of corporation tax, the improved regime for international businesses, exemptions for dividends and disposals of substantial shareholdings, are designed to make the UK a more attractive location for holding companies and business hubs.

The OECD’s July 2013 Action Plan set out proposals to address base erosion and profit shifting (BEPS) and a number of proposals have now been released (e.g. on permanent establishment status and country by country reporting). If implemented as drafted, the recommendations could result in radical changes to the international tax landscape.

A significant recent UK tax development is the introduction of a diverted profits tax from 1 April 2015 – this may impact multinational businesses with UK activity in certain circumstances.

The nature and extent of these changes means that both international and domestic businesses should re-evaluate the impact of tax on their activities, whilst businesses with intellectual property, research and development activity or in the creative sectors should understand the roles of the Patent Box, research and development (R&D) tax credits and the availability of various reliefs.

Specific areas for consideration by all businesses include:

- application of reliefs
- managing and protecting intellectual property
- tax risk and compliance management
- effective business model planning.

For links to the latest corporate tax developments see our Tax blog or the Tax services page on our website at pwc.co.uk.
Corporation tax

Rates of tax

• The rate of corporation tax is 20% from 1 April 2015 (financial year 2015). This applies to all profits regardless of size; in earlier years, lower rates applied to small profits but the rates are unified from 1 April 2015. This rate will fall to 19% in 2017 and 18% in 2020.

• In financial year 2014 (from 1 April 2014), a full rate of corporation tax of 21% was levied on profits over £1,500,000, the small profits rate of 20% applied to profits up to £300,000 and profits between £300,001 and £1,500,000 were taxed at a 21.25% effective marginal rate. The profit limits were divided by one plus the number of associated companies worldwide carrying on a business.

• A reduced patent box corporation tax rate applies to taxable profits attributed to patents and related licences. For 2015, this is an effective rate of 12%. It is expected that the regime will close to new entrants from June 2016 (but will continue until 2021 for existing taxpayers), when a new scheme will be introduced.

Taxation of banks

• A corporation tax surcharge of 8% will be applied to the taxable profits (as adjusted) of banks with effect from the first accounting period (AP) starting on or after 1 January 2016. This will apply to profits in excess of £25m and for these purposes no deduction is allowed for losses of earlier years.

• From April 2015 relief for previous losses is capped at 50% of current year profits.

• The current rates of bank levy charged on certain equity and liabilities of large banks are:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term liabilities</td>
<td>0.21%</td>
<td>0.18%</td>
</tr>
<tr>
<td>Long-term equity and liabilities</td>
<td>0.105%</td>
<td>0.09%</td>
</tr>
</tbody>
</table>

• These rates will reduce further until 2021.
**Dividends**

- Dividends paid by UK companies to UK resident individuals (and certain non-UK residents) are not subject to withholding tax.
- Almost all dividends received by UK companies will be exempt from tax.

**Deductions from income**

- The normal rule is that revenue expenses, determined on accountancy principles, incurred wholly and exclusively for the purposes of a trade or in managing investments, are deductible.
- Interest, foreign exchange differences and other financing costs are generally deductible by reference to their accounting treatment. There are wide ranging and complex rules covering all finance related transactions.
- Accounting depreciation is not deductible for tax purposes. Instead, businesses claim capital allowances on plant and machinery and certain other capital costs.
- For acquisitions of intellectual property and other intangible assets, a company can generally claim a deduction of the accounting amortisation or impairment loss or a flat rate of 4% per annum. Prior to 8 July 2015, the acquisition of goodwill and intangibles linked to customer relationships also qualified for such deductions.
- A deduction equal to 130% of the qualifying expenditure on R&D can be claimed by large companies. For small and medium companies, as defined, a deduction equal to 230% (from 1 April 2015; 225% previously) of the qualifying expenditure on R&D is given in the year in which it is incurred (or sometimes a repayable tax credit). Large companies are able, by election, to claim an 11% 'above the line' tax credit (from 1 April 2015; 10% previously) instead of the enhanced deduction. This will be mandatory from 1 April 2016.
- There are special tax reliefs available for certain expenditure on UK film production, high end television, animation, video games (and certain theatrical productions from 1 September 2015). These creative sector reliefs are targeted at those productions which make a significant economic and cultural contribution to the UK. A similar relief is proposed for orchestras.
- Most pension contributions made wholly and exclusively for business purposes are deductible when paid. Tax relief may have to be spread over a period of up to four years if the contributions exceed (broadly) 210% of the previous year's contributions.
- Remuneration for directors and employees must be paid within nine months of the end of the AP to secure a deduction. Amounts paid later are deducted when paid.
**Capital gains**

- Chargeable (capital) gains and allowable losses are, in general, calculated in the same way for companies as for individuals (see the section on capital gains tax). Net gains are included in the calculation of profits chargeable to corporation tax although no annual exemption is available to companies.

- Chargeable gains and losses arising on disposals by trading groups of **substantial shareholdings** (10% ordinary share capital minimum) are exempt in most cases.

- Chargeable gains can be reduced by **indexation allowance** calculated on the allowable expenditure by reference to the increase in the retail prices index. Indexation may not create or increase a loss.

**Losses**

- Certain types of current AP losses may be surrendered as **group relief** to other entities in the same corporate group.

- **Trading losses** can be set against total profits (other income and gains) of the same AP and the balance carried back against total profits of the previous 12 months. Remaining trading losses are carried forward indefinitely and set against future profits of the same trade. Losses in the final year of a trade can be carried back to an AP ending within the previous three years.

- **Management expenses and UK property business losses** are deducted from a company's total profits for that AP. Any surplus is carried forward to the next AP. Neither can be carried back to previous APs.

- **Non-trading loan relationship deficits** are carried forward and set against non-trading profits in succeeding APs unless a claim is made to use the deficit (or part of it) to reduce the company’s total profits of the current AP and/or carry it back and set it against non-trade credits (and certain other amounts) arising in the previous 12 months.

- **A non-trading loss on intangible fixed assets** is carried forward to the company’s next AP unless a claim is made to offset part or the entire non-trade loss against the company’s total profits for the current AP.

- **Capital losses** can only be offset against capital gains arising in the same company in the same AP or subsequent APs.

- Restrictions on losses and other deductions may apply in some cases where there has been a **change in ownership of a company**.

**Foreign branch profits**

- **UK companies may make an election to exempt** from UK corporation tax profits (and certain gains) attributable to foreign permanent establishments (PEs).
• The election is on a company by company basis, applies from the first AP starting after the election and is (broadly) irrevocable. A non-UK resident company can also elect to apply the regime for a future AP in which it will be UK resident.

• Once the election is made, there is no relief in the UK for the PE’s losses.

• The exemption covers profits attributed to the PE, under the relevant articles of a full double taxation treaty or by reference to the OECD Model Treaty.

Groups of companies

• Most types of current AP losses may be surrendered as group relief between companies which are members of the same worldwide group and subject to UK corporation tax. The group relationship requires 75% direct or indirect ownership – including economic ownership – of ordinary share capital. There are more complex requirements for consortia. In limited circumstances, losses incurred in other EU or European Economic Area territories can be included.

• The debt cap rules apply to large groups with UK member companies. They restrict the amount of deductible finance and interest expense to (broadly) the amount of the group’s external borrowing costs. The rules do not apply where UK net debt is under 75% of the group’s worldwide external debt.

• Capital losses cannot be surrendered as group relief, but matching and offset of gains and losses can often be achieved by election within a capital gains group. Also, such groups can transfer assets tax–free between group companies.

Controlled foreign companies (CFCs)

• Broadly a CFC is an overseas company controlled by UK residents. Certain profits may be treated as taxable on UK resident companies which have an interest in the CFC, subject to a number of statutory exemptions.

• Where a CFC’s income comprises intra-group finance profits, between 75% and 100% of those profits are exempt (which gives an effective tax rate on those profits of between 0% and 5%).

Transfer pricing

• UK rules apply to both UK/non–UK and UK/UK transactions of goods and services between related parties. The rules adjust the pricing used for tax purposes onto an arm’s length basis.

• The rules also apply to financing (thin capitalisation).

• A compensating adjustment may be available in UK/UK transactions, to eliminate double taxation.

• Small and medium enterprises are exempt in many cases.
Diverted profits tax (DPT)
DPT is a new tax, separate to other corporate taxes, introduced on 1 April 2015. It is levied at 25% (or 55% in the case of UK ring fenced operations, i.e. broadly oil extraction operations) on diverted profits (as defined) and may apply in two circumstances:

- where groups create a tax benefit by using transactions or entities that lack economic substance (as defined); and/or

- where foreign companies have structured their UK activities to avoid a UK permanent establishment.

Companies are required to notify HMRC if they are potentially within the scope of DPT within 3 months of the end of the accounting period to which it relates (extended to 6 months for the first year).

The legislation is complex and subjective in places, and has the potential to apply more widely than might be expected.
Annual tax on enveloped dwellings (ATED)
Overview
The annual tax on enveloped dwellings (ATED) is chargeable on companies, partnerships with a corporate partner, and collective investment vehicles which hold UK residential dwellings valued at more than £1m on specified valuation dates.

The amount of ATED is worked out using a banding system based on the self-assessed value of property. If HMRC challenges a valuation and finds that it is wrong, there may be penalties plus interest for late payment. If it is reasonable to believe that the valuation falls within a 10% variance of a banding threshold, a pre-return banding check can be made.

The annual return and the tax payable are both due by 30 April of the year of assessment i.e. 2015/16 returns were due on 30 April 2015.

For links to the latest developments see our Tax blog.
**Rate band**

<table>
<thead>
<tr>
<th>Property value</th>
<th>Annual tax 2015-16</th>
<th>Annual tax 2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than £1m but not more than £2m</td>
<td>£7,000</td>
<td>n/a</td>
</tr>
<tr>
<td>More than £2m but not more than £5m</td>
<td>£23,350</td>
<td>£15,400</td>
</tr>
<tr>
<td>More than £5m but not more than £10m</td>
<td>£54,450</td>
<td>£35,900</td>
</tr>
<tr>
<td>More than £10m but not more than £20m</td>
<td>£109,050</td>
<td>£71,850</td>
</tr>
<tr>
<td>Over £20m</td>
<td>£218,200</td>
<td>£143,750</td>
</tr>
</tbody>
</table>

1 The self-assessed valuation figure will be used for the first five ATED return periods beginning 1 April 2013 and will be the valuation at 1 April 2012 or, if later, when bought or, for new or converted properties, when it is entered on the Council Tax Valuation Lists (or becomes occupied).

From 1 April 2016 a further new band will apply to properties with a value greater than £500,000. The related capital gains charge on disposals of properties liable to this new ATED band will apply from the same date. The related 15% SDLT rate that applies to such properties will apply to properties purchased by companies for over £500,000.

**Main reliefs**

A repayment claim can be made if a charge applies for less than a full year.

There are a number of reliefs against the tax which can be claimed including residential dwellings that are:

- leased out in a rental business;
- held for sale by a property developer or trader;
- used in a trade where the public can visit, stay in or otherwise enjoy the property; or
- provided for employees to use in the owner's trade.

There are also reliefs for charities and exemptions for public and national bodies and dwellings conditionally exempt from inheritance tax.
Capital allowances
Overview
Depreciation is not generally allowed as a tax deduction: instead businesses can deduct a range of capital allowances against profits.

The annual investment allowance (AIA) remains at £500,000 until 31 December 2015, and reduces to £200,000 from 1 January 2016. The main rate of writing down allowance (WDA) on plant and machinery is 18% although it should be noted that it is permissible to claim only part of the allowances available in any period. There are enhanced allowances available for certain green expenditure and for investments in plant and machinery in designated areas of some Enterprise Zones. Special rules that restrict allowances on fixtures acquired second-hand also now need to be carefully considered.

For links to the latest developments see our Tax blog, but note in particular our web pages on real estate services, such as those for:

• Property companies, REITs and developers
• Real estate funds and investors
**Plant and machinery**

Subject to various special rules, WDAs are available for capital expenditure incurred on the provision of plant and machinery but first-year allowances (FYAs) on such expenditure have generally been withdrawn.

Qualifying expenditure is added to the asset pool and WDAs at a rate of 18% p.a. on a reducing balance basis are given on the residue of expenditure in that pool. The main areas in which special rules apply are set out below.

- For expenditure on certain **long-life plant and machinery**, WDAs are restricted to 8% p.a. The rules apply broadly to assets whose expected working life is at least 25 years.

- **100% FYAs** can be claimed for expenditure incurred on designated energy-saving and environmentally beneficial technologies and products under the enhanced capital allowances (ECA) scheme.

- For expenditure by loss-making companies, a **payable ECA** is available of 19% of the loss that is surrendered. The upper limit of payable ECA is restricted to the greater of £250,000 and the company’s total PAYE and national insurance liabilities for payment periods ending in the chargeable period.

- An **AIA** provides individuals, certain partnerships and companies with a 100% allowance for the first £500,000 of expenditure on plant and machinery (other than cars) incurred between 1 or 6 April 2014 and 31 December 2015. The AIA reduces to £200,000 from 1 January 2016. One such allowance is available each year to each individual business or corporate group.

- Where **short-life plant or machinery** – broadly with an expected life shorter than nine years is acquired – it is normally possible to elect to have the capital allowances on such items calculated at the same rate, but separately from the main 18% p.a. asset pool. This means that a balancing allowance may arise on disposal.

- Buildings, structures and fixtures in buildings cannot generally qualify as plant unless they fall within certain defined categories. For expenditure on certain listed **integral features** of buildings and structures, WDAs of 8% p.a. on a reducing balance basis are available.
• For expenditure on cars, WDAs on a reducing balance basis are calculated at 18% p.a. for cars with CO₂ emissions between 95g/km and 130g/km and at 8% p.a. for cars with CO₂ emissions greater than 130g/km. 100% FYAs are available for expenditure on cars with CO₂ emissions less than 95g/km.

• For longer leases of plant and machinery that are essentially financing transactions (long funding leases), the tax treatment is aligned with that of plant and machinery acquired with other forms of finance, with the capital allowances usually going to the lessee. The regime does not normally apply where plant and machinery is leased as an incidental part of a typical property lease.

• 100% FYAs are available for certain plant and machinery expenditure incurred by companies in respect of a trade in designated Enterprise Zones.

• Special rules on fixtures acquired second-hand require a buyer and taxpaying seller to enter into elections, and for a seller to make a claim (where entitled to do so), in order for any allowances to pass to the buyer.

**Other allowances**

Apart from the regime above for plant and machinery, there are other capital allowances rules. The main impacts are currently as set out below.

• Capital expenditure on research and development attracts a 100% capital allowance in the first year.

• Capital allowances are available on specific bases in respect of ships, mineral extraction and dredging.

• Capital expenditure on the conversion or renovation of certain business premises which are located within a designated disadvantaged area and have been vacant for at least one year attracts a 100% initial allowance.
Capital gains tax (CGT)
Overview

Individuals who are resident in the UK are subject to CGT. In addition, from 6 April 2015, non-UK residents are subject to CGT on the disposal of UK residential property. Those who are UK-domiciled are subject to CGT on worldwide gains. Those who are non-UK domiciled are subject to CGT on either the arising basis (worldwide gains) or the remittance basis (UK gains on an arising basis and foreign gains only when brought into the UK). The basis depends on the particular circumstances of the individual and whether they are willing to pay the remittance basis charge when it would apply. Spouses and civil partners are treated as separate individuals for CGT although there are special rules for transfers of assets between them.

Apart from international elements, it is important to look at the timing of gains to see whether the annual exempt amount applies and whether a higher rate of tax can apply if net gains and taxable income exceed the higher rate threshold for the tax year. Vendors who qualify for entrepreneurs’ relief have a lifetime threshold of £10m for gains on certain assets which will attract only a 10% rate, but the nature of the assets is critical.

For links to the latest developments see our Tax blog.
**Rates of tax**

- The rate of CGT on chargeable gains, as reduced by allowable capital losses, depends on the individual's taxable income. Net gains for the year which, when added to taxable income after all allowable deductions and the annual exempt amount, do not exceed the higher rate threshold of £31,785 (£31,865) are **taxed at 18%**. Gains, or parts of gains, above that threshold are **taxed at 28%**.

- For trustees of UK trusts and personal representatives of UK deceased persons, CGT is charged at a flat rate of 28%. There are special rules for non–UK or dual–resident trusts.

**Main exemptions**

**Annual exempt amount**

- An individual's annual exempt amount of gains is £11,100 (£11,000). A husband and wife (or civil partners) each have a separate exemption.

- Most trusts have an annual exempt amount of £5,550 (£5,500), generally reduced where more than one trust has been created by the same person but not to below £1,110 (£1,100).

- A non–UK domiciled individual who claims the remittance basis has no annual exempt amount.

**Chattels exemption**

- Chattels with a predictable useful life of 50 years or less (for example caravans and boats) are normally exempt from CGT.

- Gains on other chattels are exempt if proceeds do not exceed £6,000 per item. Marginal relief may be available where proceeds are between £6,000 and £15,000.

**Other exemptions**

- An individual's death is not a disposal for CGT purposes. Instead, all assets owned are revalued to market value at that time of death, free of any CGT charge.

- In general, gains by an individual on disposals of their only or main **private residence** are exempt. An individual with more than one residence can elect which is treated as the main residence. If the property was not the individual's only or main residence for the entire period of ownership, the gain is apportioned between periods which do and do not qualify for the exemption. The last 18 months of ownership of a property which has been the main residence at some point is treated as qualifying regardless of whether the individual was living in the property during this period. This time period is
increased to 36 months in certain limited circumstances. A couple who are married or in a civil partnership can only have one main residence between them.

• Non-residents disposing of UK residential property on or after 6 April 2015 will be subject to a CGT charge and must submit a separate non-resident CGT return. Private residence relief may be claimed subject to meeting certain residence conditions.

• Gains on disposals of cars, gilts and qualifying corporate bonds are generally exempt, as are gifts to charities.

• Those with employee shareholder status can receive between £2,000 and £50,000 worth of shares which will be exempt from capital gains on a subsequent disposal.

**Main reliefs**

**Loss relief**

• Capital losses are, in principle, calculated in the same way as capital gains. Allowable capital losses are offset against chargeable gains and it is the net amount for the year that is subject to CGT.

• Net allowable losses in a tax year are carried forward for use against future net gains; they cannot be carried back. Losses brought forward are only used up to the extent necessary to reduce net gains for the year to the annual exempt amount. Any surplus is carried forward indefinitely, until exhausted.

• Non–UK domiciled taxpayers on the remittance basis can only claim relief for any offshore capital losses by making an irrevocable election to claim such losses.

**Entrepreneurs' relief**

• This relief, which has to be claimed, gives a CGT rate of 10% for eligible gains up to £10m. This monetary limit is a lifetime amount per individual.

• The types of assets qualifying for entrepreneurs' relief are broadly **business assets**. This covers:
  
  – a trading business carried on by the individual alone or in partnership;
  
  – shares or securities in a personal trading company where the individual owns 5% or more of the shares/securities and voting rights and is an officer or employee (full or part time);
assets owned by the individual and used in their personal trading company or partnership; and

shares acquired through exercising EMI options on or after 6 April 2012.

CGT deferral relief

- CGT may be deferred by reinvestment of the chargeable gain into eligible shares in an enterprise investment scheme (EIS – see the section on tax efficient investments) qualifying unlisted trading company (including companies quoted on AIM). The reinvestment must take place during the period beginning one year before and ending three years after the disposal which gave rise to the gain.

- Individuals and trustees for individuals may claim the relief.

- Relief will be denied in certain circumstances if borrowings are taken out to purchase the new shares or if the company returns value to investors.

Gifts of business assets

- Capital gains arising on certain gifts of assets can be deferred, usually until the assets are subsequently disposed of by the donee. Generally the relief needs to be claimed jointly by donor and donee.

- Broadly, this relief is available in respect of gifts of trading assets, shares in most unlisted trading companies (including companies quoted on AIM) and shares in most listed trading companies where the donor held at least 5% of the voting rights. Relief is also available for certain agricultural land and gifts that attract a charge to inheritance tax.

- Relief is not available for gifts of shares or securities if the donee is a company or on the disposal of assets to the trustees of trusts in which a settlor has an interest.

Rollover relief

- Rollover relief, or a holdover variant, is available on the disposal of various qualifying assets used for trading purposes, including land, buildings and fixed plant or machinery. In order to obtain a full tax deferral it is necessary to reinvest the full proceeds (after disposal costs), and not just the amount of the gain, in new qualifying assets. The reinvestment must take place during the period beginning one year before and ending three years after the disposal which gave rise to the gain.

Assets acquired before 31 March 1982

- Gains on disposals of assets which were held at 31 March 1982 are based on market value at that date.
Inheritance tax (IHT)
Overview
Apart from specific rules applicable to transfers to relevant property trusts or trusts treated as such, lifetime transfers by individuals can be chargeable transfers or potentially exempt transfers (PETs). Tax is ultimately calculated on these and a deceased's estate by reference to the value of their seven-year cumulative total.

At the time of transfer, no tax is paid on PETs while tax is charged at half the normal death rates on chargeable transfers. IHT needs to be calculated at full rates on each transfer if death follows within seven years. PETs include lifetime transfers by individuals to individuals and into trusts for the disabled.

Transfers made prior to death are therefore attractive from an IHT viewpoint, but risk later falling into charge. Various common exemptions are available and relief for agricultural or business property owned for more than a specified period (usually two years) can reduce the value transferred wholly or partly.

An income tax charge can arise on pre-owned assets. This applies when an individual enjoys free or low-cost use of assets that belonged to him or that he funded. There is an election for IHT treatment instead. Other anti–avoidance legislation may also treat other gifts of assets in which an interest is retained as still comprised in the estate for IHT purposes.

There are restrictions when, and to what extent, liabilities may be deducted against an estate. The restriction will apply depending on (a) what the borrowed money was used for, or (b) on death, on whether the borrowed money is repaid from the estate.
Rates of IHT
The rates applicable to death are set out below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>On the first £325,000 (2014/15: £325,000) of the seven year cumulative total of chargeable transfers (the nil rate band)</td>
<td>Nil</td>
</tr>
<tr>
<td>On the excess over £325,000</td>
<td>40%</td>
</tr>
</tbody>
</table>

- Tapered rates apply to lifetime chargeable transfers (including any PETs which become chargeable) made more than three years but within seven years preceding death. Tapering reduces the tax rate, not the chargeable transfer, and so is of no benefit to a transfer within the nil rate band on death. The effective rates of tax on the excess over the nil rate band are:
  - 0 to 3 years before death: 40%
  - 3 to 4 years before death: 32%
  - 4 to 5 years before death: 24%
  - 5 to 6 years before death: 16%
  - 6 to 7 years before death: 8%
- These tapered rates cannot reduce the tax due on a lifetime chargeable transfer below the amount chargeable when the transfer was made.
- A deceased person can utilise all or part of an unused nil rate band (NRB) of their previously deceased spouse or civil partner. If, on the first death, a proportion of the then NRB was not utilised by that deceased person, the unused proportion, applied to the NRB at the time of the second death, is available.
# Main exemptions

## Transfers to:

<table>
<thead>
<tr>
<th>Transfer Type</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK domiciled spouse</td>
<td>No limit</td>
</tr>
<tr>
<td>Non–UK domiciled spouse (from non–UK domiciled spouse)¹</td>
<td>No limit</td>
</tr>
<tr>
<td>Non–UK domiciled spouse (from UK domiciled spouse)²</td>
<td>Cumulative £325,000</td>
</tr>
<tr>
<td>UK registered charities</td>
<td>No limit</td>
</tr>
<tr>
<td>Political parties (special definition)</td>
<td>No limit</td>
</tr>
</tbody>
</table>

¹ Same–sex couples who acquire a legal status as civil partners are treated in the same way as married couples for IHT purposes.

² For transfers on or after 6 April 2013 (previously £55,000). There is also an option for the non-domiciled spouse to elect to be treated as if they are domiciled.

## Lifetime transfers:

<table>
<thead>
<tr>
<th>Type of Transfer</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual exemption per donor</td>
<td>£3,000</td>
</tr>
<tr>
<td>Small gifts, annual amount per donee (but not available to cover part of a larger gift)</td>
<td>£250</td>
</tr>
<tr>
<td>Regular gifts out of income</td>
<td>Varies according to circumstance</td>
</tr>
</tbody>
</table>

## Wedding gifts:

<table>
<thead>
<tr>
<th>Type of Gift</th>
<th>Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>To child of donor</td>
<td>£5,000</td>
</tr>
<tr>
<td>To grandchild (or remoter issue) of donor or from one party of the marriage to the other</td>
<td>£2,500</td>
</tr>
<tr>
<td>To others</td>
<td>£1,000</td>
</tr>
</tbody>
</table>
**Main reliefs**

<table>
<thead>
<tr>
<th>Business property relief (BPR)</th>
<th>Percentage reduction in value transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest in a business</td>
<td>100%</td>
</tr>
<tr>
<td>Farm tenancy held personally</td>
<td>100%</td>
</tr>
<tr>
<td>Listed shares giving control</td>
<td>50%</td>
</tr>
<tr>
<td>Unlisted shares (including companies quoted on AIM)</td>
<td>100%</td>
</tr>
<tr>
<td>Fixed assets used by a company which the transferor controls or by a partnership in which the transferor is a partner</td>
<td>50%</td>
</tr>
<tr>
<td>Trust property used by a life tenant in own business</td>
<td>50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agricultural property relief (APR)</th>
<th>Percentage reduction in value transferred</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural land or pasture including woodlands and certain buildings:</td>
<td></td>
</tr>
<tr>
<td>With vacant possession (or right to obtain vacant possession within 12 months)</td>
<td>100%</td>
</tr>
<tr>
<td>Tenanted where tenancy started after 31 August 1995 where owner can obtain vacant possession within 24 months</td>
<td>100%</td>
</tr>
<tr>
<td>Other tenanted</td>
<td>50%</td>
</tr>
</tbody>
</table>

**Charitable legacies relief**

IHT will be charged on the net chargeable value of an estate at a rate of 36% where 10% or more of that estate has been left to charity. The value of the estate on which the 10% will be based is the value charged to IHT after deducting all available reliefs, exemptions and available nil–rate band, but excluding the legacy itself.
**Trusts and IHT**

- Most trusts are relevant property trusts (RPTs) and as such are subject to the IHT trust regime. Lifetime transfers or additions to RPTs are chargeable transfers to the extent that they exceed the available IHT nil rate band. IHT is payable on transfers made into the trust (at 20%), on every ten year anniversary of the creation of the trust (at rates of up to 6%), and when capital leaves the trust (also at rates of up to 6%).

- Interest in possession (IIP) trusts in existence prior to 22 March 2006 remain outside the RPT regime until, broadly, the existing IIP comes to an end. Until that time they are treated for IHT purposes as comprised in the estate of the person with the IIP. There is transitional relief for such IIP trusts so that, provided they were appropriately amended before 6 October 2008, they will remain outside the RPT regime while the beneficiary entitled to the interest remains the same. Also, there is a limited exception from the RPT regime where the IIP arises on the death of the settlor.

- Accumulation and maintenance (A&M) trusts in existence prior to 22 March 2006 become RPTs unless they meet certain conditions. There are limited exemptions from the RPT regime for A&M trusts created under the will of a deceased parent for a bereaved minor child or for a disabled person.

**Main residence nil-rate band**

- From April 2016, an additional nil-rate band of £100,000 will apply when a residence is passed on death to direct descendants. This band will grow to £175,000 in 2020/21, and can be transferred, if unused, to a surviving spouse or civil partner. Some measures of relief will apply when a person downsizes or sells a home on or after 8 July 2015.
Stamp duty/stamp duty reserve tax (SDRT)
Overview

Stamp duty is charged on instruments effecting sales of shares. Agreements to sell shares usually attract stamp duty reserve tax (SDRT).

Payment of stamp duty on a transfer document (usually a stock transfer form) executed in pursuance of the agreement within six years usually cancels any SDRT due.

Non–UK shares are generally excluded from both stamp duty and SDRT although care should be taken on transfer.

There are exemptions for transfers within a group and for certain reconstructions.

When considering a transaction involving a transfer of shares, it is also important to consider the capital gains implications and whether the reliefs or roll–overs for reorganisations, reconstructions, transactions by entrepreneurs, etc apply. There may also be inheritance or other tax consequences.
Rates of duty
Rate as a percentage of purchase price:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most chargeable documents and transfers</td>
<td>0.50%</td>
</tr>
<tr>
<td>Transfer of certain bearer instruments in the UK to clearance services or</td>
<td>1.50%</td>
</tr>
<tr>
<td>depository systems(^1)</td>
<td></td>
</tr>
<tr>
<td>Unit trusts and open–ended investment companies</td>
<td>Varies</td>
</tr>
</tbody>
</table>

\(^1\) In the light of case law, HMRC will not seek to collect the 1.5% charge on the issue of new bearer instruments.

Chargeable documents and transfers

- **Stamp duty** – Payable on transfers of stock or marketable securities (but not gilts or bonds) where a transfer document, such as a stock transfer form, is used.

- **SDRT** – Payable on agreements to transfer chargeable securities. Payment of stamp duty on a transfer document within six years usually cancels any SDRT due. Where there is no transfer document, as is the case for transfers through CREST (the UK’s electronic share settlement system), SDRT is the relevant tax.

- **Partnership interests** – Transfers of partnership interests may give rise to stamp duty and SDRT where the partnership property includes shares.

Main exemptions to consider

- **Transactions within groups** – The test is 75% ownership of ordinary share capital and the right to 75% of distributable profits and assets. Both vendor and purchaser must also be a body corporate. This is subject to various anti–avoidance provisions.

- **Reconstructions** – Certain other reconstructions (subject to various anti–avoidance provisions).

- **Transfers where the consideration is no more than £1,000** – Provided the transfer document is certified to confirm the transfer is not part of a series of transfers where the total consideration exceeds £1,000.

- **Growth market shares** – Transfers of shares that are admitted to trading on a recognized growth market (e.g. AIM) but that are not listed on any stock market are exempt from both stamp duty and SDRT.
**Reporting, payment, etc.**

- **Liability for SDRT** – The purchaser is liable for any SDRT due. Certain financial intermediaries (such as brokers) can be responsible for giving notice of the agreement and paying the tax to HMRC.

- **Reporting for and payment of SDRT** – Agreements liable to SDRT need to be reported to HMRC and the tax paid by the seventh day of the month following the date of the transaction but special rules apply to transactions settled through CREST.

- **Payment of stamp duty and stamping of documents**
  – Documents are to be presented for stamping and the duty is due within 30 days of execution of the relevant transfer document.

- **Penalties and interest** – Charges are payable for late submission of documents for stamping, late submission of SDRT notifications and late payment.
Stamp duty
land tax (SDLT)
Overview
SDLT is payable on transfers of, or leases over, UK land other than in Scotland, and is a liability of the purchaser or tenant on a self-assessed basis within 30 days of the effective date (usually completion). The SDLT charge depends on the type of property which is the subject of the transaction and the consideration paid as well as other factors such as whether or not the transaction is with an affiliate. Special rules apply to transactions involving partnerships.

Where a number of properties are acquired by a purchaser from the same vendor or persons connected with the vendor, the transactions will be 'linked'. This means that the relevant rate of SDLT will be determined with reference to the total consideration for all the dwellings.

For links to various developments see our Tax blog, but refer also to our:

• industry page on construction and housebuilding services and contacts

• publication on tax issues for international investment in UK real estate.
Rates of SDLT for residential properties

SDLT on consideration for sale or premium for leases: – rates applied progressively to the part of the price over each relevant threshold and up to the next threshold.\(^1,2,3\)

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to £125,000</td>
<td>Nil</td>
</tr>
<tr>
<td>£125,000 up to £250,000</td>
<td>2%</td>
</tr>
<tr>
<td>£250,001 up to £925,000</td>
<td>5%</td>
</tr>
<tr>
<td>£925,001 up to £1,500,000</td>
<td>10%</td>
</tr>
<tr>
<td>Remaining amount above £1,500,000</td>
<td>12%</td>
</tr>
</tbody>
</table>

Rates of SDLT for transfers of non-residential or mixed property

SDLT on consideration for sale or premium for leases\(^1,2,3\)

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to £150,000</td>
<td>Nil</td>
</tr>
<tr>
<td>over £150,000 up to £250,000</td>
<td>1%</td>
</tr>
<tr>
<td>over £250,000 up to £500,000</td>
<td>3%</td>
</tr>
<tr>
<td>over £500,000</td>
<td>4%</td>
</tr>
</tbody>
</table>

Rates of SDLT on rents payable under new leases

1% of the net present value of all rentals payable over the term of the lease in excess of £125,000/£150,000 for residential/non–residential or mixed.

Rentals discounted at 3.5% per annum.

Special rules apply for rent reviews, increases in rents, etc.

1. Where six or more residential properties are acquired under a single transaction, the transaction is deemed to be commercial in nature so the non-residential or mixed rates will apply.
2. Where the transaction is the grant of a lease with an annual rent of at least £1,000, the nil rate band does not apply to any premium paid on the grant of the lease.
3. On a purchase of a dwelling (which may be part of a mixed property transaction) by a company, a partnership with a company partner, or a collective investment scheme, the rate is 15% where the consideration attributable to that dwelling exceeds £500,000. This rate is broadly restricted to owner-occupiers.
Main exemptions

- **Transactions within groups** – The test is 75% ownership of ordinary share capital and the right to 75% of distributable profits and assets. Both vendor and purchaser must also be a body corporate. This is subject to various anti-avoidance provisions and a clawback of relief if the purchaser is de-grouped within three years.

- **Reconstructions and acquisitions of businesses** – May be exempt or have rate reduced to 0.5% subject to various conditions being met and clawback of relief if control over the acquiring company changes pursuant to arrangements made within three years.

- **Sale and leasebacks** – Leaseback is often exempted.

- **Alternative finance arrangements** – Such as Islamic mortgages.

- **Transactions for nil consideration** – Unless purchaser is a company and
  - vendor is connected with the purchaser; or
  - consideration includes shares in a company connected with the vendor (with some exceptions).

- **New zero-carbon homes** – Relevant definitions are important.

- **Multiple Dwellings Relief** – Applies for residential property only and allows the relevant rate of SDLT to be determined with reference to the average consideration value per dwellings (rather than the aggregate consideration value), subject to a minimum rate of 1%. Subject to a clawback in the form of an adjustment if certain disqualifying events occur.

- **Pre-completion transactions** – In a case of back-to-back transfers of the same property, for example, where property is transferred from A to B and then immediately from B to C, B may be eligible for a relief, subject to various anti-avoidance provisions.
Land and buildings transaction tax (LBTT)
Overview
LBTT is payable on transfers of, or leases over, land in Scotland and is the liability of the purchaser or tenant on a self-assessed basis. The self-assessment return and payment of tax must be made within 30 days of the effective date of the transaction (usually completion).

The LBTT charge depends on the type of property which is the subject of the transaction and the consideration paid as well as other factors such as whether or not the transaction is with an affiliate. Special rules apply to transactions involving partnerships.

For links to various developments see our Tax blog.
## Rates of LBTT – Residential

**LBTT on consideration for sale:**

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £145,000</td>
<td>0%</td>
</tr>
<tr>
<td>Over £145,000 up to £250,000</td>
<td>2%</td>
</tr>
<tr>
<td>Over £250,000 up to £325,000</td>
<td>5%</td>
</tr>
<tr>
<td>Over £325,000 up to £750,000</td>
<td>10%</td>
</tr>
<tr>
<td>Over £750,000</td>
<td>12%</td>
</tr>
</tbody>
</table>

## Rates of LBTT – Non-residential or mixed

**LBTT on consideration for sale or premium for leases:**

<table>
<thead>
<tr>
<th>Price Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £150,000</td>
<td>0%</td>
</tr>
<tr>
<td>Over £150,000 up to £350,000</td>
<td>3%</td>
</tr>
<tr>
<td>Over £350,000</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

**LBTT on rents payable under new leases:**

1% of net present value of all rentals payable over the term of the lease in excess of £150,000 for non-residential or mixed.

## Progressive rate of tax:

The percentage tax rate for each band in LBTT is applied only to the part of the price over the relevant threshold and up to the next threshold.
Exemptions
• The exemptions and reliefs under LBTT are largely in line with those under SDLT, however there are some slight but distinct differences in their specific application.

Lease reporting
• An LBTT self-assessment return is required to be submitted every three years throughout the term of the lease or upon assignation or termination.
• On submission of the return any additional LBTT payable will be due, similarly any repayment due will be made.

Payment of tax
• Payment of tax must be made within 30 days of the effective date of transaction. There are two instances where the payment must be made earlier, as follows:
  – If the return is submitted before the effective date: The payment must be made no later than the fifth working day after the effective date.
  – If the return is submitted on or after the effective date: The payment must be made no later than the fifth working day after the submission date.
Value added tax (VAT)
Overview

VAT is due on the supplies of goods or services (other than exempt supplies) made in the UK in the course or furtherance of business, if that business is registered or needs to be registered for VAT, and also on the importation and cross-border acquisition of goods and most services. Unless specifically exempted, these are referred to as being taxable supplies and, if not subject to the zero rate or the reduced rate, are taxable at the standard rate. Legislative group headings for reduced rate, zero rate and exempt supplies, as shown below, are only indicative and advice should be sought. Other supplies are likely to be outside the scope of UK VAT.

VAT incurred on the purchase of goods and services for use in making taxable supplies (input VAT) is generally recoverable. However, if goods or services are used outside of a business or both taxable and exempt supplies are made, input VAT and partial exemption rules may limit the recovery of such input VAT. There is some scope for choosing the appropriate recovery method.

It may be possible to opt to tax non-residential land and buildings which would otherwise be exempt. The election is irrevocable for 20 years (subject to a short initial revocation period) and is generally (but not always) made on a property by property basis so that subsequent supplies in relation to that property will be standard rated.

For links to the latest developments see our Tax blog, but note in particular:

• our indirect tax services page which focuses on some of the main considerations.
**VAT rates summary**

- The three rates of VAT are:
  - the standard rate (20%);
  - the zero rate (0%); and
  - the reduced rate (5%) which applies to a limited range of goods and services.

- The standard rate of VAT applies to all taxable supplies which are not charged at the zero rate or the reduced rate of VAT.

- A flat-rate scheme by which a trade specific calculation applies instead to determine the net VAT due may be available for businesses with turnover of up to £150,000 at the point of registration.

**Registration and deregistration**

- Any person (including a legal person, such as a company) is liable to register for VAT if the combined value of its taxable supplies in the UK exceeded the registration threshold in the preceding 12 months, or if there are reasonable grounds for believing that the value of taxable supplies to be made in the next 30 days will exceed the registration threshold. But businesses making only zero rated supplies can request exemption from registration.

- A business may deregister if the anticipated value of its taxable supplies in the next 12 months is less than the deregistration threshold.

- Where a business is involved only in the making of exempt supplies, it is not able to register for VAT and is thus not able to recover any input VAT incurred.

- The current registration threshold is £82,000 (prior to 1 April 2015: £81,000).

- The registration threshold for businesses not established in the UK is zero.
• The current deregistration threshold is £80,000 (prior to 1 April 2015: £79,000).

• The current registration and deregistration thresholds for relevant acquisitions from other European Union (EU) Member States are £82,000 (prior to 1 April 2015: £81,000).

• Businesses with taxable turnover below the registration thresholds may apply to be registered on a voluntary basis.

• There are specific provisions for the registration of:
  – overseas businesses when they dispose of goods on which UK VAT has previously been recovered;
  – non–EU businesses that provide electronically supplied services to private individuals and non–business organisations in the EU; and
  – businesses that make supplies of telecoms, broadcasting, or electronically supplied services to consumers in other EU Member States.

VAT groups

• Companies and other corporate bodies, under common control, which have an establishment within the UK, can be registered together as a VAT group. A VAT group has a single VAT registration number and transactions between the VAT group members are disregarded for VAT purposes. HMRC has extensive powers to combat certain types of VAT avoidance using VAT groups.

• There are rules governing the eligibility of large companies to become members of a VAT group registration in circumstances in which VAT grouping would provide a VAT advantage.
### Reduced rate supplies

- The groups of supplies which are eligible for the reduced rate of VAT are:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Supplies of domestic fuel or power</td>
</tr>
<tr>
<td>2.</td>
<td>Installation of energy–saving materials</td>
</tr>
<tr>
<td>3.</td>
<td>Grant–funded installation of heating equipment or security goods or connection of gas supply</td>
</tr>
<tr>
<td>4.</td>
<td>Women's sanitary products</td>
</tr>
<tr>
<td>5.</td>
<td>Children's car seats</td>
</tr>
<tr>
<td>6.</td>
<td>Residential conversions</td>
</tr>
<tr>
<td>7.</td>
<td>Residential renovations and alterations</td>
</tr>
<tr>
<td>8.</td>
<td>Contraceptive products</td>
</tr>
<tr>
<td>9.</td>
<td>Welfare advice or information</td>
</tr>
<tr>
<td>10.</td>
<td>Installation of mobility aids for the elderly</td>
</tr>
<tr>
<td>11.</td>
<td>Smoking cessation products</td>
</tr>
<tr>
<td>12.</td>
<td>Caravans</td>
</tr>
<tr>
<td>13.</td>
<td>Cable suspended passenger transport systems</td>
</tr>
</tbody>
</table>

### Zero rated supplies

- In addition to exports/dispatches of goods and certain services, the groups of supplies which are zero rated are:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food</td>
</tr>
<tr>
<td>2.</td>
<td>Sewerage services and water</td>
</tr>
<tr>
<td>3.</td>
<td>Books, etc.</td>
</tr>
<tr>
<td>4.</td>
<td>Talking books for the blind and handicapped and wireless sets for the blind</td>
</tr>
<tr>
<td>5.</td>
<td>Construction of buildings, etc.</td>
</tr>
<tr>
<td>6.</td>
<td>Protected buildings</td>
</tr>
<tr>
<td>7.</td>
<td>International services</td>
</tr>
<tr>
<td>8.</td>
<td>Transport</td>
</tr>
<tr>
<td>9.</td>
<td>Caravans and houseboats</td>
</tr>
<tr>
<td>10.</td>
<td>Gold</td>
</tr>
<tr>
<td>11.</td>
<td>Bank notes</td>
</tr>
<tr>
<td>12.</td>
<td>Drugs, medicines, aids for the handicapped, etc.</td>
</tr>
<tr>
<td>13.</td>
<td>Imports, exports, etc.</td>
</tr>
<tr>
<td>14.</td>
<td>(No longer applicable)</td>
</tr>
<tr>
<td>15.</td>
<td>Charities, etc.</td>
</tr>
<tr>
<td>16.</td>
<td>Clothing and footwear</td>
</tr>
<tr>
<td>17.</td>
<td>(No longer applicable)</td>
</tr>
<tr>
<td>18.</td>
<td>European Research Infrastructure Consortia (ERIC)</td>
</tr>
</tbody>
</table>
**Exempt supplies**

- The groups of supplies which are exempt are:

<table>
<thead>
<tr>
<th>Group</th>
<th>Type of supply</th>
<th>Group</th>
<th>Type of supply</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Land</td>
<td>10.</td>
<td>Sports, sports competitions and physical education</td>
</tr>
<tr>
<td>2.</td>
<td>Insurance</td>
<td>11.</td>
<td>Works of art, etc.</td>
</tr>
<tr>
<td>3.</td>
<td>Postal services</td>
<td>12.</td>
<td>Fund-raising events by charities and other qualifying bodies</td>
</tr>
<tr>
<td>4.</td>
<td>Betting, gaming and lotteries</td>
<td>13.</td>
<td>Cultural services, etc.</td>
</tr>
<tr>
<td>5.</td>
<td>Finance</td>
<td>14.</td>
<td>Supplies of goods where input tax cannot be recovered</td>
</tr>
<tr>
<td>6.</td>
<td>Education</td>
<td>15.</td>
<td>Investment gold</td>
</tr>
<tr>
<td>7.</td>
<td>Health and welfare</td>
<td>16.</td>
<td>Supplies of services by groups involving cost sharing</td>
</tr>
<tr>
<td>8.</td>
<td>Burial and cremation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Subscriptions to trade unions, professional and other public interest bodies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Recovery of VAT incurred and partial exemption

- Where turnover includes some exempt or non-business supplies, a VAT registered business may not be able to reclaim all of its input VAT and a method is required to establish what VAT it can reclaim. It is first necessary to attribute input tax directly to taxable, exempt and non-business activities as far as possible.

- For a business that makes both taxable and exempt supplies, the standard method of recovering any remaining input tax is to apply the ratio of the value of taxable supplies to total supplies, subject to the exclusion of certain items which could prove distortive.

- The standard method can be overridden where it produces a result that differs substantially from one based on the actual use of inputs.

- It is possible to agree a special method with HMRC. This must be in writing and where a special method makes no provision for how to deal with certain types of input tax, that input tax is to be recovered on the basis of use.

- There are special methods which cater for apportionment of VAT on expenditure between use for business and non-business purposes in addition to apportionment of business input VAT between use for taxable and exempt purposes.

- In certain circumstances, HMRC may direct that a particular special method should be used. It, or the taxpayer, may also serve a special method override notice where the current special method does not fairly and reasonably reflect the actual use of inputs.

- All businesses applying for a new partial exemption special method (or amending an existing method) are required to make a declaration that the proposed method is fair and reasonable. HMRC has powers to set aside an agreed special method if the person signing the declaration knew, or ought to have known, that it was not fair and reasonable. In such circumstances HMRC may issue a retrospective special method override notice requiring the business to recalculate past VAT returns covered by the method.
• A partly exempt business can be treated as fully taxable and is therefore able to reclaim all of its input VAT, if the input VAT attributable to the exempt supplies is below various de minimis limits.

• For businesses that carry on both business and non-business activities, similar methods can be used for apportioning non-attributable input VAT. But with the exception of local authorities and certain other public bodies, none of the input tax attributed to non-business activities can be recovered. Unlike exempt input tax, there are no de minimis limits applicable to input tax attributable to non-business activities.

• There are specific rules for allocating input VAT to certain foreign and specified supplies.

• The Capital Goods Scheme, which requires VAT incurred on assets used over an extended period (immovable property and high-value items of computer equipment) to be adjusted over five or ten years, includes ships and aircraft valued at £50,000 or more plus VAT, and also now caters for business/non-business apportionment as well as apportionment between taxable and exempt use.

The European single market

• There is, in general, a requirement for persons to register for VAT in the UK either when they acquire goods of a value in excess of the UK VAT registration threshold for the purpose of their businesses from other Member States of the EU, or, in the case of overseas suppliers, when they make distance sales above certain thresholds to private individuals in the UK from other EU Member States. Similar rules apply in other Member States.

• Dispatches of goods to other Member States may be zero rated if the customer is acquiring the goods for the purpose of its business and can provide its VAT registration number, which must be quoted on the supplier’s invoice. Evidence that the goods have left the UK must be obtained. Without such evidence, HMRC will assume that the goods have remained in the UK and accordingly UK VAT will be due, at the applicable rate, on the supply.

• UK businesses involved in trade with other Member States must submit detailed statistical returns (EC Sales Lists) of their intra-Community sales of goods and services.
• When the value of the dispatches and/or acquisitions of goods to/from Member States exceeds the Intrastat threshold, a more detailed return (known as an Intrastat return) will also be required. The Intrastat threshold for arrivals is currently £1,500,000 and for despatches £250,000.

• Special rules have been implemented by the Member States in respect of supplies of electronic services. The legislation is designed to eliminate competitive distortion by subjecting non-EC suppliers to VAT, when they supply electronic services to private individuals and non-business organisations in the EC. Non-EC suppliers that do not have an establishment within the EC are required to electronically register with a VAT authority in one Member State of their choice, charge VAT at the rate applicable in the Member State where the customer is resident and electronically declare the VAT due on a single VAT return to the Member State of registration. The Member State of registration will reallocate the VAT revenue to the Member State where the customer resides. With effect from 1 January 2015, these special rules for non-EC suppliers were expanded to include telecommunications and radio and television broadcasting services. At the same time, the rules for EC suppliers of these same services were changed to bring them in line with the rules for non-EC suppliers and base taxation on customer residence.

**Reverse charge**

• UK businesses receiving services and certain goods from abroad are liable to account for UK VAT by way of a reverse charge procedure. The scope of this charge includes all taxable services performed by non–resident suppliers which are supplied in the UK.

• Most supplies of services made by UK suppliers to customers in other jurisdictions are not subject to UK VAT. But the recipient of the service may be required to account for VAT in its own jurisdiction by way of a reverse charge.

• A domestic reverse charge applies to trade in certain goods (such as mobile phones, computer chips, and certain wholesale supplies of gas and electricity) and to supplies of emissions allowances to counter missing trader VAT fraud.
Disclosure

- There are requirements for businesses to disclose certain arrangements to HMRC. For example, any business which is involved in sale and leaseback arrangements, arrangements with confidentiality clauses, certain business promotions (including those using vouchers) or pre-payments between connected parties, may have a requirement to disclose.

- Disclosure is subject to strict time limits and there can be severe penalties for failure to disclose (up to 15% of the tax involved). It is essential that a business knows whether it is required to disclose a particular transaction or series of transactions and the manner and time in which this is required to be done.

- It is possible for professional advisers to make these disclosures on behalf of a business, thus relieving the business of the obligation to disclose.

- There is an extended time limit (20 years) for assessment where the loss of VAT is attributable to a failure to comply with a disclosure obligation.

- The VAT measures on disclosure are significantly different to those for other taxes as set out in the section on disclosure, filing and payment.
Customs duty
Overview

Customs duty and other applicable import charges, including import VAT, are paid when dutiable goods are imported into the EU. Goods which are declared into free circulation (i.e. all duties due have been accounted for) can then move freely within the EU customs territory without further customs control or supervision.

It may sometimes be possible to postpone or suspend payment of customs duty on imports. For example, customs warehousing allows the suspension of duties until such time as the goods are removed onto the EU market. Goods removed from the customs warehouse for export from the EU will not be subject to any import duties. Goods which are imported for process and re-export will under certain conditions be entitled to relief from duty under a special procedure known as inward processing.

There are a number of other reliefs which may be available, including goods temporarily imported for a specified purpose (temporary admission), processing under customs control (where duty is suspended on imported materials and the duty due is based on the rate applicable to the finished product released onto the EU market) and end–use relief (where the goods are in free circulation though subject to ongoing customs supervision until they meet their prescribed end–use).

For links to the latest developments see our Tax blog, but note in particular:

• our indirect tax services page on pwc.co.uk which focuses on some of the main considerations.
**Key features**

- The applicable rate of duty is determined by the classification of the imported goods in the EU customs tariff which itself is based on the international harmonised commodity description and coding system.

- Duty is normally due as a percentage of the value (under customs valuation rules) of the goods. The valuation rules are based on a World Trade Organisation agreement, to which many of the world’s trading nations subscribe. Specific or quantity–based duties also apply to certain products.

- The EU has preferential trade agreements with certain countries, e.g. most developing countries, which provide for reduced duty rates on importation of goods that originate there and meet the other relevant conditions.

- Conversely, the EU may impose protective additional duty rates, e.g. on certain goods from named countries or exporters, to protect the EU market from actual or threatened injury caused by low priced (dumped) goods or by subsidised goods.

Major changes in EU customs duty legislation are effective from May 2015 with the introduction of the union customs code. Under this certain duty reliefs disappear whilst existing duty relief schemes will become special procedures and will need to be supported by guarantees to secure the customs duty suspended. However, if a business meets the criteria for authorised economic operator status, it may be able to enjoy a 100% guarantee waiver.
Excise duty
Overview
If a business involves the manufacture, storage, movement or sale of alcohol, tobacco or oil products then the goods will be subject to excise duty. Excise duty becomes payable upon the importation or manufacture of an excise product.

The EU Commission does set minimum rates for excise duty per product type and provides guidance on how excise duty is to be calculated. But unlike customs duty each EU Member State is enabled to set their own excise duty rates providing they are set above this minimum level. Therefore, there is a great range of excise duty rates applicable to alcohol, tobacco and oil products across the EU. In addition, each Member State will have its own procedures for the reporting and collection of excise duty.

For links to the latest developments see our Tax blog, but note in particular:

• our indirect tax services page on pwc.co.uk which focuses on some of the main considerations
**Key features**

- In the UK, **excise duty rates** on alcohol, tobacco and oil are high when compared to other product applicable taxes. Typically 70-80% of the sale price can comprise excise duty and VAT.

- Due to the lucrative taxable nature of excise products, they’re highly regulated with **registrations** needed before importing, manufacturing, bottling, storing under duty suspension, transporting or selling goods.

- If it is necessary to **move goods which are excise paid or under duty suspension**, strict criteria must be met to make sure the correct duty treatment of the movement.

- The EU may impose protective additional duty rates, e.g. on certain goods from named countries or exporters, to protect the EU market from actual or threatened injury caused by low priced (dumped) goods or by subsidised goods.
Other indirect taxes
Overview
Apart from VAT, stamp duties and customs and excise duties, indirect tax covers a variety of taxes such as insurance premium taxes and various environmental taxes.

For links to the latest developments see our Tax blog, but note in particular on pwc.co.uk:

- our indirect tax services page, and
- sustainability and climate change page which focus on some of the main considerations.
**Insurance premium tax (IPT)**

- IPT is charged on **taxable insurance premiums** which cover risks located in the UK.

- The **definition of premium** includes risk, costs of administration, commissions, facilities for paying in instalments and tax.

- **Fees** charged under a separate contract are generally not subject to IPT but some fees in relation to personal lines of insurance are now subject to IPT.

- The **standard rate of IPT**, and the rate most commonly used, is 6% until 1 November 2015 when it increases to 9.5%. This rate applies to all general insurance such as car and property.

- As an anti–avoidance measure the **higher rate (20%) of IPT** applies to certain categories of insurance. Generally this includes car insurance provided by car dealers, insurance contracts covering domestic appliances and certain forms of travel insurance.

- There are some insurance contracts which are treated as exempt from IPT and include, among others, contracts relating to long-term business, contracts relating to commercial ships, satellites and aircrafts, and contracts relating to risks outside the UK.

**Landfill tax – England, Wales and Northern Ireland**

- Landfill tax applies to disposal of waste, and to certain other materials, on landfill sites.

- Certain inert waste as defined within eight specified groups (such as glass, brick etc.) is taxed at the lower rate of £2.60 per tonne. A new 'loss on ignition' testing regime for lower rating qualification has been introduced from 1 April 2015 for residual materials ('fines') produced from waste transfer stations.

- All other waste is taxed at a standard rate of £82.60 per tonne for supplies made on or after 1 April 2015. The rates will increase annually by RPI rounded to the nearest 5 pence from 1 April 2016 onwards, when the standard rate will be £84.40/tonne and lower rate £2.65/tonne.

- Various exemptions are available including dredging, mine and quarry waste and the filling of old quarries.

- Landfill tax credit can be claimed in certain circumstances where material is subsequently removed from landfill or where the site operator participates in the Landfill Communities Fund (LCF). Under the LCF, an operator can claim a tax credit of 90% of any qualifying contribution subject to a maximum of 5.7% of annual landfill tax liability.
**Scottish landfill tax – (SLfT)**
- Landfill tax in Scotland was devolved to the Scottish Parliament from 1 April 2015. The initial legislation currently largely mirrors that of the rest of the UK and tax rates are the same.
- Operators of sites in Scotland have to register for SLfT with Revenue Scotland, (deregistering from LfT as appropriate), and seek re-approval for any special schemes.
- The Scottish Landfill Communities Fund is in operation from 1 April 2015 and is separate from the scheme for the rest of the UK. Certain transitional arrangements over project funding do however apply to 2017.

**Aggregates levy**
- Aggregates levy is charged at a flat rate of £2 per tonne on sand, gravel and crushed rock extracted in the UK or imported into the UK and subject to first commercial exploitation.
- There are a number of exemptions, and reliefs include 45 industrial and agricultural processes using aggregates. There is currently ongoing litigation challenging HMRC's definition of 'site' for relief purposes.
- In addition, certain exemptions have been suspended since 1 April 2014 pending the results of an EU Commission investigation into State Aid. These relate to clay, slate, shale and industrial minerals where used for construction purposes along with spoil from extraction of these materials and ball and china clay, as well as industrial combustion spoil/waste.
- In February 2015 the EU Commission approved all the suspended exemptions other than shale and related spoil where specifically sourced as aggregate. HMRC intends to restore the approved exemptions with retrospective effect but is obliged to recoup the tax benefit derived by businesses exploiting shale as aggregate back to 2002.
- Businesses will need to understand compliance needs and maintain records sufficient to enable recovery of overpaid tax for those reliefs being re-instated. Any potential exposure to retrospective clawback regarding shale quarrying or exploitation will also need consideration.
- The UK Government intends to devolve the power to set an aggregates levy in Scotland to the Scottish Government. As yet a date has not been confirmed for when this will take effect.
**Air passenger duty (APD)**

- APD is a **departure tax** levied on most air travel, charged on the carriage of passengers (paying or non-paying) from a UK airport on aircraft fuelled by Avtur with a take-off weight of at least 5.7 tonnes, including business jets. It is payable by the operator of the aircraft.

- APD is levied based on two geographical bands. The **rates of duty** applicable from 1 April 2015 are:

<table>
<thead>
<tr>
<th>Band and distance in miles</th>
<th>Reduced rate</th>
<th>Standard rate</th>
<th>Higher rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Band A (0–2,000)</td>
<td>£13</td>
<td>£26</td>
<td>£78</td>
</tr>
<tr>
<td>Band B (over 2,000)</td>
<td>£71</td>
<td>£142</td>
<td>£426</td>
</tr>
</tbody>
</table>

1 APD rates for direct long-haul flights departing from Northern Ireland are set by the Northern Ireland Assembly for band B at £0. Distances are based on the distances between London and the capital city of the destination country/territory.

- The **standard rate** applies to all but the lowest class of travel. Those in the lowest (or only) class of travel pay the **reduced rate** unless that class provides seating with a pitch in excess of 40 inches in which case the standard rate applies to that class also. The higher rate applies to flights aboard aircraft of 20 tonnes and above with fewer than 19 seats.

- APD bands C and D were abolished from 1 April 2015. Rates of APD will increase by RPI from 1 April 2016.

- A range of reliefs and exemptions from APD exist including relief for helicopters and exemption for flights from airports in the Scottish Highlands and Islands. Children under 12 travelling in the lowest class are exempt from APD from 1 May 2015.
**Climate change levy (CCL)**

- CCL is a levy on the **business use of certain supplies of energy products**. It is a single stage tax charged only on taxable supplies to end users within its scope.

- The current **rates** of levy applying are:

<table>
<thead>
<tr>
<th></th>
<th>1 April 2015 – 31 March 2016</th>
<th>From 1 April 2016</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>0.554</td>
<td>0.559</td>
<td>p per kWh</td>
</tr>
<tr>
<td>Natural gas</td>
<td>0.193</td>
<td>0.195</td>
<td>p per kWh</td>
</tr>
<tr>
<td>Liquid petroleum gas used for heating</td>
<td>1.220</td>
<td>1.251</td>
<td>p per kg</td>
</tr>
<tr>
<td>Any other taxable commodity (e.g. coal and other solid fuels)</td>
<td>1.512</td>
<td>1.526</td>
<td>p per kg</td>
</tr>
</tbody>
</table>

- There are a number of **exemptions and exclusions** such as fuels supplied for domestic heating, renewable source electricity generation and energy products used for certain mineralogical and metallurgical processes and to create new bio fuels such as biodiesel, bioblend bioethanol and bioethanol blend.

- There's a 65% relief available for **energy intensive facilities covered by Climate Change Agreements** (CCA) other than for electricity for which the relief is 90%.

- A range of strict compliance requirements apply to generators, suppliers, and relief claimants.

- Carbon Price Support (CPS) is a rate of CCL applied by fossil fuelled electricity generators to input fuel used. It is a self-accounted tax and applies to all fossil-fuelled generation with a capacity greater than 2MW. CPS applies to oil-powered electricity generation by a reduction in the rebate of fuel duty available.

- CPS rates of CCL applying on fossil fuels used to generate electricity:
## Other indirect taxes

<table>
<thead>
<tr>
<th>Supplies of commodity</th>
<th>CPS rate(^1) of CCL 2015/16</th>
<th>CPS rate(^1) of CCL 2016/17</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>0.334</td>
<td>0.331</td>
<td>p per kWh</td>
</tr>
<tr>
<td>Liquified petroleum gas</td>
<td>5.307</td>
<td>5.280</td>
<td>p per kilogram</td>
</tr>
<tr>
<td>Coal/solid fuels</td>
<td>1.56860</td>
<td>1.54790</td>
<td>£ per gigajoule</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CPS rate(^1)</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>of fuel duty 2015/16</td>
<td>of fuel duty 2016/17</td>
</tr>
<tr>
<td>Fuel oil; other heavy oil; rebated light oil</td>
<td>5.730</td>
</tr>
<tr>
<td>Gas oil; rebated bioblend kerosene</td>
<td>4.990</td>
</tr>
</tbody>
</table>

\(^1\) CPS does not apply to electricity generation in Northern Ireland.

- From 1 April 2015 certain 'good quality' combined heat & power (CHP) plants are exempt from CPS where the electricity is self-supplied or supplied under an exemption from holding an electricity supply licence.
National non-domestic rates (NDRs)
Overview

Businesses and other non-domestic occupiers of property pay NDRs (also known as business rates) to contribute towards the cost of local authority services. Rates are calculated on the basis of the rateable value of a property and vary according to location, occupation and other criteria. In certain circumstances local authorities may be able to keep a proportion of the rates they collect. A supplement may in some cases be charged directly by local authorities.

Businesses in all sectors sometimes pay more rates than are properly due. This might be because the rateable value of their property is incorrect, or circumstances which affect it have changed, or they are not receiving the correct reliefs or allowances.

The rates position should, in particular, be reviewed where:

- there are changes in the utilisation of property or capital expenditure affects activity levels;
- a property is being structurally altered so that it can be used in a different way;
- newly built offices and warehouses are, even temporarily, unoccupied and suffer empty rates; or
- a property is derelict or requires works to make it safe to occupy.

For links to the latest developments see our web pages on real estate services, but note in particular those for

- Property companies, REITs and developers
- Real estate funds and investors
### Multipliers (rate poundages)

Price per pound of rateable value (RV):

<table>
<thead>
<tr>
<th>Region</th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>49.3 pence</td>
<td>48.2 pence</td>
</tr>
<tr>
<td>Wales</td>
<td>48.2 pence</td>
<td>47.3 pence</td>
</tr>
<tr>
<td>Scotland</td>
<td>48.0 pence</td>
<td>47.1 pence</td>
</tr>
<tr>
<td>Scotland (rateable value exceeds £35,000)</td>
<td>49.3 pence</td>
<td>48.2 pence</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>Local rates apply</td>
<td>Local rates apply</td>
</tr>
<tr>
<td>City of London</td>
<td>49.7 pence</td>
<td>48.6 pence</td>
</tr>
</tbody>
</table>

### Rateable values and transitional phasing limits

Rateable values of non-domestic properties are normally reassessed every five years, based on changes in the rental value of property. The current rating list was published in April 2010. The next revaluation has been delayed until April 2017.

### Business rate supplements

In England and Wales, upper tier local authorities and the Greater London Authority can levy a supplement on the business rate and retain the proceeds to promote economic development in their areas. The maximum supplement is 2p per pound of rateable value, and can only apply to businesses with a rateable value of more than £50,000. The Greater London Authority introduced a supplement of 2p per pound of rateable value for businesses with a rateable value of more than £55,000. This is intended to help fund the Cross Rail project and overall it is expected to last between 24 and 31 years.
**Empty rates**
Owners of most empty property are liable to pay empty rates after the property has been unoccupied for either three (offices and retail) or six (industrial and warehouses) months. The amount payable is the same as the normal rates charge in England and Wales, and 90% in Scotland. Industrial properties are currently exempt from empty rates in Scotland.

Empty rate relief applies in England and Wales to encourage development. This exempts newly built commercial properties completed between 1 October 2013 and 30 September 2016 from empty rates for the first 18 months, up to the State aid limits.

In Scotland, new occupiers of shops or offices that have a rateable value of under £65,000 and have been empty for at least a year can apply for a 50% discount on their business rates for 12 months. Additionally, relief is also available of up to 100% for owners/developers of new-build empty properties for up to 18 months. This scheme will run until 31 March 2016.

**Main reliefs, exemptions and allowances**

- Small business rate relief (SBRR) – Non–domestic properties with small rateable values may qualify for discounts or payment of rates based upon a lower multiplier, depending on rateable value, location and any other properties occupied by the ratepayer. The doubling of SBRR to 100% has been extended for a further 12 months until 31 March 2016. Scotland has also expanded its small business bonus scheme by increasing the upper threshold for businesses with multiple premises from £25,000k to £35,000k.

- Discretionary allowances – Properties which are partly occupied for a short time may be eligible for allowances if they satisfy the statutory criteria and fall within local economic policies.

- Charities and non–profit organisations – Charities are entitled to 80% relief where a property is occupied and used by a charity. Local councils can to top up this relief to 100% and grant relief to not-for-profit organisations.
• Renewable energy producers – In Scotland, a targeted relief is given for renewable energy producers. The relief will operate under state aid de minimis rules and will offer discounts of up to 100% dependent on the cumulative rateable value of the ratepayer’s properties.

• Retail relief – discount of up to £1,500 for small retail and food and drink premises is available up to 31 March 2016. This will apply to businesses with rateable values of under £50,000.

• Reoccupation relief – Where a retail property has been vacant for a year or more, a new tenant taking on such a property between 1 April 2014 and 31 March 2016, will receive a 50% discount for a period of 18 months, subject to state aid limits. Scotland has amended its scheme from 1 April 2014 for 50% relief in respect of new occupations to include premises formerly used as hotels, pubs and restaurants, providing the set criteria is met.

Payment of rates
• Businesses may pay over 12 months rather than the statutory maximum of 10. However, ratepayers wishing to benefit from this opportunity will need to contact their local authority and elect to do so.
Disclosure, filing and payment
Overview
There are an increasing number of requirements for reporting matters to HMRC. As well as the need to report taxable activity generally, there are rules for notifying HMRC of various tax planning arrangements. Significant too are the Senior Accounting Officer (SAO) rules requiring large companies with a UK group turnover in excess of £200m or gross balance sheet assets of £2bn to certify annually that the accounting systems are adequate for the purposes of accurate tax reporting.

Taxpayers have only a limited time to submit a return to HMRC in respect of certain taxable amounts. This varies by tax and taxpayers should strive to avoid the strict range of penalties for missing such a deadline.

Information powers are available to HMRC to inspect records, visit business premises and obtain documents and other information, both from taxpayers and third parties. These powers are available even before a tax return has been submitted for a period. A taxpayer faced with such a request may need expert assistance.

Interest on underpaid tax can, particularly when combined with penalties, be substantial and although it is deductible for corporation tax it is not deductible for income tax. Interest on overpaid tax works in a corresponding fashion but is generally at lower rates.

More detail on some of these issues is set out below.

For links to the latest developments see our Tax blog, but note in particular on pwc.co.uk:

- our tax dispute resolution page provides information on managing disputes with HMRC.
Disclosure of tax avoidance schemes (DOTAS)

HMRC must be notified of certain corporation and personal tax planning arrangements. The duty to notify normally falls on the scheme promoter, within five working days of the scheme being made available for implementation, or making contact with a client to market an arrangement or the promoter becoming aware of a transaction to implement the arrangement. In certain cases, the duty to notify falls on the client or an in-house scheme developer. HMRC issues a scheme reference number (SRN) which the client must then disclose in the annual tax return together with an indication of when the expected tax advantage arising from the arrangements will arise.

• The rules on disclosure cover income tax, corporation tax and capital gains tax with special rules applying to stamp duty land tax, stamp duty reserve tax, annual tax on enveloped dwellings, and national insurance contributions. Hallmarks determine whether disclosure is required.

• Certain types of inheritance tax (IHT) planning are within the scope of DOTAS. The rules apply where there is an advantage in relation to the IHT charge that arises when property is transferred into trust.

• The disclosure regime for VAT is rather different. Finance Act 2014 introduced rules enabling HMRC to issue accelerated payment notices requiring the payment of tax in dispute up-front from users of arrangements disclosed under the DOTAS rules.

General anti-abuse rule (GAAR)

The purpose of the GAAR is to counteract tax advantages arising from tax arrangements that are abusive, and will apply to income tax, corporation tax, capital gains tax, petroleum revenue tax, inheritance tax, stamp duty land tax and national insurance contributions, as well as the annual tax on enveloped property. The GAAR is self assessed and there is no clearance procedure.
Self assessment

- For most taxes, a process of self-assessment applies with the taxpayer calculating the tax due and adjustments then being made if HMRC successfully challenges the return. In some circumstances, assessments allow HMRC to tell the taxpayer when it believes there is an underpayment and to initiate a formal process to recover it.

- The time that HMRC has to open an enquiry into a taxpayer’s affairs for a particular period also varies. For corporation tax, income tax and capital gains tax, the enquiry window is normally 12 months from the date of filing the return. However companies in certain larger groups are subject to a period of 12 months after the statutory filing date, provided the return is filed on time. HMRC then has a limited period in which to make an assessment, as the taxpayer does to make any claims or elections, with protective claims now fairly commonplace.

- **Time limits** for HMRC assessments, claims and elections across all taxes are four years unless, in the case of assessments, HMRC can demonstrate failure to take reasonable care. Time limits for assessment in the case of deliberate understatement are 20 years. For income tax and corporation tax, where returns include sufficient disclosure to put HMRC on notice that there is additional tax due, HMRC’s powers to assess can be restricted.
Filing of returns and related penalties

Income tax and capital gains tax (CGT)
Under the self-assessment regime, taxpayers may self-assess by including a calculation of tax liability in their own tax return; alternatively they may file the tax return only (unless it is a simplified return), so that HMRC can do the calculation and advise how much tax is to be paid.

Key dates for filing or making a notification are as follows:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Time limit (in following tax year)¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>No tax return issued (tax due on income or capital gains)</td>
<td>5 October</td>
</tr>
<tr>
<td>Simplified tax return on paper</td>
<td>31 October</td>
</tr>
<tr>
<td>Other tax return on paper</td>
<td>31 October</td>
</tr>
<tr>
<td>Tax return filed electronically (tax due via coding provided &lt; £2,000)</td>
<td>30 December</td>
</tr>
<tr>
<td>Tax return otherwise filed electronically</td>
<td>31 January</td>
</tr>
</tbody>
</table>

¹ If the notice to complete a return is sent after 31 July, the taxpayer broadly has three months from the date of the notice to file the return.

- Individuals do not have to fill in the CGT pages if their chargeable gains do not exceed the annual exempt amount, unless sale proceeds exceed four times the exempt amount or they have allowable losses.

- Fixed penalties arise automatically for failing to submit a completed tax return by the filing date (though a day’s grace is usually allowed) unless there is a reasonable excuse.
Initial fixed penalty | £100
---|---
After 3 months | £10 per day (max £900)
After 6 months | 5% of tax due or £300 if higher
After 12 months | Another 5% of tax due or £300 if higher (10% in serious cases)

- Penalties may also be charged for *failing to keep adequate records* in support of the tax return. In general terms all records of a company or an individual taxpayer with a business must be kept for five years after the filing date of the return. This period is reduced to one year for individual taxpayers who do not have a business or rental income.

**PAYE and national insurance contributions (NICs)**

- Most employers will now report PAYE information to HMRC in real time. Under the **Real Time Information** (RTI) regime, employers must:
  - send details to HMRC every time they pay an employee, at the time they pay them; and
  - use payroll software to send this information electronically as part of their routine payroll process.

- Employers must **submit** a full payment summary (FPS) each time employees are paid and an employer payment summary (EPS) each month reflecting any adjustments required to the tax owing to HMRC.

- All employers must file form **P11D** by 6 July after the tax year-end in question.

- Employers must **provide employees** with form P60 by 31 May and details of the information on their form P11D by 6 July following the end of the tax year.

- Penalties may be charged on the **late submission** of employers’ year end returns. Penalties of up to 100% of any PAYE and NICs underpaid may also be charged where the underpayment results from the submission of an incorrect year end return.

- The **newly self-employed must register** with HMRC within three months of the end of the month in which they start self-employment for Class 2 NIC purposes. Failure to do so can lead to a £100 penalty.
Corporation tax

- Under corporation tax self-assessment (CTSA), a company must file its corporation tax return online (with self-assessed tax liability), accounts and supporting computations generally within 12 months after the end of each accounting period.

- For a return not delivered by the filing date, the following penalties can be imposed.

<table>
<thead>
<tr>
<th>Period</th>
<th>Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial automatic penalty</td>
<td>£100 (£500 if late also for each of 2 preceding periods)</td>
</tr>
<tr>
<td>After 3 months</td>
<td>A further £100 (£500 if late also for each of 2 preceding periods)</td>
</tr>
<tr>
<td>Between 18 and 24 months of end of accounting period</td>
<td>10% of unpaid tax</td>
</tr>
<tr>
<td>After 24 months of end of accounting period</td>
<td>A further 10% of unpaid tax</td>
</tr>
</tbody>
</table>

- Form CT61 must be prepared for each quarterly return period in relation to income tax deducted at source by the company. The form CT61 must be filed within 14 days after the end of the return period, usually calendar quarters.

- Penalties also arise when a company fails to supply documents or to keep and preserve records or fails to notify chargeability.

Annual tax on enveloped dwellings (ATED)

- The normal due date for ATED returns is 30 April in the year for which tax is charged.

- Where a dwelling is purchased or built after 1 April in the year for which tax is charged, the return is due within 30 days or 90 days respectively.

- Penalties may be charged for not completing and sending a return on time or for making a mistake on it.
Inheritance tax (IHT)

- A return of a **lifetime chargeable transfer** must be filed within 12 months after the end of the month in which the transfer was made.

- The return of **transfers on death** and lifetime transfers where tax or additional tax becomes payable by reason of death must be filed within 12 months after the end of the month in which death occurs. Only estates with tax to pay normally have to submit a full IHT account. **Personal representatives** are required to include in their account details of any chargeable transfers made by the deceased within the seven years before their death.

- **Penalties** may be charged for failure to render an account or return within the time limits prescribed, generally in line with other parts of the tax system.

Value added tax (VAT)

- **VAT returns** are normally required for each three month VAT period and must be filed within one month of the end of the period. Schemes are available which allow for the submission of annual or monthly returns depending upon the individual circumstances of the taxable person.

- **Annual accounting** and/or cash accounting is available for taxable persons with annual turnover below £1.35m.

- All VAT registered persons are now required to **file online and pay electronically**.

- Where either a return is made late or tax is paid late, this can result in a further late payment attracting a **default surcharge**.

- **Civil penalties** may also be charged for not complying with certain administrative requirements, although most situations are now likely to fall within the statutory penalty regime.

- **Criminal fines** can be levied for failure to submit detailed statistical returns of sales and purchases of goods from other EU countries.

**Due dates, interest and penalties**

**Interest rates**

- Interest rates are calculated by reference to base rates.

- Interest rates for most taxes are currently 3% (tax paid late) and 0.5% (tax overpaid) but differ for corporation tax, as noted below.
Income tax and capital gains tax (CGT)

Most income tax is settled by PAYE and other deductions at source. For 2014/15, remaining liabilities, particularly those due from the self-employed, are due as follows (with interest, calculated using base rates as noted above, payable/receivable accordingly):

<table>
<thead>
<tr>
<th>Due date</th>
<th>Interest payable</th>
<th>Interest receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 January 2015 (first payment on account)</td>
<td>Due date (at base rate)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
<tr>
<td>31 July 2015 (second payment on account)</td>
<td>Due date (at base rate)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
<tr>
<td>31 January 2016 (balancing payment)</td>
<td>Due date (at base rate then 5% surcharge after 28 February 2015 and further 5% surcharge after six months of filing date)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
</tbody>
</table>

Pay as you earn (PAYE) and national insurance contributions (NICs)

PAYE and NICs deducted by an employer, together with the employer’s secondary contributions, are normally due for payment within 14 days but three additional days apply where payment is made electronically (with interest also adjusted accordingly).

<table>
<thead>
<tr>
<th>Due date</th>
<th>Interest payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/17 days after end of tax month</td>
<td>Due date of last payment in tax year i.e. 19/22 April</td>
</tr>
</tbody>
</table>

Late payment penalties are calculated as a percentage between 1% and 4% of the total amount of PAYE and NIC due depending on the number of late payments in a tax year. Additional penalties of 5% are payable for tax unpaid six months and 12 months after their due dates.

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1 Payments on account would normally be equal to 50% of the final 2014/15 income tax and Class 4 national insurance contributions (NICs) liability (net after allowing for tax deducted at source etc.). No payments on account are required for liabilities of less than £1,000 and cases in which 80% or more of the overall tax liability is deducted at source.
Corporation tax

Corporation tax returns must now be filed online and corporation tax must be paid electronically as follows:

<table>
<thead>
<tr>
<th>Due date</th>
<th>Interest payable</th>
<th>Interest receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>14th of months 7, 10, 13, 16 after start of accounting period (quarterly payments for large companies')</td>
<td>Instalment date (base rate+ 1% until 9 months after end of accounting period then base + 2.5%)</td>
<td>Instalment date (base – 0.25% until 9 months after end of accounting period then base – 1%)</td>
</tr>
<tr>
<td>1 day following 9 months after end of the accounting period (other companies)</td>
<td>Due date (at base rate + 2.5%)</td>
<td>If paid early, until due date (base – 0.25%). If repayment, from later of due date and payment date (base – 1%)</td>
</tr>
</tbody>
</table>

From 2017, quarterly payments for companies with profits of £20m or more will be due in the third, sixth, ninth and twelfth month of the year in question.

Inheritance tax (IHT)

IHT will often become payable before a return is due to be filed (with interest, calculated using base rates as noted above, payable/receivable accordingly):

<table>
<thead>
<tr>
<th>Due date</th>
<th>Interest payable</th>
<th>Interest receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 months after month of death (tax on death)</td>
<td>Due date (at base rate +2.5%)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
<tr>
<td>30 April the following year or 6 months after month of transfer if later (lifetime chargeable transfer)</td>
<td>Due date (at base rate +2.5%)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
</tbody>
</table>

Probate will not be granted unless tax due in respect of transfers on death has been paid.

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1 The quarterly payment system normally applies to those that pay corporation tax at the main rate with profits (including those of all associates of more than £10m in the preceding Accounting Period), but excluding those with final tax liabilities of under £10,000.
Value added tax (VAT)
The use of the electronic payment system can extend the payment date by up to seven days but otherwise important dates are as follows. Note that interest is capped at four years prior to the issue of the relevant assessment and interest is not normally levied in cases where it can be demonstrated that there has been no net loss of revenue to HMRC.

<table>
<thead>
<tr>
<th>Due date</th>
<th>Interest payable</th>
<th>Interest receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return – end of the month following the end of the VAT period¹</td>
<td>Due date (at base rate +2.5%)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
<tr>
<td>Payment – as return, plus seven days for electronic payment²</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Where either a return is made late or tax is paid late, HMRC is empowered to serve a Surcharge Liability Notice (SLN). The amount charged on the notice can increase up to 15% of the tax due for multiple failures.

**Customs duty**
Interest on late payment is charged from due date until payment at base rate +2.5%.

Customs civil penalties may be imposed for a range of breaches, including undervaluation or misdescription of imports.

**Excise duty**
Penalties are payable for a range of breaches, including misuse of rebated diesel oil, failure to account for gaming machine license duty and misdescription of dutiable products. Goods are liable to seizure, often without restitution

¹ Taxpayers may apply for ‘special tax periods’ in order to match internal accounting, such as weekend cut off.

² When a taxable person’s annual VAT liability exceeded £2.3m in the previous year, HMRC notify that a taxpayer is in the Payments on Account regime.
**Penalties for lost revenues**

Criminal prosecutions can be brought in relation to tax cases. However, most errors in tax returns or failures to notify chargeability are dealt with by way of civil penalties. HMRC operate a selective prosecution policy, where criminal investigations are commenced in a relatively small number of cases.

For most taxes, penalties are set as percentages of the potential lost revenue (PLR). PLR is generally the tax under-assessed or under-declared as a result of the error. There are also special rules for losses, deferrals of tax and multiple errors.

For customs duty and import VAT, a civil evasion penalty will be used at HMRC’s discretion. It can be reduced by up to 75% depending on the degree to which the taxpayer cooperates with HMRC in its investigations. There is in other cases a penalty for non-compliance of up to £2,500 for each contravention of European or national customs law in respect of imports and exports, following a written warning.

A number of facilities exist which enable taxpayers to make disclosures of errors to HMRC. Taxpayers who need to make a disclosure should seek expert assistance on the appropriate mechanism.

**Errors in returns**

- The framework of penalties is governed by the conduct which gives rise to the error:
  - mistake: no penalty;
  - failure to take reasonable care: penalty up to 30%;
  - deliberate understatement: penalty up to 70%; and
  - deliberate understatement with concealment: penalty up to 100%.

- The penalties can be reduced if there is unprompted disclosure of an error. A disclosure would be unprompted if it was, in essence, made before HMRC became aware of the issue.

- Penalties for failure to take reasonable care can also be suspended for up to two years.

- Where penalties relate to a jurisdiction with which the UK does not exchange information spontaneously, penalties can be increased to up to 200%.

**Failure to notify**

- Penalties for late notification follow the same pattern as for errors in returns, though no penalty is due if there’s no tax unpaid. However, the penalties for failure to take reasonable care:
  - cannot be suspended; and
  - are a minimum of 10%, even with unprompted disclosure, unless the failure is remedied within 12 months.
If you have any enquiries concerning the contents of this booklet, please speak to your usual PwC contact.