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AN ALERT FROM THE BDO INTERNATIONAL TAX PRACTICE

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SUBJECT

UNITED KINGDOM SUMMER BUDGET 2015 – HIGHLIGHTS FOR UNITED STATES BUSINESSES INVESTING IN THE UNITED KINGDOM

SUMMARY

On July 8, 2015, United Kingdom ("UK") Chancellor of the Exchequer, The Rt. Hon. George Osborne MP delivered his Summer Budget ("Budget") to Parliament, setting out the Government's plans in relation to taxation.

DETAILS

The annual budget in the U.K., where the Government sets out information on the economy and plans in relation to tax measures for the coming year takes place in March. However, following the General Election in May this year, the new U.K. Conservative Government has an opportunity to present its "emergency" budget, setting out its own policies based on its electoral mandate. Many of the measures introduced in the Budget will be enacted as part of the Summer Finance Bill 2015, a draft of which should be published on July 15, 2015, for enactment ("Royal Assent") later in July or early August 2015.

The Chancellor described the Budget as setting out a plan for Britain for the next 5 years "to keep moving from a low wage, high tax, high welfare economy, to the higher wage, lower tax, lower welfare country we intend to create." Some key specific measures are described below.

Further Reduction in Rate of Corporation Tax

At a current rate of 20 percent, the U.K. corporate tax rate is tied for the lowest rate in the G20.[1] In a surprising move, the Chancellor announced that the rate would further fall to 19 percent on April 1, 2017, and then to 18 percent on April 1, 2020.

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[1] Russia, Saudi Arabia and Turkey also provide for a 20% corporate income tax rate in 2015.

Annual investment allowance

U.K. companies and unincorporated businesses are allowed a 100 percent deduction for plant and machinery up to a maximum amount per annum. This annual investment allowance, temporarily set at GBP 500,000 p.a., had been due to revert to its original GBP 25,000 p.a. at the end of 2015. However, from January 1, 2016, the annual investment allowance is to be fixed at GBP 200,000 p.a., providing incentive for businesses to invest in plant and machinery.

Corporation Tax Payment Dates

Currently, although paid in installments, large companies in the UK do not start paying tax until the seventh month of their accounting period. The Budget proposes to accelerate the timing of these payments and for accounting periods beginning on or after April 1, 2017, companies with annual taxable profits of GBP 20m or more (reduced ratably where there is more than one group company) will be required to pay their corporation tax in quarterly installments in the third, sixth, ninth and twelfth month of their accounting period. This brings forward the payment dates of corporation tax for those affected companies by four months, and makes U.K. payments more aligned with United States estimated payment dates.

Restriction of Relief for Goodwill Amortization

Companies purchasing goodwill or other customer related intangibles will no longer be able to amortize that expenditure for corporation tax purposes. This base broadening measure seeks to remove the tax relief available when structuring an acquisition as an asset deal, leveling the playing field with share acquisitions, where no relief for goodwill or other customer related intangibles is available. The restriction applies to purchases of goodwill and other customer related intangibles on or after July 8, 2015, but will not impact amortization where the relevant intangible was acquired before this date.

Loan Relationships and Derivatives

Consultation on the modernization of the rules dealing with corporate debt and derivative contracts has been ongoing since 2013. It was announced in the Budget that a series of changes to update the computation of profits and losses on loan relationships and derivative contracts will be made for accounting periods commencing on or after January 1, 2016. Such measures include amending the calculation of taxable amounts (income or deductions) to include only items recognized in the profit or loss account, rather than those recognized elsewhere in the accounts (e.g., items taken through reserves).

Companies in financial distress that enter into restructuring arrangements to ensure continued solvency can now exclude any credits arising as a result of such restructuring from their taxable income. This measure takes effect from the date on which the Summer Finance Bill receives Royal Assent.

New anti-avoidance legislation will also be introduced to cover both loan relationships and derivatives. The new rule, which will apply to arrangements entered into on or after Royal Assent, will seek to counter those arrangements entered into with a main purpose of obtaining a tax advantage by way of the loan relationship or derivative contract rules. Certain specific anti-avoidance rules will be repealed as a result.

National Living Wage

Following the Government's stated aim of being a "higher wage" country, a compulsory "National Living Wage" was introduced in the Summer Budget. Working people over the age of 25 years will have to be paid a minimum of GBP 7.20 per hour from April 1, 2016, reaching GBP 9 per hour by 2020. This cost will be borne by business, but the reduction in the corporation tax rate is intended to at least partially ameliorate this, but, of course, will depend on the specific company's facts.

Abolition of Non-domicile Status for Long Domicile Residents

In an anticipated move, the Chancellor announced that from April 2017 otherwise non-domiciled individuals who have lived in the UK for 15 out of the last 20 years will be deemed to be U.K. domiciled for tax purposes. Individuals impacted will thus lose the ability to be taxed on a remittance basis in respect of their non-U.K. source income. It remains to be seen whether globally mobile individuals impacted will choose to leave the U.K. as a result.

INSIGHTS

- The Budget covers all areas of U.K. taxation and impacts all U.K. resident individuals and companies doing business in the U.K. The effect of the proposed Budget extends overseas to non-UK residents conducting business in the U.K. as well. This alert highlights some of the main proposals likely to impact United States businesses investing in the U.K.

HOW BDO CAN HELP

United States businesses investing in the U.K. will need to assess the impact of the Budget proposals. While there is good news in terms of a reduced rate of corporation tax in the near future, other proposals, for example, the changes to the loan relationship anti-avoidance legislation and loss of amortization on future acquisitions of goodwill may have an adverse impact going forward.

BDO can work with you to help you understand what the U.K. Budget proposals mean for your business.