Corporate tax changes

Getting you up to date with UK corporate tax changes

January 2019

UK corporate tax changes 2017-2020

The following pages provide a summary of recent UK corporate tax changes that have either already come into force for 2017 and 2018 or are proposed, subject to the relevant legislation becoming enacted, to apply for 2019 and 2020.

Please note that the legislation may change before finally being enacted and therefore advice should be sought before relying on any proposed future changes summarised in this document.

Changes that came in during 2017 have been included for completeness, as these will be relevant for any tax periods that are filed in relation to year ends ending after 1 April 2017.

In the UK, corporate income tax computations are filed 12 months after the accounting year end. For example, for the year ended 31 March 2018 the tax return will be due to be filed by 31 March 2019, earlier period changes will therefore require due consideration before filing.

The pages provide a summary of :

- the legislation change
- who will be affected
- the effective date

UK corporate tax changes – 2017

Simplification of Substantial Shareholdings Exemption (SSE)

Summary of change	Who is/will be affected?	Effective date
These rules were introduced in 2002 and provide an exemption from capital gains for disposals of shares by companies that meet the relevant conditions. These conditions have been simplified for disposals from 1 April 2017. The main changes are: • the investing company no longer needs to be a trading company • the investing company now only has to have held a 10% or greater shareholding for 12 months at anytime within a six year period of the disposal, rather than within two years. These relaxations should mean that more share sales should meet the SSE conditions and fall within the exemption.	Any UK corporate that holds greater than 10% of the share capital in another company.	1 April 2017

UK corporate tax changes – 2017

New corporate loss relief rules

Summary of change	Who is/will be affected?	Effective date
These rules introduce flexibility, to allow losses arising after 1 April 2017 to be carried forward and be set against most types of taxable profits of the company and other group members, irrespective of the activity the losses relate to. Losses generated prior to 1 April 2017 are still restricted in the way that they can be offset. The new rules, however, introduce a restriction on the use of losses. A group relief group can offset losses up to a value of £5 million. Above the £5 million allowance only 50% of profits can be offset by carried-forward losses, irrespective of when the losses arise. It is proposed that from 1 April 2020 capital losses will be brought within the new loss restriction rules and the same £5 million allowance. HMRC is currently consulting on the mechanics of how this change will work.	Corporate entities with trading and non-trading losses. Corporates with capital losses from 1 April 2020.	1 April 2017

UK corporate tax changes – 2017

Corporate interest restriction

Summary of change	Who is/will be affected?	Effective date
The new rules only apply to groups with a net UK interest expense in excess of £2 million. Where they do apply, the rules restrict the amount of UK interest deduction where a group's net interest expense is above £2 million, to the lower of: • 30% or the UK tax EBITA; and • a measure of the worldwide group's net external finance costs. If the worldwide group is more leveraged than the UK sub-group, then a 'group ratio' election could be made if this gives a better result. The legislation is complex and requires consideration where the £2 million exemption is breached.	UK companies with a group net interest expense in excess of £2 million.	1 April 2017

UK corporate tax changes – 2017

Corporate offence of failure to prevent the criminal facilitation of tax evasion

Summary of change	Who is/will be affected?	Effective date
These measures criminalise corporates that don't do enough to prevent the facilitation of tax evasion. Criminal liabilities can be attributed to a firm when its employees or associates are seen to be helping taxpayers evade tax. The rules capture tax evasion which occurs anywhere in the world by an employee / a person where they are acting on behalf of a firm which is caught by the legislation. The offence is automatically considered to apply unless the organisation can plead a defence that it has put in place "reasonable measures, procedures and safeguards" to prevent the facilitation of the tax evasion. Penalties for an offence are unlimited.	Corporate entities including partnerships and LLPs who commit a UK tax evasion facilitation offence. This can be UK incorporated entities; entities carrying on a business in the UK, or a person who is located in the UK at the time the criminal act occurs.	30 September 2017

UK corporate tax changes – 2018

Removal of capital gains indexation allowance

Summary of change	Who is/will be affected?	Effective date
When a company makes a capital disposal, it was entitled to indexation allowance up to the date of disposal. Indexation allowance has been removed for periods after 1 January 2018. Therefore, for capital disposals on or after 1 January 2018, companies will only be entitled to indexation allowance up to December 2017.	Any UK companies making a capital disposal.	1 January 2018

UK corporate tax changes – 2018

New structures and building allowance

Summary of change	Who is/will be affected?	Effective date
The structures and buildings allowance (SBA) is a new relief that is available on the construction of non-residential structures and buildings (land and dwellings will not be eligible for relief). The relief provides a flat rate 2% per year allowance based on the original building expenditure. The relief applies from when a building is first brought into use. There are no balancing allowances or balancing charges in relation to the SBA on a future disposal of the building.	Any UK companies involved in non-residential construction (which is treated as a fixed asset rather than stock)	Applies to physical construction contracts entered into on or after 29 October 2018

UK corporate tax changes – 2018

Corporate intangible fixed assets – degrouping charge

Summary of change	Who is/will be affected?	Effective date
The substantial shareholdings exemption (SSE) was introduced in 2002 and provides an exemption from capital gains for disposals of shares by companies that meet the relevant conditions. Where SSE applies, degrouping charges on capital gains assets which had been transferred inter-group within six years and left the group as part of the share sale are also exempted from tax. However, different rules applied for intangible fixed asset disposals within six years, which were deemed to be realised and reacquired at market value on the date of departure from the group. These rules have now been changed for intangible fixed assets which leave a group after 7 November 2018. No intangible fixed asset de-grouping charge will now crystallise where SSE applies.	Any corporate sale of shares that qualifies for the substantial shareholdings exemption (SSE)	Share disposals on or after 7 November 2018.

UK corporate tax changes – 2019

Capital allowance changes

Summary of change	Who is/will be affected?	Effective date
UK businesses get relief for qualifying capital expenditure by way of capital allowances. The capital allowance annual investment allowance (AIA), which provides 100% relief in the year of acquisition, increases to £1 million (previously £200,000) for qualifying expenditure for the two year period from 1 January 2019 to 31 December 2020. The main pool capital allowance rate remains at 18% writing down allowance per annum. Whereas, the capital allowance special rate allowance will reduce from 8% to 6% per year from April 2019.	UK businesses with qualifying capital expenditure.	1 January 2019

UK corporate tax changes – 2019

Brexit

Summary of change	Who is/will be affected?	Effective date
The UK leaves the European Union on 29 March 2019 with a transitional period to 31 December 2020. **Key issues** • The likely creation of a customs border between the UK and elsewhere will result in a change to the import/export processes for goods and possibly an increase in customs duty and VAT costs. • Coming out of the EU could mean that the UK will no longer benefit from the EU royalties and interest directive which removed withholding taxes on dividends, royalties and interest coming from EU territories. • The detail is unclear, but the free movement of people will end as we know it. Employers will need to understand how this will impact their workforce today, and in the future, both from a compliance and global mobility perspective.	All businesses transacting with or who have branch or subsidiary businesses in the UK.	29 March 2019

UK corporate tax changes – 2019

Corporate intangible fixed assets – goodwill

Summary of change	Who is/will be affected?	Effective date
Tax relief for goodwill was withdrawn for disposals on or after 8 July 2015. It is now proposed to reinstate relief for the costs of acquired goodwill. Relief will be available for up to six times the value of eligible intellectual property (IP) assets acquired with the business. The categories of eligible assets compared against for the six times test are: patents; registered trade marks; registered designs; copyright and design rights, and plant breeders' rights. Customer-related intangibles are not included. Relief for eligible goodwill will be based on a fixed rate of 6.5% of the cost per year rather than on an accounting basis. No relief will be available in relation to internally-generated goodwill acquired in relation to a related party transaction.	Any corporate purchasing a third party business that includes as part of the consideration a payment for goodwill.	Goodwill acquired after 1 April 2019

UK corporate tax changes – 2019

Non-resident Capital Gains Tax (NRCGT)

Summary of change	Who is/will be affected?	Effective date
All disposals of UK property (residential and non-residential) by non-residents will be brought within the scope of UK taxation. Properties will be treated as being rebased on 1 April 2019. Any capital gains which accrue on an uplift in value after 1 April 2019 will be subject to UK capital gains tax. For corporate entities this will be charged at the rate of UK corporation tax, currently 19% reducing to 17% in 2020. Exemptions will be introduced for institutional investors, such as pension funds.	Any person or corporate entity selling UK property.	1 April 2019

UK corporate tax changes – 2019

Making Tax Digital (MTD)

Summary of change	Who is/will be affected?	Effective date
Businesses with turnover above the VAT threshold (£85,000) will have to keep their VAT records digitally and submit their VAT data to HMRC through compatible software. For many businesses, this will present a significant change to their existing VAT processes, especially if they currently rely heavily on spreadsheets in order to meet their VAT reporting obligations.	Any VAT registered UK business.	1 April 2019

UK corporate tax changes – 2019

Profit fragmentation anti-avoidance

Summary of change	Who is/will be affected?	Effective date
The proposed rules prevent companies, partners or UK individuals from moving profits offshore by way of a 'transfer of value' to a low tax entity resulting in less UK tax being paid. This could be by decreasing UK income or increasing UK expenses. The rules apply where the UK individual or someone connected with them then benefits from those offshore profits. When considering whether there has been a transfer of value from a business, the transfer can be traced through any number of individuals, companies, partnerships, trusts or other entities. The rules include an 80% payment test, comparing the tax suffered on the alienated profits against that due in the UK. Broadly, a UK tax mismatch adjustment will be required where the tax paid offshore is less than 80% of that which would be due in the UK. Under these anti-avoidance rules the fragmented profits are taxed as UK profits, with payment of tax being due 30 days after HMRC issue a preliminary notice of taxation.	Any companies or UK individuals shifting profits offshore.	1 April 2019 (for companies) 6 April 2019 (for individuals)

UK corporate tax changes – 2019

Withholding taxes

Summary of change	Who is/will be affected?	Effective date
It is proposed that the UK's current withholding tax regime will be extended to royalty payments and payments for certain other intellectual property rights, made to connected companies in low tax or no tax jurisdictions in connection with sales made to UK customers. It is intended that the rules will apply even where the payer has no UK taxable presence. Where the rules apply they will potentially create a significant additional tax and administrative burden.	Entities paying royalties into low tax jurisdictions in relation to UK sales.	1 April 2019

UK corporate tax changes – 2020

Non – resident corporate landlords and UK residential property capital gains tax

Summary of change	Who is/will be affected?	Effective date
Corporate entities will no longer be subject to income tax on income received from UK property. Instead, from 1 April 2020, non-resident companies will be subject to 19% corporation tax (reducing to 17% in 2020) on any income or capital gains that arise from UK property.	Non UK companies that receive rental income or make a capital gain on the sale of a UK property.	1 April 2020
A proposed extension of the current non resident capital gains tax regime (NRCGT). It is proposed that UK Capital Gains Tax on the sale of any residential property will be subject to new payment on account rules. Under the proposal, the sale will both need to be notified to HMRC within 30 days of the disposal being completed and a payment on account of the Capital Gains Tax due will also potentially become payable at the same time.	Any person or corporate entity selling UK residential property.	1 April 2020

UK corporate tax changes – 2020

Research and development tax relief

Summary of change	Who is/will be affected?	Effective date
Innovative businesses that are involved in research and development (R&D) can claim R&D tax relief to either lower their tax bill or if they have tax losses, these can be surrender for cash from HMRC. Small and medium companies can claim additional relief of up to £33.35 for every £100 of qualifying R&D spend. From 1 April 2020 the amount of repayable cash credit claimable from HMRC in any one year will re restricted to three times the company's total PAYE/NIC bill for the year. Any tax loss that is restricted and cannot be surrendered for a repayable credit can be carried forward against future profits.	Any small and medium company making an R&D relief claim and seeking a cash credit from HMRC.	1 April 2020

UK corporate tax changes – 2020

Digital services tax

Summary of change	Who is/will be affected?	Effective date
The UK government is proposing to move forward with, and is currently consulting on, a unilateral Digital Services Tax (DST) in the absence of a global OECD solution. The proposal is for a 2% tax on revenues derived by businesses providing search engine services, online marketplaces and social media platforms to UK users ('UK revenue'). The first £25m of UK revenues will be exempt from DST. Where UK revenues are combined with out of scope activities an apportionment will need to be made. There will be an annual filing for the DST tax and tax payments would be made via quarterly instalments. Examples of activities in scope are revenue from adverts displayed to UK users; payments for subscriptions and commissions from UK users. Under the proposals, the provision of radio and television broadcasting services; online content; payment and financial services platforms and the sale of own goods are all excluded. It is proposed that the 2% tax will be treated as a tax deductible expense for UK corporation tax purposes.	Businesses with revenues of more than £500 million who have UK revenues from relevant activities in excess of £25 million.	1 April 2020

Start the conversation

Simon Crookston
Partner, Corporate Tax
+44 (0)1622 767 676
simon.crookston@crowe.co.uk

Paul Fay
Partner, Corporate Tax
+44 (0)20 7842 7163
paul.fay@crowe.co.uk

Laurence Field
Partner, Corporate Tax
+44 (0)20 7842 7280
laurence.field@crowe.co.uk

Robert Marchant
Partner, Head of Corporate VAT
+44 (0)20 7842 7383
robert.marchant@crowe.co.uk

About us

Crowe UK is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

@CroweUK

www.crowe.co.uk