UK pocket tax guide
2013/14

A quick-reference guide to UK taxes

July 2013

www.pwc.co.uk/tax
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 Bill 2013, which is expected to become Finance Act 2013.

Details apply throughout the tax year 2013/14 unless otherwise stated (with comparative figures for 2012/13). It’s possible that some of the information shown will be amended by future Budgets or Finance Bills.

Throughout this book HMRC is used to refer to Her Majesty’s Revenue & Customs.

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

www.pwc.co.uk/taxguide

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Overview

Income tax is payable on taxable income at rates which vary according to the amount of income and its nature. 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, anyone with an income of at least £100,000 or someone of 65 or over with an income of at least £26,100.

If you want to make donations to charity out of income, there are tax-efficient ways of doing so.

With effect from 6 April 2013, the Government has introduced a limit on certain income tax reliefs which aren’t already capped, at £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, you will need to check your options carefully.

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, in part, 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. New annual allowance and lifetime limits will need to be considered carefully.
For employees, non-cash benefits in kind are usually taxable and the amounts chargeable are determined in a particular way. The default value is:

– for an asset transferred, the cost to the employer (or second-hand value if higher)

– for an asset made available to an employee, 20% of its initial market value.

Specific rules apply to various types of benefit, including company cars, mileage allowances and beneficial loans, which we cover in this guide as they are common benefits.

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

• our private client mini-site which is regularly updated to explain current points of interest

• the broad range of points on our pensions blog

• the developments linked from our human resources services page.
### Rates of tax

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2012/13</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>50%</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>£32,010</td>
<td>£34,370</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>50%</td>
</tr>
<tr>
<td>Dividend rate applicable to discretionary and accumulation trusts</td>
<td>37.5%</td>
<td>42.5%</td>
</tr>
</tbody>
</table>

- For individuals who aren’t 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 if you receive 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 10% applies to other savings income (primarily bank and building society interest) up to a limit of £2,790 (2012/13: £2,710). The 10% rate isn’t 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** at the rate of 20% from certain interest, annuities, annual payments and gift aid payments.
• **Child benefit** will be 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 gradually by 1% for every £100.

### Main personal reliefs

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance (born after 5 April 1948)</td>
<td>£9,440</td>
<td>£8,105</td>
</tr>
<tr>
<td>Registered blind person's allowance</td>
<td>£2,160</td>
<td>£2,100</td>
</tr>
</tbody>
</table>

**Age allowances:**

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance (born between 6 April 1938 and 5 April 1948)</td>
<td>£10,500</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's* allowance (MCA) (at least one born before 6 April 1935)</td>
<td>£7,915</td>
<td>£7,705</td>
</tr>
</tbody>
</table>

* Includes same–sex couples who acquired a legal status as civil partners on or after 5 December 2005.

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

• **The personal allowance** for those born after 5 April 1948 is due to be increased to £10,000 for 2014/15 and in line with inflation in future years.

• For **older people with income in excess of £26,100** (2012/13: £25,400) age allowances are reduced by £1 for every £2 but are not reduced below £9,440 (2012/13: £8,105) (personal allowances) or £3,040 (2012/13: £2,960) (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 £118,880 (2012/13: £116,210) won’t receive any personal allowance. This reduction also applies to older taxpayers who have already been limited to the standard allowance, as above.
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 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, if you give £20 in 2013/14 using Gift Aid, the gift is worth £25 to the charity, which is able to claim £5 from HMRC; if you’re a higher rate or an additional rate taxpayer you can claim £5 or £6.25 respectively further relief in your tax return.

- 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.
**Pensions**

Income received from pensions and annuities etc. from various pension sources is generally chargeable to income tax. Relief from income tax is available in relation to certain contributions to such sources (including various contributions by employers). Part of an individual’s pension pot can though be taken as a tax-free lump sum at or around retirement age.

There’s no overall limit to contributions by an individual (or their employer), subject to the rules of the scheme, but amounts above a certain size can usually be invested more tax efficiently in other ways. There’s generally little relief for contributions to unregistered schemes and the amounts which are tax efficient for registered schemes are affected by restrictions.

**Registered pensions schemes summary**

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of tax on pensions income</td>
<td>20%/40%/45%</td>
<td>20%/40%/50%</td>
</tr>
<tr>
<td>Tax–free lump sum (as a percentage of your 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%/50%</td>
</tr>
<tr>
<td>Annual allowance</td>
<td>£50,000</td>
<td>£50,000</td>
</tr>
<tr>
<td>Lifetime allowance (subject to transitional claims)</td>
<td>£1.5m</td>
<td>£1.5m</td>
</tr>
<tr>
<td>Equivalent to defined benefit pension</td>
<td>£75,000 p.a.</td>
<td>£75,000 p.a.</td>
</tr>
<tr>
<td>Normal minimum pension age</td>
<td>55</td>
<td>55</td>
</tr>
</tbody>
</table>

It is proposed to reduce the annual allowance to £40,000 and the lifetime allowance to £1.25m from 2014/15.

**Contributions**

- **No overall limit** to employer or employee contributions.

- Employee contributions are **only deductible for income tax** if they don’t 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 relief at source scheme (i.e. a personal pension type scheme) net of
basic rate tax, even if the individual doesn’t have taxable earnings of this amount.

• 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.

**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** and it’s the sum of the contributions during the pension input periods ending in the relevant tax year that counts towards the annual allowance limit for that year.

• 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. But the increase in the accrued pension at the start of the year doesn’t count towards the annual allowance to the extent that it doesn’t 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 earlier year being used. 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 only in exceptional circumstances. Where the scheme pays, it must adjust the individual’s pension benefits accordingly on a just and reasonable basis.
Benefits
• **Minimum age** for taking retirement benefits, except in cases of ill-health retirement, is 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**. The lump sum can’t 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.

• **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 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 **primary protection, enhanced protection or fixed protection**.
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>BIK % Banding</th>
<th>2012/13 (g/km)</th>
<th>2013/14 (g/km)</th>
<th>2014/15 (g/km)</th>
<th>2015/16 (g/km)</th>
<th>2016/17 (g/km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>5</td>
<td>1–75</td>
<td>1–75</td>
<td>1–75</td>
<td>0–50</td>
<td>n/a</td>
</tr>
<tr>
<td>7</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>0–50</td>
</tr>
<tr>
<td>9</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>51–75</td>
<td>n/a</td>
</tr>
<tr>
<td>10</td>
<td>76–99</td>
<td>76–94</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>11</td>
<td>100</td>
<td>95</td>
<td>76–94</td>
<td>n/a</td>
<td>51–75</td>
</tr>
<tr>
<td>12</td>
<td>105</td>
<td>100</td>
<td>95</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>13</td>
<td>110</td>
<td>105</td>
<td>100</td>
<td>76–94</td>
<td>n/a</td>
</tr>
<tr>
<td>14</td>
<td>115</td>
<td>110</td>
<td>105</td>
<td>95</td>
<td>n/a</td>
</tr>
<tr>
<td>15</td>
<td>120</td>
<td>115</td>
<td>110</td>
<td>100</td>
<td>76–94</td>
</tr>
<tr>
<td>16 – 35/37*</td>
<td>125+*</td>
<td>120+*</td>
<td>115+*</td>
<td>105+*</td>
<td>95+*</td>
</tr>
</tbody>
</table>

* Increasing by 1% for each 5g/km to the maximum, which is due to increase from 35% to 37% from April 2015.

Example (2013/14): Price of petrol car £15,000; CO₂ emissions 188g/km; appropriate percentage 29%; taxable benefit £4,350.

- Emissions that aren’t a multiple of 5g/km are rounded down to the nearest multiple of 5g/km for the purposes of the 125g/km threshold and above.

- Pure electric cars are rated at 0% until April 2015.
• For **diesels** there’s a 3% supplementary charge but the maximum charge still won’t exceed 35% (or 37% from April 2015). The supplement is due to be abolished from April 2016.

• **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. Mobile telephones are ignored for this purpose and don’t normally give rise to a taxable benefit.

• **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 £21,100 for 2013/14 (2012/13: £20,200). This is due to increase in line with the retail prices index (RPI) in April 2014.

Example (2013/14): Appropriate percentage as above 29%; applied to £21,100; taxable fuel benefit £6,119.

**Company vans – cash equivalents**
The standard taxable benefit of private use of a company van is £3,000. The taxable benefit of fuel for private use is £564 (2012/13: £550) but nil if private use is restricted to (in essence) home–to–work journeys. This is due to increase in line with RPI in April 2014.
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. These rates, based on cylinder capacity, are reviewed quarterly. The advisory rates from 1 March 2013 until further notice are as follows (previous rates from 1 December 2012 in brackets):
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 2013/14 is 4% (2012/13: 4%). 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 doesn’t apply if beneficial loans either total no more than £5,000 (ignoring loans qualifying for tax relief) or are made on the same terms and conditions as commercial loans by the lender. It was announced in Budget 2013 that this is due to increase to £10,000 from 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’s earned. When income is assessable depends on the tax year in which it’s paid or in some cases when it’s 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*</td>
<td>All*†</td>
</tr>
<tr>
<td>Resident and entitled to relief on overseas workdays</td>
<td>All</td>
<td>All</td>
<td>Remittances**</td>
<td>Remittances**</td>
</tr>
<tr>
<td>Not resident</td>
<td>All</td>
<td>All</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

* Special rules apply to some seafarers.

** If remittance basis is claimed, otherwise all taxable.

† 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.

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

- Domicile is normally acquired at birth and is difficult to change; it can be thought of as the individual’s ultimate home.

- UK resident but non-UK domiciled individuals (non-doms) can pay tax on their UK source income and capital gains and on any non-UK personal income and capital gains which are remitted to the UK (the remittance basis) if they make an annual claim to that effect. They may also be able to claim an exemption from paying tax on employment income earned relating to foreign duties or under a separate foreign employment contract, as noted above.

- In some cases, as noted in the flowchart, there may be a remittance basis charge (RBC) and loss of the personal, married couple’s and blind person’s allowances for income tax (PAs) and the annual exemption for capital gains tax purposes (AE).

- Non-doms who don’t claim the remittance basis are taxed on the full basis, unless they meet fairly narrow conditions in which they may claim an exemption from UK tax in respect of foreign income which doesn’t exceed certain limits.
• The RBC may be regarded as income tax or CGT for the purposes of double taxation agreements.

• Non-doms 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.
Approved or 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.

While tax incentivised share plans have an attractive tax treatment, tax is not the only consideration. The wealth of new 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 you’ll need to get your executive pay right.

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 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 the qualifying conditions have been met).
**Approved or tax incentivised employee share plans**

When shares are acquired:

<table>
<thead>
<tr>
<th></th>
<th>Typical share option</th>
<th>Tax favoured option</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income tax</strong></td>
<td>Yes – up to 45%</td>
<td>No</td>
</tr>
<tr>
<td><strong>National Insurance</strong></td>
<td>Yes – 13.8% employer 2% employee</td>
<td>No</td>
</tr>
<tr>
<td><strong>Capital gains tax</strong></td>
<td>18% or 28% on growth post acquisition</td>
<td>18% or 28% (or even 10%) on whole gain</td>
</tr>
</tbody>
</table>

**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 employees, and no more than £30m of gross assets.

- **Company Share Option Plan (CSOP):** For most other independent and listed companies.

There are a number of detailed conditions that need to be satisfied but provided they’re satisfied then no income tax will be due on the grant or exercise of the options. If the conditions aren’t 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 used 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.
All–employee plans
There are two tax incentivised share option plans that work on an all–employee basis:

• 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. In addition, or alternatively, employees can buy shares using their pre–tax pay. If they keep the shares for five years, no tax is due.

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 requirements

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

* Under a SIP the employer can award free shares (which can be performance–related) up to a maximum of £3,000 p.a. tax free. Secondly, an employee may buy partnership shares from pre–tax salary, up to a maximum of £1,500 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 (up to a prescribed statutory limit) paid out on an employee’s shares can be re–invested 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 for CSOP, SAYE and EMI when the options are exercised if certain conditions are met. The deduction will be for the gain that the employee realises on exercise (even if the employee is not liable to income tax on exercise).

- A statutory corporation tax deduction is also available for shares awarded in SIP.

**Employer compliance**

- CSOP, SAYE and SIPs must be approved by HMRC before tax favoured awards can be granted. EMI awards must be notified to HMRC shortly after grant.

- 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).

- There are also specific annual reporting obligations. Financial penalties may be imposed for late or incorrect reporting. Also, HMRC may commence proceedings to withdraw approval from an approved plan.
Overview

Employment costs, changes to government legislation, National Insurance contributions (NICs) and new business immigration procedures, including the introduction of Real Time Information, have increased the demands on employers.

How you organise pay and benefits can affect NICs, so you need to review these carefully. A government scheme currently offers certain new businesses, depending upon their location in the UK, an exemption of up to £5,000 of employer NICs for the first ten employees hired in the first year until 5 September 2013. From April 2014, businesses and charities will be able to claim a reduction of up to £2,000 of their employers’ contributions.

In this context, it’s also worth looking at 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 see our Tax blog, but note in particular that our Human Resource Services web page on people costs and risk focuses on some of the main considerations.

Amounts stated are for 2013/14 (amounts for 2012/13 are in brackets).
### 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 £109 (£107)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£109.01–£149 (£107.01–£146)</td>
<td>Nil (nil)</td>
<td>Rebate 1.4% (1.4%)</td>
</tr>
<tr>
<td>£149.01–£770 (£146.01–£770)</td>
<td>12% (12%)</td>
<td>10.6% (10.6%)</td>
</tr>
<tr>
<td>£770.01–£797 (£770.01–£817)</td>
<td>12% (12%)</td>
<td>12% (12%)</td>
</tr>
<tr>
<td>Over £797 (over £817)</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>Salary related</th>
<th>Money purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £109 (£107)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£109.01–£148 (£107.01–£144)</td>
<td>Nil (nil)</td>
<td>Rebate 3.4% (3.4%)</td>
<td>Nil (nil)</td>
</tr>
<tr>
<td>£148.01–£770 (£144.01–£770)</td>
<td>13.8% (13.8%)</td>
<td>10.4% (10.4%)</td>
<td>13.8% (13.8%)</td>
</tr>
<tr>
<td>Over £770 (over £770)</td>
<td>13.8% (13.8%)</td>
<td>13.8% (13.8%)</td>
<td>13.8% (13.8%)</td>
</tr>
</tbody>
</table>

Note: reduced employee contributions at 5.85% (5.85%) are payable on weekly earnings from £149.01 to £797 (£146.01 to £817) 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.
Other classes of contributions

• Class 1A (employer only): 13.8% (13.8%) based on taxable benefits which don’t 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 pay as you earn (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): £2.70 (£2.65) per week. Subject to small earnings exemption of £5,725 (£5,595). Payable quarterly or by monthly direct debit.

• Class 3 (voluntary flat rate): £13.55 (£13.25) per week. Payable quarterly or by monthly direct debit.

• Class 4 (self–employed): 9% (9%) on assessable profits between £7,755 (£7,605) and £41,450 (£42,475) per annum. 2% (2%) on profits above £41,450 (£42,475). Payable with income tax.
Overview
You may be able to benefit from the tax incentives that have been introduced over the years for particular forms of saving or investment. Some of the tax incentivised investments are briefly summarised below.

In this context, if you’re a potential investor we recommend you look to various elements of the income tax section, particularly the pensions section.

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

If you’re a company looking to raise investment funds using Government-backed schemes, such as the enterprise investment scheme (EIS), the seed enterprise investment scheme (SEIS) and venture capital trusts (VCTs), you’re not allowed to raise more than £5m in total in any 12 month period.

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

- the March 2013 Budget included some additional improvements to the seed enterprise investment scheme
- there’s a range of matters of particular interest to private business and private clients.
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. 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.

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 aren’t allowable as capital losses.

• The initial income tax relief may be withdrawn if various conditions aren’t met – these include a minimum holding period of five years.

Enterprise investment scheme (EIS)
• Income tax relief is available at 30% on new subscriptions by individuals for eligible ordinary shares in qualifying unlisted trading companies, including shares traded on the alternative investment market (AIM), satisfying the conditions of the EIS scheme.
Tax efficient investments

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

• Unlimited capital **gains arising from the disposal of other assets can be deferred** by investment 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.

• A capital gain on disposal of the shares after the minimum holding period (see below) will be **exempt from CGT** provided that EIS income tax relief conditions haven’t been breached. Capital losses may generally be relieved against either capital gains or taxable income.

• EIS investments may qualify for **inheritance tax (IHT) business property relief** (see the section on inheritance tax).

• The full EIS investment **can be treated as if the shares were issued in the previous tax year**, subject to the overall investment limit for the year.

• The **reliefs may be withdrawn** if various conditions aren’t met or cease to be met. These include a minimum holding period of three years. Where the company is not trading at the date of the share issue, the minimum holding period runs until three years after trade commences.

**Seed enterprise investment scheme (SEIS)**

• This is based on the EIS but is for **investments in smaller companies** where the qualifying trade or R&D activity has been carried on for less than two years.

• Income tax relief is available at **50% on new subscriptions** by individuals for eligible ordinary shares.

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

• Relief can be obtained for **capital gains reinvested in a qualifying SEIS company** of up to 50% for gains accruing in 2013/14 and up to 100% for those realised in the 2012/13 tax year.
• A **capital gain on disposal of the SEIS shares** after the minimum holding period (see below) will be exempt from CGT provided that SEIS income tax relief has been retained. Capital losses may generally be relieved against either capital gains or taxable income.

• SEIS investments may qualify for **inheritance tax (IHT) business property relief** (see the section on inheritance tax).

• The **reliefs may be withdrawn** if various conditions aren’t met or cease to be met. These include a minimum holding period of three years.

• An **investee company may receive a maximum of £150,000** from SEIS investors.

**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 overall annual subscription limit is £11,520 (2012/13: £11,280). Within this overall limit is an annual limit of £5,760 (2012/13: £5,640) for the amount the ISA can hold as cash investments.

• 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 tax resident again.

• There are **age limits**. Only those aged 18 and over can invest in a full ISA, but it’s possible for those aged 16 and 17 to invest in a cash ISA. It’s possible to switch a cash–based ISA into an equity–based ISA but not vice versa.
Tax efficient investments

- **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 don’t 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 £3,720 in the tax year (2012/13: £3,600). As with ISAs, there will be no tax to pay on the income or gains a Junior ISA makes.

**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**

- The latest Index-Linked Savings and Fixed Interest Savings Certificate issues were withdrawn from sale on 7 September 2011. There are currently no issues on general sale.

- **Premium Bonds** offer tax-free returns in the form of a monthly prize draw. The maximum holding is £30,000 per person.

- 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)**

- The CTF is a long-term **tax–free savings** account for children born between 1 September 2002 and 2 January 2011 only. Gains and income are tax–free within the CTF.

- CTFs can be invested in a **range of assets** like an ISA.

- Parents, family and friends can contribute up to a total of £3,720 in the tax year (2012/13: £3,600).

- The child will have unrestricted **access to the accumulated fund** at age 18.

- 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 don’t elect into the reporting fund regime are taxed at the investor’s marginal income tax rate.
Overview
In recent years the UK has seen fundamental changes in its corporate tax landscape. Corporate tax reform has been central to the Government’s stated goal of improving the international competitiveness of the UK. The overall impact of the reduced rates of corporation tax, together with the improved regime for international businesses, the existing dividend exemption, substantial shareholdings exemption, no dividend withholding tax, and clear rules over interest deductibility, are designed to make the UK a more attractive location for holding companies and business hubs.

To encourage innovation, the Government extended research and development (R&D) tax incentives from April 2013 through the introduction of a new above the line tax credit now called R&D expenditure credit (RDEC). A tax–advantaged regime for patents (Patent Box) also took effect from this date.

New controlled foreign companies (CFC) rules and the foreign branch profits exemption require re-evaluation of the tax impact on groups with international business, whilst businesses with valuable intellectual property should understand the role of the Patent Box.
Specific areas for consideration by all businesses include:

- application of reliefs including R&D incentives
- managing and protecting intellectual property
- tax risk and compliance management, and
- effective business model planning.

In this context, it’s also worthwhile for companies to reassess their employee reward and incentive strategy to make sure they’re effective for both the company and individual – please refer to the section on income tax or that on approved and tax favoured share plans.

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

**Rates of tax**

<table>
<thead>
<tr>
<th>Profits chargeable*</th>
<th>Financial year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
</tr>
<tr>
<td>Full rate (more than £1,500,000)</td>
<td>23%</td>
</tr>
<tr>
<td>Effective marginal rate (£300,001–£1,500,000)</td>
<td>23.75%</td>
</tr>
<tr>
<td>Small profits rate (up to £300,000)</td>
<td>20%</td>
</tr>
</tbody>
</table>

* The profits limits are divided by one plus the number of associated companies worldwide carrying on a business.

- The Government plans to reduce the full tax rate to 21% in financial year 2014, and 20% for financial year 2015, when the main and small profits rates will be unified.

- From 1 April 2013 an effective 10% Patent Box corporation tax rate will apply to taxable profits attributed to patents and related licences. Profits include a significant part of the trading profit from sales of a product which include the patented item – not just profits from patent royalties.
Corporation tax

**Dividends**
- Dividends paid by UK companies aren’t subject to withholding tax but carry an imputed tax credit (generally non-repayable) of one-ninth.

- Almost all dividends received by corporate shareholders 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 the trade, or in managing investments, are deductible.

- Interest and other financing costs are generally deductible by reference to their accounting treatment.

- 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, goodwill and other intangible assets, a company can generally claim a deduction for the accounting amortisation or impairment loss, or a flat rate of 4% per annum.

- For qualifying revenue expenditure on research and development (R&D), an additional deduction of 30% is available for large companies, and an additional deduction of 125% or sometimes a repayable tax credit for companies that are small or medium-sized (SMEs). An SME here is one which, with linked enterprises, has fewer than 500 employees, and an annual turnover not exceeding 100m euros and/or an annual balance sheet total not exceeding 86m euros. A new R&D expenditure credit or RDEC (at a rate of 10% of qualifying expenditure) will be available for large companies by election from April 2013. While companies currently have the choice as to whether to stay in the old regime or claim the new credit, the ATL credit will be mandatory from 1 April 2016. The new provisions allow the benefit of the tax credit to be recorded in the company’s accounts in profit before
tax (rather than as a reduction in the tax charge). The ATL credit will be a taxable receipt and will be paid net of tax to companies with no corporation tax liability.

• A new tax relief for the production of high-end television has effect for qualifying expenditure incurred from 1 April 2013. Eligible companies can claim an additional tax deduction in computing their taxable profits or a tax credit (in certain circumstances). A similar tax relief for the production of UK video games is also being introduced and will come into effect by Treasury Order when it receives State aid approval from the European Commission. Both creative sector reliefs are targeted at those productions which make a significant economic and cultural contribution to the UK.

• Most pension contributions made wholly and exclusively for business purposes are deductible when paid. Contributions may have to be spread over a period of up to four years if they exceed (broadly) 210% of the previous year’s contributions.

• Remuneration for directors and employees must be paid before nine months following the end of the accounting period. Bonuses paid later are deductible when they’re 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.

• Companies’ chargeable gains can be reduced by indexation allowance calculated on the allowable expenditure by reference to the increase in the retail prices index (RPI). Indexation may not create or increase a loss.
Corporation tax

- Payment of corporation tax in respect of certain exit charges can be deferred by an application made within nine months and one day of the end of the relevant accounting period.

**Losses**

- Certain types of current year 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 accounting period 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 periods ending within the previous three years.

- **Management expenses and property business losses** are deducted from a company’s total profits for that accounting period, then any remaining balance is carried forward automatically to the subsequent accounting period. Neither can be carried back to previous years.

- **Capital losses** can only be offset against capital gains arising in the same company in the same accounting period or future accounting periods.

- Restrictions on losses 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 accounting period starting after the election and is (broadly) irrevocable. From 1 January 2013, a non-UK resident company can also elect to apply the regime for a future accounting period in which it will be UK resident.
• Once the election is made, there’s no relief in the UK for branch 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. From January 2013:
  – income from immovable property used for the trade is exempt; and
  – gains of close companies are exempt in certain circumstances; but
  – investment income and gains are generally not exempt.

• The rules to prevent the artificial diversion of profits to exempt PEs were revised for accounting periods commencing on or after 1 January 2013, to accord with the new regime for controlled foreign companies (see below).

Groups of companies
• Most types of current year 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 (EEA) 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 can’t be surrendered as group relief, but matching and offset of gains and losses can often be achieved by electing to transfer the gain or loss within the group. Within the worldwide capital gains group, capital assets can be transferred tax–free between companies and permanent establishments that are subject to UK corporation tax.
Controlled foreign companies (CFCs)

- A new CFC regime applies for accounting periods of CFCs commencing on or after 1 January 2013.

- Broadly a CFC is an overseas company controlled by UK residents. Its profits may be treated as taxable on UK resident companies which have an interest in the CFC, unless:
  - the profits don’t pass through ‘gateway tests’, or
  - the CFC satisfies any of the statutory exemptions.

- Key features of the new regime include:
  - a new exemption for between 75% to 100% of a CFC’s intra-group finance profits (which will give an effective tax rate on those profits of between 0% to 5% when the main corporation tax rate falls to 20% from 1 April 2015)
  - the new gateway tests could offer a straightforward route to comply with the CFC rules and simplify compliance, and
  - flexibility of choice between the new gateways or more traditional exemptions.

Transfer pricing

- UK rules which adjust for tax purposes non–arm’s length pricing of goods and services between related parties apply to both UK/non–UK and UK/UK transactions.

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

- A compensating adjustment may be available in UK/UK transactions, to make sure in general that the rules won’t cause double taxation.

- SMEs are exempt in many cases.
Overview
The annual tax on enveloped dwellings (ATED) is chargeable on companies, collective investment schemes and partnerships with company members who hold UK residential dwellings valued at more than £2m on specified valuation dates.

The amount of ATED is worked out using a banding system based on the self-assessed value of your property. If HMRC challenges a valuation and finds that it’s wrong, you may have to pay penalties plus interest for late payment. If you reasonably believe the valuation falls within a 10% variance of a banding threshold, you can ask for a pre-return banding check (PRBC).

ATED took effect from 1 April 2013 and, in most cases, for 2013/14 a return is due by 1 October 2013 and tax payable is due by 31 October 2013 with both due by 30 April during each subsequent year.

For links to the latest developments see our Tax blog.
Annual tax on enveloped dwellings

**Rate bands**

<table>
<thead>
<tr>
<th>Property value</th>
<th>Annual Tax 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than £2m but not more than £5m</td>
<td>£15,000</td>
</tr>
<tr>
<td>More than £5m but not more than £10m</td>
<td>£35,000</td>
</tr>
<tr>
<td>More than £10m but not more than £20m</td>
<td>£70,000</td>
</tr>
<tr>
<td>Over £20 million</td>
<td>£140,000</td>
</tr>
</tbody>
</table>

* 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 you bought/acquired it or, if new/converted, when it is entered on the Council Tax Valuation Lists (or becomes occupied).

**Main reliefs**

If you’re not chargeable for the full year, a repayment claim can be made.

There are a number of reliefs against the tax which can be claimed in a return for, amongst other things, residential dwellings that are:

- leased out in a property rental business
- held for sale in a property development or trading business
- exploited in a trade of permitting the public to 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.
Overview
Depreciation is not generally allowed as a tax deduction and the range of capital allowances available instead is now much reduced.

You may be able to benefit from the increase in the annual investment allowance from £25,000 to £250,000 from 1 January 2013, to encourage investment in plant and machinery. The main rate of writing down allowance (WDA) on plant and machinery is 18% although it should be noted that it’s permissible to claim only part of the allowances to which you’re entitled 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.

If you’re looking at property, you may also want to consider the sections devoted to national non-domestic rates.

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
Capital allowances

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% first–year allowances (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 pay as you earn (PAYE) and National Insurance contributions (NICs) liabilities for payment periods ending in the chargeable period.

• An annual investment allowance (AIA) provides individuals, certain partnerships and companies with a 100% allowance for the first £250,000 (£25,000 before 1 January 2013) of expenditure on plant and machinery (other than cars). 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’s 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 can’t 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 seller to enter into elections in order for any allowances to pass to the buyer. Transitional rules apply until April 2014 where the seller has not claimed any allowances.

**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, both within a designated disadvantaged area and vacant for at least one year, attracts a 100% initial allowance.
Overview

Individuals who are resident in the UK are subject to CGT. 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’re willing to pay the remittance basis charge when it would apply. You and your spouse (or civil partner) are treated as separate individuals for CGT although there are special rules for transfers of assets between you.

Apart from international elements, it can be important to look at the timing of gains to see whether you’re eligible for an annual exempt amount and because a higher rate of tax can apply if your net gains and taxable income exceed the higher rate threshold for the tax year. The timing of a disposal will usually be driven by a number of factors, with tax being only one of those. If you’re an entrepreneur, you 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. Consideration should also be given to making sure effective use is made of losses as well as the various other exemptions and reliefs.

As an individual, you might also consider the section on tax efficient investments.
For links to the latest developments see our Tax blog, but note in particular:

• our private client mini-site.

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, don’t exceed the higher rate threshold of £32,010 (2012/13: £34,370) 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 £10,900 (2012/13: £10,600). A husband and wife (or civil partners) each has a separate exemption.

• Most trusts have an annual exempt amount of £5,450 (2012/13: £5,300), generally reduced where more than one trust has been created by the same person but not to below £1,090 (2012/13: £1,060).

• If the beneficiary of a trust is mentally disabled or receiving the middle or higher rate of Attendance Allowance or Disability Living Allowance, the trust has the same annual exempt amount as an individual.

• A non–UK domiciled individual who claims the remittance basis has no annual exempt amount.
Capital gains tax (CGT)

**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 chargeable event for CGT purposes. Instead, all assets owned by the individual at the time of death are revalued to market value at that time, free of any CGT charge.
- In general, gains by an individual on disposals of their only or main private residence, cars, gilts and qualifying corporate bonds are exempt. Gifts to charities are also normally exempt.
- The Government is introducing a new ‘employee shareholder’ employment status. On or after 1 September 2013, those who adopt the 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’s the net amount for the year that’s subject to CGT.
- Net allowable losses in a tax year are carried forward for use against future net gains; they can’t 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. This has to be made in respect of the first tax year for which the remittance basis is claimed.
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
  – shares acquired through exercising EMI options on or after 6 April 2012.

• The conditions must have been satisfied throughout a qualifying period of a year before the disposal.

• Various deferred gains are also covered by the relief.

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 the alternative investment market [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. Partial claims are permitted. The gain will continue to be deferred as long as qualifying shares are held, but subject to stringent anti–avoidance provisions.
Capital gains tax (CGT)

- 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.

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’s 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.

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 immediately prior to the gift. Relief is also available for certain agricultural land and gifts that attract a charge to inheritance tax (IHT) (even where the rate of IHT is nil).

- 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.

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.
Overview
Apart from specific rules applicable to transfers to relevant property trusts (RPTs) 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.

You’ll generally want to make sure you don’t have to pay the income tax charge (the pre–owned assets charge) on any benefit you derive from having free or low–cost enjoyment of assets you formerly owned or you provided funds to purchase. There’s an election for IHT treatment instead and other anti–avoidance legislation may also treat other gifts in which you retain an interest as still comprised in your estate for IHT purposes.
Inheritance tax (IHT)

Reform of the IHT treatment of transfers between UK domiciled individuals and their non-UK domiciled spouse or civil partner has led to:

• the cumulative cap for exempt transfers being increased from £55,000 to £325,000 for transfers of value on or after 6 April 2013, with subsequent changes in line with the nil-rate band, and

• the introduction of a new election regime under which the non-domiciled partner will be able to elect to be treated as UK-domiciled for IHT purposes.

For links to the latest developments see our private client mini-site.

Rates of IHT

The rates applicable to death are set out below:

<table>
<thead>
<tr>
<th>On the first £325,000 (2012/13: £325,000) of the seven year cumulative total of chargeable transfers (the nil rate band)</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<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.
Inheritance tax (IHT)

- 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>UK domiciled spouse*</th>
<th>No limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non–UK domiciled spouse (from non–UK domiciled spouse)*</td>
<td>No limit</td>
</tr>
<tr>
<td>Non–UK domiciled spouse (from UK domiciled spouse)#</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>

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

# For transfers on or after 6 April 2013 (previously £55,000).

**Lifetime transfers:**

| Annual exemption per donor | £3,000 |
| Small gifts, annual amount per donee (but not available to cover part of a larger gift) | £250 |
| Regular gifts out of income | Varies according to circumstance |

**Wedding gifts:**

| To child of donor | £5,000 |
| To grandchild (or remoter issue) of donor or from one party of the marriage to the other | £2,500 |
| To others | £1,000 |
### Inheritance tax (IHT)

#### 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

For deaths on or after 6 April 2012, IHT will be charged on the net chargeable value on 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’ll remain outside the RPT regime while the beneficiary entitled to the interest remains the same. Also, there’s 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.
**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 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 implementation.

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

If you’re involved in a transaction in shares, you might also like to think about the capital gains implications and whether you fall within the reliefs or roll-overs for reorganisations, reconstructions, transactions by entrepreneurs, etc. There may also be inheritance or other tax consequences.

For links to the latest developments see our [Tax blog](#)
**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>Issue or transfer of bearer shares, issues or transfers of shares to clearance services and depositary systems*</td>
<td>1.50%</td>
</tr>
<tr>
<td>Unit trusts and open-ended investment companies</td>
<td>Varies</td>
</tr>
</tbody>
</table>

* Subject to HMRC practice and ongoing case law, the 1.5% charge is no longer collected on issues of shares into clearance services or depositary receipt systems, or on transfers of shares into clearance services or depositary receipt systems if the transfer is an integral part of a raising of capital.

**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’s no transfer document (as is the case for transfers through CREST (the UK’s electronic share settlement system) SDRT is the relevant tax.

**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. 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.**
Stamp duty/stamp duty reserve tax (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.
**Overview**

SDLT is payable on transfers of, or leases over, UK land 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.

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**

<table>
<thead>
<tr>
<th>SDLT on consideration for sale or premium for leases:</th>
<th>Residential</th>
<th>Non–residential or mixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to £125,000</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>over £125,000 up to £150,000</td>
<td>1%</td>
<td>Nil</td>
</tr>
<tr>
<td>over £150,000 up to £250,000</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>over £250,000 up to £500,000</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>over £500,000 up to £1m</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>over £1m up to £2m</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>over £2m*</td>
<td>7% or 15%</td>
<td>4%</td>
</tr>
</tbody>
</table>

* On a purchase of a dwelling over £2m (which may be part of a mixed property transaction) by a company, a partnership with a company partner, or a collective investment scheme, but not a property developer, the rate is 15%. From Royal Assent to Finance Bill 2013 (expected July 2013) this rate will be restricted by certain exemptions, broadly, to owner-occupiers. Otherwise the rate is 7%.

SDLT on rents payable under new leases:

1% of 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.
Main exemptions

• **Transactions within groups** – The test is 75% ownership of ordinary share capital and the right to 75% of distributable profits and assets. 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.
Overview

VAT is due on the supplies of goods or services (other than exempt supplies) you make in the UK in the course or furtherance of business, if you’re registered or need to be registered for VAT, and also on the importation and cross-border acquisition of goods and some 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 you incur on the purchase of goods and services for use in making taxable supplies (input VAT) is generally recoverable. However, if you’re making both taxable and exempt (or non-business) supplies, partial exemption rules may limit your recovery of such input VAT. There is some scope for choosing the best recovery method.

You may be able 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 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%)
  - 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.

**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’s not able to register for VAT and is thus not able to recover any input VAT incurred.

- The current registration threshold is £79,000 (prior to 1 April 2013: £77,000). From 1 December 2012 the registration threshold for businesses not established in the UK is zero.

- The current deregistration threshold is £77,000 (prior to 1 April 2013: £75,000).
Value added tax (VAT)

- The current registration and deregistration thresholds for relevant acquisitions from other European Union (EU) Member States are £79,000 (prior to 1 April 2013: £77,000).

- 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, and
  - non-EU businesses that provide electronically supplied services to private individuals and non-business organisations in the EU.

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.
Value added tax (VAT)

**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>
</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>
</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’s 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’s 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 doesn’t 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.
Value added tax (VAT)

• 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 £600,000 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 don’t 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.

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 and computer chips) 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’s essential that a business knows whether it’s required to disclose a particular transaction or series of transactions and the manner and time in which this is required to be done.

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

- There’s 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, claims, filing and payment.
Overview
Customs duty and other applicable import charges, including import VAT, are paid when dutiable goods are imported into the EC. 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.

You may sometimes be able 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.
Excise duty

Overview
If your 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 provide 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 it’s set above this minimum level. Therefore, there’s 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. Often half the public sale price is comprised of a excise duty, the tax amount within the sale price can rise as high as 70% when VAT is taken into account.

- 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 you wish **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. These taxes are ruled by complex regulations and are often changing. As your business needs change (e.g. cash flow) and risks change, the impact of these indirect tax requirements can affect your business’s profitability.

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 received by an insurer which cover risks located in the UK.

• The definition of premium includes risk, costs of administration, commissions, facilities for paying in instalments and tax.
Other indirect taxes

• **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. This needs to be considered on a case by case basis.

• The **standard rate of IPT**, and the rate most commonly used, is 6%. 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 and aircrafts, and contracts relating to risks outside the UK.

**Landfill tax**

• Landfill tax **applies to** disposal of waste by way of landfill on a landfill site, and to any material used for certain specified purposes on landfill sites. For site operators it’s important to ensure that the revisions in legislation regarding taxable activities over recent years are understood.

• Certain inert waste as defined (such as bricks) is taxed at the **lower rate** of £2.50 per tonne.

• All other waste is taxed at a **standard rate** of £72 (2012: £64) per tonne for supplies made on or after 1 April 2013 and by a further £8 in April 2014. The standard rate in 2014 (£80 per tonne) will be the minimum applied through to 2019/20.

• 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 6.8% (5.6% prior to 1 April 2013) of annual landfill tax liability.

**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 (as defined).

• There are a number of **exemptions or exclusions and reliefs** include 45 industrial and agricultural processes using aggregates.

• Aggregates levy has for some years been under challenge through **litigation**. In March 2012 the European General Court found that the exclusion of certain material from the scope of the levy was illegal State aid and it remains likely that the UK will be requested to modify the system in order to bring it into line with EU Law requirements. Businesses bringing the levy to account or incurring aggregates levy costs may wish to take action to protect their position.
**Air passenger duty (APD)**

- APD is a *departure tax* levied on most air travel. It’s levied on the carriage of chargeable passengers from a UK airport on aircraft other than those under ten tonnes or carrying fewer than 20 passengers (but is being extended to business jets from April 2013). It’s payable by the operator of the aircraft.

- APD is levied based on four geographical bands. The *rate of duty* applicable from 1 April 2013 (and announced from 1 April 2014):

<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></td>
<td>Current rate</td>
<td>From 1 April 2014</td>
<td>Current rate</td>
</tr>
<tr>
<td>Band A (0–2000)</td>
<td>£13</td>
<td>£13</td>
<td>£26</td>
</tr>
<tr>
<td>Band B (2001–4000)</td>
<td>£67</td>
<td>£69</td>
<td>£134</td>
</tr>
<tr>
<td>Band C (4001–6000)</td>
<td>£83</td>
<td>£85</td>
<td>£166</td>
</tr>
<tr>
<td>Band D (over 6000)</td>
<td>£94</td>
<td>£97</td>
<td>£188</td>
</tr>
</tbody>
</table>

* Includes direct long–haul from Northern Ireland. The power to set APD rates for direct long–haul flights departing from Northern Ireland is devolved to the Northern Ireland Assembly for bands B–D and have been set at £0. Distances are based on the distances between London and the capital city of the destination country/territory.

- Flights from airports in the Scottish Highlands and Islands are exempt.

- 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.
Climate change levy (CCL)

- CCL is a levy on the **business use of certain supplies of energy products**. It’s 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 2012 – 31 March 2013</th>
<th>1 April 2013 – 31 March 2014</th>
<th>From 1 April 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>0.509p per kWh</td>
<td>0.524p per kWh</td>
<td>0.541p per kWh</td>
</tr>
<tr>
<td>Natural gas*</td>
<td>0.177p per kWh</td>
<td>0.182p per kWh</td>
<td>0.188p per kWh</td>
</tr>
<tr>
<td>Liquid petroleum gas</td>
<td>1.137p per kg</td>
<td>1.172p per kg</td>
<td>1.210p per kg</td>
</tr>
<tr>
<td>used for heating</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other taxable</td>
<td>1.387p per kg</td>
<td>1.429p per kg</td>
<td>1.476p per kg</td>
</tr>
<tr>
<td>commodity (e.g. coal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and other solid fuels)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Northern Ireland natural gas rate is 0.064p per kWh until 31 October 2013 after which the main rate of CCL will apply.

- There are a number of **exemptions and exclusions** such as fuels supplied for domestic heating, renewable source electricity generation and energy products used 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 CCL agreements** (CCA) other than for electricity for which the relief is 90% from 1 April 2013.

- Energy derived from **renewable sources** is exempt from CCL.

- Carbon Price Support has been introduced from 1 April 2013. This is a rate of CCL applied by fossil fuelled electricity generators to input fuel used. It’s a self-accounted tax and applies to all generation with a capacity greater than 2MW. CPS applies to oil-powered generation by a reduction in the rebate of fuel duty available.
  - Carbon Price Support (CPS) rates of CCL to apply on fossil fuels used to generate electricity:
### Other indirect taxes

<table>
<thead>
<tr>
<th>Supplies of commodity</th>
<th>CPS Rate of CCL 2013/14</th>
<th>CPS Rate of CCL 2014/15</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>0.091</td>
<td>0.175</td>
<td>p per kWh</td>
</tr>
<tr>
<td>Liquified petroleum gas</td>
<td>1.46</td>
<td>2.822</td>
<td>p per kilogram</td>
</tr>
<tr>
<td>Coal</td>
<td>44.264</td>
<td>85.489</td>
<td>p per gigajoule</td>
</tr>
<tr>
<td>Fuel oil; other heavy oil; rebated light oil</td>
<td>1.568</td>
<td>3.011</td>
<td>p per litre</td>
</tr>
<tr>
<td>Gas oil; rebated bioblend</td>
<td>1.365</td>
<td>2.642</td>
<td>p per litre</td>
</tr>
</tbody>
</table>

*CPS does not apply to electricity generation in Northern Ireland.*

- Rates of CPS will almost double for 2015/16.
- The CPS legislation changed considerably during the lead up to its introduction and the compliance requirements and CPS calculation rules can be complex, particularly for operators of fossil-fuelled Combined Heat & Power plants.
- Electricity generators now caught by CPS may wish to review procedures, systems, and controls to ensure CPS compliance.
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. From April 2013 new funding arrangements have been made for local government. Local authorities will receive income from council tax payers, revenue support grant from central government and in certain circumstances may be able to keep a proportion of the rates they collect. The price payable per pound of the rateable value of a property varies according to location, occupation and other criteria. A supplement may in some cases be charged directly by local authorities.

Businesses in all sectors often pay more rates than are due. This can be because the rateable value of their property has been incorrectly assessed or circumstances which affect it have changed, the charge has not been established correctly, or they aren’t receiving reliefs or allowances that may be applicable to their property or business circumstances.

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></th>
<th>2013/14</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>47.1 pence</td>
<td>45.8 pence</td>
</tr>
<tr>
<td>Wales</td>
<td>46.4 pence</td>
<td>45.2 pence</td>
</tr>
<tr>
<td>Scotland</td>
<td>46.2 pence</td>
<td>45.0 pence</td>
</tr>
<tr>
<td>Scotland (rateable value exceeds £35,000)</td>
<td>47.1 pence</td>
<td>45.8 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>47.5 pence</td>
<td>46.2 pence</td>
</tr>
</tbody>
</table>

**Rateable values and transitional phasing limits**
Rateable values of non-domestic properties are 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 for England has been delayed until April 2017. The Welsh Assembly and Scottish Executive have also announced their intentions to delay the revaluation in their areas to the same date.

In England, increases and reductions in liabilities are being phased in over a five-year period. There are different figures for smaller properties but, subject for those with rateable values of at least £18,000, or in London, £25,500, the percentage limits are:
### National non–domestic rates (NDRs)

<table>
<thead>
<tr>
<th>Rate year</th>
<th>Maximum increase</th>
<th>Maximum reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11</td>
<td>10.90%</td>
<td>5.90%</td>
</tr>
<tr>
<td>2011/12</td>
<td>23%</td>
<td>2.30%</td>
</tr>
<tr>
<td>2012/13</td>
<td>26.70%</td>
<td>1.80%</td>
</tr>
<tr>
<td>2013/14</td>
<td>28.4%</td>
<td>10.7%</td>
</tr>
<tr>
<td>2014/15</td>
<td>25% x future inflation</td>
<td>13% x future inflation</td>
</tr>
</tbody>
</table>

Neither the Welsh Assembly nor the Scottish Executive have introduced transitional measures for the current rating list.

**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’s expected to last between 24 and 31 years.

- In Scotland for 2013/14 large retail properties with a rateable value of at least £300,000, that sell both alcohol and tobacco, will pay an additional public health supplement of 13 pence per pound of rateable value (2012/13: 9.3 pence).

**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 (2012/13: 50%). Industrial properties are currently exempt from empty rates in Scotland.
In Scotland, from April 2013, new occupiers of shops or offices that have a rateable value of under £45,000 and have been empty for at least a year will be able to apply for a 50% discount on their business rates for 12 months. Additionally, there will be a relief of up to 100% for owners/developers of new-build empty properties for up to 18 months. This scheme will run for three years. The UK Government is due to consult on a similar scheme for new build properties to be introduced in October 2013.

**Main reliefs, exemptions and allowances**

- **Small business rate relief** – 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.

- **Empty rates** – A limited number of properties may be entitled to exemption from empty rates. This will be dependent on the nature of the property, rateable value and whether qualifying criteria are met.

- **Discretionary allowances** – Properties which are partly occupied for a short time or where there’s a change in the normal pattern of occupation or productive use 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 by a charity and used wholly or mainly for charitable purposes. Local councils have discretionary powers to top up this relief to 100% and to grant relief to organisations not established for profit.

- **Renewable energy producers** – In Scotland, a targeted relief has been introduced 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.
Disclosure, claims, filing and payment

Overview
Managing tax compliance has become an increasingly complex issue. The assurance, accounting, regulatory and tax compliance requirements are constantly changing, which raises a number of major challenges.

There are an increasing number of requirements for reporting matters to HMRC. Prime among these are the 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 the accurate reporting of various tax matters. These obligations are supported by penalties chargeable on the officer personally and on the company for careless or deliberate failure to observe them.

Information powers (compliance checks) 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.

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 fairly strict range of penalties for missing such a deadline. It's intended though to introduce a harmonised system of penalties for late filing, which are gradually being rolled out across the various taxes administered by HMRC.
Disclosure, claims, filing and payment

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 though, the enquiry window is normally 12 months from the date of filing the return, rather than 12 months from the due date (as has been the case historically). 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.

There are no requirements to make tax payments and settlements publicly available. But, as well as the specific penalties, you need to be aware that HMRC has the power to publish names of individuals and companies penalised for deliberate defaults leading to a loss of tax greater than £25,000.

Interest on underpaid tax can, particularly when combined with penalties, be substantial and although it’s deductible for corporation tax it’s not deductible for income tax (interest on overpaid tax works in a corresponding fashion but is generally at lower rates). A new harmonised interest regime is proposed to cover almost all the taxes administered by HMRC, with simple rather than compound interest (a long-standing area of litigation).

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 looks at the kind of assistance you might need in dealing with difficult situations
- our tax investigations page considers the Liechtenstein Disclosure Facility and other ways of addressing potential enquiries.
Tax avoidance disclosure rules (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 in some circumstances making contact with a client to market an arrangement (a marketing contact). In certain cases, the duty to notify calls on the client or an in-house scheme developer. HMRC issues a reference number 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 be obtained.

- The rules on disclosure cover the whole of income tax, corporation tax and capital gains tax with minor adaptations also for other taxes covered by this guide such as stamp duty land tax (SDLT), stamp duty reserve tax (SDRT), annual tax on enveloped dwellings (ATED), and National Insurance contributions (NICs). Hallmarks determine whether disclosure is required.

- Certain types of inheritance tax (IHT) planning are within the scope of DOTAS. The hallmarks don’t apply to IHT, but the rules apply where there’s an advantage in relation to the IHT charge that arises when property is transferred into trust.

- The disclosure regime for VAT is rather different and is set out in the section on VAT.

General anti-abuse rule (GAAR)
After protracted consultation, a new general anti-abuse rule (GAAR) will be enacted in the UK, with effect for any tax arrangements entered into, on or after the date of Royal Assent to Finance Bill 2013 (expected mid-July 2013). Its purpose 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 new annual tax on enveloped property. The GAAR is self assessed and there is no clearance procedure.
**Claims, deductions and assessments**

- **Claims** allow you to tell HMRC that you’re entitled to a particular tax relief.

- **Elections** allow you to choose a particular way of having your tax affairs treated by HMRC.

- For most taxes, a process of **self-assessment** applies with the taxpayer calculating the tax due and adjustments then being agreed with HMRC via adjustment to the tax return. But **assessments** allow HMRC to tell you when it believes you have underpaid tax and to initiate a formal process to recover it.

- **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.

**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’s 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)*</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>

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

- Individuals don’t 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).

  - 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 normally reduced to one year for individual taxpayers who don’t have a business or rental income.
PAYE and National Insurance contributions (NICs)

- Most employers will now report PAYE information to HM Revenue & Customs (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
  - use payroll software to send this information electronically as part of their routine payroll process

- As an employer, you need to submit in this way a full payment summary (FPS) each time you pay employees and an employer payment summary (EPS) each month for any adjustments to what you owe. If you began operating PAYE in real time during 2012/13 under the RTI pilot scheme you mustn’t complete the usual end of year forms P14 and P35 but should use the RTI method of notifying HMRC that this is the final submission for the tax year via an FPS or an EPS. Otherwise, you must file forms P14 and P35 for 2012/13 by 19 May 2013.

- 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 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>Penalty</th>
<th>Amount</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>£200 (£1,000 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>20% of unpaid tax</td>
</tr>
</tbody>
</table>

• Forms CT61 must be prepared for each return period in relation to income tax deducted at source by the company. Return periods run to the end of each March, June, September and December within an accounting period, and to the end of the accounting period itself if it doesn’t end on one of those dates. The form CT61 must be filed within 14 days after the end of the return period.

• 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)
• For 2013/14 an ATED return is due by 1 October 2013 but thereafter the normal due date 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.
Disclosure, claims, filing and payment

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 is available for taxable persons with annual turnover below £1.35m (until they reach £1.6m).

- Cash accounting may be followed by taxable persons with annual turnover below £1.35m (until they reach £1.6m).

- 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.
Disclosure, claims, filing and payment

- **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 surcharges etc.**

**Interest rates**
- Interest rates are calculated by reference to base rates. The rate charged on tax paid late is generally higher than the rate paid on tax refunds.
- Those interest rates for most taxes are 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 2012/13, 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 2013 (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 2013 (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 2014 (balancing payment)</td>
<td>Due date (at base rate then 5% surcharge after 28 February 2013 and further 5% surcharge after 6 months of filing date)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
</tbody>
</table>

* Payments on account would normally be equal to 50% of the final 2011/12 income tax and Class 4 National Insurance contributions (NICs) liability (net after allowing for tax deducted at source etc.). Different arrangements can apply in particular situations and, for example, generally 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. Where the remittance basis charge applies, to the extent it represents income tax it should be included in payments on account in future years.
Disclosure, claims, filing and payment

**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>

For the tax year 2013/14 (and 2012/13), HMRC will continue to use a risk-based approach to identify employers who aren’t complying with their payment obligations and who therefore might be liable to late payment penalties. Where employers who are not complying with their obligations are identified, late payment penalties may be charged.

Late payment penalties are calculated as a percentage depending on the total number of payments of between 1% and 4% of the total amount of PAYE and NIC due for the tax year that are paid late. Additional penalties of 5% are payable for tax unpaid 6 months and 12 months after their due dates.
Corporation tax
Corporation tax returns must now be filed online and corporation tax must be paid electronically 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>14th of months 7, 10, 13, 16 after start of accounting period (quarterly payments for large companies*)</td>
<td>Instalment date (base + 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 + 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>

* The quarterly payment system normally applies to those that pay corporation tax at the main rate, but excluding those with final tax liabilities of under £10,000 (even though they may pay tax at the full rate due to the number of companies in the group).

Income tax deducted at source is due on submission of form CT61.

Annual tax on enveloped dwellings (ATED)
- For 2013/14 ATED is due by 31 October 2013 but thereafter the normal due date 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, payment is due within 30 days or 90 days respectively.

- Late payment penalties may be charged from 30 days after the due date.
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)</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)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
</tbody>
</table>

Probate won’t be granted unless tax due in respect of transfers on death has been paid.
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 (with interest, calculated using base rates as noted above, payable/receivable accordingly). 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 period*</td>
<td>Due date (at base rate)</td>
<td>Later of due date and payment date (at base rate)</td>
</tr>
<tr>
<td>Payment – as return, plus seven days for electronic payment**</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

** 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’ (POA) regime. A schedule is sent by HMRC showing three payments due for each three month VAT period: at the end on month 2, the end of month 3, and the balance of tax due for the period at the end of the month following the period end. Note that there is no 7 day extension for electronic payment for any of these payments. If a taxable person’s VAT liability falls below £1.8m, written application can be made to HMRC for approval to leave the scheme.

Where either a return is made late or tax is paid late, HMRC is empowered to serve a Surcharge Liability Notice (SLN). If a return or payment is late within the following 12 months, an automatic surcharge of 2% of the tax due is imposed and the SLN extended for a further 12 months. For a further default in this period, the surcharge percentage is increased to 5% and the SLN again extended for 12 months. For the third default the surcharge is increased to 10% and for the fourth or subsequent default to 15%. There’s a minimum default surcharge of £30. For the first two defaults, surcharge assessments for amounts less than £400 are not issued.
Disclosure, claims, filing and payment

**Customs duty**
If the correct amount of duty isn’t collected when it’s due, HMRC can recover any under-payment going back three years or, in the case of fraud, 20 years. No interest is payable provided that the sum demanded is paid within the prescribed period. Goods subject to a breach in Customs regulation are liable to seizure, with a fee being payable for restitution.

Customs civil penalties may be imposed for a range of breaches, including undervaluation or misdescription of imports. These are currently imposed under provisions which provide for a maximum penalty of £2,500. However HMRC proposes to align Customs penalties with the penalty regime applicable to most other taxes from 2014.

**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

**Penalties for lost revenues**
Criminal prosecutions can be brought in relation to tax cases in which it’s determined revenue has effectively been lost to the Exchequer as a result of failures to notify chargeability or errors in returns. Most errors in tax returns or failures to notify chargeability are dealt with through the civil route, with HMRC following a selective prosecution policy, where criminal investigations are commenced in a relatively small number of cases.

For most taxes, the penalties are set as percentages of the potential lost revenue (PLR). In general terms, the PLR is the tax under-assessed or under-declared as a result of the error. For errors resulting in a payment of tax in a later period, the PLR is calculated at the rate of 5% p.a. of the tax delayed; there are also special rules for losses and multiple errors.
For customs duty and import VAT, a civil evasion penalty will be used at HMRC’s discretion. It can be reduced (mitigated) 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.

The general framework for penalties is otherwise as set out below.

**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%
  - deliberate understatement with concealment: penalty up to 100%.
- The penalties can be reduced for:
  - prompted disclosure: to minima of 15%/35%/50% respectively
  - unprompted disclosure: to minima of 0%/20%/30% respectively.
- 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. Suspension is used in order to encourage future compliance, and is normally used to encourage taxpayers to improve their tax reporting systems.
- Where penalties relate to a jurisdiction with which the UK doesn’t exchange information spontaneously, penalties can be increased to up to 200%.
Failure to notify
• The 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:
  – can’t be suspended, and
  – are a minimum of 10%, even with unprompted disclosure, unless the failure is remedied within 12 months when the penalty can be reduced to nil.

Procurement
• The Government’s new procurement policy which applies to contracts over £5m concluded after 1 April 2013 requires potential suppliers to central government to self-certify that in their recent tax history (six years), there has been no occasion of serious non compliance. Potential suppliers may therefore potentially fail to be awarded government contracts if they are unable to self-certify.
If you have any enquiries concerning the contents of this booklet, please speak to your usual PwC contact.