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Chapter 1 : United Kingdom (Taxation)

Since , the United Kingdom's Tax Law Rewrite Project has been modernising the United Kingdom's tax legislation, starting with income tax, while the legislation imposing corporation tax has itself been amended; the rules governing income tax and corporation tax have thus diverged.

Napoleonic wars[edit] Income tax was announced in Britain by William Pitt the Younger in his budget of December and introduced in , to pay for weapons and equipment in preparation for the Napoleonic Wars. Income not falling within those schedules was not taxed. Schedule A tax on income from United Kingdom land Schedule B tax on commercial occupation of land Schedule C tax on income from public securities Schedule D tax on trading income, income from professions and vocations, interest, overseas income and casual income Schedule E tax on employment income Later, Schedule F tax on United Kingdom dividend income was added. Addington had taken over as prime minister in The income tax was reintroduced by Addington in when hostilities recommenced, but it was again abolished in , one year after the Battle of Waterloo. Considerable controversy was aroused by the malt, house, windows and income taxes. The house tax mostly hit London town houses; the windows tax mostly hit country manors. Peel, as a Conservative , had opposed income tax in the general election, but a growing budget deficit required a new source of funds. The new income tax of 7d in the pound about 2. It was implicitly financed by postponing maintenance and repair, and canceling capital expenditure. The government avoided indirect taxes because they raised the cost of living, and caused discontent among the working class. There was a strong emphasis on being "fair" and being "scientific". The public generally supported the heavy new taxes, with minimal complaints. The Treasury rejected proposals for a stiff capital levy, which the Labour Party wanted to use to weaken the capitalists. Excise taxes were added on luxury imports such as automobiles, clocks and watches. There was no sales tax or value added tax. The main increase in revenue came from the income tax, which in went up to 3s. The income tax rate increased to 5s. Inflation escalated so that the pound in purchased only a third of the basket it had purchased in Wages were laggard, and the poor and retired were especially hard hit. Most companies were taken out of the income tax net in when corporation tax was introduced. These changes were consolidated by the Income and Corporation Taxes Act Also the schedules under which tax is levied have changed. For corporation tax purposes, the Schedular system was repealed and superseded by the Corporation Tax Acts of and The highest rate of income tax peaked in the Second World War at This was slightly reduced after the war and was around In , as many as , people were liable to pay the top rate of income tax. The investment income surcharge was abolished in A predictable result was that taxpayers disguised their income, and revenue to the Exchequer went down. Chancellor George Osborne said that the lower, more competitive tax rate had caused the increase. As such, business rates retain many previous features from, and follow some case law of, older forms of rating. The Finance Act introduced an income tax regime known as " pre-owned asset tax " which aims to reduce the use of common methods of inheritance tax avoidance.

Chapter 2 : History of direct and indirect taxation in the United Kingdom

A tax charge may also arise if assets that were purchased with foreign income and gains are brought to the United Kingdom. There are specific exemptions for personal effects and assets costing less than GBP 1, and for assets brought into the United Kingdom for repair, for less than days, or for public display.

This section is a stub. You can help Wikibooks by expanding it. In the United Kingdom, stamp duty is a form of tax charged on instruments that is, written documents , and requires a physical stamp to be attached to or impressed upon the instrument in question. The scope of stamp duty has been reduced dramatically in recent years. Apart from transfers of shares and securities, the issue of bearer instruments and certain transactions involving partnerships, stamp duty was largely abolished in the UK from 1 December, Stamp duty land tax SDLT , a new transfer tax derived from stamp duty, was introduced for land transactions from 1 December Stamp duty reserve tax SDRT was introduced on agreements to transfer certain shares and other securities in Stamp duty reserve tax[edit] Main page: SDRT is not a stamp tax, but a self-assessed transfer tax which is usually collected automatically by stock market participants such as brokers when a transaction takes place. Stamp duty remains in force for shares and securities that are held in certificated form which can only be transferred by using a physical stock transfer form, and runs in parallel to SDRT on agreements to transfer shares. Since , both stamp duty and SDRT have been charged at a rate of 0. The same transaction may include an agreement to transfer shares which may trigger a liability to SDRT, and the agreement may later be completed by a transfer of the shares which is liable to stamp duty. Provided that the transfer is stamped within 6 years, the charge to SDRT is cancelled to avoid a double charge. A higher rate of SDRT at 1. The higher charge compensates for the fact that later transfers of depositary interests or through the clearance services will not attract SDRT. As currently operated, SDRT will create a number of tax, legal and operational barriers that could effectively present an uneven playing field. It is totally unclear how UK Tax Authorities could hope to police transctions wholly effected in other member states. There is little sign that this is clearly understood by the UK Government nor even faintly comprehended by the UK Stamp Office who are still stuck on the concept of imposing SDRT on transactions effected on national exchanges Stamp duty land tax[edit] Main page: SDLT is not a stamp duty, but a form of self-assessed transfer tax. SDLT is charged on "land transactions" and for typical transactions in land, such as the buying and selling of a residential house, there is little change from stamp duty, except that a tax return is required to be made to the Inland Revenue and documents no longer need to be given a physical stamp. For residential house purchases, the current rates in the UK are as follows:

Chapter 3 : VAT for Nonprofits in the United Kingdom: CliftonLarsonAllen (CLA)

The complete texts of the following tax treaty documents are available in Adobe PDF format. If you have problems opening the pdf document or viewing pages, download the latest version of Adobe Acrobat Reader. For further information on tax treaties refer also to the Treasury Department's Tax Treaty.

Understanding when and how nonprofits in the United Kingdom must collect and pay the value-added tax can help international nonprofits decide whether to operate there. Understanding when and how the VAT may apply to your organization when it is operating in the UK begins with a look at the value of the goods and services you sell during a specific period. You may have to register your organization, and collect and remit the tax to the government. Or you may be eligible for an exemption. Most industrialized countries other than the United States have some form of value-added tax. The concept is best understood with an example showing how a tax is collected on each transaction in the production process. The full amount is not remitted by any of those buyers or sellers, but the government ultimately collects all of the tax. Registering for VAT The first step in addressing how the VAT applies to your nonprofit is determining whether it is required to register for the tax. You only register for the VAT if you are involved in a business, which HMRC defines as a continuing activity involving getting paid for providing goods and services. Payment can be in the form of money or something else, such as in-kind or barter. Charities and associations are considered businesses that must register for the VAT. The UK does not consider charities and nonprofit organizations to be the same thing. All charities are nonprofits, but not all nonprofits are considered charities. Charities can claim tax relief on income and gains, and claim tax refunds on income that has already been taxed, such as bank interest. This amount includes the value of the supplies of a VAT-registered business that you have taken over. Therefore proper records of your distance sales to the UK must be kept. Since December 1, , the registration threshold does not apply if your organization is located outside of the UK. However, you will need to register when you acquire or you expect to acquire any taxable supplies in the UK in the next 30 days. In this case, you must register your organization as a non-established taxable person NETP. You may also want to appoint a tax representative or agent to keep VAT records and accounts on your behalf. This is not required, but recommended by HMRC. Relief for some charities Charities are generally subject to the same VAT rules as any other business; however, your charity may be subject to certain conditions and restrictions for a number of VAT reliefs. Before you can take advantage of these reliefs and make tax repayment claims, your charity needs to be formally recognized by HMRC for tax purposes. Once your charity is established under the HMRC guidance, you can only claim specific tax exemptions and reliefs if your group uses or spends the money it receives for the public benefit. Depending on your product or service, the applicable rate will generally be the standard 20 percent or a reduced rate of 5 percent. On some items there is no tax charged or collected. When analyzing the effect of the tax, always keep in mind the UK currency conversions. The return must show the tax your organization charged on taxable supplies sold, and the amount it is reclaiming on your purchases. Some donated goods are exempt Charities and other nonprofit organizations can import certain donated goods from outside the EU free of VAT. The goods may be any of the following: Basic necessities for the needy and vulnerable Goods to be used or sold at charity events for the benefit of the needy and vulnerable Equipment and office materials to help run an organization for the benefit of the needy and vulnerable As with all international activities, it is important for your organization to weigh any risks of doing business internationally against the benefits. Addressing all laws and taxation rules upfront will allow your organization to properly plan activities in advance, rather than paying penalties or fines after finding you are not in compliance. Benda, Senior Associate, Nonprofits.

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Chapter 4 : United Kingdom Corporate Tax Rate | | Data | Chart | Calendar

Prior to the formation of the United Kingdom in , taxation had been levied in the countries that joined to become the UK. For example, in England, King John introduced an export tax on wool in and King Edward I introduced taxes on wine in

Higher rate taxpayers will have a reduced allowance of GBP The interaction of these reliefs is highly complicated so advice should be sought. However, for the reasons set out in the preamble, the impact on short-term assignees is expected to be minimal as most assignees are unlikely, in any given tax year, to have been tax resident in the U. For those who are not deemed domiciled, the remittance basis remains largely unchanged; the rules are set out in broad terms below. For those who were born in the U. This is notwithstanding their foreign domicile under general law. Advice should be sought immediately as there may be other adverse U. The new rules came into effect from 6 April For those for whom the remittance basis is available, non-U. That is to say, such amounts are not taxed as they arise but only if and when they are remitted to taken into or used in or brought to the United Kingdom. There are stringent and complex anti-avoidance rules around what constitutes a remittance. As a consequence of the changes which took effect on 6 April , this is now a highly complex subject. It is beyond the scope of this publication to go into much detail on this topic, as to do so could prove misleading; specialist advice should be taken on any particular situation. However, the following should be noted: Eligible individuals are those who are resident in the United Kingdom and: Most assignees will need to submit a claim to be taxed on the remittance basis. However, an eligible individual whose unremitted non-U. Individuals should decide, based on their particular circumstances for a tax year, whether or not to claim the remittance basis for that particular year. Such a calculation is required year on year as individuals who submit a claim in order to use the remittance basis lose certain reliefs. Therefore it is fact dependent as to whether the remittance basis actually provides a lower tax liability in any given year. The main reliefs lost are: A claim to be taxed on the remittance basis is free for the first seven years of tax residence in the UK. As alluded to above, where the RBC is payable it must also be factored into the calculation to determine whether the remittance basis is more efficient than being taxed on the arising basis. The assignee will also need to consider what income or gains they may need to remit to the UK during a tax year. These mixed fund rules can and do give rise to significant unintended tax implications for the unwary. Non-residents Non-residents are taxed at the same rates as residents, however, they may not be entitled to any UK personal allowances. Temporary non-residents Specific anti-avoidance legislation exists to prevent individuals avoiding UK tax by becoming non-UK resident for a short period and realising gains or receiving income while non-resident. Broadly the rules mean that income or gains accruing, realised or remitted during a period of temporary non-residence come back into charge in the year of return. What constitutes a period of temporary non residence is discussed further below. If the taxpayer remains non-resident for longer than a temporary period as defined then the anti-avoidance rules do not apply. Importantly not all income and gains are within the scope of the rules. For example, only gains realised on assets held at the date of departure are within the scope of the rules. Likewise only certain types of income are within scope, such as distributions for closely-held companies etc. While the rules are conceptually straight forward, they are very specific in terms of what is within scope and what is not; therefore we recommend that advice is taken at the date of departure from the U. It is not unusual for individuals to leave the U. Consequently, it is generally helpful to understand the consequences in advance just in case. A period of temporary non-residence is a period which meets the following conditions: For these special rules not to apply, the period of non-residence must exceed 5 years, that is, a minimum period of five calendar years plus 1 day. For example, 4th May to 4 May Residence rules For the purposes of taxation, how is an individual defined as a resident of the United Kingdom?

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Chapter 5 : United Kingdom - Taxation of cross-border M&A | KPMG | GLOBAL

Taxation in the United Kingdom. According to the CIA World Factbook, the UK's tax revenue represented % of its GDP in It's highest bracket for corporate tax is 24%, while it's highest bracket for individual tax is 45%.

It had been designed to impose tax relative to the prosperity of the taxpayer, but without the controversy that then surrounded the idea of income tax. At that time, many people opposed income tax on principle because they believed that the disclosure of personal income represented an unacceptable governmental intrusion into private matters, and a potential threat to personal liberty. The income tax was reintroduced by Addington in when hostilities recommenced, but it was again abolished in , one year after the Battle of Waterloo. First, it allowed taxation at the source; for instance, the Bank of England would deduct an amount, to be paid as tax, from interest paid to gilt holders. Secondly, it introduced schedules: Schedule A tax on income from UK land Schedule B tax on commercial occupation of land Schedule C tax on income from public securities Schedule D tax on trading income, income from professions and vocations, interest, overseas income and casual income Schedule E tax on employment income Income not falling within those schedules was not taxed. Income tax changed little for the duration of the Napoleonic Wars , despite changes in government. He was inclined to maintain the income tax, but public sentiment was heavily against it, and predictably, the opposition championed its abolition. In fact, the tax was so unpopular that Parliament ordered the destruction of all documents connected with it. Although he had opposed the unpopular income tax during the campaign, an empty Exchequer and a growing deficit gave rise to the surprise return of the tax in his Budget. The less wealthy benefited, and trade revived as a consequence. It was imposed for three years, with the possibility of a two-year extension. A funding crisis in the railways and increasing national expenditure ensured that it was maintained. For Peel, the debate was academic. In he repealed the Corn Laws â€” which supported landowners by inflating the price of corn when cheaper imports were available â€” and lost the support of much of his party. He was three times Chancellor of the Exchequer and twice Prime Minister. Formerly a Conservative, Gladstone supported the repeal of the Corn Laws and moved to the opposition Whigs, and from Liberals. He was four times Chancellor and four times Prime Minister â€” his final term starting at age Disraeli and Gladstone agreed about little, although both promised to repeal income tax at the General Election. Disraeli won â€” the tax stayed and probably would have done under Gladstone too. Gladstone spoke for nearly five hours introducing his Budget. The Budget speech included a review of the history of the tax and its place in society, it is regarded as one of the most memorable ever made. But the Conservatives return to power was short-lived. Gladstone had set as the year for the repeal of income tax, and his Budget that year was eagerly awaited. Ill health caused it to be delayed and for his speech to be shortened to four hours. But he had to tell the House that he had no choice but to renew the tax. Gladstone was still determined that income tax should be ended. When a Select Committee was set up against his wishes to consider reforms which might preserve it, he packed the committee with supporters to ensure that no improvements could be made. Disraeli succeeded where Gladstone had failed, seeing the Reform Bill of become law. Similar provisions for those living in the country came with Gladstone in While Disraeli had gambled that an increased electorate would ensure a Conservative majority, and in he was Prime Minister, the election of that year saw the Liberals â€” as the Whigs had become â€” victorious under Gladstone. Income tax was maintained throughout his first Government, and there were some significant changes made including the right to appeal to the High Court if a taxpayer or the Inland Revenue thought the decision of the appeal Commissioners was wrong in law. But there was still a determination to end it. Disraeli won the election, Northcote was his Chancellor and the tax remained. With worsening trade conditions, including the decline of agriculture as a result of poor harvests and North American imports, the opportunity never arose again. It was implicitly financed by postponing maintenance and repair, and canceling unneeded projects. The government avoided indirect taxes because they raised the cost of living, and caused discontent among the working class. The Treasury rejected proposals for a stiff capital levy, which the Labour Party wanted to use to weaken the capitalists. Instead, there was an excess profits tax, of 50 percent of profits above the normal prewar level; the rate was raised to 80 percent in Excise taxes were added on luxury imports such as automobiles, clocks and watches. There was no sales tax or value added tax. The main increase in revenue came from the income tax, which in went up to 3s. Altogether, taxes, provided at most 30 percent of national expenditures, with the rest from borrowing. Government bonds typically paid five percent. Inflation escalated so that the pound in purchased only a third of the basket it had purchased it Wages were laggard, and the poor and retired were especially hard hit. Unlike VAT, Purchase Tax was applied at the point of manufacture and distribution, not at the point of sale. Income tax[edit] UK income tax has changed over the years. Most companies were taken out of the income tax net in when corporation tax was introduced. These changes were consolidated by the Income and Corporation Taxes Act Also the schedules under which tax is levied have changed. For income tax purposes, the remaining schedules were superseded by the Income Tax Trading and Other Income Act , which also repealed Schedule F completely. The Schedular system and Schedules A and D still remain in force for corporation tax. The highest rate of income tax peaked in the Second World War at Tax revenues as a percentage of GDP for the U. The Government of Margaret Thatcher , who favoured indirect taxation, reduced personal income tax rates during the s. The investment income surcharge was abolished in Business rates[edit] Business rates were introduced in England and Wales in , and are a modernised version of a system of rating that dates back to the Elizabethan Poor Law of As such, business rates retain many previous features from, and follow some case law of, older forms of rating. The Finance Act introduced an income tax regime known as " pre-owned asset tax " which aims to reduce the use of common methods of inheritance tax avoidance. However, this reduction has been largely offset by increases in other regressive taxes such as National Insurance contributions and Value Added Tax VAT. Devolution of Tax powers[edit] Main article: Scottish income tax The Scotland Act gave the Scottish Parliament full control over income tax rates and bands, except the personal allowance.

Chapter 6 : Taxation in the United Kingdom/Stamp taxes - Wikibooks, open books for an open world

Payroll & Tax in United Kingdom United Kingdom payroll & taxation There are specific rules for payroll and taxation in the UK that must be complied with by all types of companies.

It includes oil drilling platforms in British territorial waters, though, notably, it excludes the Channel Islands, the Isle of Man and the Republic of Ireland. One interesting aspect of UK tax is that it treats spouses as separate entities and taxes them as individuals, with the exception of a small allowance for the purpose of income taxes. Before you can pay taxes in the UK, you will need to have a national insurance number. Read more about tax issues for expats moving to the UK. Your UK tax residency status: Who has to pay taxes in the UK? In the UK, all individuals are subject to the same tax rate regardless of their residency status. However, residency status does dictate what sources of income must be included in your taxes. An individual who is a UK resident for tax purposes will be taxed on his or her worldwide income, with allowances given to prevent double taxation from certain countries. Non-UK residents, on the other hand, are taxed only on income earned within the UK. There are several ways to determine if you are a resident of the UK for tax purposes: If yes, then you are classed as a UK resident. If not, there are still other ways to be counted as a resident. Buy a house in the UK If you own a home in the UK and stay in it for at least 91 consecutive days â€" 30 of which must be in the tax year under consideration â€" then you may be classed as a tax-resident of the UK for that year. For this rule to apply, the individual must also live in a non-UK home for fewer than 30 days in the tax year under consideration, which do not need to be consecutive to apply. At least of the days must be in the tax year under consideration â€" and of these days, if you work more than three hours, you must do more than three hours of work in the UK. Exemptions There are, of course, ways you can automatically be discounted for the automatic rules 2 and 3. If you were a tax resident for at least one of the last three tax years and spent 16 or fewer days in the UK during the current tax year, you are not a UK resident regardless of the above rules. The same is true if you were not a tax resident for any of the last three years and spent fewer than 46 days in the UK. The window of allowable time is extended to 91 days if you worked full-time oversees. Ties are anything that forms a significant association between you and the UK, such as family, your accommodations, work or a stay of at least 90 days. The number of needed ties goes down depending on the length of your stay. UK tax calculators What you owe in UK tax depends on your specific situation. You can get an estimate of your tax liability with this calculator , and an estimate of your allowable tax credits here. Other useful UK tax calculators are available here. What income is taxable? Non-UK residents are only taxed on income earned within the UK, including capital gains, rental income and dividends. Individuals who are residents of the UK for tax purposes are taxed on their worldwide income, including foreign investments and savings interest, rental income on overseas properties and income from foreign pensions or a UK pension for those retiring in the UK. Income taxes in the UK In the UK, many of the various taxes for which an individual will be liable â€" with the very notable exception of VAT â€" will in some way be keyed to your income taxes. The basic formula for taxes is to sum your personal income and benefits, subtract your personal allowance, and then pay the appropriate rate on the difference. UK income tax rates are stepped depending on your income. UK tax on rental income Net proceeds from renting property in the UK are included as income for both residents and non-residents. Special rules apply for renting out a single room, renting out your property for holiday purposes, and if you are an overseas landlord. Net proceeds are determined as gross rental receipts minus allowable expenses. The UK disallows most capital expenses against rent, including the cost of buying or improving the property, depreciation and mortgage interest on your home s. UK property tax revenue accounts for more than one-tenth of total taxes around 12 percent from the use, transfer and ownership of property in the UK. This represents the highest revenue derived from property taxes of all OECD countries, compared to less than 4 percent in countries such as Austria, Finland, Germany and the Netherlands. There are two forms of property tax in the UK. Like income tax, the SDLT is a stepped-rate tax. There are certain tax exemptions that allow to lower your UK property tax, for example, if you buy multiple properties; see conditions here. The other form of UK property tax is the Council Tax. This is a local municipality tax that is stepped or banded like income tax.

Each local municipality assesses the properties in their jurisdiction annually and assign the tax based on the assessed value. A number of conditions affect the rate of applicable council tax, explained here. Capital gains tax CGT is payable on the profitable sale of a range of assets, whether you sell a business, shares, an heirloom or a property. CGT must be paid on all UK assets, whether or not you are a resident. CGT is added to your other taxable income. The sum of all your income from various sources determines which tax band you are in for the current tax year: If your capital gains takes you into the next highest band then, you pay 20 percent on most of your chargeable assets and 28 percent on your home â€" but only on a portion of your capital gains that pushes your taxable income into the next band. Any value higher than the threshold is taxed at 40 percent. If you give more than 10 percent of your inheritance to charity, however, the rate is reduced to 36 percent. There are other ways to reduce your UK inheritance tax liability. If you are married or in a civil partnership, your partner can inherit your entire estate without facing an UK inheritance tax bill. Should you wish to pass on your assets before you die, you can gift them to your partner. Find detailed information in our guide to UK inheritance tax, law and wills. The amount varies per vehicle type, with car and road tax in the UK based on factors such as the size of the engine, type of fuel used and CO_2 emissions. P You can pay your car and road tax on the government website. Electric cars are exempt from certain UK car taxes based on their low-emission output. Most corporations in the UK are taxed a 20 percent rate on their net profits, and in most cases must file a separate company tax return. Allowable expenses include normal business operation expenses ie. Individuals are also allowed a prorated amount of vehicle expenses but not commuting expenses if they use their personal vehicle for work purposes. One benefit of operating certain business structures, such as a Limited Company, is the ability to take money out of the company in the form of dividends. The applicable UK corporate tax rate depends on the level of company profit, applicable to profits from doing business as a limited company, as a foreign company with a UK branch or office, or if you are a club, co-operative or other unincorporated associate sports club or community group. Read more in our complete guide to self-employment tax and corporation tax in the UK. UK dividend tax If you own shares in a UK company you may get a dividend tax payment. You are not required to pay UK dividend tax on the first GBP 5, of dividends you receive in the tax year. UK dividend tax rates are as follows:

Chapter 7 : A complete guide to the UK tax system | Finance | Expatica United Kingdom

The United Kingdom (UK) tax environment for mergers and acquisitions (M&A) continues to change in response to the fiscal climate, perceived competitiveness pressures from other countries and challenges to existing UK legislation under European Union (EU) non-discrimination principles.

This report begins by reviewing recent changes that are likely to affect the approach to transactions. This report proceeds by addressing three fundamental decisions that face a prospective buyer: What should be acquired: What will be the acquisition vehicle? How should the acquisition vehicle be financed? Of course, tax is only one piece of transaction structuring. Company law governs the legal form of a transaction, and accounting issues are highly relevant when selecting the optimal structure. These areas are outside the scope of this report, but some of the key points that arise when planning a transaction are summarized within this report. Recent developments The following summary of UK tax considerations is based on current tax legislation up to and including the Finance No. Loss reform Income type losses e. In either case, offset is limited to 50 percent of taxable profits. Asset purchase or share purchase An acquisition in the United Kingdom usually takes the form of a purchase of the shares of a company, rather than its business and assets, because capital gains on the sale of shares may be exempt. From a tax perspective, the capital gains consequences, the likely recapture of capital allowances tax depreciation , and possible double taxation on extracting the sales proceeds are all likely to make asset acquisitions less attractive for the seller. The benefits of asset acquisitions for the buyer have been reduced as purchased goodwill no longer attracts a tax deduction. Some of the tax considerations relevant to each method are discussed later in this report. The relative advantages are summarized at the end of this report. Purchase of assets A purchase of assets usually results in an increase in the base cost of those assets for both capital gains tax and capital allowances purposes, although this increase is likely to be taxable to the seller. In addition, historical tax liabilities generally remain with the company and are not transferred with the assets. Of course, the buyer may still inherit defective practices or compliance procedures, so the buyer may wish to carry out some tax due diligence to identify and address such weaknesses. Purchase price For tax purposes, it is necessary to apportion the total consideration among the assets acquired. It is generally advisable for the purchase agreement to specify the allocation, which is normally acceptable for tax purposes, provided it is commercially justifiable. However, two statutory rules affect the allocation of the purchase price: The first rule stipulates that the open-market value of trading stock must be substituted in calculating the profits of the seller. Goodwill and intangibles Goodwill purchased from a third party on or after 8 July is not deductible. With the exception of customer-related information, customer relationships and unregistered trademarks, other separately identifiable intangible assets are written off for accounting purposes over their expected useful economic lives. Such amortization is deductible for tax purposes in line with the accounts. Depreciation Depreciation of other assets charged in the accounts is ignored for tax purposes. UK tax legislation enables the cost of certain assets to be written off against taxable profits at a specified rate by means of capital allowances. Allowances are available for certain tangible assets e. The UK capital allowances regime has been significantly amended in recent years. Allowances for industrial and agricultural buildings are no longer available, having been phased out over the period from â€” No tax write-off is normally available for office buildings or shops, although some fixtures in such buildings may themselves qualify for capital allowances. The annual rate of tax write-off for plant and machinery is 18 percent on a reducing-balance basis and 8 percent reducing-balance for certain other assets e. There are special rules for cars, certain other assets, and small and medium-sized companies. Accelerated allowances and tax credits are also available for research and development expenditure. Allowances may be recaptured where the disposal of an asset yields proceeds in excess of its tax written-down value. Tax attributes Tax losses and capital allowances pools are not transferred on an asset acquisition. They remain with the company or are extinguished. This route would crystallize any chargeable gains inherent in the underlying assets transferred. Such gains are treated as additional consideration for the shares and so may be exempt. This treatment is not applicable to gains arising on intangible assets created or purchased after 1 April , which continue to crystallize in the Newco. The transfer of a business as a going concern is outside the scope of VAT, provided certain conditions are met. The effect of the transfer must be to put the new owner in possession of a business that can be operated as such. Therefore, a sale of assets is not in itself the transfer of a business as a going concern. Professional advice should be sought where land or buildings are being sold. Complications arise where the transferor previously elected to bring such assets within the scope of VAT. Transfer taxes Stamp duty or stamp duty reserve tax â€" SDRT is levied on instruments transferring ownership of shares and applies at the rate of 0. The rates of SDLT on commercial purchases, lease premiums and other non-rent payments are applied progressively and range from 2 percent, where the value transferred exceeds , British pounds GBP , to 5 percent, where the value exceeds GBP, For LBTT the commercial rates are applied progressively; the lowest rate is 3 percent, which applies to consideration above GBP,, and the top rate is 4. Lease rents are taxable at 1 percent of the net present value of the rent payments where the GBP, threshold is exceeded 2 percent if the net present value of the rent exceeds GBP5,, There is a relief for leases where property has been sold and leased back to the seller. There is no deduction for the difference between underlying net asset values and consideration. Tax indemnities and warranties In a share acquisition, the buyer is taking over the target company together with all related liabilities, including contingent liabilities. Therefore, the buyer normally requires more extensive indemnities and warranties than in the case of an asset acquisition. However, there are a number of transactions where the principle of caveat emptor let the buyer beware applies and warranties and indemnities are not given. These situations typically include the acquisition of a UK-quoted listed company, a purchase from a receiver, liquidator or private equity house, and, in some cases, an acquisition of shares owned by individuals not involved in the management of the target. Tax losses In principle, carried forward UK tax losses generated by the target company transfer along with the company. Such losses cannot be surrendered as group relief to members of the acquirer group until 5 years have elapsed since the acquisition. The 50 percent limit also applies to carried forward income- type losses arising before 1 April , and these can only be offset against future profits of the same type. The use of carried forward capital losses can be subject to severe restrictions; broadly, such capital losses may only be set off against future chargeable gains on assets held before the change in ownership or acquired for use in the trade or business from third parties after the transaction. Where a UK target company with trading losses is acquired whether directly or by the acquisition of its immediate or ultimate parent company , it may use those losses against its own future trading profits, provided there has been no major change in the nature or conduct of its trade 3 years before and 5 years after the date of acquisition. If the buyer intends to undertake a major rationalization of the trade or wishes to inject elements of its own trade into the target, it may be advisable to wait until at least 5 years have passed from the date of acquisition. Where the target has investment business, there is an additional condition to satisfy on a change of ownership in order to preserve certain non-trading losses. The use of carried forward losses e. For this purpose, capital includes both debt including accrued interest and equity. A significant increase is an increase of GBP1 million or more that represents an increase of at least 25 percent. Other restrictions apply where the tax written-down value of assets qualifying for capital allowances exceeds their book value by: GBP50 million or more, or GBP2 million or more and the benefit conferred by the allowances is not insignificant compared to the total benefits derived from the transaction In these cases, losses created by claiming capital allowances can no longer be surrendered as group relief and must be carried forward in the company purchased. The surrender as group relief of losses arising from deductions that are highly likely to arise after a change in ownership is precluded where obtaining relief for such deductions was a main purpose of the change in ownership. A complementary measure prevents relief from being obtained via the transfer of profits to the purchased company. In particular, the extent to which the seller has the right to use losses by way of group relief needs to be clarified. For group relief purposes, a loss arising in the accounting period in which the acquisition takes place is often apportioned on a time basis between the pre- acquisition element available to the seller, subject to possible restrictions and the post-acquisition element available to the buyer. Where the seller does not or cannot claim group relief for pre-acquisition losses, they are carried forward in the target company. The indemnities and warranties in the sale and purchase agreement normally refer to the arrangements agreed between the parties. The sale of the target company causes gains inherent in those assets at the time of transfer to crystallize. Such gains are treated as additional consideration for the shares, so they may be exempt. This treatment is not available in certain circumstances where the seller of the transfer shares is a non-UK parent company or to gains arising on intangible assets created or purchased after 1 April Such gains continue to crystallize in the subsidiary, so the buyer may wish to obtain an appropriate indemnity from the seller. Pre-sale dividend In certain circumstances, the seller may prefer to realize part of the value of their investment as income by means of a pre-sale dividend. The rationale is that the dividend may be subject to no or only a low effective rate of UK tax but reduces the proceeds of sale and thus the gain on sale, which may be subject to a higher rate of tax. The position is not straightforward, however, and each case must be examined on its facts. Transfer taxes Stamp duty is payable at the rate of 0. This process can be complex and time-consuming, however, so it tends to be used only in larger transactions. Alternatively, it may be possible to reduce the liability where the target has issued debt that will be repaid on the transaction. Choice of acquisition vehicle Several potential acquisition vehicles are available to a foreign buyer, and tax factors often influence the choice. There is no capital duty on the introduction of new capital to a UK company or branch or to a UK-registered societas Europaea. The ability to group-relieve losses and, in a share acquisition, offset tax-deductible interest in the acquisition vehicle against UK taxable profits of other companies in the combined post-acquisition group depends, broadly, on the relevant companies being in a 75 percent group relationship. This requirement may be satisfied where the companies have a common corporate parent, whether a UK-resident or non- resident company.

Chapter 8 : History of taxation in the United Kingdom - Wikipedia

The UK tax system explained: Learn which taxes in the UK are applicable to foreigners, and how to calculate your income tax, social securty costs and more. | How to manage your money, from dealing with your taxes in United Kingdom to banking, pensions and insurance.

Chapter One Story Highlights: This introductory chapter details the historical development of direct and indirect taxation in the UK with information about: The answer might surprise you. We have emphasised the reasons for the taxation to put it in an historical context and have concluded the chapter with an analysis of the most important changes in taxation over the past 50 years. Why do we have taxes? What has changed are the way that the revenue raised is spent. In the past, money was needed to pay for the army, the navy, government bureaucracy, the monarch, royal court and palaces. However, nowadays modern governments are also expected to fund healthcare, welfare, social services, schools, transport plus financial support for sport, industry, heritage and culture. A quick look at the past will show that changes in taxation are often made as a direct result of money being needed to pay for wars â€” and later for welfare. Early taxes from Medieval Times The earliest taxes in Britain were initiatives such as excise duties on the export of wool or on wines while the Poor Law tax in collected money from the local inhabitants of an area to pay for parish-based aid to the destitute. This tax was paid by the prosperous: It was administered by unpaid local commissioners who were usually local men of modest means such as farmers. Other taxes to come into effect during this period were the Coal Tax Acts of and the Window Tax of What is less surprising is that it was massively unpopular but was opposed less on economic grounds and more on ideological grounds. Why were British citizens so against income tax? The Prime Minister who introduced it, William Pitt the Younger, was heavily influenced by the economist Adam Smith but also needed the extra revenue to fund the war against revolutionary France in the late s. However, it was so unpopular that the House of Commons received petitions denouncing it and in , it was repealed. Taxes have been around since ancient times to fund state bureaucracy, the monarchy and the armed forces. Early taxes were land taxes, import and export duties, local taxes to fund poor relief and indirect taxes such as the Window Tax. Taxing income was seen as a temporary measure to fund the Napoleonic Wars and was abolished in Free trade in the 19th century If the emphasis was on personal liberty in the 18th century, then the 19th century was a time when free trade was encouraged. As a result, the Prime Minister, Sir Robert Peel, removed custom duties on articles out of a total of 1, but an empty Exchequer meant that he had to reintroduce income tax to raise revenue in Although it was again considered to be a temporary measure, money was desperately needed to pay for the Crimean War which meant its repeal was delayed. Although both Disraeli and Gladstone both pledged to abolish it in their electioneering speeches, this was never done when they came to power. By , there were 1 million inhabitants of the British Isles paying direct taxation in the form of income tax. His proposed land taxes were rejected by the House of Lords and almost led to a constitutional crisis. Unlike previous taxation which was mainly seen as a way to raise governmental revenue, all of his measures were also intended to redistribute wealth to the less fortunate. Taxation during the 1st World War By , there were 1. Also On Family Moneyâ€¦ In our dedicated article about car tax you will find out about the different rates, what car tax you must pay and the history of vehicle tax in the UK. Read our article about Car Tax Questions: How much power did the Crown have to raise taxes? Until the Crown had much more power to impose taxes. A key Bill is the Petition of Right in this year which prohibited the Crown from imposing arbitrary taxation without the approval of Parliament. What was the Window Tax? Although the Window Tax was an indirect tax, it was intended to impose a tax relative to the prosperity of the taxpayer since the more windows you had, the bigger your house and by extension the larger your income. This tax was in 2 parts: For windows it was 4 shillings and for over 20 windows it was 8 shillings. Which articles had custom duties imposed on them? Luxury goods such as wine, silk, silver plate, coaches and hats would be taxed but even basic commodities like salt, candles, soap and starch would also have excise duties. How much corruption was there with the collection of taxes? In William Pitt the Younger vowed to root out revenue fraud and reduce administrative costs. The following year, the standard rate of income tax was set at 5s,6d in the pound In the beginning of the PAYE system meant that the collection of tax revenue could be done more efficiently and much more easily. By 12 million people were paying income tax compared to less than 1 in 5 working people in The emphasis on free trade in the 19th century meant that excise duties were cut on many commodities and so revenue was once again raised from direct taxation. In , for the first time, taxation was seen as both a source of revenue and a way to redistribute wealth. The UK purchase tax â€" A precursor to VAT Apart from loans, a lot of the money raised in Britain during the Second World War came from a purchase tax, which was levied at different rates according to the perceived luxury value of the goods. Unlike VAT, this tax was imposed at the manufacturing or distribution end rather than at retail outlets. In a separate Corporation Tax was established for businesses. Major changes in UK taxation over the past 50 years It would be a mistake to believe that the tax system in any country remains static; it ultimately reflects the standards and values of the society it aims to fund and serve and of necessity must be in a constant state of change to be fair. This is one of the reasons why the annual Budget is announced in Parliament and extensively analysed and criticised. Changing taxation for married couples Apart from the increasing weight given to indirect taxation over the past 50 years, there have been a number of other changes. The role of tax credits in the UK Another change in the way income tax is calculated is that it has moved away from providing financial support for marriage and towards providing support for children. This is a result of declining numbers of people marrying and state recognition of civil partnerships. Before the advent of VAT in , there used to be a Purchase Tax which was imposed on manufacturers or distributors rather than on retailers. Since , income tax has gradually fallen whilst indirect taxation such as VAT and National Insurance has steadily risen. Changes in the ways taxes are imposed reflect changes in the society they are collected to serve. Over the past 50 years there have been major changes in the way married women are taxed to reflect increasing equality in society itself and more support is given for children in the household. The changing role of national insurance contributions If you were to ask older members of society about what National Insurance is, they would deny that it was a tax at all. Originally a weekly lump sum to pay for social security benefits, the link between the contributions made and benefit entitlement has been gradually eroded since the s. It was abolished in although initially retained for couples born before April How much tax is paid by the rich compared to the poor? What taxes are the most recent in the UK? The increasing use of online gaming sites and the resulting loss of tax revenue meant a change in betting and gambling duties Why do we have so many taxes in the UK? For example, the Climate Change Levy to reduce CO_2 emissions or higher excise duties on cigarettes to encourage people to give up smoking. How many people in the UK receive tax credits? According to the IFS, up to April , 4. Interested In This Article?

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government of the united kingdom for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital gains.