

UK  
TRADE &  
INVESTMENT



# Tax Overview

Doing Business in the UK

Julian Christmas

UKTI – Tax and Finance Specialist

December 2014





**£1,516 billion**  
*UK GDP 2011*

## 20%

corporation tax

*from April 2015. The rate is currently 23% and will be 21% from April 2014*

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The world's 6th largest trading nation

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Population:

# 63,200,000

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Four of the world's top ten universities



Over 70 airports and 40 major ports

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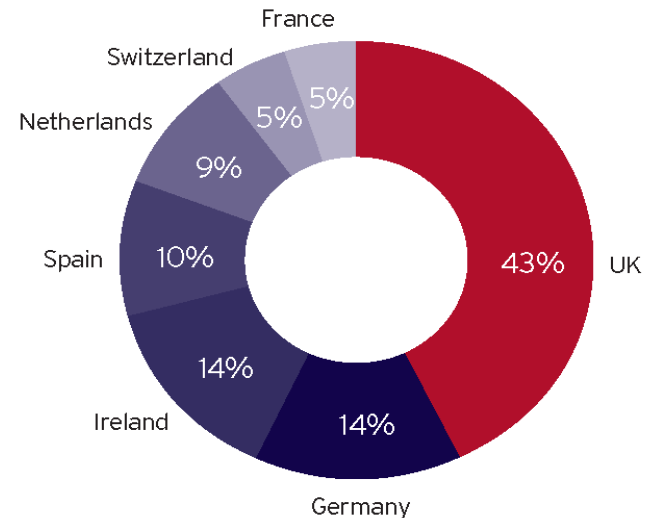
The UK is the top destination in Europe for FDI



Joint lowest corporation tax rate in the G20

*from April 2015 based on announced plans*

## Top European locations for new inward investment projects with HQ operations, 2012



Source: Financial Times fDi Markets database, percentages shown of a total 199 new inward investment projects with HQ operations in 2012

## UK tax system:

- Overview of UK tax system
- Tax incentives - innovation
- Investment incentives

## The UK tax system is simple

- A single corporation tax, applied consistently
- World Bank survey – paying taxes category – UK ranked 16<sup>th</sup> (Australia 39)

## Low underlying rate of corporation tax

- Currently 21%, falling to 20% in 2015
- Since 2006, UK corporate tax rate has fallen 9%. G20 average fall 3%.

## Investor friendly:

- Tax incentives for investment and innovation
- No withholdings on dividends
- Substantial Shareholdings Exemption – gains on disposal

## **Regimes are strongly linked and work together to:**

- Provide an incentive for UK companies to increase levels of R&D
- Encourage innovation, investment and growth in the UK

## **The aim of R&D tax incentives is to:**

- Provide an incentive for UK companies to increase levels of R&D
- Encourage the growth of a knowledge based economy

## **The aim of the Patent Box is to:**

- Provide an incentive for companies to retain and commercialise patents in the UK and to develop new innovative patented products here
- Encourage companies to locate high-value jobs associated with the development, manufacture and exploitation of patents in the UK

## What is it?

- Phased in from 1 April 2013 until 2017
- Relief is elective
- Only applies to corporation tax
- Individuals w/patent income need to transfer patents to a company
- Will grant an *additional deduction in corporation tax from net patent revenues* (effectively a 10% tax rate)

### To qualify, the patent must have been granted by the:

- European Patent Office; *or*
- UK Intellectual Property Office; *or*
- Certain other countries in the EEA (including Portugal)

## What does it cover?

- Selling patented products/products incorporating the patent
- Licensing or selling patent rights
- Damages secured in respect of infringement of a patent that represents compensation for lost income

## Once granted....

- Relief applies to *worldwide profits* arising from the sale of any products within the scope of the patent
- Can claim retrospectively for pre-grant profits generated over the previous 4 years after 1 April 2013
- Those holding *exclusive licences* may also be able to claim the relief

## Proposed Policy Change

In November 2014, to address concerns arising from the OECD BEPS review, the UK (in partnership with Germany) proposed a change to the way Patent Box might operate in the future.

- New qualifying rules from June 2016
- Qualifying IP must be developed (ie R&D) in the UK
- Pro rata application for partial UK development
- Existing qualifying rules discontinued June 2016, run out till 2021
- New qualifying system continues beyond 2021



## What are they?

A tax relief for companies that...

*Extend overall knowledge or capability  
in a field of science or technology*

## How?

Enhanced revenue (i.e. not capital) expenditure

- 225% for Small & Medium Sized Enterprises (SMEs)
  - Can surrender losses for tax credit – 33% of cost
- 130% for Large Companies
  - 'Above the line' credit

## Qualifying Expenditure

- Staff costs
- Materials
- Externally provided workers
- Software licences
- Utilities

## Areas to watch

- Sub-contractors
- Grants or subsidised projects

## Introduced in 2000

- 85,000 R&D tax credit claims made (2011-12: 12,190 returns)
- £8bn of relief claimed (2011-12: £1.2bn of relief based on £11.9bn of R&D expenditure)
- SME scheme: 25,000 companies have benefitted
- Large company scheme: 6,300 companies have benefitted

## Trends:

- Increasing R&D spend
- Increasing % of expenditure used to claim relief

## UK R&D expenditure 2005 to 2011 (£ billion)

(Source: The Office for National Statistics (ONS) annual Business Enterprise Research and Development (BERD) survey)

	2005	2006	2007	2008	2009	2010	2011
<b>Total revenue expenditure (BERD survey, cash terms)</b>	12.57	13.19	14.61	14.95	14.61	15.13	16.40
<b>Expenditure used to claim tax credits</b>	7.24	7.87	9.05	10.99	9.98	11.03	11.92
<b>Percentage of total used to claim</b>	58%	60%	62%	74%	68%	73%	73%

## Creative Media:

- Film Tax Relief
- Animation Tax Relief
- High End Television Relief
- Video Games Development Relief

## How it works:

- Similar to R&D Tax Credit
- Qualifying companies can claim larger deductions in respect of qualifying costs, or in some circumstances, a payable tax credit.

## Enterprise Incentive Scheme (“EIS”)

- Incentive to invest in small, higher risk companies
- 30% income tax relief on investments (max £1m p.a.)
- No capital gains tax if held for 3 years
- But – eligible for loss relief
- Connected parties don’t qualify – aimed at investors

## Seed Enterprise Incentive Scheme (“SEIS”)

- Incentive to invest in early stage/startup companies
- 50% income tax relief on investments (max £100k p.a.)
- No capital gains tax
- But – eligible for loss relief
- Company <25 employees and <£200k assets
- Company trade <2 years old and in an approved sector

# Useful Links

<http://www.hmrc.gov.uk/ct/forms-rates/claims/patent-box.htm>

<http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm>



Julian Christmas  
UK Trade & Investment  
+44 (0) 7880 054 767  
Julian.christmas@ukti.gsi.gov.uk  
www.ukti.gov.uk