

UK Tax Bulletin

UK tax changes announced in the Pre-Budget Report



The 2007 Pre-Budget Report again heralds no major surprises for UK companies and groups investing into the UK. As announced in the 2007 Budget, the key change is that the UK corporation tax rate will be reduced from 30% to 28% from April 2008.

For significant inward investors, the other key announcement was the introduction of an Advance Agreements Unit.

International matters

The Pre-Budget report included no further announcements on international tax matters following the consultation over the summer on the taxation of foreign profits, which proposed a European-style participation exemption for dividends and a passive income Controlled Companies regime.

Review of links with large business and advance rulings

Following consultation on the links between taxpayers and HM Revenue & Customs (HMRC), an Advance Agreements Unit has been set up to provide a range of services to inward investors making investments into the UK of £250 million or more in value. The services available include:

- Advance rulings across all UK taxes, on specific transactions;
- A "one stop shop" to coordinate responses from different parts of HMRC;
- A fast track service where time is of the essence;
- Help for inward investors who need advice on the UK tax system.

Guidance on the proposed improved approach to settling transfer pricing enquiries will also be published by the end of the year. In particular, a key objective of the new approach is to settle all but the most complex cases within 18 months.

Reform of capital gains tax

The existing capital gains tax regime, which taxes individuals on gains on the disposal of business assets at an effective rate of as little as 10% and other assets at higher rates, will be replaced with a flat rate of 18%. Companies will not be affected by this reform and, in particular, the substantial shareholdings exemption, which exempts gains on sales of most shareholdings in trading companies, will still apply.

Taxation of non-UK individuals

There has been ongoing consultation and much speculation on the reform of the UK's residence and domicile rules that tax overseas nationals living in the UK on their foreign income and gains only if they are remitted to the UK. A £30,000 annual charge will be introduced from 6 April 2008 for overseas nationals who have been living in the UK for more than 7 years. This is designed to allow overseas nationals to come on secondment to the UK without being affected by the charge. Consultation on a wider range of options for reform will continue.

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