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FACT SHEET

Taxation of United Kingdom Corporation

Taxation of United Kingdom Corporations

Before United Kingdom (UK) corporate structures are used in any planning scheme, it is important to note that all UK corporations are liable to UK Corporation Tax (CT) on all sources of income and capital gains. That means, UK corporations are subject to CT on their worldwide income. All UK corporations are deemed to be tax resident in the UK.

Taxable Profits

UK Corporation tax is charged on trading, investment income and capital gains. Dividends received from other UK companies are not taxable. Dividends received from foreign companies are investment income and are taxable. However, double tax relief means that little or no UK tax will be payable on a UK company' s foreign dividend income.

Rates of Tax

The financial year-end of the UK government for UK corporation tax purposes is 31st March each year. The rate of CT is fixed each year in the Annual Budget declared in March / April. Tax rates for Budget 2002 are applicable for the period 1st April 2002 to 31stMarch 2003.

The standard rate of UK corporation tax is 30%. However for UK companies with profits below £10,000, the rate of tax is nil. For UK companies with profits between £10,001 and £50,000 the marginal rate is 23.75%; for UK companies with profits between £50,001, but less than £300,000 the rate is 19% (the small companies rate).

Accounting Period

The accounting period of a UK company for corporation tax purposes is normally 12 months. Please refer to our "Accounting Reference Date" section in our Fact Sheet - United Kingdom Corporation.

Taxable Income

The taxable income of a UK company is determined by specific tax rules. Trading profits can be reduced by allowable expenditure incurred wholly and exclusively for the trade. However, some companies are subject to special rules, for example, entertainment is not a deductible expense; patents, copyrights and royalties are deductible on a "paid" basis. Please look out for these rules when using a UK company.

Depreciation and Capital Allowances

In computing assessable profits for CT purposes, the tax authority provides certain rules in connection with depreciation of capital expenditures, known as capital allowances.

- For **plant, machinery and equipment** an annual written down allowance of 25% on the reducing balance is available. Plant, machinery and equipment are defined widely, and include almost all forms of fixed assets, including, films, design, computer equipment and software.
- Small and medium size enterprises[1] are entitled to claim a first year allowance of 40% on plant and machinery
- Small enterprises are entitled to claim a 100% allowance on specified computer equipment, including software and Internet - enabled mobile phones.
- Industrial buildings are allowed an annual writing down allowance of 4% based on original cost.
- There are no capital allowances available on the structural cost of offices and shop buildings.

Company Losses

A company's trading loss can be set off against:

- Income and capital gains of the same accounting period
- Income and capital gains of the previous year (12 months and not necessarily from the same trade)
- Trading profits from the same trade in future years.

Group of Companies

Companies within a group will prepare their accounts separately. However, group relief is available for the companies to share trading losses in the same year and certain other deductions.

Dividends

Dividends received from other UK resident companies are tax-free. Dividends received from foreign enterprises are taxable income of the UK company. However, in some cases a tax credit is available to set off against the UK company' s UK CT liabilities.

There is no UK withholding tax on dividends paid to shareholders of UK companies who are resident outside the UK eg offshore companies.

Foreign Tax

Foreign tax borne on foreign income of a UK company can be credited against its CT liabilities in the UK.

[1] See our FACT Sheet - United Kingdom Company on the definition of small and medium sized enterprises.

Double Tax Treaties

The UK has over 100 double tax treaties in force, more than any other country in the world.

Capital Gains Tax

Capital gains and losses of a company are calculated according to capital gains rules. If there is a net gain after calculation, this is added to the company's total income to arrive at the total profits, which are then subject to corporation tax.

In brief, the rules for calculation of capital gains allow an indexation relief, under which the acquisition values (costs) are revalued in line with movements in the retail prices index. Capital gains and losses are ascertained by deduction of sales proceeds from the indexed acquisition values including fees.

Unrelieved capital losses can be set off against future capital gains but not trading profits. Foreign source capital gains are fully liable to UK capital gains tax, with a credit for any foreign taxes payable. Note that from the financial year 2002, capital gains from disposal of substantial shareholdings" (shareholdings of 10%or more) in a trading group held for over 1 year is exempted from tax.

How Manivest Can Help You

The directors and management of Manivest are professionals in the offshore industry having served the Asia markets for nearly 20 years. Through our offices in Hong Kong, Shanghai and Macau as well as our associates in other Asia cities, we offer a full range of comprehensive value-added services to professional advisors and their clients.

Manivest offers the following services:

- Incorporation of UK companies and companies in other onshore/offshore jurisdictions
- Full corporate management services
- Registered office, business office, mail redirection and business centre (available in selected locations only)
- Accounting services and VAT registration
- Re-invoicing services
- Asset protection and preservation advisory services
- Business establishment services
- Market exploration services