On 22 November 2017, the UK Chancellor of the Exchequer, Philip Hammond, presented his proposals to “look forwards,” “to embrace change,” “to meet challenges head on,” and “to seize opportunities for Britain.” He set out his vision for a Global Britain, which he described as an “outward looking, free-trading nation.” A substantial amount of documentation accompanied the Budget speech, although some details will only be available with the publication of the Winter Finance Bill on 1 December and the release of a number of promised consultations.

Some of the key business tax announcements addressed so far are highlighted below. Additional detail is available on our website [http://www.ey.com/uk/en/services/tax/budget](http://www.ey.com/uk/en/services/tax/budget) and more will be added as the provisions are analyzed.

**Corporation tax rate**

The Chancellor reiterated his commitment to a competitive corporation tax rate – the reduction in the rate from 19% to 17% will go ahead as planned from 1 April 2020.
**Taxation of the digital economy**

The UK Government has published a position paper on corporate tax and the digital economy. The paper notes that the UK Government will push for reforms to the international tax framework, to ensure that the value created by the participation of users in certain digital businesses is recognized in determining where those businesses' profits are subject to tax. Pending reform of the international tax framework, the Government will explore interim options to raise revenue from digital businesses that generate value from UK users, such as a tax on revenues that these businesses derive from the UK market. The UK will work with other countries to consider how such a tax could be targeted, designed and co-ordinated to minimize compliance burdens and market distortion. However, the paper notes that the Government stands ready to take unilateral action in the absence of sufficient progress on multilateral solutions.

The Government will publish a consultation on 1 December 2017 on the design of rules expanding the circumstances in which a royalty payment to persons not resident in the UK gives rise to a liability to income tax. The intention is that any royalty payment made in connection with UK sales to a low or no tax jurisdiction will be subject to tax, even if the group has no taxable UK presence under current rules. The Government notes that it will respect the international obligations in the UK's tax treaties in the application of the measure. The proposed changes will have effect from April 2019.

**Innovation**

The rate of the Research and Development (R&D) expenditure credit will be increased from 11% to 12% with effect on or after 1 January 2018. In addition, a new advanced clearance service for R&D expenditure credit claims, to provide pre-filing agreement for 3 years, will be piloted.

In 2018, a consultation on the UK's Intangible Fixed Asset regime will look again at the regime and consider how it encourages growth and whether there are targeted changes that can be made. This may include a review of whether there should continue to be a distinction between pre- and post-2002 assets and whether changes to the taxation of goodwill and customer intangibles would be desirable.

**Assets and property**

The Government is consulting on taxing non-UK residents' gains on immovable property. This measure will broaden the UK’s tax base to include disposals of UK commercial property by nonresidents, both directly and indirectly, and will bring all companies into charge on disposals of residential property, and all persons into charge on indirect disposals of residential property.

The Government will also legislate so that non-UK resident companies that carry on a UK property business or have other UK property income will be charged to corporation tax, rather than being charged to income tax as at present. A non-UK resident company that has chargeable gains on the disposal of UK residential property will also be charged to corporation tax, instead of capital gains tax as at present. Draft legislation for consultation is planned for summer 2018, with the proposed change having effect on or after 6 April 2020.

Indexation allowance which is relevant in calculating the amount of taxable UK corporate capital gains will be frozen for disposals on and after 1 January 2018, at the amount that would be due based on the Retail Price Index for December 2017. The Government will also remove the six year time limit within which companies must adjust for any depreciatory transactions when claiming a capital loss on disposal of shares in a group company. This change will have effect for disposals of shares in or securities of a company made on or after 22 November 2017.

**Revisions to recent legislation**

Certain “technical amendments” will be made to the new corporate interest restriction rules which came into effect on 1 April 2017. Some of these amendments have effect from the 1 April 2017 start date, with the rest being effective from 1 January 2018. Among the changes are amendments to the infrastructure rules.

There are also further technical changes to the hybrid and other mismatches regime to ensure that those rules operate as intended. The change in relation to taxes which are charged at a nil rate will have effect on or after 1 January 2018. The remaining changes will have effect on or after 1 January 2017.
Other proposals

The Government will restrict the amount of credit allowed, or deduction given, for foreign tax suffered by an overseas permanent establishment of a UK company, where the company has received relief in the foreign jurisdiction for the losses of the permanent establishment against profits other than those of the permanent establishment. The change will have effect on or after 22 November 2017.

In relation to Intangible Fixed Asset “step-up” transactions, the Government will legislate to ensure that licence arrangements between a company and a related party in respect of intangible fixed assets are subject to the market value rule. The Government will also legislate to ensure that realizations of a company’s intangible fixed assets, where consideration is wholly or partly something other than cash, will bring into account the market value of that consideration. The changes will have effect in relation to transactions occurring on or after 22 November 2017.

The Government has said it will correct the position under which a postponed tax charge may become payable when a new holding company is inserted directly above an overseas company to which a UK company has previously transferred the trade and assets of a foreign branch in return for shares, in accordance with the relevant deferral legislation. The change will have effect for disposals on or after 22 November 2017.

Two consultations to be published on 1 December will consider the impact of the introduction of IFRS 16, the new accounting standard for leasing.

Draft legislation re-scoping the UK Bank Levy will be taken forward and there will be legislation affecting UK petroleum license holders along with the introduction of “transferable tax history” for oil and gas companies.

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