

# *European Tax Newsalert*

A Washington National Tax Services (WNTS)  
Publication

United Kingdom

March 23, 2012

## *UK Budget 2012: highlights for US MNCs*

On March 21, 2012, the Chancellor of the Exchequer, George Osborne, delivered his budget statement for 2012. The 2012 budget includes a number of measures aimed at supporting growth.

The main points that will impact US multinationals with UK operations (either existing or proposed) include:

- an additional reduction in the main corporate tax rate to 24% effective April 2012 (reducing to 22% by 2014);
- a reduction in the top personal tax rate from 50% to 45%;
- continued encouragement of innovation through improvements to the research and development ("R&D") tax credit and the new "patent box" regime; and
- consultation on a new general anti-abuse rule ("GAAR") aimed at "artificial and abusive tax avoidance".

### *Making the UK more attractive to business*

The UK government continues to focus on making the United Kingdom the most competitive tax regime in the G20. Significant changes to the UK corporate tax regime have already been made or proposed in previous budgets (notably, UK controlled foreign company ("CFC") reform), and the changes announced in yesterday's budget continue to build on this theme.



---

The Chancellor announced an additional 1% reduction in the main corporate tax rate to 24% effective April 1, 2012. This additional 1% reduction will also apply to planned subsequent reductions in 2013 and 2014, so that the rate will be 22% by April 2014. This, together with the UK's generous interest deductibility rules and reformed CFC rules, may attract multinationals seeking to base their European or wider headquarters in the United Kingdom.

Businesses with high-earning, UK-based employees may appreciate the reduced top income tax rate (from 50% to 45%), which applies to income exceeding £150,000. This reduced rate will be effective April 6, 2013.

## *Encouraging innovation*

The Chancellor confirmed that the new patent box regime will be introduced on April 1, 2013. This regime will apply a 10% tax rate to profits from patents and should benefit high technology businesses.

Changes to the R&D tax credit regime may also encourage US multinationals to invest in R&D in the United Kingdom. "Above the line" R&D tax credits with a minimum rate of 9.1% will also be effective April 1, 2013. This change will allow companies to take the tax credit benefit profit before tax, rather than as a reduction in the tax charge, as is the case now. This may also incentivize the individuals who control the R&D budgets.

## *Focus on fairness*

The Chancellor emphasized the creation of a more simple and fair tax system, where those who have the most contribute the most. This approach is apparent in the various measures introduced to ensure individuals earning lower amounts pay less tax. This approach is also visible in the corporate space, most notably with the proposed GAAR introduction, as well as with changes to the stamp duty land tax ("SDLT") regime and the introduction of capital gains tax on UK residential real estate owned through offshore companies and offshore trusts.

The Chancellor announced a formal consultation this summer on adopting a GAAR similar to Graham Aaronson QC's proposal in his November 2011 report. The GAAR will counter "artificial and abusive tax avoidance" and businesses will want to know the precise scope and remit of such a rule in order to understand the government's views on reasonable tax planning and avoidance. In discussions with the UK government, they seem to be committed to ensuring that any GAAR has suitable "filters" such that it does not prevent routine planning. The consultation period will be important in the legislative process, and businesses that are interested and/or likely to be affected by the GAAR are encouraged to engage with the UK government in the consultation process.

The Chancellor also announced his intention to consult on reforming the existing rules on interest withholding tax. Finance Bill 2013 should include additional details.

In terms of real estate tax, the Chancellor announced a 7% stamp duty rate for purchases of residential real estate worth over £2m. This could impact corporate executives looking to purchase a home in the United Kingdom. Measures to prevent the avoidance of SDLT, including potential retroactive legislation to close subsequently discovered loopholes, indicates the Chancellor's desire to enforce the SDLT. Furthermore, new rules would ensure that UK residential real estate owned by offshore companies or trusts will be subject to capital gains tax in the United Kingdom when sold.

---

*For more information, please contact:*

<i>Ian Prideaux</i>	<i>646-471-3314</i>	<i>ian.prideaux@us.pwc.com</i>
<i>Mark Sefton</i>	<i>646-471-7003</i>	<i>mark.j.x.sefton@us.pwc.com</i>
<i>Alan Carroll</i>	<i>646-471-8511</i>	<i>alan.carroll@us.pwc.com</i>
<i>Peter Rhodes</i>	<i>646-471-8671</i>	<i>peter.g.rhodes@us.pwc.com</i>

This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

SOLICITATION

© 2012 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.