

# ***UK enacts general anti-abuse rule and confirms tax rate reductions***

July 17, 2013

## ***In brief***

UK finance act 2013 received royal assent July 17, 2013 and has therefore been enacted. The act includes legislation introducing a new general anti-abuse rule (GAAR) as well as a reduction in the UK main corporation tax rate to 20% by April 1, 2015. The tax rate reductions and the act's other changes have US GAAP reporting implications.

## ***In detail***

### ***General anti-abuse rule***

Finance act 2013 includes the introduction of a GAAR. The GAAR affects any 'arrangements' entered into on or after the enactment date and applies to all the major UK taxes with the exception of VAT which already had a similar general anti-avoidance rule. The GAAR is intended only to cover aggressive or abusive tax avoidance, so it may not be relevant in many common planning and structuring scenarios. However, multinationals should consider the GAAR's potential impact for any transaction that involves UK tax and occurs on or after July 17, 2013.

### ***Corporation tax rate***

The main UK corporation tax rate will fall from its current rate of 23% to 21% effective April 1, 2014 and to 20% effective April 1, 2015. This will impact the calculation of

deferred tax balances for US GAAP reporters with a balance sheet date falling on or after the date of royal assent (July 17, 2013).

Entities reporting under IFRS or UK GAAP should adjust for the impact of these rate changes for balance sheet dates falling on or after the date the legislation was 'substantively enacted' (July 2, 2013).

### ***Other provisions***

#### ***Above-the-line R&D credit***

Other changes introduced by finance act 2013 include an above-the-line (ATL) credit applying to research and development (R&D) expenditure incurred on or after April 1, 2013 by 'large' companies. This pretax credit of 10% of qualifying expenditure will be paid by a reduction in corporation tax, but also may be payable to companies with tax losses, subject to a limitation based on payroll taxes

(PAYE/NIC) paid. The new ATL credit does not apply to small and medium sized companies (SMEs), which will continue to receive R&D tax relief under the same rules as before.

#### ***Exit charge deferral***

UK resident companies that migrate their residence to another European Economic Area (EEA) state now have the option to defer payment of certain exit charges for up to 10 years by entering into an exit charge payment plan with the UK tax authority. Exit charge deferral is also available for EEA resident companies which trade in the United Kingdom through a permanent establishment.

### ***The takeaway***

US MNCs entering into transactions involving the UK on or after July 17, 2013 should consider the GAAR when assessing the transaction's tax consequences. In addition, companies should understand

how the enactment of the finance act's other provisions could impact their financial statements and operations.

### ***Let's talk***

For a deeper discussion, please contact:

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