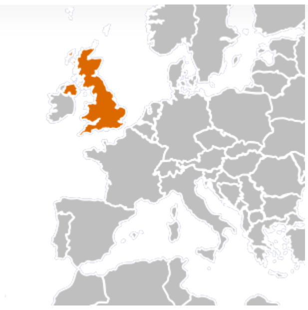
United Kingdom



Last reviewed - 08 July 2024

Individual - Significant developments

Spring Budget 2024

The Chancellor of the Exchequer delivered his Budget on 6 March 2024, announcing the following:

- Plans to abolish the current tax regime for non-UK domiciled individuals, to be replaced with a residence-based regime; (see below for more detail)
- The main rate of Class 1 employee NICs will be further reduced by 2p from 10% to 8% from 6 April 2024; and
- A reduction in the higher rate of Capital Gains Tax on residential properties from 28% to 24% from 6 April 2024.

Changes proposed to the current tax regime for Non-UK Domiciled individuals

In the Spring Budget 2024 the Chancellor announced his proposal for the current tax regime for non-UK domiciled individuals to be abolished from 6 April 2025 and a new residence-based regime to be introduced in its place. Proposals for transitional measures designed to smooth the impact of the changes were also announced.

We expect these proposals to be picked up by an incoming government following the general election. A new government is likely to make changes to the original proposals, but we still expect a new regime to be introduced with effect from 6 April 2025. This section will be updated once further details are known, expected to be towards the end of 2024.

Key proposed changes with effect from 6 April 2025:

    - Individuals will be subject to UK tax on their foreign income and gains where they have been a UK resident for more than four years, regardless of their domicile status.
    - Trust protections will be removed and income and gains within a trust will be taxed on the UK resident settlor (if settlor interested).

- New arrivers will qualify for a new Foreign Income and Gains ('FIG') regime for their first four years of UK residence, provided they have been non-UK tax resident for the previous ten years. Under the FIG regime they will not have to pay tax on their foreign income and gains and will be free to bring those funds into the UK.

Proposed transitional measures for existing non-UK domiciled individuals:

- A one year (2025/26) tax amnesty allowing 50% of foreign income (not gains) to be exempt from UK tax.
- Temporary Repatriation Facility ('TRF') offers a two tax year window (2025/26 and 2026/27) for historic unremitted income and gains to be brought to the UK and taxed at a favourable rate of 12%.
- CGT rebasing allowed for non-UK assets held at 5 April 2019.

Inheritance Tax ('IHT'):

It is proposed (subject to consultation) that IHT will also be moved to a residence-based system. Individuals will be subject to UK IHT on their worldwide assets once they have been resident in the UK for 10 years. There will also be a 10 year 'tail', whereby individuals will remain subject to UK IHT for 10 years after they cease to be UK resident. Non-UK assets held by non-UK trusts set up by non-UK domiciled settlors prior to 6 April 2025 are intended to remain outside the scope of UK IHT.

Other points to note:

- Overseas Workday Relief will still be available for eligible employees in their first three years of UK tax residence, as long as they are eligible for the FIG regime. This relief applies to income from employment duties carried out overseas.
- Business Investment Relief ('BIR') will continue to be available for qualifying investments made prior to 6 April 2025 and new investments made on or after 6 April 2025 using pre-6 April 2025 foreign income and gains.

Basis period reform

The United Kingdom (UK) government has brought in significant changes to the way self-employed individuals are taxed on trading profits. The changes are called 'basis period reform'. The new measures do not impact the UK taxation of non-trading income or capital gains. For further details, see '*Basis period reform' in the Other issues section*.

Individual - Taxes on personal income

Personal income tax rates

Income tax is charged at graduated rates, with higher rates of income tax applying to higher bands of income. Tax is charged on total income (from all earned and investment sources) less certain deductions and allowances.

In Autumn 2022, it was announced that the current personal allowance and certain tax thresholds would be frozen until April 2028.

The main allowance is a tax-free amount known as the 'personal allowance', which is GBP 12,570 in 2024/25. Most individuals can claim a personal allowance, unless they are claiming the remittance basis (*see below*) or their income is over GBP 125,140. If one's income is over GBP 100,000, one's personal allowance will be reduced by GBP 1 for every GBP 2 that one's income exceeds GBP 100,000.

The net amount after allowances is usually referred to as an individual's taxable income. The graduated rates of income tax vary slightly depending on whether the income is from earnings or investments.

Income tax bands and rates for taxpayers resident in England, Wales, or Northern Ireland are as follows:

Tax rate band	Income threshold 2023/24 (GBP)	Income tax rate (excluding dividends) (%)	Dividend tax rate (%)
Personal allowance	0 to 12,570	0	0
Starting rate for savings	12,571 to 17,570	0*	N/A
Basic rate	12,571 to 50,270	20	8.75**
Higher rate	50,271 to 125,140	40	33.75
Additional rate	Over 125,140	45	39.35

* The 0% starting rate is for savings income only. If non-savings income (which takes up the first 'slice' of income) is above this limit, then the 0% starting rate will not apply.

Note that dividends are always treated as the top slice of income and will be taxed at an individual's highest marginal tax rate (*see Dividend income in the Income determination section for rates specifically applicable to dividends*). 'Savings income' is the next slice down, and other income (such as earnings) will be the lowest slice. The most common form of 'savings income' is interest, but certain other forms of income are also included.

** A dividend allowance applies to the first GBP 500 of an individual's dividend income in 2024/25. The allowance operates as a 0% tax rate. Please note this does not apply to dividends from shares held within an Individual Savings Account (ISA).

The dividend allowance does not reduce total income for tax purposes. Dividend income that is within the 'allowance' still counts towards an individual's basic and higher rate limits.

Scottish Income Tax

Individuals resident in Scotland pay Scottish Income Tax on employment income, pension income and most other taxable income, apart from dividend and savings income, which is taxed at the rates above, in line with the rest of the United Kingdom.

The Scottish Income Tax rates are as follows:

Tax rate band	Income threshold 2023/24 (GBP)	Scottish Income Tax rate (%)
Personal allowance	0 to 12,570	0
Starter rate	12,571 to 14,876	19
Basic rate	14,877 to 25,561	20
Intermediate rate	25,562 to 43,662	21
Higher rate	43,663 to 75,000	42
Advanced rate	75,001 to 125,140	45
Top rate	Over 125,140	47

Trustees and income tax

The income tax rates paid by trustees depend on the type of trust involved.

The first GBP 1,000 of income arising to the trustees of accumulation or discretionary trusts is taxed at either 8.75% (dividends) or 20% (all other income). Thereafter, income is taxed at 39.35% (dividends) or 45% (all other income).

Interest in possession trustees pay income tax at 8.75% (dividends) or 20% (all other income). Income mandated to the beneficiary is taxed on the beneficiary and should be included on their tax return.

Trustees do not qualify for the dividend allowance.

There are special rules for other types of trusts (e.g. non-resident trusts, settlor-interested trusts, and trusts for vulnerable people). Advice should be sought as trust taxation is a complex area.

Basis of taxation in the United Kingdom

As noted above, in the March 2024 Budget the government announced plans to abolish the current tax regime for non-UK domiciled individuals. The following sections set out the rules as currently in place in the UK, but it must be noted that these are unlikely to remain in force beyond the current 2024/25 tax year. For more information on the expected changes, please see the 'Individual - significant developments' section.

An individual's basis of taxation in the United Kingdom depends on both their residence and domicile position.

If an individual is resident and domiciled in the United Kingdom, they will be taxed on their worldwide income and capital gains.

If an individual is not a UK tax resident, they will generally be subject to income tax only on their UK-source income.

Currently, if an individual is resident but neither domiciled nor deemed domiciled in the United Kingdom, they can elect to use the remittance basis of taxation. This means that, in general, their non-UK income (and capital gains) are only taxed if they are remitted to or used in the United Kingdom. Different rules apply in respect of employment income.

UK resident but non-domiciled individuals (UKRNDs) and the remittance basis of taxation

Meaning of domicile

At present an individual's domicile status is a key factor in determining how their non-UK income and gains are taxed whilst they are resident in the United Kingdom. The concept of domicile for UK tax purposes is distinct from citizenship, nationality, or residence and may differ from another jurisdiction's concept of domicile. In broad terms, individuals are domiciled in the country that is their permanent or natural home or where they have a 'settled intention to permanently reside'. An individual cannot be without a domicile, can only have one domicile at a time, and are generally regarded as domiciled in the country where they have their permanent home.

There are three classes of common law domicile that a person can acquire throughout their life:

- Domicile of origin: Generally follows that of their father at the time of their birth, if their parents were married.
- Domicile of dependency: Generally tracks changes to the domicile of their father, whilst a child is still a minor.
- Domicile of choice: Acquired on settling in another country with the intention to remain there permanently or indefinitely.

Deemed domicile

From 6 April 2017, where a non-UK domiciled individual ('non-dom') has been resident in the United Kingdom for 15 or more of the last 20 tax years, they will be deemed domiciled in the United Kingdom for all taxes. This means they will no longer be able to claim the remittance basis from this point onwards.

Individuals who have previously claimed non-dom status will, therefore, pay tax on their worldwide income and gains, and be subject to UK inheritance tax (IHT) on their worldwide assets, in the same way as UK domiciled individuals. A child who grew up with non-UK domiciled parents in the United Kingdom can be deemed domiciled by adulthood.

It is worth noting that years spent in the United Kingdom as a student and years where an individual was tax resident in the United Kingdom under domestic law, but resident under treaty tie-break provisions elsewhere, also count towards the 15 years for deemed domicile purposes.

Formerly domiciled residents (FDRs)

Individuals born in the United Kingdom with a UK domicile of origin who have acquired a domicile of choice elsewhere, but who return to the United Kingdom (i.e. FDRs), have a one-year grace period on resuming UK residence before their worldwide assets become subject to IHT, but they will be subject to income and capital gains tax on the arising basis for any tax year they are UK resident.

Any trusts set up by FDRs whilst they were non-UK domiciled are now within the scope of UK IHT. In addition, FDRs will not be able to benefit from the trust protections or asset rebasing as set out below.

Domicile status

His Majesty's Revenue and Customs (HMRC) are increasingly enquiring into claims by individuals to be non-UK domiciled, especially where the individual has been resident in the United Kingdom for many years, does not retain strong ties to the country of origin, and/or cannot demonstrate the circumstances in which they will leave the United Kingdom. There are several circumstances in which domicile for general law purposes remains important, even once an individual has become deemed domiciled for tax purposes.

The remittance basis

UK-resident individuals eligible for the remittance basis of taxation include the following:

1. Non-UK domiciled individuals who are under 18 years of age and have no UK sources of income and gains and do not remit any foreign income or gains. The remittance basis applies automatically in this case (i.e. no UK tax return is required).
2. Non-UK domiciled individuals who have unremitted non-UK income and gains on non-UK assets that are less than GBP 2,000 in the UK tax year. The remittance basis applies automatically in this case, and no claim (or tax return) is required.
3. Non-UK domiciled individuals who have been UK resident for less than seven out of the preceding nine tax years. The remittance basis must be claimed (by filing a tax return) in this case, but no remittance basis charge needs to be paid.
4. Non-UK domiciled individuals who have been UK-resident for seven or more of the preceding tax years and pay (if necessary) the annual remittance basis charge (*see below*). A claim is required in this case in order to benefit from the remittance basis.

If this claim is made (categories 3 and 4 above), the individual will give up any entitlement to the tax-free personal allowance (*see the Deductions section*) and capital gains tax (CGT) annual exemption (*see the Other taxes section*).

Remittance basis charge (RBC)

An individual who wishes to claim the remittance basis of taxation but has been resident in the United Kingdom in seven or more of the previous nine years and is over 18 years of age will have to pay an additional tax charge of GBP 30,000 each tax year to enable them to use the remittance basis of taxation (i.e. RBC).

The RBC is GBP 60,000 for those non-domiciled individuals who have been resident in the United Kingdom for 12 or more of the previous 14 years.

Eligible individuals in categories 1 and 2 above will be taxed on the remittance basis but will not lose their allowances and will not have to pay the RBC.

The choice of claiming or not claiming the remittance basis can be made annually, so that a taxpayer can calculate each year whether claiming the remittance basis will cost more or less than being taxed on the arising basis on worldwide income and gains.

Remittances

A tax charge will arise if foreign income and gains are remitted to the United Kingdom. This tax charge is in addition to any RBC paid by the taxpayer for using the remittance basis.

The tax payable in relation to remittances will depend on what the individual has or is deemed to have remitted to the United Kingdom.

It is recommended that care is taken prior to an individual becoming UK tax resident to structure their financial arrangements and bank accounts in such a way as to facilitate easy identification of funds that are to be brought to the United Kingdom.

There are complex statutory ordering rules for determining how a transfer from a 'mixed' fund (i.e. an account comprising of a mixture of capital/foreign income/gains and/or from different tax years) is treated.

Example remittances

Examples of actions that may constitute a remittance are as follows (please note this list is not exhaustive):

- Transferring cash or bank balances to the United Kingdom.
- Withdrawing cash from a non-UK bank account in the United Kingdom.
- Using non-UK funds to settle a UK credit card debt.
- Using non-UK funds to settle liabilities incurred in the United Kingdom.
- Using non-UK funds to pay interest on, or repay, a loan made in the United Kingdom.
- Using non-UK funds to repay or service a loan made overseas but brought to the United Kingdom.
- Using non-UK funds to settle a non-UK credit card debt for UK expenditure.
- Bringing to the United Kingdom assets that have been purchased overseas with unremitted and untaxed income or gains.
- Generally, using non-UK funds to pay for a service provided in the United Kingdom.
- Using non-UK funds to provide collateral for a loan made overseas but brought to the United Kingdom.

As mentioned at the beginning of this section, the UK government has announced plans to abolish the current tax regime for non-UK domiciled individuals. The above sections set out the rules as currently in place in the UK, but it must be noted that these are unlikely to remain in force beyond the current 2024/25 tax year. For more information on the expected changes, please see the ‘Individual - significant developments’ section.

Alternative minimum tax

There is no alternative minimum tax in the United Kingdom.

Taxation of children

Children under 18 are taxable in their own right unless their income derives from gifts from a parent, where the amount is in excess of GBP 100 it is taxed on the parent.

Local income taxes

There are no local taxes on income in the United Kingdom.

Individual - Residence

The statutory residence test (SRT) for individuals has been effective since 6 April 2013. The test must be applied in a strict order:

- An individual will be resident in the United Kingdom for a tax year if they meet any of the 'automatic residence tests'.
- If they don't meet any of the 'automatic residence tests', but do meet any of the 'automatic non residence tests', they will be non-UK resident for the tax year.
- If they do not meet any of the 'automatic residence tests' nor any of the 'automatic non residence tests', the 'sufficient ties test' is applied to determine their residence status.

Each of the tests and the underlying elements are defined to some extent in UK tax legislation, and HMRC have produced extensive guidance.

There are four 'automatic UK residence tests':

- Spending at least 183 days in the United Kingdom in the year. An individual will be present for a day if they were in the United Kingdom at the end of the day, unless they were only in the United Kingdom for either 'exceptional circumstances' or they were in transit between arrival in the United Kingdom and departure from the United Kingdom. These exceptions are subject to an additional 'deeming rule' that looks at the individual's presence in the United Kingdom, their ties to the United Kingdom, and their UK residency position in the prior three tax years. Where the deeming rule applies, any of these days in excess of 30 days will be treated as days in the United Kingdom for the 183 count.
- The individual's only home is in the United Kingdom for at least 91 days in the year.
- Working full-time in the United Kingdom for a period of 365 days, and, during that period, there are no significant breaks from UK work and all or part of that period falls within the year; where full time work is on average 35 hours or more per week over the period.
- Dying in a tax year when you were previously automatically resident for the previous three tax years and where the individual had a home in the United Kingdom.

There are four 'automatic overseas tests' (i.e. for non-UK residence):

- If the individual was UK resident in one or more of the three prior tax years and they spent less than 16 days in the United Kingdom in the year in question.

- If the individual was not UK resident in any of the three prior tax years and they spent less than 46 days in the United Kingdom in the year in question.
- If the individual works full-time overseas in the year in question, they spend less than 31 days working in the United Kingdom, and they spend less than 91 days in the United Kingdom. A UK workday is a day on which an individual works more than three hours in the United Kingdom.
- Dying in a tax year when the individual was not UK resident in any of the two prior tax years and they spent less than 46 days in the United Kingdom in the year in question.

The 'sufficient ties' test is met if the individual does not meet any of the automatic UK tests or the automatic overseas tests but has 'sufficient UK ties' in a year to make them UK resident. The possible ties are set out in the legislation. They are the family tie, the accommodation tie, the work tie, the 90 day tie (i.e. 90 days or more spent in the United Kingdom in either of the previous two tax years), and the country tie (i.e. the United Kingdom is the country in which an individual spends most of their time).

If an individual has been a UK-tax resident for one or more of the preceding three tax years, they have to consider all of those ties; otherwise, they can ignore the country tie. The more days an individual spends in the United Kingdom, the fewer UK ties are needed for them to pass the sufficient ties test and be UK resident. This ranges from one tie if they spend more than 120 days in the United Kingdom to four ties if they spend fewer than 46 days in the United Kingdom.

The SRT legislation states that up to 60 days spent in the United Kingdom due to exceptional circumstances, which prevent an individual from leaving the United Kingdom, can be disregarded when calculating days spent in the United Kingdom.

The taxation of UK resident non-doms is set out in the Taxes on personal income section and under Capital gains tax in the Other taxes section.

Individual - Other taxes

National insurance contributions (NICs)

Social security payments are termed 'national insurance contributions' (NICs) in the United Kingdom. These are payable by employers, employees, and those that have their own trades (the self-employed).

The Chancellor of the Exchequer announced changes to NICs in both the Autumn 2023 and Spring 2024 Budgets. The rates are summarised as follows:

- For the 2024/25 tax year, employees pay Class 1 NICs at 8% on earnings between GBP 12,571 and GBP 50,270. Between 6 January 2024 and 5 April 2024 the rate was 10%, prior to this it was 12%. The rate is 2% on any earnings above GBP 50,270. Employers also currently pay Class 1 NICs at 13.8% on their employees' earnings above GBP 9,100.
- Self-employed individuals pay Class 4 NICs on their profits from self-employment. For the 2024/25 tax year, Class 4 NIC is paid at 8% on profits between GBP 12,570 and GBP 50,270 and 2% on any profits above that.

- Compulsory Class 2 NIC were abolished from April 2024. Access to entitlements and credits is maintained in full. Those who want to contribute voluntarily can still do so at a cost of £3.45 per week.
- The Class 4 NIC rate was cut from 9% to 6% from April 2024.

Capital gains tax (CGT)

There is an annual exempt amount for capital gains that are not taxable. This is GBP 3,000 for the 2024/25 tax year, after which gains falling into the basic rate band up to GBP 37,700 are taxable at a rate of 10%. Most gains above the higher rate threshold are taxed at a rate of 20%.

Chargeable gains on UK residential property are subject to CGT rates of 24% (higher rate) and 18% (basic rate). The higher rate was reduced from 28% to 24% from 6 April 2024. Gains on carried interest continue to be subject to CGT at a rate of 28% (higher rate) or 18% (basic rate).

For most trustees, the annual exemption is half that of individuals.

The CGT exemption is lost if a non-UK domiciled individual claims to be taxed on the remittance basis. *See 'Individual - significant developments' section for changes to the taxation of non-UK domiciled individuals.*

Gains and losses are calculated by reference to the cost of the asset plus allowable costs of subsequent improvements (although there are special rules in the event that the asset was acquired before 31 March 1982). Deductions in computing a gain or loss will include the cost of acquisition (including the purchase price, incidental costs of purchase, and any capital enhancements) and incidental costs of disposal (including legal fees, costs of advertising, etc).

There are a number of additional CGT reliefs and exemptions available, depending on the type of transaction or the nature of the asset disposed of. For example, relief may be available on the disposal of an individual's main home, this is known as Private Residence Relief (PRR). It may also be possible to hold over gains on gifts of certain types of assets.

In relation to shares, there are special rules for identifying shares disposed of from other shares of the same class held by the taxpayer. There are also special provisions that effectively prevent sale and short-term repurchasing of shares and other fungible assets ('bed and breakfasting').

From 27 October 2021, UK residents must report and pay the CGT due 60 days after completion in respect of UK residential property disposals that result in a chargeable gain. *See below for the tax rules regarding non-UK residents disposing of UK property interests.*

Basis of taxation

As noted above, in the March 2024 Budget the government announced plans to abolish the current tax regime for non-UK domiciled individuals. The following sections set out the rules as currently in place in the UK, but it must be noted that these are unlikely to remain in force beyond the current 2024/25 tax year. For more information on the expected changes, please see the 'Individual - significant developments' section.

As for income tax, an individual who is resident and domiciled in the United Kingdom will pay CGT on their worldwide taxable gains.

Non-UK resident individuals will not generally be subject to CGT, even if the asset disposed of is located in the United Kingdom. There are exceptions to this, however, such as UK trading assets, UK property (residential and commercial) / 'property-rich' companies, and carried interest.

Gains in respect of UK residential property owned by non-UK residents have been subject to UK CGT for a number of years, currently at the rate of 24%, reduced from 28% as of 6 April 2024. Additionally the charge to UK CGT was extended to all UK property disposed of by non-UK residents and also shares in 'property-rich' non-UK companies from April 2019. (*See* '*Taxation of gains on disposal of UK immovable property by non-UK resident individuals' below*).

There are also special rules for income and capital gains tax where a person has become non-UK resident but returns to the United Kingdom within, broadly, five years, which are referred to as the temporary non-residence rules (*see below*).

Currently individuals who are UK resident but neither domiciled nor deemed domiciled in the United Kingdom can elect for the remittance basis of taxation. Under the remittance basis, gains realised on UK situs assets will be taxable as they arise (even if the non-UK domiciled taxpayer receives the sale proceeds offshore). However, gains on non-UK situs assets will only be taxable if the proceeds are remitted to the United Kingdom. Exceptions to this do apply in relation to certain carried interest arrangements and where interests in UK property are held via a non-UK company.

If a taxpayer claims the remittance basis of taxation, the taxpayer will give up any entitlement to the tax-free capital gains annual exemption. In addition, if an individual has been resident in the United Kingdom in at least seven out of the previous nine years, the individual will have to pay GBP 30,000 a year in order to claim the remittance basis. This charge is GBP 60,000 for those non-domiciled individuals that have been resident in the United Kingdom for 12 out of the past 14 years.

At present, the choice of claiming or not claiming the remittance basis can be made annually, so that a taxpayer can calculate each year whether claiming the remittance basis will cost more or less than being taxed on the arising basis on worldwide income and gains. Once an individual has been resident in the United Kingdom for 15 out of the previous 20 tax years, they are deemed UK domiciled and the remittance basis is no longer available.

Temporary non-residence rules

An individual who leaves the United Kingdom for a period of non-residence of less than five full tax years and who was resident in at least four of the seven tax years prior to the departure will be taxed on a disposal while non-UK resident of any assets that were acquired before ceasing to be UK resident. The assets are treated as if they were disposed of in the year of return to the United Kingdom. Care is therefore needed when individuals come to and leave the United Kingdom.

CGT rebasing

Individuals who became deemed domiciled on 6 April 2017 under the 15/20 year test were able to rebase their directly held foreign assets to their market value as at 5 April 2017, subject to various conditions being met.

The taxation of non-domiciled individuals is expected to change significantly from 6 April 2025. The above sections outline the current rules. See 'Individual - significant developments' section for more detail regarding the anticipated changes.

If an individual is not resident in the United Kingdom, they will not be subject to UK tax on most gains, even when the asset is situated in the United Kingdom (unless the gains arise on UK trading assets).

As of April 2019, all gains on UK property, and certain disposals of shares in UK property-rich companies, disposed of by non-resident individuals are subject to UK CGT. Prior to April 2019, direct disposals of UK residential property were subject to UK tax for non-UK resident individuals, with the value of the property being rebased to April 2015. There were also additional rules for residential properties held in corporates. The indirect disposal rules apply where a person makes a disposal of an entity in which it has at least a 25% interest (or any interest where the disposal has an appropriate connection to certain collective investment vehicles) where that entity derives 75% or more of its gross asset value from UK land.

The 25% ownership test looks for situations where the person holds at the date of disposal, or has held within two years prior to disposal, a 25% or more interest in the property-rich company. This holding may be directly, through a series of other entities, or via connected persons.

The 75% 'property richness' test looks at the gross assets of the entity being disposed of. Where a number of entities are disposed of in one arrangement, their assets are aggregated to establish whether the 75% test is met.

There is a trading exemption, so that disposals of interests in property-rich entities where the property is used in a trade are excluded from the charge.

Existing reliefs and exemptions available for capital gains continue to be available to non-UK residents, with modifications where necessary. The provisions of any relevant double tax treaty (DTT) would also need to be considered.

Losses arising to non-UK residents under the new rules are available. There are options to calculate the gain or loss on a disposal using the original acquisition cost of the asset or using the value of the asset at commencement of the rules in April 2019. However, where the original acquisition cost is used in the case of an indirect disposal, and this results in a loss, this will not be an allowable loss.

Disposals must normally be reported and the tax paid by individuals and trusts within 30 days of the disposal, or 60 days in respect of sales completed after 27 October 2021.

General information on the taxation of gains

Where the taxpayer has invested in assets that are denominated in a foreign (i.e. not sterling) currency, care is needed over foreign exchange gains realised on the disposal of the asset. There is an exemption for gains on foreign currency acquired by the holder for personal expenditure outside the United Kingdom and to foreign currency held in bank accounts, but it does not extend to foreign currency held in other ways.

Artwork and other chattels

There are no specific rules for artwork, and the taxation of income or capital gains will be applied under general principles.

The term 'chattel' means 'tangible movable property' and includes assets such as paintings and antiques. Assets such as buildings, land, leases, or shares are not chattels. A ‘wasting’ chattel is a chattel with a predictable useful life not exceeding 50 years, such as machinery (including antique clocks and watches). Wasting chattels are not taxable when sold. A non-wasting chattel is tangible movable property that will last for more than 50 years (e.g. paintings, antiques, jewellery). If a non-wasting chattel is disposed of for GBP 6,000 or less, any capital gain is exempt from CGT and losses are not allowable. If it is disposed of for more than GBP 6,000 (or is part of a set), further rules apply to calculate the tax due.

Consumption taxes

Value-added tax (VAT)

The standard rate of VAT is 20%.

See the Other taxes section in the Corporate tax summary for information on VAT returns and payments.

Net wealth/worth taxes

Tax is not charged on an individual's wealth each year in the United Kingdom.

Inheritance, estate, and gift taxes

Inheritance tax (IHT) is payable on a taxpayer's death on the value of assets (not covered by any reliefs or exemptions) that are above the available nil rate band (NRB). The NRB has been GBP 325,000 since 6 April 2009 and is frozen until 5 April 2028.

IHT is also payable during life on certain 'chargeable lifetime transfers', the most common of which are transfers into most types of trusts. Where an individual makes a lifetime transfer that isn't immediately chargeable, it may become chargeable if the donor dies within seven years of making the gift. This is referred to as a 'potentially exempt transfer' (PET).

The most valuable IHT relief is Business Relief (previously known as Business Property Relief) which is available on certain business assets. *See 'Individual - Other tax credits and incentives' section below for more details.*

Currently, non-UK domiciled individuals are only charged to IHT on chargeable lifetime transfers of UK assets or assets situated in the United Kingdom on their death, including UK residential property (and some loans and collateral used in connection with UK residential property), even if owned via a non-UK company. Please be aware that the taxation of non-UK domiciled individuals is expected to change from 6 April 2025 and this section describes the current rules only. See *'Individual - significant developments' for information regarding the expected changes.*

Advice needs to be taken if overseas funds are used as collateral for loans brought to the United Kingdom or in connection with UK residential property. *See Property taxes below*.

Currently, non-UK situated assets owned by a non-UK domiciled individual (who is also not deemed domiciled) is called 'excluded property' for IHT purposes and will not form part of that individual's UK estate.

At present, once a non-UK domiciled individual has been resident in the United Kingdom for 15 out of the previous 20 years, they will become 'deemed domiciled' in the United Kingdom for all taxes and will be liable to IHT on their entire worldwide assets unless this is overridden by an applicable tax treaty.

Usually, spouses and civil partners have unlimited spouse exemption in respect of assets passing between them during lifetime and on death, so no IHT arises on such gifts.

However, the spouse exemption is limited to GBP 325,000 in respect of gifts from a UK-domiciled individual to their non-UK domiciled spouse or civil partner. There is no limit in respect of assets passing from a non-UK domiciled spouse/civil partner to a UK-domiciled spouse/civil partner or where both spouses/civil partners have the same domicile.

Individuals who are domiciled outside the United Kingdom who have a UK-domiciled spouse or civil partner can elect to be treated as domiciled in the United Kingdom for the purposes of IHT. All the consequences of such an election must be considered and advice should be taken.

As noted above, these are the current rules for non-UK domiciled individuals, please see 'Individual - significant developments' for information regarding the expected changes to the rules from April 2025.

Property taxes

Local authorities are financed partly by the imposition of council tax, which is a property-based tax levied on the occupier of a domestic dwelling at a flat rate per dwelling. Unoccupied dwellings are also taxed on the property's owner. The remainder of local authority finance comes from the imposition of the uniform business rate on business property and from central government grants.

Taxation of UK residential property

IHT

From 6 April 2017, 'closely' held non-UK companies (broadly ones owned by five or fewer shareholders) or partnerships holding UK residential property have been brought within the charge to UK IHT.

Most loans provided by individuals, trusts, closely held companies, or partnerships for the acquisition, maintenance, or enhancement of UK residential property have also been brought within the charge to IHT in the hands of the lender, as well as security provided for such loans.

This means that IHT will be chargeable in a number of additional circumstances, for example, where the individual dies whilst owning such a company's shares, where such a company's shares are gifted into or out of a trust, and on the ten-year anniversary of the trust if the trustees own shares in a non-UK resident company that in turn owns a UK property.

Register of Overseas Entities

The Register of Overseas Entities came into force in the UK on 1 August 2022 and requires all overseas entities who want to buy, sell or transfer property or land in the UK to register with Companies House with notification of their registrable beneficial owners or managing officers.

Stamp duty land tax (SDLT)

Acquisitions of residential property in England and Northern Ireland by non-natural persons (NNPs) are charged at rates of up to 15% (as a result of the specific NNPs provisions for residential property worth more than GBP 500,000, or under the general residential property provisions, which include the additional 3% ‘second home’ supplement). An additional 2% surcharge also applies to the acquisition of residential property by non-resident purchasers from 1 April 2021.

Acquisitions of residential property in Scotland and Wales are subject to Scottish land and building transactions tax (LBTT) and Welsh Land Transaction Tax (LTT) respectively.

Further taxes relevant to UK residential property

There is an Annual Tax on Enveloped Dwellings (ATED) and, from April 2019, the ATED gains rules have been replaced by the new non-resident gains on immovable property regime, which taxes non-residents on gains on direct and certain indirect disposals of UK immovable property generally (*see ‘Taxation of gains on disposal of UK immovable property by non-UK resident individuals’ above*).

An NNP is defined as a company, partnerships with a corporate partner, and collective investment vehicles. The definitions of an NNP are aligned, as far as possible, so that the same definition applies in respect of the annual ATED charge, SDLT, and the historic ATED CGT extension.

Both UK resident and non-UK resident NNPs are within the scope of all aspects of these rules.

Trustees are not NNPs under any of these measures.

Annual tax on enveloped dwellings (ATED)

The chargeable period runs from 1 April to 31 March.

- The ATED is levied on and paid by an NNP that holds UK residential property.
- The relevant valuation date to determine whether the value is greater than GBP 500,000 is 1 April 2022 or the date of acquisition if later, to be used from 2023.
- The return and payment must be submitted to HMRC by 30 April at the start of each year.
- If a property comes within the ATED part way through the year, then a return will be required within 30 days if the NNP has acquired a chargeable interest in a dwelling, or within 90 days if because of another reason, for example the completion of conversion work.
- The return requires details of the chargeable person, the address of the property, the Land Registry title, and the self-valuation of the relevant property, among other things.
- Where residential property is part of a larger mixed-use property, only the value of the residential parts will be relevant for these purposes. There are also provisions to aggregate the value of connected party interests and to combine values where properties are linked.

The amount of the annual charge on properties valued above GBP 500,000 owned by NNPs for the 2024/25 tax year is as follows:

	Annual charge (2024/25) (GBP)
500,001 to 1 million	4,400
1,000,001 to 2 million	9,000

	Annual charge (2024/25) (GBP)
2,000,001 to 5 million	30,550
5,000,001 to 10 million	71,500
10,000,001 to 20 million	143,550
More than 20 million	287,500

The ATED charges increases in line with the consumer price index (CPI) each year and is pro-rated where the property is not held for the whole period. However, the property value bands are not indexed linked. ATED is also pro-rated when a property comes in and out of one of the reliefs during the charging period.

Luxury and excise taxes

There are no luxury and excise taxes applicable to individuals in the United Kingdom.

Stamp taxes

Acquisitions of residential property in England and Northern Ireland by UK resident companies and similar NNPs and by individuals acquiring second homes are charged at rates of up to 15% (whereas acquisitions by individuals who do not own any other properties or who are replacing their main residence are capped at 12%). Companies and NNPs are subject to the 15% rate where the consideration exceeds GBP 500,000 and the company is not using the property for one of certain specific business purposes. Individuals and trusts will be subject to the 15%/12% rate where the consideration exceeds GBP 1.5 million. An additional 2% surcharge also applies to the acquisition of residential property by non-resident purchasers from 1 April 2021.

Acquisitions of non-residential or mixed property in England and Northern Ireland are charged to SDLT at graduated rates of up to 5%; the 5% rate applies for the portion of the consideration exceeding GBP 250,000.

Land and buildings in Scotland are subject to Scottish land and building transactions tax (LBTT) in place of SDLT. Rates are graduated up to 12%, which applies to a transaction value for residential properties in excess of GBP 750,000 (or up to 18% where the additional 6% for second homes or buy-to-lets applies), and up to 5% for non-residential properties.

Land and buildings in Wales are subject to Welsh Land Transactions Tax in place of SDLT. Rates are graduated up to 12%, which applies to a transaction value for residential properties in excess of GBP 1.5 million (or up to 16% where the additional 4% for second homes or buy-to-lets applies), and up to 6% for non-residential properties.

Air passenger duty

Individuals leaving the United Kingdom by air are obligated to pay a duty, which in practice is invariably included in the cost of the air ticket. Rates of duty are based on a system of geographical banding and class of travel.

Employment income

All employees and office holders (including directors) are taxed as employees. General earnings include all salary, bonuses, commissions, overseas allowances, housing allowances, and most other items that could be seen as deriving from the employment. There are specific rules for taxing items that are not provided in cash, such as living accommodation and cars.

Since 6 April 2017, the tax and employer NIC advantages of salary sacrifice (and cash alternative) arrangements have been removed so that the salary sacrificed is subject to (broadly) the same tax as cash income. There are exemptions, including arrangements relating to registered pension schemes, childcare vouchers (now closed to new entrants), Cycle to Work, and ultra-low emission cars.

Overseas workday relief (OWR) / Special Mixed Fund (SMF) Rules

Provided certain conditions are met, non-domiciled employees coming to work in the United Kingdom, and who are claiming the remittance basis, are entitled to OWR for three tax years (i.e. the year of arrival and the two following tax years).

The SMF Rules provide a simplified process for identifying remittances by those claiming OWR. If the SMF Rules do not apply, then strict legislative rules need to be followed on a transaction-by-transaction basis.

To benefit from the SMF Rules, the individual must have their employment income either partially or fully paid into a 'qualifying account'. No other sources of income outside of employment income and any interest that accrues in the account is permitted to be paid into the account. Only one qualifying account may be held at any one time. An account must be nominated to HMRC in writing by 31 January following the end of the tax year in which the relief is claimed. A number of conditions have to be met in order for the account to be a qualifying account, including that it must be an overseas account, have a balance of no more than GBP 10 on the day that the first deposit of 'qualifying earnings' from the employment is paid into the account, and while the account can be held in joint names, only one of the account holders can contribute to it.

Where the conditions set out in the SMF Rules are met, then the individual does not have to apply the normal mixed fund rules to each transaction from their qualifying account to determine what has been remitted to the United Kingdom. Instead, they may treat all the remittances made from that account during the year as if they were a single remittance made at the end of the tax year.

Please note that as per the Spring Budget 2024 section above, proposals have been made for the current tax regime for non-UK domiciled individuals to be abolished from 6 April 2025. At the point of writing, we understand that OWR will still be available for eligible employees in their first three years of UK tax residence, as long as they are eligible for the FIG regime. This relief applies to income from employment duties carried out overseas. *Please see 'Individual - significant developments' for further information regarding expected changes to the taxation of non-UK domiciled individuals.*

Equity compensation

The value of shares given to a director or employee or obtained under a share option plan, as a reward for services, is, in principle, taxable to the employee/director. In practice, the tax treatment and timing of any tax charge will depend on whether shares are received under a tax favoured or non-tax favoured share plan and/or whether there are special features, such as restrictions or conversion rights, affecting the value of the shares.

Business income

If an individual carries on a trade in their own name (i.e. a sole trader), not using a company to trade through, they are considered to be self-employed. Members of a partnership are also considered to be self-employed.

Whereas previously, certain smaller unincorporated businesses (self-employed individuals and partnerships) had the option of calculating their trading profit on a simple cash receipts and payments basis (rather than on an accruals basis), this is now the default method for calculating trading profits for many income taxpayers carrying on a trade (although certain trades are excluded, including trades carried on by a UK LLP, or by a partnership with a corporate partner).

All expenses must be incurred wholly and exclusively for business purposes and exclude the costs of entertaining, the purchase of property, and investments.

In computing their trading profit, the sole trader could have deducted expenditure that HMRC does not allow for taxation purposes (such as those above). Consequently, a number of adjustments may be required to arrive at the trader's taxable profit, e.g. certain expenditure that is disallowable for tax purposes are added back, receipts that are not taxable as trading income are deducted, capital allowances (which are HMRC's equivalent of depreciation) can be deducted.

A trading allowance of GBP 1,000 per year is available to certain individuals. It is not available to partners or close company participators. Where total receipts are not more than GBP 1,000, the allowance is given automatically, no tax is payable, and no income needs to be declared. An election can be made for relief not to apply at all, or for partial relief to apply where receipts exceed GBP 1,000 so that the allowance rather than the actual expenses incurred is deducted from gross receipts.

This gives the 'tax adjusted profit', which is acceptable to HMRC.

Taxable profit is then taxed at income tax rates in the tax year in which the accounting year ends. Specialist advice should be sought for further detail.

For more detail on allowable deductions, see Business deductions in the Deductions section.

It is still possible to calculate profits using the more traditional accruals basis by opting out of using the cash basis. This may be required by banks and other lenders.

The measures come alongside the introduction of simplified expenses for vehicles, use of home for business purposes, and use of premises for home and business. These measures are optional, and the taxpayer can claim a proportion.

Capital gains

Capital gains are subject to CGT. *See Capital gains tax in the Other taxes section for more information*.

Dividend income

The dividend basic rate, higher rate, and additional rate are 8.75%, 33.75%, and 39.35%, respectively.

Any individual who has dividend income can benefit from the dividend allowance, which is GBP 500 as of 6 April 2024. Dividends within the GBP 500 allowance are not charged to tax.

Property income distributions from a UK REIT are taxed as if they were income from a UK property business.

Interest income

There is a starting rate of 0% applicable on savings income (subject to an overall income limit of GBP 5,000), and the most common form of 'savings income' is interest.

Rental income

The taxation of income arising from property will depend on the location of the property and the residence and domicile status of the individual. If the individual is UK resident and UK domiciled or deemed domiciled, worldwide property income will be taxable in the tax year it arises (in a similar way to investment income). If the individual is UK resident but not domiciled in the United Kingdom, income from overseas properties will only be taxable in the United Kingdom if the income is remitted to the United Kingdom, provided the individual has claimed the remittance basis of taxation or the automatic remittance basis applies. If the overseas property is disposed of by a UK resident non-UK domiciled individual, UK CGT will only be due if the proceeds are remitted to the United Kingdom if the remittance basis has been claimed. It should be noted that there are proposals to abolish the non-UK domicile regime from 6 April 2025 and replace it with a residence-based regime. *(See the 'Individual - significant developments' section above for more details)*.

A person's 'UK property business' consists of every business that generates income from land in the United Kingdom and any other transaction that an individual enters into for that purpose. An 'overseas property business' is similarly defined, but by reference to land outside the United Kingdom.

The profits (or losses) of an unincorporated property business (UK and overseas) are generally computed on the cash basis, meaning income and expenses are recognised in the period they are received/paid. There are a few exceptions to this, the main one being where gross income exceeds GBP 150,000 per year, in which case the accruals basis must be used. Irrespective of whether the accruals or cash basis is used, property income retains its nature as investment income as opposed to earnings and does not count as relevant earnings for pension contribution purposes.

From 6 April 2017, the amount of tax relief available on mortgage interest in respect of residential let properties has been tapered down. Tax relief is now allowed at the basic (20%) rate only. Since April 2016, the old 10% 'wear and tear allowance' has been replaced with a relief based on the cost actually incurred in replacing furnishings.

Rent-a-room relief is available where gross annual receipts from letting furnished accommodation in the main or only home are exempt from tax up to a maximum of GBP 7,500 (provided no other taxable income is derived from a trade, letting, or arrangement from which the rent-a-room receipts are derived). The limit reduces to GBP 3,750 if someone else receives income from letting accommodation in the same property, such as the joint owner. The limit is the same even if the accommodation is let for less than 12 months.

If the gross receipts exceed the rent-a room limit, the individual can pay tax on the net receipts after deduction of expenses. Alternatively, the individual can elect to pay tax on the amount by which the gross receipts exceed the limit without relief for the actual expenses incurred.

A property allowance of GBP 1,000 per year is available to certain individuals. It is not available where rent-a-room relief could be claimed. Where total receipts are not more than GBP 1,000, the allowance is given automatically, no tax is payable, and no income needs to be declared. An election can be made for relief not to apply at all, or for partial relief to apply where receipts exceed GBP 1,000 so that the allowance rather than the actual expenses incurred is deducted from gross receipts.

Intellectual property

Royalties and other income from 'intellectual property' are chargeable to income tax. The full amount of such income arising in the tax year is chargeable less expenses incurred wholly and exclusively for the purpose of generating income.

Non-resident investment income

Tax on UK investment income (other than profits from a UK property business) received by someone not resident in the United Kingdom is often reduced or eliminated by a tax treaty. Even where no treaty relief is available, the UK tax liability of a non-resident on certain 'excluded income' cannot exceed the tax (if any) withheld or deducted at source or treated as deducted at source. 'Excluded income' includes dividends from UK companies, interest income, and certain social security benefits.

Exempt income

Very little income is exempt from UK tax; however, some examples of exempt income include:

- lottery and betting winnings
- most gifts
- income from individual savings accounts (ISAs), and
- the first GBP 30,000 of some employment termination payments.

Individual savings accounts (ISAs)

The overall annual subscription limit is GBP 20,000 for the 2024/25 tax year, this limit has remained the same since 2017/18.

There are four types of ISA:

- Cash ISA
- Stock and shares ISA,
- Innovative finance ISA
- Lifetime ISA.

The GBP 20,000 limit is shared between subscriptions to all types of ISA in each tax year. Generally subscriptions can be made to multiple ISAs in any combination, provided the amount invested is within the overall annual limit. The only exception to this is the Lifetime ISA which has an annual limit of GBP 4,000 per year. The Lifetime ISA limit counts towards the GBP 20,000 allowance. The Junior ISA limit for 2024/25 is GBP 9,000 which has not changed since 2020/21.

The exemption applies to both income tax and capital gains tax i.e. both interest and dividends earned from ISAs as well as any gains arising on stocks and shares held in an ISA are exempt from UK tax.

Individual - Deductions

Employment expenses

Necessary business expenses (which are very narrowly defined) can be deducted from employment income and are not taxable if paid for or reimbursed by the employer. Travel to and from work is regarded as a private rather than a business expense and is not deductible. However, individuals assigned away from their permanent places of work for periods of up to 24 months may claim relief for the travel and subsistence costs associated with attendance at the temporary workplace. Reimbursement for business entertainment and for qualifying removal and relocation expenses of up to GBP 8,000 are not normally taxable, provided certain conditions are met.

Personal deductions

Charitable contributions

Basic rate tax relief is available for gifts to UK charities under approved payroll deduction schemes and by way of outright money gifts and charitable payments made under deeds of covenant or under the gift aid scheme. Higher-rate taxpayers can again claim higher rate tax relief through their tax returns under the UK self-assessment regime.

The IHT rate applied to death estates where the deceased leaves 10% or more of their estate to charity is reduced to 36% (normally 40%).

There is also a tax relief to encourage gifts of 'pre-eminent works of art' to the nation. The rules grant up to 30% relief on income tax or CGT to donors who give away major works of art or historical objects to the nation.

Expenses that do not qualify for tax relief

No tax relief against income is available for the following:

- Alimony.
- Medical expenses.
- Childcare.
- Social security contributions.
- Council tax.
- Other UK taxes.
- Most insurance premiums.
- Mortgage interest payments (some relief for commercially let properties).
- Fines and penalties (except for fines, such as parking penalties, incurred in the course of a trade).
- Contingent liabilities.

Planning for retirement

Any UK resident individual who is under 75 can participate in a UK registered pension scheme.

There is no limit to how much individuals and employers can contribute to pension schemes. However, the annual allowance imposes a limit on the level of contributions that may be made tax efficiently. Non-UK residents may participate in a UK registered pension scheme; however, the scheme's own rules might restrict membership to a narrower class (e.g. UK tax residents) than is required by HMRC.

Employers' contributions do not create a taxable benefit in kind on employees (*but see the description of the annual allowance below*), and individuals can get tax relief on their own contributions to pension schemes up to their full level of UK taxable employment earnings (including self-employment earnings), although a claw back will operate to the extent that the annual allowance is exceeded.

There are two different methods of giving tax relief for employee contributions. For most schemes run by employers for their employees, the employer deducts the employee's contribution from gross pay, at source, before calculating the withholding tax (WHT) on wages under pay-as-you-earn (PAYE). In respect of all personal pension schemes, the individual's contribution is paid from after-tax earnings and, if the individual pays UK income tax, is paid to the scheme administrator after the deduction of basic rate UK income tax of 20%. The scheme administrator claims back this basic rate tax (i.e. claims 20 for every 80 paid in by the individual) and pays this into the pension scheme. If the individual is a higher rate or additional rate taxpayer, the extra tax-relief between higher/additional rate tax and the basic rate tax already reclaimed by the scheme administrator can be claimed by the individual through their self-assessment tax return after the end of the tax year. The amount of tax relief due is identical whichever method is used.

In addition to the consideration of the extent of any employment income, contribution tax relief is also restricted by the annual allowance, which is currently GBP 60,000 annually. Since April 2016, those with total taxable income of more than GBP 150,000 have had a reduced annual pension contribution allowance, effectively restricting their tax relief on pension contributions. From April 2020, the size of the annual allowance was gradually reduced from GBP 40,000 to GBP 4,000 for those whose taxable income plus the value of any employer contributions to a pension scheme was GBP 240,000 a year or more. From April 2023, the size of the annual allowance is gradually reduced from GBP 60,000 to GBP 10,000 for those whose taxable income plus the value of any employer contributions to a pension scheme is GBP 260,000 a year or more.

It is also possible to carry forward unused annual allowance from the previous three tax years (where individuals were members of a pension scheme in those earlier years). Limits are also imposed for contributions made to, and the increasing value of active membership of, a defined benefit scheme. Individuals who exceed their annual allowance may face an annual allowance tax charge. Where this charge is over GBP 2,000, they will in most cases be able to elect for their pension scheme to pay their charge in return for a reduction to their benefits within the scheme.

There is also a lifetime allowance, but this was abolished as part of the 2023 Spring Budget. The lifetime allowance governed the amount of pension savings that could be accumulated by an individual tax efficiently in their lifetime. Any excess was subject to a lifetime allowance tax charge. The lifetime allowance was GBP 1,073,100 when it was abolished.

Defined contribution (DC) pensions (e.g. personal pensions)

Since April 2015, new rules in relation to DC pension schemes have been in force. The new rules affect those over 55 who have a DC pension scheme, such as a personal pension. A DC scheme is one in which the pension you receive depends on the amount of money you, and/or your employer, have saved in the scheme.

Since April 2015, from the age of 55, whatever the size of a person's DC pension pot, they can take it as they wish, subject to their marginal rate of income tax in that year. The minimum age will be increased from 55 to 57 from 6 April 2028 but with some grandfathering provisions for some existing DC pension pots.

The first 25% of any money withdrawn from the pot, up to GBP 268,275 (higher amounts may be available to those who have previously registered for a personal enhanced lifetime allowance with HMRC) is tax-free, and the rest is taxed as the top slice of income in the tax year of withdrawal.

Everyone with a DC pension aged currently over 50 is eligible for free and impartial guidance on the range of options available to them at retirement.

Pensions: Death before 75

If the individual dies before they reach the age of 75, they will be able to give their remaining DC pension to anyone completely tax free.

The person receiving the pension will pay no tax on the money withdrawn from that pension, whether it is taken as a (capped) lump sum, or accessed through drawdown.

Pensions: Death after age 75

Anyone who dies with a drawdown arrangement or with uncrystallised pension funds at or over the age of 75 is able to nominate a beneficiary to pass their pension to.

The nominated beneficiary is able to access the pension funds flexibly, at any age, and pay tax at their marginal rate of income tax.

There are no restrictions on how much of the pension fund the beneficiary can withdraw at any one time. If the fund pays out a lump-sum benefit on death and the deceased was over age 75, then the lump sum will be subject to tax. If paid to a beneficiary who is not a natural person (e.g. payment is made to a trust or to a company), the lump-sum payment will be subject to a tax charge of 45%. If paid to a natural person, the lump sum will be taxed at the individual's marginal rate of income tax.

Foreign pensions

At 5 April 2017, the tax treatment of foreign pensions was aligned, bringing foreign pensions and lump sums fully into tax for UK residents, in the same way UK pensions are taxed. This means that from 6 April 2017, 100% of foreign pension income is to be subject to UK income tax, abolishing the ‘90% rule’ (or 10% deduction). A number of other changes to specialist foreign pensions and situations have also come into force.

Personal allowances

Most UK resident individuals under the age of 65 are entitled to a tax-free personal allowance, which is GBP 12,570 for 2024/25. The basic personal allowance is subject to limits based on income levels. Where an individual’s gross income exceeds GBP 100,000, the amount of the personal allowance will be reduced by GBP 1 for every GBP 2 earned above adjusted net income of GBP 100,000. This means your allowance is zero if your income is GBP 125,140 or above. Adjusted net income is total income less certain deductions, such as trading losses, pension contributions, and gift aid, but before deduction for contributions to trade unions or police organisations.

Individuals who claim the remittance basis of taxation do not qualify for a personal allowance (*see The remittance basis of taxation in the Taxes on personal income section for more information*).

Marriage allowance

An individual who is not liable to income tax or not liable above the basic rate for a tax year is entitled to transfer GBP 1,260 in 2024/25 of their personal allowance to their spouse or civil partner, provided that the recipient of the transfer is also not a higher rate income taxpayer.

Married couples and those in civil partnerships are entitled to a married couple’s allowance where either member of the couple was born before 6 April 1935.

Business deductions

A wider range of expenses can be claimed by self-employed individuals as long as they are 'wholly and exclusively for the purposes of the trade'. Expenses incurred when entertaining clients or potential clients are not tax deductible. Capital items will not get an immediate deduction in the year they are purchased, but certain items may qualify for deductions spread over a number of years under the capital allowances regime. Depreciation recorded in the accounts is not tax deductible. Bad debts incurred in the course of business are allowable for tax purposes. Loans to employees that have been written off are specifically not allowable.

The accruals and prepayment basis of calculating expenses for accounting purposes (i.e. preparation of the business profit and loss account) is generally accepted for tax purposes. Exceptions include accrued emoluments to employees, which must be paid within nine months of the year end. In addition, pension contributions are only tax deductible on a paid basis. The rules for accounting for contingent liabilities and provisions are governed by Financial Reporting Standard 12. Consequently, a tax deduction is only allowable for provision for which there is a present obligation as a result of a past event which will probably be incurred in the future and can be reliably estimated. Specifically, this means that a tax deduction for future repairs is not permitted except where an asset is held under an operating lease. A tax deduction cannot be taken for future operating losses, and future restructuring costs are only permitted where at the balance sheet date the business has a detailed formal plan for the restructuring and expectations have been raised that changes will take place (e.g. by informing all employees).

Losses

Losses may be sustained by individuals carrying on a trade, profession, or vocation. These trading losses are generally computed according to the same rules that apply in computing taxable profits. The main ways of obtaining relief for trading losses are by setting losses off against general income of the same tax year (subject to various conditions being met) or preceding year or by carrying the losses forward against subsequent profits of the same trade. There are also special rules for using losses in the first and last years of a business and against capital gains. Relief can also be claimed against income for losses on shares in unlisted trading companies. There are certain businesses where the set off of losses is restricted, such as farming.

Cap on income tax reliefs

Income tax reliefs not subject to a specific restriction are capped. The cap is GBP 50,000 or 25% of an individual's income, whichever is greater.

Charitable donations are excluded from the cap to make sure that there is no impact on charities. The reliefs affected by the cap include income loss reliefs that can be claimed sideways against general income and qualifying loan interest relief. The cap is (i) not extended to those reliefs that are already subject to their own cap and (ii) only applied to those reliefs that are used to reduce the amount of general income liable to tax. Reliefs that do not meet both these criteria are not affected by the cap. The legislation states that share loss relief on enterprise investment scheme (EIS) shares and seed EIS shares is not capped.

Buy-to-let mortgages are subject to specific restrictions under which relief for the costs of financing residential properties has been phased out. From 2020, landlords can make a claim to reduce their income tax liability by an amount up to 20% of the finance costs.

Impact

- Losses on unincorporated property development businesses that have previously been available to offset against other income are subject to the cap. These changes may mean incorporating the business is an attractive prospect although there may be other reasons not to do so.
- Pension contributions are already capped and so are not affected by this measure.

Transactions with related parties

Transactions between connected persons, or made not at arm's length, are generally regarded as made for a consideration equal to open market value (subject to special treatment for transfers between spouses or civil partners living together). Where an asset is disposed of to a connected person (other than the individual's spouse or civil partner) and a capital loss arises, the loss may not be set against general gains but only against a later gain on a transaction with the same connected person. There are specific rules for disposals on different occasions within a period of six years to one or more connected persons.

Individual - Foreign tax relief and tax treaties

Foreign tax relief

UK residents are usually able to claim a credit for foreign taxes suffered on overseas income or gains that are taxable in the United Kingdom. This is either under an applicable tax treaty or UK unilateral relief. In some circumstances, the taxpayer can elect for the foreign tax to be deducted from the taxable amount in the United Kingdom as an alternative to having a credit for the foreign tax suffered.

The remittance basis charge (RBC) is in addition to the tax liability arising on the income and gains remitted to the United Kingdom. As the GBP 30,000/60,000 is a tax (on either income or capital depending on the funds nominated), it should be accepted as income tax or CGT by other jurisdictions for the purposes of tax treaties. In respect of United States (US) citizens, the US Internal Revenue Service (IRS) has confirmed that the RBC is a creditable foreign tax.

Nominating income or gains in relation to the GBP 30,000/60,000 RBC is a complex specialist area, and further advice should be sought where necessary.

Tax treaties

The United Kingdom has one of the largest networks of tax treaties, with more than 100 countries. These conventions aim to eliminate double taxation of income or gains arising in one territory and paid to residents of another territory. They work by dividing the tax rights each country claims by its domestic laws over the same income and gains. Most treaties are based on the Organisation for Economic Co-operation and Development (OECD) Model Taxation Convention.

The OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS) (the 'Multilateral Instrument' or 'MLI') entered into force in the United Kingdom on 1 October 2018 and will have a fundamental impact on how taxpayers access double tax treaties (DTTs) to which it applies. It began to apply (e.g. in relation to WHT) from 1 January 2019 to the UK’s DTTs with those territories that have also ratified before 1 October 2018, where those are covered tax agreements. The precise dates on which the MLI will begin to have effect for other purposes, or in relation to other DTTs, will depend upon when other treaty partners submit their instruments of ratification with the OECD and what options and reservations they have submitted.

Tax information exchange agreements (TIEAs)

TIEAs have been entered into to promote international co-operation in tax matters through exchange of information.

The United Kingdom has entered into reciprocal agreements relating to the European Union (EU) Directive on taxation of savings income in the form of interest payments with a number of countries. The United Kingdom has also entered into a number of non-reciprocal agreements relating to the EU Directive on taxation of savings income in the form of interest payments.

The United Kingdom has made a number of bilateral agreements for cooperation in tax matters through exchange of information.

Social security agreements

The United Kingdom has treaties with many countries with regard to social security. Individuals coming from countries with which the United Kingdom does not have a reciprocal arrangement may alternatively qualify for a 52-week exemption from UK social security if assigned to the United Kingdom by an overseas employer.

Individual - Other tax credits and incentives

Investing in business

Business asset disposal relief (BADR) - formerly Entrepreneurs' Relief (ER)

BADR applies to an individual's gain in respect of a disposal of certain assets and provides a 10% rate of CGT on qualifying lifetime gains rather than the main CGT rate (normally 20%). The limit of gains per individual that can qualify for BADR is GBP 1 million and this is a cumulative lifetime limit. BADR is often relevant to employees owning shares, as it applies, subject to meeting the qualifying conditions, to shares acquired on exercise of Enterprise Management Incentive (EMI) options as well as to shareholdings in a 'personal company'. A personal company is a company in which an employee or director owned at least 5% of the share capital and votes and:

- For disposals from 6 April 2019, all the relevant conditions have been met for a two-year period prior to disposal (prior to this it was 12 months).
- With effect from 29 October 2018, two further tests were added to the definition of personal company, which require a 5% interest in distributable profits and net assets of the company, as well as nominal share capital and votes.

The changes affecting 5% shareholdings are not relevant to shares acquired on the exercise of EMI options, as the 5% tests do not apply, but the change of holding period from one year to two years does apply in all circumstances.

Business Property Relief (BPR)

Business Property Relief (BPR), also known as Business Relief, provides relief from Inheritance Tax (IHT) at rates up to 100%, subject to certain conditions being met. Broadly, to qualify for BPR, the business must be engaged in mainly trading, rather than investment activities (or be the holding company of a trading group). There is a minimum ownership period, usually two years. Additionally, certain assets (known as 'excepted assets') restrict the amount of relief available if the asset is not used wholly or mainly for the purposes of the business concerned. A common example of this is large cash reserves. Property subject to a binding contract for sale will also not qualify for BPR.

The relief operates to reduce the proportion of the value of relevant business property that is chargeable (or potentially chargeable) to IHT. The rate of relief is 100% or 50%, depending on the nature of the asset and applies to transfers of value in life or on death.

The rules are complex with many pitfalls so personalised advice should always be sought.

Investors' Relief (IR)

IR allows investors to enjoy a lower rate of tax of 10% on lifetime gains of up to GBP 10 million on investments into newly issued shares in non-listed trading companies, which are issued after 16 March 2016 and held for at least three years before a disposal. This relief is separate to BADR. Although IR has some similarities to BADR, the relief is restricted to external investors only and is more akin to EIS relief discussed below, although with fewer restrictions over the type of company that can qualify and how investments are structured.

Business investment relief

Business investment relief is available for UK resident, non-UK domiciled individuals. It provides an opportunity for non-UK domiciled individuals, who are claiming, or have claimed, the remittance basis, to make remittances to invest in qualifying businesses without triggering a UK tax charge on the remitted income and gains. A qualifying investment is broadly investment in a private trading company (including holding companies of such companies) and can be made by way of acquiring shares or securities, or by providing a loan, to the qualifying company. Care is needed before any money is remitted for this purpose, as there are strict rules to adhere to in order to be eligible for the relief, both at the point of making the investment and throughout the lifetime of the investment being in place.

Enterprise investment scheme (EIS)

Investments in companies that qualify under the EIS can benefit from income tax, CGT, and IHT reliefs. EIS qualifying companies must be approved by HMRC.

EIS income tax relief

Investments of up to GBP 1 million (GBP 2 million if at least GBP 1 million is into Knowledge Intensive Companies (KICs)) into qualifying EIS companies will get 30% income tax relief, provided that the investor or any of their associates are not 'connected' with the company. This broadly means the investor and certain family members cannot hold more than 30% of the shares or be an employee (or director, except in certain specific circumstances) of the company. A qualifying company can receive up to GBP 5 million of investment via EIS in any given 12-month period, increased to GBP 10 million if the company is also a KIC. There is also a lifetime limit of GBP 12 million (GBP 20 million for a KIC).

EIS disposal relief

If the investment qualified for income tax relief and this has not been withdrawn, then provided the shares are held for three years there is no CGT due on the gain on the EIS shares.

EIS reinvestment relief

Gains on the disposal of any asset can be deferred if the proceeds of the sale of the asset are reinvested into qualifying EIS shares within the prescribed time period. To qualify for EIS reinvestment relief, the individual must be UK resident but can be connected with the company (unlike the position with EIS income tax relief where broadly they cannot). There is no limit on the amount of reinvestment relief (unlike EIS income tax relief). The deferred gain comes back into charge in a number of situations, including if the individual becomes non-UK resident or if the EIS shares are sold or cease to qualify as EIS shares.

Inheritance tax (IHT) business property relief (BPR)

EIS shares that have been held for two years may qualify for complete IHT relief under the BPR provisions, subject to all the conditions being met.

Venture capital trusts (VCTs)

VCTs are listed vehicles that, in essence, invest in a number of underlying EIS type companies (thus investors sometime choose VCTs over EIS companies as a way of diversifying their portfolio). Income tax relief is again given at 30% of the investment made, and gains made on the investment are tax free. In addition, dividends from ordinary shares in VCTs are income tax free up to the permitted maximum (currently GBP 200,000).

EIS and VCT investments are subject to a 'disqualifying purpose' test, which is designed to exclude companies set up for the purpose of accessing the tax reliefs.

Specifically, there is an exclusion on the use of VCT and EIS funds for the acquisition of shares in another company as funds raised must be used for the long-term growth and development of the business.

Individual - Tax administration

Taxable period

The tax year commences on 6 April and ends on the following 5 April in the United Kingdom.

Tax returns

The United Kingdom has a self-assessment (SA) tax system. As part of this system, the majority of UK taxpayers settle their tax liability entirely through tax withheld at source on earnings and savings and do not need to make any further declarations. However, around a third of taxpayers need to complete a tax return, which will be issued by HMRC each year. Married taxpayers and those in civil partnerships are independently taxed and responsible for their own affairs, and each files their own return.

Tax returns must be filed, and all outstanding tax paid, by 31 January following the end of the tax year. This filing deadline is brought forward to 31 October after the end of the tax year for individuals who are filing on paper (although the tax is still due by 31 January). The UK SA system is moving towards being fully online, and paper returns are now only accepted in limited circumstances.

HMRC have recently issued a number of consultation documents to consider ideas such as more timely tax payments and the use of third-party data.

The deadline for either a UK resident disposing of UK property not covered by CGT main residence relief or a non-UK resident notifying HMRC of a disposal of UK property or an interest in a property-rich company is 60 days after the completion of the sale. Penalties will be charged if this deadline is missed, even if no tax was due.

Making Tax Digital for Income Tax Self Assessment (MTD ITSA)

The UK government has announced that UK taxpayers who currently report income on the land and property pages, self employment pages and property section of the foreign pages of the self assessment tax return will be required to enter a new reporting regime under MTD ITSA. The new regime includes mandatory digital record keeping and the filing of quarterly updates in respect of these qualifying sources of income. A year end return will be required for MTD ITSA sources and all other income, as it is now under self assessment.

Impacted UK taxpayers will be required to enter the MTD ITSA regime from 6 April 2026 if their combined turnover from the above qualifying sources are in excess of £50,000. UK taxpayers with combined turnover from these sources between £30,000 and £50,000 will be required to join from 6 April 2027.

Payment of tax

Income tax is normally withheld at source from salaries under the PAYE system. PAYE for expatriates can be a complex area. In principle, the worldwide earnings for a UK resident employee should be subjected to PAYE, but there are a number of special schemes and reliefs that can be used to help deal with the issues this may cause. These schemes can allow PAYE to be operated on an estimated or, in some cases, an annual basis, limit PAYE to expected UK earnings, and, in some situations, to remove the obligation to operate PAYE at all. Further advice should be sought as penalties apply for the incorrect operation of PAYE.

Savings income from most other UK sources is received either gross or after basic rate tax has been deducted. Under the self-assessment regime, any tax not collected through withholding is paid by payments on account (*see below*) and the final balancing payment due on 31 January after the end of the tax year. CGT is due by 31 January following the tax year in which the gain arose, unless in respect of residential property where the deadline is 60 days from the completion date.

Individuals who do not pay at least 80% of their income tax liability at source are required to make tax payments on account for the year, based on the level of income in the previous tax year. Payments on account are due in two instalments, on 31 January during the tax year and on 31 July following the tax year. Any outstanding tax due is payable by the filing deadline of 31 January after the end of the tax year.

Employers are required to notify HMRC of total pay, benefits, and expenses paid or reimbursed, and the employee then makes a claim for allowable business expenses.

Penalties

Automatic penalties are charged where returns are filed late and also where the tax is paid late, and interest is chargeable where tax is paid late. There is a penalty regime specifically intended to reduce the UK tax lost through offshore transactions and structures. The highest penalty is up to 200% of the undeclared tax, and, in certain circumstances, persons guilty of an offence can be subject to a fine or to imprisonment.

Tax audit process

HMRC is able to enquire into an individual's tax return and anything (including any claim or election) contained in it. HMRC must give notice that shows an intention to enquire into a tax return within 12 months of the return being filed (as long as the return has not been filed late). If the return has been delivered to HMRC after the filing date, an enquiry must be made by the 'quarter day' next following the first anniversary of the delivery date. 'Quarter days' are 31 January, 30 April, 31 July, and 31 October.

Where HMRC considers tax to have been lost, it will seek to recover that tax, and, in such cases, the normal time limits for making discovery assessments are extended where tax has been lost as a result of a taxpayer's (or their agent's) deliberate or careless conduct (*see Assessing time limits below for more information on normal time limits*).

Assessing time limits

The normal time limit for making assessments is four years following the end of the tax year. This is termed a 'discovery' assessment. The time limit for making an assessment on a person in a case involving a loss of income tax brought about 'carelessly' by that person is six years following the end of the tax year. This is the position unless it is in respect of an 'offshore matter' or an 'offshore transfer', under which HMRC will have at least 12 years to enquire. The time limit for making an assessment on a person in a case involving a loss of income tax brought about deliberately by that person or where they failed to notify chargeability is 20 years following the end of the tax year.

Topics of focus by the UK tax authorities

HMRC looks very carefully at a claim to be non-UK domiciled, especially if the individual has been resident in the United Kingdom for a number of years. Individuals must be able to demonstrate to HMRC, with strong evidence, the reasonably foreseeable circumstances in which they will leave the United Kingdom to be able to show they are non-UK domiciled.

The UK tax authorities have a 'spotlight' system that highlights the characteristics of tax planning that they ask taxpayers to be wary of and warn that they are likely to look into if implemented. Some of the characteristics include:

- artificial or contrived arrangements are involved
- it seems very complex given what you want to do
- there are guaranteed returns with apparently no risk
- there are secrecy or confidentiality agreements
- taxation of income is delayed or tax deductions accelerated
- offshore companies or trusts are involved for no sound commercial reason
- a tax haven or banking secrecy country is involved without any sound commercial reason
- tax exempt entities, such as pension funds, are involved inappropriately
- it involves money going in a circle back to where it started, and

- the scheme promoter lends the funding needed.

In addition, the tax authorities have identified specific tax planning schemes that are likely to be challenged.

Anti-avoidance

The United Kingdom has a large number of targeted anti-avoidance rules, such as those dealing with 'disguised remuneration', 'personal service companies', and 'enveloped dwellings'. It has also introduced a general anti-abuse rule (GAAR). *See General anti-abuse rule (GAAR) in the Tax administration section of the Corporate tax summary for further information.*

Disclosure of Tax Avoidance Schemes (DOTAS)

The DOTAS regime is designed to enable HMRC to proactively tackle attempts to avoid tax and introduced the concept of 'notifiable arrangements'. The term 'arrangements' is widely defined and includes any scheme, transaction, or series of transactions. Promoters and users of schemes that, in summary, contain defined 'hallmarks' of tax avoidance and provide a tax advantage are required to notify HMRC of the arrangement when it is first marketed

Accelerated tax payment

There is legislation where HMRC can, if they so wish, extend the accelerated payment of tax to users of arrangements disclosed under the DOTAS rules, and to taxpayers involved in planning held to contravene the GAAR, so that the tax amount in dispute is held by HMRC until the dispute is resolved. Legislation can also potentially be applied that requires taxpayers who have used arrangements that are defeated in another party's litigation to pay the disputed amount to HMRC on demand.

Personal tax offshore anti-avoidance legislation

The United Kingdom has anti-avoidance rules that are broadly designed to attribute the income of a 'person' abroad (e.g. a non-UK company or trust) to either an individual who transferred the funds to the person abroad and has the power to enjoy the income of the overseas person (e.g. they hold shares) or an individual who received a benefit from the person abroad. These rules are referred to as the 'Transfer of Assets Abroad' provisions, and they only apply to UK resident individuals. HMRC must be notified within 6 months following the end of the tax year in which an individual becomes chargeable to income tax or CGT. If not, this can be a criminal offence (if tax due is more than GBP 25,000).

The requirement to correct (RTC) and failure to correct (FTC)

After 30 September 2018, taxpayers (including non-UK resident trustees and non-resident landlords) that ‘failed to correct’ are subject to a range of significant penalties in respect of any errors that come to light in respect of income tax, CGT, and IHT (but excluding corporation tax).

Penalties

Where a taxpayer has failed to correct an error or notify a liability within the statutory window, the new regime post September 2018 will impose the following penalties:

- A penalty of between 100% and 200% of the tax. The penalty will apply regardless of the reason for the error for years up to and including 2015/16.
- Potential asset-based penalty of up to 10% of the value of the relevant asset where the tax at stake is over GBP 25,000 in any tax year.
- Potential 'naming and shaming' where over GBP 25,000 of tax per investigation is involved.
- A potential additional penalty of 50% of the amount of the standard penalty if HMRC could show that assets or funds had been moved to attempt to avoid the RTC.

The RTC and FTC apply to any tax error arising from offshore financial interests or in respect of offshore transfers; it is not limited to those who have deliberately or carelessly failed to pay the right amount of tax. The regime applies to anyone who has relevant UK tax liabilities, which would include non-UK resident trustees and non-resident landlords.

The RTC and FTC regimes only apply to inaccuracies or failures that arose prior to 30 September 2018; however, for subsequent tax periods, HMRC have alternative extended assessing time limit and penalty powers.

Individual - Sample personal income tax calculation

Tax computation for 2024/25 for a single individual (employee) resident in England, Wales, or Northern Ireland.

Tax computation	**GBP**	**GBP**
Earned income:		
Salary	160,000	
Benefits	15,000	
Total earned income		175,000
Less - Personal deductions		
Personal allowance (where available) *	12,570	
Less: Phase out where income exceeds GBP 100,000	(12,570)	0
Taxable net income		175,000
Tax due:		

Tax computation	GBP	GBP
GBP 0 to 37,700 @ 20%	7,540	
GBP 37,701 to 125,140 @ 40%	34,976	
Over GBP 125,140 @ 45%	22,437	
Total tax due		64,953

* The personal allowance is not available to any taxpayer claiming the remittance basis.

Individual - Other issues

Business entities

The principal forms of doing business in the United Kingdom are as follows:

Unincorporated businesses

'Sole traders' are self-employed individuals who are carrying on a trade. Whether a person is trading in comparison to making investments is not set out in the legislation and is the subject of considerable case law in the United Kingdom. There are 'badges of trade' that provide guidance to determine whether they should be taxed as running a trading business or simply making investments. As noted in the section on income tax, a sole trader is charged to income tax on their chargeable trading income along with their other sources of income.

Partnerships

As a matter of UK partnership law, a partnership exists if two or more people are carrying on business together with a view to making a profit. There is no separate tax definition of partnership. For tax purposes, a general or limited partnership formed under UK law is transparent and not an entity that is separate and distinct from the partners. A partnership's taxable profits are computed and then allocated to the individual partners in accordance with the profit-sharing ratio. Scottish partnerships have different legal characteristics from those formed in other parts of the UK, but the tax treatment is the same.

A limited liability partnership (LLP) is subject to different legal provisions from other kinds of partnership. The LLP itself is a separate legal entity, and the partner's exposure to losses is limited. UK LLPs are treated as partnerships for UK tax purposes so long as they carry on a trade or business.

When considering an individual's status as a partner in an overseas partnership or LLP, the UK authorities will not be bound by how the entity is classified in its country of origin. Case law has determined a number of matters that should be considered when establishing whether a non-UK entity should be taxed in the United Kingdom as if it were a company or a partnership (which means that a UK-resident partner of a foreign partnership could be treated as if they had an ownership interest in a corporate entity). HMRC also maintains a public list of non-UK entities and the decisions it has previously made regarding their classification, although the guidance in this list is not binding on HMRC. However, if the parties have flexibility regarding the constitution of such entities, then their classification may be viewed differently, either by HMRC or the courts. This area is complex; consequently, specialist advice should be sought.

There are a number of different types of partner. Common examples are (i) full partner: also referred to as an 'equity partner' where the individual shares fully in the profits and losses of the partnership and takes an active role in running the partnership; (ii) salaried partner: a person who is held out to be a partner but is actually on a fixed salary rather than having the advantage/risk of a share in all the profits and losses; (iii) sleeping partner: a partner who takes no active role in the partnership but shares in the profits/losses; and (iv) member in an LLP.

A partner in a trading partnership is generally treated as self-employed for UK tax purposes. However, in the case of UK LLP's, the business must apply a series of tests (at least once per year) to its partners to ensure that they are self-employed, rather than employed. In essence, this tests whether an individual has risk and can be rewarded from being a partner in a business.

A mixed member partnership is one that has individuals and companies as members. Anti-avoidance rules can, in certain circumstances, reallocate (for UK tax purposes) profits from a corporate partner to an individual where the individual could confer some benefit from the corporate partner's profit share. Similarly, these provisions can reallocate an individual's share of losses to a corporate partner.

Basis period reform

The UK government has brought in significant changes to the way self-employed individuals are taxed on trading profits. The changes are called ’basis period reform‘. Note that the new measures do not impact the UK taxation of non-trading income or capital gains.

Basis periods: The old rules

The old rules were introduced in the tax year ending 5 April 1996. For continuing partners, they were taxed on their share of the taxable profits for the 12-month accounting period ending in the tax year. There were special rules for new partners. For the first tax year of joining a partnership, they were taxable on their share of the profits from the date of joining to the following 5 April. Following the above example, a partner joining on 1 January 2021 will be taxed on their share of taxable profits from 1 January 2021 to 5 April 2021, in 2020/21. The first tax payment would be due on 31 January 2022. In year two (2021/22), they would be taxed on their taxable profits for the 12 months to 31 December 2021, with the balancing payment (after the payments on account paid in January 2022 and July 2022) due on 31 January 2023. Part of the partner’s profits from 1 January 2021 to 5 April 2021 have therefore been taxed twice. These are overlap profits. They will be deductible from the partner’s taxable profits in three situations: the tax year they leave the partnership, if the partnership moves the accounting date closer to 5 April, or the partner either comes to or leaves the United Kingdom.

Basis period reform: The rules from 2024/25

From 2024/25, all partners will be assessed on their taxable profits for the tax year, rather than for the 12-month accounting period. The UK partner in a partnership with a 31 December year-end will be taxed on the following in 2024/25:

- 9 months of taxable profits from year-ended 31 December 2024 (6 April 2024 to 31 December 2024).
- 3 months of taxable profits from year-ended 31 December 2025 (1 January 2025 to 5 April 2025).

A non-UK partner will be assessed on the same basis, but only to profits arising from the United Kingdom.

The calculation of the assessable taxable profits is a time-apportionment of the full 12-month accounting period. It is not possible to take the partner's share of the profits for the 3 months to 5 April 2025.

For partnerships with year-ends between 31 March and 4 April, it is possible to treat them as if the year-end is coterminous with the tax year to prevent partners needing to estimate profit shares for 1 to 5 days under the new rules.

Transition to the new rules: 2023/24 tax year

A partner's taxable profits for the 2023/24 tax year will consist of two parts:

- the standard part (12 months to 31 December 2023), plus
- the transition part (3 months to 5 April 2024, less overlap profits).

Companies

A company is a separate legal entity from the people who control it or work for it. A business run by an individual or partners (above) can be incorporated into a company at any time, and a completely different tax regime will apply (*see the Corporate tax summary for more information*).

Treatment of trusts

Trusts under English law have evolved over several centuries. They can be divided into 'express' trusts, which are expressly created by deed or will, and 'implied' trusts, which are imposed by law or equity. Express trusts are used by individuals for a wide range of purposes, including the control of the use and destination of property, provision for those incapable of holding property for themselves, provision of benefits to employees, and charitable and educational trusts. The tax treatment of trusts has undergone significant changes over time, and there remain few tax reasons for transferring property into non-UK resident trusts for UK resident and domiciled individuals. Non-UK resident trusts are, however, frequently used by non-UK domiciled individuals. UK resident trusts continue to be used by UK domiciled/resident individuals as a means to provide for children/grandchildren whilst retaining an element of control over the assets.

UK legislation currently provides a specific regime for non-UK domiciled individuals setting up non-UK trusts with their overseas assets in that tax is broadly only due when payments/benefits are received from the trust. Capital payments, including benefits from non-UK resident trusts, are broadly matched to trust income and gains if the beneficiary is a UK tax resident. The rules are very complex and specialist advice should be sought in this area.

Under the proposed changes to the taxation of non-UK domiciled individuals, from 6 April 2025 income and gains arising to 'settlor interested trusts' will be taxable on the settlor if they are UK resident. The current IHT position of non-UK resident trusts may also be changed with the introduction of the new regime.

The potential impact of the new rules on existing and planned non-UK resident trusts, is expected to be significant and specialist advice should be sought on this matter.

Trust register - 5th Anti-Money Laundering Directive (5MLD)

The 4th anti-money laundering directive (4MLD) was enacted into UK law by the Money Laundering Terrorist Financing and Transfer of Funds Regulations 2017. This introduced requirements:

- for trustees to maintain accurate and up-to-date records, in writing, of all of the beneficial owners (and potential beneficial owners) of a trust, and
- for HMRC to maintain a register of beneficial owners (and potential beneficial owners) of taxable relevant trusts

To comply with the second requirement, HMRC launched The Trust Registration Service (TRS).

Further regulations were introduced on 6 October 2020 to implement the 5MLD. These regulations widened the scope of the TRS and extended access to the information provided beyond law enforcement agencies. Subsequently, in January 2023, HMRC changed their published practice and no longer exclude UK trusts that are collective investment schemes.

Which trusts are included in the TRS?

The 5MLD removed the previous link between the TRS and taxation. All express trusts are required to register under the TRS unless they are specifically defined as 'out of scope'. In addition to UK resident trusts, HMRC envisages that any trust deemed to be administered in the United Kingdom are required to register. Their view is that a trust is 'deemed to be administered in the United Kingdom' if:

- they have one UK trustee, or
- where a trust is not required to register in another EU member state and enters into a business relationship with an 'obliged entity' in the United Kingdom or acquires real estate in the United Kingdom.

There is a wide definition of 'obliged entity' for these purposes. It includes banks, accountants, and law firms.

What information is required?

The 5MLD provides a distinction between the information required for trusts with an obligation under 5MLD and 'taxable trusts' (which would have been required to register under 4MLD). All trustees required to register under the TRS must provide the following for the relevant trust:

- Its name.
- The date it was settled.
- Its tax residence.
- The place it is administered and a contact address.
- The value of assets at the time of registration.

Trustees required to register that are not 'taxable trusts' must provide the following information to HMRC in respect of individuals who are defined as 'beneficial owners'. The definition of beneficial owner includes settlors, trustees, and beneficiaries in certain circumstances (i.e. the recipient of a distribution from a discretionary trust and, for an interest in possession trust, the income beneficiary):

- Their full name.
- Month and year of birth.
- Country of residence.
- Nationality.
- Nature and extent of the individual's beneficial interest (to include a note of whether the individual is a settlor, trustee, or beneficiary).

Taxable trusts will also be required to provide the following in respect of individual 'beneficial owners':

- Their full name.
- Date of birth.
- National insurance number or UTR, or, if the individual's usual residential address is not in the United Kingdom, the individual's passport number or identification card number.
- Nature of the individual's relationship to the trust.

Filing deadlines

Trusts in existence at 6 October 2020, which met the registration criteria, should have registered by 1 September 2022.

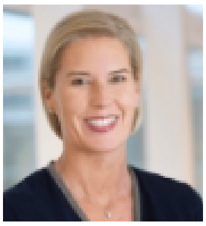
Most new trusts must register within 90 days of creation.

In some instances, registration is only required when the trust realises a tax liability. The deadline in this situation is 5 October following the tax year of liability for income tax and CGT and 31 January following the tax year of liability for all other relevant UK tax liabilities.

Trustees of 'taxable trusts' are required to make an annual declaration that the trust record is up to date. This is due by 31 January following the tax year in which a relevant UK tax liability has arisen.

Most trustees are also required to report changes to certain beneficial owner information within 90 days of the change.

United Kingdom contacts



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