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Recent developments in international taxation: United Kingdom

Executive summary

On 5 July 2024, it was announced that the Labour party had won the UK General Election for the first time since 2005. The Labour party's first few months in power were marked with difficult decisions on public spending in an effort to deliver economic stability. This led to a highly anticipated budget for the new Chancellor, Rachel Reeves, which was delivered on 30 October 2024. Unsurprisingly, given the discovery of a claimed (and contested) £22bn-sized 'black hole' in the public finances that was announced at the end of July, the Chancellor took the opportunity to raise a number of taxes during the Autumn Budget, a budget that set to raise the UK tax take to a historic high.

The main revenue raising measure announced was the increase to employer National Insurance contributions (NICs), from 13.8 per cent to 15 per cent, which took effect in April 2025; this is expected to raise annual revenues of £25bn by the end of 2029. Other key points of note were the replacement of the UK's 'non-dom' regime, increases to capital gains tax (CGT) rates and the fundamental reform of the tax treatment of carried interest.

Alongside the Autumn Budget 2024, the government published a Corporate Tax Roadmap (CTR), with the aim being to 'provide the stability needed for businesses to make investments that are critical to boosting growth in the UK'. The intention of the CTR is to 'provide clarity about the major features of the [UK's corporation tax regime] and highlight some areas where the government expects to consider changes'. The CTR contains several commitments for Labour's current term in Parliament, including maintaining the current rates of UK corporation tax, maintaining the rules on the deductibility of borrowing costs, permanent full expensing, and the current tax-advantaged regimes for research and development (including the UK Patent Box).

Introduction

The 2024 UK tax update set out the measures introduced in the UK by the Finance Act 2024 and the Finance (No. 2) Act 2024.

As set out above, on 30 October 2024, Rachel Reeves delivered her Autumn Budget and introduced a series of tax measures which were included in the Finance Bill 2024-25. This became the Finance Act 2025 on 20 March 2025. Following this, she presented her Spring Statement 2025 to Parliament on 26 March 2025, which announced various consultations on future reforms to the UK tax system.

This report covers certain highlights from the Autumn Budget, the Finance Act 2025 and the Spring Tax Update 2025 that are relevant to corporate taxpayers and individuals.

Individual taxation

Capital gains tax

The Autumn Budget included an increase to the rates of CGT in the UK.

From 30 October 2024, the rate of CGT rose from 10 per cent to 18 per cent for basic-rate taxpayers, and from 20 per cent to 24 per cent for higher-rate taxpayers. The CGT rate that applies to trustees and personal representatives also rose from 20 per cent to 24 per cent. While CGT rates have increased, they are still lower than the top rates for income tax, which stand at 40 per cent for higher-rate taxpayers and 45 per cent for additional-rate taxpayers.

From 6 April 2025, the CGT rate that applies to Business Asset Disposal Relief and Investors' Relief (reliefs that reduce the rate of CGT payable on certain disposals of business assets or ordinary shares, respectively) rose from 10 per cent to 14 per cent, and it was announced that this would increase further to 18 per cent on 6 April 2026.

The minimum CGT rate that applies to carried interest also increased on 6 April 2025 from 28 per cent to 32 per cent (see below for further detail).

Carried interest

Under the current UK tax rules, the starting position is that carried interest is taxed according to the nature of the underlying return out of which the carried interest is paid (assuming a typical, transparent fund structure is used). However, that starting position is subject to a minimum CGT charge specific to carried interest which applies regardless of the underlying nature of the return. This minimum carried interest CGT charge was raised from 28 per cent to 32 per cent from 6 April 2025. Carried interest can also be reclassified as trading income if it is 'income-based carried interest' (IBCI). Carried interest is IBCI, broadly, unless the fund has a weighted average holding period for its investments of at least 40 months. The IBCI rules do not currently apply to employees.

From April 2026, the government intends to overhaul the current carried interest regime and, taking inspiration from the German carried interest regime, treat all carried interest as deemed trading income. This will be subject to a discount mechanism for 'qualifying' carried interest. Without the discount mechanism, carried interest will be taxed at rates of up to 47 per cent, while qualifying carried interest will be subject to an effective tax rate of approximately 34.1 per cent. The government has said that one condition for 'qualifying' status is that the carried interest must not be IBCI and is considering whether there should be any other conditions. Importantly, it has said that IBCI will be extended to apply to employees. Draft legislation setting out more detail on the rules is expected to be released in July 2025.

Under the UK's current regime, non-UK residents are generally outside the scope of CGT and are therefore not generally subject to UK tax on carried interest. Under the new carried interest regime, the taxation of all carried interest as deemed trading income will also potentially apply to non-residents to the extent (broadly) that the carried interest relates to services that they performed in the UK. However, it is expected that HM Revenue & Customs (HMRC) will consider that, for individuals resident in jurisdictions with which the UK has a double tax treaty, relief may be available under the relevant treaty provided that the relevant individual does not have a personal UK permanent establishment.

Replacement of the UK's non-domicile regime

Very broadly, the UK's non-domicile regime was aimed at UK resident individuals whose 'permanent residence' (which is a complicated term) is overseas. Before 6 April 2025, individuals who were UK resident but non-UK domiciled ('non-doms') could elect to be

taxed on the remittance basis, which meant that they only paid UK tax on their income and gains if it had UK source or was ‘remitted’ to the UK (ie, they did not pay UK tax on unremitted foreign income and gains).

On 6 April 2025, as announced in the Autumn Budget, the non-dom regime was abolished and replaced with a new tax regime based on residence.

Under the new regime, non-doms who have not been UK tax resident in any of the ten consecutive years prior to their arrival in the UK can claim 100 per cent tax relief on foreign income and gains (FIG) in their first four years of tax residence in the UK. Non-doms that wish to claim this relief must do so in their annual self-assessment tax return.

This relief only applies to FIG arising in the first four years of residence; most types of FIG are eligible for relief. However, foreign earnings and foreign employment income are not eligible, though they may be eligible for overseas workday relief (OWR). The OWR rules have themselves been reformed so that, since 6 April 2025, OWR is available for up to four years and is limited to the lower of £300,000 or 30 per cent of the individual’s total employment income.

An individual who is eligible for FIG relief is eligible for OWR for the full four years. However, individuals that are ineligible for FIG may still be eligible for OWR for the first three years that they have been UK tax resident.

TRANSITIONAL RULES

For non-doms who, prior to 6 April 2025, had elected to be taxed only on a remittance basis, the following transitional rules apply:

1. they will be able to rebase the foreign assets that they held on 5 April 2017 to their value at that date when they dispose of them after 6 April 2025, provided they meet certain conditions such as not being UK domiciled at any time before the tax year 2025/26; and
2. a new Temporary Repatriation Facility (TRF) is in place that allows non-doms to designate and remit FIG that arose before 6 April 2025 at a reduced rate. The TRF will only be available for three tax years from 6 April 2025 at a 12 per cent rate for tax years 2025/26 and 2026/27, and 15 per cent for tax year 2027/28.

RELATIONSHIP WITH INHERITANCE TAX

Under the old regime, non-doms were generally not subject to inheritance tax (IHT) on their worldwide assets. However, under the new rules, non-UK assets are in scope for IHT if an individual is a ‘long-term UK resident’ – in other words, if the individual has been a UK resident for at least ten out of the last twenty tax years. Where the individual is domiciled is no longer relevant.

Even when the non-dom leaves the UK, they may remain in scope for between three and ten years, depending on how long they were a UK resident before leaving.

Taxes for employers

Employer's National Insurance contributions

Class 1 NICs are taxes paid on employee earnings above a certain threshold. Both employees and employers pay Class 1 NICs (though at different rates) and, broadly, employers also pay Class 1A and 1B NICs if they offer any employee benefits.

From 6 April 2025, the rate of employers' Class 1, 1A and 1B NICs increased from 13.8 per cent to 15 per cent. The threshold at which these NICs become payable by the employer has also been reduced (from £9,100 to £5,000 a year) for the period from 6 April 2025 to 5 April 2028. After 5 April 2028, the threshold will be increased in line with inflation.

Eligible employers may reduce their NICs liability using the Employment Allowance. On 6 April 2025, the Employment Allowance was raised from £5,000 per tax year to £10,500. In addition, the restriction that only allowed employers who incurred a secondary Class 1 NICs liability of less than £100,000 in the previous tax year to claim the Employment Allowance has been removed, making it more widely available.

Asset management

New fund vehicle: the Reserved Investor Fund (Contractual Scheme)

The Reserved Investor Fund (Contractual Scheme) (RIF) is a new UK fund vehicle that was introduced on 19 March 2025 and is designed to complement and enhance the UK's existing funds regime. It is an unauthorised onshore vehicle which is structured as a contractual scheme: the aim being that it will have lower costs and more flexibility than existing authorised contractual schemes. It is only available to institutional investors or those that invest over £1m.

The RIF is subject to a beneficial tax regime, being transparent for tax on income and not subject to tax on gains. Investors should therefore be treated as receiving income as it arises and should generally only be subject to CGT on disposal of units in the RIF. Units in the RIF can also be transferred without giving rise to UK stamp duty, stamp duty reserve tax or stamp duty land tax.

To benefit from this tax treatment, the RIF must meet the 'ownership' requirement and the 'restriction' requirement.

The ownership requirement is met if, broadly, the RIF (1) is not closely held (which means that, broadly, it is not controlled by five or fewer persons), (2) is only closely held due to the presence of certain institutional investors, or (3) meets a 'genuine diversity of ownership' condition (which largely means that it has been marketed to a wide range of investors).

The restriction requirement is met if, broadly, the RIF (1) does not hold interests in UK land or in UK property-rich companies (essentially, companies deriving at least 75 per cent of their value from UK land), (2) is property rich, or (3) only has investors who are exempt from tax on gains (other than by reason of residence). The reason for the restriction requirement is to try to ensure that non-UK investors do not try to avoid UK CGT on UK real estate assets.

There are also various regulatory conditions that need to be met, including that the RIF must be an alternative investment fund, a collective investment scheme and have a UK-based operator and depositary.

There is no specific exemption for management of a RIF, so UK VAT will be chargeable on management fees incurred by a RIF. However, VAT may be recoverable by the RIF to the extent that it makes taxable supplies, eg, if the RIF holds UK commercial property and opts to tax that property.

Due to its VAT treatment and certain other tax benefits, the RIF is expected to be of particular interest to investors holding UK commercial real estate.

Salaried members

The salaried members' rules are intended to ensure that members of a UK limited liability partnership (LLP) who are more like employees than partners in a traditional partnership are, for tax purposes, treated as employees. A key benefit of falling outside the salaried members' rules is that compensation paid to individual members of an LLP is not subject to employer NICs (currently 15 per cent).

The salaried members' rules only apply if three conditions are met, with such conditions designed to address a facet of true partner-like status. One of these conditions is that: 'the right and duties of members do not give the individual significant influence over the affairs of the LLP' ('Condition B') and the meaning of this condition was recently considered in the Court of Appeal case of *HMRC v BlueCrest Capital Management (UK) LLP*.

In short, the Court of Appeal took a much narrower view of what it meant to have significant influence over the affairs of an LLP than the lower tribunals (so that it became more difficult to fall outside of the salaried members' rules). The Court of Appeal held that significant influence must be conferred in a legally enforceable way and indicated that such influence must be both strategic and over the affairs of the LLP generally viewed as a whole.

In May 2025, the Supreme Court granted BlueCrest permission to appeal the Court of Appeal decision. Taxpayers will eagerly await this decision but in the meantime, many asset managers will be closely reviewing the application of the salaried members' rules to their members following the Court of Appeal judgment.

Stamp taxes

As part of the Spring Tax Update 2025, HMRC published its response to its consultation on the proposal to reform the UK's current tax framework for stamp taxes (excluding stamp duty land tax). The current framework includes two different taxes: (1) 0.5 per cent stamp duty on documents transferring stock or marketable securities, and (2) 0.5 per cent stamp duty reserve tax on agreements to transfer chargeable securities for money or money's worth. From 2027, these taxes will be replaced by a single, mandatory, self-assessed tax on securities. The aim is not to materially change the scope of the current charges but instead to modernise the tax and simplify the regime.

New trading platform

PISCES

The Private Intermittent Securities and Capital Exchange System (PISCES) is a new type of regulated trading platform designed for trading of existing shares in any private company. The intention is to offer liquidity for investors and shareholders in private companies instead of having to wait for an M&A deal or for that company to list. It can only be used for secondary trading, rather than primary fundraising, and is open to any UK or overseas company that does not already have its shares trading on a public market. Regulations creating the legal framework to establish the PISCES platforms were laid before Parliament on 15 May 2025.

In the Autumn Budget, it was confirmed that shares traded on PISCES would not be subject to UK stamp duty or stamp duty reserve tax.

In addition, HMRC has confirmed that reliefs will be available on income tax and NICs arising on shares if they are acquired by employees under tax-advantaged share schemes, provided certain conditions are met. Under both the enterprise management incentives (EMI) schemes and company share option plans (CSOP), a PISCES trading window can be a 'specified event' that allows employees to exercise their options without income tax and NICs arising, provided that this is permitted explicitly in the option agreement. In addition, the government has confirmed that it will legislate to allow employers (with their employees' permission) to amend existing EMI and CSOP contracts to include a PISCES trading event as a 'specified event'.

International tax

UK's implementation of Pillar Two

The UK's Multinational Top-up Tax and Domestic Top-up Tax were introduced in the Finance Act (No. 2) 2023 for accounting periods beginning on or after 31 December 2023. However, that Act did not include an undertaxed profits rule (UTPR). This has now been introduced for accounting periods beginning on or after 31 December 2024 by the Finance Act 2025 (see below).

A package of amendments to these taxes has been proposed. These amendments include the introduction of the transitional country-by-country reporting safe harbour anti-arbitrage rule and various technical changes designed to ensure that the legislation works as was originally intended and remains in line with updates to the OECD's administrative guidance. In May 2024, the government published a notice (having the force of law) detailing how to register with HMRC to report Pillar Two top-up taxes in the UK, the information required to complete a registration, and how to notify HMRC of any changes post-registration.

THE UNDERTAXED PROFITS RULE

Countries will primarily collect the Pillar Two top-up tax using an income inclusion rule (IIR) that, broadly, targets the ultimate parent entities of multinational enterprise groups within its scope. The UK introduced its version of an IIR (the Multinational Top-up Tax) as part of the legislation outlined above.

The UTPR allows a share of top-up taxes that are not paid under another jurisdiction's IIR (or a domestic minimum top-up tax rule) to be brought into charge in the UK. The measure also serves to keep UK legislation consistent with the model rules, commentary and administrative guidance that have been agreed by the OECD/G20 Inclusive Framework. As noted above, the UK's UTPR is effective for accounting periods beginning on or after 31 December 2024.

REPEAL OF THE OFFSHORE RECEIPTS IN RESPECT OF INTANGIBLE PROPERTY CHARGE

The Finance Act 2025 repealed the charge on offshore receipts in respect of intangible property (ORIP), effective from 31 December 2024.

ORIP was initially established in 2019 to counteract the base erosion and profit shifting strategies where groups reliant on intellectual property could generate substantial earnings in low-tax jurisdictions without facing UK source-based tax liabilities. Very broadly, ORIP imposed a 20 per cent income tax charge on amounts linked to UK sales from intangible property by foreign companies in low-tax jurisdictions (subject to certain exemptions). The repeal of ORIP marks the initial phase in streamlining the UK's base protection strategy owing to the introduction of Pillar Two.

Consultation on diverted profits tax, transfer pricing and permanent establishment rules

As part of the Spring Tax Update 2025, HMRC published a consultation on the reform of diverted profits tax (DPT), transfer pricing and permanent establishment (PE) rules, which was originally set out in the CTR. The current consultation phase represents a continuation of dialogue from the preceding government's 2023 consultation and the responses received.

DIVERTED PROFITS TAX

The consultation process aims for an overhaul of the DPT. The stated intention is to replace the current regime with a new charging provision under corporation tax aimed at capturing unassessed transfer pricing profits. This new provision is designed to preserve the fundamental characteristics of the existing DPT framework but remove DPT as a standalone tax. The new corporation tax charge on 'unassessed transfer pricing profits' (UTPP), will include an additional 6 per cent over the standard rate. This aims to simplify treaty access and resolve double taxation disputes.

PERMANENT ESTABLISHMENT

The UK Government is also consulting on changes to widen the domestic definition of PE to better align it with the wording in the OECD Model Tax Convention 2017. This will potentially make more non-UK residents subject to UK tax.

UK private capital managers typically take care to ensure that they do not constitute a PE of their overseas clients. Although the UK rules contain a specific exemption, the investment manager exemption (IME), designed to prevent that from occurring, it is not always applicable. Therefore, managers often structure their affairs to fall outside of the basic PE definition (without having to rely on the IME). This structuring will become more difficult if the definition of PE is extended, and so it is helpful that the government has confirmed that the IME will be reformed, with the bulk of the changes designed to make it more accessible for private capital managers.

It should be noted that this would only impact the domestic definition; existing treaties (of which the UK has around 150) would not be affected by these changes. This may change if treaties are renegotiated in the future.

The UK is also consulting on changes to revise its rules on the attribution of profits to a PE in order to bring them further in line with the OECD *Report on the Attribution of Profits to Permanent Establishments 2010*.

TRANSFER PRICING

Finally, the consultation also includes a proposed reform to the UK's transfer pricing legislation to make the rules simpler and to align them with international standards. Of particular note are the proposals to:

- provide for an exemption for domestic transactions between UK companies where there is no risk of tax loss (subject to certain exclusions);
- remove the exemption for 'medium' sized enterprises (which are currently exempt from the transfer pricing rules); and
- amend the participation condition to ensure that transactions influenced by common management are caught, thereby widening the scope of the rules.

The consultation process will remain open until 7 July 2025. Pending feedback and deliberation, the government intends to incorporate these legislative proposals into the Finance Bill 2026, with implementation proposed for 1 January 2026.

Carbon Border Adjustment Mechanism

The Carbon Border Adjustment Mechanism (CBAM) is a mechanism that seeks to impose a cost, as a tax, on the import of carbon-intensive goods into the UK. The policy, closely modelled on the European Union's CBAM, aims to encourage a reduction in global emissions by mitigating carbon leakage. A consultation process is ongoing, with draft primary legislation published in late April 2025. Comments are due by 3 July 2025, with the CBAM coming into effect on 1 January 2027.

The CBAM is intended to address carbon leakage, whereby production shifts to countries with less stringent carbon regulations, undermining global emission reduction efforts. The CBAM seeks to mitigate these risks by imposing a carbon price on imports comparable to those faced by UK manufacturers through costs imposed by the UK Emissions Trading Scheme (UK ETS) and Carbon Price Support. The targeted industrial sectors are aluminium, cement, fertiliser, hydrogen, and iron and steel. The Finance Act 2025 includes provisions that lay the groundwork for the introduction of the CBAM.

The anticipated economic impacts are minimal on a macro scale, with significant administrative considerations for businesses, mainly affecting around 10,000 businesses engaged in CBAM goods imports. Importers will face costs for registration and compliance with HMRC requirements, though relief will be provided for small and medium-sized enterprises through threshold exemptions.

It is noteworthy that as part of the Common Understanding published following the UK–EU Summit in May 2025, the UK and the European Commission announced that they will work towards establishing a link between the UK ETS and the EU Emission Trading System (EU ETS). Since both the UK and EU CBAM broadly operate by reference to their

respective ETS, it is hoped that linking the UK ETS and EU ETS will result in goods benefiting from mutual exemptions from the respective EU and UK CBAMs.

The draft legislation implementing the UK CBAM can be found [here](#).