

Japan tax alert

Ernst & Young Tax Co.

UK General Election results and Brexit

EY Global tax alert library

Access both online and pdf versions of all EY Global Tax Alerts.

► Copy into your web browser:

<http://www.ey.com/GL/en/Services/Tax/International-Tax/Tax-alert-library%23date>

The Conservative party have won the General Election and secured a clear majority as the next UK Government, which they can use to implement their campaign promises. First and foremost this will mean a focus on the Brexit Withdrawal Agreement Bill, but there will be tax changes and issues to be addressed in the February Budget.

Brexit

Prime Minister Boris Johnson has said that he will introduce the Withdrawal Agreement Bill on Friday, 20 December, so that an initial vote by MPs can take place on Monday, 23 December. Once the Withdrawal Agreement Bill is passed, the European Parliament still needs to ratify the deal before 31 January 2020 for Brexit to happen.

If, as now appears likely, the UK does leave the EU on 31 January 2020, it will then enter the 'transition period' which is currently scheduled to end on 31 December 2020. Although there is provision to extend the transition period by one or two years, Boris Johnson has previously said that he does not intend to extend the period. While within the transition period, the UK essentially remains part of the EU. Once the transition period is over, the UK will no longer apply EU tax directives, including the Parent-Subsidiary Directive and the Interest and Royalties directives, which eliminate withholding tax on certain flows between Member States. Also the Merger Directive, which permits a tax neutral mechanism to merge UK companies with EU companies. Companies should review their withholding tax position from January 2021 as unless the transition period is extended, new agreements are reached or the groups themselves restructure they may face additional costs.

During the transition period, the EU and the UK will negotiate the future relationship. The agreed political declaration calls for a comprehensive free trade agreement (FTA) with zero tariffs on most goods and services and minimal border checks. While Boris Johnson has said that concluding such an FTA is possible in the 11 months to December 2020, many other political figures in the UK and the EU hold different views. There remains a significant risk that, while the UK may now leave the EU with a 'deal' ratified by the Conservatives majority, businesses may be subject to additional costs and disruption from 1 January 2021 if a deal on a FTA cannot be concluded in time. These risks may be added to if the current issues with referring trade disputes to the WTO appeals court continue.

Tax policies - February Budget

The Conservatives have committed to a Budget in February which they have stated should include an increase in the national insurance primary threshold to £9,500. The February Budget is also expected to include the cancellation of the cut to the enacted corporation tax rate, so that it stays at 19% from April 2020. Other corporation tax measures we would expect to see in February are the increases in structures and buildings allowance (to 3%) and R&D tax credit relief (to 13%) and possibly the change in the definition of research & development to include cloud computing and data.

An area which is less clear at this stage is the future of the digital services tax (DST). During the election, the Conservatives confirmed that it would be implemented as intended. However, there remains the tension between implementing the tax and any potential trade deal with the US (given the recent USTR report and ongoing action on the French DST).

A new anti-avoidance and evasion law was proposed in the manifesto, as well as new taxes in the form of the plastic packaging tax and a new 3% SDLT surcharge on non-residents buying UK residential property. The Conservatives also pledged a 'fundamental review' of the business rates system.

The General Election might not have brought a different party into Government but it will lead to changes in policy, especially with the work to be done on Brexit.

EY can provide assistance to groups in assessing the impact of these proposed tax policy changes on their business, as well as the effect of the transition period, if the Brexit deal is ratified by the 31 January 2020 deadline.

Japanese groups should welcome the likely progress and increased political certainty that this should bring in the UK, but an analysis of the implications of the proposed deal with the EU is now more urgent.

For additional information with respect to this alert, please contact the following:

Contacts

Ernst & Young Tax Co.

Joachim Stobbs	Partner	joachim.stobbs@jp.ey.com
Clare Bull	Senior Manager	clare.bull@jp.ey.com
Jonathan Shepherd	Senior	jonathon.shepherd@jp.ey.com



@EY_TaxJapan

Follow us for the latest tax news.

Comments or general inquiries regarding this tax newsletter may be directed to our Brand, Marketing and Communications team at tax.marketing@jp.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

About EY's Tax services

EY's tax professionals in Japan provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. Our highly regarded tax professionals operate in four major cities in Japan. Our talented people, consistent methodologies and unwavering commitment to quality service help you to build the strong compliance and reporting foundations and sustainable tax strategies that help your business succeed.

© 2019 Ernst & Young Tax Co.
All Rights Reserved.

Japan Tax SCORE 20191219

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, law or other professional advice. Please refer to your advisors for specific advice.

www.eytax.jp